

Zero Based Retailing

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For planning purposes, most countries, businesses and individuals take their current situation as some kind of baseline, upon which they build their planning for the future. This is a seriously flawed approach, particularly when the enterprise is under severe stress. Sometimes, for planning purposes, it is better to sweep all away (conceptually,) and begin anew from scratch. This is the basic element of "zero based budgeting," the concept of starting with a zero budget, considering the mission and its scope, and then allocating exactly the right amount of resources (personnel, facilities, etc.) needed to accomplish the mission, without regard to past or present allocation of resources.

This tends to provide far more clarity as to what is needed in the budget, than attempting to roll-back costs, or estimate "needed" additions. For example, if your revenues next year are going to be 60% of what they were this year, it is far more conceptually painful to decide how to cut 40% - and probably less efficient - than to take the small team of leaders that *will* be moving forward, and figuring out exactly what you need to build a business 60% of the size of the one you have. Then you select from the resources at hand to staff and support *that* business. Resources *not* selected are then jettisoned.

The purpose of this *Views* is not to weigh the merits of zero based budgeting, but rather to show how the *concept of zero basing*, can be helpful in understanding aspects of retailing. Our zero base for retailing is the existence of merchandise in warehouses, and the existence of shoppers who want that merchandise. The issue we address here is how to mix them together within the four walls of the store. (We could leave the four walls out to make it even more interesting/complex.) Our zero base approach is not to see how we might alter present practices, but rather to address the issue as if there were no present practices. Starting from scratch, as it were.

The *Perfect* vs. The *Ideal* Store

Taking as a given the four walls of the store and a series of aisles, the question is, how to organize the merchandise in the store. Most stores use some adaptation of what my mother called, "A place for everything, and everything in its place." That is, whole categories will be placed up and down the aisles of the store. In the early AlphaBeta supermarkets, the categories were laid out around the store in alphabetical order: **a**pples, **b**akery and **c**andy leading off the shopping trip. We might represent such a layout, with the distinct colors representing the categories, as follows:

"Perfect" Store Organization



Now we perform a bit of a "thought" experiment. Let's assume that all these categories are constituted from

something like 40,000 distinct items (SKUs) and that the store and that there are something like a dozen of each of these individual items in the store. This would mean that there is something like a half million individual packages in the store.

Suppose we pick up the box that is the store, and we shake it! Side to side, up and down, round and round. After a thorough shaking we should have those "perfectly" organized items totally randomized, something we might represent like this.



Now every item in the store will actually occur in a dozen different locations around the store.

Active vs. Passive Retailing

These two stores, the *Perfect* and the *Ideal* stores represent the extremes of two different philosophies of retailing. The Perfect store is well suited to what we can refer to as the fishing mode of retailing, where the retailer organizes the merchandise like bait around the store, and the fish (shoppers) swim along and "strike" the bait that interests them. This is essentially a *passive* mode of retailing.

The *active* retailer, on the other hand, is more of a hunter who stalks the prey (shoppers) with the merchandise. In this model, the merchandise is scattered widely over the terrain where the prey is known to wander, and the retailer repeatedly shoots at the prey (makes offers.) The Ideal store is ideal because no shopper can make their way through the store without having everything offered to them.

The active retailer is after the shopper, persistently making offers, while the passive retailer largely relies on the shopper to make the offers to themselves.

Obviously, stores are ordinarily a mix of perfect and ideal. The primary store (the main aisle or gondola where the category is principally located - often center of store aisles) is typically organized in the perfect manner. "A place for everything, and everything in its place." On the other hand, the promotional store, the secondary store, is typically organized more along the ideal manner. Here the merchandise is scattered hither, thither and yon, even if not totally randomly.

The bottom line here is that the promotional, ideal store, though only having a few percent of the total SKUs in the store, sells 20-40% of the dollar volume of represented categories. The primary store, the perfect store, with well over 90% of items in the store, sells the rest. "Hunting" shoppers is a lot more effective than "fishing" for shoppers. Question: Why do brand suppliers focus most on how to manage the primary store? The answer has a perverse logic, not well connected to profitability.

I realize that using zero based retailing to focus on active vs. passive retailing may strain the imagination of some. But this is only one application of zero based retailing. In reality, it is nothing more than a scientific evaluation of vital issues in retailing.

Here's to **GREAT** "Shopping!"
Your friend, Herb Sorensen