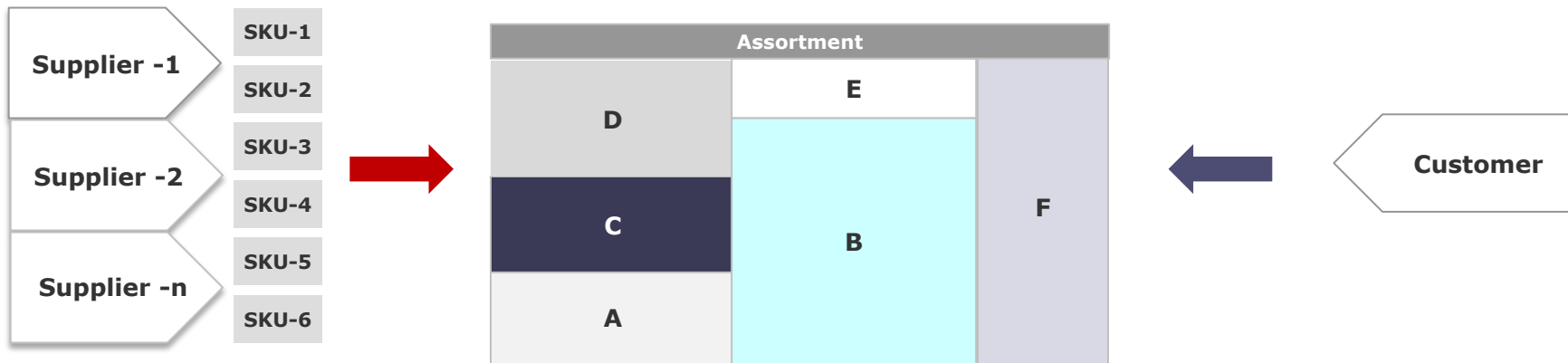




Defining units of need

Assortment definition - from suppliers to consumer focus



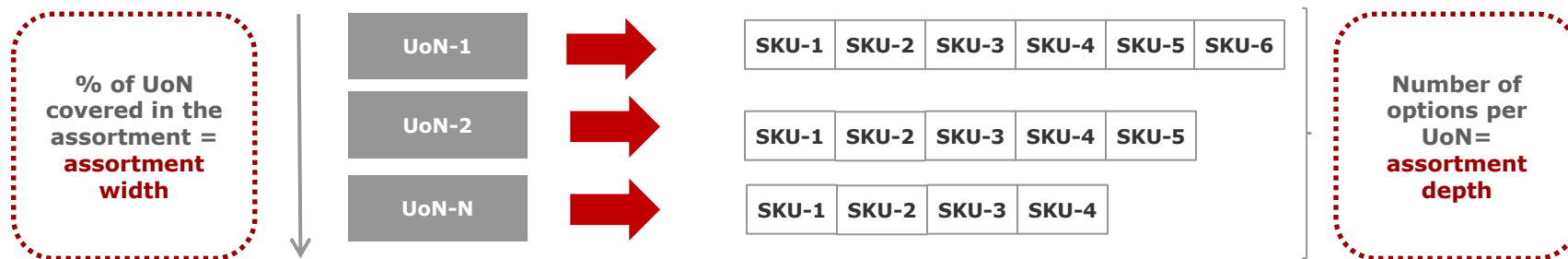
Traditional role of retailers: massive platform for suppliers: pushing products and brands into shelves without looking at 'real' customers' needs



New approach: understanding customer's needs to select for them the best option in terms of quality and price (including PL in those categories where retailers can add value)

Defining units of need (i)

- **A unit of need (UoN)** can be defined **in retail** as the product or service which covers a specific necessity of food, drink, house cleaning, personal care, etc. and which in the customer's mind is well defined and cannot be easily substituted by another product. Technically products consider **UoNs have zero or very low cross price-elasticity**.
- The definition of a unit of need is related to the '**Consumer Decision Tree**' or how customers decide their purchases and what they consider as a '**differentiated need**' and what they consider '**options**' within a specific need.
- Once defined which are the UoN of our customers, **the assortment** can be seen as a structure comprised of **Units of Need covered** (the % of total UoNs is called width of the assortment) and **the number of options we provide to our customers for each unit of need** (assortment depth).

