Omnichannel Assortment Optimization for Emerging Brands

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As consumers embrace omnichannel shopping, new challenges arise

Introduction

Omnichannel assortment optimization is a retail strategy that aims to provide a seamless and consistent shopping experience for customers across different sales channels including physical stores, online stores, and click-and-collect apps.

The strategy involves optimizing the product assortment available across all channels by taking into account various factors such as customer preferences, sales trends, inventory levels, and pricing strategies. The goal is to ensure that the right products are available at the right time and in the right place to meet customer demands and increase sales.

By leveraging data, retailers can analyze customer behavior, buying patterns, and preferences to tailor their product assortments across all channels. For example, a customer who frequently shops for fitness gear on a retailer's mobile app might be looking for more fitness-related products across all channels, including the physical store and online store.

This enables retailers to provide a more personalized shopping experience for customers, leading to increased customer loyalty and repeat purchases. It also helps retailers optimize their inventory levels, reduce costs, and increase profitability.

Some of the key omnichannel assortment optimization topics we'll cover in this eBook are:

- In-store Assortment Challenges
- Online Assortment Challenges
- Omnichannel Assortment Tips
- Why Omnichannel Matters

49%

of global consumers say they are omnishoppers — regularly shopping across both offline and online channels

Source: A new economic divide will fragment the retail landscape of 2022.

The State of Omnichannel

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The State of Omnichannel

The omnichannel retail landscape in 2023 is a bit complicated. While eCommerce shopping has been growing for years, it is the mixing of channels that truly defines the current and future retail landscape. Omnichannel shopping means that brands of all sizes are now visible in-store, online, and through apps.

Today, more consumers than ever are choosing to shop with an omnichannel mindset. In fact, more than **one in five (22%)** shoppers now plan an in-store shopping trip combined with a prior online order. This means consumers are taking every opportunity they can to seek out products and make purchases in a way that is convenient for them.

This all seems positive since it opens more avenues for revenue, but there are a few caveats as well. For one, tracking the data becomes much more complicated as consumers navigate between the channels and mixed purchases may be incorrectly tracked. With **63%** of U.S. customers saying they are open to trying click-and-collect purchasing, tracking accuracy is vital.

Additionally, omnichannel shopping spreads your resources more thinly across the channels as you try to target your consumers everywhere at once. This makes assortment optimization more difficult and increases marketing costs as you try to accomodate.

Growing a brand and increasing sales in an omnichannel world requires focus and accurate, actionable data. Tracking retail sales, market trends, and consumer behavior all play a role. Only then can your product offerings align with consumer's needs and be visible across all channels.

28%

Marketers who use at least three channels in their campaigns had a 28% higher purchase rate than single channel marketers.

Sources: https://nielseniq.com/global/en/insights/webinar/2023/webinar-growing-sales-with-omni/; https://nielseniq.com/global/en/insights/education/2022/shopping-in-a-post-pandemic-world-consumer-trends-that-are-here-to-stay/; A new economic divide will fragment the retail landscape of 2022.

In-Store Assortment Challenges

In-Store Assortment Challenges

In-store selling has been the bread-and-butter for many CPG brands throughout the years. Though most brands have faced similar challenges with in-store assortment optimization for some time, there are still external shifts that are making it more of a struggle.

The rise in omnishopping, shifting consumer behaviors, supply chain issues, inflation, and more all have a powerful impact on your ability to get the best return on your in-store sales.

With that in mind, here are **five common in-store assortment challenges** you may face:

1. Limited Shelf Space

If only retail stores had infinite space like eCommerce. Unfortunately, they don't, so brands must all compete for a limited amount of shelf space. Retailers need to balance the number of products they offer with the space available to display them.

This can be a significant challenge, especially for stores with small floor space or those that offer a wide range of products. To make this even more evident, we've found that a **2%** increase in shelf space can drive **1%** more in revenue. Clearly, shelf space is valuable, and the fight for it is ongoing across all categories.

2. Product Seasonality

Many products have a seasonal demand, which can create challenges for assortment optimization. For example, retailers may need to stock up on pumpkin spice foods in the fall to meet customer demand, but they need to balance this with the risk of having excess inventory if consumers move on quickly.

While online stores also see a dip in seasonal sales, there is no wasted space in keeping products listed. In-store shelves are more limited and thus shift more often with the seasons.

Source: NIQ Shelf Architect

In-Store Assortment Challenges

3. Supply Chain Issues

Supply chain problems like limited availability of raw materials, transportation issues, or unexpected disruptions can also pose challenges for assortment optimization. Manufacturers need to be able to quickly adapt to these changes to ensure that they can continue to offer products that meet customer demand.

Unfortunately, the past few years have been rife with supply chain issues, driving up prices along with inflation. In Q4, the annual average CPG unit price increased **11%**. This means assortment optimization is even more valuable.

4. Product Cannibalization

Product cannibalization occurs when multiple products compete with each other for sales. This can lead to decreased profits and a less efficient product mix. CPG manufacturers need to be able to identify and address instances of product cannibalization to optimize their assortment effectively.

