Planogram Compliance: Making It Work

By maintaining planogram compliance, retailers can position themselves to better meet customers' expectations and realize higher returns on their display investments.

Executive Summary

Planograms are visual representations of a store's products and services – designed to help retailers ensure that the right merchandise is consistently on display, and that inventory is controlled at a level that guarantees that the right number of products are on each and every shelf. Because planograms are based on demographic insights, they have made it easier for retailers to fine-tune their merchandise, display the right assortment mix for customers in a particular area, and take a more active role in customers' purchasing decisions. At the same time, retailers have not focused on measuring planogram compliance at the store level – a key factor in realizing the full potential of planograms, including the expected return on investment.

In this white paper, we will examine why planogram compliance is so essential for retailers, especially in light of the current business environment. We will also explore the various facets of a planogram – each of which must be carefully executed in order to achieve an accurate shelf set. We will discuss why retailers struggle to achieve planogram compliance, as well as the possible pitfalls of non-compliance. Lastly, we will outline actions retailers can take to attain a high level of compliance, and offer recommendations for successful execution.

Planogram Compliance Defined

A planogram is a visual representation that indicates the placement of retail products in a store or on a store shelf. It is a schematic that not only shows the layout of merchandise departments within a store, but also the aisles and shelves where items can be found. The goal is to have the right product, in the right place, in the right quantity, at the right price and at the right time (see Figure 1). Additionally, planograms help create a uniform store appearance – vital for retailers operating from multiple locations.

A shelf set or a fixture is considered perfectly compliant when all merchandise is set according to the planogram: items are at their proper locations, in correct quantities, with adequate facings, and with shelf tags displaying true and accurate product and price information. On average, store displays receive shopper attention for only a few seconds. Hence, a planogram executed with 100% compliance can be the difference between making or losing a sale.

Maintaining Compliance: An Ongoing Challenge

While retailers continue to invest in planograms, few have made advances in the area of planogram compliance. This issue is not new; a study conducted more than a decade ago by the National Association for Retail Marketing

Cognizant

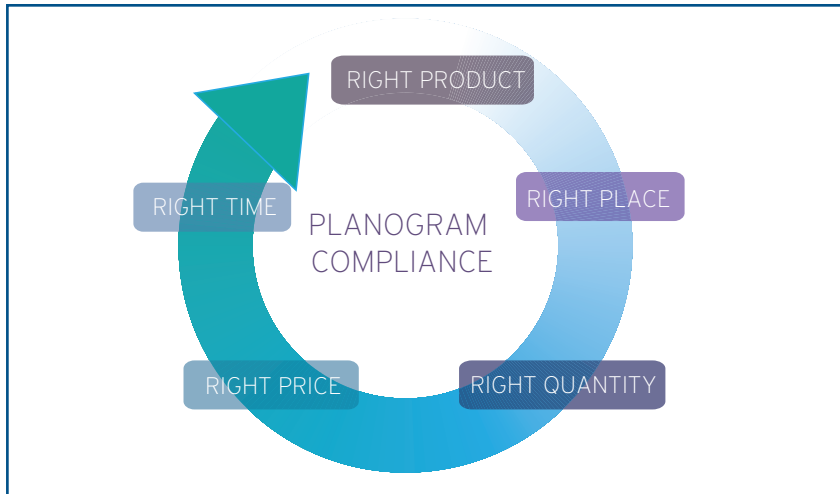## Planogram Compliance Requirements

Figure 1

Services (NARMS) found that at that time, 44% of stores examined were unable to successfully reset a planogram within the study time frame of 13 weeks.[1] Today, retailers continue to face similar challenges in planogram execution and compliance.

To understand current industry conditions, ShelfSnap, a leading in-store compliance and analytics solution provider, reviewed shelf-level compliance for key grocery retailers across the country.[2] In this study, store-specific planograms for 11 merchandising categories were compared to the real store shelves. The actual store conditions were digitally captured and translated into products, positions, facings and conditions. The results revealed that on average, only 70% of the products on the plan were in fact on the shelves.

