Planogram Compliance Research Report

2019

Planogram Compliance:

Finally making it work and why store-specific planogramming is not the holy grail.

strategix

> *"I wish the headquarters were more store aware"*
> *(Store Associate)*

How do you empower your store teams to provide truly localized planograms, improve shelf compliance and ensure ongoing on-shelf availability?

Despite the rise of E-Commerce and the omnipresence of Omnichannel Category Management, is here to stay. Yet throughout the years one challenge remains to be unsolved: Maintain planogram compliance consumer centric assortment and shelf layout. At least this seems to be the common struggle between most retailers.

We humans often tend to treat symptoms rather than going beyond and investigating the real cause. Therefore, it was time to find out what the true challenges behind planogram implementation were and for this it needed a change of perspective. For this reason, a qualitative study was conducted amongst representatives of major leading German food to understand the cause of low planogram compliance issues encountered by visual shelf merchandising.

Planogram Compliance Defined
A planogram represents a visual instruction and a plan with the goal to have the right product, in the right place, in the right quantity with the right price and at the right time. A shelf is

considered perfectly compliant when all merchandising is set placed according to the planogram. Although retailers invest substantial amounts of money in shopper marketing and leveraging data insights to create the ideal shopper-centric planogram, on average a store display receives shopper's attention only for a few seconds. Thus, having a planogram that is implemented with 100% compliance can make the difference between making or loosing sales.

Maintaining Compliance: An Ongoing Challenge
While software technology continues to develop, and retailers pursue to invest in planogram's *head office systems* only few have made advances in the area of in-store planogram compliance. Some studies even revealed that compliance levels have deteriorated over the years.

The Importance of Planogram Compliance
Without compliance, retailers cannot accurately measure the effectiveness of their plan(ograms) nor can they optimize or

improve because there is no understanding of the real performance of a particular planogram. This leaves a merchandiser no choice than to assume his planogram was implemented, even though most likely some products were misplaced or not placed at all therefore gauging the item's and overall planograms true performance he knows that the store reality is different. A benchmark study from the National Association of Retail Marketing Services (NARMS) found that retailers who achieve good planogram compliance can realize a lift of 8.1% profit. While this study was conducted over 10 years ago, it shows that the true cost of non-compliance are lost sales. In fact, according to the ISI Sharegroup, the total cost of non-compliance is approximately 1% of gross product sales—which translates to $10B-$15B in lost sales opportunities in US markets only.

Curing the Symptoms with store-specific planogramming
Instead of trying to understand the cause of low compliance many retailers believe *store-specific planogram generation* is the solution to all shelf merchandising problems. Indeed, store-specific planograms make improve execution per se because they better fit the actual shelves, but if you think about it: What is the added value between store-specific planograms with 70% compliance versus cluster planograms with 70% compliance – practically nothing! Therefore, investments and efforts in creating and maintaining store-specific planograms in the headquarters are in vain unless we resolve the root cause. Hence store-specific planograms alone will not solve the compliance issue in the stores.
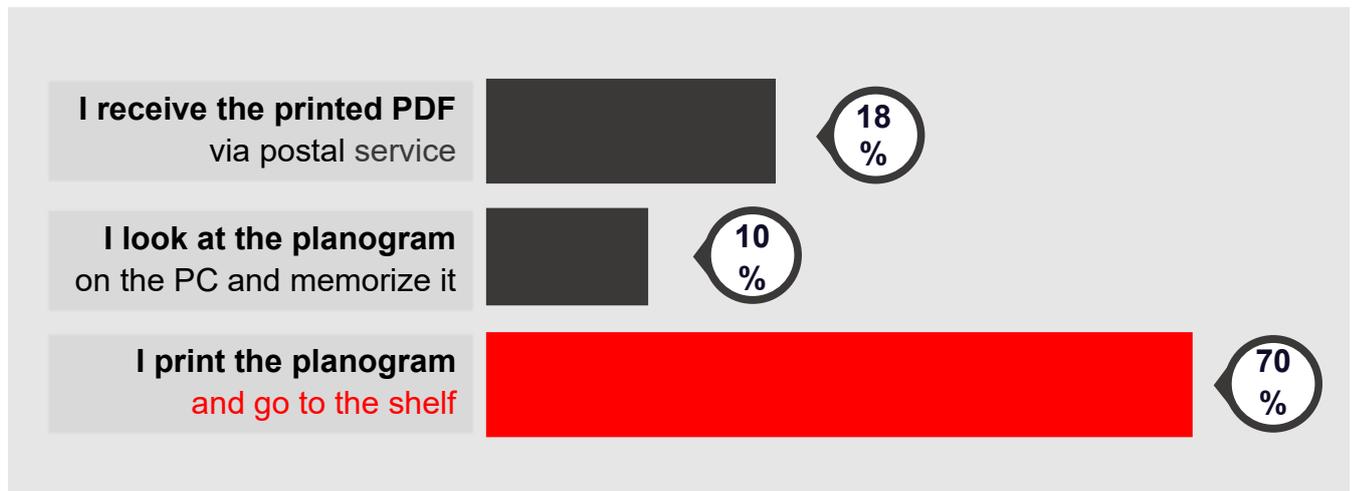
The real drivers behind non-compliance

