

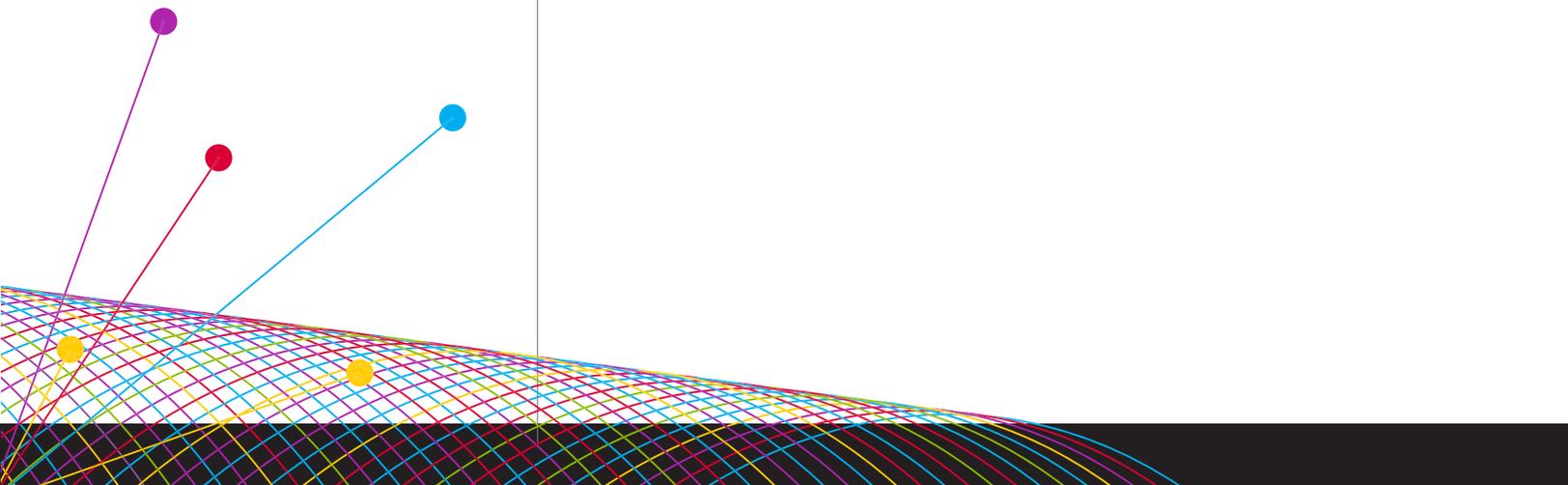
WHAT'S NEXT

WINNING AT THE SHELF: DRIVING NEW VALUE THROUGH OPTIMAL ASSORTMENT

BY STUART TAYLOR AND PHIL TEDESCO

The shelf is perhaps the most important link in the value chain from manufacturer to retailer to consumer. It is where brands and innovations are made available to consumers. It is where pricing and promotions take place. It is where supply meets demand, in the most tangible way. Yet many crucial shelf-space questions are decided based on little more than gut instinct.

Assortment done right is assortment that delivers 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.



RETHINKING YOUR ASSORTMENT STRATEGY

Assortment is a crucial element in the go-to-market strategy for any retailer or manufacturer. It affects every other decision made down the line: price and promotion, new product development and even consumer store choice.

In fact, five of the top seven attributes that influence shoppers' store choice the most can be traced to assortment: grocery selection, prepared foods, store brands, one-stop shopping and well-stocked shelves¹. Price, incidentally, is eighth on the list.

Assortment, or “place,” is often overshadowed by the energy and excitement around another P in the marketing mix—promotions. However, it is essential to get the assortment correct first. Without the right products in the right stores, sales can only grow so much.

Especially in environments where it's difficult to achieve organic growth—as in the U.S. and other developed markets—assortment is an increasingly crucial element.

