

# Retail **Portfolio** Management

*Maximize Profits by Letting Each Business Do What It Does Best*

Every retailer has a vision of where it wants to go: “true north.” But—no offense to the strategists—that’s the easy part.

What’s hard is *getting there*.

It’s hard because it means saying “yes” to some things and “no” to others.

It’s hard because it tests the *will* of the company. In other words, it tests how much you do, in fact, have a strategy that everyone understands and supports.

We realize we’re not saying anything new. A lot has been written about the importance of determining a clear strategic destination, and aligning your organization to travel toward that destination in unison. We’re not going to pile on. What follows, instead, is an introduction to a concrete, repeatable tool that will help you *actually get where you’re trying to go*.

**It’s called Portfolio Management.**



## Portfolio Management, Summarized

If your company’s strategy is like a compass that points to your “true north,” then ROIG’s Portfolio Management is like the street-level, turn-by-turn GPS app that helps you figure out the most effective and efficient way to get there.

It’s a data-driven process that provides retailers the means to execute their strategy **on purpose**. It’s both a strategy playbook and an alignment tool that models your data with a variety of scoring techniques to determine each category’s **ROLE** (the job it does for the company; how it adds value) and **INTENT** (where it is in its lifecycle; how much investment it warrants).

The result is that merchants receive clear direction at the category level from which they can devise their strategies. And as the Portfolio mindset permeates the organization, it will inform the budgeting process, investment planning and resource allocation.



“ IF EVERYTHING IS IMPORTANT, THEN NOTHING IS. ”  
— PATRICK LENCIONI

## Why We Fight: The World Without Portfolio Management

Before we get into the nitty-gritty of Portfolio Management and how it works, let’s take a look at what happens in the *absence* of it. We come from retail, so we know that retail merchants are a competitive bunch. Left to their own devices, individual merchants—and the individual categories they’re responsible for—will tend to try to “do it all”: drive topline sales, margin, traffic...a kitchen-sink of priorities driven by a category-centric, tunnel-visioned view of the world. (And probably a bonus plan that rewards it.)

That might be great for the individual merchant (depending on that bonus plan)—and it might even be fine in the short term for the company. (More of everything!) But the truth is, every product category is *different*. Some are growing (and some are flattening out), some are margin-rich (and some are commoditizing), some lend themselves to attachment sales (and some simply do not have a natural “basket”)...

...and if you *ignore* these differences, and unleash every category merchant to determine his or her own goals, they will naturally default to their hard-wired tendency to “do it all,” and you will essentially be declaring that every product category IS the same.

And if you treat them all the same, with the same goals peanut-buttered across all your product categories...it leads inevitably to a rounding-off-and-dumbing-down of your strategic direction, a dilution of your retail presence, and an increasingly muddled message for your customer and your own people.

They won't know what you stand for...because you won't stand for anything.

“ STRENGTH LIES IN DIFFERENCES, NOT IN SIMILARITIES. ”  
— STEPHEN COVEY

## Portfolio Management, In Detail

Okay, that's what Portfolio Management is up against. So, exactly what IS Portfolio Management?

*Portfolio Management is a process that provides retailers the means to purposefully execute its strategy—and budget and allocate its resources—by letting categories (both products and services) specialize in what they do best and focusing them on a strategic set of individual objectives.*

Portfolio Management is an important tool for retailers when making strategic decisions about categories and the allocation of company resources such as store labor, inventory planning, promotions & advertising, and merchandising.

When it's applied with discipline and consistency, Portfolio Management becomes the primary mechanism for a retailer's planning and budgeting process. In fact, in a perfect world, it leads the process.



# “Role” and Portfolio Management

There are two primary components of Portfolio Management: the Role and the Intent of each category of product or service you sell. It starts with Role, and to understand this concept, let’s think for just a minute about an analogy we can all relate to: the people who work for your company— your team members, colleagues and leaders, across your organization.

Every employee in your company has a specific job to do—a specific role to play. There’s an employee who specializes in digital marketing, and another one who manages payroll...another who develops logistics plans...another who builds financial budgets...and on and on, hundreds of specific roles that together make up your company.

You wouldn’t expect or want every employee to try to do every job in the company. That sounds like chaos. A great company establishes a clear role for each of its people—to help the organization run effectively and efficiently.

