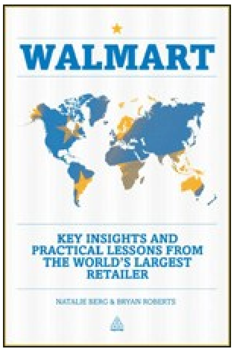

Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

by Bryan Roberts and Natalie Berg
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Chapter 4: Don't Aggravate the Customer

I can't believe it's not on shelves

Removing 20 per cent of a range from a business of our size can have quite a dramatic knock-on effect.

(DARREN BLACKHURST, FORMER CHIEF MERCHANDISING OFFICER AT ASDA)[1]

I Can't Believe It's Not Butter (ICBINB). In the early 1990s, the quirky US butter substitute brand was introduced to UK supermarket shelves by owner Unilever.[2] Despite some initial setbacks, the tongue-in-cheek brand opened up a new and innovative product market to British consumers. Within several years, ICBINB had captured 6 per cent of the market with retail sales of £37 million.[3]

However, it wouldn't be long before competitors followed suit. In 1995, the Utterly Butterly brand, now owned by Dairy Crest, was launched as direct competition to ICBINB. In its first year, Utterly Butterly captured almost 20 per cent of the market.[4] Retailers were also quick to capitalize on this segment in the 1990s and today copycat private labels can be found at most major grocers, including Asda (You'd Butter Believe It), Tesco (Butter Me Up) and Sainsbury's (Butterlicious). Inevitably, ICBINB continued to lose market share and soon became a classic example of a non-core brand in a high private label share category.[5] I think you can sense what happens next.

Despite Unilever's best efforts to revive the brand in terms of both advertising and price investment, by 2007 Asda had its mind made up: it was time for a cull. That year, Asda delisted ICBINB as part of the company's aim to remove 'unnecessary duplication' from its shelves.[6] It was the first step towards SKU rationalization, a cleansing process that eventually saw Walmart remove nearly one-third of SKUs from its UK shelves and approximately 10 per cent of products in the United States[7] (although the reductions ranged from 2 to 26 per cent depending on the category). The knock-on effect was incredible. The strategy, in varying forms, has since been pursued in some way by virtually all major grocery chains around the world, from Carrefour in France to SuperValu in Minnesota. According to Nielsen, 40 per cent of US grocery retailers reduced their product assortments in 2009 by an average of about 5 per cent.[8] Once again, Walmart ignited change in the industry, driving further efficiencies, acting as the consumer advocate and, as a result, keeping its suppliers and competitors as far away from complacency as possible.

But let's go back to ICBINB, because the story doesn't end there. Back in 2007, when Asda was just testing the rationalization waters, it had also delisted the Princes Tuna brand in favour of John West. In an interview with trade magazine *The Grocer*, Darren Blackhurst, then Chief Merchandising Officer at Asda, commented:

> We are challenging whether certain brands have brand equity. We took Princes out. The tuna don't swim past and say "bugger me, I don't want to go in that can, I want to go in this one". So we said we'll go with one can or the other, and chose John West. And have we had a single complaint from customers? Not one. Why? Because it wasn't a brand. We did the same with Utterly Butterly and I Can't Believe It's Not Butter. It's just margarine. I can't even remember which one stayed in, to be honest. And again, not a single complaint.[9]

Those are quite powerful words considering that if you go into an Asda today, Princes Tuna and I Can't Believe It's Not Butter are back on the shelves. Turns out they were brands after all.

Asda began restocking ICBINB two years after delisting it, primarily succumbing to customer demand.[10] It may not have been the number-one brand in the category, but clearly it was important to some of Asda's most loyal shoppers. As discussed earlier in the book, the biggest risk associated with range rationalization is the removal of an item that, although perhaps not top-selling, may be important to a retailer's most loyal and therefore most profitable shoppers.