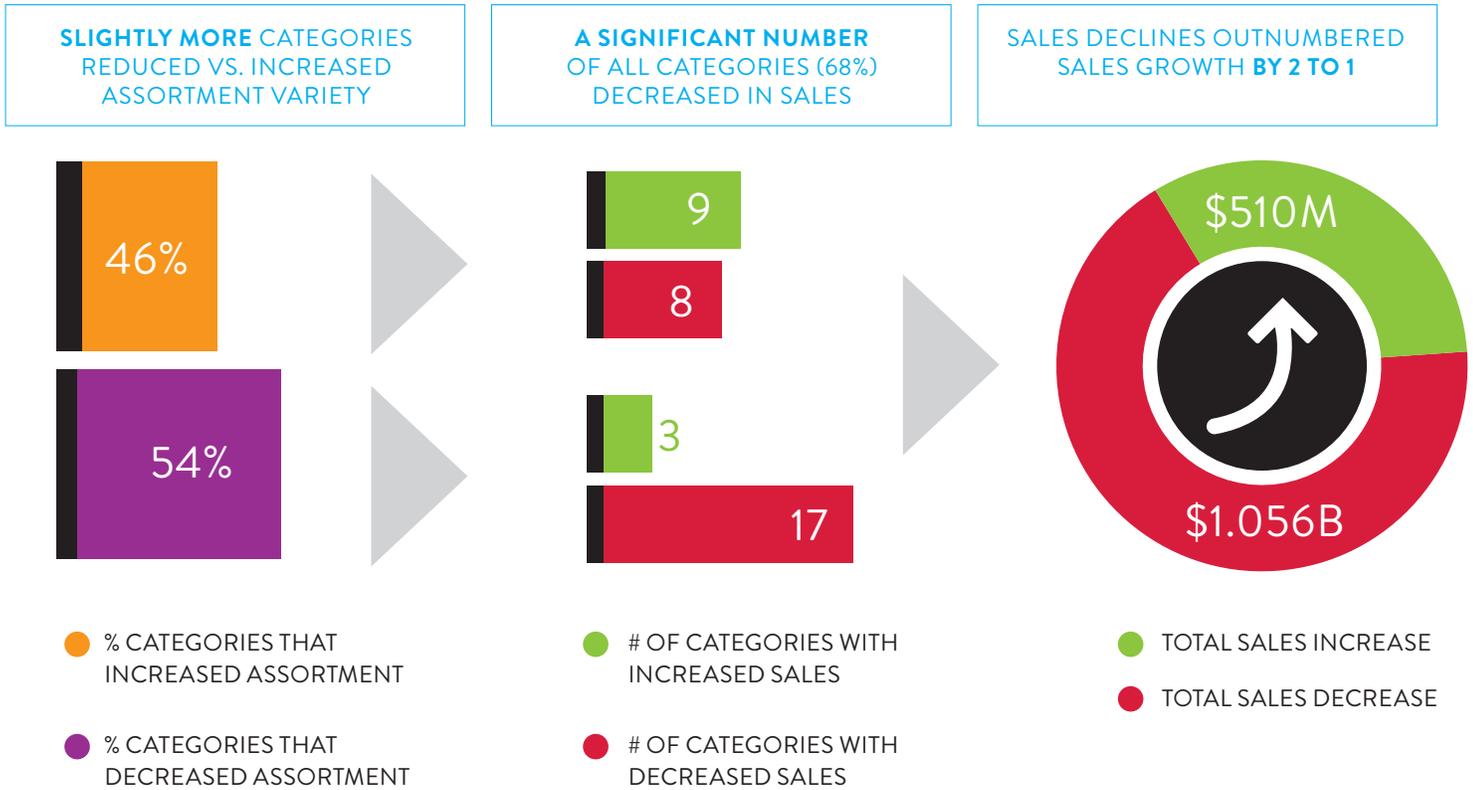
In the engagement between manufacturers and retailers, there is a constant push-pull tension between launching new products and refining the brand and overall category offerings.

Companies tend to give energy and focus to the excitement of launching new products and will often push new items to the shelves instead of evaluating the assortment mix of current offerings. Given that Nielsen research shows that 85% of new U.S. products fail, it is easy to understand how these practices lead to bad outcomes.

