

## The **POWER CUBE™** Concept

By Don Vehlhaber

**Could you use a 1-5% sales increase?  
How about a 2.5 - 5% margin increase?  
Want to cut inventory by 25-40% while you get them?**

Studies have shown that up to 60% of all store inventories consist of items that sell less than one unit sale per week per store (see Figs. 1 and 2 below).

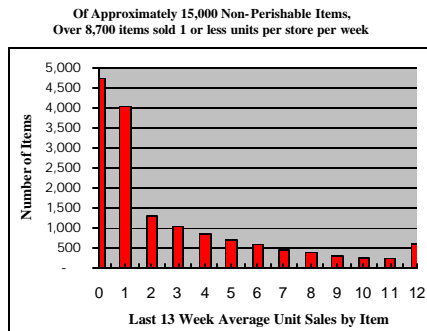


Fig. 1

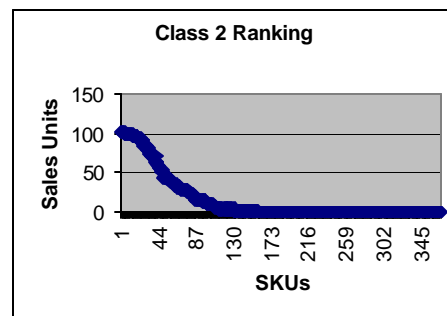


Fig. 2

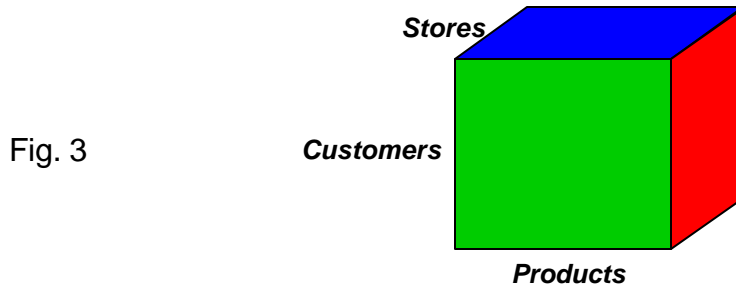
Several companies have achieved lower inventory levels and higher turnover by weeding out the poor performing items in store assortments, while simultaneously expanding both sales and margins through a sharper focus on better supply of the best performing items to their key customers. Consider these examples:

### Retailers Are Already Achieving BIG Benefits

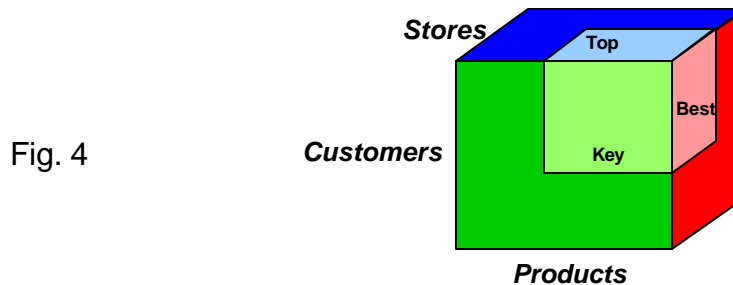
- ❖ A top 3 automotive aftermarket retailer completed a proof of concept test of store clustering and custom mix assortments for the back-room categories that captured a 1.3% increase in sales on more than \$1 billion of hardparts sales, a 2.5% overall margin increase, and a reduction of over \$13 million of inventory. Total benefit should approach \$38 million.
- ❖ A top 5 supermarket retailer identified improvements in chain-wide inventory replenishment forecasting that projected over \$22 million of benefits. Later, they revised the estimate up to \$300 million!
- ❖ A Northeast supermarket retailer completed a retail sales and inventory optimization assessment of non-perishables items that projected a 10% increase in sales, 25% margin average margin increase, a 25% increase in inventory turnover and a 30-35% inventory reduction. Actual benefits to date verified the projected turnover increase and documented a 35% inventory reduction.
- ❖ A major mass merchandiser generated 5 new category assortments, assigned the new assortments to 15 test stores and kept the old assortment in 25 test stores. The results were reported in Supermarket News and included a 32.5% sales increase, a 46% inventory reduction and an 11% improvement in category turn.

## Introducing The Power Cube

The retail environment can be described in terms of a cube, formed by the three dimensions of customers, products and stores (see Fig. 3)



Obviously, analysis of the three dimensions can be interactive and can utilize virtually any combination of segments of each of the dimensions. For example, a single item bought by a dozen customers could be analyzed across five stores, or one could examine a category of twenty products across all customers for a cluster grouping of stores, etc. So, in essence, the Power Cube is a method for ranking and analyzing the best customers, key products and top stores in your chain, then the next level of better customers, second tier products, and middle store performers, etc. In this manner, one can analyze the “cubes within the cube.” (see Fig. 4).