More recent studies published by ShelfSnap focused on 11 DSD and Center Store categories, measured primarily in the top grocery sellers across the U.S. (see Figure 2). Findings revealed that shelf-level planogram compliance typically falls below 50%.[3]

The studies conducted by ShelfSnap clearly reveal that compliance levels have continued to deteriorate over the years, with little progress being made to improve planogram compliance.

How Planogram Compliance Falls Short
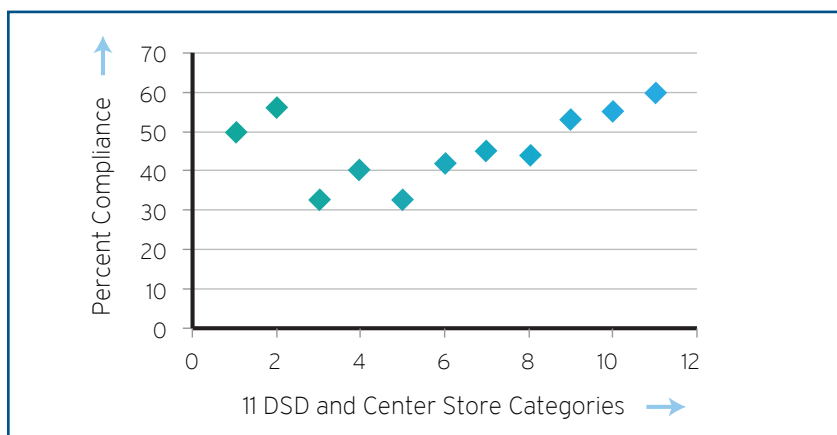
Source: 11 Categories Study on Shelf Compliance to Plan (Half center store, half DSD) conducted by ShelfSnap LLC.
Figure 2

The Importance of Planogram Compliance

Without compliance, retailers cannot accurately measure the effectiveness of their planogram; even the best will yield sub-optimal results if the initial execution is less than 100% correct and lacks ongoing maintenance. Non-compliance can result in reduced sales and out of stocks due to improper setting and usage of shelf space. Also, in the process of creating or planning a planogram, a merchandising planner will first consider the previous placement of an item and gauge the item's performance based upon that assumption. However, if the item was not represented on the planogram per the plan, then the analysis will be flawed – leaving subsequent decisions regarding the item's contributions to revenue and profit in question.

A NARMS benchmark study showed that 100% reset compliance can mean a sales lift of 7.8% and a profit improvement of 8.1 within two weeks.[4] A store planogram that is well designed, executed and compliant can enable a retailer to establish an accurate performance benchmark. Furthermore:

- Having the right SKU in the right quantity, at the right location, and in the right orientation can boost sales.
- Reducing re-stocking activity and improving on-shelf availability can increase inventory efficiency.
- Getting it right the first time can heighten employee productivity.

Planogram compliance is particularly essential for retailers and brand owners during seasonal and promotional periods, when selling opportunities for many products are amplified.

Components of Planogram Compliance

Given its importance, what can retailers do to attain ideal planogram compliance? What are the various facets of a planogram that need to be carefully executed in order to achieve an accurate shelf set?

Arranging the assortment of modular units and fixtures, as well as product placement, are among the most critical aspects of planning a store. Planograms are designed to ensure that a retailer has the desired product on display, as well as the optimal inventory on every shelf after each merchandiser sets the display. Planograms provide details about product placement; the width, depth and height of the planogram; and sometimes placement of promotional materials. The various dimensions of merchandise placement that need to be carefully considered are:

- **Size and location** of modular units and fixtures within a store.
- **Shelf height** – depending on size of products and ease of reach for the customer.
- **Product placement** – on which shelf and where on that shelf a product should be placed.
- **Product facing** – the number of units or products that are displayed to the customer.
- **Shelf depth** – the number of units positioned behind the front-facing product.
- **Shelf tags** – visually intuitive strips indicating item description and placement on the shelf.
- **Price strips** – strips containing information for identifying price points (by employees) and the sell price (for customers).

