

# Spatial Relationships

## Walgreens stays competitive with automated space and category allocations

by KAREN M. KROLL

Given how accustomed consumers have become to the millions of choices available when shopping online, most retailers operating bricks-and-mortar stores need to also offer as many choices as possible. At the same time, though, both real estate and inventory are expensive.

Category management systems can help retailers optimize real estate and inventory, and boost their ability to get the right products to the right places and meet most customers' expectations. The systems allow retailers to "increase relevance with the consumers they're targeting," says Kent Ruesink, senior product director with JDA Software.

While successful retailers still use point-of-sale data to develop planograms, they also need to incorporate demand forecasts, consumer demographics and social media input.

"Today's customers want a highly tailored experience."

That requires highly tailored information. A decade or two ago, retailers could use planograms developed at the chain level in most locations, but chain-level planograms rarely suffice any more. Instead, the diagrams need to be customized to the region or even a specific store. While demand for some products may be similar across the country, many will vary with the region: Sunscreen probably will merit more space in stores located in southern climes than in those that experience months of wintry weather.

A range of other demographic factors can also influence shoppers' buying habits, including average ages, income levels, family sizes and proximity to the nearest big cities — Broncos' T-shirts

are likely to draw more interest in the Denver area than in Tampa.

"There are multiple ways to tailor the store's offering," Ruesink says, and retailers that excel at this gain a competitive edge.

### INCREASED RELEVANCE

"The multichannel evolution has led to an evolution of merchandising localization," says Todd McCourtie, senior solutions strategy director with JDA. While successful retailers still use point-of-sale data to develop planograms and allocate shelf and floor space, they also need to incorporate demand forecasts, consumer demographic information and social media input.

"There's more data to manage and execute against," he says. To handle it, many retailers are turning to automated systems to help them quickly and accurately determine the optimal space and category allocations.

In 2009, Walgreens launched a consumer-centric retailing program with the goal of providing localized offerings in its new and remodeled store formats.

"We've remodeled a large number of our stores to make them more relevant to the customer," says Louis Dorado, Walgreens director of space management and visual merchandising. "To accomplish this, we had to support a significant increase in planograms in order to run the business, while changing the business."

Walgreens began using JDA's category management system and "ended up tripling our planogram library and increased our merchandisers' bandwidth significantly," Dorado says. "The solution makes it easier to go through different versions and iterations of the planograms."

Walgreens was able to eliminate 97 percent of planogram-to-store errors

and automate the creation of custom assortments. By incorporating sales goals and consumer profiles, the retailer was able to generate “very actionable insight,” and could fine-tune the selection of merchandise in each location, Ruesink says.

Ruesink notes that although a retailer with a single store may be able to get by without any automated category or space management solution, even retailers running just a handful of stores can benefit from the tools. The applications are particularly helpful to those offering consumer packaged goods. “The CPG market is a very complex and competitive environment and retailers have limited space available,” he says. “How this space is utilized can lead to market share attrition or expansion.”

#### INFORMED DECISIONS

For the space and category management solutions to do their jobs, they need a range of information on the products that will be displayed, including physical dimensions, cost, retail price and forecast demand. The systems also need to know the sizes and dimensions of the stores and the fixtures within them, Ruesink says, as well as performance data for each category.

“It’s finding trends in the industry and using the knowledge to make decisions on the right assortment and the amount of space to dedicate to a category,” he says.

The JDA systems typically are licensed at the seat or enterprise level, Ruesink says. Because the scope can vary dramatically, so can the cost and implementation time frames. Some desktop implementations are completed in days, while enterprise implementations may be done in phases over several years.

Several other factors also affect the implementation schedule, including

the maturity of the organization’s category management efforts and the status of the data. If it’s in rough shape and requires a “deep cleansing,” that likely will extend the time frame. “We work with users to identify their current state, where they want to be and how to get there,” Ruesink says.

Category and space management systems can offer a range of benefits. For starters, a planogram generator can speed the process of creating planograms while also eliminating errors.

In addition, providing retailers with visibility to the space and floor plan activities scheduled in the future allows them to estimate labor needs based on the number of fixtures and items, as well as the number of moves that will take place. The systems offer “the capability to give an in-store simulation of what the store looks like today, and what you want it to look like in the future,” Ruesink says.

The systems enable retailers to quickly and accurately assess several measures. One is performance — that is, how many units moved or how much sales revenue a store generated during the specified time period. Another is the investment, such as the shelf or floor space allocated to a product.

Retailers then can compare a product’s or category’s performance against the investment made in it to arrive at a productivity measure, such as sales, movement or profit per foot of space allocated to a specific category. Armed with this information, retailers can continually tweak and

improve their space plans. By optimizing the way in which space and shelves are allocated, the systems can reduce markdowns, increase customer satisfaction and boost sales and profitability.

Walgreens, for instance, can analyze the performance of a planogram and assess why a category is behaving the way it is. “Where you typically would get reports created in an Excel



spreadsheet with over 5,000 rows of information, we can convert that into a visual ‘heat map’ on a planogram or even on a floorplan that will tell the story a lot faster,” Dorado says.

The systems even enable retailers to gain a leadership position, McCourtie says.

“By having insight through data analysis and leveraging customer insight with big data analytics, the retailer can create assortment opportunities for their customers, for those unique, trending items,” he says.

They can be first to market with the items customers want, and force competitors to try to keep up. “You can put yourself in a good position to win,” he says. **STORES**