

Operational Transformation At Large Multi-Channel Retailer: Strategic Merchandising To Drive Growth At CatalogCo

The Challenge: A large multi-channel consumer products retailer had been recently purchased by a PE firm in a highly competitive auction (Gotham had conducted operational due diligence). The company had been very successful due to its diverse product assortment and positioning as a low-cost provider of consumer goods. After more than doubling sales to \$700MM in the preceding 6 years, the company was looking to further grow its top-line by an additional \$200MM over the upcoming 3 years. In recent quarters, the company's traditional approach for generating growth (product line expansion and increased ad spend) and continued focus on catalogs despite significant growth in e-commerce was producing stagnant sales and missed plans. The company management asked Gotham to help transform its merchandising approach.

The Partnership:

Analysis: As a starting point for understanding the company's stagnant top-line growth, Gotham first established a solid fact base. While numerous existing performance reports had indicated a decline in SKU and ad spend productivity, the information was incomplete and difficult to act upon. We gathered 4 years of sales data and analyzed performance of over 100,000 SKUs and found that sales from the core business had been flat for the past 4 years, there was significant cannibalization, and new categories were reaching maturity sooner than expected. To gain further insight, we worked with merchandising to map the group's processes, identify interdepartmental dependencies, and identify process gaps. This assessment highlighted group's issues in two core areas:

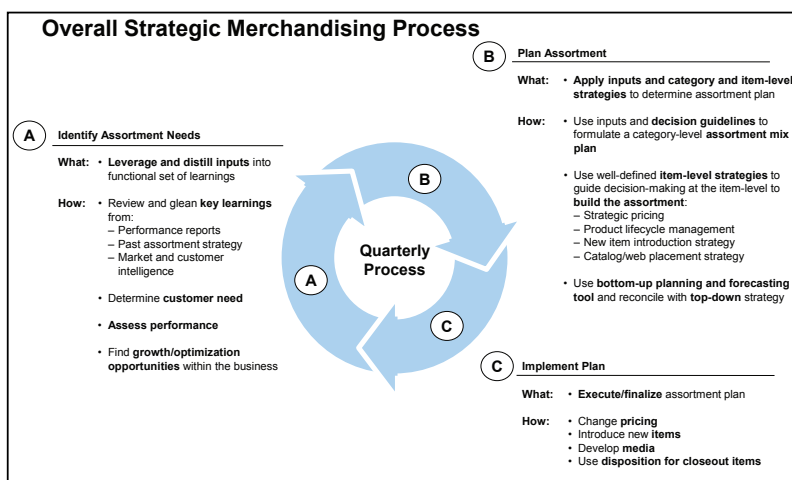
- **Merchandising**
 - Problematic over-assortment and duplication stemming from a catalog (vs. a category management) focus
 - Insufficient time (~15-20%) spent on critical strategic activities like innovation and planning – with unclear/overlapping roles, responsibilities, and accountability.
- **Planning and Forecasting**
 - Top-down driven, with plans for each catalog not tied to/validated by bottom-up (SKU-level) plans
 - Annual planning approach creating dangerous “blind spots” as the year progresses
 - Piecemeal and disjointed process with many functional participants and siloed decision-making
 - Growing internet sales upending planning conventions (e.g., reliance on catalog sales data).

Further, the company's information systems were insufficient to support enhanced merchandising and planning and forecasting because of:

- Inconsistent data across the organization due to ad-hoc reporting and analysis
- Lack of standardized processes and tools
- Limited availability of timely metrics and actionable/insightful reporting.

Strategy: Working with management, Gotham developed three broad initiatives to quickly deliver savings and develop processes for strategic “multi-channel category management”:

- Optimize the existing assortment to quickly capture cost savings, and in the process, train merchandisers on basic strategic merchandising concepts
- Develop a holistic merchandising approach whereby assortment is planned by category, with item-level strategies for:
 - New item introduction
 - Product lifecycle management
 - Catalog/web placement
 - Pricing
- Develop robust planning and forecasting processes/tools:
 - Bottom-up (SKU level) plans
 - A rolling 12-month process with quarterly updates
 - Reconciliation between top-down and bottom-up plans.



The Outcome: The company agreed to pursue all three initiatives, beginning with assortment optimization, and asked Gotham to assist in the execution. Assortment optimization quickly led to \$6.7MM in savings; item-level strategies have been adopted; processes and tools have been pilot tested and are being rolled out for the next FY planning cycle.