The study shows that non-compliance emerges from several factors, including:

- **The cumbersome implementation approach:** Store personnel is often found to be under constant pressure to efficiently fulfill their operational tasks as well as be friendly and offer proactive customer assistance. Moreover, they tend to typically be averse to planograms since they are time consuming and frustrating when they do not fit. Yet, they are forced to spend a lot of unnecessary time in the back-office trying to log into the intranet, find the right planogram, print it usually in hardly readable black-and-white (if there is paper in the printer), pick-up new-listed items from the back room and run to the shelf; only to realize that it does not fit. That is when the real hustle starts, namely "how to make it fit", starts. If the store employee is knowledgeable and experienced, the result may be better than the original planogram but if the store employee is not proficient or experienced, the retailer starts losing sales. Unfortunately, personnel rotation is high, and the qualification level is often low; thus, relying on experienced store associates becomes a risk.
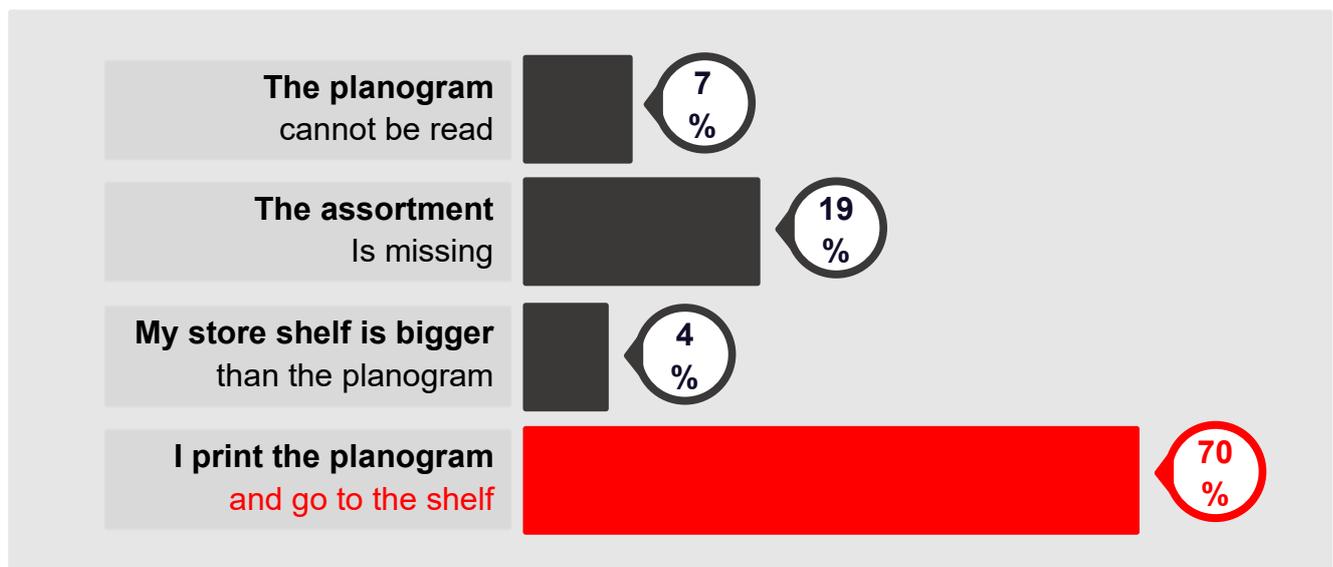
So why is there no initiative to make an unpleasant task such as resetting of a shelf u at least a little bit more convenient. Having to fulfill a task in such cumbersome conditions does not leave much hope for good results. Especially when that person

