KANTAR WORLDPANEL

THOUGHTS ON...

RATIONALISING YOUR RANGE

With space on the shelf at a premium, how do you decide what to keep?

Kantar Worldpanel's **Thoughts On...**
Ranging and choice

RATIONALISING YOUR RANGE

The saying has been around for a long time, but recently it's become fashionable to apply the principle of 'less is more' to the supermarkets. Faced with the sense that reducing ranges could help replicate the success of Aldi and Lidl, the major grocers have been left with a clear desire to streamline their stores.

There are inviting benefits for manufacturers and retailers in reducing complexity, and fewer product lines means greater efficiency from production through to shelf replenishment. The direct impact for consumers is not as clear. Are shoppers really overawed and frustrated by choice? Does having too many product lines on the shelf leave consumers scratching their heads, and would they prefer fewer options?

It's something retailers must consider carefully – act too rashly when paring back the shelves and you risk losing customers and damaging your relationship with manufacturers.

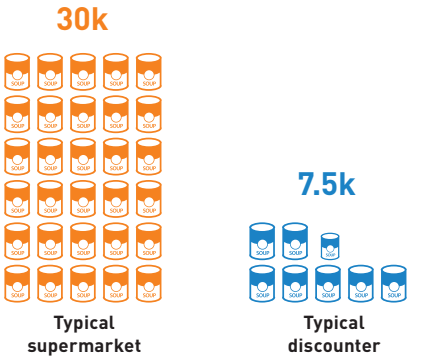
Discounters v supermarkets

Traditional supermarkets offer significantly more products for shoppers to choose from – around 30,000, four times that of a discounter. Yet it's Aldi and Lidl that have seen tremendous growth over the past two years – their combined share increasing by 50% to reach almost 10% of the marketplace.

Major retailers have responded with stronger price promises and range rationalisation pledges such as Tesco's Project Reset, which will see up to 30% of its product lines removed.

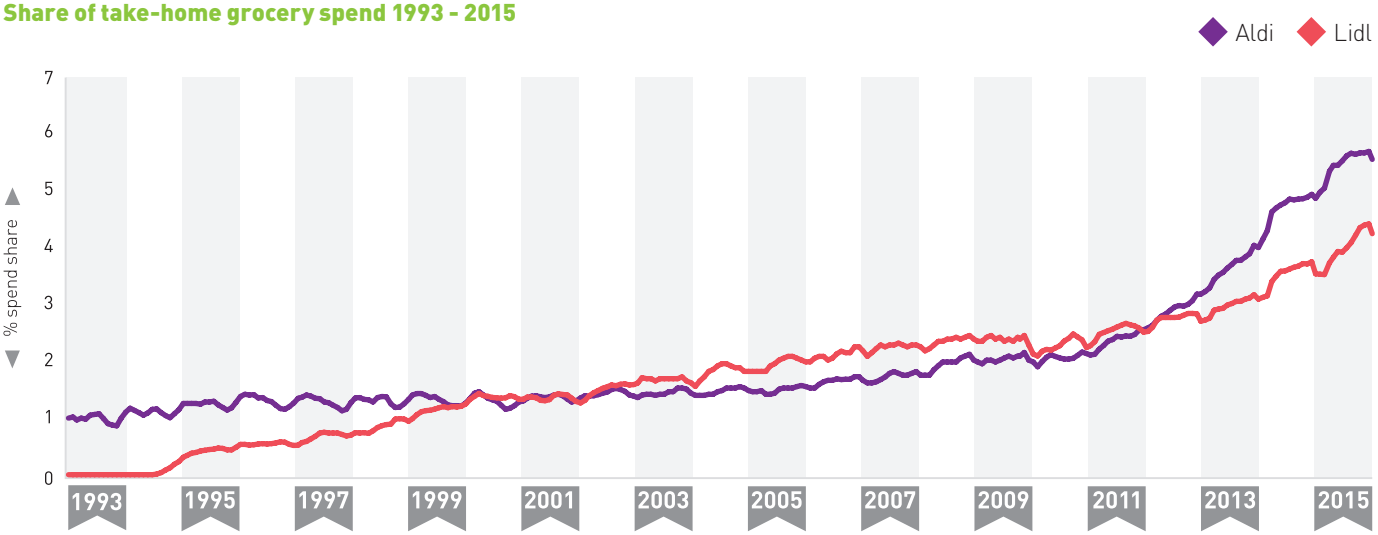
But a smaller range is not the be-all and end-all for success. In the time that the discounters' share of the grocery market has risen by three percentage points their ranges have expanded by nearly 10% – around 750 lines – while the 'big four' supermarkets have gradually reduced numbers by one to two per cent.

