Winning with Shoppers

Why retailers and manufacturers need to be on the same page

Shopper centricity is a familiar term and one that has been around for some time, but it has never been more relevant than it is right now.

There is, however, still a gulf between what the retailer sees as 'shopper centric' and what the manufacturer believes. Both have long thought of the shopper at the heart of their planning processes…but for a retailer this is in terms of stores and categories, whilst a manufacturer automatically thinks in terms of their brands.

If both are going to 'Win with Shoppers', both parties need to work collaboratively to really deliver against shopper expectations.

Shopper expectations:

Shoppers are more demanding, sophisticated and selective now due to a number of reasons:

- The dynamics of the economy – everyone is feeling the pinch and shoppers are more consciously selecting how they spend their budget
  - Shopper expectation of how financially better or worse off they feel shows this with 47% more shoppers feeling that they would be 'worse off' in 2011 versus 2010.
  - One of the key areas they plan to economise on is food shopping (along with clothes shopping, eating out, holidays and entertainment).
- 'Value for money' – this is key but it also means different things to different shoppers. It's not just about price!
- Impact of digital – the consumer now has more access to shopper related stimulus, at the touch of a button. Social media in particular is playing a crucial role in providing pre-shop stimulus for both retailers and manufacturers.

All of this equates to a more critical consumer who expects and demands more from their shopping experience.

Duplicated effort:

Both manufacturers and retailers traditionally have sourced separate insights about the shopper:

- Innovation programmes for manufacturers traditionally look at the impact of new product introductions on their brands vs. their key competitors.
- Manufacturers then to focus more on products and the consumer, than how the shopper purchases the product in store.
- At the other end of the spectrum, retailers track and review overall shopper satisfaction drivers for their channels/banners versus their competitors.
- Loyalty card programmes are possibly the expectation to the rule….allowing both parties to make plans on the same sets of shopper focussed data. Shopper purchase data has provided key retailers such as Tesco with specific insights about who buys, when, where and how. In recent years, these insights have been sold had been to manufacturers to provide the same shopper focus at a brand and/or category level.

However, shopper loyalty is not driven by any one factor. It is indeed a combination of a number of factors:

- The shopping experience – Did the experience meet the shopper expectations? Was it easy and quick to find what they wanted? Was it easy to pay for the items?
- The product – Was there a good choice of relevant products?
- The quality – Was the quality provided suitable and in line with expectations?
- The location/channel – Was it easy to get to? Park? Find online?
- The price – Was the price right and in line with their budget expectations?

Both the retailer and the manufacturer will be better able to deliver these elements by a combined approach.

Even though we are in economically challenging times, price alone is not a driver of loyalty.

- Year on year, price has declined in relative importance for shoppers as a key driver of store choice
- Shoppers care more about **'Personal Value' = Cost or Effort to Acquire *versus* Benefits and Quality**

The real win comes from a collaborative process of building shopper-centric business plans – for the channel, store, category and brand – which deliver clear value propositions for the shopper.

Retailers need to rely more heavily on manufacturers in the future:

There are several factors emerging from market trends and more demanding shoppers which mean that retailers will need to rely more heavily on a partnership relationship with key manufacturers than previously may have been the case.

Price discounting not a sustainable solution…nor is it one that the shopper wants!

Retailers have long since practised the art of price wars….yet this is having an increasingly negative impact on margins (for both the retailer and the manufacturer) and is negatively affecting the overall retailer image. A more sustainable strategy is required for the longer term. Price should be in the business planning toolkit, but it is a blunt weapon when thinking about the overall needs of increasingly sophisticated shoppers.

Globalisation of retailers to emerging markets means that major FMCG manufacturers hold the insight.

In emerging markets, manufacturers deal directly with the shopper, independent retailers and wholesale channels. The manufacturer therefore knows a lot about the local supply chain logistics, shopper needs & profiles and competitive landscape. As the traditional channel stronghold decreases and the global retailers move in, savvy Manufacturers should align themselves with key global retailers to share their local market and category knowledge….creating a valuable partnership for both.

Brand Loyalty should not be underestimated.

Many retailers are looking to increase the importance of Own Label within categories. Moreover, delisting of branded products is a constant objective of retailers to ensure category optimisation.

However these two objectives should be balanced against the understanding of shoppers' brand loyalty and affinity.

- Wal-Mart learnt this during the initial implementation stages of Project Impact in 2009. This project (which is still ongoing) was intended to reduce clutter, make the aisles easier to navigate, and improve the look of the stores.

  However, when Wal-Mart implemented Project Impact at 600 US stores, it had an unintended impact – sales suddenly declined.

  What they hadn't appreciated was that some of the major brands they delisted were actually trip drivers in themselves. By removing them, they drove shoppers to their competitors!.

- Famously, in 2009, Belgian supermarket chain Delhaize delisted about two-thirds of the Unilever products they normally stock due to a dispute with Unilever over pricing and in-store promotion.

  BUT, Delhaize quickly began to lose customers who were brand loyal, (while Unilever were losing sales), consequently resulting in a suitable solution for products to be relisted.

Over promotion of categories

The prerequisite for a manufacturer being listed in a category is often the agreement to commit to an aggressive promotional plan. However, from the shopper view, this often has the impact of devaluing the category overall.

A far better solution is to consider how a more collaborative strategy delivers value for the retailer and the manufacturer…and most of all, the shopper.

- A good example of this is the 7-Eleven and Hershey collaboration.

  Hershey produced a children's cartoon character for the entrances of 7-Eleven stores. Hershey then recruited their arch rival, Mars to join them in their collaborative promotion plans.

