RELEX

WHY SHOULD YOU DO PLANOGRAM OPTIMIZATION AT STORE LEVEL

WHITE PAPER

Author: Mikko Kärkkäinen, Group CEO, D.Sc. (Tech.)

INTRODUCTION

IN OUR WHITEPAPER on "Balancing sales and costs with the optimum level of assortment differentiation", we examined how assortment differentiation levels vary between categories and how that differentiation can vary from retailer to retailer. Assortment differentiation can be highly effective for positioning a retailer in the market and attracting and retaining customers. However, while increasing sales it can also push up costs.

Well produced planograms have the capacity to increase sales, but they also have the effect of decreasing supply chain and store costs at the same time. Optimizing planograms at store level amplifies that effect by squeezing out the maximum benefit in terms of higher sales and lower costs. And, with any given assortment, there is no additional cost incurred by adjusting a planograms inventory for an individual store, for instance to reflect layout and local consumer preferences. So there are good reasons to optimize planograms at store level. Moreover, as technology radically reduces the labor involved in doing so, there are no really good reasons not to.

In this whitepaper we will make the case for always optimizing your planograms at store level. Just to be clear we should stress that store-level planogram / stock optimization can be carried out both with a completely centralized assortment, as well as with any cluster-based assortment. The idea is simply to optimize the shelf space for each product in each store based on its sales volume, margin contribution, pack size, and delivery rhythm. Even stores of the same size and in the same cluster can vary dramatically in sales density and this dynamic can change within a very small geographical area. For example, two stores, same cluster and size, however they are on opposite sides of a major highway, one store, North bound has very high sales in relation to space and the other, south bound a lower sales to space ratio. The required inventory cubes for each product will be very different in our two stores, ensuring that we avoid lost sales in our North bound store and so that we don't have way too much stock in our south bound store.

The North bound store (left) and the South bound store (right); both carry the same assortment. The North bound store is understocked (red) in several areas. The South bound store conforms closely to the national average across the chain with good stock levels (blue) predominating and a few overstocks (green).
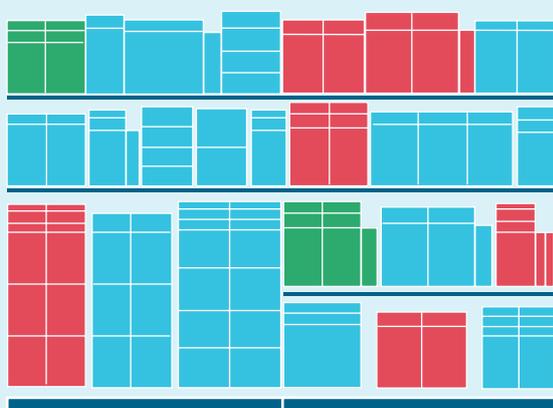
Store 1: North bound

Store 2: South bound

SALES BENEFITS OF STORE-LEVEL PLANOGRAMS

STORE-LEVEL OPTIMIZED PLANOGRAMS increase sales and sales margin. Increased sales come from:

1. Making it easier to buy best-selling items by giving them more space and an optimal location.
2. Better shelf availability. Fitting space to sales reduces re-stacking and lost sales from errors or from late re-stacking – customers cannot buy items if they're in the stock room and not on display.

Sales are maximized by creating planograms for each individual store as sales of any given product will vary from store to store and will vary within any given store day-to-day. Food retailers often see a 1-1.5% increase in sales margins.

The big grocers typically carry out a major planogram review every 12-16 weeks. Weekly reviews are used for minor changes, such as product introductions and ramp-downs. Ideally stores also create time-of-day planograms, especially for fresh items. So, for instance a convenience store, might display lunchtime meal deals in the morning but ready meals in the afternoon. With automated planograms the time and cost barriers to creating as many plans as can be used effectively are more or less eliminated.

> Well produced planograms have the capacity to increase sales, but they also have the effect of decreasing supply chain and store costs at the same time.

