# Customer-Centric Assortment Planning

**Taking a customer-centric approach to assortment planning can help retailers optimize local assortment, resulting in increased sales, lower costs and an improved in-store experience.**

**"There is no such thing as the average customer. A central, standardized assortment is not good enough."**

**Len Schlesinger,
former Vice Chairman and COO,
Limited Brands**

The future consumer demands customization in assortment, pricing and promotions. In a perfect world, the merchandise on a retailer's shelf exactly matches consumer demand. The closer a company can move its planning and execution to perfection, the greater its revenues, quicker its response and better its in-stock positions.

**The Challenge: Optimize Local Assortment**

Retailers – regardless of product, market or geography – experience differences in customer behavior in their stores due to many reasons, including:

- Demography (for example, households, income, ethnicity, age, children)
- Regional brands (many local beer brands in Germany and Belgium, as an example)
- Regional preferences (temperature, local products)
- Store location (city, countryside, tourist area, high traffic)

These differences have always existed, and retailers have always taken up the challenge to offer the best assortment to their customers. We see retailers using simple store segmentations reflecting sales velocity or store size with the same assortments that are appropriate for the "average" store. Other retailers have given local store staff the task to customize the standard assortment to local needs. More advanced retailers customize assortments centrally for store size, and build central assortment "bricks" (or modules) to build more customized stores (for example, a choice of 3, 4 or 5 meters for a category or specific "add-ons" for specific stores such as an extra "boat paint" module in naval areas).

Still, retailers are looking for better ways to optimize local assortment because:

- Customers are more demanding and expect a customized offer.
- Store staff is not always qualified enough to customize assortment to local needs.
- Competitors continually improve and customize (local) assortment.
- Better tools have become available to centrally customize assortment.

These trends leave today's retailers with the challenge to create customer-specific assortment, and, at the same time, reduce the complexity of the assortment planning process and improve the time to market.

## The Solution: Customer-Centric Assortment Planning

It is clear that many retailers have grown extremely successful by introducing a single brand and copying the format across the country, or even across the world. Still, even the strongest retail brands adjust their stores in some way for local customer demand, ranging from creating multiple channels and formats to accommodate different shopping trip purposes to customizing assortment on a store cluster or a store level. The key is to strategically decide on which levels differentiation is needed, while limiting the complexity and cost of differentiating assortment to local needs.

A customer-centric assortment planning process starts and ends with the customer. Analysis of customer trends and behavior is input to strategic plans that include strategic targets, but also guidelines for store segmentation and floor planning (for example, higher distribution or more space for specific categories). A plan is prepared for each category as the basis for the assortment planning process.

The category plan includes category targets, entrance/exit strategies, customer analysis, competitor analysis, timelines, store clustering and presentation guidelines.

Subsequently the actual assortment is planned on a more granular level, for example by item and by store cluster, which achieves previously set targets and supports the assortment architecture from the category plans.

