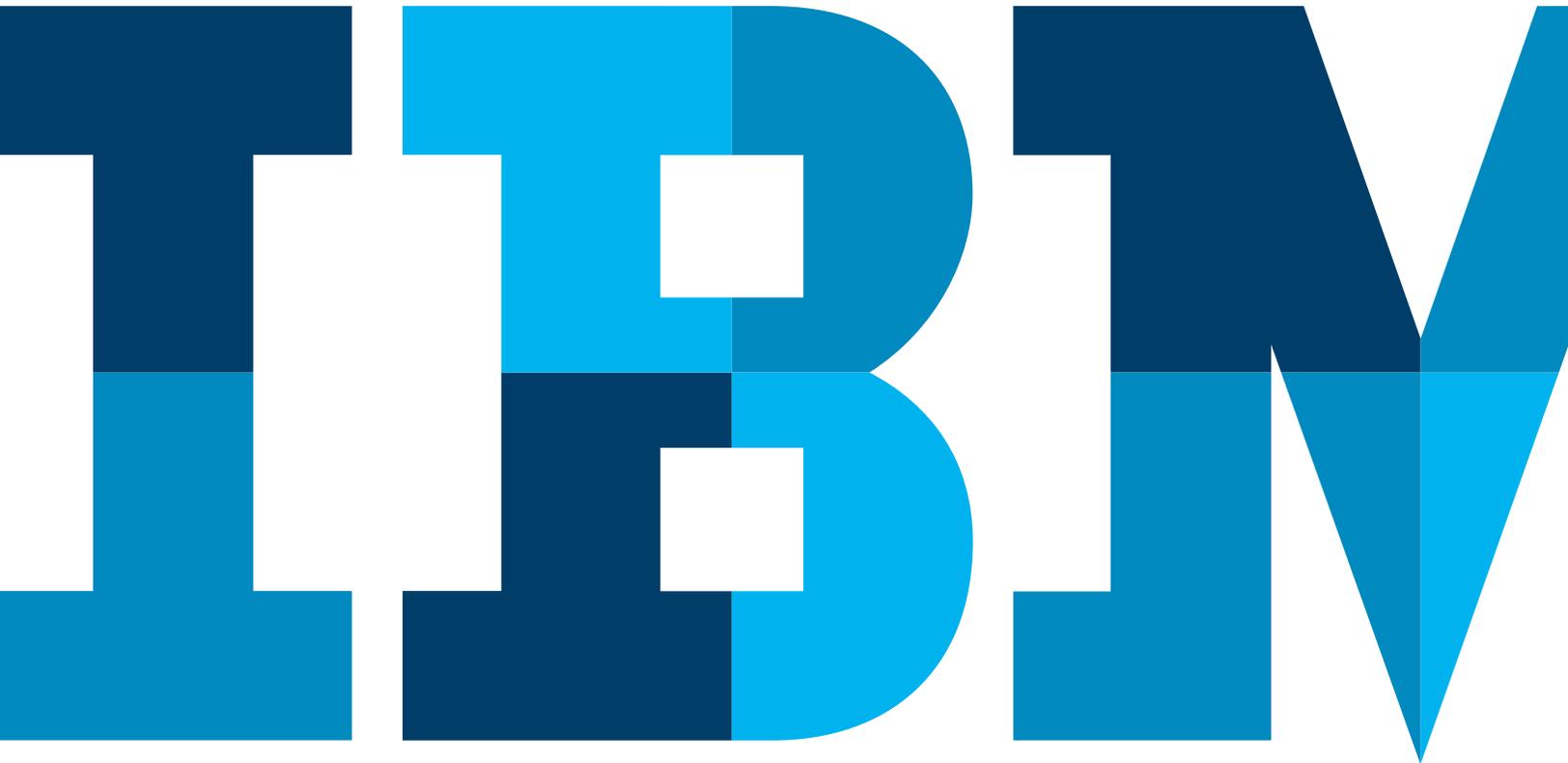


# Delivering better category reviews with analytical insights



## Introduction

Category reviews are a critical component of your business planning process, helping to ensure your business success. If you want to stay ahead of your competitors you need to use the latest merchandising techniques. It is no longer enough to make decisions about assortment, price and promotion based on a one-size-fits-all customer strategy and outdated analytic models. Retail winners are using new techniques that include assortment analytics, basket analysis and customer segmentation to uncover new insights and ways to improve business performance...and deliver the desired shopping experience.

In this document, we provide you with practical tips on how to undertake a category review that leverages:

- Customer insights to ensure that you are serving your most profitable customers
- Assortment analytics to provide new insight into which products to add or drop based on incrementality
- Basket analysis to measure the full impact of promotions
- Image item analysis to confirm the best image items for each customer segment

## Category reviews are time consuming

Category reviews require you to focus on all aspects of the business, leaving little time for detailed analysis of any one component. In a category review, you must look at all of your merchandising levers—assortment, price and promotion—and then evaluate your strategy for the category, competition, private label, and customers. The chart below details some of the most critical questions you must answer during a category review. Traditionally, merchants have struggled to obtain enough data to make decisions and have relied heavily on their intuition or past practice.

As businesses become more complex, and retailers are driven to make decisions not just for a category or for a store, but also for specific customer segments, the need for deep, data-driven insights about customer demand has grown. The application of consumer-demand intelligence can be invaluable in making those decisions. By applying econometric models to your data, you can gain insight regarding consumer behavior as it applies to the products you carry. By going one step further and applying those models to specific customer segments, you can also gain deep and rich insight into how to drive growth with the customers who matter the most to your business.

