



SELL ON SHELF

The shelf is probably the most important link in the journey of products from the warehouse to shoppers. It is where new products are first made available to consumers, pricings and promotions take place, and supply meets demands in the most tangible way. Yet many crucial shelf-space questions are decided based on little more than gut instincts.

Assortment done right is assortment that delivers an optimal variety to meet consumer demand, answering the enduring question: What mix will drive the greatest overall sales? There is a solution to this problem. Companies that undertake a more holistic analysis and can make tough decisions about their product mix will generate substantially better outcomes—for manufacturers and retailers alike.

There are five main convergent trends shaping the future Modern Retailing everywhere in the world, including Vietnam. The first is the rapid growth in small store formats, where minimarts and convenient stores is booming, increased at the rate of 64% YOY. The second is the rising need for convenience from shopper, most of whom are full-time employed with less time for shopping. The third is the eminence of niche segments, with super premium products and private labels taking precedence over the mainstream SKUs. The fourth is the undesirable effectiveness of in-store drivers such as promotions and merchandizing. These lead to an undisputable last trend that is the increasing demand from retailers for range rationalization.

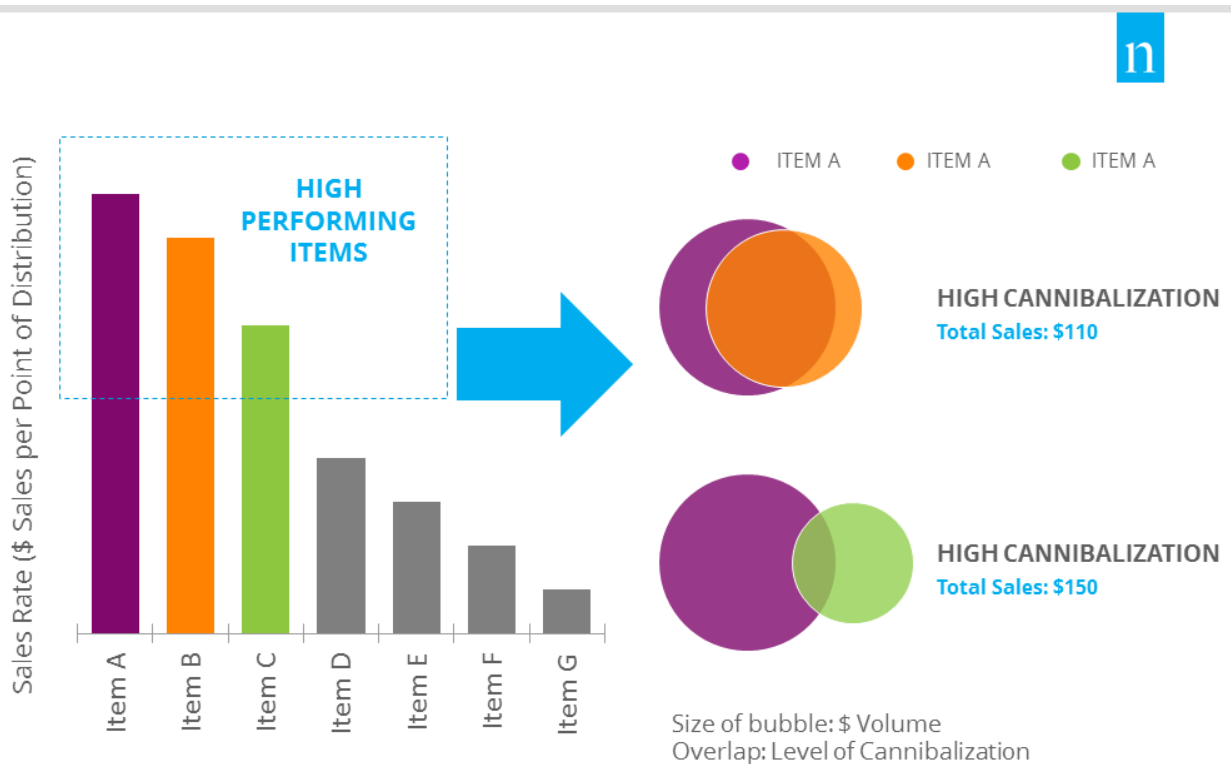
Therefore, assortment becomes a crucial element in the go-to-market strategy for any retailers and manufacturers. It affects each and every decision made down the line: price, promotion and display, new product development and even consumer's store choice. In fact, 3 out of the top 5 previous elements dictating Vietnam shoppers' store choice can be traced to assortment: convenience, easy-to-find products, and wide variety. However, assortment is often notably overshadowed by the energy and excitement around promotion. Thus, it is essential to get the assortment right first. Without having the right products in the right stores, the path to growth is bumpy. Especially when it comes to achieving organic growth, assortment is an increasingly crucial element. In the engagement between manufacturers and retailers, there is a constant push-pull tension between launching new products and refining brands and category offerings. More often than not, companies tend to put their energy and place their focus on developing and launching new products, whereby they will often push new items to the shelves instead of evaluating the assortment mix of current offerings. Given that, more than half of new products fail, leading to the likelihood of putting a heavier burden on the shoulders of sales and marketing teams.



