

Merging Marketing and Merchandising in Retail to Drive Profitable, Customer-Centric Assortments

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ABSTRACT

As a retailer, have you ever found yourself reviewing your last season's assortment and wondering, "What should I have carried in my assortment"? You are constantly faced with the challenge of product selection, placement and ensuring your assortment will drive profitable sales. With millions of consumers, thousands of products, and hundreds of locations, this question can often times be challenging and overwhelming. With the rise in omnichannel, traditional approaches just won't cut it to gain the insights needed to maximize and manage localized assortments as well as increase customer satisfaction.

This presentation explores applications of analytics within marketing and merchandising to drive assortment curation as well as relevancy for customers. The utilization of analytics can not only increase efficiencies but can also give insights in to what you should be buying, how best to create a profitable assortment, as well as engaging with customers in-season to drive their path to purchase. Leveraging an analytical infrastructure to infuse analytics in to the assortment management process can help retailers achieve customer-centric insights, in a way that is easy to understand for retailers to quickly take insights to actions and gain the competitive edge.

INTRODUCTION

Retail isn't an easy place to be these days. Retail has changed from walking through a store to becoming a click of a button, sitting on your couch in your yoga pants. The environment is omnichannel and ever-changing. Competition is rising, and retailers are struggling to understand how to best meet customers' evolving merchandise preferences, competition, engaging with the customer, and drive profitability and market share.

Smart retailers are doing that with analytics by harnessing the big data streams that define the digital nature of our increasingly online, mobile world to inform more meaningful omnichannel strategies. Traditionally, marketing and merchandising have been very much silos within organizations. Just as the customer journey within channels requires a seamless transition for the customer, marketing and merchandising requires seamless integration and partnership. This paper will walk through how to merge merchandising and marketing to drive customer-centric merchandise assortments.

UNDERSTANDING YOUR CUSTOMER

Traditionally, retailers have managed assortments by looking at volume groups and/or one specific location attribute. But as the retail landscape evolves to include so many different ways that customers can shop assortments and as competition increases, this concept just isn't cutting it anymore. Retailers face a typical challenge: Two locations can be within minutes from each other, in the same climate and with the same volume. However, they have a completely different customer base with different preferences.

One location may be in an area with a higher average income. Luxury brands, specific silhouettes and higher price points may sell better here than others. The second location does the same volume but is located in an area of middle-class families that lean more toward average price points and different silhouettes such as more functional driven styles. If you knew this, would you give them the same assortment? Absolutely not. But when you have 1,000 plus stores, there is no way that buyers could go through and analyze customer preferences for all locations and ensure they are buying the right assortment for each store.

These characteristics are also referred to as trade area characteristics. A trade area is the geographic area surrounding a store location. If you were to look on a map of where a store is located, the

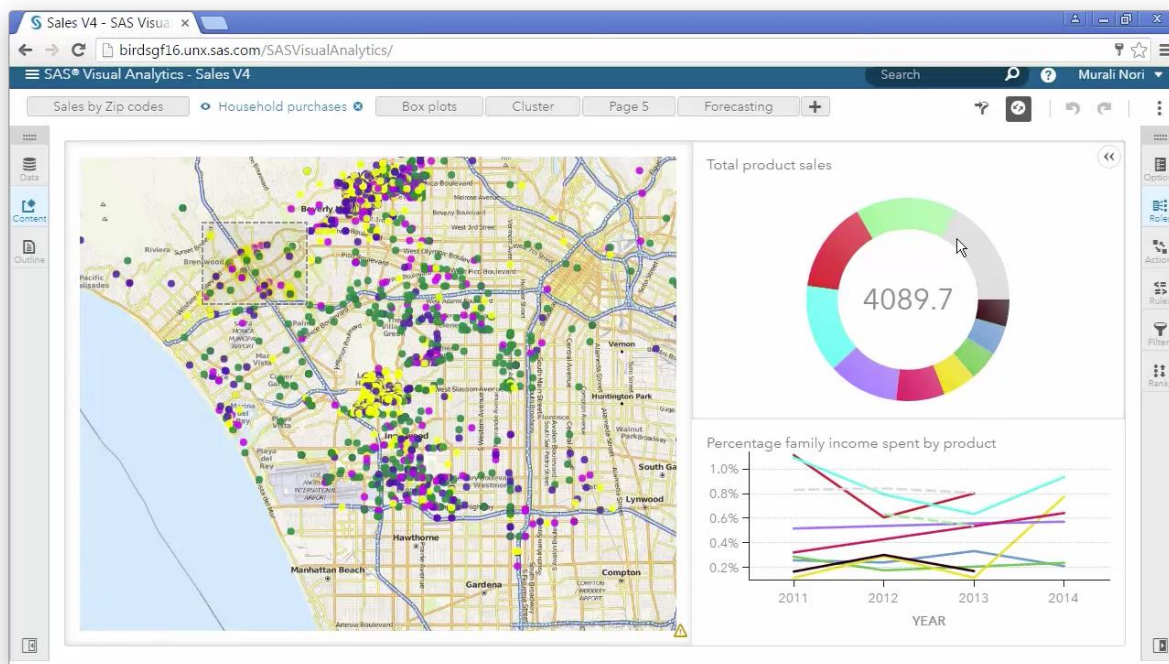
surrounding area is typically where the majority of the customers reside. However, customers may actually shop different stores than the closest proximity store. This is where a bottom-up approach to defining a trade area can give a much more accurate picture. SAS® Trade Area Analytics establishes trade areas by leveraging customer-level information to understand where the majority of the customer base is traveling from to shop.

