CHAIN STORE AGE®
NEWS AND ANALYSIS FOR RETAIL EXECUTIVES

Unlocking Analytics in the Grocery Channel:

How to Connect Data to Decisions and Reconnect with Consumers

Recently, analytics has become a hot topic in the grocery industry, as more and more organizations are moving away from traditional, "intuitive" methods of planning and are instead incorporating an analytical, data-driven model for core operational areas like forecasting, price optimization, space planning, and customer marketing. While grocers were the pioneers in data collection, through UPC and loyalty cards, they have been relatively late to adopt analytics, especially compared with other retail channels, and many grocers differ in their interpretation of how to use analytics to power their business decisions.

True analytics is much more than looking backward using historical reporting; it is a process that collects and interprets a wide range of data variables to provide critical insights and a predictive platform for decision-making.

Of course, the hardest part in adopting an analytics strategy is collecting the customer data. Since grocers of all sizes already have this data, it would seem they are in a unique position to capitalize on the information. How are they doing?

Survey findings

Chain Store Age recently conducted a survey of more than 130 grocery executives to get a better idea of how grocery chains were putting analytics into practice. The results were very positive; in fact, we found that grocers of all sizes were doing much more with analytics than was previously thought. Almost 40% of the respondents said they are using analytics, with one-third reporting that analytics is a corporate priority. In addition, 14% said they are getting started with analytics, leaving only the bottom quarter behind the curve with no immediate plans to adopt an analytics strategy.

It should be noted that more than 70% of the survey respondents were from organizations with less than $1 billion in revenue, which goes to show that even small- to mid-sized grocers are tapping into advancements in technology and cost-effective analytics platforms to help level the playing field with the larger grocers.

Another sign that grocers are serious about analytics is that 46% said they have a dedicated in-house analytics department, while others keep the responsibilities in-house with their pricing and marketing departments **(fig. 1)**. Furthermore, almost 50% said that they are using analytics for internal customer segmentation (which most likely includes the use of loyalty cards) **(fig. 2)**.

Who/What Groups Manage(s) Analytics for Your Company?

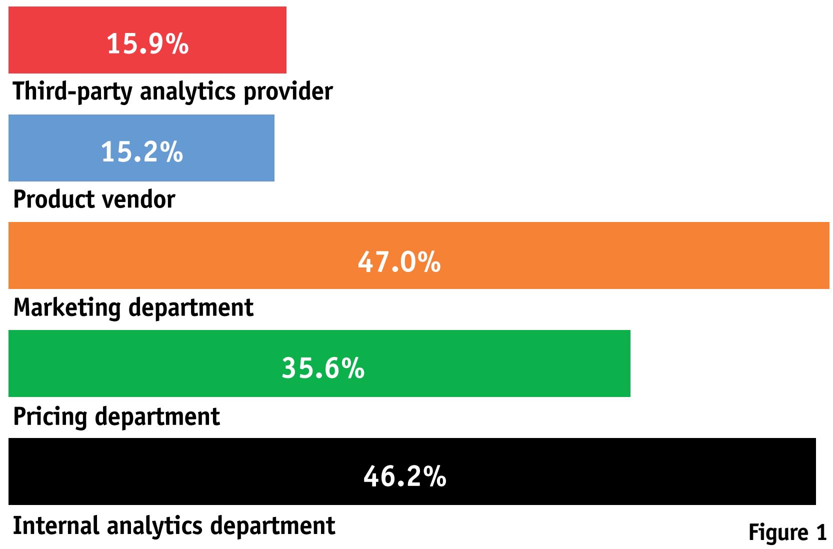

Figure 1

What Tools and/or Applications Are You Using to Understand Your Customers Today?