[1]*The Grocer*, Chloe Smith, 21 February 2009. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=197586

[2]http://www.unilever.co.uk/brands/foodbrands/icantbelieveitsnotbutter. aspx

[3]Campaign, I CAN'T BELIEVE IT'S NOT BUTTER IN UK RELAUNCH. 31 March 1995, CMPN

[4]http://www.dairycrest.co.uk/our-brands-products/utterly- butterly.aspx

[5]*Marketing Week*, I CAN'T BELIEVE IT'S NOT BUTTER, Thursday, 29 May 1997. http://www.marketingweek.co.uk/home/i-cant-believe-its- not-butter/2023474.article

[6]*The Grocer*, Chloe Smith, 21 February 2009. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=197586

[7]UK statistic from *The Grocer* as above. US statistic from Walmart transcript: WalMart Stores, Inc. at Bank of America Merrill Lynch Consumer Conference – Final, 10 March 2011

[8]*Media Post*, Food retailers selectively trimming, Jack Loechner, Friday, July 2, 2010. http://www.mediapost.com/publications/?fa=Articles.showArticle& art_aid=130974

[9]*The Grocer*, Asda tests brand equity, Adam Leyland, 24 September 2007. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=122083

[10]*The Grocer*, I Can't Believe It's Not Butter is back as Asda bows to shoppers, 20 June 2009. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=200805

We didn't add back 3,000... no it was more like 9,000

Walmart has had no choice but to be very open about the merchandising errors it made during this process, which were certainly a contributing factor to Walmart reporting its first comparable sales decline in history (in Q1 2009). This was followed by more than two years' worth of quarterly contractions.[11]

Of course, there were other factors at play here, but its less than seamless SKU rationalization initiative can certainly be held accountable for a large part of that decline.

'We had done some things that lost a trip,' said Bill Simon, '... and we did discontinue some things that people didn't buy very often, but were aggravating to a customer to lose. And, you know, Lee Scott told us recently, rule number one in retail, don't aggravate your customer.'[12]

Walmart reduced its overall SKU count by 9 per cent in 2010. However, up to a quarter of the range was removed in some key non-food categories such as hardlines, clothing and hardware, quickly leading to shopper dissatisfaction. In 2010, Mr Simon noted: 'We added back, I said about 300 SKUs, but we didn't add back 3,000. We added back a small percentage of what was removed. The vast majority of what was removed was done for the right reasons in the right way, and have actually improved the category sales in those categories.'[13] Fast-forward one year and Walmart did in fact add back thousands of SKUs: 8,500 to be precise, or 11 per cent of the range.[14]

It all goes back to being able to offer the right products to the right shoppers at the right time. A study by Nielsen showed that more than half of US consumers are likely to shop somewhere else if they notice a reduced product assortment.[15] Customers have the ability to vote with their feet and take their entire basket to the competition. Therefore, while SKU rationalization is necessary for the overall health of the industry, retailers are still a long way off from perfecting this trend. It's no surprise that Walmart's focus today – to offer the 'broadest assortment possible' – is in complete and utter contrast to SKU rationalization.

[11]Ninth consecutive quarter of comparative decline reported in August 2011

[12]*Advertising Age*, Walmart reversal marks victory for brands, Jack Neff, 22 March 2010

[13]Wal-Mart Stores, Inc. at Bank of America Merrill Lynch Consumer Conference – Final, 10 March 2010

[14]http://walmartstores.com/pressroom/news/10573.aspx

[15]http://www.retail-merchandiser.com/dailydose/retail- roundup-archive-/1092-fewer-skus-fewer-customers.html

SKU rationalization: far from perfection but a vital process

However, back in 2007, delisting those few brands gave Asda the confidence to embark on a much bigger programme known internally as 'Less is More'. It was time for a widespread cull, time to put its brands under the microscope and, consequently, time for suppliers to start shaking in their boots. In its quest for cost and complexity reduction, Asda went on to remove between 20 and 30 per cent of SKUs from an additional 10 categories.[16] Products that used to enjoy a comfortable spot on Asda's shelves simply disappeared. Now we already know the customer backlash that could result when this is done incorrectly, but let's spend some time thinking about the immediate results.

