

# Achieving High Operational Efficiency for XYZ

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## Business Objective

To optimize revenue by fulfilling demand and reduce inventory costs based on spending patterns of the clients across different channels and regions.

## Client Segmentation

We first ran a clustering exercise on the clients' spendings data to identify patterns in consumer behaviors. Two main clusters representing two customer segments were identified.

Segment	# Clients	Fresh	Milk	Grocery	Frozen	Detergent _Paper	Deli
1	294	\$ 12,399	\$ 2,773	\$ 3,447	\$ 3,074	\$ 777	\$ 1,039
2	105	\$ 7,259	\$ 8,589	\$ 13,490	\$ 1,578	\$ 5,626	\$ 1,687

- **Segment 1: Fresh Pickers**

Approximately 67% of XYZ's clients fall into this segment. Clients in this segment primarily spend on fresh produce with half of their transaction value allocated to this category. A majority of "Fresh Pickers" operate in the hospitality industry such as hotels, restaurants or cafes, while one fifth of them are retail stores. It is more likely to find clients in this segment in most regions.

- **Segment 2: Everyday Hustlers**

Clients in this segment, which takes up 24% of the dataset, mainly spend on everyday essentials such as Groceries, Milk, and Fresh products. A dominant number of the "Everyday Hustlers" are retail stores. Although they take up a smaller percentage in each region, their spending value is significantly higher than Fresh Pickers, averaging roughly \$38,000 per year compared to \$23,000 in Fresh Pickers. Notably, retail clients

in Lisbon have particularly high average Grocery spending, reaching as much as \$17,184.

## Recommendations on Strategic Inventory Management

The distribution of "*Fresh Pickers*" and "*Everyday Hustlers*" is nearly uniform across various regions, with an approximate ratio of 3 to 1. Therefore, we recommend an inventory management strategy tailored to each segment and replicate that strategy across all regions.

### A reactive inventory approach to "*Fresh Pickers*"

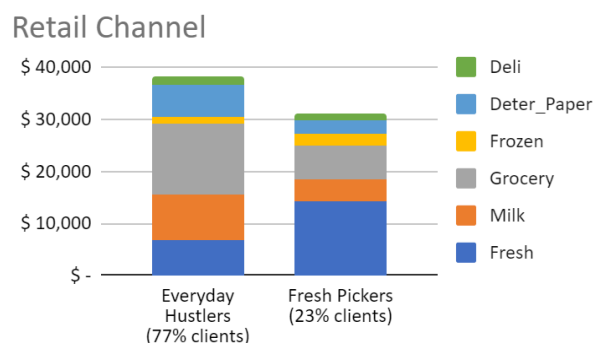
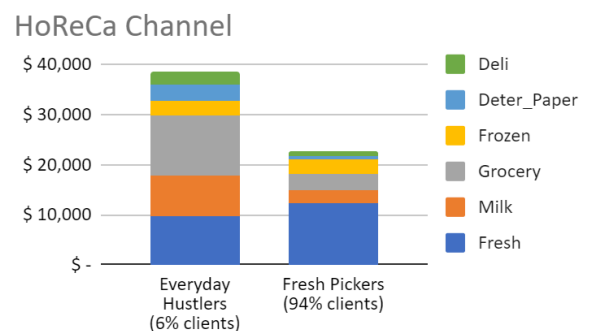
Over 90% of HoReCa clients fall under the "*Fresh Pickers*" category. To effectively serve this segment, the key objective is to balance between availability and waste.

In regions with high concentrations of hotels, restaurants and cafes, we could allocate additional temperature-controlled warehouses in these areas and apply a Just-in-Time inventory approach. We could also develop exclusive loyalty programs and tailored promotions on overstocked fresh items can help minimize waste while boosting sales.

Additionally, based on lower spending on non-food items such as Detergents or Paper products, we can assume that many of these clients may be purchasing them from other vendors. It is important to review the selection and pricing of our offerings to consolidate their purchasing with our business.

### A proactive inventory approach to "*Everyday Hustlers*"

Retail stores make up 3/4 of the clients in this segment. The "*Everyday Hustlers*" are a high-value segment, representing the largest



share of spending on non-perishable items such as grocery and milk. Therefore, the strategic focus for this group should be on ensuring consistent supply.

In regions with a high concentration of retail stores, we can select warehouses at cheaper real estate zones to minimize inventory holding costs. This will allow for larger stockpiles of non-perishable items without incurring excessive costs.

Since spending values are higher among these clients, we could have dedicated account managers to oversee large retail accounts and provide them with premium support. Moreover, we can consider implementing ABC classification for high-priority items like Milk and Grocery to ensure they receive the necessary attention from a purchasing perspective.

On the other hand, "*Everyday Hustlers*" tend to spend less on categories like Frozen and Deli items. To increase sales in these areas, we can improve our selections such as adding frozen meals or vegan options to increase the appeal of these categories.

### ***Premium clients***

Some clients exhibit unique spending patterns that differ significantly from the majority. These clients tend to spend heavily in certain product categories compared to general trends. For example, a single HoReCa client in Lisbon spends approximately \$23,527 on milk, while another HoReCa client in Oporto spends over \$60,000 on frozen products. An approach to serve these clients should be offered long-term contracts, along with premium perks such as a dedicated inventory to ensure their needs are consistently met.