Making every purchase count

Solve retail challenges using the power of analytics

OC&C
Strategy consultants

uncommon sense

Top 20%

Top 20% of customers typically account for 75% of sales.

Are you sufficiently focused on your highest value customers?

50%

Even for the top 10% of your customers, you only account for 50% of their category spend.

Have you figured out how to stand out in the crowd?

5% of sales

The least valuable 50% of customers are likely to account for 5% of sales but make up 20% of promotion cost.

Are your promotions making your worst customers even less valuable?

Your highest value customers use all your channels, while your lowest value customers are single channel focused.

Are you leveraging omnichannel offers to boost lifetime value?

Analytics insights

10%

The difference in value between the top 10% and next 10% of your customers is frequency not basket size.

Are you targeting the right customers to drive one more visit?

90 days

The behaviour in the first 90 days of a digital customer is a near perfect indicator of their lifetime behaviour.

Have you identified your first set of high frequency customers?

Every retailer is looking to grow sales. The challenge is that they have numerous options to choose from and limited resources to apply the best approach.

At OC&C, we've worked with many major retailers around the world to identify the right opportunities to maximise ROI. We understand that while every business is unique, as are its customers, there are certain common threads that will always hold true.

These insights help retailers recognise the importance of developing a deeper understanding of their customers to create the best growth strategy whether this is:

- growing your number of customers
- achieving higher purchase frequency
- increasing average basket size
- adapting your price ladders
- focussing your promotional spend

A model answer

Analytics helps us answer a retailer's toughest questions – especially when multiple factors such as price, SKU mix, and promotion have to be addressed together.

By moving away from high level averages, analytics helps us examine your business at the most granular level to unearth relationships that might be missed in a typical consulting assessment.

OC&C blends analytics and strategic insights to collaboratively bring actionable recommendations

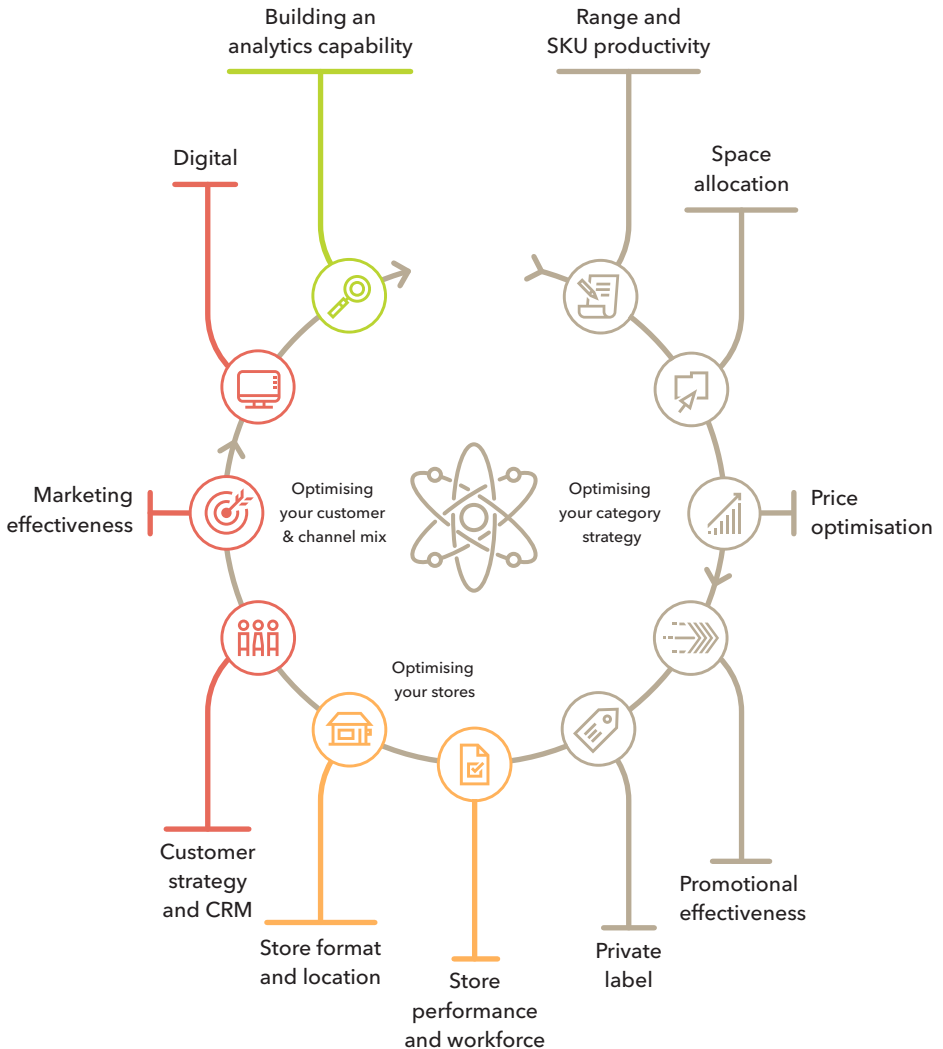## WHAT MAKES US DIFFERENT?

OC&C blends analytics and strategic insights to create actionable recommendations.

Using a mix of proprietary tools and bespoke, human-led analyses, we work collaboratively and transparently with our clients. We work with massive amounts of data and balance our technical prowess with commercial sense to translate relevant insights into business outcomes. Using our approach, we've typically achieved improvements upwards of 5-10% for our clients.

