

Too Much Choice and Variety: Assortment Realities

June 15, 2010

Stuart Taylor, Vice President, Custom Analytics

Kristin Chaudoir, Manager, Price Promo Modeling

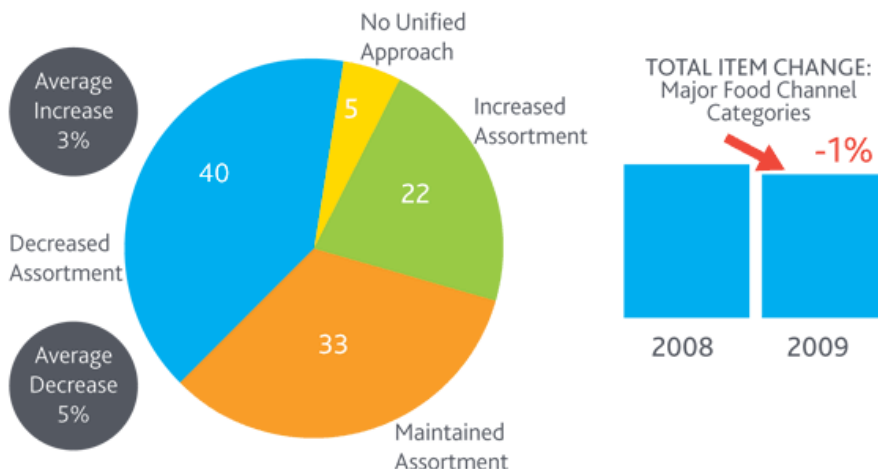


SUMMARY: The CPG industry has been abuzz over assortment downsizing. Yet, despite all the talk of major SKU reductions, the average food channel store decreased variety by just 1% in 2009. The majority of grocery retailers plan to either maintain current levels or continue slimming SKU count in 2010. It's a tricky balancing act, feeding consumer hunger for personal variety while bulking up margins through operational efficiency and store brand sales. The key is determining which products deliver true incremental category sales.

What size is the right size to downsize? Assortment challenges vary by format, region, category and brand, but the objective is the same: satisfy the shopper need for choice and innovation without drowning in an unmanageable sea of SKUs. In 2009, four out of ten food retailers surveyed claimed to have decreased assortment roughly five percent on average. One-third of retailers claimed to have maintained the assortment status quo, while 22% claimed to increase assortment options an average of 3%.

Retailers' Strategies Varied in 2009, but Assortments Shrank Overall by 1%

Retailer's Stated Action in 2009



Source: Nielsen Retailer Assortment Survey, March 2010
*Includes 32 Major Food Channel Categories

There were many reasons fueling the frenzy. Sixty percent of retailers indicated they downsized to alleviate shopper confusion. The other reasons cited were mostly internally-driven operating decisions including: gives better facings/merchandising (75%), provides better inventory control (71%), high profitability/cost savings (52%), makes more room for store brand products (48%), shrinks shelf space so other areas of the store can be larger (33%) and keeps up with other retailers who are doing it (4%).

Despite media hype anticipating double-digit assortment decreases, the actual total percent of item changes for the year across major categories in the grocery channel averaged a very reasonable 1%.

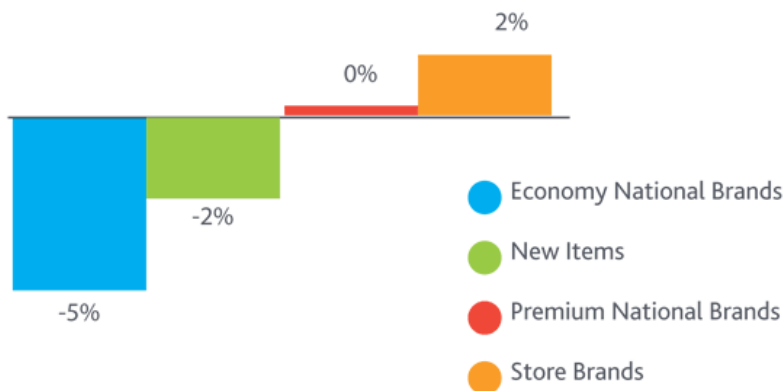
When More is Too Much

The old school assortment philosophy summed up by one retail executive was simple: “bigger, bigger—how much money can I get for new items?” This “more-is-better” approach eventually evolved into a “more-is-too-much” outcome. In the midst of our economic malaise, retailers found an overwhelming number of consumer product choices at odds with delivering customer value and profits. Many began aggressive SKU rationalization efforts to decrease overhead costs and reduce in-store clutter.

More than half of those retailers surveyed in the 2010 Nielsen Retail Assortment Survey claim to have, or plan reductions of up to 10% of all SKUs on the shelf. Even as redundant products were eliminated, certain segments saw their product counts increase. Store brands enjoyed a 2% expansion over the prior year, while premium national brands held their own, avoiding cutbacks.