Average number of SKUs



It's unlikely that shoppers suddenly found supermarket shelves too overwhelming in 2011 and started spending at Aldi and Lidl. Limited range was at the heart of the discounters' business model long before their meteoric rise in the UK; while simplicity is a contributing factor in the discounters' success, store estate growth and an improved reputation have arguably played a greater part.

Discounter share over time
Share of take-home grocery spend 1993 - 2015



Complexity on the category shelf

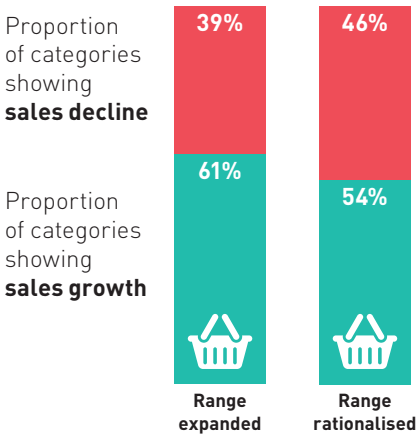
To assess the impact of range reviews on shopping behaviour, we identified close to 500 instances of the seven leading grocers either increasing or reducing choice by at least 10%.

At first glance, the results are overwhelmingly in favour of increasing choice: 15% sales growth in categories with an expanded assortment against 7% decline among rationalised ranges.

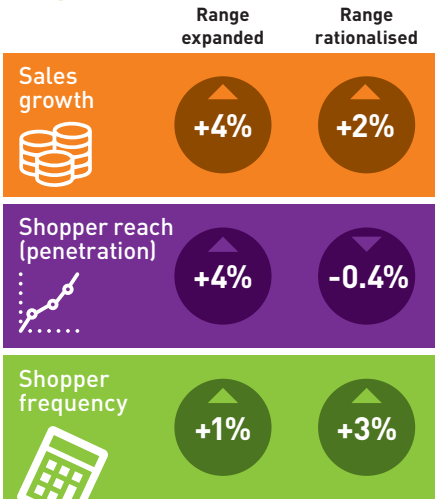
Accounting for differing growth rates and seasonal market changes when looking more closely at individual categories, the picture differs. When all things are even, categories with expanded lines grew sales by 4% more than expected, compared to 2% for those that were rationalised. But this is only an average, and range reviews are no guarantee of growth – two in five categories increasing range saw sales decline, with fewer shoppers making a purchase.

What's clear is that opportunities for growth exist and to grasp these, standing still is not the answer. The healthiest option is to regularly reappraise the market, which can lead to expanding as well as cutting. Retailers must assess what benefit each individual product line brings both to the category and the overall shop, and whether potentially alienating customers by removing some of their best-loved brands is offset by any operational efficiencies which come with a smaller range.

Sales performance following range changes



Category performance in comparison to expectation



Preserving shopper loyalty

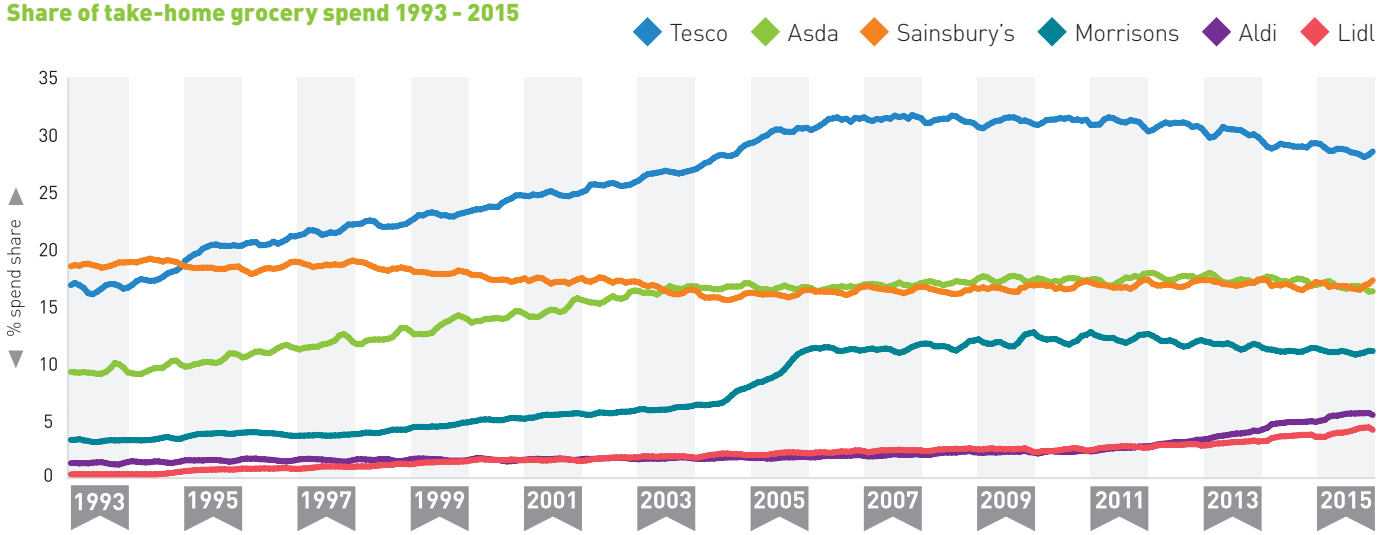
Reducing range size can mean leaving shoppers unsatisfied. Yet very few people show well-defined brand loyalty. In a supermarket, shopping for specific categories is often planned – on average 80% of these purchases are intended – but this is less true for brands (50%). Brands have to work harder to capture and retain the shopper's interest, and having fewer SKUs on offer will reduce their chances further.

