

Use store profiling and clustering to improve sales and profits

BY JANET KIRKBRIDE

Looking for a creative way to reduce costs, drive up sales, protect profits and market share?

As the costs of doing business escalate and competitive threats put added pressure on selling prices and gross margins, both retailers and suppliers need to 'box smarter'. Store profiling is one way of doing it to improve the return on investment in stock, pricing, and marketing.

Store profiling

Simply put, store profiling is a process that clearly identifies the key store characteristics that should directly impact a store's range, merchandising, pricing, advertising and promotions.

To provide economies of scale to this process for a chain or supplier undertaking, stores with the same mix of characteristics can be grouped into 'store clusters'. This enables more targeted space management, merchandising, promotional and advertising propositions to be developed cost effectively.

The considered use of store profiles is the opposite of the 'one size fits all' or cookie cutter approach. It enables stores to specifically target key shopper groups and competitors to make the best use of floor and shelf space and to employ the most relevant and effective marketing tactics. This laser focus cuts down on waste – wasted investment in holding stock, in allocating shelf space to slow-selling lines, in discounting lines that have limited appeal to the store's shoppers, in advertising and promotions that do not motivate shoppers to shop more often or to spend more.

Stores and categories

Store profiling can be undertaken at two levels. Profiling the total store assists in the development of the overall store offer,

store layouts, and marketing campaigns. Profiling categories within the store provides direction as to how to optimise category ranges, shelf layouts, pricing levels, and promotional support.

A combination of operational, shopper, and performance factors should ideally be taken into consideration as shown in the diagram.

Once a store profile has been defined, a detailed review of the ranging, merchandising, pricing, advertising, and promotional activities of the store can be undertaken to identify areas of waste and missed opportunity. Action plans can then be developed and implemented to address the 'probabilities' (combination of problems and opportunities!) and refine the store offer to maximise shopper appeal, competitive advantage, and operational efficiencies.

Independent store owners and managers will most likely recognise that they already manage their stores on the basis of this process, albeit, most often in an unstructured, informal and inconsistent way. This is, without doubt, one of the reasons for the success of the franchise independent sector in South Africa. Using

this formal, structured method can lead to further improvements.

Benchmarking

Once a store has been profiled and action taken on the outputs the question of 'How well is the plan working?' arises. Working in a vacuum is difficult. So, it is helpful to compare the store's performance against one or more 'benchmark' stores.

This information in the form of department participation is often available within groups. Suppliers and third party distributors can also assist with comparisons and benchmarks as they work with multiple stores.

In addition to the benefits of variable ranging and merchandising, an exciting implication of store profiling and the development of clusters is the potential to customise advertising, pricing and promotions. This is, without doubt, a more complex and more expensive approach (for example, having to develop and print separate broadsheets for each cluster for distribution in local community newspapers) but the returns for both the stores and the suppliers would be worth the effort and investment.

The store profiling framework



A comprehensive store profile covers location, space, shoppers, competitors and results over two levels – the store and categories.

A higher store level profile assists in developing store layouts and marketing campaigns, while profiling categories within the store provides direction as to how to optimise category ranges, shelf layouts, pricing and promotional support.



Location is one of the contributing factors to a holistic store profile. Boxer Superstores, Pinetown (pictured) is situated in the CBD, which means that the store needs to cater for a customer base that shops frequently and uses public transport.

The examples that follow illustrate the contents of a store's profiles and how they can be used:

■ Location

At store level, geographic location relates to the region (Cape, Gauteng etc), while the store environment defines the store in terms of being rural, CBD, suburban, township, off a freeway, opposite a campus, a hospital or other institution, factory, taxi rank or other environmental feature that determines the kind of business it can do and the mix of categories it should carry. At the category level, location refers to the category sitings within the store, for example in a high traffic area at the front of the store, or positioned at the back of the store. Also pertinent is information regarding the category adjacencies – basically what categories are located to the left, right, and opposite the category and for example to what extent they are complementary.

■ Space

The size of a store's trading space will determine the breadth and depth of categories to be carried, which directly impacts stock holding levels and the frequency of ordering and delivery required. The number and size of categories carried will differ between large and small stores much as it would between urban and rural

stores. Similarly, category space in terms of the number of drops or linear metres that each category has in the store will impact the breadth and depth of the category ranges carried. The size of the store and the size of category space do not always correlate – for example small stores often devote as much space to yoghurt as bigger stores.

■ Shoppers

The demographic profile of a store enables retailers and suppliers to identify and deliver targeted product offerings needed for shoppers of specific religious, cultural and ethnic backgrounds, as well as different life stages and incomes. Mission profiles reveal details about when shoppers shop – monthly shopping, after work pop in, lunch time shopping or weekend shopping expeditions. An example of the way this information could be used would be if a significant number of a store's shoppers are popping in for bread and milk, one could argue that these products should be located near to the front of the store to improve the shopping experience and discourage these shoppers from choosing a convenience store instead. Surrounding the bread and milk with related impulse lines would also help increase the basket and the margin on these shopper missions.

Another example of the way in which the mission profile would be useful,

is if a significant number of the store missions involves young people or couples without children, looking for easy meal solutions such as HMR. In such stores, all convenience meal solutions (including the Deli and the Hot Foods Counter) should be easy and quick to get to and should be surrounded by complementary items like condiments, cold beverages, and wine to enhance the meal.

■ Competition

At the store level, the question that needs to be asked is what competitive stores operate next to or near to the store – either competing across the range, such as other supermarkets, as well as category specialists who can affect specific categories such as Mr Price Home, Clicks, or a major bottle store. The scope and scale of pricing and promotion activity, as well as ranging undertaken would differ according to the nature and proximity of competitors.

At the category level, the profiling task would include considerations about their handling of the category such as: Do they carry specialist imports, what lines are they promoting and how often they promote them? Also, how is the category laid out on shelf – are they creating theatre around different categories and does the category jump out?

■ Results

Benchmarking results is easier for chain stores and suppliers as they can get the information from multiple stores. Questions to be asked include: Which categories is the store doing well in? How does the store's performance compare with others? Does the store represent a positive investment opportunity? A store doing well in deli but badly in household should ask; "Do we step up efforts in household, or do we just accept or downsize it?" Like all things, it goes without saying that poor store profiling can have a significant negative effect on store performance. So, it is essential to 'box smarter' and do the job right!

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