Online Category Management
We have a global team with extensive retail strategy and omni-channel expertise in place

A.T. Kearney’s global retail and digital practices

- A.T. Kearney supports its clients with a network of **58 offices in 40 countries**
- Is together with consumer goods the largest practice, accounting for **more than 25% of work globally** (2013 YTD)
- Serves **leading retailers** and whole-salers in every major sector (food and non-food) and in all regions of the world
- Supported **more than 250 retail projects** (thereof ~150 in food retail) in only the last three years
- Has a **dedicated team of 300+ experienced retail consultants** with deep strategic and operational expertise
- Developers of ICE approach (Integrated Channel Engagement) approach, assessing over 150 retails (5 countries) on their **omni-channel performance**

Source: A.T. Kearney
# Framework: Online Assortment

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<thead>
<tr>
<th>Chapter</th>
<th>Description</th>
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## Online Assortment

| 2.1 | Category Tree **Design** |
| 2.2 | Assortment **Reduction & Completion** |
| 2.3 | Assortment **Prioritization / Order Rational** |
| 2.4 | Supplementary **Services** |

Source: A.T. Kearney
2.1 Retailers that base their category structure on Customer Decision Trees (CDTs) outperform the industry average

Stages of Excellence: Assortment Segmentation

<table>
<thead>
<tr>
<th>Basic</th>
<th>Standard</th>
<th>Advanced</th>
<th>World Class 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standardized</strong> (utilized by default for all customers)</td>
<td>• Base category structure created by marketing department based on static product taxonomy or copied from other websites</td>
<td>• Base category structure is derived from product taxonomy, further manually optimized with regard to depth and size</td>
<td>• Base category structure is build through analysis of Customer Decision Trees (CDTs)</td>
</tr>
<tr>
<td></td>
<td>• No detailed category level: category ends with last level of product taxonomy (e.g. “Cotton Shirts”)</td>
<td>• Detail category level is based on:</td>
<td>• Offline CDTs are used to define category structure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– product brands (e.g. “Red-Bull”)</td>
<td>• Last category level is entirely based on most detailed levels of CDTs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– satisfied needs (e.g. “Stay Awake”)</td>
<td>• CDTs form categories that are MECE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– product attributes (e.g. “with Caffeine”)</td>
<td>• Base category structure is based on optimized CDTs:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>– Optimized for target audience</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>– Optimized max. category depth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Detail category structure is ordered based on popularity (sales, not margin)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Optimized CDTs are not necessarily MECE (e.g. overlapping categories)</td>
</tr>
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Source: A.T. Kearney
Leading retailers are designing their categories according to customer decision trees and customer search behavior.

OCADO – Category Design Comparison

**Category Structure** follows the «Application Context / Usage», in this case Baby Bath time, Baby Dental Care, Baby Playing / Toys.

**Category Structure** follows a classic «functional» Category Management set up: Still Water, Sparkling Water, Flavored Water etc…

Source: A.T. Kearney
2.1 Incorporating alternative category structures based on customer choice/experience can drive avg. market basket size

Case example: Theme-based category structure

Source: A.T. Kearney
Framework: Website User-Experience

Chapter

1. Online Channel Strategy
   - Define your business model

2. Online Assortment
   - Shape your assortment

3. Website User-Experience
   - Enhance the user-experience

4. Digital Content
   - Showcase your products

5. Pricing & Promotion
   - Boost your sales

6. Inbound Marketing
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7. Customer Retention
   - Drive sales & customer loyalty

8. Order Fulfillment
   - Expedite your distribution

9. Advanced Analytics & KPIs
   - Analyze your data

10. The Digital Organization
    - Build your team

Online Assortment

3.1 Landing Page (Call-to-Action)

3.2 Catalogue Browsing (Product Discovery)

3.3 Category Behavior Profiles

3.4 Site Search

3.5 Product Pages (Cross-sell Triggers)

3.6 Order Process

3.7 Device Optimization

Source: A.T. Kearney
3.1 Landing Page Call-to Action

Welcome to FreshDirect!

TRY SOMETHING New! Fresh inspiration for the New Year.

Pinot Noir
Well-balanced wines to complement your favorite dishes

Source: A.T. Kearney
3.1 Landing Page Call-to-Action

Welcome to FreshDirect!

Boar’s Head
Lower Sodium Deluxe Ham
$11.99/lb

Poland Spring
Natural Spring Water, Half-Liter Case
24/0.5 liter bottles, case of $6.99/cs

FreshDirect
Oven-Ready Butter Croissants
4 pack (1oz) $5.49/4pk

Yellow Bananas,
Bunch
(approx. 5-7 bananas) $1.99/bunch

FreshDirect
Naturally Hardwood Smoked Bacon
$11.99/lb

Greenhouse Cucumber, Medium
(about 12 oz ea) $2.29/ea

Learn more About Us, or get Delivery & Pickup Info.
3.3 Cross-Selling approaches need to differentiate between categories with high vs. no repeat purchases

**World Class: Category Behavior Profiles**

<table>
<thead>
<tr>
<th>Product Category</th>
<th>repeated purchases?</th>
<th>of same product?</th>
<th>in regular intervals?</th>
<th>Behavior Profile</th>
<th>Category Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printer Cartridges</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td><strong>• Send timed reminders</strong></td>
<td><strong>• Promote item on 1st page</strong></td>
</tr>
<tr>
<td>Books</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td><strong>• Send update for new items</strong></td>
<td><strong>• Promote entire category</strong></td>
</tr>
<tr>
<td>iPads</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td><strong>• Promote related products from other categories</strong></td>
<td></td>
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Category Behavior Profiles can increase the relevance of promotions for customers by customizing the promotion strategy by category

1. Category Behavior Profile
Source: A.T. Kearney
Framework: Digital Content

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<td>4.1 Product Presentation &amp; Content</td>
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<td>4.2 User-Generated Content</td>
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Source: A.T. Kearney
Product presentations need to deliver pleasant reading experiences

**DO: Transport emotion and information**

High quality detail pages that convey technical details as well as emotions to make browsing the content a pleasant experience.

