

Ranging for cost efficiencies and competitive advantage

By JANET KIRKBRIDE

Today's tough economic climate has increased trade focus on the need to optimise stock holdings in order to effectively manage cash flow and associated Return on Investment (ROI) – sparking a heightened interest in ranging.

The importance of ranging

It is important to note that while ranging absolutely does have a direct impact on stock holding, with slow moving lines ultimately tying up cash and space that could be more profitably used elsewhere, it is also a key element of competitive advantage with the breadth and depth of products carried directly impacting shoppers' choice of store, and ultimately the size and value of their purchases.

Most often ranging programmes delve straight into category level reviews and cuts – often led by manufacturers. From a retailer's perspective, such efforts may not be the most effective approach for two reasons: firstly, while manufacturers may have valuable knowledge of the categories within which they participate, they generally have a limited understanding of the store or retailer agenda being biased by their own vested interest. Secondly, by beginning at the lowest level of the offering hierarchy, decisions may be taken that reduce a store's competitive advantage rather than strengthen, or at least retain it.

Look at category levels

At least annually the scope of departments and categories offered by retailers should be re-assessed at cluster or store specific level against market and competitor



Understanding who your shopper/consumer is and what they want from your store is the first step to successful category management.

dynamics to ensure that they are still relevant and effective. Certainly category level ranging initiatives should be undertaken more frequently to continuously assess the impact of range extensions and innovations.

No matter at what level ranging exercises are undertaken, it is highly recommended that clear and well thought through ranging guidelines be developed by the retailer, with such guidelines being able to address the dual dimensions of range breadth and depth at the level of departments right through to category segments.

Criteria for ranging

Consideration of both cost efficiency and competitive shopper satisfaction need to be taken into account throughout the exercise. A simple set of criteria can be applied to assist with the decisions as to what to keep and what to remove with levels of high, medium, and low being set for each level of decision. See the diagram below for an example.

The criteria will differ depending on store size, with the qualification levels being higher for larger stores able to carry a wider offering, and lower for small stores requiring a tight range.

CRITERIA	HIGH	MEDIUM	LOW
Importance to the retailer	Contribution to turnover, unit movement, or profit		
Importance to shoppers	Share of baskets (penetration & spend)		
Importance to competitors	Share of investment in space & marketing		

Development of guidelines

The starting point in development of the guidelines is the determination of which departments to offer – for example, a fresh fish department is not offered by all stores – similarly for pharmacy or clothing.

Once criteria have been set to assist in the determination of the departments to be offered, the same exercise needs to be undertaken to provide criteria for the selection of categories within each department. For example, within Personal Care, is it important for the store to offer a range of cosmetics or facial care? Or within Dry Groceries to carry Pet care or Food Service solutions? Or within General Merchandise to incorporate Hardware or Music sections?

The final stage in the exercise is probably the most difficult – and that is the development of guidelines around the breadth of segments to be carried, and the associated depth of brands, formats, pack sizes, and variants. The difficulty lies in the determination of segments within categories. There are probably as many versions as there are suppliers as they all have a vested interest driven by the extent of their category participation!

Specific segment needs

Segments are groupings of products specifically designed to satisfy a common consumer need. The more specific the need state, the more focused the solutions

DEPARTMENTS, CATEGORIES, SEGMENTS, PRODUCTS	Contribution to turnover, units, profit	Share of baskets	Extent of competitor investment	Retain or Remove
	2 x high or 3 x medium suggesting that the department should be carried			

involved, with the products incorporated into a segment by definition being completely interchangeable. The significance of segmentation lies in the effectiveness of understanding and satisfying shopper demand on behalf of the consumers whom they are buying for. With this in mind, it is essential that ranging be done at a segment level in order to ensure that key shopper needs are not missed.

Retailers should assess scope of departments and categories offered on an annual basis at least

Ideally 'category trees' should be developed and reviewed at the start of each ranging exercise to simplistically capture the segments and ensure that they remain accurate and effective at representing dynamics in consumer and shopper needs.

While many category trees may be simple to construct – there are many that are more complex to develop, and those that are distorted by historical representation at the shelf – take, for example, Cold Beverages ... should not chilled fruit juices and dairy drinks be included in this category? And, how about desserts ... should not frozen, chilled, and ambient desserts be regarded as segments within the category? Where products are currently merchandised should not cloud the thinking in this regard – although certainly, once segments have been developed, their location in-store should be reviewed to ensure that category associations are optimally leveraged.

Once the segments within each category have been clarified, criteria can be set to guide segment selection in the same way as they were for the departments and categories.

Value and variants

Lastly, criteria need to be defined to assess the value of brands, formats, pack sizes, and variants within each segment, with the same approach still being relevant.

A simple schedule can be created to assess the departments, categories, segments, and products against the criteria set in order to determine which to keep and which to remove (see diagram above).

Application of the guidelines in a ranging exercise makes the work significantly easier and quicker, and will go a long way to ensuring that the resultant offering is cost efficient, attractive to shoppers, and competitive.



The final stage of the rationalisation exercise is probably the most difficult – developing guidelines around the breath of segments to be carried, and the associated depth of brands, formats, pack sizes, and variants.



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