COST BENEFITS OF TAILORING PLANOGRAMS TO INDIVIDUAL STORES

OPTIMIZING PLANOGRAMS AT store level drives costs down in two ways:

1. It increases efficiency in stores and the upstream supply chain
2. It decreases stock-related costs such as inventory carrying cost and wastage

Efficiency increase in store shelving space and the upstream supply chain

THE BIGGEST EFFICIENCY gains are to be made through optimizing store shelving. Having shelf space configured accurately to incoming stock means that each replenishment delivery can be stacked immediately on display units, achieving one-way inventory. Thus costs are lower because:

► Excess stock doesn't have to be taken to the stock room after filling the shelf to capacity
► Fast-selling products need re-stacking less frequently
► It's more efficient working in a stock room that isn't over-filled with stock

The same mechanism facilitates synchronizing picking and deliveries from the upstream supply chain. When the space matches the demand, orders of various products on the same aisle can be picked simultaneously from the DC and delivered together so that shelf replenishment can be done in a coordinated way. This reduces the number of picking lines in the DCs and makes it possible for the supply chain team to explore rationalizing delivery schedules without compromising store availability. Aisle-level replenishment makes shelf stacking even more efficient.

The impact on food retailers' costs can be significant. The physical handling of stock often accounts for as much as 30% of store labor costs and is the biggest labor-related expense after checkout staffing. Planograms created for individual stores often lead to a 5–10% cut in labor costs associated with shelf replenishment.

Stock-related costs

THE COSTLIEST STOCK is stock that isn't turning. It accumulates costs and capital interest without generating profits through sales. Poorly designed planograms encourage excessive stock of many lines because of the

quantities required to build attractive displays. When planograms reflect demand at a particular store, stock turns routinely increase. There is normally an immediate 2-10% reduction in stock depending on the format size and limiting factors on the optimization; the smallest convenience-store formats, where almost all products have only one facing, experience the smallest impact while larger format stores, which have more space to play with, tend to see the largest falls in inventory value.

The category that typically sees the biggest impact on stock-related cost is fresh products. No retailer wants to have their presentation looking very sparse, but filling shelves with slow-to sell pre-packed meat or cold cuts is not good business. Optimizing shelf space for goods at risk of spoilage for a particular store normally results in an immediate drop in waste of 5-10%.

Obstacles to store-level planogram optimization – why everyone isn't doing it already

Store-level planogram optimization sounds like a no-brainer. Higher sales margins with lower costs – what's not to like? The biggest factor holding companies back is that creating and optimizing planograms is perceived as a difficult and time-consuming task. Moreover, retail planners often associate store-level planograms with store-level assortment, so if assortment isn't differentiated at store level store-specific planograms are seen as superfluous. And yet store-level planograms can still significantly improve the bottom line even if a store is offering a standard assortment.

Traditionally building planograms has been labor-intensive and most companies still approach it that way, i.e. a planner is assigned to build a planogram to ensure all the products in the assortment are properly posi-

tioned, have enough space, that the esthetics, such as store and display appearance, are factored in and that it all conforms with the retailer's strategic merchandising vision.

If we take the example of a retailer with 1000 stores, each with two planograms updated weekly due to product switches or category reviews (a low case estimate). Then if one planner builds four planograms a day the retailer would need 100 planners in an average week. In addition, there's also the ongoing training needed to ensure the team keeps on top of its game. That is just not feasible for most retailers. So why not automate the process? Until recently there simply weren't software solutions capable of being configured to build and optimize store-level planograms automatically and doing it well. Hitherto implementation projects were generally long and drawn out, outcomes uncertain and costs high.

RELEX and Galleria have spent years developing quick-to-implement solutions that optimize store-level stock and planograms. The planograms are built automatically according to the retailer's merchandising guidelines and tailored to the demand profiles of each store. Planograms tailored to the needs of individual stores are almost invariably highly effective. A pilot in selected stores is a quick and painless way of measuring the benefits to a retail operation. In our experience those benefits outweigh the effort and expense so heavily that the business case is irresistible.

The North bound store (left) and South bound store (right) after introducing planograms individually optimized for each store. Over- and under-stocks have been eliminated.

Store 1: North bound

Store 2: South bound

RELEX

HOW TO PROCEED?

Contact me
By e-mail:
mikko.karkkainen@relexsolutions.com
or call me: +44 7802 658 237

Let's meet!
An hour's meeting is enough to
go through your company's
current situation and to define
the first steps!