¹ Nielsen Store Choice Drivers Study, 2012

MORE LOSSES THAN GAINS WITH CURRENT METHODS

EXHIBIT 1



Source: Nielsen, Total U.S. Food - 37 Categories

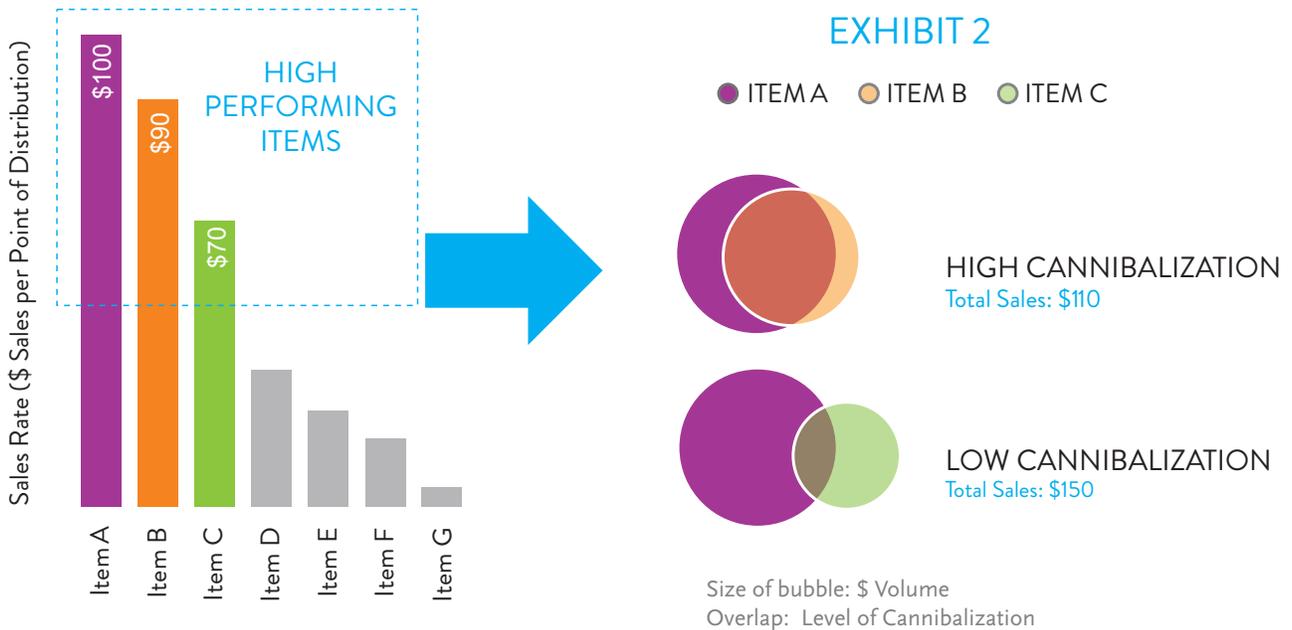
Often, the emphasis for assortment is on velocity—getting items on the shelf and moving them quickly. But it’s not just a question of what items are moving. The key question to ask is: Are the *right* items on the shelf?

Velocity, or the average sales rate, is important. But a combination of velocity and incrementality—consumer response to the mix of products—allows us to drive growth through more efficient assortment.

Understanding incrementality, however, requires that we explore a couple of other concepts: 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, and they meet the same consumer needs. Opportunity cost is a side effect of cannibalization: It is the cost associated with having a too-similar item on the shelf instead of another item that offers differentiation.

Thus, sales rankings don't tell the whole story. An item might have high velocity, but if it cannibalizes sales from other items, it does little to grow overall category sales. The opportunity cost of this cannibalistic item is therefore very high and causes the overall category to suffer.