As well as one-off answer to a tough question, we also help our clients build ongoing analytics capability within their organisations.

We use a mix of proprietary tools and bespoke analyses to separate the impact of multiple factors

Building an
analytics capability

Range and
SKU productivity

Digital

Space
allocation

Marketing
effectiveness

Optimising
your customer
& channel mix

Optimising
your category
strategy

Price
optimisation

Optimising
your stores

Customer
strategy
and CRM

Store format
and location

Store
performance
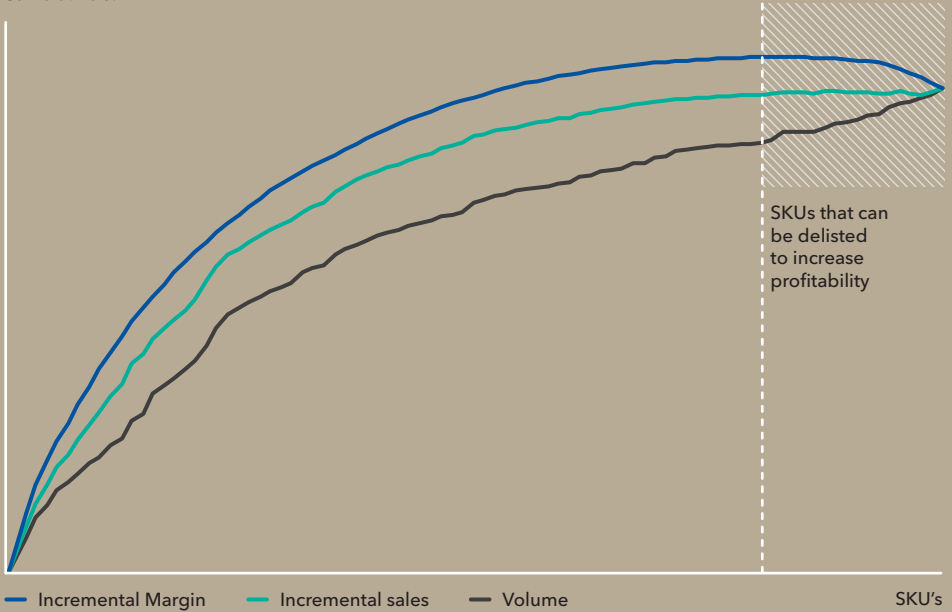and workforce

Private
label

Promotional
effectiveness

Optimising your category and SKU mix

GORY

With analytics, we help you find the right SKU-mix, pricing and promotions that will enhance the profitability of your assortment

Cumulative %

SKUs that can
be delisted
to increase
profitability

— Incremental Margin   — Incremental sales   — Volume

SKU's

Range and SKU productivity

In most categories, the worst performing SKUs destroy margins as low margin SKUs are simply cannibalising high margin SKUs.

We deploy advanced analytics models to understand substitutability and prioritise "good" versus "bad" SKUs on the basis of sales, margin, incrementality (i.e. the opposite of cannibalisation), participation in high value baskets, purchasing by target customers or missions, and other competitive imperatives to find the optimal SKU-mix for your portfolio. Thanks to our recommendations, clients have typically achieved margin uplifts in the range of 5-10%.

Typically, you can de-list 10-20% of SKUs to increase profitability. The key is to find the right SKUs to cut

Space allocation

Space productivity analysis reveals some categories are more profitable than others.

We use advanced analytics to measure the variability in category performance and optimise space by reallocating away from low profitability categories to high profitability categories. This is not just a question of looking at averages, but looking at incremental effects of more or less space.

In fact, going a level deeper, we can segment your categories at a micro-level vs. macro-level to also determine how much space to set aside on your shelves for each product within a category. Our approach has delivered sales uplift in the range of 5-10% for clients.

CATEGORY PERFORMANCE VARIATION

Margin (%)

Category

—— Lower quartile   —— Median across store distribution   —— Upper quartile
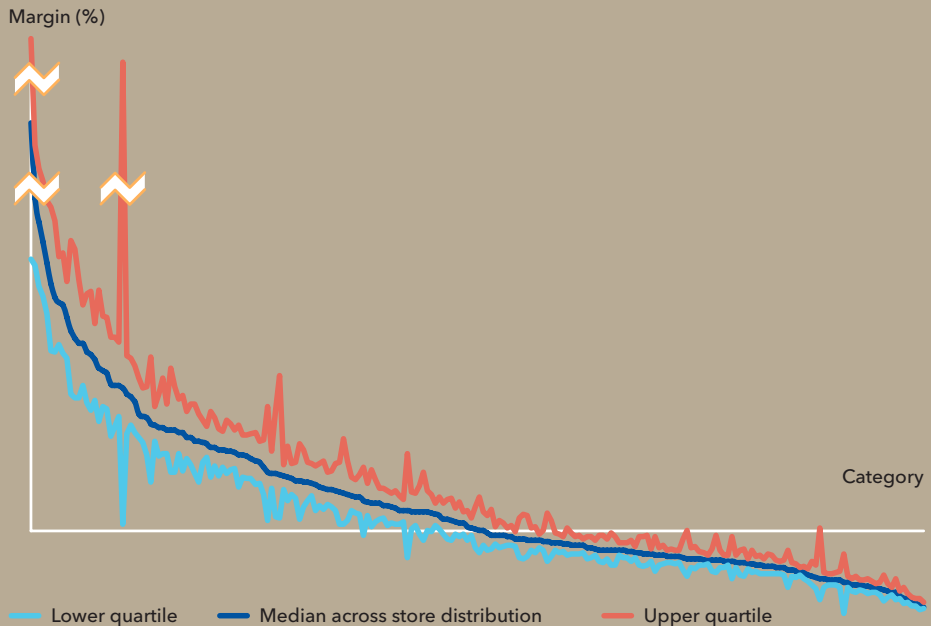
Price optimisation

Price is a highly effective performance lever – but in the real world, it's typically 'price ladders' that matter, i.e. the spread between low priced SKUs and high priced SKUs in a category.

