

Optimal Category Mix in Multi-Category Retailing – Insights from an Experiment

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ABSTRACT

In brick-and-mortar retailing format, retailers need to ensure minimum level of inventory displayed at each store for each category irrespective of the revenue or profit generated by a particular category. It is observed that majority of bricks-and-mortar retailers in India assume; (a) existing category mix is ideal for their stores, (b) any modification in the existing category mix could possibly lead to loss of sale of an existing category, (c) it is preferred to have categories generating higher average transaction values and most importantly, (d) categories with lower average selling price products and generating lower average transaction values negatively impact store's revenue. Such assumptions and widely followed practice have created a predisposition and mindset in store managers and they believe that, their store delivers revenue and profit to the best of its potential with the existing category mix. In this research, we have analysed the existing category mix of a select retailer, attempted to alter the existing category mix through an experiment and evaluated change in (a) category level profitability, and (b) overall store profitability.

Keywords: Brick-and-mortar store; Offline store; Physical store; Multi-Category; Category Mix; Category Management; FMCG; Hardlines; Softline.

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