

5 Questions to Ask When Developing Consumer Oriented Assortment



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Executive Summary

The race to competitor price matching is on, but there are no winners. What happens when everyone has the same prices? And the prices all have low margins?

Retailers need to find unrivalled ways to drive sales and maintain margins. One of the best solutions is to provide a unique product assortment that responds directly to what a customer wants. The recent availability of rich consumer data from online sources such as reviews, ratings, search and social provides retailers with a new and invaluable resource to develop consumer-centric assortments. This helps them to differentiate and compete more effectively, without focusing primarily on price matching.

Using specific examples, data and charts this e-book outlines five questions retailers should consider in order to develop a consumer oriented assortment:

1. What do consumers want?
2. Why do they want the things they want?
3. Are you carrying the products that consumers want?
4. Are you providing these products at a competitive price?
5. Are you providing the products within a competitive timeframe?

The above questions are answered using a real-life example, and then followed by an example of how one large retailer applied these concepts.

Introduction

The race to competitor price matching is on, but, there are no winners. What happens when everyone has the same prices? And the prices all have low margins?

The post price-matching world is beginning to take shape as consumer-centric retailers are equipping themselves with price and offer personalization while also carrying the assortment their customers truly desire.

Consumer-centric assortment is a critical lever to differentiate and compete.

That being said, your respective assortment decisions consider many factors, including:

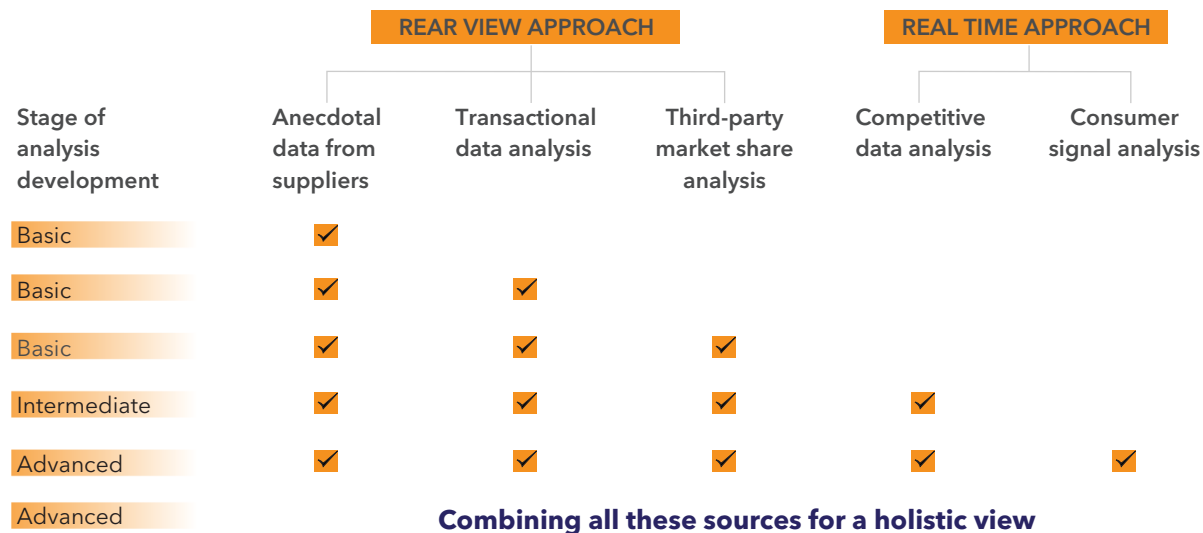
- What type of retailer are you? (mass, specialty, etc.)
- Which consumer segments do you serve?
- What categories do you carry?
- What stage of growth are you in?
- Are you going through a special situation? (catch-up, moving from catalog to online)
- What is your fundamental approach to assortment planning?

Irrespective of these factors, the bottom line is the need to know **what your customers want.**

Historically, retailers have tried to generate insights as to which products to keep, carry, and drop relying on anecdotal information from their suppliers, transactional data analysis, and third party market share information. These data points are like driving a car by looking at the rear view mirror. They are often incomplete, too late, and, as a result, are of little value. In cases where merchandisers attempt to incorporate competitive information, the approaches are usually ad hoc, manual, and delayed.

However, there is a new breed of retailer with a more mature assortment analytics capability. These retailers are incorporating real time data sources including competitor information and consumer demand signals.