**ROLE** (within Portfolio Management):

Defines *HOW* a category or class of product creates value for the company.

In other words, a category’s role is essentially the job it does for the company. Let’s look at five common roles in retail, and take an imaginary trip to the neighborhood grocery store while we’re at it...



## PRIMARY BUSINESS DRIVER

What your customers think of first when they think of you

*This is what the company is famous for—what customers likely think of first when they think of you. It drives the brand, drives significant sales revenue, and can often drive a big “basket.” (At our neighborhood grocery store, this might be the fresh cuts at the butcher shop.)*



## TRAFFIC DRIVER

Drives a high frequency of customer visits

*This drives a high frequency of customer visits, and sometimes a low profit margin. (For example, at our grocery store, this would be milk and bread.)*



## PROFIT GENERATOR

High margin items that complement the store

*The focus here is on high-margin but not necessarily high-unit-volume sales. (Maybe general merchandise like light bulbs, school supplies or hair products; or dry grocery, condiments, etc.)*



## CONVENIENCE MERCHANDISE

High(er) margin items offered as a convenience to your customer

*This is not something the company is “famous for,” but it’s offered as a convenience to the customer—and it drives profit. (The items at the check-out lane—gum, birthday cards, flowers or household kitchen items for customers who need it in a pinch.)*



## EMERGING BUSINESS

Future growth or competitive opportunity

*This is a category the company sees as a future opportunity—possibly sparked by marketplace trends, or changing technology. (Maybe our grocery store is developing a home delivery service, or a “wine of the month” club. Recent examples may be the addition of olive bars, salad bars, ready-to-eat or prepared meals.)*

Roles within a retail environment may vary based on need or type of retail. Examples might be: Destination or Stake-in-the-Ground as an alternative to Primary Business Driver; Seasonal, Occasional, Basics, Routine, Preferred, Under Fire, and more. Regardless of the name the Role still defines HOW the category will play within the box.

## “Intent” and Portfolio Management

*INTENT (within Portfolio Management):*

*Defines HOW MUCH the company will invest, maintain, or divest investments in resources; Intent describes to WHAT DEGREE value is created.*

In other words, in the context of our employee analogy, an intent designation is a snapshot of the “career plan” of each category. Here are the five most common, with real-world examples from Apple (right across the parking lot from the grocery store)...



### AGGRESSIVE GROW

*The goal here is to gain market share and drive topline sales. (For example, the AirPods earbuds, or the Apple Watch.)*



### GROW

*This is probably a category that's a bit more mature than “Aggressive Grow,” but the company believes it has an opportunity to continue to gain market share. (For example, the Macbook Air.)*



### MAINTAIN

*This category is still important, but not growing. Hold the fort. (Example: iPads.)*



### HARVEST OR OPTIMIZE

*This is a category in decline, but still with profit potential. You'll reduce investment of resources in this area to maximize profits, and use the money to invest in growth areas. (The Desktop Mac or iPods might fall in this intent designation.)*



### EXIT

*You'll exit this category within a year. (The truth is, probably nothing Apple sells will be gone within a year, but the iPod comes close.)*

“ BUILDING A VISIONARY COMPANY REQUIRES ONE PERCENT VISION AND 99 PERCENT ALIGNMENT. ”  
— JIM COLLINS

# How it Works

After years of doing this work with major retailers across various sectors, we've developed a **7-STEP PROCESS** that results in role and intent designations across your portfolio, and establishes your ability to use Portfolio Management to guide your budgeting process and resource allocations.

## 1. PORTFOLIO READINESS ASSESSMENT

We gather tons of internal and external data, interview the merchant teams, strip away subjectivity and get to objective fact: Where are we? What are current beliefs? Where are the pain points?

## 2. COLLECT AND MODEL PERFORMANCE DATA

We leverage both your internal data (revenue, margin, inventory turn...) and external data (market share, industry forecasts...) as inputs to the model.

## 3. GATHER "IMPORTANCE TO THE BRAND" INPUT

In addition to your business data, your customers also have a lot to say about how they think about your products and services. We incorporate customer insights to inform role and intent.

## 4. DATA + INSIGHT "MASHING"

Our proprietary modeling tool scores all the data to determine role and intent characteristics.