The Factors Behind Non-Compliance

As we have stated, retailers have long struggled to execute planograms with perfect compliance. This is due to several factors, including:

- **A disconnect between corporate and store data.** Corporate headquarters typically work in silos – usually creating multiple planograms of different sizes for store clusters, without knowing or considering the actual fixture sizes. They may pay very little attention to specific local buying patterns, which can lead to improper space allocation within a given store. So while there may be an excess inventory of slow-moving SKUs, high-selling articles can quickly go out of stock. In these cases, stores are left to make arbitrary decisions regarding optimal space allocation.
- **Lack of partner collaboration.** Planogram schematics are typically developed at the corporate level, without giving the stores the chance to provide feedback or input. Often, there is very little opportunity for partners – headquarters and store personnel, as well as vendors – to collaborate and share information on planning store space, which could be incorporated while designing the planogram.

> **A NARMS benchmark study showed that 100% reset compliance can mean a sales lift of 7.8% and a profit improvement of 8.1 within two weeks.**

- **Workforce issues lead to shelf-set errors.** Store personnel are often busy and distracted by customer queries, and are more likely to make mistakes if they lack training, or if English is not their first language.

- **Ongoing maintenance challenges.** Even if some retailers have their shelves perfectly set initially, with all items in their proper locations and displayed in the right quantities, this setup can quickly become non-compliant once products are purchased and/or returned — creating restocking errors. A benchmark study revealed that planograms go out of compliance at the rate of 10% every week.[5] In our view, the numbers have not improved over the years.

- **Unavoidable restocking errors.** These most often occur when busy store personnel fill an empty facing with just about any product other than the one specified by the planogram (often the best-selling item). For a consumer, a mis-stock or face-over can lead to the perception that an item is out of stock when it may not be — potentially leading to lost sales.

The Financial Impact of Low Compliance

Minimal planogram compliance can be injurious to a retailer's bottom line. According to the ISI Sharegroup, the total cost to the U.S. retail consumer products industry due to sub-optimal merchandising performance (actual and opportunity costs) is approximately 1% of gross product sales across the food, drug and mass channels.[6]

Out-of-stocks are an intractable problem with most retailers (8.3% on average and 10% or higher on the fastest-moving items). Nearly three-quarters of these are a direct result of retail store practices, including non-compliance issues, and cost a typical retailer approximately 4% of its net sales.[7]

Research funded by P&G has revealed that a 10% change in planogram compliance can result in a 1% change in the level of out-of-stocks, which in turn can contribute to loss of sales.[8] The P&G study also found that when customers cannot find the product they need, 31% will purchase it from a competitor, 15% will delay their purchase, and another 9% won't purchase the item at all.[9]

Confronting the Challenges

Even today, most retailers find it difficult to measure accuracy down to the fixture level, or the degree of compliance of a shelf set against the planogram schematic. A survey conducted by ISI Network found that cost was a key reason for the lack of compliance measurement. Compliance usually deteriorates very quickly over time, and determining the level of accuracy requires continuous supervision and expensive surveys.

We have found that a large number of retailers do not have a good understanding of proven compliance technologies or available, market-ready solutions. Consequently, many do not have the right tools in place to accurately measure the level of compliance in their stores. Surprisingly, technology-enabled solutions that can help track compliance are only used by a very small number of retailers.

Does Your Organization Presently Have a Practice or Solution in Place to Measure Planogram Compliance Rates in Retail Stores?