Development comparison of retailer analysis approaches.



Not all retailers are under pressure but there are some categories where retailers have no choice but to rethink their assortment planning methods by understanding their competitors' position and knowing what consumers are asking for. In these cases, retailers need to move from an "inward" bias to embracing a more agile and "outside-in" approach. That is, instead of relying on internal data and intuition, merchandisers can improve performance by considering competitor data and consumer insights.

In this ebook, we use actual data and analysis from the Bluetooth headset category to illustrate the five questions retailers must ask to develop consumer-centric assortment.

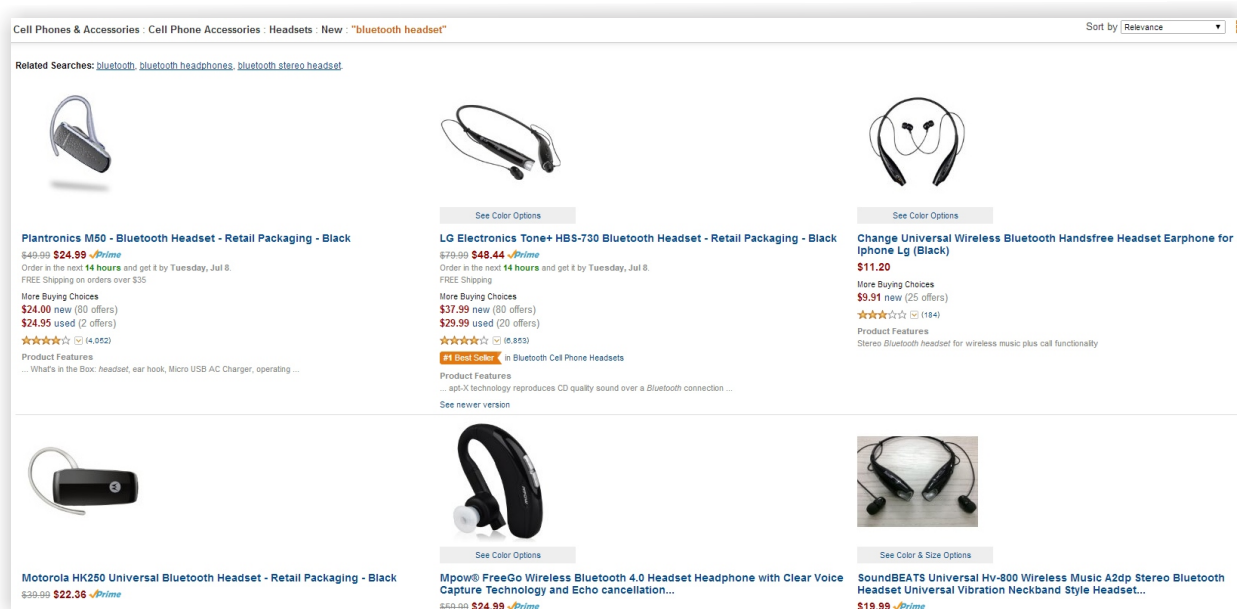
Five Questions

1. What do consumers want?

The answers are simple but not easy. The good news is that retailers now have a goldmine of digital consumer signals which we call "democratic data." These digital signals include reviews, ratings, search, social signals, etc. that are an excellent source of rich and real-time insights. When synthesized effectively they provide a critical edge.

Consider the Bluetooth headsets category, on Amazon where there are thousands of products available. In this category with all these options how does a merchandiser decide which products they should carry?