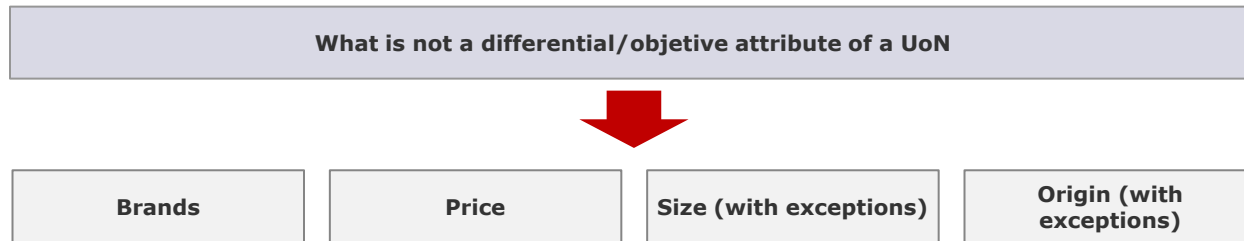


- The main problem to define **UoNs is the proper 'level' of detail** to fully understand customers' minds and to define the assortment accordingly, avoiding mixing what is a real UoN and what is just an 'option' within this unit of need (in other words, to avoid confusion between assortment width and depth):
 - **Food, beverages, cleaning or health products** are expressions of our customer's needs **but are too general** to be used to define our assortment while '**olive oil**' is **also too general** to reflect specific consumer needs such as softer oil, with some flavour, extra-virgin, etc.
- Using the UoN methodology we intend to **discriminate those products which cover a customer need from those which are 'options' in form of brands or price**, with the ultimate intention of extending the needs covered and limiting the options to those products bringing real value to customers.

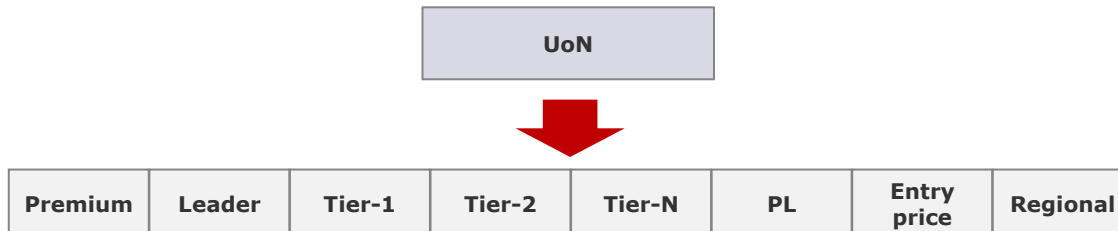
Defining units of need (ii)

As a rule, we would consider a UoN those SKUs which have objective characteristics that are perceived by customers and differentiate them from other products

- Among these characteristics we can have: **flavour, different additives of the product, form (liquid, solid, powder), degree of content of key ingredients (fat in milk, level of acidity in oils,...) and size/packaging** (only when the **difference is relevant and imply the product is intended for different usages** i.e. Mineral water of 250 cc and mineral water of 1L).
- The **origin** of the product is not normally an attribute which is considered by customers as a differential characteristic of the products with some exceptions: wine or some regional products.

