Sorting out the “wrong” products or brands may result in reduced customer satisfaction.
Reducing Assortments without Losing Business

KEY LESSONS FOR RETAILERS AND MANUFACTURERS

Laurens Sloot and Peter Verhoef

To gain efficiencies in the supply chain, retailers regularly consider which items of products or brands they can delist. However, increased efficiency is not granted when products are dropped. Choosing the “wrong” products or brands may result in reduced customer satisfaction, lost category sales, or increased store switching behavior. The detergent assortment reduction at a Dutch retailer showed that sales losses can only be observed in the short run and that the reduced assortment is more attractive, especially to new buyers in the category. A survey across multiple categories revealed that negative effects of delisting are less risky for weaker brands and utilitarian products. Retailers are well-advised to be cautious with dropping strong, hedonic brands and use a set of criteria to make the best delisting decisions. Manufacturers should apply approaches depending on the strengths of their brands when confronted with an impending delisting.

The Boon and Bane of Delisting Products

To gain efficiencies in the supply chain, retailers regularly consider which items of products or brands to delist. There are several arguments why assortment reductions are necessary from time to time.

> In many cases, assortments that are too large confuse rather than delight customers. Too many products within a product category may lead to increased search effort (time and perceived difficulty) and can even result in consumers “surrendering” and leaving the shop without making a purchase. To keep an assortment up to date and to adopt innovations without it becoming too large, it is necessary to regularly delist products or brands.

> Some retailers (e.g., Wal-Mart, Home Depot, Gap) are now considered strong brands themselves and have developed successful store brands. These retailers’ assortments, in addition to other factors such as their price and service level, represent an important point of differentiation. For example, one Dutch retailer delisted hundreds of national brands because it wanted to create more shelf space for its profitable, distinctive store brand.

> Since the mid-1990s, many retailers have adopted a category management model that assigns specific category roles to each product category. For example, a service retailer may decide to lower the number of premium brands it offers in a product category

The authors

Laurens Sloot,
Managing Director of EFMI Business School and
Associate Professor of Retailing,
lm.sloot@rug.nl

Peter Verhoef,
Professor of Marketing,
p.c.verhoef@rug.nl,
both at the University of Groningen, Netherlands.

because it has changed the category role from destination to a routine, thus making the category less important in the overall retailers’ positioning.

Further, retailers can exert buying power over suppliers by threatening to delist brands if buying conditions are not improved. They delist brands to punish suppliers who do not accept the stipulated conditions. Although some moral issues surround this topic, retail boycotts of individual brands are no longer exceptions. For example, the UK retailer ASDA refused to stock the Procter & Gamble brand Charmin, and the German retailers Edeka and Metro delisted some national brands because they were unsatisfied with the pricing and distribution policy of those manufacturers.

However, increased efficiency is not guaranteed when products are delisted. For instance, strong brands might be more critical to remove than less well-known brands and reactions on delisting functional products might be different from more hedonic brands. Choosing the “wrong” products or brands may result in reduced customer satisfaction, lost category sales, or increased store switching behavior. This is what happened to a large national grocery retailer in Austria, which delisted a high-scale regional sausage brand (Neuburger) because the manufacturer did not accept the price pressure exerted by the retailer. A small but determined group of Neuburger-fans called for a boycott against the chain and fervently demanded the relisting of the brand. The “David and Goliath” scenario attracted a good deal of attention and received extensive media coverage. Within a short space of time, the retailer was forced to reintroduce the brand (accepting the conditions of the manufacturer) to prevent increased boycotts and further damage to its image.

Therefore, if assortment reductions shall prove to be a boon and not a bane, it is necessary to analyze possible consumer reactions and carefully consider which products and brands should best be delisted.

**Effects of Assortment Reductions**

Two studies provide new insights on effects and reactions on reducing assortments. This involved tracking actual changes in category purchase behavior by old customers.
and new customers, as well as their perceptions of assortment variety and search time (see Box 1). An additional survey investigated consumer reactions on the delisting of different types of brands.

The assortment reduction experiment had the following results:

**Short-term losses decrease over time**
The assortment reduction led to significant sales losses of about 20% in the short term. However, these losses gradually disappeared over the first 12 weeks and only minor, non-significant, sales losses were found in the following weeks. The short-term sales losses were mainly caused by former buyers of delisted items. Former non-buyers of delisted items did not show significant changes in detergent purchases in the post-reduction period compared with the pre-delisting period. On the other hand, the “cleaned-up” assortment attracted more new detergent buyers than the former assortment (see Figure 1). This finding confirms that too much choice may actually distract consumers from buying the product or may cause consumers to buy the product at a competing store.

**The perceived assortment variety does not change**
Consumer survey data in the test stores showed that perceived assortment variety among consumers did not change after the assortment reduction occurred. This indicates that even a large cut of 25% of the items does not necessarily lead to lower choice perceptions among detergent buyers. Comparable results were found in studies that were conducted in product groups like cosmetics and bread fillings.

**The “cleaned-up” shelf lowers search costs among buyers**
The detergent shelf was evaluated as significantly better in terms of perceived search efficiency by detergent buyers in the after-reduction group than the before-reduction group (4.1 versus 3.7 on a 1-5 scale). This finding is confirmed by the results for actual search time in front of the detergent shelf, which demonstrate that the after group used significantly less time to buy the first detergent item than the before group (14 seconds versus 20 seconds).

