

Retail Clustering

Introduction

The term clustering has become a generic solution and aim for most leading retailers. It is a method that addresses the problem of stores specific range and space to meet local needs that is both manageable and practical. It is in fact a better solution than localised ranging as it accounts for local needs at the same time as allowing for generic consumer trends and pushes through new products that create new needs. It also continues to support economy of scale and prevent expensive niche retailing.



Clustering Defined

This is the use of grouping category performance influence factors together at a sufficient level that delivers greater efficiency in terms of range and category performance at the same time to better meet consumer/shopper needs. These factors can vary considerably by retailer and category but generally include geography, demographics, psychographics, sociographics, regionality and seasonality. Other operational factors to consider include retail, department and fixture estate (the space available and the relative share of space, both at macro & micro level). This is known as 'signature' merchandising in the USA. Competitor location/nearness and strengths in category can also be modelled and accounted for in a clustering exercise.

Clustering Methods

There is a myriad of methods as there are factors that could be applied to achieve the prize of efficient range and space usage. These factors generally have a major part to play in the segmentation of the category. The segmentation applied in the category approach (if done correctly) is a good place to start and has the benefit of being in line with the category plan and strategy. It should be noted that poor Category Management is most

common due to poor Marketing skills in both retailers and suppliers and should be a watch-out for anyone endeavouring to apply clustering.

Performance Clustering; This is the basis from where most clustering starts by simply cross comparing performance in terms of sales (value, volume) and cutting the data by various grouping

and operational segmentations to find similarity across stores and category. This generally leads to clustering by store type and regional groups. At this point a dilemma usually occurs as both the regional groups and the store types have a vast mixture of varying performances that appear non-related. Most attempts give up at this point or try to apply something that is accepted as interim and often ineffective.



The reasons for this ineffectiveness is simply that both regional and store type groups are artificial operational groupings. Consumers (Typologies) shop across all store types and regions irrespectively and are often the core driver for the varying performances seen. It is also very common for a fixture (module) type to be common across different store types. This is why understanding 'fixture estate' is so critical. For example a small store may have a good relatively large fixture and range in a specific category which encourages consumers to preference shop that store for that specific category. Poor store operational control is of course a major contributor to localised performance and is sadly very common in modern retailing.

Loyalty Card; This method uses the demographic & geo-demographic information supplied by retailer loyalty card users on registration and matched to geographic databases such as MOSAIC or PRIZM. It is often coupled with an analysis of loyalty card usage that is based on the theory 'you are what you eat'. The output is a store specific demographic profile and a product specific demographic profile. By matching the store profile to the product profiles, specific tailored ranges can be calculated. This however becomes unmanageable and runs the risk of niche retailing and not meeting the needs of new customers/non primary shoppers.

By grouping the stores into demographic clusters first (usually 6-8), and applying a match to an averaged dominating profile of the stores to the product profiles, a more generalised range is calculated. This is then matched and products prioritised to fixture space by module type. A store with i.e. module type 1 which equals 'x' amount of linear space and belongs to cluster group i.e. 3, gets a range which matches both the space available and the weighting of its cluster group. To aid implementation, planograms are built by module type and cluster range.

The problem with loyalty card clustering is that it is a reflection of existing customers, usually primary shoppers who use the loyalty cards. Their purchases may be influenced by the loyalty card offers and also settle for what's only available in the current range. The other issue is that most shoppers are very disloyal and will shop in a variety of stores. Opportunity sales and attraction of new shoppers could be missed through this method alone.



Consumer Segmentation; This is often used where poor or no loyalty card data is available. It usually takes the form of product segmentation by consumer types and is based initially on consumer discussion groups. It is common for this to be the extent of the research in the form of qualification research only. It is recommended that verified quantification be used in all cases, as this is a major fault of all Category Management approaches and one of the reasons for such variety of segmentations in the same category.

By identifying the consumer/product types by segments i.e. this segment of products meet the need of 'big eaters' who are predominately male and are looking for a fill-up meal solution and are mostly blue collar workers etc. A cross match can be made with external geo-demographic and national census data to specific postcode areas by store location. These product consumer profiles are often crossed matched with associated or related products or factors available in a variety of census type databases, for example health records are used to identify the potential of specific health products in an area.

Again weight of range by segment can be made to specific store or cluster and applied to the fixture space available. The problem with this method is the theory that people belonging to a specific postcode zone are going to visit the store and shop that specific category to meet their needs. For example a city centre shop may be frequented by office workers who live outside of the postcode zone and have a very different profile, usually more affluent than city centre dwellers. The way to address this is to index the store performance by the product segments and compare to the resulting demographic indexes. By applying the indexes at store which show a marked difference in performance to the demographic indexes you can ensure that existing good performing segments are not compromised.

Summary

Applying clustering can achieved improved efficiency in range and space performance and has the added advantage of meeting local consumer/shopper needs better with the opportunity for increased shopper loyalty. Clustering has been known to achieve 9-14% uplift in sales when correctly applied (from actual examples) and is a potential quick win for any retailer prepared to



sponsor such an endeavour.

The key to clustering is the level to which you decide to go and using the best mix of information and techniques available. The watch-out is to clearly understand the information and expectations of its impact. Demographics is a good example of such a dilemma. For example two females, same age, married with two children and living in the same street with the same house type will have an identical demographic profile. The problem here is that their lifestyle will vary considerably i.e. one may like knitting and watching TV whereas the other likes Aerobics and outdoor activities. This is why it's so important to combine a mix of factors and not be too specific application.

Another factor to consider is operational efficiency. It is far better to apply generalised performance of products to any ranging technique as not all products in a category catalogue have universal distribution. In addition to this, specific store performance will be dictated by operational constraints and reflect the range that is currently stocked by specific stores. As we saw earlier, range and performance can vary considerably by store type and region. From experience the only regional factors that ever really apply are usually the north/south divide and specific regions such as Scotland. Seasonality is another factor that should be considered when building a cluster range as it can have a marked effect in specific categories.