Consumers don't behave in a linear way – small price changes can elicit huge reactions in some parts of the demand curve, and lead to complete indifference in others.

Relative price across different SKUs matters, and sometimes all category volume flows to the lowest priced SKU.
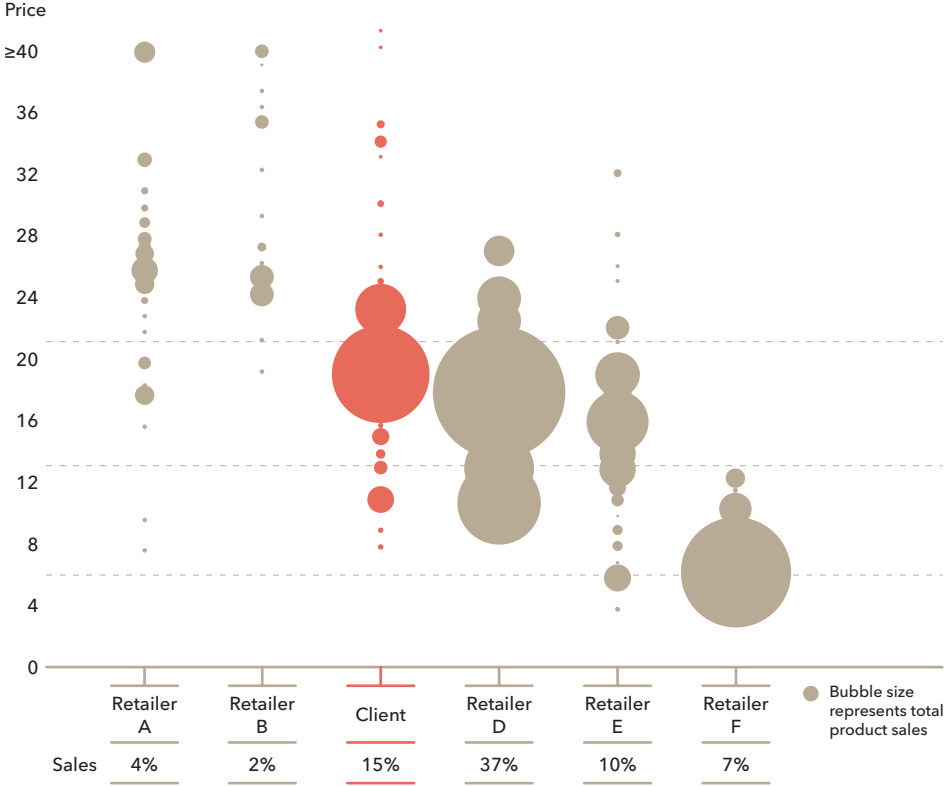
Customers also make price comparisons with other factors in mind, such as bundling, loyalty rewards.

The result? Pricing decisions are becoming ever more non-linear and erratic. We need to take into account the differences in elasticity that emerge across categories, types of customers and mix of SKUs.

We use advanced analytics to optimise price and markdowns and create the best pricing architecture across brands and SKUs relative to competition.

Consumer pricing decisions are increasingly non-linear and elasticity alone is insufficient to optimise price