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Of the current practices, the emphasis for assortment is on velocity—getting items on the shelf and moving them quickly. Albeit reasonable, it's not just a question of what items are moving. In fact, the key question that should be asked is: Are the right items on the shelf? Velocity, or the average sales rate, is important. But a combination of velocity and incrementality—consumer's response to the mix of products—allows us to drive growth through more efficient assortment.

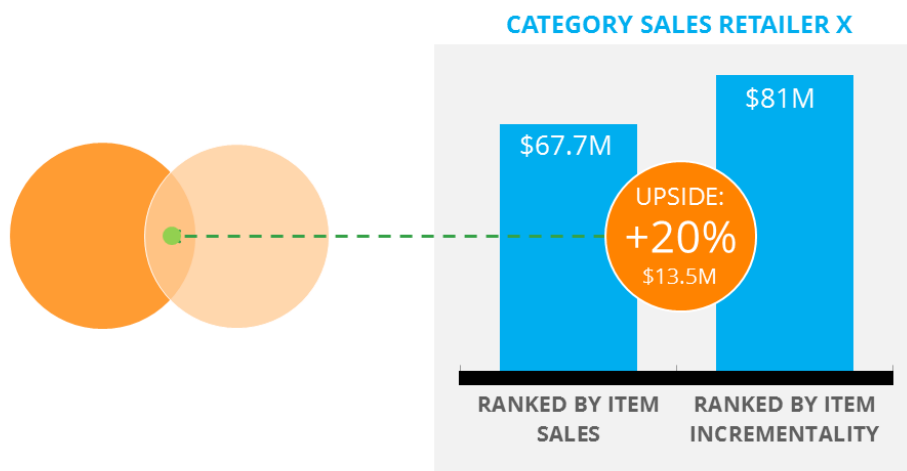
Understanding incrementality, however, requires us to explore a couple of other concepts such as cannibalization and opportunity cost. With cannibalization, one product steals sales from another product within a brand portfolio—often because they offer the same basic benefits, they meet the same consumer needs. Opportunity cost is a side effect of cannibalization, whereby the cost is associated with having a too-similar item on the shelf instead of another item that offers differentiation. Therefore, sales rankings don't give us a holistic picture. An item might have high velocity, but if it cannibalizes sales from other items, it contributes little to the growth of overall category sales. Then, the opportunity cost of this cannibalistic item is very high and causes the overall category to suffer.





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A smart assortment strategy can yield substantial gains. While total velocity is important, total incrementality velocity is what counts. To build an optimal category assortment, you must leverage incrementality velocity and consider cannibalization. In doing so, category health will be sustained by retaining items with a higher marginal benefit. A Nielsen simulation study compared two approaches—one where only velocity was taken into account, and another that integrated velocity and incrementality. The results showed that the integrated strategy delivered as much as a 20% improvement.