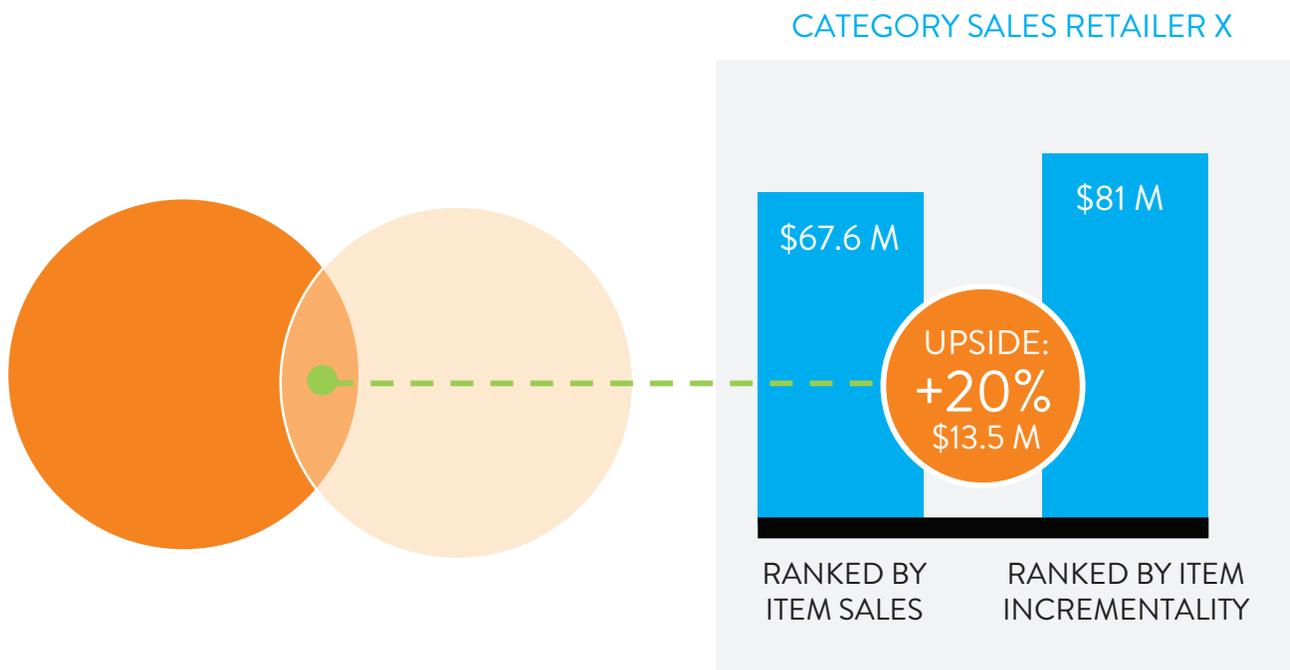
CANNIBALIZATION EFFECT



A smart assortment strategy can yield substantial gains. 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%² improvement (Exhibit 3).

THE POWER OF A BETTER STRATEGY

EXHIBIT 3



So we see the benefit of incrementality in an assortment strategy that previously focused only on velocity.

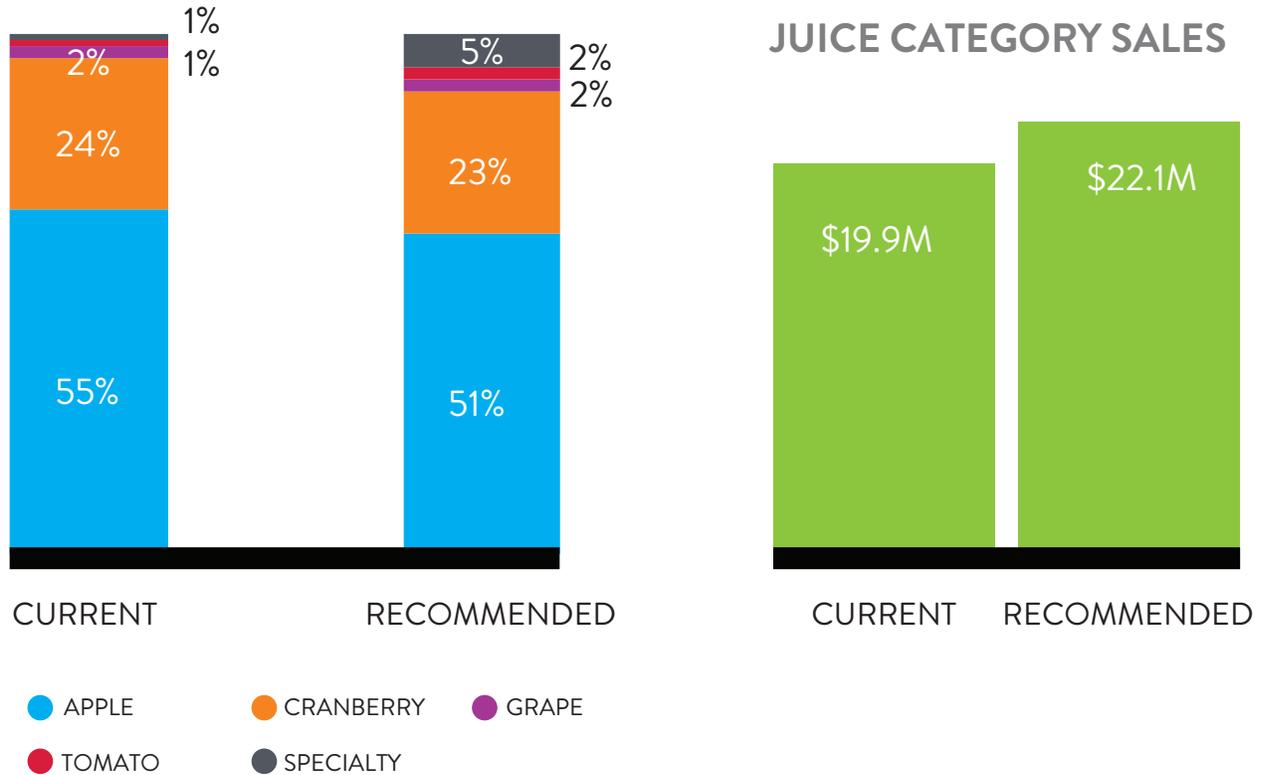
But what about portfolios that are already taking incrementality into account in some way? Regardless of the category, we've found that portfolios can generate greater returns with a more precise strategy.