**DON’T: Focus only on technical aspects**

Detailed, flat product pages that focus exclusively on technical aspects with minimal multimedia content and no emotional content.

Source: A.T. Kearney
Providing detailed product information is important to improve browsing experience

Lancome and Macys & Adidas and Dicks Sporting Goods showcase how brands & retailers can integrate to support each other

**Brands provide**
- Content
  - Ad’s
  - Visuals
  - ‘How to’ videos – available through social media, mobile portal and website
- Special promotions
- Exclusive products, colors, packaging
- ...

**Retailers provide**
- Shared sales data
- Consumer insights, reviews and ranking
- Featured product placement
- Shipping details such as weight and restrictions
- ...

Source: A.T. Kearney
Seeding of emotional content in special interest groups quickly creates virality and desire

Project details

- **Product:** Springlane-branded high-temperature grill
- **Target group:** Men, 30 – 45 years, high income, “BBQ enthusiast”
- **Traditional marketing channels:** SEO, SEM, Direct
- **Content marketing:** Product video with Tim Mälzer, self written product description, magazine article, content seeding (communities, social media, etc.)
- **Revenues:** High six digits in four months

Relevant content

More than **60,000 views** in 5 months

Relevant content with innovative products leads to high buying intention

Sources: Soostone, AT Kearney
### Framework: Pricing & Promotion

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<td>Cross-Selling</td>
<td>Promotion Campaign Design</td>
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**From our experience, well designed adaptive pricing & promotions can increase the online sales > 25%**

Source: A.T. Kearney
Digital coupons generate a more convenient shopping experience for customers, as the hassle of carrying or cutting paper coupons diminishes.

5.1 Personalized promotions are increasingly used to trigger demand on the online channels

- % off (brand specific)
- Save cents or $ (brand specific)
- Now $10 instead of $12 (retailer specific)
- Money back if receipt and barcode mailed to manufacturer

- Purchase basket – 5% free or free delivery if purchase >$200
  - Check out, online, mobile
- Delivery - discount coupon based on slot

- Product bundles: Buy detergent and get any Dove soap free)
- Price pack: Get 10% more pack size for same price
- Buy one, get one free

- Personalized coupons with special price due to purchase history. E.g. Safeway
- Recommended selling, increase basket price – E.g. Ocado
- Price comparison – E.g. Ocado

Price deals | Bundled / pack
---|---
Triggered coupons | Personalized promotions

Source: A.T. Kearney
5.1 Adaptive Incentives combines diverse data sources and predictive analytics to discover latent customer sensitivities

Customer & Browser Data
- Geo; city, area, zip code
- Device type, OS, Versions
- Screen resolution
- Referrer, traffic source
- Website usage patterns
- Behavioral indicators
- Visit Frequency
- New vs. Repeat Customer

Key CRM Drivers
- Past purchases, referrals
- Internal classifications and historical sensitivities
- Past direct campaign and marketing activities

External Demographics
- Top Income Bracket
- High Internet Penetration Area
- High Density of Competing Stores
- High Retail Spend Index

Real-time inflow of external signals (i.e. competitor prices, industry position parity, product availability, customer reviews, scores).

Source: Soostone, AT Kearney
5.1 Segmentation models can choose optimal promotion allocations among 200+ micro-clusters of customers

Example Customer-Incentive Model (Soostone “SelectTarget” Algorithm)

By understanding how customers are likely to react to incentives/promotions, campaigns can be directly targeted with growth in revenue and customer base.

- Total of 2.1MM highly relevant customer visits
- Model trained on last 60 days of visit data
- Automatically formed ~150 micro-clusters for robust targeting
- Automatically selects top 30% of customers that respond greatly to incentives
- Predicts outcomes for new customers in real-time

Source: Soostone, AT Kearney
5.1 Our past experience has shown very strong and persistent results emerge from an application of Adaptive Incentives

Project Performance During Initial 3 Months – Client Example

Daily Revenue Capture

With **adaptive algorithms** deployed, project’s performance ramped up rapidly

Cumulative Revenue Uplift

$8.1MM of incremental revenues over a base of $50MM addressable market during the initial 3 months

Constant, **iterative improvements** captured value during seasonal peaks and troughs

Sustained revenue uplift has been live for over 18 months

Source: Soostone, AT Kearney
Framework: Organization

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Source: A.T. Kearney
To deliver an engaging cross-channel experience, players need to evolve its organisational approach

### Organisational Approach

#### Key Element | Potential Initiatives
--- | ---
**“Channel-neutral” culture** | • Change mindsets from “channel-centric” view to “channel-neutral” view  
• Example: incentives based on sales within a region (based on customers’ zip code), **regardless of the channel** Walmart

**Digital / e-commerce skills** | • Enhance digital skill set across functions – online Center of Excellence  
• Recruit personnel with a high level of e-commerce expertise and experience  
• Example: **Digital Acceleration Team** (network of digital "champions" selected among "digital passionates" across all departments), **reverse-mentoring** (top management trained by internal digital experts) Pernod Ricard

**Test / innovate** | • Support managers who accept to take risks and innovate

Source: A.T. Kearney
Question? Please do not hesitate to contact us directly…

A.T. Kearney Team Digital

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