Firstly, you have a much cleaner shelf. While SKU rationalization is tragic for those secondary and tertiary brands, in many ways it actually benefits the brand leader who is suddenly afforded the luxury of more prominent shelf space, not to mention reduced competition. 'I continue to believe that the biggest casualties of the weakened economy will ultimately be tertiary brands with poor consumer equities. Strong brands or category leaders like Heinz that leverage consumer insights to drive innovative and successful new product development should win', said Heinz Chairman, President and CEO, William R Johnson, in 2010.[17] However, the extra shelf space doesn't always come without expectations. In the case of John West tuna – the brand that was kept over Princes – Asda consequently received better terms and was therefore able to offer shoppers a better price on a major brand of tuna.

This brings us to the second point. If you're a shopper, you are likely to benefit from lower prices on leading brands. This is in part true because of the potentially better terms agreed between retailer and supplier, but also because SKU rationalization results in lower inventory and labour costs – imagine the time and money saved on having to restock only three varieties of ketchup instead of 15! And it's not just replenishment costs but the indirect costs involved with negotiating, ordering, processing, sorting, delivering, pricing, scanning and bagging that very item. Let's not forget that this is the heart of Walmart's strategy – its unrelenting drive to streamline costs has enabled them to lower prices on well-known brands in the most sustainable, powerful and profitable way.

But let's go back to the shopper, because price isn't the only benefit when we talk about SKU rationalization. Shoppers also have the benefit of improved stock availability, resulting in greater shopper satisfaction (presuming the brand you're after hasn't been culled in the first place!). In the United States, out-of-stocks at competitor Kroger were cut by 38 per cent after reducing its SKU count.

SKU rationalization also enables retailers to carve out more shelf space for private label items. It's no surprise that the re-launch of Great Value coincided with Walmart's brand consolidation initiative. And Walmart isn't alone. According to a study by Nielsen, 48 per cent of US retailers confirmed that an incentive for SKU rationalization is the ability to make room for more profitable private labels.[18] In the United States, this wasn't possible in the past because private labels on the whole were never strong enough in terms of quality, packaging, marketing and so on. However, as we have seen thus far, consumers are increasingly warming to retailers' efforts to turn these products into brands in their own right. Could we one day reach a point where we have only the brand leader and private label on the shelf? Surely, that is a discount model just waiting to happen – particularly given the forecast growth in e-commerce which is where shoppers will go for broad assortment, an area we will discuss in further detail later in the book.

Yet perhaps the most important benefit for the shopper is getting rid of the tyranny of choice: reducing complexities, improving the shopper's decision-making process. Over the past two decades, retailers and manufacturers on both sides of the pond filled their shelves with choice, choice, choice. More flavours, more variants, more pack sizes, more brands. The irony is that they were doing this because this is what the shopper wanted. 'All that go-go 1990s where we were adding items in and adding items in, and people wanted more, more, more choice just didn't pay off', Catherine Lindner, Walgreen's divisional vice president for marketing development, said in 2009.[19] Lindner's comments are confirmed in the figures – the Food Marketing Institute states that the average food retailer in 2008 stocked 47,000 SKUs, up more than 50 per cent from 1996. New products were quickly coming to market to satisfy the consumer's desire for variety. In 2008, according to Mintel, there were 47,113 new products launched, more than double the number introduced a decade earlier. [20]

What is perhaps more astonishing is that shoppers weren't taking much notice. According to AMR Research, at any one time in the United States there is a pool of over 1 million items available to shoppers, of which the average shopper uses approximately 340 unique items per year.[21]

One of the main impacts of product proliferation was that Walmart shoppers were increasingly faced with a bewildering array of choices when attempting to navigate a store, a department and a category. A Walmart Super-center carrying roughly 100,000 SKUs would be shopped for 22 minutes by an average shopper, implying that a thorough evaluation of each product carried would require an investigation of 75 items per second!

