



ARC Retail

Analysis, Recommendation, Change...

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Opinion Piece

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Strategic Importance of Space Planning to Retail Businesses

Just a few years ago space planning was all about planograms, creating a pictorial representation of the products on a shelf, in 2-D, to provide to stores with a merchandising instruction. Due to the vast differences between stores in a chain only a handful were able to totally implement the planogram, as in spite of different store sizes being catered for this was still practically a one-size-fits all approach and simply didn't work well. Stores still interpreted how to implement and usually deviated from the intent of the central team in doing so. The other problem was, rather like the space planning function; planograms were done in standalone systems, not linked to replenishment tools, so display quantities and facings were determined by 2 different parties, often in 2 different retail functions. Often with consequences that significantly impacted the stock position or further impaired the operational implementation of the planogram.

At the macro end, space was generally carved up based on historic performance, and became something of a self-fulfilling prophecy. Little communications flow existed to inform the range planning process of the allocated space, the maximum sku counts by range, what the adjacent departments were etc. Plans, where they existed in graphical format at all were often created in PowerPoint, and therefore were not to scale, rather being a simple visual representations of the intended layout of the store, for stores to work from.

Due to the limitations in the tools and the lack of integration of process, the value of space planning, in the past was minimal. So in turn then there was minimal visibility or recognition of the importance of the function by retail senior management.

Something has changed in recent years, perhaps in part due to the influence of category partners further up the supply chain, adopting category management principles and providing a merchandising service to retailers that enabled both parties to see uplifted sales.

However, it just seems that right now the time is right for space planning to stamp its strategic importance on retail. With staff, rent and product being the most significant costs to a retail business it's not entirely surprising that a function which can significantly influence 2 out of those top 3 costs is becoming more well appreciated, and exploited. Space planning can be the enabler of increased revenue through utilising the space in which products are placed better. Essentially the return on space metric is a return on rent metric, and with retail rentals spiralling upwards the canny retailers can now use space-performance KPIs to focus teams on sweating their investments in outlets. The shift is to force B&M functions to consider range, space, assortment, planogram and display stocks vs. sales performance and profitability per square foot to conclude what the right ranges are, cluster by cluster, to drive their business growth and profitability. What's more, with the increasing availability of space planning tools, it is now possible to support a fully integrated process from initial store survey, captured in 3D AutoCAD, right through to the placement of product (and also POS) on a fixture to allow a total, to-scale, store representation to be created.

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The benefits to the retailer of adopting sophisticated space planning and management principles are astronomic – benchmarks indicated retailers have realised up to 5% sales increase as a result of better merchandised, clearly presented products.

And the obligatory word to multi-channel... With e-tailing perceived as a significant threat to traditional bricks and mortar retailing, and luring shoppers into stores becoming increasingly about the “experience”, traditional space planning methods will not keep you ahead of the fickle consumers’ demands. Only a total visual merchandising solution, that enables the integration of product, fixtures, instore communications and marketing media, alongside the “customer experience” drivers will give the edge to retailers who still wish to have a strong high-street presence. Keeping traditional retail environments alive will depend on retailers being able to deliver the brand benefits that only a presence from physical stores can achieve, and benefits that are beyond the cost of the rental for prime retail units. Regardless of where the ultimate sales transaction takes place, creating stores that capture the customer imagination will increase retention, increase time browsing and experiencing the product, and therefore enhance sales across all channels to market.

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