Pie chart:
- Yes: 57.4%
- No: 35.2%
- Don't Know: 7.4%
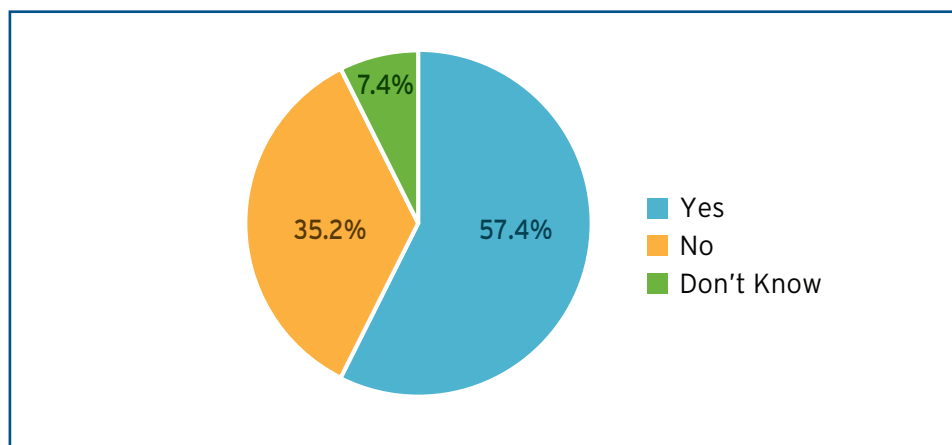
Source: Results of ISI Network 30-Sec Poll #2
Figure 3

According to a "30-Sec Poll #2" on planogram compliance measures, conducted by ISI Network in February 2009, more than one-third of respondents (35%) indicated that they had no process in place to track planogram compliance.[10] The results did confirm that technology-enabled solutions were in place at a relative minority of retailers. Out of those that answered "yes," 49% relied heavily on spot checks, and 46% on store manager sign-offs (see Figure 3, previous page).

Solution Offerings

To accurately measure compliance, it is necessary to periodically verify that products on shelves exactly match the planogram. This process is mostly manual, time-consuming and frequently yields inaccurate results. Therefore, it is essential for retailers to explore and leverage modern technologies, and to identify or develop solutions that enable retailers to stock their shelves accurately and with much less effort. While there may be several technology solution options, two are highlighted below.

- **Intelligent image interpretation technology:** This is one of the most important emerging technologies that aim to accurately capture true shelf conditions from in-store by electronically "pulling" data from digital pictures taken from cameras or smartphones by virtually anyone. Using this technology enables all stakeholders – from the manufacturer and retail decision makers to store associates – to have a clear picture of what a consumer sees in a store when making a buying decision.
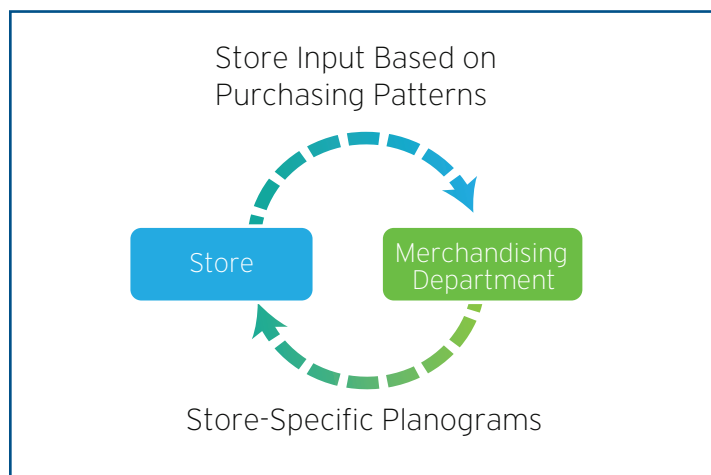
- **Mobile shelf management technology:** This cloud-based service allows manufacturers, field and retail store personnel to access all data pertaining to planograms and images on demand, on their smartphones and tablets, or pre-load the planogram data on their devices prior to entering a store. Store operators can access and transfer relevant information in real time on a secure platform. They can implement and capture planograms, as well as scan layouts for compliance reporting and checking. By identifying issues at the shelf, teams can take immediate remedial action.

Action Items for Retailers: Our Recommendations

While achieving 100% planogram compliance may be aspirational for most retailers, true compliance is far from precise for most. To achieve a higher level of compliance, the following action items should rank high on the "to-do" list for all retailers:

- ✓ Ensure collaboration and communication (see Figure 4) between store and corporate merchandising department for creation of store-specific planograms.