is new and untrained, the probability for shelf-set errors and personal frustration is high.

I receive the printed PDF via postal service	▉	18%
I look at the planogram on the PC and memorize it	▉	10%
I print the planogram and go to the shelf	▉	70%

- **Store-specific planograms are made only in stores:** Corporate headquarters typically work in silos, usually creating multiple cluster planograms of different sizes for store clusters. There are only a few retailers who generate store-specific planograms. However, if it comes to back-room inventory, promotion left-overs, store-specific item performance, local buying patterns or supply chain disturbances these remain a mystery.
Leading to a situation where once the theoretical planograms hits reality, stores are left with overstock for slow-moving SKUs and understock for high-selling items. The reason being that there is no average fixture, buying pattern and no planogram generator in the foreseeable future, which will be able to solve these issues.

- **Lack of store empowerment:** Store teams talk to customers daily, see which products sell well, which

products customers cannot find, and which products are piling up in the storage rooms. They might not know what is going on in other stores and how much revenue, for example, chocolate is making on a national level, but in general they will have a good gut feeling that will tell them what the top 10 bestsellers are at their store. Their knowledge is limited but at the same time extremely valuable because it complements the comprehensive perspective and knowledge Category Managers have in the headquarter - and. it is a mistake to not leverage this knowledge. According to this study it appears that by far the biggest challenge when implementing a planogram is that the store shelf is smaller than the planogram (70%) and the store team is forced to make assortment and placement decisions with no solid data foundation or clear guidance on what core items there are, how much they are allowed to change and many other important conditions. The store team needs to be able to make on-spot decisions and must be empowered to execute the final touch to the planograms because they have access to all relevant information to reinforce their store knowledge and gut feeling.

The planogram cannot be read	7%
The assortment Is missing	19%
My store shelf is bigger than the planogram	4%
I print the planogram and go to the shelf	70%

Moreover, there should be a framework that sets rules and responsibilities that define what placements and assortments require 100% compliance and how much level localization is accepted and appreciated.

- **Two-way communication:** Unfortunately, even today stores rarely have the obligation or possibility to provide feedback regarding the planogram execution. How is it possible that in academia and everywhere in business we teach about the value of feedback and its significance to development and growth while at the same time we are not interested in why our strategies, tactics and planograms were not implemented. More than 50% of the representatives in the survey do not provide feedback to the headquarters due to various reasons such as being too time consuming, feedback is considered as criticism no system being in place how enabling to provide feedback in a convenient and constructive way. Even if the feedback is