	Assortment	Price	
<b>Category</b>	<ul style="list-style-type: none"> <li>• How much space should I give my category?</li> </ul>	<ul style="list-style-type: none"> <li>• What role does my category have?</li> <li>• How does that impact price and promotion policy?</li> </ul>	
	<ul style="list-style-type: none"> <li>• How do I effectively remove a product from my assortment?</li> <li>• What price will be most effective in this goal?</li> </ul>		
<b>Competition</b>	<ul style="list-style-type: none"> <li>• How do I differentiate my offering?</li> </ul>	<ul style="list-style-type: none"> <li>• How does my base price compare to that of my competition?</li> </ul>	<ul style="list-style-type: none"> <li>• How does my promoted price compare to that of my competition?</li> </ul>
<b>Private Label</b>	<ul style="list-style-type: none"> <li>• How can I use private label to promote customer loyalty?</li> </ul>	<ul style="list-style-type: none"> <li>• Should I have a tiered private label strategy?</li> <li>• What is my optimal price gap to national brand?</li> </ul>	<ul style="list-style-type: none"> <li>• How do I use promotion to encourage trial and repeat purchases?</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>• Which products attract my best and opportunity customers?</li> </ul>	<ul style="list-style-type: none"> <li>• What are the best image items for each segment?</li> </ul>	<ul style="list-style-type: none"> <li>• What promotional tactics work for which customer segments?</li> </ul>

## Applying demand science to your pricing decisions

### Assortments

In a category review, you will need to determine which products to add and which to delist. Many retailers take a traditional ranking-report approach to creating assortments, in which they simply rank all of the items in a category by sales and—with some modification based on their experience and good judgment—more or less replace items from the bottom up. While this approach is easy to execute, it often produces assortments with too little variety and too much duplication. The result can be diluted sales across similar items, no improvement in store traffic and underwhelmed customers.

*If you want to stay ahead of your competitors in these trying times, you need to use the latest merchandising techniques.*

By applying demand intelligence to your assortment decisions, you can dramatically improve that process by using econometric models to determine which items should be stocked, by store or store cluster, based on the customers who shop at that store, the competitive environment and a quantified understanding of whether each item in a category is merely duplicative or truly provides variety and adds incremental sales to the category. By applying the principles of incrementality and transferable demand, you can understand what will happen to the demand for a product if it is delisted. Will that demand shift to other products you carry, or will it transfer outside the store or, even worse, carry the customer entirely out of the store? Applying this type of demand science to your assortment decisions can help you increase the variety in your assortments,

improve SKU rationalization and assortment localization and boost the effectiveness of your tactical efforts, such as making one-in-one-out assortment decisions.

Demand science can help you answer questions like:

- Which items are my best sellers?
- Will I lose customers if I drop low-selling items?
- What products are most important to my various customer segments?
- How does private label play into my assortment?
- Which products should I private label?

### Pricing strategy

A standard part of any category review will be to reassess your pricing strategy for the category. Do you have clarity on the right role for the category? Have you identified which are the right image items for that category? What is your competitive strategy for the category? Answers to these questions can be improved by applying consumer demand intelligence. How does the rise of omni-channel shopping impact my pricing decisions?

Rather than basing pricing on cost-plus strategies or merely reacting to competitors' pricing, many retailers today are leveraging powerful consumer, demand and market insights to price every item in the store. By applying econometric models and optimization techniques, you can capture the elasticity of each item, in addition to cannibalization, halo effects, cross-category pull-through effects, trends, seasonality and a host of other causal factors to deliver a more accurate depiction of demand forecast. Moreover, you can understand these factors for virtually all customers in aggregate, or by specific customer segment.

This insight provides you what you need to:

- Define the role and intent for each category based on importance to customer, customer segment and business in general
- Update image-item lists, including at the segment level, helping to ensure competitive pricing on the right items without unnecessary margin loss
- Develop forecasts for pricing actions for categories that are underperforming or losing share
- Understand which promotional levers are most effective at the category and item level
- Determine what price to charge for private label items, including gaining insight into the ideal price gap between private label and national brands

### **Promotion strategy**

Promotion strategy is another critical component of a category review and, once again, applying consumer demand intelligence to promotions can enable you to maximize the total store impact across categories, as well as the impact on specific customer segments. By taking into account cannibalization, halo effects and cross-elasticity effects of regular retail and markdown programs in place, you can quickly determine the best discounted price for any item or promoted item group; the best type of temporary price reduction, such as buy-one-get-one, percent off and multiples discounts; and the best use of merchandising support, such as ads and displays, to maximize the incremental lift and total store impact of promotions. Moreover, consumer demand science can help you understand how to reach certain customer segments through promotional levers.

This insight provides you with the ability to:

- Understand forecasts associated with various promotional options based on price and associated tactics
- Determine the optimal promotional price
- Understand which promotional levers are most effective at the category and item levels
- Understand the effectiveness of promotional levers by customer segment
- Determine which customer segments drove a particular promotion's performance

*IBM offers a wide array of technology and services that can enable retailers like you to drive analytical insights into their category review.*

### **Summary**

IBM offers a wide array of technologies and services designed to enable retailers to drive analytical insights into their category review. We leverage our industry-leading optimization technology and the expertise we have gained in working with more than 100 of the world's leading retail banners during the last 10 years.

## About IBM Commerce

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## For more information

To learn more about IBM's Omni-Channel Merchandising solutions, please contact your IBM representative or IBM Business Partner, or visit the following website: [ibm.com/merchandising](https://ibm.com/merchandising).



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