

## METHODOLOGICAL ASPECTS OF RETAIL ASSORTMENT STRUCTURING

Managers are faced with making complicated decisions related to strategy development, selection and formation of retail assortment, pricing, movement and presentation of the goods in the store. Retail assortment structuring is especially important among this set of decisions.

Effective retail assortment management is one of the prerequisites for successful business under the current market conditions. This type of management should be carried out using modern economic tools as sources of competitive advantages.

One of the key tasks of a retailer is to respond effectively to the requirements of the consumers. Here, the activities of research, formation, structuring, optimization, organization and development of the assortment are particularly important. These activities are subject to the strategy of the company and are based on the demand and needs. On its part, responding effectively to consumers implies the use of new approaches toward the overall assortment management. Such an approach, for example, is assortment structuring by commodity categories, as well as the related decisions to create, manage and evaluate the effectiveness of their assortment matrix, also called commodity portfolio.

*The main goal of this paper is to examine and interpret some basic methodological formulations about retail assortment structuring and the need to implement it in order to fully satisfy consumer demand and to reach the desired retail assortment development.*

The goal of the study outlined in this way sets forth the following body of the paper.

The buying process is not limited to composing the assortment and controlling the stocks. All business processes in stock management are carried out: from developing the store concept to planning sales promotion events in the store.

Moreover, every step – from assortment selection to the sale of goods – is controlled within the particular commodity category. Thus, assortment management by commodity categories is carried out, based on a wide range of strategic and tactical tasks.

Assortment structuring by commodity categories as a kind of management is becoming an independent field implying the presence of certain research approaches and methods. Such an approach is the use of the categories as basic units for managing goods. Basically, a category is defined as a set of goods that a consumer perceives as similar to each other, or goods for joint use. A category can combine goods belonging to different commodity groups, subgroups or types. For example, a separate commodity group may include cheese (from the group of dairy products), wine (from the group of alcoholic products) and chocolates (from the group of sweets).

Practically, assortment management by commodity categories is limited to: dividing the assortment by commodity categories not according to the traditionally defined commodity groups and types of goods, but respecting consumers' perceptions and requirements; controlling the entire cycle of category movement – from purchase to sale; considering each commodity category as a mini-enterprise within the company with its own budget, pricing, procurement policy, etc.; implementing a unified approach to the assortment of the store as to a total set of all categories – the way the store is perceived by consumers.

In bringing the goods into categories the goal is to ensure the maximum possible beneficial effect for the management system. In contrast, traditional bringing of goods into groups on the grounds of their origin of production or consumer use does not always help increase the effectiveness of management.

Identification, grouping and classification are the fundamental methods in forming the commodity categories. Identification is a method of identifying and establishing matches of one object with another. Identification in assortment management by commodity categories is aimed at establishing relations and interdependencies between the various elements of the retail assortment. Grouping is a method of uniting the objects by common characteristics. This method is used in dividing the different commodity groups. The grouping precedes the division of the whole into separate parts which have common characteristics, as well as their consequent grouping.

Classification is defined as dividing the set of objects into subsets according to similarities or differences in compliance with the conventional methods. Classification is widely used in the practical activities of companies as the large number of objects – the goods, their properties and characteristics – require dividing the set into subsets by certain characteristics. Here, the so-called commodity classifier is used for the proper assortment creation and structuring. Basically, this classifier is a resource allowing the necessary analysis of the assortment and taking decisions for its update and development.

The commodity classifier implies division of all goods at the following levels: classes, commodity groups and commodity categories. Besides, the goods at each level are united either in a class, or a category or a position according to common characteristics or properties. Therefore, the three main levels of division according to the commodity classifier are<sup>1</sup>:

– Commodity class: the larger the store format, the higher division levels are used. In a number of cases, the first (higher) level of the classifier could be the commodity class, such as “food” and “non-food”, or “clothing” and “footwear”, which in the minds of consumers are united according to a common functional purpose. On the other hand, in small format stores or

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<sup>1</sup> Cachon, G. (2001), Managing a retailer's shelf space, inventory and transportation. Manufacturing and Service Operations Management, № 3, pp. 211-229.

stores selling similar goods (e.g. clothing store, at that for certain users, e.g. for teens), the division of classes is not necessary.

– Commodity group: this is a set of goods grouped according to specific characteristics – types of goods, methods of production, etc. For example, “dairies”, “bakeries”, “women’s wear”, “men’s shoes”, “furniture”, “lighting equipment”, “home accessories”. As a rule in the store at that level there is often a higher level below which is the commodity category.

– Commodity category: it is a set of goods which customers perceive as similar to each other, or goods grouped for joint use.

For the creation of the commodity classifier it is important that all levels are subject to further division: the commodity class is divided into commodity groups, and the commodity groups – into commodity categories. It is unacceptable to leave any level, without detailization. For example, it is incorrect if the group “women’s wear” is detailed to a level “commodity category” and the group “kids’ wear” is divided only into commodity positions, bypassing the level of “commodity categories”.

Ultimately each commodity category is established as a kind of business centre with its own goals and objectives that correlate with the goals and objectives of the company as a whole, identifying the customers with their required assortment.

The key idea of assortment management by commodity categories is explained in this way – dividing each commodity category into a particular assortment group (e.g. “elite wines” in the commodity group “alcoholic beverages”), which allows the taking into account of a maximum number of factors affecting the selling of goods and enables better performance. Besides, the commodity categories should have adequate resources and an organizational structure – differentiation of managers called category managers responsible for the operation of a particular category, as a mini-enterprise, as well as for specialists in different subcategories depending on the complexity of the structure of the category. Examining the functions and tasks assigned to the category managers leads to the conclusion that a category manager is responsible for all activities related to the management of a particular commodity category. A category manager combines the functions of a buyer and a retailer, as well as of a logistics specialist. Such a specialist is responsible for the entire set of activities in the transformation and movement of goods from certain clearly formed assortment groups. Category managers establish business relationships with suppliers, look for ways to optimize the costs of procurement and logistics, organize and adjust the auxiliary activities in this area. This implies evaluating them according to the same characteristics applicable to the commodity category itself: sales volume, profits, market share, etc.

In terms of methodology, the next step for the successful management of commodity categories is the decision to create, manage and evaluate the effectiveness of the assortment matrix, which is also called commodity portfolio.

The creation of such a matrix is essential to the process of determining the principles of commodity segmentation and identifying the maximum quantity of items in a retail store. It should be clarified that the creation of the assortment matrix must be preceded by serious preparatory work within the company and then there should be a sequence of stages, such as: setting a strategy for developing and positioning of the retail premises; choosing the store format among several possible formats.

The attempt made to examine and interpret the nature of assortment management and structuring by commodity categories gives grounds to draw the following major conclusions:

*First.* In modern interpretations assortment management by commodity categories is built on the optimization of all operations relating to commodity categories considered as a component level of the commodity classifier.

*Second.* In methodological terms, it is essential to decide to create an own assortment matrix and to manage and evaluate it in order to successfully structure and consequently develop the commodity categories.

In the context of the problems discussed we can summarize that this scientific trend looking for new approaches, methods, dependences and tools for consolidation and expansion appears necessary in the course of enriching the knowledge in the field of assortment management and structuring by commodity categories.