Proper analysis of the various combinations of dimensions of the Power Cube then, not only can tell you what to stock and where to stock, it also answers questions regarding your customer base. Use of The Power Cube can answer the following questions (and many more):

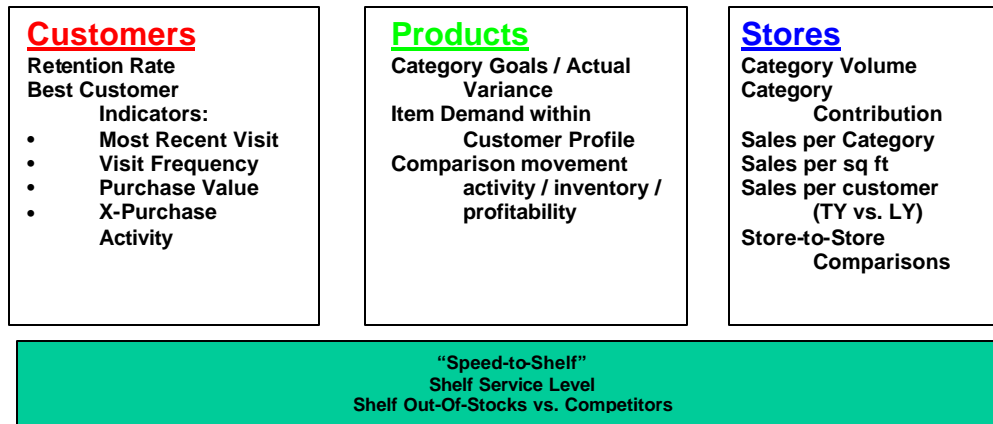
- ❖ How many of our best customers from last year are still our best customers this year? What percentage stopped shopping in our stores? How many of the best customers did we lose last year and how many have we gained or converted from other profile levels this year?
- ❖ What items or categories do we carry that are Cash Cows for us? Which ones are Dogs? Are we effectively drawing traffic into the stores by properly promoting Traffic Builders? Are we increasing market basket sales through in-store promotions of Sleepers?
- ❖ Why did some stores outperform others in the same category? Are we effectively allocating shelf space to key categories and items? What items perform the best across the parameters of unit sales, dollar sales, gross margin dollars, and gross margin percent? How is our in-stock inventory balance on these items? How are we doing versus our competitors on shelf stock-outs? Are we better at certain times of the day?
- ❖ What is the best grouping of stores and the best assortment for these stores based upon key shopper profiles?
- ❖ How much do our best shoppers spend per store visit? How often do they visit a store? How much more do our best customers spend per visit than our average customers?
- ❖ Can we increase sales by 5% if 20% of our average customers move up to our best customer level? What would happen if half of our average customers stopped shopping our stores?
- ❖ How important is [category] to our best and better customers than it is to our average customers?

The following approach is one of many that can be used to analyze pertinent data and configure specific strategies for setting customer service levels and shelf stocking levels that vary by store environment (see Fig. 5).

Fig. 5	<b>Target Mix</b>		
			<u>Cumulative</u>
	• <b>A Top</b>	<b>60%</b>	<b>60%</b>
	• <b>B Next</b>	<b>20%</b>	<b>80%</b>
	• <b>C Middle</b>	<b>15%</b>	<b>95%</b>
• <b>D Lower</b>	<b>4%</b>	<b>99%</b>	
• <b>E Bottom</b>	<b>1%</b>	<b>100%</b>	

Once a viable strategy has been constructed for each of the “cubes within the cube” and the strategies have been implemented, the next step is to measure the differentials achieved through use of the Power Cube concept vis-à-vis the baseline levels prior to implementation of the program. The following suggested performance indicators, at a minimum, should be tracked and employee bonus compensation levels could be tied to their improvement:

### **Suggested Key Performance Measures**



### Expected Benefits

Proper execution and utilization of the Power Cube should lead to significant benefits, especially in the areas of:

- > Improved sales from better understanding of the shopping patterns of the five levels of customer profiles – increased market basket size and lower shelf stock-outs.
- > Increased margin from improved knowledge of what items customers will always purchase at full price (never promote these items for less than full price) and from more targeted promotions to store- or cluster-specific customer bases.
- > Lower inventory levels because of less investment in slower moving items and more investment in faster moving items, resulting in increased inventory turnover.

The Power Cube requires point-of-sale transaction log data with integrated customer identifiers. This data is then run through a sophisticated software system and combined with other more traditional data analysis models, such as item movement reporting, quadrant analysis, store space allocation analysis, and contribution analysis. The combination can be a powerful engine for improving the overall performance of the products in your stores while signaling the customer base that your company understands and services their unique needs.

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