**Customer-Centric Assortment Planning Process**
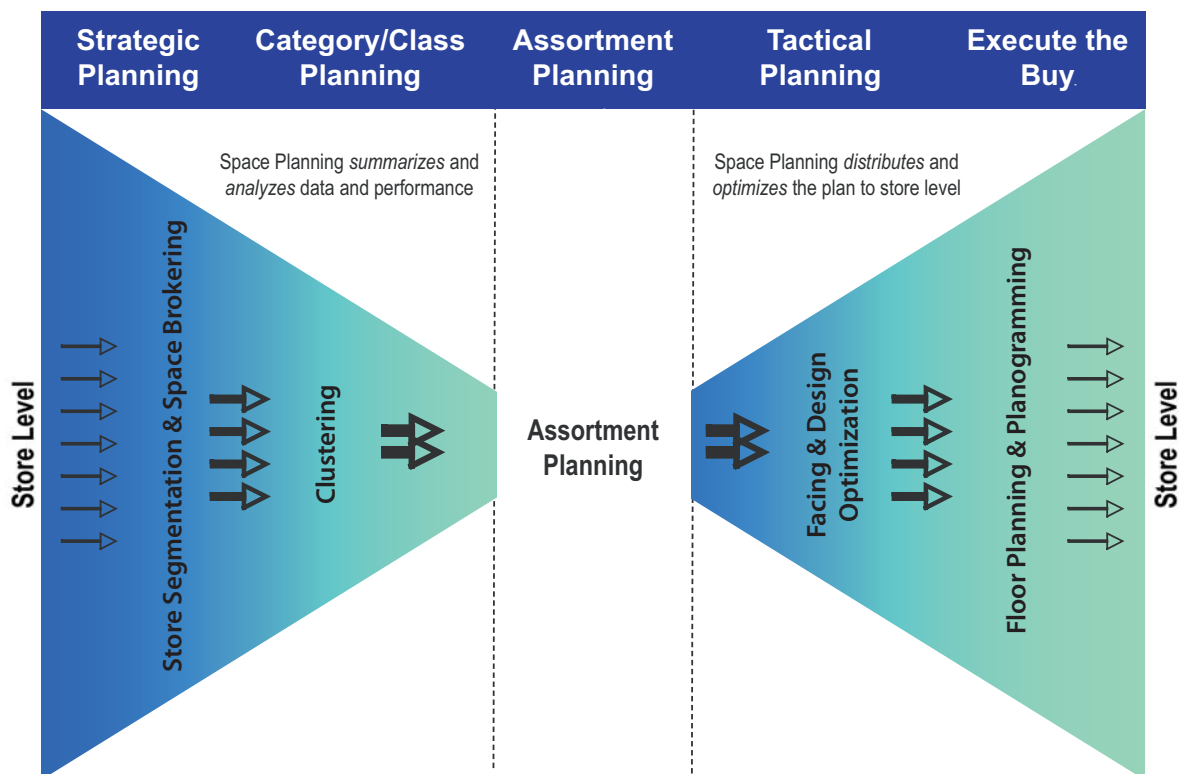


*Source: Capgemini*

This becomes input for the space planning process, which incorporates the physical shelf boundaries to the planned assortment and finalizes the assortment on a store (cluster) level. At this point the assortment plan is ready for sourcing, logistics planning and store execution.

Executing this process for a customer-specific assortment – multiple formats, store sizes and customer and store clusters for each category – leads to a large number of assortment variants to manage. For example, if you have a category with five different sizes, five regions and three formats you end up managing 75 assortment variants for one category. Clustering is needed to manage this complexity across multiple formats and assortment groups.

## Store Clustering for More Accurate Targeting

Best-in-class retailers "cluster" their stores into a small number of groupings based on customer purchasing preferences and product affinity for specific assortment categories. Each group contains stores with similar buying patterns, competitive situations and demographics. This clustering captures the diversity in the marketplace, yet also allows the retailer to leverage resources (including successful promotional programs) to "same as" stores.

Action plans, developed at the cluster level, reflect shared patterns in sales and margins. These plans are scalable, customer centric, highly predictive when seeded with a demand forecast, easy to manage and more accurate than those developed using traditional approaches. The resulting assortment plans per cluster are then applied to processes such as space allocation, with space adjusted based on customer buying preferences to optimize product presentation and space productivity.
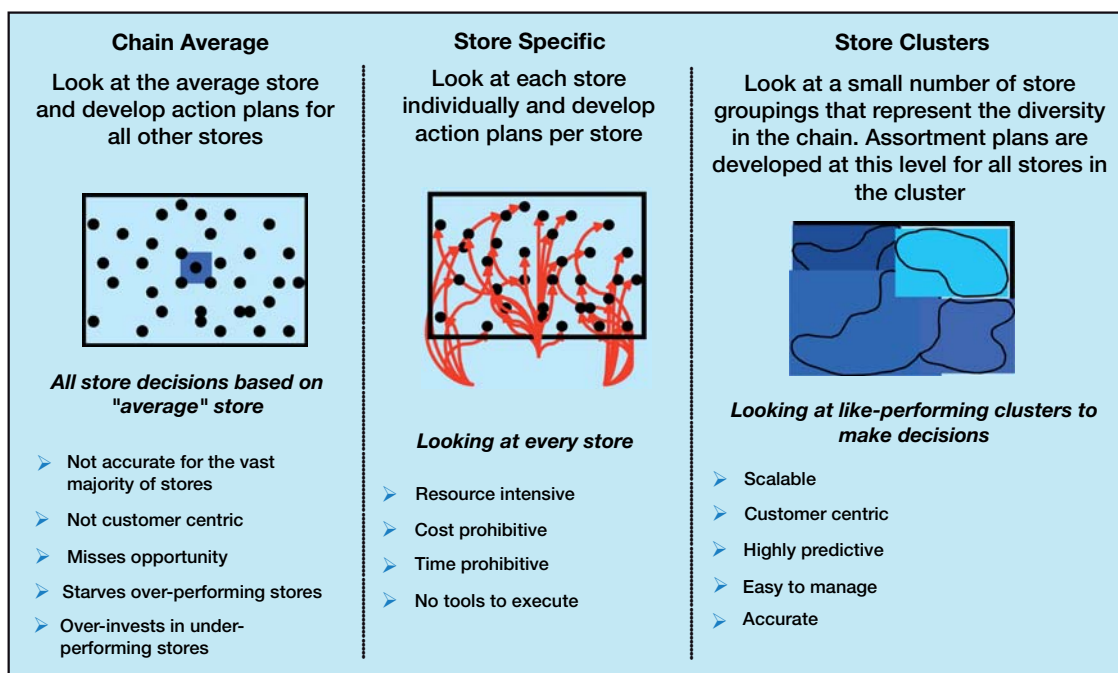
## The Benefits: Sales, Costs and Customer Experience