In fact, an assortment optimization program can deliver **up to 20%** in incremental sales and profit for both suppliers and retailers by reducing item cannibalization. You already have enough competition, taking sales away from yourself is a no go.

5. Data Quality and Analysis

Assortment optimization relies heavily on data analysis, and poor-quality data can lead to inaccurate or incomplete insights. CPG brands need to ensure that they have reliable data and analysis tools to make informed decisions about their product mix.

Unfortunately, many brands are only seeing a part of the picture via retail sales or a third-party company. Acting on inaccurate or old data leaves brands in the dark struggling to keep pace as their competition takes more shelf space and grows.

Sources: https://nielseniq.com/global/en/insights/analysis/2023/americans-and-canadians-are-shopping-like-the-recession-is-here/; https://nielseniq.com/global/en/insights/education/2022/advanced-analytics-can-give-cpg-companies-an-edge/

Online Assortment Challenges

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Online Assortment Challenges

Though online shelf space is aplenty, that doesn't mean eCommerce is assortments are any less challenging to optimize. It comes with it's own set of challenges that affect brands both large and small.

Successful eCommerce brands are able to navigate these challenges and deliver a compelling product assortment that meets the needs of their customers while maximizing profitability. But, this is only possible if you can identify the issue and act quickly and precisely.

Here are **five common challenges** in online assortment optimization:

1. Balancing Customer Needs

One of the biggest challenges in online assortment optimization is trying to strike a balance between offering products that customers want and ensuring that the products you offer are profitable. Since the online shopping has such a diverse pool of customers, it can be difficult to find that balance.

This requires analyzing customer demand and sales data to determine which products are the most popular and profitable. But, that isn't simple, and an estimated **$1.1B** is spent on survey software in the US every year.

2. Managing Inventory Levels

Another interesting impact of an online consumer base is that demand spikes are more common and can have an even bigger impact. You need to focus more on managing inventory levels and have enough stock to meet customer demand while minimizing inventory costs.

This requires careful planning and forecasting to avoid stockouts or overstocks. By targeting distribution and availability gaps, many brands could boost their ecommerce revenues by **+20%** in one year.

Sources: https://nielseniq.com/global/en/insights/education/2023/does-everybody-lie-the-resiliency-of-survey-research-done-right/; Data Impact by NielsenIQ

Online Assortment Challenges

3. Retailer Relationships

In the brick-and-mortar world, retailer relationships are fairly simple. You have a category manager or local contact who coordinates shelf space, promotions and more. But online selling is often less clear. CPG brands are often selling across multiple retailers, sites, and even their own DTC webpages.

Managing your relationships is both more challenging and even more valuable as you seek to maximize the returns for everyone involved. You can also share changing shopper behaviors you've noticed and how it's impacting sales.

4. Personalization

Online customers expect a personalized experience when shopping, which means that eCommerce brands need to offer products that are relevant to each customer's unique needs and preferences. In an NIQ report from two years ago, **23%** of the reviewed retailers featured custom attributes on their website, while **35%** of retailers did in 2022.

Clearly retailers are seeing the shift as well. But, acting on it requires sophisticated data analytics and algorithms to deliver personalized product recommendations.

5. Wider Competition

Since the bar to entry for online selling is much lower, it can be a great place for brands to start their retail journey. Unfortunately, this is true for the competition as well. New brands are emerging every day and fighting for digital shelf space across the net.

This is intensified by the equally large set of online retailers. According to Data Impact by NIQ, there are more than **50k online stores** operating in the US alone. Knowing where your consumers are shopping and getting there first is key.

Sources: https://nielseniq.com/global/en/insights/education/2022/personalizing-product-pages-for-customer-loyalty/; Data Impact by NielsenIQ

Omnichannel Assortment Challenges

Omnichannel Assortment Challenges

Unsurprisingly, omnichannel assortment optimization means you need to overcome the challenges faced by both in-store and online products. Planning for those challenges will get you the majority of the way to enacting an effective assortment plan.

Unfortunately, combining the two with click-and-collect sales can make things a bit more complicated (and profitable). You need to understand the overlap between channels and any possible cannibalization.

Here are **two more challenges** you may face in your omnichannel assortment efforts:

1. Channel Conflicts

Different channels often operate in silos, with different teams responsible for each channel. This can lead to inconsistencies in pricing, promotions, and product availability. brands need to ensure they're staying consistent between different channels to ensure a smooth customer experience.

For example, if you're running a promotion online, but not in-store, you may see a lack of in-store sales. This might be an issue if you sell in a category reliant on them. In fact, **50%** of consumers surveyed prefer to pick out personal care items personally in the store, even when collecting an order they made earlier.

2. Data Integrity

One of the most common issues with omnichannel assortment management, is a lack of accurate and actionable data. With the rise of click-and-collect selling, many sales figures aren't accurately tracking the actual origin of purchases. They're either duplicating the numbers or improperly attributing them.

The key lies in investing in the right tools and data to separate the numbers and get a clearer view. NIQ's Omnisales data provides a precise and accurate measurements across online and offline channels, keying in on how consumers shop.