Certain categories have become proliferated and are truly in desperate need of a cull. Take the bottled water category, for example. SuperValu CEO and ex-Walmart executive Craig Herkert commented on how one of his stores was stocking eight different varieties of 24-pack water. 'It's water. We have eight different brands of water. And I just find it hard to imagine that our customer is demanding of us that I need eight different brands of H_2O.'

It's no surprise then to learn that in 2009 US grocers reduced the bottled water category by an average of 6 per cent, according to Nielsen. 'I'll name a category, cereal, where we'll carry four sizes of the exact same box of cereal that might be ranked number 72 in the category', Herkert added. 'I'm not sure our customer's telling us that's real variety.'[22]

While SKU rationalization was spurred on by the recession as a cost-savings initiative, it's important to remember the overall benefits it brings to the industry and most importantly the shopper. It is a healthy – and many would argue vital – exercise that allows both retailers and suppliers to get rid of the tail. Let's not forget that suppliers themselves will not benefit by holding on to underperforming SKUs.

[16]*The Grocer*, 'Cheesegrater' Blackhurst to slice 10 more categories: Asda is removing duplicate brands from 10 more categories. How will suppliers be hit by the range rationalisation? Chloe Smith, 28 February 2009. http://findarticles.com/p/articles/mi_hb5245/is_7894_ 232/ai_n31465152/

[17]http://www.heinz.com/our-company/press-room/press-releases/ press-release.aspx?ndmConfigId=1012072&newsId=20100217006929

[18]http://blog.nielsen.com/nielsenwire/consumer/too-much- choice-and-variety-assortment-realities/

[19]WSJ retailers cut back on variety, once the spice of marketing , Ilan Brat, Ellen Byron and Ann Zimmerman, 26 June 2009. http://www.smartbrief.com/wsj.jsp?id=5499145

[20]http://www.sju.edu/resources/libraries/campbell/researchguides/ files/Food%20Industry%20Review%202009.pdf

[21]http://info.demandtec.com/SKU-Rationalization-with-AMR. html

[22]SuperValu transcript: Supervalu Inc. at Goldman Sachs Retailing Conference – Final, 10 September 2009

Doing more with less

With too many choices, they actually don't buy.

(DUNCAN MAC NAUGHTON, CHIEF MERCHANDISING OFFICER, UNITED STATES)

Above all, the shopper benefits from clarity. P&G estimates that the average shopper spends a mere 2.5 seconds looking for an item but notices only half the items at the shelf.[23] Reducing choice can actually increase sales in a given category, as experienced by Walmart in the UK (candle sales doubled after being reduced by 65 per cent[24]) as well as in Canada (two of five peanut butter lines were dropped yet overall category sales increased). In 2010, P&G cut its assortment of soap and other skincare products by one-third at one retailer. Similarly, at another retailer, P&G reduced its offering of detergents and other fabric-care items by about 20 per cent. Despite the reduction in choice, sales grew in both categories. In a 2007 study, consultant Bain & Co estimates that SKU rationalization efforts can result in up to a 40 per cent sales increase for a retailer while reducing costs by between 10 and 35 per cent.[25]

As Walmart and other retailers have rationalized the number of SKUs they sell (in order to focus on brand leaders and private label) and heightened their demands for genuine innovation and added value in terms of NPD, major CPG vendors have reacted accordingly. A number of them have reined in NPD, others have pledged to shrink the number of lines they offer, while others have gone further still – disposing of entire divisions (eg Sara Lee, Kraft) in order to focus on their areas of strength, brand leadership, authority and expertise.

[23]*The Globe and Mail*, In store aisles less is more but customers can still be particular, Marina Strauss, Retailing Reporter, Globe and Mail Update, Tuesday, 18 May. 2010. http://www.theglobeandmail.com/report-on-business/in- store-aisles-less-is-more-but-customers-can-still-be- particular/article1573518/

[24]*The Grocer*, Less is more at Asda, where cutting lines has increased sales, Chloe Smith, 25 July 2009. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=201995

[25]*The Globe and Mail*, In store aisles less is more but customers can still be particular, Marina Straus, Retailing Reporter, Globe and Mail Update, Tuesday, 18 May. 2010. http://www.theglobeandmail.com/report-on-business/in- store-aisles-less-is-more-but-customers-can-still-be- particular/article1573518/

