

Less is more... but sometimes, less is just... less.

Back when I was a Brand Manager, I was fortunate to be running a #1 Brand that was profitable and growing. Then one spring morning the phone calls started... from our sales force, asking which SKUs from our product line I suggested delisting!?! We learned that the hot topic at that year's FMI conference was: *reducing SKU clutter*. I assured Sales that our line-up was solid, but delistings ensued anyway, and sales declined for our Brand, the category, and for retailers. We rectified the situation, and learned a valuable lesson. Sometimes, less is just... less.

This story took place nearly 20 years ago, but the same pressures are hitting retailers, sales forces, and Brand Managers today with more urgency than ever! Less can be more, but only when it's done right. If not, less is just less. How can you tell? Specifically, which SKUs can you cull from your own product line with minimum damage to your own sales? That's a painfully difficult question. At Edgewood Consulting Group, we've developed and refined our practice to help CPG manufacturers and their retail partners address this very issue with scientific precision and excellent results.

"Which SKUs can you cull from your line with minimum damage to your own sales?"

We work with our clients to take a more proactive approach. If a retailer's objective is to cut SKUs to reduce costs, we reposition the question, asking instead:

"How much can we INCREASE sales and profits while at the same time REDUCE SKUs at retail?"

And while we're at it: ***"Why not simultaneously optimize the assortment to make the category appeal to retailers' most valuable and loyal shoppers?"***

Or: ***"Shall we also appeal to their desired shopper consumer targets?"***

And even: ***"How do we tailor assortments to help retailers achieve competitive advantage versus their retail competitors?"***

Difficult? Yes.

Impossible? No. Actually, we do this all the time. Take a look at our results:

LESS

Less at retail:

- Total items stocked in warehouse reduced -13%

MORE

More sales & profit for retailers:

- +5% category sales
- +5% retail GM\$
- Store Brand sales +5%

MORE

ROI for leading Brands: (our clients)

- +8% sales
- +10% share of items / space
(distribution grows in downsized categories)

Source: An analysis of Edgewood's work over several categories reveals these average 'Win - Win' results. This is not a guarantee of results, as every category varies.

Less is more... when you do it right.

Our practice leverages shopper insights, advanced analytics and expertise that is unparalleled in the industry. Traditional assortment tools from market coverage to simple ranking reports simply can't generate these results.

“Edgewood is helping you? They're great. They're ahead of their time. Just tell me when the meeting is - and I'll clear my schedule for it.”

DMM at leading national retailer, February, 2009 - as told to our client

Pressure on retailers to cut

Retailers face tremendous pressure to cut costs and preserve margins as same store sales decline for many of them, citing excessive Brand and SKU proliferation as a reason for these cutbacks. Shelf clutter has always been a barrier to shopability. Effective assortment optimization does make categories more shop-able for consumers and more productive for retailers if done right. However today's mandate for 'SKU count reductions' is being driven by urgent financial pressure to cut costs. Taking a single-minded approach to this mission can be harmful to categories and Brands.

“Walgreen's plans to cut costs... the changes should produce \$1 billion in annual savings... More than 40 percent of our 20,000 SKUs are under review... 10 percent will be cut entirely”

Ted Pincus, Chicago Sun Times

“Wal-Mart's latest rollback – size of its store prototype... new stores will be pared down to 176,000 square feet or smaller, compared with 200,000 square feet of Wal-Mart's traditional supercenters.”

Lisa Biank Fasig - Business Courier of Cincinnati

Seeking better ROI

Both manufacturers and retailers must protect against cutting SKUs blindly, using tools and methods that aren't up to the challenge. If done improperly, these cut-backs will result in greater out of stocks, shopper alienation, and reduced sales and margins for both parties. Proper SKU rationalization should begin with the myriad of shopper insights Edgewood employs to make informed decisions that result in better ROI. Savvy marketers should also set their sights higher - to optimize retail conditions with an eye towards improving shopper satisfaction and their competitive position for even better ROI.

“... to compete successfully, retailers need to be more efficient by reducing costs, and more effective by enhancing shopper satisfaction and building banner equity... retailers need to do 'more with less'.”

John Ferramosca - Principal, Edgewood Consulting Group

While today's economic difficulties may drive many consumers to defer capital investments on items like washing machines and cars, they still have to eat and care for their families. That's why many 'consumer goods' brands and categories are holding their own. For these products, recessionary pressures are more than offset by consumers eating more meals at home, self medicating, enjoying affordable indulgences, or benefiting from category expansion as consumers trade down from more expensive alternatives and channels (e.g. to home water filters from water delivery).

Each brand and retailer faces their own challenges and opportunities, and savvy marketers should do their best not to panic, cut back in the wrong places or exacerbate their situation. Like today's consumers; Sales, Marketing and retail professionals are increasingly focused on ROI. That's why leaders are redoubling their efforts to remain proactive and manage their own destiny with consumers and at retail.

Don't settle for just... less. Let us help you get more from less.

Call us and we'll be glad to review your situation and discuss how we can leverage our insights, analytics and expertise to help turn problems into opportunities – and maximize your ROI.

In future issues of this publication, we'll explore the issues and pitfalls facing the CPG industry as they continue to grapple with the assortment challenge. There is a better way. Let us be your resource to help you do it better.

Principal, Israel J. Rodriguez, Jr.
irodriguez@edgewoodcg.com
714-995-9378