RETAIL PRICE OPTIMISATION

Price

≥40

36

32

28

24

20

16

12

8

4

0

Retailer A	Retailer B	Client	Retailer D	Retailer E	Retailer F

Sales   4%   2%   15%   37%   10%   7%

Bubble size represents total product sales

Up to 30% of promotions do not generate positive profitability once we control for factors such as cannibalisation and pantry loading
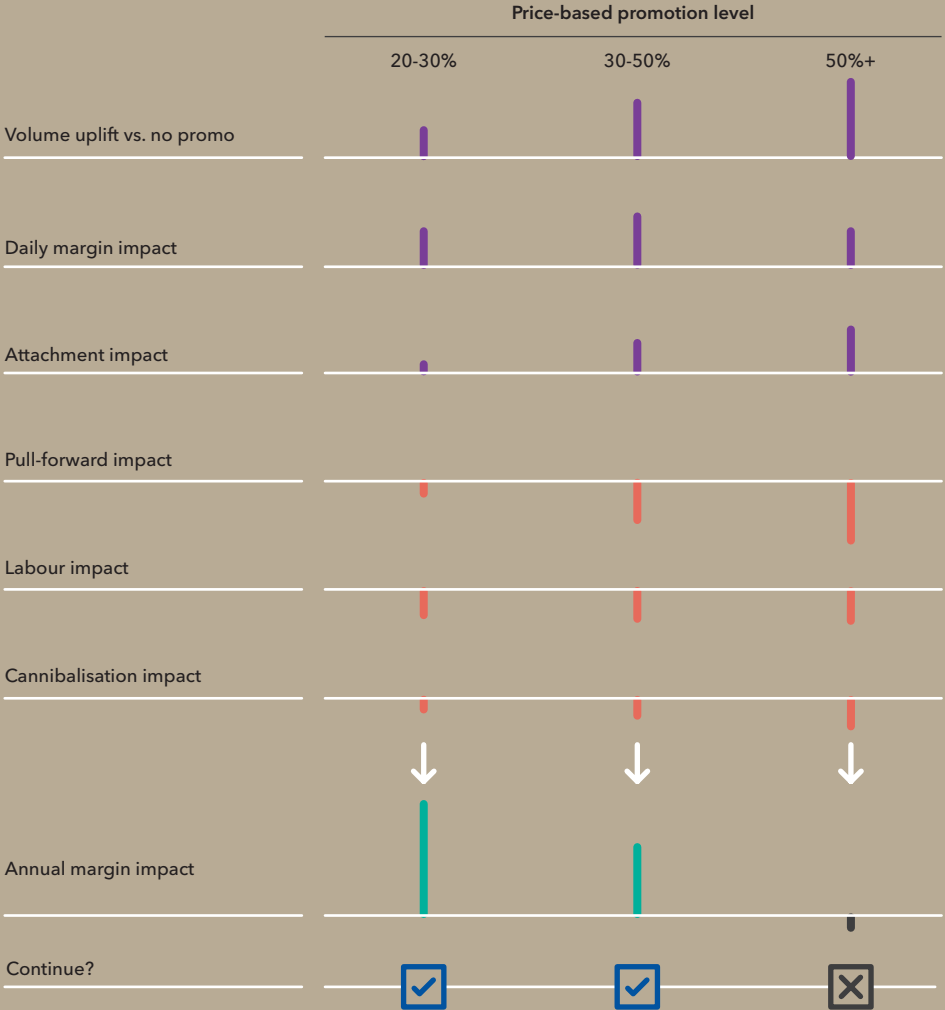
Promotional effectiveness

Much of promotional investment is wasted. In fact, up to 30% of promotions do not generate positive profitability.

There's a number of factors that are essential to control for when estimating true promotional effectiveness:

- Promotions cannibalise other SKUs

- Customers bring forward sales (i.e. pantry loading) that would have taken place at full price

- End-to-end margins are lower than anticipated due to factors such as workforce costs, supplier funding

Advanced statistical modelling isolates the various drivers of sales and margins and enables us to create optimal promotion constructs and category playbooks for your portfolio.

PROMOTION IMPACT ON MARGINS

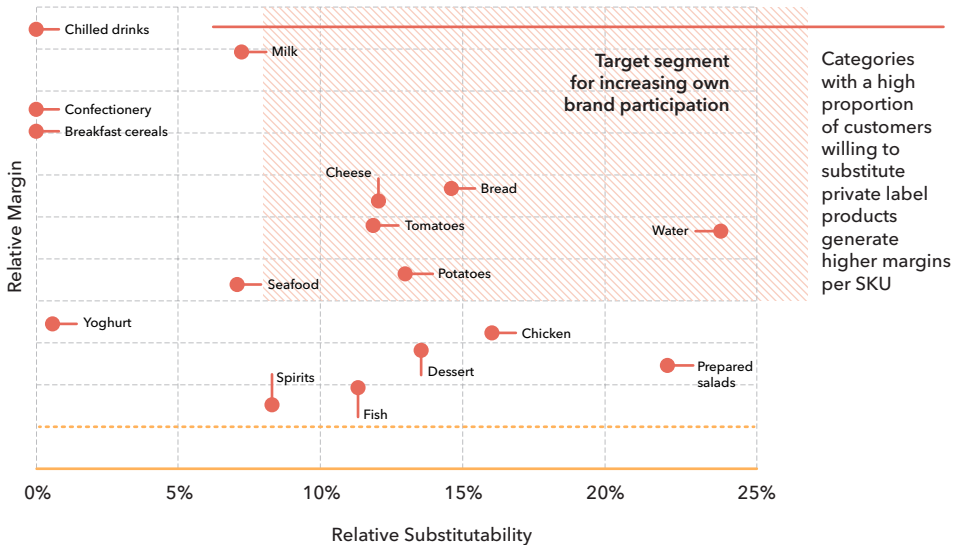|	Price-based promotion level		
	20-30%	30-50%	50%+
Volume uplift vs. no promo			
Daily margin impact			
Attachment impact			
Pull-forward impact			
Labour impact			
Cannibalisation impact			
Annual margin impact			
Continue?	☑	☑	☒

Private label

Retailers can significantly improve profitability through a targeted use of private label products

Customer analytics enables us to identify differences in customer behaviour at a granular level.

Combining this with qualitative research on customer attitudes yields the highest potential customer segments where we can introduce private label products.

As you increase your private label participation, which manufacturer brands should you optimally de-list?