Outsmarting the elephant

As we have seen thus far, SKU rationalization is by no means a straightforward task. It requires a deep shopper understanding and ideally on a store-by-store basis. In order to get closer to achieving this, many retailers today are utilizing technology to learn which products are being purchased by which customers and when, why, for whom, how many etc. Data from dunnhumby, the market research company part-owned by Tesco and behind the retailer's Clubcard scheme, shows that 85 per cent of shoppers tend to buy a range of products within one category rather than being devoted to one brand.[26] It's no surprise that retailers are increasingly looking to data to figure out which of those SKUs are interchangeable – therefore removable – and which ones must be kept in.

In fact, Tesco's partnership with dunnhumby allows it to receive hourly grocery sales data for more than 15 million shoppers within days of purchase.[27] Tesco gathers and analyses four billion pieces of data from shopping baskets every week. And for each SKU that goes through the checkout, 45 different pieces of data are analysed.[28] Was it a brand or private label? Was it on sale or full price? Was it being purchased for self-consumption or for someone else in the household? This enables Tesco to segment its shopper base, tailoring both its marketing and its merchandising efforts to reflect the local demographic. In fact, the retailer's direct mail redemption rate is an astonishing 98.4 per cent, compared to the industry average of 1 per cent.[29] Customization means increased relevance of offering and promotions, which translates to opportunities for increased revenues as well as the reassurance that you are unlikely to remove important SKUs. Retail is increasingly becoming a scientific, fact-based business.

In his book, *Any Colour You Like As Long As It's Any Colour You Like*, Martin Hayward comments:

> In 1995, when Tesco Clubcard launched, one of the reasons it was so revolutionary was because the retailer was properly investing in rewarding loyal customers, rather than throwing money at chasing elusive customers it didn't have. And it works. Over the last 10 years the proportion of Tesco's growth from existing customers spending more, is greater than growth from new customers. This approach represents a sea change in the way marketing investment is spent.[30]

However, there is a cost associated with all this technology and we know by now that Walmart is not a big fan of costs. Every year, Tesco sends out £500 million of rewards to Clubcard holders.[31] Plus there are costs associated with, first and foremost, a subscription to dunnhumby, keeping the technology up to date, printing and delivery costs of the vouchers and labour costs associated with processing customers' vouchers. Many would argue that there is a clear and justifiable return on investment, as seen in the financial improvement by dunnhumby's global clients, including Kroger, Casino, Macy's and Home Depot.

In fact, Walmart's competitors in key markets such as the United States, the UK and Canada are increasingly turning to data mining as a means of battling the giant. They can't always compete on price, so they might as well attempt to outsmart Walmart and drive loyalty by improving the relevance of their product assortment. In Canada, for example, Walmart only got into the food business in 2005 when it opened its first Supercentre. Within five years, Walmart was trading through more than 120 such stores and rapidly expanding into new territories.[32] Considering the opportunity to convert another couple of hundred discount stores to the Supercentre format in Canada, it's fair to say that price competition will remain fierce in future years. Metro, Canada's third-largest grocery retailer, has always been overshadowed by larger domestic chains Loblaw and Sobeys, but it has especially felt the pinch since Walmart began its aggressive march into the Canadian food sector. From 2006 to 2009, sales grew by a mere 0.8 per cent on a compounded basis.[33] It was time to break apart from the competition and differentiate. Metro partnered with dunnhumby in 2009 to re-launch its loyalty card scheme and begin analysing shopper data. They have since experienced an increase in basket size, card enrolment and percentage of sales using its loyalty card. All of this has helped to battle Walmart.