  The two manufacturers merchandised their core products in the open mouth of the character. They also offered a $1off coupon on the products when a soft drink was purchased.
  The impact: It grew overall sales of confectionary for the category (and volume and value of sales for the individual manufacturers) and it drove cross category purchasing into soft drinks!!

Savvy digital shoppers

Shoppers now have access to information and data at each and every stage of their decision to purchase…..long before they find themselves at the point of purchase. Shoppers are shopping more consciously and confidently. They can gain instant access to competitive prices, ingredients, nutrition facts and background information on retailers and manufacturers.

Trying to satisfy this 'appetite' for information is again better achieved by a collaborative approach

- Shoppers will soon be using self scanning phones which will allow them to:

  Locate retailer stores
  Check products in stock
  Scan items in as they run out to create a shopping list on the go
  Find optimum route in store for favourite products
  (Tesco Romford is asking for trial consumers for this pilot Study)
  Mobile coupons.

- In addition, smart phones will also be used as both a payment tool as well as marketing tool (carrying loyalty card data at the touch of a smart phone swipe)

- Social media is also enabling shoppers to easily rank their shopper and product experience to others, at the touch of a button. 'Word of mouth' has never been more impactful.

- QR codes can now accessed too by shopper smart phones.

  Instead of the usual 20 digits of information contained within barcodes, QR codes allow the shopper to access 7,089 characters for information delivery.

  Savvy manufacturers should be delivering relevant messages and information via products and shelf labels.

Manufacturers need to proactively take this opportunity with retailers:

Category level insights

Manufacturers need to align with retailer strategies and bring extra insight to the table to grow overall category insight. They need to consider the impact to the overall category of any changes to merchandising, promotions, POS, new product introductions and even pack changes.

Range rationalisation

Retailers are now deeply entrenched in offering their own private label alternatives.

- They cost less to bring to market.
- They therefore can be priced more cheaply for the shopper.
- They are often as good a product as their branded equivalent.
- They cost a retailer 30% less than a branded equivalent – 20% is passed on to the shopper in the form of lower prices, 10% contributes to a high retailer margin.

However, balancing the right range of the overall category to allow shoppers the right choices is crucial.

The real challenge is that in addition, SKU rationalisation is a key objective for many retailers:

- Wal-Mart is currently targeting a 15% reduction in ranges in the US and 30% in Asda, UK.
- Several retailers have reported a reduction in choice enables consumers to find items more easily….thereby increasing basket size.
- We know from our own shopper studies, that shopper actually perceive there to be more choice when a range has actually been reduced. Clutter = confusion.
- Bain & Co also agree and cite that SKU rationalisation can increase overall sales by as much as 40%, whilst cutting costs by as much as 35%!

Manufacturers should embrace these challenges. Private Labels are here to stay and SKU rationalisation will remain an objective. Manufacturers therefore need to ensure they are number one or number two performer of the branded goods for any category. Moreover, they need to rationalise the underperformers themselves. The advantage of doing this proactively is that it will allow them to free up time and investment so they concentrate their efforts on their category captain performers, creating the true product benefit differentiation and innovation required to stay ahead.

New Product Development and Innovation

Manufacturers need to focus on truly innovative development. Innovations need to help the differentiation of the category and grow the overall category by stimulating new 'need' from shoppers.

The Collaborative Shopper Centric Plan – what does it look like?:

Together manufacturers and retailers need to deliver the right assortment for the right shopper at the right time! How?

- Through appropriate range rationalisation.
- Tailored merchandising according to channel, shopper mission and even time of day.
- Targeted promotions
  - Some retailers are now offering 'trade up' promotions around pay day, but price discounted promotions during mid month when shoppers may have less in their pockets.
- An optimum in store experience.
- Engaging social media at every stage of their journey to purchase (from consuming an item….to considering a purchase).

Retailers already know a lot about the 'Who, What, When, How' through:

- Loyalty schemes
- Panel data
- EPOS data

But manufacturers can bring vital in store 'motivational' driver insight to the table delivering the real 'Why' factor. The real win is to combine traditional research techniques with those that enable us to understand the physical and psychological clues that impact store behaviour. Some of these new techniques include:

– Virtual Reality Environments
– Eye tracking
– Neurosciences
– Retail Labs

Understanding the Entire Consumer to Shopper Journey

Together, retailers and manufacturers need to understand the entire consumer to shopper journey. With a more conscious and ‘savvy’ shopper, exposed to greater choices and a plethora of media, consideration and purchase decisions are being made earlier and earlier.

The cycle of consumption and shopping is intrinsically linked and we need to understand the ‘Who, What, When, Why & How’ motivators along this journey.

Retailers and manufacturers need to understand how they can positively impact the influence:

- Post consumption experience:
  How they can impact the decision to make the next purchase occasion.
- Shopper mission: How this translates to a driver for a shopper mission.
- The choice and perception of the channel and retailer in relation to their shopper mission.
- The impact of the shopping and purchase experience.

Key Takeaways:

- Shoppers are more sophisticated and demanding than ever.
- To ‘win’ with shoppers, retailers and manufacturers must collaborate to be ‘shopper centric’ in their strategies.
- Price discounting and price promotions aren’t sustainable.
- Shoppers are looking for more…..and the retailer & manufacturer need to find what they need and what stimulates demand.
- Retailers are traditionally the gatekeepers of insight.
- This needs to change.
- Manufacturers need to use insight for own strategies.
- And they need to bring additional insight to table for retailers.

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