provided, there is, no structured process how to collect, evaluate and act on the provided feedback.
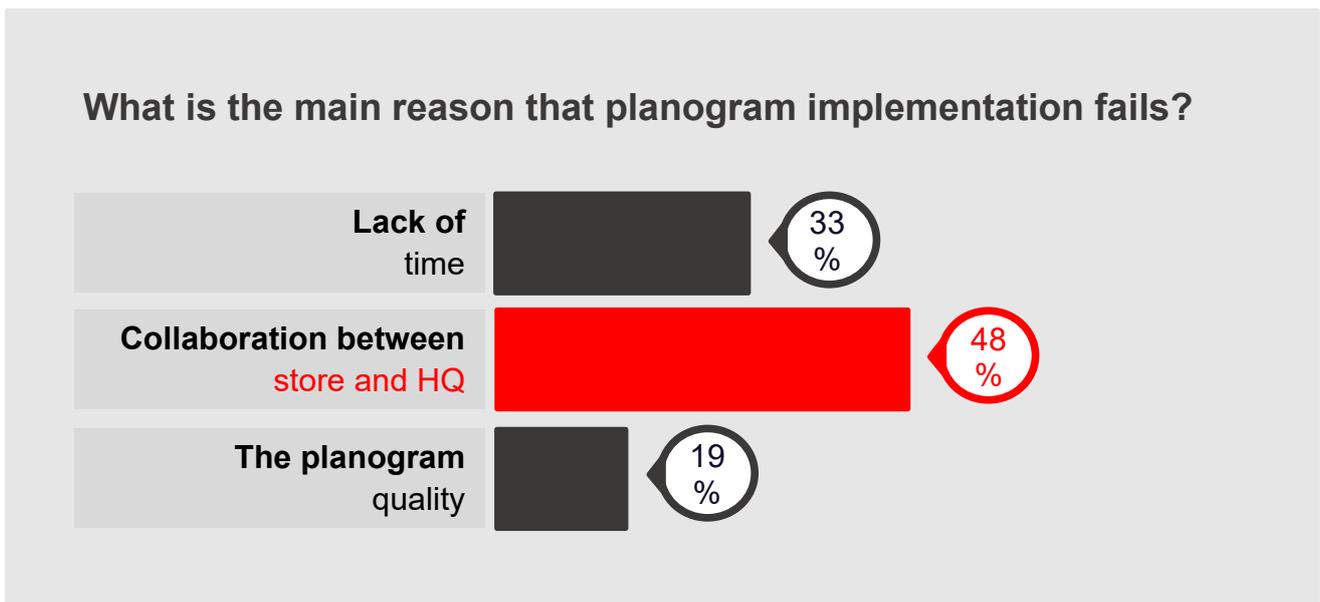
Some retailers put their hope in artificial intelligence (AI) to be able to resolve issues in store specific merchandising. AI uses machine learning (ML) to optimize the algorithms and rules. But how can a machine learn without feedback? This leads to a situation where…

1. Planograms from headquarters have no "touch points" to real shelf situations
2. Shelf planners in headquarters blame store teams for the lack of compliance and lost sales.
3. Store teams blame shelf planners for useless planograms and not listening to them.
4. IT is experimenting with AI and is puzzled why the stupid machine does not want to learn
5. Shoppers cannot find products he or she is searching for and goes to competitors.

How do you provide implementation feedback to the headquarters?

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Through the intranet	7%
None	19%
Via E-mail	4%
On the phone	70%
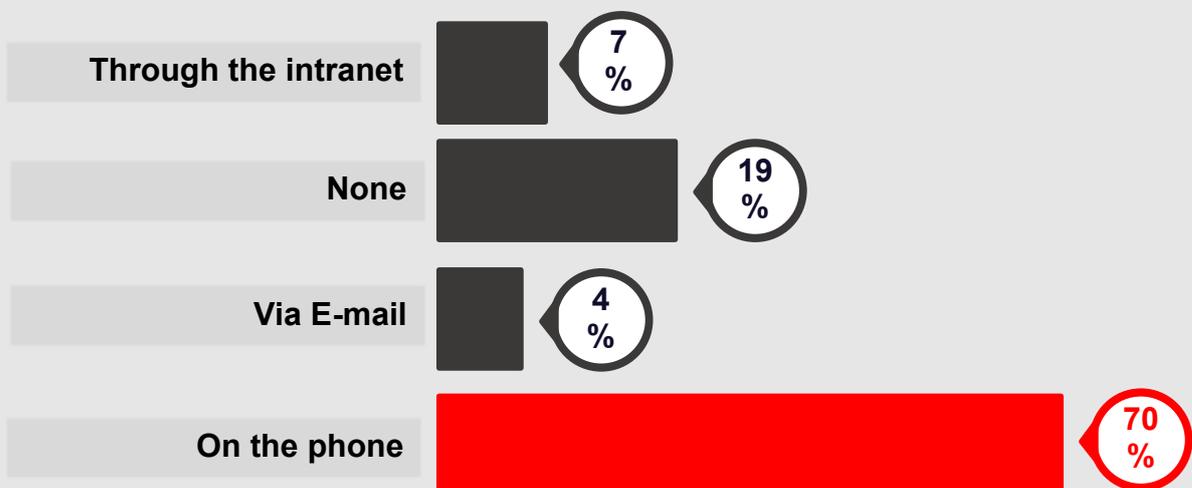
It is naive to believe we can create customer-centric assortments with store-specific planograms with an exclusive top-down-approach while completely ignoring what is happening on the floor. According to store representatives participating in the survey, collaboration between store and the headquarters is the *#1* issue.