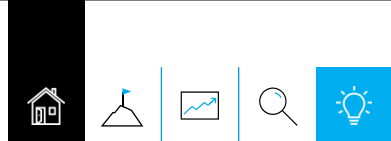
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2

Now, **“HOW TO UNLOCK VALUE THROUGH ASSORTMENT?”** may be the question popping up in our minds.

To deliver increased value, there are 3 important essential steps: 1. Analyze your market position 2. Manage your portfolio 3. Build a strategy that benefits all.

ANALYZE YOUR MARKET POSITION: The first step in crafting a more effective shelf strategy is to systematically understand the areas of opportunity—and create a detailed picture of exactly how the brand is currently performing in the marketplace. By taking into account incrementality, a landscape and channel analysis provides a more holistic understanding of a brand’s position in a category. Manufacturers and retailers often allow trends to heavily influence assortment decisions. Increased distribution supporting a new trend or consumer offering is important, but it can present risks. There is a point of diminishing returns when too many items added to a segment or brand can result in saturation, thereby having a negative impact on sales. An assortment balance that supports innovation while avoiding saturation will be more likely to grow base business sales. When you know which segments of a category or a brand have too much duplication, and which segments can support additional items, an assortment strategy can take shape.



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Imposing a channel strategy on top of this process allows companies to take into account the needs of different consumers, and therefore different retailers. Delving further into segmentation, the most advanced retailers and manufacturers execute an assortment strategy based on consumer clusters.

MANAGE YOUR PORTFOLIO: A strategy informed by a thorough analysis leads to category management decisions based on facts. Two segments may have similar sales velocities, meaning they sell the same amount per item, per store, per week. However one segment may have higher-than-average incrementality, indicating that we can increase the depth of variety, while another segment is saturated, making it a good item for reduction. By incorporating incrementality into the analysis, the category becomes more efficient and sales grow.

BUILD A STRATEGY THAT BENEFITS ALL: Mutually beneficial growth between manufacturers and retailers is the outcome of a well-planned and well-executed assortment strategy. By understanding where the category benefits from additional choice and making space in areas where additional items have become duplicative, the manufacturers build a strategy that benefits themselves and their retail partners. If manufacturers can provide category-centric insights and make recommendations beyond their own portfolio, linking strategic direction to tactical execution, their actions are likely translated into a stronger relationship between the manufacturers and retailers. Nielsen research has found that retailers that implement these kinds of assortment recommendations outpace those that do not.

ASSORTMENT STRATEGY IN ACTION: Shelf assortment success is determined largely by the actions that come after the initial launch of the strategy. Success requires a connected, end-to-end solution deployed across teams in organization. Several steps are worth paying attention to as below:

1. Elevate assortment to become a strategic growth platform for both parties. An assortment strategy gives manufacturers an avenue for strengthening partnerships with retailers by embedding that strategy at the retail level. Without a category role clearly defined in brands, a path to true category innovation seems rough. But dedicating more analysis and planning has serious upside, even in mature markets that present a challenging environment for driving growth.
2. Sync assortment with your tools and business. When it's in sync, everything benefits. Run scenarios to evaluate opportunities. Leverage data and analytics, and tap the skills and insights of experts with years of experience, to put objective numbers behind emotional decisions.
3. Make an enterprise-wide impact. For an assortment strategy to be effective, it must be widely accepted and leveraged. To make an impact, the strategy must also include change management and organizational adoption considerations.

This is what's next: Assortment is a major—and often overlooked—lever at the disposal of every retailer or manufacturer. But dedicating more analysis and planning has serious upside, even in mature markets that present a challenging environment for driving growth.

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Insights contained in this article are taken from several studies of Sale Effectiveness. For further information in relation to this insight article, please contact Nielsen Client Services representatives or email Nielsen Vietnam at vietnaminfo@nielsen.com.