For brand owners, the mission is clear: do whatever you can to protect all your listings. If one of your products is delisted, shoppers will not automatically switch to a similar item from your range, meaning it's no surprise that there is an occasional call from a retailer to cull an entire brand. It's where Aldi and Lidl show another of their strengths, emulating popular brands and capitalising on the association.

While product loyalty is of huge importance to the manufacturer, it's no different for the retailers. When one major retailer delisted its own-brand organic coffee because of poor sales, it hadn't realised the product was filling a niche which other retailers had missed. It had a loyal cohort of repeat purchasers which it brought into the store, so when it became unavailable some moved elsewhere, taking their whole shop with them.

From a retailer's perspective, while the category purchase is important, the basket purchase is vital.

Discounters vs Supermarkets
Share of take-home grocery spend 1993 - 2015



RATIONALISING YOUR RANGE

Partitioning the shelves

The most successful categories provide an appropriate selection of lines in every key category partition, maximising shopper appeal.

For wine, a range typically needs to cover combinations of colours, price, grape varieties and provenance. Wine colour is a 'hard partition' – typically the first choice that a shopper makes, with a low chance of switching. Price is softer, with customers happier to move between available tiers, as is provenance – if the product meets more important needs there is a higher willingness to compromise.

The aim is clear – still give consumers what they want, even if the range is reduced. The trick is to identify which category partitions are most important, and regularly reassess. Grocery trends move quickly and retailers need to adapt in time, showing consumers that they're responding to their needs.

Implications for brand owners

Before Tesco delisted Carlsberg, the brand accounted for 14% of lager sales at Tesco. Tesco lager shoppers spent more on lager outside Tesco, and Carlsberg shoppers spent the majority of their lager spend outside Carlsberg – leaving both fighting for a larger corner of the market.

Tesco took a calculated risk, betting on shoppers staying in store and buying something else; even hoping that by simplifying the category more people would buy more. But if Carlsberg shoppers move elsewhere for its brand the retailer might find it has compromised the coverage of category partitions and may need to rethink its strategy.

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Alternative routes for brands

The 80% of category lines which are least purchased only account for 25% of category value, meaning retailers might be stocking thousands of products which aren't pulling their weight. But if your product cannot justify its position on sales volumes alone, all is not lost. The best alternative is to achieve incremental category growth by reaching shoppers that other brands won't, whether that's by appealing to a demographic with different tastes or by satisfying a niche functional benefit – one example is Flora ProActiv, which lowers cholesterol.

It is important not to lose those shoppers with particular needs. Shopper penetration truly dictates the health of a category, and successfully maximising this while reducing range is a vital compromise. Retailers need to understand their shoppers and keep the products which have a point of differentiation – those which set the brand and shop apart from the competition and define them in the eye of the consumer. Identifying these and making sure consumers are both satisfied and excited will help to keep shoppers coming in through their doors.

METHODOLOGY

All the primary data used in this report comes from our grocery shopper panel, on which we continually measure the purchasing behaviour of 30,000 demographically representative households in Great Britain [England, Scotland and Wales].

We collect information on what they are buying, where they have bought it and why. This allows us to develop a detailed picture of the British retail market.

The potential level of detail available on the panel goes way beyond that used in this report to help manufacturers and retailers really understand their performance at a granular shopper level.

Data on shopper attitudes and experiences was collected from over 40,000 panellists by means of an online questionnaire which focused on over 30 major FMCG categories. We specifically interviewed shoppers who very recently made a purchase and asked them to tell us more about it.