Take, for example, the juice category (Exhibit 4). Like many categories, it has the difficult task of balancing variety while avoiding duplication. The category cannot expand space and is stagnating. However, a more effective allocation across flavor segments in this case delivered an 11% increase in category sales.

² Nielsen research and analysis

A BETTER PRODUCT MIX DRIVES SALES GROWTH

EXHIBIT 4



Ranking on incrementality is more productive than ranking solely on sales. While total velocity is important, total *incremental* velocity is what counts.

To build an optimal category assortment, you must leverage incremental velocity and consider cannibalization. In doing so, category health will be sustained by retaining items with a higher marginal benefit.

HOW TO UNLOCK VALUE THROUGH ASSORTMENT

Three important steps are necessary to deliver increased value:

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.

And keep in mind: One size doesn't fit all. Using a macro-view blanket strategy doesn't take into account the vast differences between retail outlets, geographic regions and even different banners within a retail account.

For instance, a mass retailer, a high-end grocer and a national drug chain have different consumers who shop categories differently. Nielsen research shows that category decisions based on retailer-specific analysis, instead of on national analysis, can deliver 4%³ greater sales growth.

When you know which segments of a category or their brand have too much duplication, and which segments can support additional items, an assortment strategy can take shape.

³ Nielsen research and analysis

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 fact. Take, for example, the categories illustrated in Exhibit 5: barbecue sauce and mustard in particular.

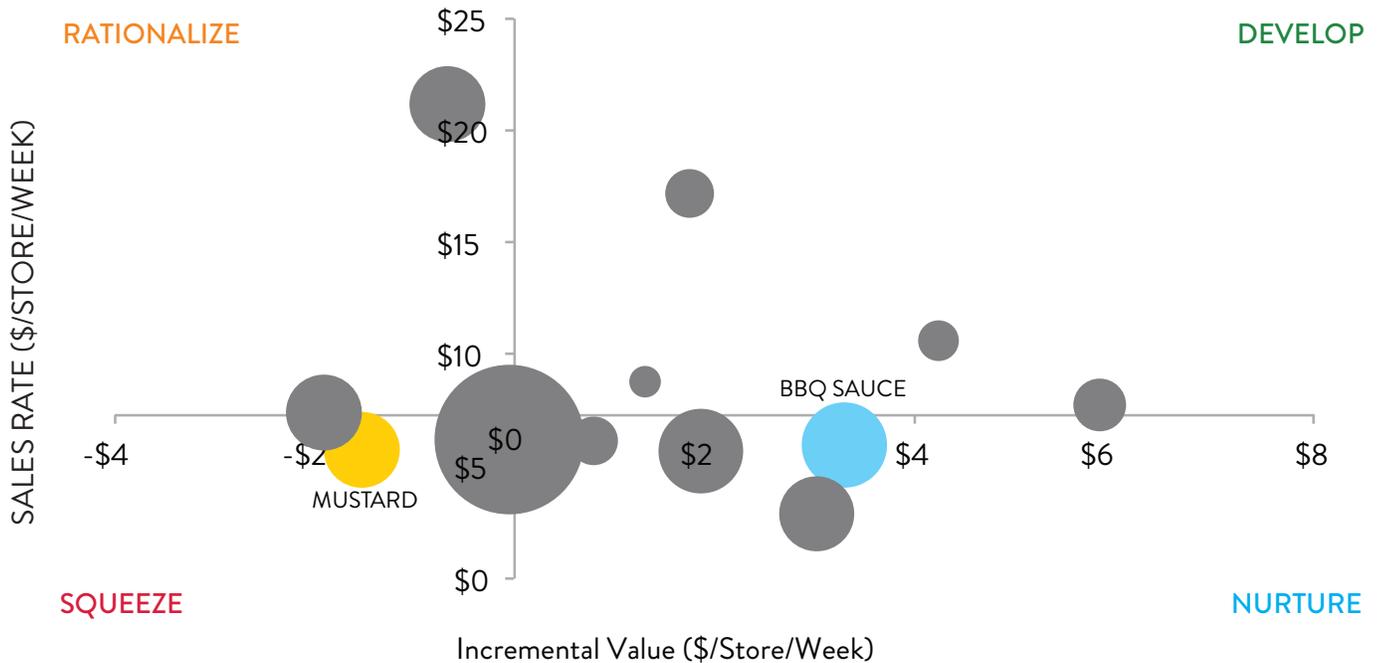
Both barbecue sauce and mustard have similar sales velocities, meaning they sell a similar amount per item, per store, per week. But their differences are found in each category's incrementality.