## 5. ASSIGN ROLE AND INTENT DESIGNATIONS

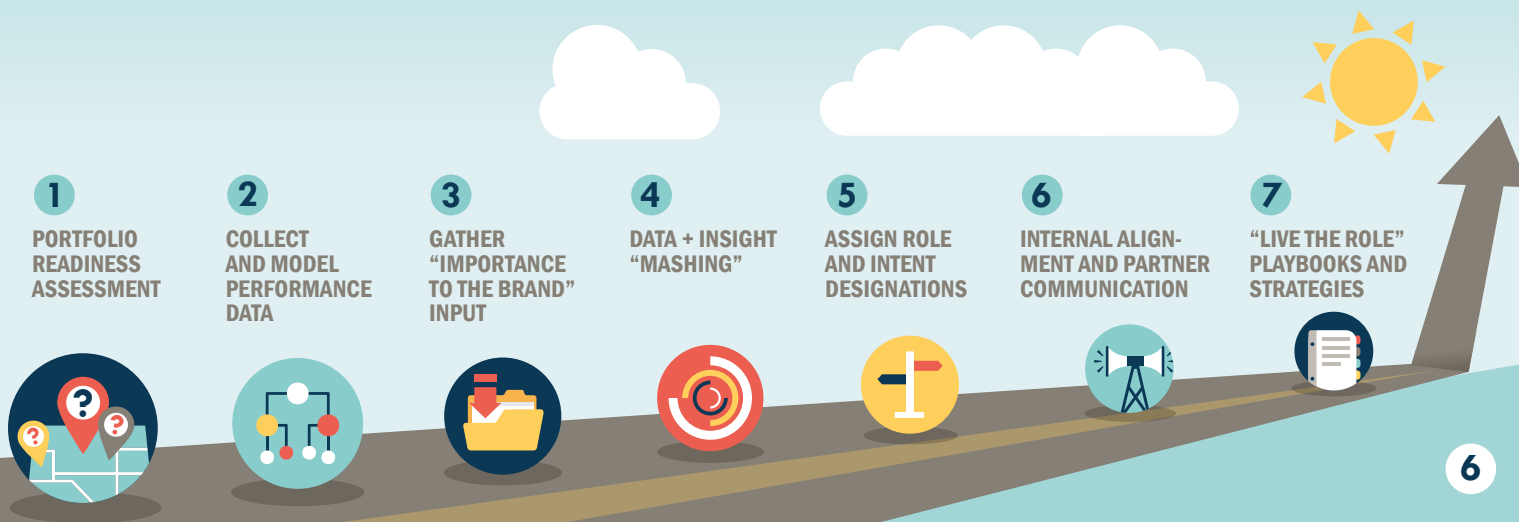
Strategic "art" meets quantitative science with an eye toward balancing Roles and Intents across the Portfolio—and with an eye toward a future state.

## 6. INTERNAL ALIGNMENT AND PARTNER COMMUNICATION

This is really the beginning of the Change Management process, and might be the most important step. We'll get executive sign-off, and begin training the merchant teams and the teams that interface with them.

