Wilson Perumal & Company's
Insights to Action

Success Stories from Leading Companies

A careful approach is required to pursue new growth strategies without introducing excess cost and complexity into your business

Retail chain was struggling to grow in a downturn

A retail chain (StoreCo) with over 250 locations was hard-hit by an industry downturn and had experienced losses for the last two years. After numerous attempts at cost reductions, they remained unprofitable but had no further opportunities to reduce their cost base. StoreCo's only remaining option to become profitable was sales growth, but what options did they have to grow revenue in the middle of a downturn?

Growth opportunities in a downturn

To determine what options might exist for growth, StoreCo started by looking at what caused some of their stores to be more successful than others. After an exhaustive analysis, they discovered that the single largest impact on store performance was the local area demographics surrounding each store.

StoreCo had historically offered the same product offering across all stores in order to keep their supply chain simple and cost effective. However, they now believed that **varying the product offering in each store to better meet the needs of local customers was their best option to drive growth.**

Unfortunately, neither their IT systems nor their supply chain were currently set up to accommodate varying the product offering across all of their stores. How could StoreCo pursue this promising new growth strategy without costly investments in IT and supply chain?

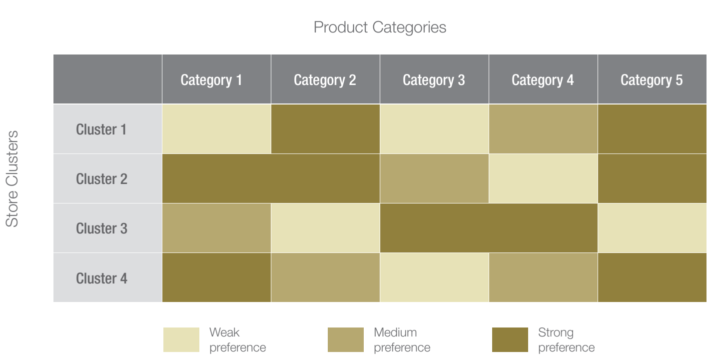

Figure 1: Using existing sales data, StoreCo created a heat map to illustrate the product preferences for each cluster of stores.

Clustering to drive growth

After in-depth analysis, StoreCo determined that they could bucket their stores into "clusters," with each cluster having a unique demographic profile. Grouping stores into clusters would allow StoreCo to have only four variations of their product offering, rather than over 250 unique combinations for each store. **Most importantly, this approach would only require minor modifications to their existing IT systems and supply chain, rather than major investment in completely new systems.** However, one important question remained: what product offering should each cluster carry?

Product preferences by cluster

StoreCo layered demographic information and historical sales data into their clustering analysis and created a heat-map like that shown in **Figure 1**.

This approach helped illustrate the unique product preferences of each cluster, both at the category level as well as the individual SKU level. For example, the wealthy/suburban cluster of stores preferred certain products, while the younger/urban cluster preferred a completely different set of products.

Using this information, StoreCo was then able to create a narrative to aid them in determining the best product offering and marketing strategy for each cluster.

Results:

Using this simple approach to clustering afforded StoreCo the opportunity to **drive over $20M in new growth** in the middle of a downturn. And, they were able to do so without costly investments or introducing unnecessary complexity into their business. Better yet, StoreCo could now modify their location selection strategy to fit this new cluster approach—opening up new store location opportunities that had not been considered previously.

What new growth opportunities might exist for your business?

How could your company execute a new growth strategy without adding excess cost or complexity?

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