RELATIVE PRIVATE LABEL VS. BRANDED PROFITABILITY PER SKU

Categories with a high proportion of customers willing to substitute private label products generate higher margins per SKU

Target segment for increasing own brand participation

Relative Margin

Relative Substitutability

Chilled drinks
Milk
Confectionery
Breakfast cereals
Cheese
Bread
Tomatoes
Water
Seafood
Potatoes
Yoghurt
Chicken
Spirits
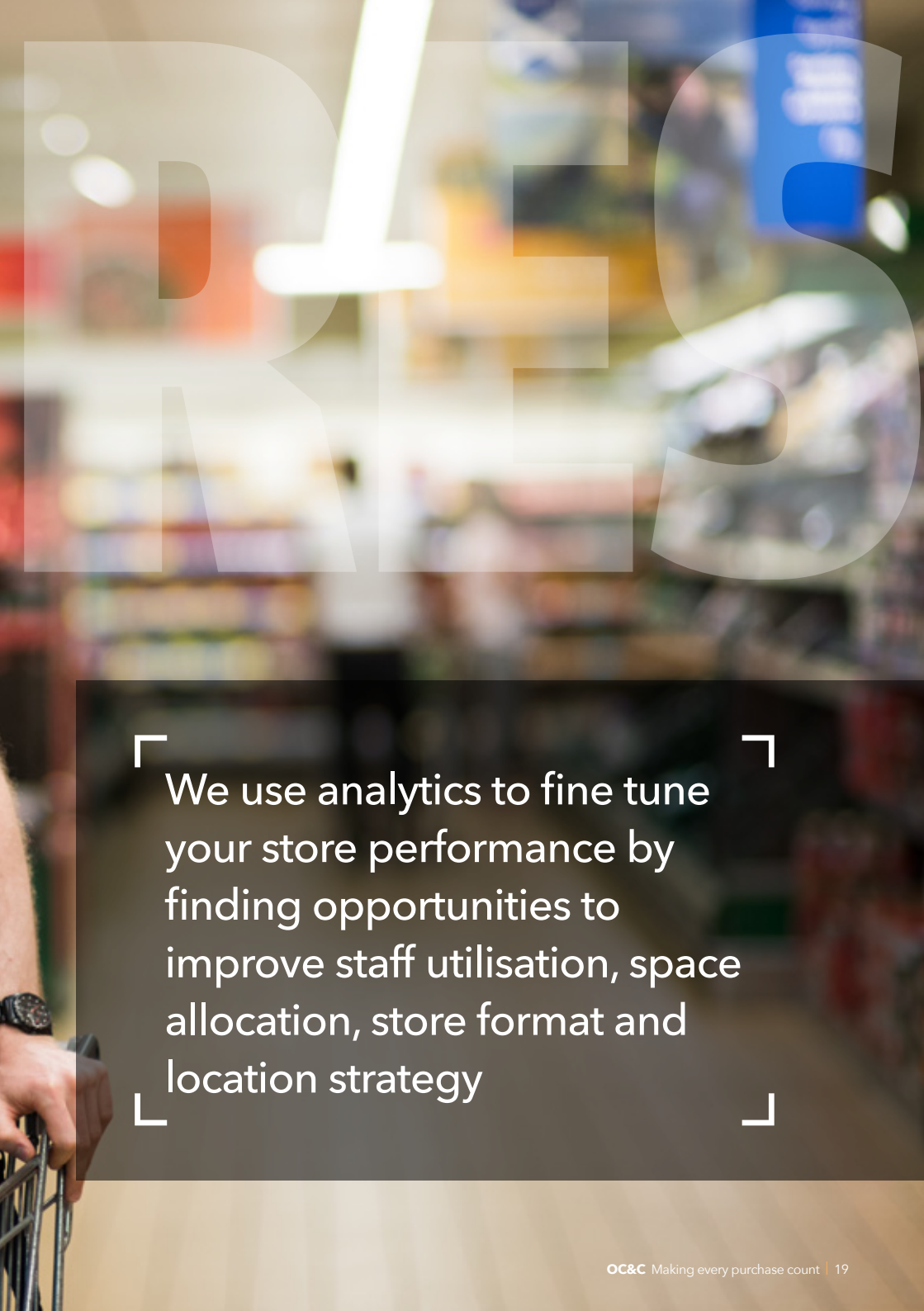Dessert
Fish
Prepared salads

Retailers can introduce private label brands for products where relative profitability and consumer willingness to purchase private label is greatest

Optimising your stores

We use analytics to fine tune your store performance by finding opportunities to improve staff utilisation, space allocation, store format and location strategy
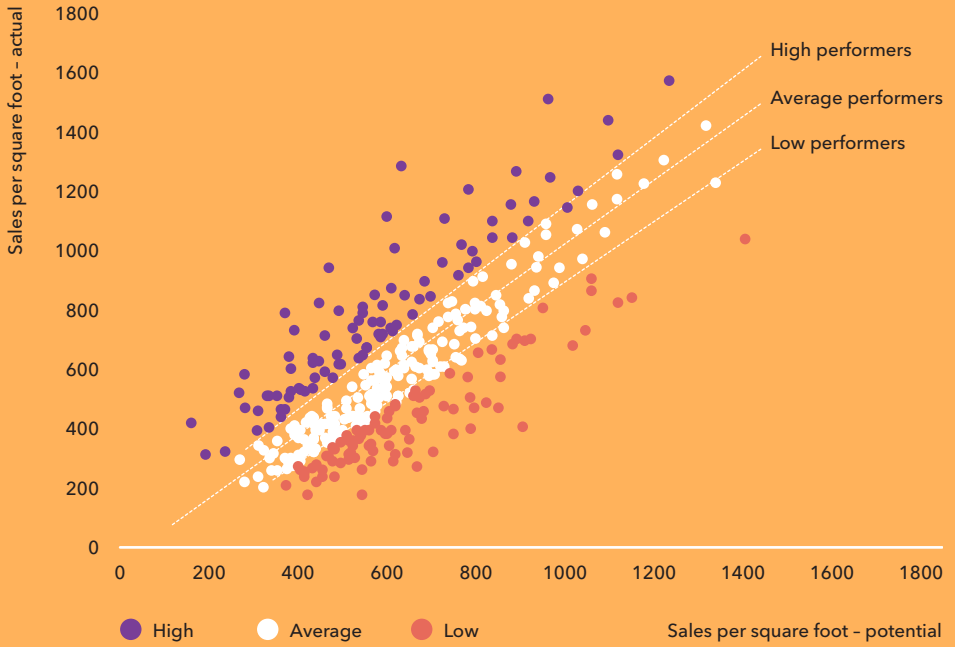
Store performance and workforce