Trade area demographics, such as the average income of the surrounding population, are available. The specific characteristics of this trade area can also be analyzed to understand not just what is being bought in-store but what is being bought online within these specific trade areas. This gives you a true view of the omnichannel demand.

Omnichannel demand and SAS® Trade Area Analytics can enable retailers to understand truly the customer preferences within a market and then be able to make merchandising, pricing, inventory, and marketing campaign decisions. As retailers move towards in-store fulfillment to reduce shipping costs as well as increase store productivity, trade area analytics can drive strategic merchandising and marketing decisions pre-season and in-season.

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Figure 1 is a sample Visual of a Trade Area



SHARING COMMON DATA

As mentioned previously, merchandising and marketing have historically been in different silos of the organization and so to as their data. Marketers tend to have rich insight in to the customers that shop their stores. Merchants crave this insight but in a way that is actionable, not another one-off report. Just as we think about the preferences of similar trade areas, we can also gain insight in to the common customer profiles that shop these trade areas, leveraging customer segment information.

Have you ever thought about what percentage of your dress business is a “Modern Day Mom” versus a “Fashionable Fiona”? Having this insight can drive your assortment decisions to ensure that you are

bringing the right product to meet your customers' preferences pre-season. One of the most powerful forms of analysis is through attributes. Attributes describe products outside of the standard merchandise hierarchy such as silhouette, color, fabric, and patterns. Analytics can be leveraged to understand which attributes are truly driving your customers' purchasing decisions. Then, within these attributes, which silhouettes, colors, and fabrics are performing well, which attribute combinations are performing well and then which combinations of attributes you did not even have in your assortment would have done well. This type of attribute analysis can leverage predictive analytics to give insight in to what you should be buying based on your customer preferences.

For example, let's say we are looking at the attribute performance of jackets for the fall season. The attribute of leather scored very high. The silhouette of a Moto jacket scored high and the color of grey had a high score. Well, the assortment did not include a leather, grey, Moto jacket. If we had this item, the jacket would have been a strong seller. The attribute information gives insight in to what products could have sold well and highlights areas for new products next season.

These insights, leveraging a common data model between merchandising and marketing to gain insight in to the customer profiles can drive key assortment decisions. Once the assortment is bought, it then becomes crucial for merchandising and marketing to work together to not only engage the customer but also drive through inventory in-season and end of season.

ENGAGING WITH THE CUSTOMER

67% of customers feel that experience is more important to price. When it comes to millennials, 78% prefer experience over price. This is truly where the opportunity lies. The relationship between retailers and customers should be viewed as a two-way street. Customers are continuously giving retailers information in real-time through their browsing and buying behavior – online and off-line. Today's breed of customer expects that retailers will use this information to offer them the most relevant communications.

The retailer's Digital Retail Theatre™ concept and model makes omnichannel retailing a reality and takes it to a diversity of digital devices such as interactive displays, mobile phones and tablets. Far more than just a modified website experience, it is retailing redefined. Boundaries are erased. Lines are blurred. There is no start and end to the experience. Customers have unprecedented options in their shopping experiences as well as their relationship with the retailer – delivering an omnichannel experience that's powerful for its real-time relevance.

Where technology was once viewed as depersonalizing the human experience, analytics is bringing personalization back in a new way. The customer expects to direct where and when she decides to receive contacts, when and how to act. She can do this anywhere, anytime, on any device, and the expected experience will be consistent. Information gained from each channel is reflected in every other channel – never lost or fragmented. This gives opportunity to the retailer the ability to personalize the customer experience. Merging merchandising and marketing to understand how best to engage with the customer in-season, their merchandise preferences, as well as how to promote and drive through inventory strategically to meet end of season targets is the golden ticket.

CONCLUSION

Creating customer-centric, profitable assortments truly starts first with data. Having a true 360 degree view of the customer is critical to understanding the customer. Customers are continuously interacting with retailers at multiple touchpoints, providing data and insight in to the customers' preferences. They expect that retailers leverage this information to create a personalized, seamless customer journey.

The data related to your customers insight is truly the foundation to understanding how best to create merchandise assortments and then how best to interact with your customer. Traditional approaches of creating merchandise assortments by thinking of stores and e-commerce separately just does not cut it anymore. The customer is shopping multiple channels and therefore viewing demand at a more holistic

view of omnichannel demand can enable this approach along with SAS® Trade Area Analytics to drive insights to action!

REFERENCES

Bullard, Brittany. November 2017. *Style & Statistics: The Art of Retail Analytics*. Hoboken, N.J.: Wiley.

RECOMMENDED READING

- *Style & Statistics: The Art of Retail Analytics*

CONTACT INFORMATION

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