

Maximizing Category Sales by Optimizing Product Mix

Situation

An internet based, home delivery service had moved from a start-up mode into a phase of improving and refining its business model. As a part of this effort, the company established a goal to optimize its category, brand and SKU portfolio to best meet the needs of its consumer base. This goal resulted in the need to assess select categories in order to ensure that the category's brand and SKU portfolio offered maximum sales opportunities and aligned with consumer demographics while streamlining supply chain logistics.

Several factors were contributing to under optimized category and brand selections, including:

- A decentralized stocking process that resulted in an inconsistent approach to product mix (categories, brands and SKU's varied widely market to market).
- Critical sub-categories / segments were not stocked in some markets.
- Brand/SKU selection was not aligned with consumer demographics / preferences / trends.
- Products specific to local market preferences were not being uniformly maximized.

DHC was asked to assess several categories (Food, HBC, General Merchandise, Magazines) and to provide product mix optimization recommendations.

Solution

To develop recommendations for an improved product mix, DHC conducted a number of key analyses:

- Identification of the roles that each category would play (destination, routine, occasional, convenience).
- Outside, relevant industry research reviews designed to supplement the client's proprietary data and to provide a broader industry perspective (ACNielsen, IRI, Harrington, Progressive Grocer).
- KAD Analysis (keep/add/drop) – a detailed, SKU level analysis for each category, segment, brand to determine which SKU's should be stocked.
- Segment Opportunity Analysis – by combining client specific market basket analyses and syndicated data, DHC projected the volume potential for key category segments.
- Consumer Segmentation Analyses – combined consumer demographic, product demographic and client consumer profile data, designed to ensure that the product mix was aligned with the client's customer mix.
- Numerous Pareto analyses.

These analyses enabled DHC to determine the relevant market drivers that would result in an optimized product mix and an efficient assortment. These analyses provided the foundation for DHC to provide a comprehensive series of recommendations, including:

- Establishment of category roles and a decision criteria for future evaluation of new categories
- Determination of the categories and segments to carry
- Suggested SKU's to stock within each segment
- Regional brands and SKU's that would address local market tastes and preferences

Results

In addition to implementing DHC's product mix recommendations, the client adopted a centralized approach to category roles and SKU selection. Products stocked were uniform across markets but each market was permitted to stock products with strong local appeal. The client was able to reduce inventories while offering a stronger, more targeted and relevant product mix. This approach also resulted in stronger corporate purchasing power and more favorable pricing / terms from suppliers. Supply chain logistics were improved due to a more consolidated SKU line-up. All of these factors contributed to improved corporate operating margins.