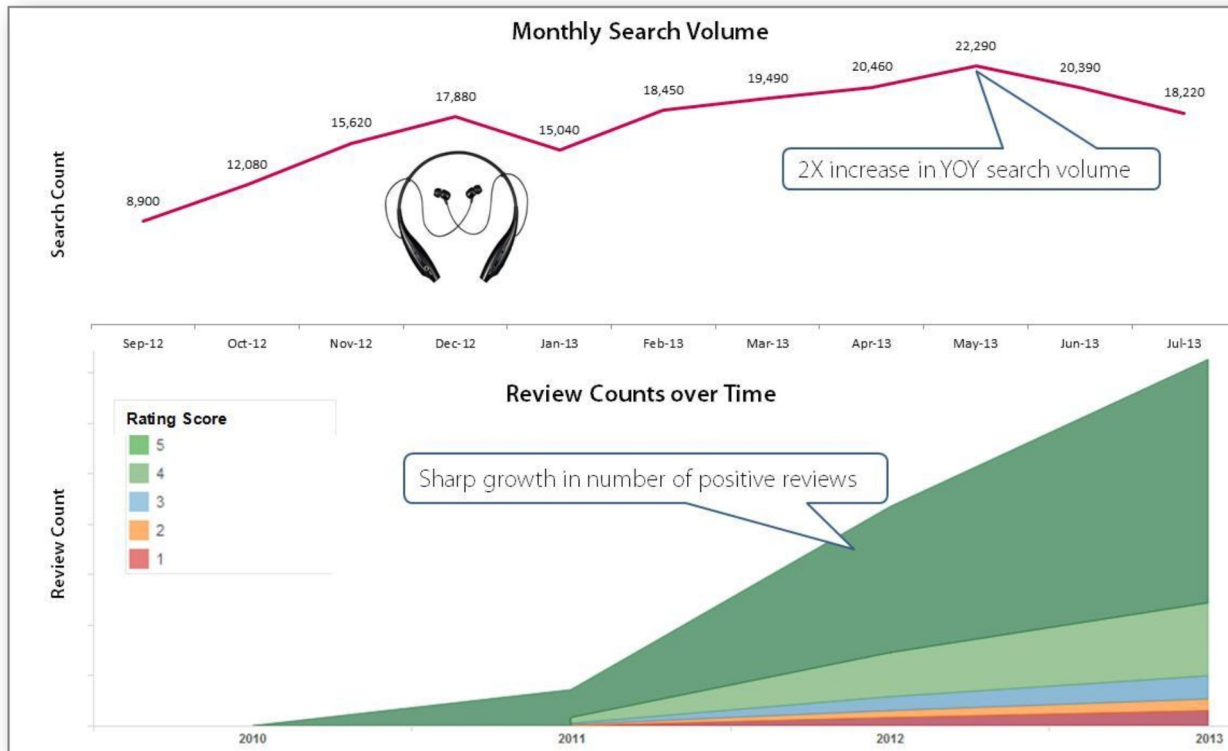
Some of the many Bluetooth headsets available on Amazon.



The good news is there is data to help with the decision-making process. By leveraging consumer demand signals we know which products are most popular.

One of the popular Bluetooth headsets available today is the LG Tone HBS 700 (730 is the new model). If we look at the trend of consumer signals in terms of search volume and review volume, and combine it with the high average rating, we know that this is a product that has been popular for some time and in fact continues to trend upward.











Some of the democratic data available for the LG Tone HBS 700.



Synthesizing vast amounts of data and uncovering insight requires new capabilities and tools. At Ugam, we have built a big data platform that enables data acquisition, synthesis and analysis of big and unstructured data to see what's trending.

Our proprietary model generates Ugam's Democratic Demand Index (DDI). Here's an example of a report using our analysis of the top ten Bluetooth headsets ranked using Ugam's DDI.

Top ten Bluetooth headsets, based on Ugam's DDI.

Rank based on Ugam's DDI	Product	Reviews (#)	Avg. Rating	Price
1	 LG Tone HBS-700 / 730	12,782	4.2	\$52.94
2	 Kinivo BTH 220 / 240	6,213	4.2	\$24.99
3	 Plantronics M50	4,022	4.1	\$27.99
4	 Motorola S305	3,333	3.8	\$34.49
5	 Samsung HM1700	1,589	3.7	\$33.88
6	 Motorola 89382N	1,789	4	\$82.99
7	 Motorola S10-HD	3,403	3.1	\$54.00
8	 Motorola HX550	1,425	4	\$32.99
9	 Plantronics Voyager Legend	1,803	4	\$49.95
10	 Plantronics BackBeat Go	2,129	3.5	\$56.95

2. Why do customers want the things they want?

Once you understand what's trending, it becomes critical to understand why consumers are demanding specific items. That is, which product attributes are trending positively? Even negative comments are useful in understanding customer expectations. For example, shoppers might mention an attribute frequently, but in a negative context. This might mean that the attribute is important to them, but that the product is not fulfilling their needs. These insights are valuable for buyers and product development teams.