Retail store performance and employee productivity varies strongly by format, i.e., a small convenience store will differ from a large format hypermarket in terms of staffing utilisation, operating standards or layout.
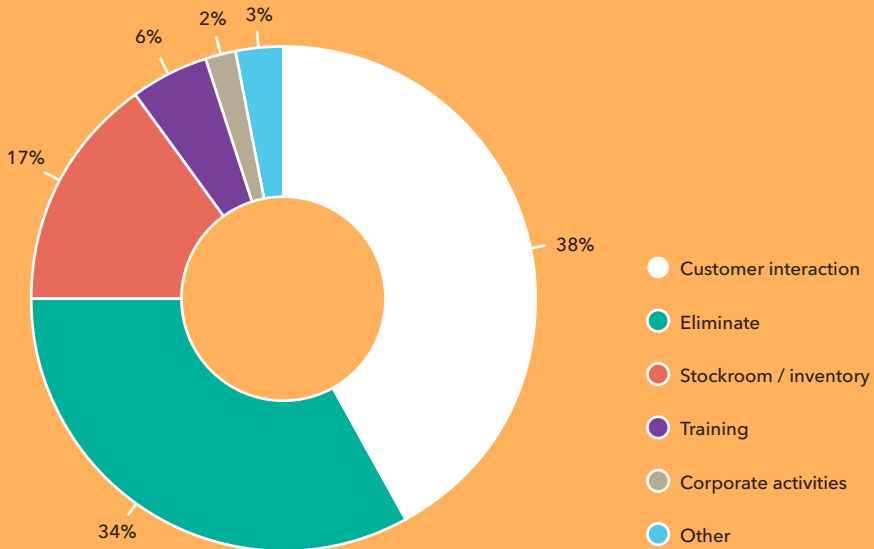
Statistical modelling allows us to segment stores by trading pattern and analyse differences in performance. We help you find and implement the optimal performance tactics including workforce time allocation, shift patterns, temp vs. permanent staff utilisation and others based on a deep understanding of supply and demand factors. Our clients have generated up to 10-15% in cost savings using our approach.
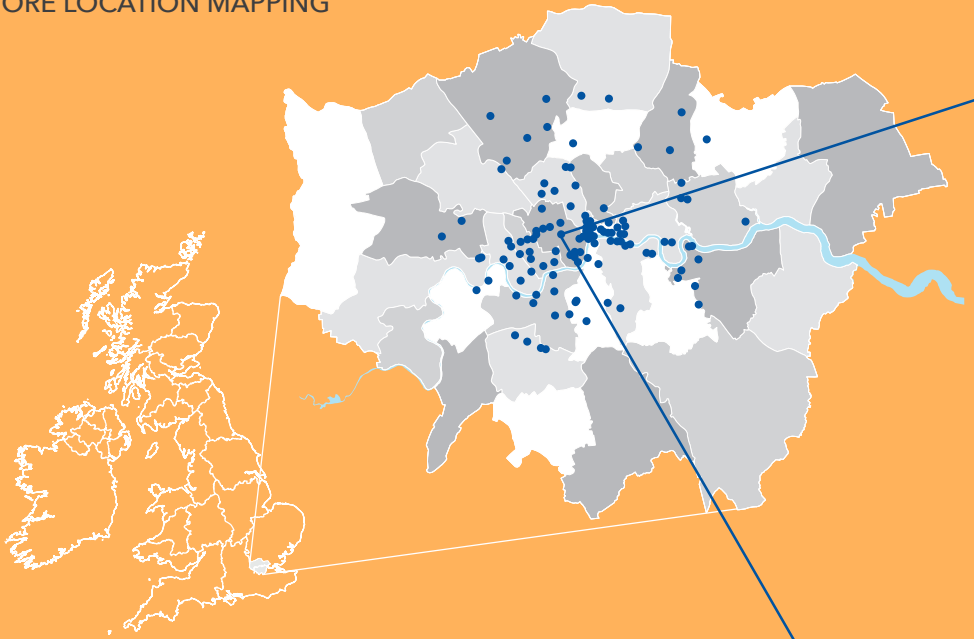
Retailers can improve workforce performance by centralising high impact activities, reassigning staff more efficiently to meet demand and finding biggest process inefficiencies

STORE PERFORMANCE

Sales per square foot – actual

High performers
Average performers
Low performers

High ● Average ○ Low

Sales per square foot – potential

STORE ASSOCIATE TIME ALLOCATION

6% 2% 3%

17%

38%

34%

● Customer interaction
● Eliminate
● Stockroom / inventory
● Training
● Corporate activities
● Other

Store format and location 🏠

One of the most important decisions retailers face is where to open new outlets.

What makes this decision even more complex is the risk that each new location poses on cannibalising existing estate sales. This effect varies significantly by format as well as other factors, making it difficult to choose potential locations with the greatest ROI potential.