What is the main reason that planogram implementation fails?

Lack of time	██████	33 %
Collaboration between store and HQ	██████████	48 %
The planogram quality	████	19 %

- **Up-to-date Planograms:** In general, the planogram update process is too slow for today's fast and agile merchandising requirements. Many retailers are still distributing printed planograms via postal or courier services, making the process very slow and inflexible when it comes to listing new products or reacting to trends. Yet, even those who receive planograms via the intranet are not in a better position since planograms are typically updated only every 3 to 6 months. This leads to outdated planograms which are not in sync with the current store assortment. The reasons for low frequency of planogram updates range from a complicated planogramming process, lack of resources in the

headquarters and costs and duration of paper-based production and distribution.

How do you receive your planogram instructions?

Mobile Device	18%
Intranet	75%
Postal Service	7%
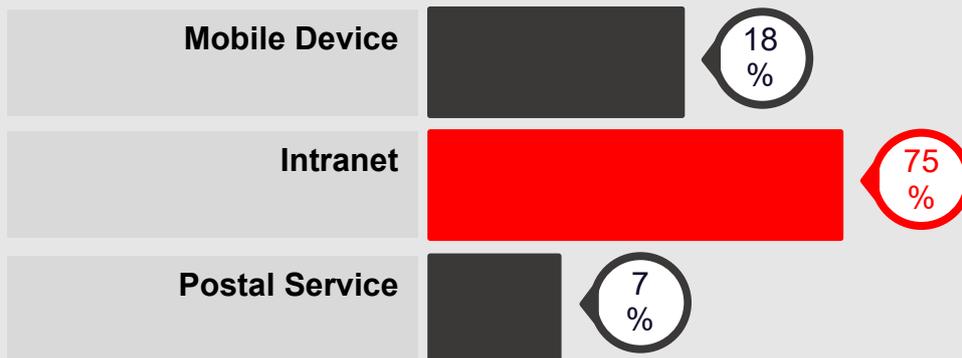
- **Need for a Paradigm Shift**: Due to the challenges mentioned above and the unpleasant truth of low planogram compliance, many retailers have decided not to verify or measure planogram compliance claiming it is something that cannot be controlled, it is too expensive or that it takes away freedom from store teams. It often leads to a situation where the space management process is completed once the planogram is dispatched to stores.

But what is the purpose of planning if you refuse to monitor the execution?

It is time for a paradigm shift where it is no longer the headquarters responsibility but the store's responsibility to localize assortments and planograms.

Confronting the Challenge – Now is the time!

Achieving 100% planogram compliance is an aspiration for most retailers but achieving a high level of compliance is only possible by a holistic space management process involving both headquarters and stores.

In order to protect investments made in the last years into space management systems retailers should complement them with in-store execution support.