Sources: https://nielseniq.com/global/en/insights/education/2023/2023-emerging-beauty-brands/;

Omnichannel Assortment Tips

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Omnichannel Assortment Tips

The continued growth of omnichannel shopping shows that brands need to work hard to reach consumers across every channel. But that's often easier said than done, especially for emerging brands. Luckily, there are a few areas where focusing your attention can have a strong impact and bring your products to the forefront.

With that in mind, here are our top 6 tips for optimizing your omnichannel assortment:

1. Use Product Attributes Wisely

Rather than search by brand, omnichannel shoppers tend to search by product attribute. That is, using terms like "gluten-free", "sustainably", and "ethically sourced". This means you can bring your products to the front by optimizing the product attributes you use on your products.

The key is making sure the claims you use resonate with the market. For example, **45% of consumers** say that responsible sourcing is one of the most important sustainability claims to their shopping behavior.

2. Track Customer Journeys

Omnichannel customers' journeys are relatively more complex than their traditional counterparts. They may first interact with your brands or products on one channel, then another, and finally purchase on the first. To get the best results, you'll need to track customer journeys better.

For example, marketers who use at least three channels in their campaigns have a **28% higher purchase rate** than single-channel marketers. Knowing the most common paths to a sale can make all the difference.

3. Build On Accurate Data

With the rise of click-and-collect selling, many sales figures aren't accurately tracking the actual origin of purchases. They're either duplicating the numbers or improperly attributing them. To get the full view of your position and opportunity, you need to look at both sales data and panel data.

For example, **56% of Americans** think we're currently in a recession and are tightening their belts. If you ignore this behavioral shift, you can end up with unsold stock sitting on shelves or in your warehouse.

Sources: https://nielseniq.com/global/en/insights/analysis/2023/americans-and-canadians-are-shopping-like-the-recession-is-here/; https://nielseniq.com/global/en/landing-page/the-changing-story-of-sustainability/; https://nielseniq.com/global/en/insights/report/2023/e-commerce-success-in-2023-and-beyond-leveraging-growth-and-maximizing-returns/

Omnichannel Assortment Tips

4. Tailor Assortments by Channel

While maintaining consistency, it's also important to tailor your assortment to each channel. For example, your online store may offer a larger selection of products than your physical store, while your mobile app may highlight popular items or new arrivals.

This is a good way to avoid wasting retail shelf space on less-popular products without cutting them entirely. It also allows you to personalize product offering more easily. With eCommerce expected to reach **$36 billion** in 2023 — a **20%** projected increase from 2022, every optimization can lead to big gains.

5. Monitor Performance Regularly

If you want to get the most out of your assortment, you can't just set it and forget it. Especially not when so many channels are at play. You need to set aside the time to delve into the data by channel if you're going to have a chance against the competition.

Regularly monitor your omnichannel assortment strategy's performance, using data analytics to track sales, customer behavior, and inventory levels. Use this information to make adjustments and optimize your strategy. In 2021, U.S. food industry lost **$88B** in sales due to out-of-stock issues. You don't want to be a part of this metric going forward.

6. Engage with customers

Use social media, email marketing, and other channels to engage with customers and gather feedback on your assortment strategy. Use this feedback to improve the customer experience and tailor your assortment to their needs. You can also make sales directly through most apps.

In fact, purchases through social networks are on the rise, with **60%** of online consumers reporting they made at least one purchase via a social platform in 2020. This means it's both great for engaging with customers and selling.

Sources: https://nielseniq.com/global/en/insights/analysis/2023/how-to-adapt-to-us-online-retail-trends-in-2023/; https://nielseniq.com/global/en/insights/analysis/2022/the-value-of-data-infographic/; https://nielseniq.com/global/en/insights/education/2022/social-shopping-is-the-future-of-e-commerce/

What You Can Do In 2023

NIQ can help you get a Full View in 2023

When the market is shifting, you need to be on top of your game if you're going to come out on top.

NielsenIQ offers emerging and growth brands access to the same best-in-class, accurate data and high-quality insights that Fortune 500 brands leverage—at a price customized for their budgets.

We also know that businesses at different stages have diverse needs. Whether you're looking to nail your next retailer pitch, are expanding distribution, or need to defend your turf, we have the data and tools you need to succeed.

Some of the solutions we can provide include:

- POS & Shopper Data
- Product Attribute Trends
- Omnichannel Sales Data
- Demand Forecasting
- Pricing & Promotion Optimization
- Assortment Optimization
- Expert Insights into Market Trends
- And More

Learn More About Our Emerging Brand Solutions

For more insights:
niq.com/global/en/insights/

About NIQ

Arthur C. Nielsen, who founded Nielsen in 1923, is the original name in consumer intelligence. After decades of helping companies look to the future, we are setting the foundation for our future by becoming NIQ. We continue to be the undisputed industry leaders as evidenced by our experience and unmatched integrity. As we move forward, we are focused on providing the best retail and consumer data platform, enabling better innovation, faster delivery, and bolder decision-making. We are unwavering in our commitment to the ideals and passionate about helping clients achieve success.