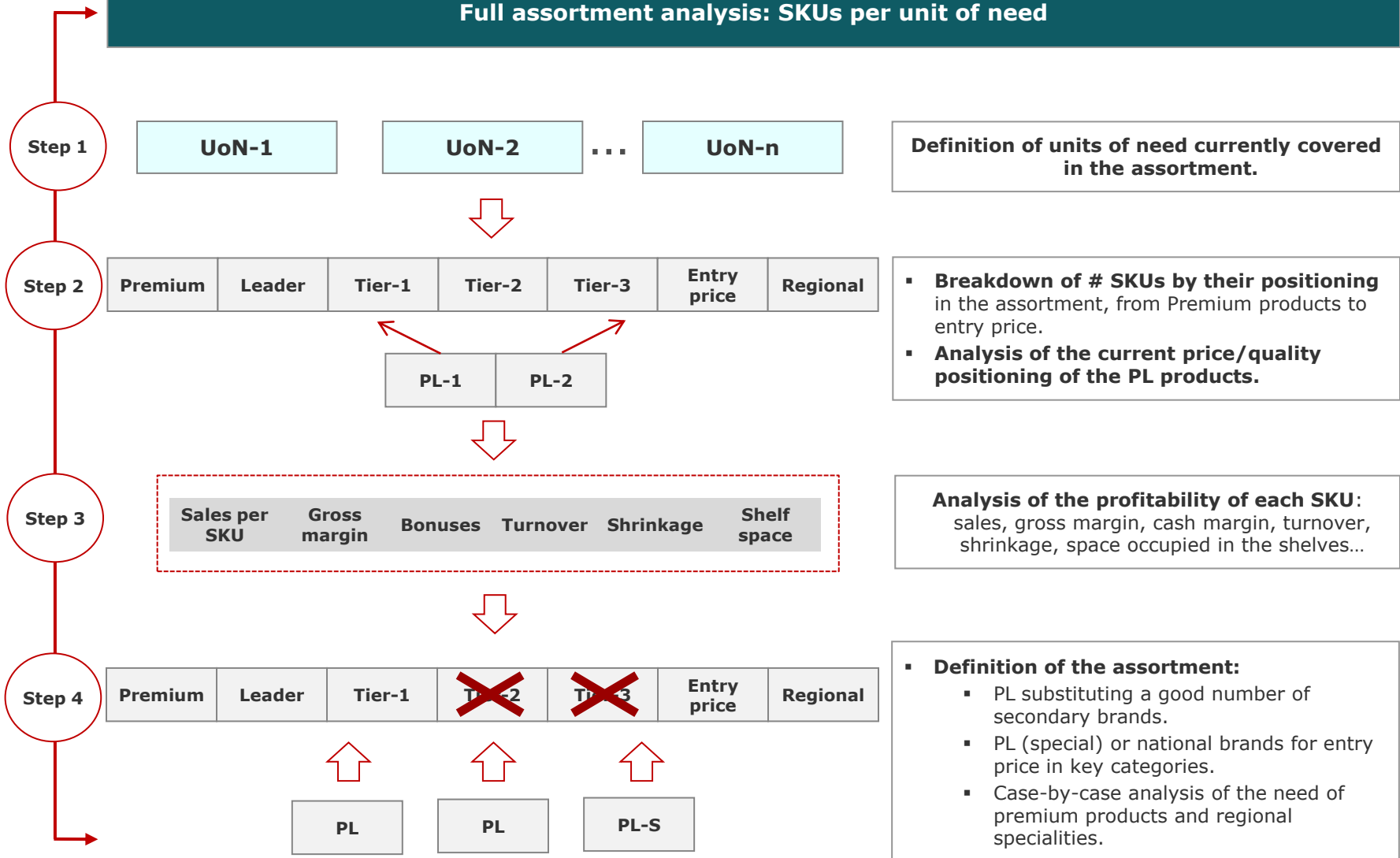


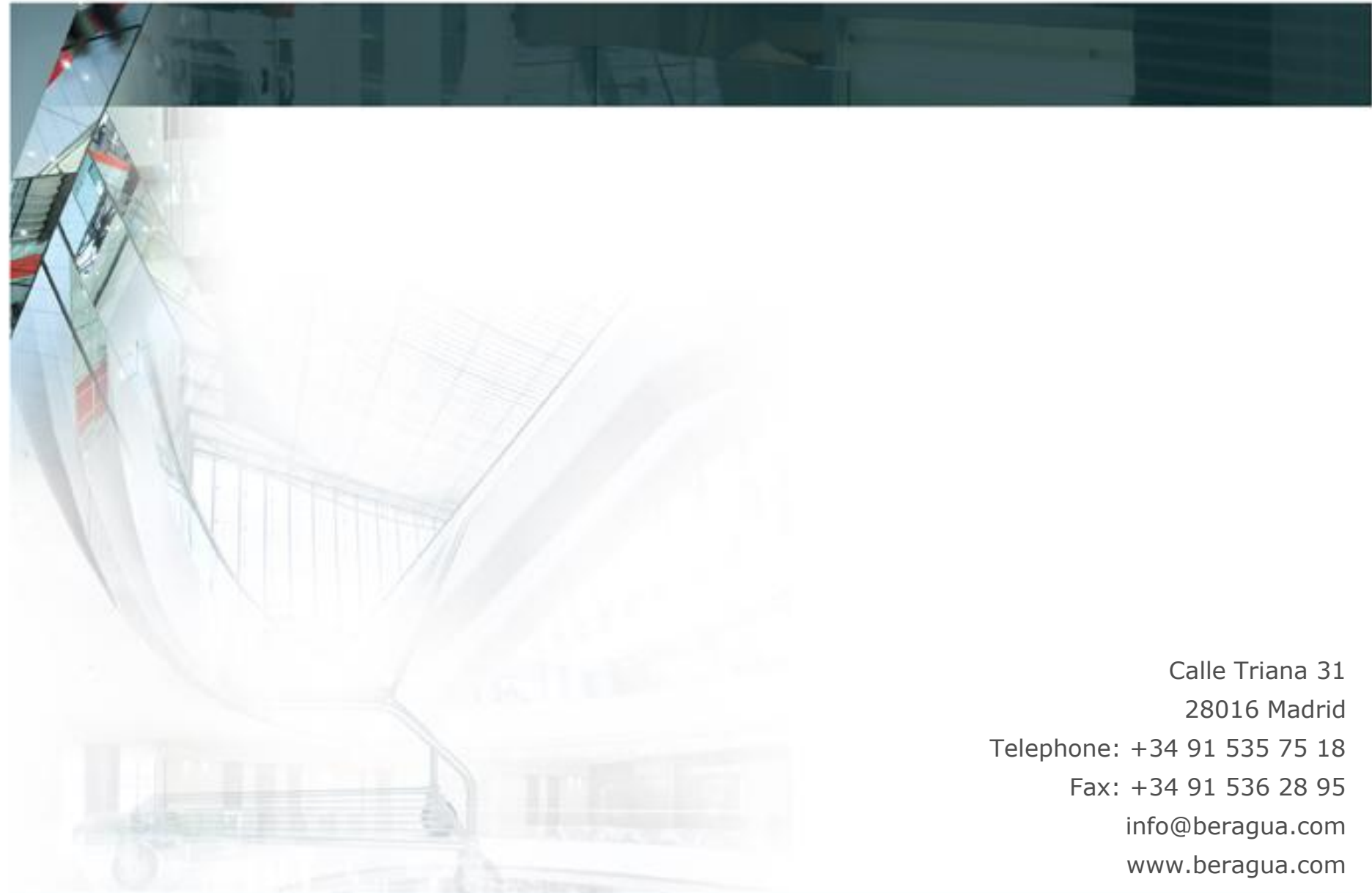
Once **UoNs are defined** we can **structure each of them** defining the depth and the number of SKUs by each sub-segment (premium, entry price, PL, regular products, etc.)



UoN as the first step for assortment streamlining

Full assortment analysis: SKUs per unit of need





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