These are the action items that should be performed to achieve perfect planogram-shelf compliance:

- Establish a feedback system and mindset that enables store associates to provide feedback; and space planners to act on the feedback.
- Empower your store associates to make the right decisions by providing them the right information.
- Engage your store associates to do the final touch: to create truly localized assortments and planograms.
- Reverse your compliance paradigm. It is the supply chain that needs to comply with store-specific planograms!

10 Critical Success Factors for an In-Store Execution Tool

According to the survey 90% of the participants confirm they are positive towards a mobile application tool for stores that can help improve planogram execution. Below there are 10 critical success factors retailers need to consider when selecting such a tool:

1. **Quick and easy access.** Store associates need to have the planogram at any time at their fingertip. For this reason, they should be able to retrieve their store planogram within seconds in front of the respective shelf.
2. **Display.** Planograms should be displayed in colored and in a readable manner allowing to zoom in and out. Additional product information should be easily available.
3. **Localization.** Store personnel should receive basic performance information in form of highlights or tables in order to enable on-spot decisions. It must be possible to adapt planograms to the real store conditions: update or mirror fixtures, add/ delete facings, remove or add items.
4. **Inventory.** Stores associates must be able to reorder missing items directly from planograms. It should be possible retrieve inventory information, adjust them if needed and be sure that updates are transferred to the central system to drive store replenishment.
5. **Merchandising Guidelines.** Store associates should be able to view merchandising guidelines prepared by headquarters regarding, brand blocking, bestsellers, core assortment, promotions, etc.
6. **Feedback.** Store associates must be able to provide planogram and product level feedback to headquarters as well as track and view responses to their feedback.
7. **Quality Assurance.** For quality assurance purposes or periodic surveys store associates should have the possibility to document their shelf reset by taking an image that is automatically attached to the planogram.

8. **Scanning.** Store associates should be able to use mobile devices to scan the planogram for auditing purposes or to place new products delivered to the store but not placed yet on the planogram.
9. **User-friendly.** Where pressure and employee rotation are high there is no time to learn a new complicated system, therefore it must be intuitive and easy to use.
10. **Integrated.** Mobile tools must be integrated with the existing space management system without replication of data to ensure consistency of data. All in-store planogram updates should be stored in the database of the existing space management system in compliance with the versioning and planogram life cycle.

What is in it for me?

- Shelf connected supply chain
- Enforced shelf-planogram compliance
- Decreased OOS
- Localized assortments and planograms/shelves
- Improved Sales
- Improved Customer Satisfaction and Loyalty
- Improved Employee Satisfaction and Image
- Cost Reduction related to paper-based planogram communication
- Improved and collaboration between HQ and store
- Protecting Investments into existing space management system
- Realizing the Category Management tactics
- More time for store associates to be proactive on the floor

Final words

It is time to free ourselves from the idea that correct store-specific planograms are solely generated in the headquarters. The headquarters should be responsible for guidelines and cluster templates delivered electronically to the hand of the store personnel, yet the true localization can and will only happen in the store. Once the localization is completed these store-specific planograms then need to be fed to the central system and drive replenishment processes. The truth is that it is the headquarters that must comply with the store-specific planograms and execute store replenishment accordingly because only a shelf connected supply chain is an efficient supply chain. Consequently, the question retailers should ask themselves is: *How can we empower and involve store teams to localize planograms?*

ABOUT Strategix CFT GmbH

Strategix CFT is a boutique consulting company and system integrator specialized in the area of Category Management. Our mission is to help leading retailers achieve growth and sustainability by progressing merchandising productivity. We do this by providing Space and Category Management expertise, a deep understanding of available technologies on the market as well as honest and sincere business process and technology recommendations based on 20+ years of experience. Strategix has already helped leading retailers and manufacturers worldwide to execute a seamlessly integrated space and assortment management.

Find out more at http://www.strategix.eu

Survey Detail

Strategix conducted a qualitative research targeted at store representatives from leading German food retailers (Top 20 German Retailers) to better understand the true challenges around planogram implementation.

The survey represents 10 individual retailers and was fielded on 15th of July 2019.