## 7. "LIVE THE ROLE" PLAYBOOKS AND STRATEGIES

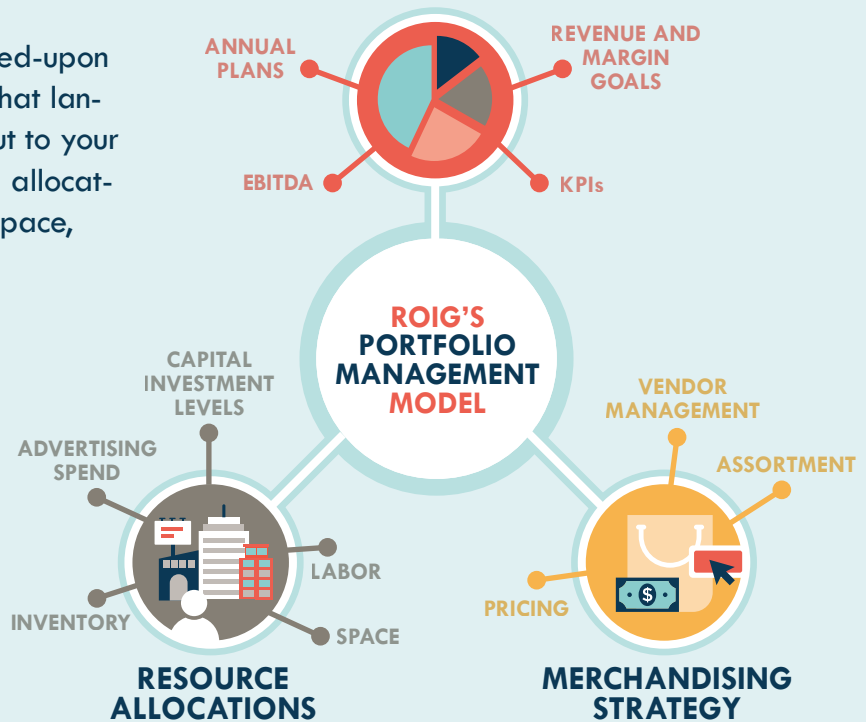
We'll produce the material and help lead your team in using Portfolio to ensure that the new processes, measurements and behaviors are sustainable.



# Portfolio is FOUNDATIONAL

Portfolio is the basic building block of the merchandising process. Assortment strategy will vary by Role. Pricing may vary by Role. Ad space allocation, space allocation, even labor scheduling can be influenced by the Role of a category.

And once you've arrived at an agreed-upon set of Role and Intent designations, that language becomes the most critical input to your conversations around budgeting and allocating resources, especially Inventory, Space, Advertising, and Labor.



“ WITHOUT STRATEGY, EXECUTION IS AIMLESS.  
WITHOUT EXECUTION, STRATEGY IS USELESS. ”  
— MORRIS CHANG

## Portfolio is a MINDSET

If you fully embrace it, Portfolio Management can be your company's most powerful management tool, providing a concrete, repeatable mechanism to guide your most critical financial decisions.

But—just as important—it's also a *mindset*. A positive culture-shaping force.

It helps fight against insular thinking. It forces an awareness of the external marketplace your company exists in, and a greater sensitivity to the ebbs and flows of the ecosystem.

It provides a common language for **all** company leaders, not just merchants. Your budget meetings will be filled with the unique paired-language of Portfolio Management (“Profit Generator—Maintain”... “Emerging—Aggressive Grow”... “Traffic Driver—Exit”...). That commonality will lead to greater clarity *and alignment behind the company's strategic vision*.

## Two Takeaways

That's the summary, and even that's a lot to take in. Here are two things to keep in mind, as you begin to understand Portfolio Management:

**It's not easy.** The conversations are often contentious, because—as we've said repeatedly—you're actually forging a real-world navigational path to realize your strategic vision. You're going to find the soft spots, the areas of discord and confusion. And you're asking super-competitive people to “check their egos at the door,” and, for example, admit that a category they lead should be designated “EXIT.” That's not easy.

**It's never over.** As the marketplace changes, the Intent for any given category will change as well, as its attractiveness grows or declines. Roles change too. Television was once the centerpiece of the family home—a “Primary Business Driver” for retailers—and now a consumer is likely to have several flat panel TVs scattered throughout their house. Regular, disciplined Portfolio Management discussions help a company track the changes and adjust resources accordingly.

The process of building your Portfolio Management is like any habit—it takes time and repetition before it's locked in as a new behavior. Our goal is to help lead you through it the first few times, like a coach with a team learning a new playbook. And then, before you know it, we're on the sidelines and your team is running the system.

“ IT IS NOT ENOUGH TO BE BUSY. SO ARE THE ANTS.  
THE QUESTION IS: WHAT ARE WE BUSY ABOUT? ”  
— HENRY DAVID THOREAU

## The ROIG Group

The ROIG Group's motto is “Value, Accelerated”—and for almost a decade, we've helped retailers around the world accelerate their most important strategies. Portfolio Management is a powerful management tool—providing a practical, sustainable mechanism to guide their most critical financial decisions, balance multiple business agendas, ensure strategic alignment, maximize profits...and actually get where they're trying to go.

- ▶ **Experienced Business Leaders**
- ▶ **Insightful Data Scientists**
- ▶ **Real World Problem Solvers**
- ▶ **Change Management Engineers**