Using statistical modelling we understand the existing locations performance profile to predict the performance of new locations by type (e.g. high street, malls, transport hubs), socio-demographics, competitor characteristics and other factors. Combining this with commercial overlays and modelling multiple scenarios allows us to choose the optimal set of new locations to include in your network plans and maximise ROI.

Optimising customer and channel mix

Advanced modelling unlocks incremental revenue by finding the right customer segments and developing the best strategy for them
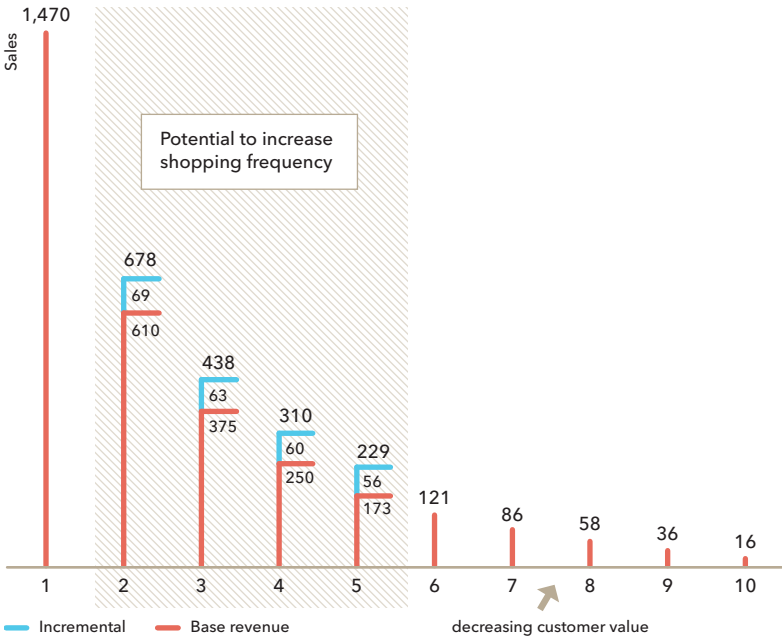
OMER

Customer strategy and CRM

Not all customers are the same. The top 25% of customers drive 75% of sales.

Segmenting the customer base is crucial to understanding the underlying value drivers and developing the right growth strategies.

Generally, 20 – 50th percentile of customers is a 'frequency play', while the 60 – 80th percentile is a 'basket size' play.

Advanced modelling unlocks incremental revenue by finding the right customer segments and aligning best actions to those segments.

SALES BY CUSTOMER DECILE

Sales

1,470

Potential to increase shopping frequency

678
69
610

438
63
375

310
60
250

229
56
173

121

86

58

36

16

1   2   3   4   5   6   7   8   9   10

— Incremental   — Base revenue   decreasing customer value
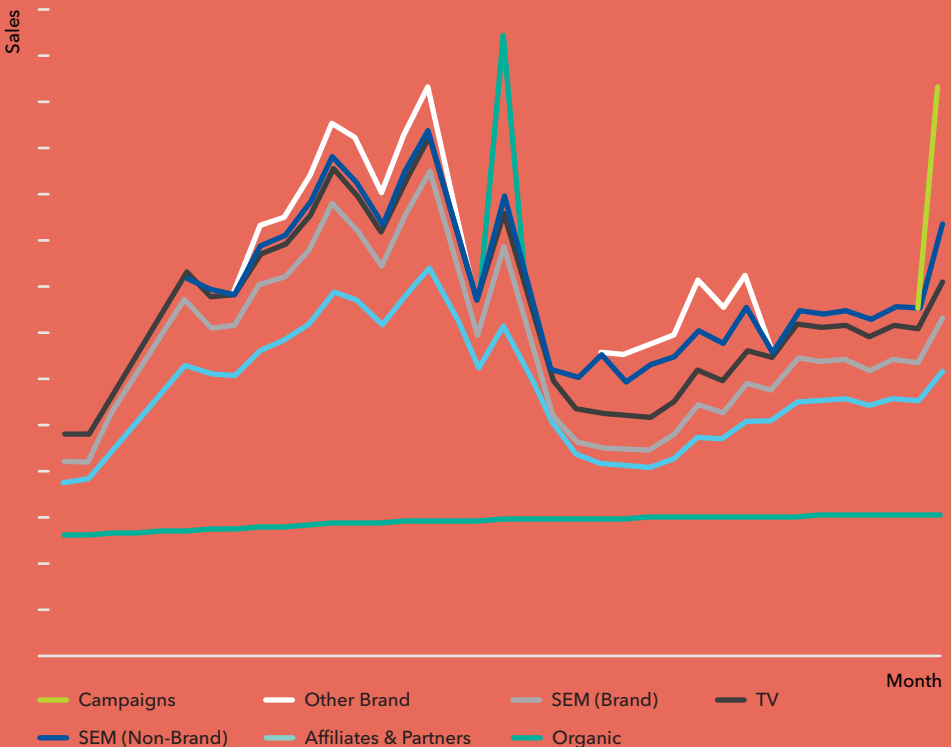
Marketing effectiveness

Retailers are increasingly faced with a growing number of channels to choose from despite tighter advertising budgets.

There's increased pressure from media agencies to emphasise certain channels over others, e.g. TV.

We can help you get to a better answer. Using proprietary econometric attribution modelling, we unpick the incremental impact of each channel on your sales, whether that is through mass media, online and social, print or others. Furthermore we also help you understand the impact of each historic campaign. This allows you to optimise your media budget allocation by channel and time of year / day and make more realistic growth forecasts.