**The reduced assortment is more attractive**
Assortment satisfaction increased after the assortment reduction. Further, the stores where the assortment reduction was implemented attract more new buyers to the category.

**Consumer reactions depend on the type of product or brand**
Typical consumer reactions to the dropping of different brands constituted the focus of study 2 (Box 2). Because brands differ in terms of brand equity, we investigated whether consumers react differently to a delisting of a strong brand (high-equity brand) compared to the delisting of a weak brand (low-equity brand).

» For most retailers, delisting strong brands will have negative sales effects, especially in the short term, and will create customer dissatisfaction «
Key Lessons for Retailers

The examples mentioned before show that delisting products is risky. Nevertheless, retailers need to be critical as assortments seem to become cluttered over time and reducing assortments is a necessity for the above-mentioned reasons. However, retailers should apply the following recommendations.

> **Be proactive and reduce assortments on a regular basis**
First of all, it is important to recognize that extensive assortments lead to higher costs in the supply chain, so why wait with reducing assortments until a new product introduction needs shelf space? It is better to use a clean-desk policy and just remove 2% or 3% of the items that do not clearly add value every time that a new shelf planogram is made (usually 2 or 3 times per year).

> **Be careful with delisting strong or hedonic brands**
Consumers are very sensitive to delisting of high-equity brands in hedonic product categories, so retailers should be careful with this part of the assortment. This is particularly true for service-oriented offers, as these customers are generally more critical toward reductions. Further, when reducing assortment, be aware that consumer react more strongly to a total brand reduction than a reduction of several varieties and/or formats of that brand.

> **Use several economic criteria to decide about delisting**
When starting the reduction process, segment the assortment within the category in more or less homogeneous sub-segments and ideally look for products that could substitute each other. If a product is really unique in terms of brand equity, product function or price level it probably serves an important function and should not be reduced. Then list the products that could be delisted and evaluate the gross margins of each of the products. Products that still add value in terms of turnover and gross margin might stay in the assortment. Other products can be delisted or could be used to renegotiate with manufacturers to improve their profit. In this way, retailers can improve their profit in two ways. First, because reducing items leads to lower supply chain costs and second, because better conditions can be negotiated with manufacturers.
Short-term sales effects can be misleading

Be aware that short-term effects of reductions are more negative than long-term ones. The time span for analyzing these effects of an assortment reduction must be long enough to include long-running effects. For example, in a category like detergents, a time span of 12 weeks would be sufficient. In other categories, such as soft drinks, beer or other frequently purchased products, the time span can be shorter (e.g. 6 weeks) in order to estimate long-term effects. Short-term effects can be partially offset by in-store information on good alternatives for the removed items.

Key Lessons for Manufacturers: Fight or Give in?

A very relevant question for brand manufacturers is how they should react when faced with a brand delisting threat by the retailer. Figure 2 (next page) shows possible reactions of manufacturers and their short and long-term consequences in a regular negotiation scenario: a brand manufacturer wants to increase its price by 3 %, for example due to cost price increases of raw materials, and a retailer refuses to pay extra for the brand.

In some cases this can lead to a situation where a retailer threatens to delist or actually delists the manufacturer’s brand. In the Netherlands, this situation occurred with famous brands, such as Heineken and Coca-Cola. Of course, you can make concessions as a manufacturer and forfeit the price increase, however, in that case the manufacturer’s margin would suffer. The manufacturer can also choose to fight, at the risk of the brand losing distribution for a shorter or longer period of time. In this scenario, the retailer has to decide to delist or not to delist the brand. In case of a brand delisting,

» It is better to use a clean-desk policy and every time that a new shelf planogram is made. «
the retailer may experience negative consumer reactions and both the retailer and manufacturer would lose out. A further possibility is that the retailer delists the brand and experiences almost no negative effects. In turn, the manufacturer might decide to give in to the retailers’ demands to reassure distribution at the retailers’ stores. In that case, the manufacturer has lost the battle. The following recommendations should help to find the best negotiation strategy for manufacturers when a retailer wants to improve its margin at their expense.

» For most retailers, delisting strong brands will have negative sales effects, especially in the short term, and will create customer dissatisfaction «
Keep building strong brands

The best strategy against brand delisting is to build a strong brand. For most retailers, delisting strong brands will have negative sales effects, especially in the short term, and will create customer dissatisfaction. In an era where consumers become more powerful through social media, retailers definitely do not want unsatisfied and heavily disappointed customers who are unable to find their favorite brand.

Understand the strength of your brand

The worst reaction is that a manufacturer follows the retailer and lowers the buying price. This is ultimately devastating for the brand, as margin erosion will lead to lower investments in branding. The net end result will be a brand delisting in the next three to five years, as brand equity weakens even further. For weak brands, giving in seems to be the only alternative when faced with a brand delisting. They should strive to remain an attractive partner for retailers by providing good margins. Moreover, they could strive to establish closer relationships and also aim to produce private labels. One key prerequisite is that the manufacturer become very efficient.

Be proactive and cooperate with key retailers

Manufacturers should be as pro-active as retailers. They must stay up to date with the latest category developments and aim to understand the drivers behind retailers’ assortment decisions. Based on this sound understanding and extensive consumer insights, they should aim to develop category plans. This should occur in collaboration with retailers, which guarantees them a leading role in the category’s development in the coming years.

FURTHER READING


KEYWORDS:
Assortments, Assortment Reduction, Delisting, Consumer Decision Making, Category Management, Shopping Behavior