Rethinking store clustering per assortment and space allocation drives higher performance and more effective use of space in the retail environment. As part of Capgemini's Integrated Planning & Execution (IP&E) model, the reallocation of space may lower revenue in some categories, in order to reap an overall increase in "total shop" revenue and margin. It also drives improvements in customer satisfaction and brand or item loyalty. Improvement areas reach other sectors within the supply and demand chain.

The benefits of this approach include:

- **Increased sales:** Customers find more of what they want to buy and the stores experience lower out-of-stocks. This also builds customer loyalty.
- **Lower inventory costs:** The stores carry less inventory of products that are not selling and have more stock of products customers are buying.
- **Improved in-store experience:** Products preferred by the customer are more prominently displayed and are present in higher inventory quantities.

**Store Clustering Process**



| Chain Average | Store Specific | Store Clusters |
|---|---|---|
| Look at the average store and develop action plans for all other stores | Look at each store individually and develop action plans per store | Look at a small number of store groupings that represent the diversity in the chain. Assortment plans are developed at this level for all stores in the cluster |
| *All store decisions based on "average" store* | *Looking at every store* | *Looking at like-performing clusters to make decisions* |
| ➤ Not accurate for the vast majority of stores | ➤ Resource intensive | ➤ Scalable |
| ➤ Not customer centric | ➤ Cost prohibitive | ➤ Customer centric |
| ➤ Misses opportunity | ➤ Time prohibitive | ➤ Highly predictive |
| ➤ Starves over-performing stores | ➤ No tools to execute | ➤ Easy to manage |
| ➤ Over-invests in under-performing stores | | ➤ Accurate |

*Source: Capgemini*

## How Capgemini Can Help

Together with strong partners like JDA and SAP, Capgemini has a proven track record collaborating with leading retailers and accomplishing substantial sales and margin growth by implementing customer-centric assortment planning strategies. Extensive experience with leading retailers in food and fashion in large transformation projects shows that a significant part of the business case is around clustering the assortment and making it customer specific.

Capgemini's global Consumer Products and Retail practice works with 27 of the world's 30 largest consumer products companies and 25 of the world's top 30 retailers. We help businesses gain the benefits of new enabling technologies such as Global Data Synchronization, RFID, mobility, Web 2.0 and in-store customer interaction solutions. Capgemini's Collaborative Business Experience makes consumer products and retail companies stronger by combining what they do best with what we do best to improve performance. Thousands of practitioners with expertise in these industries help clients in more than 30 countries.

## About Capgemini and the Collaborative Business Experience®

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies.

Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working - the Collaborative Business Experience® -

and through a global delivery model called Rightshore®, which aims to offer the right resources in the right location at competitive cost. Present in 36 countries, Capgemini reported 2007 global revenues of EUR 8.7 billion and employs over 83,000 people worldwide.

More information about our services, offices and research is available at **www.capgemini.com**

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