CEO Eric La Fleche commented that the scheme affects 'the assortment we carry, the price we sell for, the promotions we make, the personal offers we can target. That's the kind of stuff we need to compete in this environment with all the discount stores out there. Not to name the big elephant in the room, but Walmart is a big player.'[34]

Going back to the topic of SKU rationalization, data mining in many cases ensures that those important brands do not accidentally get thrown in the bin. In Metro's case, the data led it to change the way it merchandises bottled juices – from beyond displayed by brand to displayed by flavour. 'We were able to grow sales and have a clearer, simpler offer for the customer, with less assortment on the shelf. So we're saving on the cost side... and we're growing sales and margins', La Fleche added.[35]

Meanwhile, in the United States, Kroger, Walmart's largest competitor in the grocery sector, has also used dunnhumby to reduce SKUs effectively in certain categories. In his book, Martin Hayward describes how one of dunnhumby's very first tasks was to streamline the retailer's range of 60,000 SKUs. The company identified 10 categories that could benefit from SKU reduction, and 8–45 per cent of the products from each of the 10 categories were removed. Hayward writes, 'The delisted products were carefully selected according to rules dunnhumby had developed to ensure no essential items were removed. Results spoke for themselves, sales increased in nine out of the 10 categories because shoppers were finding it easier to shop from the edited ranges.'[36]

Donald Becker, former Kroger Executive Vice President, also confirmed that data have been a huge advantage during the process. In 2008, he commented: 'We're not looking at it (SKU rationalization) from, "how much can we eliminate?" But we look at it from our own data on what is the customer buying or not buying?' At the time, Kroger had eliminated nearly 30 per cent of SKUs in the breakfast cereal category. 'The customers were telling us with their wallets what they were buying. And so we eliminated some sizes. We eliminated some different SKUs and even some variety – keeping in mind localization, what was really important to that store or to that area.' The result? A reduction in out-of-stocks and improved category performance, while having to add back only one particular SKU requested by shoppers.[37] The power of data.

As discussed at the beginning of the chapter, both Walmart and Asda failed to perfect the skill of SKU rationalization and, for Walmart's US operation in particular, it has cost them dearly. Meanwhile, Tesco's ability to mine Clubcard data has resulted in a more accurate, localized in-store assortment as well as far more relevant marketing offers, driving coupon redemption and greater spend altogether. Not a bad strategy considering that the cost of retaining loyal customers is far lower than the cost of acquiring new ones.

Walmart asserts that it surveys thousands of customers every month, which allows it to get robust, actionable, statistically significant data all the way down to the store level. And of course it has access to an unimaginable amount of product data through Retail Link, as we will discuss later in the book; however, Walmart has always shunned the idea of running a loyalty card programme, viewing it as an added cost and therefore in conflict with its EDLP pricing strategy. Instead, Walmart asserts that it drives loyalty by offering consistently low prices, a topic that we will now explore in much greater detail.

[26]http://www.dunnhumby.com/admin/files/relevant-communications- uk.pdf

[27]Martin Hayward, *Any Colour You Like As Long As It's Any Colour You Like*, p 11. http://www.dunnhumby.com/admin/files/dunnhumby-any-colour- you-like.pdf

[28]*Sunday Times*, Every little bit of data helps Tesco rule retail: The Clubcard keeps an eye on half of the households in Britain, Jenny Davey, 4 October 2009

[29]Martin Hayward, p 40

[30]Martin Hayward, p 3

[31]Thisismoney.co.uk, Tesco sells details of your shopping habits, Sean Poulter, 14 March 2011. http://www.thisismoney.co.uk/money/news/article-1715030/ Tesco-sells-details-of-your-shopping-habits.html#ixzz1UM4FJ7ZM

[32]http://investors.walmartstores.com/phoenix.zhtml?c=112761& p=irol-unitcount

[33]Company documents

[34]*The Gazette*, Loyalty program starts to pay off for grocer Metro, Peter Hadekel, Wednesday, 24 November 2010. http://www2.canada.com/montrealgazette/columnists/story. html?id=30169a57-7507-48c3-9a3b-b9763d6a3e7b

[35] *The Gazette*, as above

[36] Martin Hayward, p 25

[37] http://www.rffretailer.com/Articles/Cover_Story/2009/ 04/27/Kroger-Powers-Ahead