Store Brand Share Increased Premium National Brands Maintained

Brand Changes 2008 vs. 2009



Source: The Nielsen Company

The Assortment Reality

When it comes to downsizing, not all categories are created equal; some added SKUs and some lost items. According to the Nielsen study, of the 32 categories analyzed, 23 experienced an average decrease of 2% in the number of items offered. The biggest losers were the cookie (-8%), water (-6%) and shampoo (-4%) categories, which saw the highest number of items removed from the shelf.

Concurrently, the biggest winner categories expanding SKU count included carbonated soft drinks (up 3%), shower gel and yogurt, each growing its product roster by 6%.

Working Smarter

Assortment downsizing is a difficult puzzle, weighing competing pressures from consumers, manufacturers and retailers. The major question faced by retailers is simple: how do we cut assortment smartly? More than 90% of retailers who claimed to have reduced assortment made their decisions through simple reductions in variety, by getting rid of flavors, pack sizes and the like within brands, while almost 70% targeted third and fourth tier brands. One executive described these moves as “one big draconian flow-through” designed to get “rid of low hanging fruit.”

While retailers cite cleaner shelves and easier assortment management activities as the stated reasons for such downsizing tactics, the often unstated objective of many retailers is the desire to increase store brand sales and profit margins. However, Nielsen analyses show that not all categories actually benefit from store brand expansion. It is essential to trim SKU counts by eliminating non-incremental items.

Incrementality is the concept that no single product action (addition or elimination) occurs in a vacuum. Taking products off a shelf might impact category or aisle sales positively or negatively and the interaction of products on the shelf must be taken into account when choosing where to delist, and where to add.

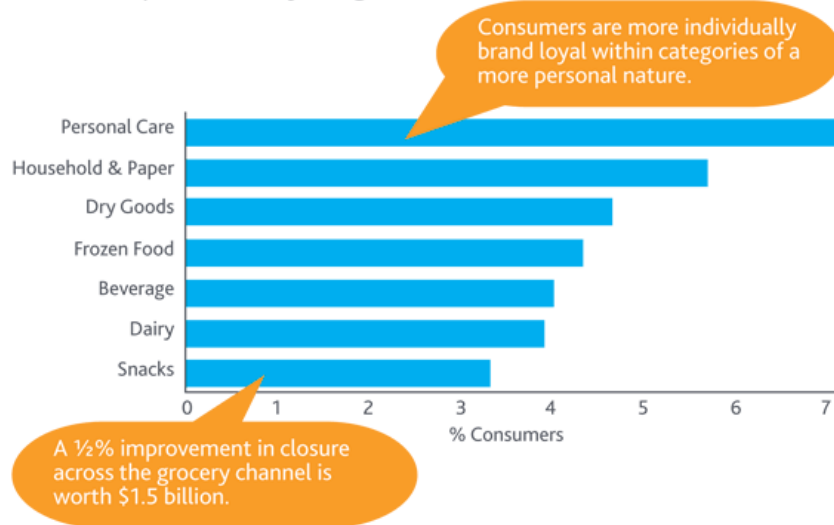
Shopper Reaction

Assortment is a complicated, interlinked chain of decisions balancing manufacturer and store goals with consumer needs. One of the major pitfalls to overly aggressive de-listing is consumer response. On one hand, shopper attrition is a major retail concern (indicated by 77% of retail respondents in Nielsen's 2010 Retailer Survey). And retailers should be concerned: over half of the respondents (in our 2010 Consumer Shopping Survey) said they are less likely to shop a retailer if they perceive a decrease in assortment.

If assortment downsizing is necessary to not only reduce retailer costs, but to also provide a cleaner shelf for consumers without creating customer frustration, then it is essential to trim SKU counts by eliminating non-incremental items. And a well thought-out assortment strategy can make a big impact. Achieving even a one-half percent improvement in shopper closure across the grocery channel translates into an additional \$1.5 billion in sales.

When Consumers Can't Find Their Assortment, the Impact Can Be Substantial

Consumer Response: Couldn't find what I wanted, and didn't purchase anything



Source: The Nielsen Company, PanelViews Survey, January 2010

Success Strategies

For 2010, expect to see a continued SKU rationalization effort targeting economy brands, as well as a closer analysis of store brand offerings with an eye on possible expansion and a revamping across categories that have suffered sales losses as a result of overly drastic changes. To achieve these objectives, retailers will have to step back from the historical approach examining SKU rankings up to a category and focus on a more strategic, ongoing approach of balancing incrementality opportunities across departments, categories, segments and brands

Success lies with offering the right mix of products, not the greatest or fewest number of products. Winning retailers will be those who better leverage the concept of incrementality when designing their assortment strategy.

Article from Nielsen Wire: <http://blog.nielsen.com/nielsenwire>

URL to article: <http://blog.nielsen.com/nielsenwire/consumer/too-much-choice-and-variety-assortment-realities/>

Copyright © The Nielsen Company. All rights reserved.