- ✓ Conduct periodic surveys and store audits.

- ✓ Measure planogram compliance and understand where and how to take corrective actions in order to maximize sales and realize a potential return on investment.

Continuous Feedback Mechanism

Source: Results of ISI Network 30-Sec Poll #2
Figure 4

Footnotes

1   http://www.narms.com/study.pdf.

2   http://www.shelfsnap.com/newsletters/Volume24.htm.

3   http://panthermountaincompanies.com/resources/F.I.X.+Process++for+Current+Planogram+Model-final.pdf.

4   http://www.instoreimplementation.com/_PublicDocs/106/PressCoverage/2011-03-08T201423Executing%20the%20Best%20Planogram.pdf.

5   Ibid.

6   http://vstorenews.com/_PublicDocs/130/ISI%20Working%20Paper%20Exec%20Summ%202008.pdf.

7   http://itsoutofstock.com/wp-content/uploads/2013/04/GMA_2002_-Worldwide_OOS_Study.pdf.

8   http://www.dataventures.com/docs/OOS_execsummary.pdf.

9   http://itsoutofstock.com/wp-content/uploads/2013/04/GMA_2002_-Worldwide_OOS_Study.pdf.

10 http://www.instoreimplementation.com/_PublicDocs/106/30-Sec%20Polls/ISI%2030-Sec%20Poll%202%20Report.pdf.

About the Authors

Stephanie Wiles is a Consulting Manager within Cognizant Business Consulting's Retail Practice. She has over 14 years of retail experience across various functional areas: store operations, inventory management, reverse logistics and compliance. Stephanie can be reached at Stephanie.Wiles@cognizant.com.

Nishant Kumar is a Manager in Cognizant's Business Consulting Practice, with over 10 years of experience in the merchandising and supply chain space. He has extensive experience in advising companies in the retail and manufacturing areas. Nishant's current areas of interest include merchandising integrated planning, supply chain visibility and traceability, and supply chain compliance. He has an M.B.A from S.P. Jain Institute of Management and Research. He can be reached at Nishant.Kumar2@cognizant.com.

Bidisha Roy is a Senior Consultant with Cognizant Business Consulting's Retail and Travel and Hospitality Practice. She has eight years of experience in the IT industry, and has worked extensively with leading retailers, hotels and restaurants. She has worked as a functional consultant in multiple consulting engagements in global compliance, ERP system assessments, hotel reservations and loyalty. She has been engaged in some of the key initiatives in merchandising and supply chain areas. Bidisha has an M.B.A. from S.P. Jain Institute of Management and Research, Mumbai, India, and a bachelor's degree in engineering from Jadavpur University, Kolkata, India. She can be reached at Bidisha.Roy2@cognizant.com.

Udai Rathore is a Consultant within Cognizant Business Consulting's Retail Practice. He has over 11 years of total IT experience that includes six years in stores, TV and e-commerce/retail business. He has completed his BA degree in public administration from MLSU, Udaipur, India and Post Graduate Diploma in computer applications from Kurukshetra University, India. He can be contacted at Udai.Rathore2@Cognizant.com.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process out-sourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 166,400 employees as of September 30, 2013, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.

Cognizant

World Headquarters	European Headquarters	India Operations Headquarters
500 Frank W. Burr Blvd.	1 Kingdom Street	#5/535, Old Mahabalipuram Road
Teaneck, NJ 07666 USA	Paddington Central	Okkiyam Pettai, Thoraipakkam
Phone: +1 201 801 0233	London W2 6BD	Chennai, 600 096 India
Fax: +1 201 801 0243	Phone: +44 (0) 20 7297 7600	Phone: +91 (0) 44 4209 6000
Toll Free: +1 888 937 3277	Fax: +44 (0) 20 7121 0102	Fax: +91 (0) 44 4209 6060
Email: inquiry@cognizant.com	Email: infouk@cognizant.com	Email: inquiryindia@cognizant.com