Think back seven years ago - cell phones were used mainly for phone calls. But today, we use our smartphones for a whole range of activities, including listening to music, watching videos, gaming, video chats, etc. So the Bluetooth Headsets category has also had to evolve as consumer needs changed and demand shifted from mono headphones (which worked well for phone calls) towards stereo headphones (used for everything else).

How do merchandisers figure out which attributes matter to consumers and why some products are more popular? We've found that mining consumer reviews is a good way to understand what matters to consumers. For the Bluetooth headsets we looked at attribute references within reviews and generated this word cloud based on the volume of chatter around them.

Bluetooth headset attributes most discussed in consumer reviews.



General attributes like sound quality, comfort & fit, and battery life were most discussed. However, we also found consumers talking about specific attributes like stereo, activity friendly and noise cancellation.

Bluetooth headset attribute trends.

Key Attributes	2011	2012	2013
Style - Behind the Head	8%	12%	24%
Style - Over the Ear	66%	64%	54%
Style - Earbud	6%	8%	10%
Stereo	22%	30%	42%
Noise Cancellation	56%	58%	58%
Multi-point	30%	32%	22%

To understand which attributes are growing in importance we looked at trends over time for demand signals.

For Bluetooth headsets, stereo was trending upwards (see how many of the top ten trending Bluetooth headsets are stereo) and the Behind the Head style was also increasing in popularity.

Understanding which attributes are trending is especially critical for product development teams, including private labels. This information can be used to create products with the attributes that consumers are demanding.

3. Are you carrying the products that consumers want?

Once you've discerned which products are trending, you will need to compare your assortment to them to understand your coverage. The trending products that you aren't carrying are your key assortment gaps that need further assessment in terms of whether or not you want to carry them.

For example, in Bluetooth headsets, comparing the assortment across four leading electronics retailers against the top ten trending products, we see that Amazon and Newegg fare very well – they carry all the top ten trending products. Best Buy and Staples, however, are missing the third and fifth of the top ten products. These are critical assortment gaps they should consider filling to improve their competitiveness.

Comparing top retailer assortments against the top ten list of Bluetooth headsets.

Rank based on Ugam's DDI	Image	Name	TOTAL		amazon		BEST BUY		STAPLES		newegg	
			# of Top 10 trending products carried		10		7		5		10	
			% of Top 10 trending products carried		100%		70%		50%		100%	
			Reviews (#)	Avg. Rating	Reviews (#)	Avg. Rating	Reviews (#)	Avg. Rating	Reviews (#)	Avg. Rating	Reviews (#)	Avg. Rating
1		LG Tone HBS-700 / 730	12,782	4.2	11,440	4.2	1,310	4.5			32	3
2		Kinivo BTH220 / 240	6,213	4.2	5,944	4.2					269	4
3		Plantronics M50	4,022	4.1	3,980	4.1	0	0	2	2.5	40	4
4		Motorola S305	3,333	3.8	2,801	3.8	262	4.1			270	4
5		Samsung HM1700	1,589	3.7	1,581	3.7			8	4.5	0	0
6		Motorola 89382N	1,789	4.0	1,728	4					61	4
7		Motorola S10-HD	3,403	3.1	2,818	3.1	457	3.2			128	3
8		Motorola HX550	1,425	4.0	1,406	4	12	3.7	0	0	7	3.2
9		Plantronics Voyager Legend	1,803	4.0	1,681	4	76	3.3	38	4.5	8	3.5
10		Plantronics BackBeat Go / Go 2	2,129	3.5	1,599	3.5	499	3.7	21	3.5	10	4

We also see that Amazon, Newegg and BestBuy carry some of these trending products on their own and the remaining via marketplace. We believe that for trending products, merchants should carry the products on their own, rather than via marketplace vendors. This allows them to better control the factors that impact conversion (pricing, promotion, content and marketing). Amazon does this well – bringing in-house the products that are trending upwards in the marketplace.

For categories that consist of private label products, merchants need to look at their assortment composition by attribute and see the overlap with trending attributes. They may also try to uncover affinity relationships between products.



See an example of how this was applied in the Furniture category by visiting [this blog](#).

4. Are you providing these products at a competitive price?

If you are carrying most of the trending products, then your assortment will be compelling to consumers. However, we all recognize that in today's age of information transparency consumers are probably going to hunt for the best deal they can get. While you don't need to necessarily adopt a price match strategy, you want to make sure that you are priced competitively for these top trending products.