Barbecue sauce has higher-than-average incrementality, indicating that its depth of distribution has room to grow. Mustard, on the other hand, is saturated with too much variety, making it a good candidate for item reduction.

To make space for more barbecue sauce items, low-performing mustard items can be removed from the shelf. Not only will this create space for barbecue sauce, but mustard will also become more efficient when items with low contribution are removed. By incorporating incrementality into the analysis, the category becomes more efficient and sales grow.

THE SALES SPECTRUM

EXHIBIT 5



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 manufacturer builds a strategy that benefits itself and its retail partner.

In the example illustrated in Exhibit 5, the manufacturer presented category-centric insights that considered the roles of barbecue sauce and mustard in order to drive actionable results. Additionally, beyond making recommendations that impacted its own portfolio, the manufacturer provided insights on competitive brands and other segments of the category where they do not compete.

The result was a stronger relationship between the manufacturer and its retail partners because of the manufacturer's ability to provide strategic direction linked to tactical execution—as well as multiple simulations of “what if” scenarios.

Nielsen research has found that retailers that implement these kinds of assortment recommendations outpace retailers that do not. Partnerships like those illustrated in the condiments example lead to growth for the manufacturer, category and competitive brands alike.

In one category example, our research found that total sales grew nearly 400% faster in retailers that put strategic assortment recommendations into action, compared to the total U.S. market.

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 that is deployed across teams in your organization.

Several steps are essential:

1. **Elevate assortment to become a strategic growth platform for you and your retailers.**

An assortment strategy gives manufacturers an avenue for strengthening partnerships with retailers by embedding that strategy at the retail level. As brands without a category role are eliminated, a path clears for true category innovation.

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.

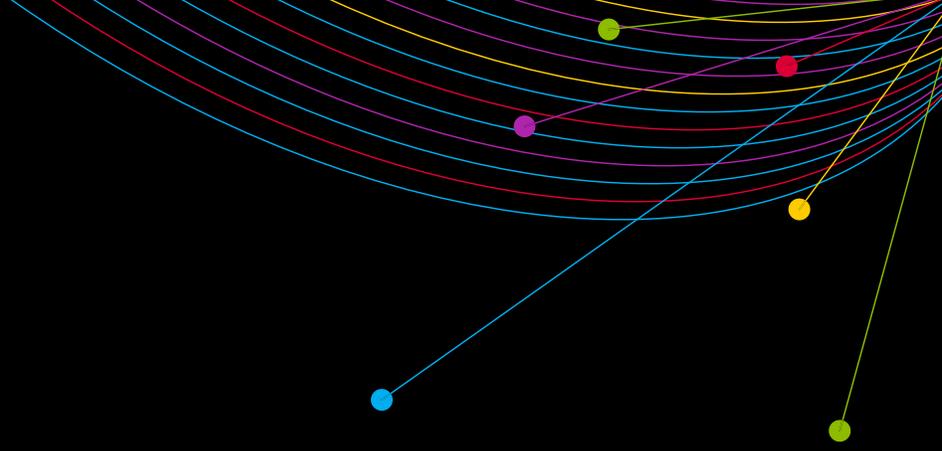
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