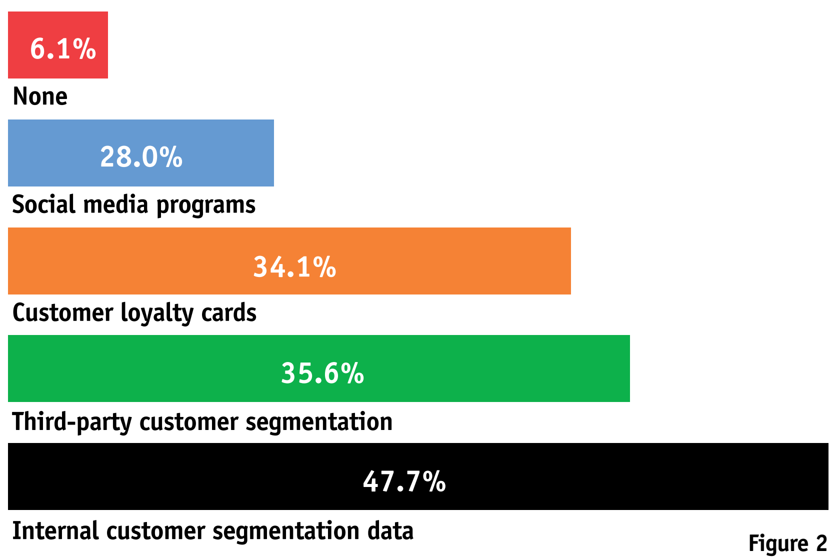

Figure 2

Applications in action

According to the survey, organizations that incorporate analytics appear to be doing so fairly equally across major operational areas such as merchandising, space planning, customer marketing, promotional price optimization and regular price optimization. Encouragingly, sales forecasting was the strongest at 60%. As to where forecasts are created, the respondents reported more usage at the higher organization levels (corporate, department and category), with respectable usage at the product level (39%) as well. Because analytics are generally phased-in to an organization's strategy, it's likely that forecasting usage will increase at each level over time.

Perhaps the most interesting finding in the survey is that organizations are using analytics across all departments and categories to generate, and not just analyze, both regular and promotional prices **(fig. 3)** — with over 50% reporting higher profits as a result.

If there is a major weak spot in how grocers are approaching analytics it's with SKU rationalization, where 41% of respondents said they still incorporate "intuition" in their planning. Intuition, of course, is unscientific and risky. If the correct analytics strategy were applied instead, grocers could see many advantages, including a reduction in the number of duplicate products on the shelf, an increase in the breadth of their product offerings, a decrease in inventory costs and increased profitability.

Three Examples of How Analytics Can Boost Business Today

1. Customer or Shopper Insights

Grocers can combine third-party demographic and behavioral data with transactional data for a more complete picture of how customers think and shop. Traditional segments from third-party data providers are now giving way to sub-segments that allow grocers to further define their shopper base. For example, grocers can build on the traditional segment marketing practice of marketing a promotion to the 'young families' segment of shoppers. Using a sub-segment marketing approach, grocers can market a promotion to the "young families with dogs" sub-segment to capture additional revenue across categories within one shopping trip.

How Would You Describe the Results of Your Experience Using Analytics to Generate Promotional Prices?

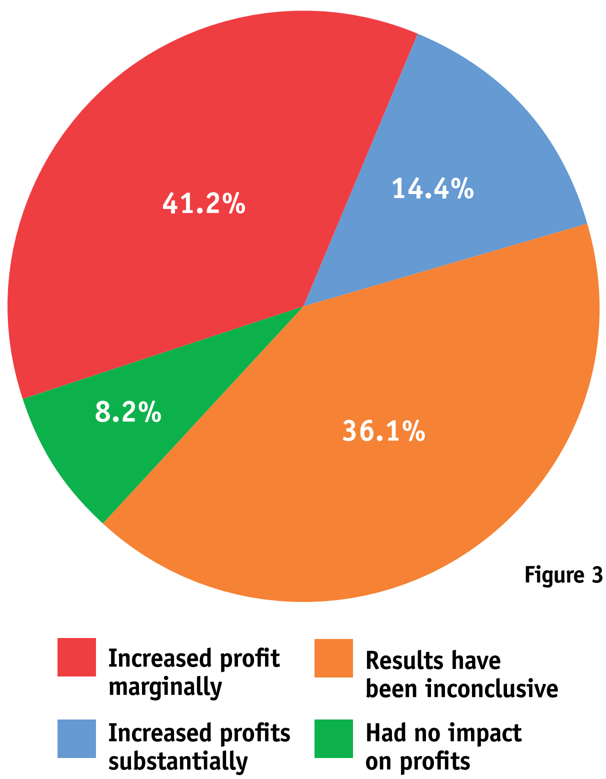

Figure 3

2. Promotions Insights

Grocers can bring together shopper insights and the power of analytics and optimization within one application. Many grocers and their application suppliers can offer one or the other, but few offer the ability to truly target promotions to customer segments on a weekly basis. Targeted coupon offers and in-store promotions can further segment the market for more effective promotions and more value from promotional investments.

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3. Inventory Insights

Consumers' economical shopping patterns are driving grocers to supplement traditional methods of SKU rationalization with data mining to enhance their assortment planning. For example, without the inclusion of customer behavior data, it is difficult for grocers to fully understand which SKUs to drop from assortments. The exclusion of several key items may alienate key shoppers from certain markets just because the performance of the overall SKU is not as high as others in a given category. Sometimes these "problem child" SKUs must be preserved within a category for the sake of high-value shopper segments that frequently purchase them. Only accurate analytics can optimize assortment, especially by store group or even at the single store level.

Conclusion

Organizations already use many tools to understand their customers, including internal customer segmentation, loyalty cards, third-party customer data and even social media programs. Even though it's still a new practice in the industry, forward-thinking grocers are indeed discovering that analytics is a powerful, cost-effective way to translate their data into actionable steps that increase profits and customer satisfaction.