For the Bluetooth headsets, Newegg carries all of the top ten trending products. However, for several products, their prices are much higher (19% on average) than the lowest priced retailer (usually Amazon). As an online-only retailer, competing head-on with Amazon, Newegg should rethink their pricing on several products including the LG Tone (23% higher), Samsung HM1700 (31% higher), Motorola HX550 (27% higher) and Plantronics Voyager Legend (53% higher).

Price comparison of top headsets at top retailers

		Lowest Price Retailer	amazon			BEST BUY			STAPLES			newegg		
Rank based on Ugam's DDI	Name	Price	Price	Difference (\$)	Difference (%)	Price	Difference (\$)	Difference (%)	Price	Difference (\$)	Difference (%)	Price	Difference (\$)	Difference (%)
	OVERALL				2%			24%			45%			19%
1	LG Tone HBS-700 / 730	\$52.94	\$61.99	\$9.05	17%	\$52.94	\$0.00	0%				\$64.99	\$12.05	23%
2	Kinivo BTH220 / 240	\$24.99	\$24.99									\$24.99	\$0.00	0%
3	Plantronics M50	\$27.99	\$27.99			\$30.00	\$2.01	7%	\$29.09	\$1.10	4%	\$30.95	\$2.96	11%
4	Motorola S305	\$34.49	\$34.49			\$34.99	\$0.50	1%				\$39.99	\$5.50	16%
5	Samsung HM1700	\$33.88	\$33.88						\$45.99	\$12.11	36%	\$44.52	\$10.64	31%
6	Motorola 89382N	\$82.99	\$82.99									\$89.95	\$6.96	8%
7	Motorola S10-HD	\$54.00	\$54.00			\$69.99	\$15.99	30%				\$62.99	\$8.99	17%
8	Motorola HX550	\$32.99	\$32.99			\$39.95	\$6.96	21%	\$59.99	\$27.00	82%	\$41.95	\$8.96	27%
9	Plantronics Voyager Legend	\$49.95	\$49.95			\$99.99	\$50.04	100%	\$99.99	\$50.04	100%	\$76.67	\$26.72	53%
10	Plantronics BackBeat Go / Go 2	\$56.95	\$56.95			\$59.95	\$3.00	5%	\$59.99	\$3.04	5%	\$56.95	\$0.00	0%

Staples and Best Buy are overall much higher than Amazon and for some products, including the Plantronics Voyager Legend (100% higher), at levels that may not see conversions. As multi-channel retailers they may choose to be priced higher than Amazon or Newegg, but should consider re-assessing to see if there is a need to lower current price levels to be competitive.



Follow our blog for updated assortment information and insights.

5. Are you providing the products within a competitive timeframe?

The final question merchants should ask is whether or not they have managed to add trending products while still within the 'opportunity window.' Given that every product has a life cycle, the ideal time to add a trending product would be in the growth phase. Naturally, for categories where product life cycles (and the opportunity window) are short (like consumer electronics, technology) it becomes critical to identify and add trending products early to capitalize on consumer demand.

In the Bluetooth headsets category, we observed that the top trending product (LG Tone HBS 700 / 730) has been available for a while but started trending in 2011 and consumer demand signals showed sharp growth in 2012.

Opportunity window for trending headset, and the top retailers who carry it.



However, apart from Amazon, no other retailer carried it early on and even now only two more retailers, Best Buy and Newegg, carry the headset. (Note - Best Buy and Newegg carry the HBS 730 model - not the original 700 which is a block-buster). Clearly, Amazon rode the wave of peak demand that this product had during its opportunity window and for whatever reason, the product's performance / potential went (and is still) unrecognized by several large retailers.

Knowing when to carry a product lies in first adopting practices of comprehensive and systematic research into trending products and then synchronizing this effort with the rate of churn for the category. Categories that have a high refresh cycle (e.g. consumer electronics) will need to be monitored much more frequently (perhaps monthly) than categories that have long life cycles (e.g. furniture).

Client Success Story

About the Client

The client is a leading office supplies and technology retailer.

Goals

In the face of structural changes to their core categories, plus an increase in their competitors' online presence and success, they have been struggling with growth. In order to overcome this challenge they realized that improving their assortment by focusing on consumer signals would be a key pillar to reviving growth.