Advanced analytics helps you estimate the incremental impact of each marketing channel, maximising the return on every media dollar you spend

SALES PER CHANNEL

Sales

Month

- Campaigns
- SEM (Non-Brand)
- Other Brand
- Affiliates & Partners
- SEM (Brand)
- Organic
- TV

Digital 🖥

Optimising SKU-mix, pricing and promotions is just as important for an e-commerce business as it is for a brick & mortar store.

What makes the e-commerce channel far more complex yet exciting is that retailers now have the advantage of tracking individual customer behaviours and shopping patterns, to provide tailor-made experiences that maximise value.

Using analytics, we understand purchase journeys and combine them with sophisticated models to analyse customers' online behavioural patterns

Moreover, in e-commerce as well as m-commerce we often see extended intervals between purchases. Even heavy users can become promiscuous while high conversion rates don't necessarily signal a good experience. Therefore, it's critical to follow purchase patterns of customers as early as possible to create loyalty driving initiatives.

Using analytics, we understand purchase journeys, (e.g. gifting, holidays etc) and combine them with sophisticated models to analyse customers' online behavioural patterns. This allows us to optimise customer interactions across the digital journey, helping you tailor online strategies to individual customers, using website displays, SKU-mix, promotional offers.
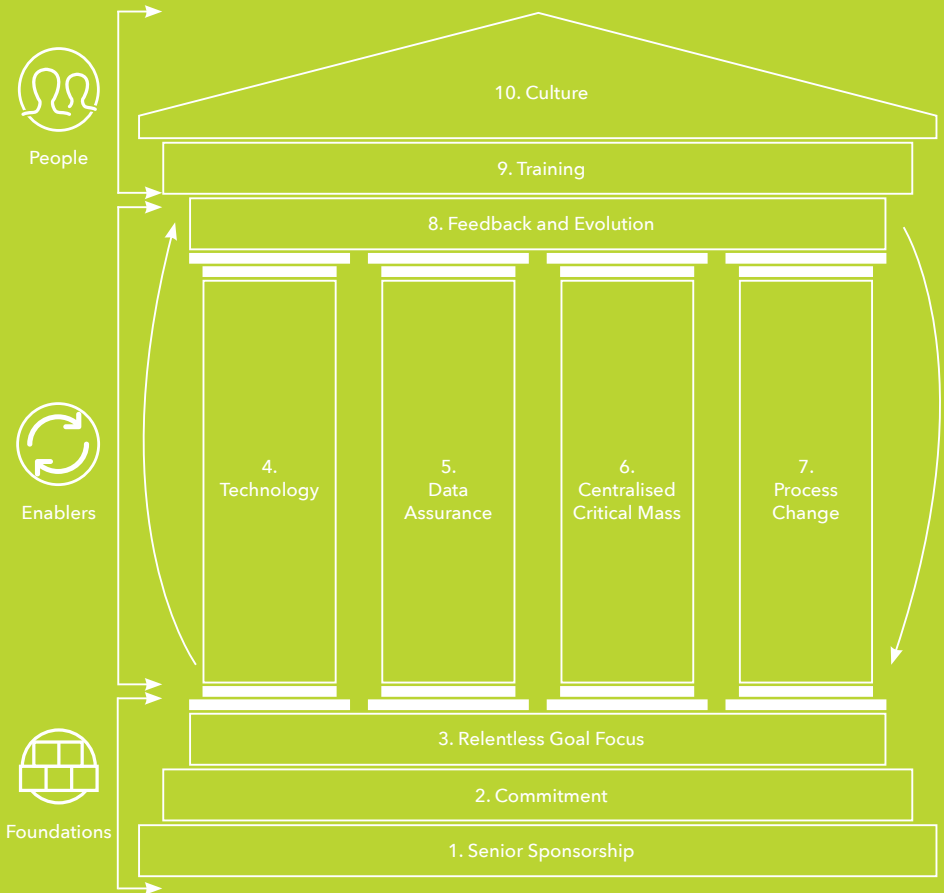
Building an analytics capability

Sometimes we catch a fish for you. Other times, we support our clients to build their fishing capabilities.

A successful analytics capability requires getting a number of imperatives right for the long-haul. The biggest challenge is in establishing where analytics creates the most value, and initiating the cultural change needed to support the new capabilities introduced into the organisation.

By working closely with your senior leadership, We can help you assess your current situation, create the vision, and embed it across your organisation.

A successful analytics capability requires getting a number of imperatives right for the long-haul

10 IMPERATIVES FOR BUILDING A SUCCESSFUL ANALYTICS CAPABILITY

People

10. Culture

9. Training

8. Feedback and Evolution

Enablers

4. Technology

5. Data Assurance

6. Centralised Critical Mass

7. Process Change

Foundations

3. Relentless Goal Focus

2. Commitment

1. Senior Sponsorship

Conclusion

Our analytics driven approach to addressing retail challenges has generated huge successes. We've delivered between 5-10% performance uplift for a variety of retail clients, including leading chains, supermarkets, pharmacies, gas stations and many others.

CEOs should emphasise building necessary capabilities to enable a more systematic approach to integrating analytics across their organisation. As they look to maximise their performance they should think about the following:

- Do my category buyers understand the impact of their pricing and promotional decisions on the rest of the portfolio?

- Am I focusing the business on the right set of customers and SKUs that will maximise my profitability?

- Are there opportunities to reconfigure my workforce and network allocation, and have I considered potential negative effects?

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