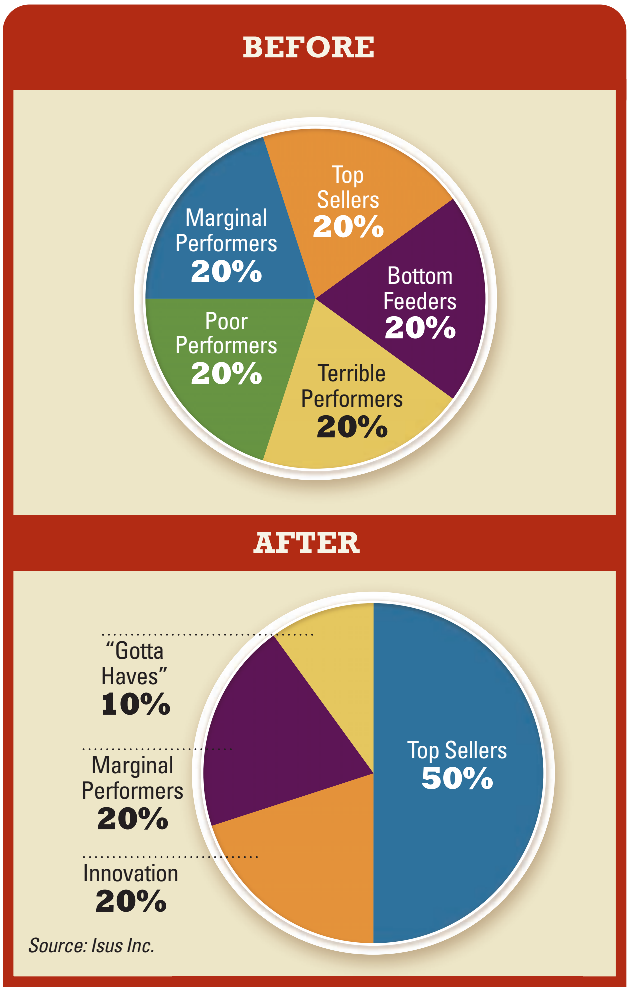
Rewriting the 80/20 Rule

Customers talk to you in two ways: Sometimes, they say things to you; always, they buy some things from you.

Your customers perceive that more than half of what you sell is foodservice. Those bag of chips? Foodservice. A 20-ounce bottle of water? Foodservice too. If it's immediately consumable, then, in your consumers' minds, it's foodservice.

Since most of what you sell is immediately consumable, then your brand must stand for foodservice. You need to provide consistent, credible, high-quality selections of what your customers want, done right every way, every time, no excuses.

This is where we run into some sensitive decisions. Most of us stock much of our shelves with product we know is not going to sell or will only satisfy that occasional user. Why do we insist on providing losers?



Source: Isus Inc.

The old 80/20 rule works like this: Only 20% of the things you try to sell will provide 80% of your success; 80% of the things you try to sell will provide only 20% of your success.

Now we're going to break that rule—and it will work even better.

Here's how to rethink category management: Change customary category management to customer management planning. It's a tool you can use right now. Customer management planning focuses 50% of space and SKUs on the items that sell best, 20% on innovation, 20% for marginal products, and 10% on items you believe help sell top sellers. It allows you additional store space. Your only risk is the space you allocate for innovation, something you must do anyway in order to grow and continue to prosper.

First, divide your total foodservice SKUs into five groups based on sales, or gross profit margin, or any other convenient and consistent measure. Use real facts and data—don't rely on your own instincts. Each SKU group will contain 20% of your products and can be pictured something like this:

The top slice (20%) generates 80% of your money. The remaining four slices each constitute 20% of your money. Some of these may lose money because they are underperforming, and customers don't buy them. These slices are your bottom feeders, terrible performers, poor performers and marginal performers.

Our objective is to increase the presence of your top slice, while dropping or reducing the thin slices. Let's address the other four slices:

Bottom feeders. Throw these out. They're wasting space and costing you money. Use that space to increase the number of products represented by the best 20% and to increase customer circulation space if necessary.

Terrible performers. Change these items of your pie with aggressive product innovation. Twenty percent of your SKUs should be for new-product innovation and testing. This is where you create a reputation for excellence in having the latest and greatest. If a product doesn't work—and most don't—it won't hurt the positioning and credibility of your offer. If it does work, it enhances your offer and brand. This may lead you to frequently re-evaluate your top sellers. Base it on what your customers want.

Poor performers. Throw out all of these except the few things you are absolutely convinced you need in order to sell the best sellers, to stay in business or those items which your heart tells you to keep. This should represent no more than half of these SKUs, or 10% of the whole pie. The other 10% should be dropped, with that space shifted toward the top sellers' space. Always try to maximize the best sellers.

Under this process, your pie should look go from five slices to four. The proven top sellers—or what used to generate 80% of your sales while taking up only 20% of the space—now is given half of the space. The next 20% is reserved for innovation; 10% remains for items for stuff you just gotta keep.

Marginal performers. This group contains those items that may be profitable, but you're not quite sure what to do with them. Track them for about three months, then slide them to the other slices as is appropriate. Reset your complete pie to make any adjustments that facts and data indicate.

Perform this exercise at least twice a year to keep your facts and data current, and your thinking fresh. Keep breaking the 80/20 rule, and keep loading the top.

By doing this you will have a foodservice planning tool of incredible power and virtually no risk. You now have the luxury of extra space for merchandizing to your customers and giving them more room to shop and buy the things they want. And more of them can fit into and see around and circulate through your store while shopping.

A bonus here–you can apply this same thinking to the rest of your store. ■

David Brewster is a founding partner of ISUS Inc., a Minneapolis-based convenience retail and foodservice development resource. He is an expert in the design of physical and graphic environments and brand imagery, and has been consulting to the retail and foodservice industry worldwide for more than 30 years. See www.ISUS.org for details.