The final goal was to add assortment and fulfill orders through their online channel and a new marketplace.

Problem

Ultimately, they lacked visibility into what their competitors were doing and what their customers wanted.

Category managers had been making assortment decisions using 'rear view' historical sales data, third party, vendor, and manufacturer inputs. A few category managers were gathering and analyzing assortment data manually and sporadically. However, any work was done haphazardly and they lacked a system and infrastructure.

To improve growth while addressing competitive pressures, they wanted insights such as:

- Where do we stand compared to our competitors?
- What do our customers want?
- What are the assortment gaps?
- What should we add?

Their vast inventory, including a large percentage of private-label items, and the fragmented nature of several categories impaired a comprehensive competitor comparison. They needed a comprehensive and scalable solution capable of delivering actionable assortment insights in a timely manner.

Solution

After a detailed RFP, the client selected Ugam and deployed our cloud-based (SaaS) Assortment Intelligence module across 20 technology and accessory categories. Full assortment data was gathered from an average of six competitors for category sizes that ranged up to 10,000 SKUs.

The full assortment listing was mapped across retailers and synthesized along with consumer demand signals to deliver insights such as:

1. How does my assortment compare in terms of breadth and uniqueness vs. competitors?
2. Where are competitors focused?
3. Which attributes are trending and what do consumers prefer?
4. What is my coverage on key trending products?
5. What assortment gaps should we plug?
6. What white space opportunities should we exploit?

Summary - Benefits Delivered

As a result of the implementation, the clients category managers were better equipped to make decisions that resulted in an increase in their assortment and it was in line with market requirements.

Assortment planning decisions can now be made in a timely manner to maximize the opportunity window. And these decisions are based on objective, comprehensive, and accurate information.

New category niches have been found and exploited. For example, in the competitive and fragmented “Ink and Toner” category, the client, who did not carry any refilled/cartridges earlier, acted on Ugam's suggestions and has added them to their assortment. This sub-category has been very successful for them.

Ugam's Assortment Intelligence Solution

As a merchant trying to meet revenue and margin goals for the categories you manage, the assortment assessment (what to carry) is critical to drive category performance.

The rise of the digital consumer and information transparency will drive merchandising practices to evolve rapidly from internal focused and siloed approaches to more consumer-centric and holistic methods to the assortment decision.

We are witnessing and helping leading retailers as they are driving maturity in using consumer signals to develop consumer-centric assortment.

Ugam's assortment intelligence solution aggregates and synthesizes vast quantities of consumer e-demand signals and competitive information to help retailers quickly and effectively sharpen category decisions in terms of what to carry, keep and drop.

Sharpen assortment decisions around:



Retailers use our comprehensive, easy-to-use, insightful category reports on a timely basis to uncover assortment gaps. They can now have a near real-time pulse of consumer preferences and quickly shape decisions to stay ahead.

YES!

Get a [free demo now](#)
and learn how you can start
improving your assortment.

About Ugam

Ugam is a global leader in managed analytics. Combining a proprietary big data platform with a global team of insights and analytics experts, Ugam's unique offering empowers clients with the confidence necessary to take action that impacts their business. Clients trust Ugam because they deliver unmatched customer experience and specific results. That trust is also based on deep domain expertise, end-to-end service, innovation and the highest quality of insights and analytics, which enable Ugam to transform big data into big insight and direct action. As a result, nine of the largest 25 retailers, many of the world's largest brands and online marketplaces, and 12 of the top 25 market research firms turn to Ugam today to help improve their business performance.

www.ugamsolutions.com



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Mihir Kittur is the co-founder and Chief Innovation Officer at Ugam and plays a role in conceiving, and incubating pioneering solutions to help retailers improve their performance. These solutions combine analytics, technology and deep domain consulting to drive superior retail performance. Mihir enjoys running, and is addicted to all things Apple.



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Savino Lobo is an AVP at Ugam and is part of its retail analytics solutions team and oversees the assortment intelligence solution. He is passionate about leveraging democratic data to help retailers make better assortment decisions. Savino has over 12 years of experience developing research and analytics solutions. Outside of work, Savino enjoys traveling and trying cuisines from around the world besides spending time with his twin 3 year old boys.

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