REdeploy RESources: Charting the Course for the Future

REdeploy RESources

- REalign Format
- REcalibrate Value
- REPrioritize Shoppers
- REStructure Commerce
Contributors

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Kantar Retail dedicated much of its 2015 research to unpacking the fundamental disruption underway in retail – disruption driven by an increasingly fragmented shopper base that is redefining the very pillars of shopping behavior in the new century. Manifested in the diagnostic framework of REconfigure RETail as a central idea, Kantar Retail explored the major shifts according to four vectors: shopper, value, format, and commerce (Figure 1).

Figure 1. REconfigure RETail Framework

With these dynamics now defined, leading consumer goods and retail companies have recognized the need to chart a new course for their go-to-market strategies. As the industry moves from describing the disruptions to formulating appropriate responses, Kantar Retail is introducing a new, aligned framework to guide this path: REdeploy RESources.

In this report, we outline the parameters of REdeploy RESources, detailing the ways in which companies must precisely focus their assets to capitalize on the demanding shopper’s requirements. We conclude with a series of calls to action across each supporting pillar intended to catalyze change in the supplier and retailer community.

Source: Kantar Retail analysis

1 “REconfigure RETail Strategies to Drive Competitive Advantage” (http://www.kriq.com/Bigidea/Index.aspx?id=661821)

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REdeploy RESources serves as a complement to, and as the action component of, REconfigure RETail (Figure 2). It’s the “now what?” counterpart to the “so what?” that REconfigure RETail represented.

We have retained the four vectors to emphasize a call to action that corresponds to each element of disruption. In this new framework, however, we consider how redeploying assets to focus more closely on shopper conversion strategies can help drive scalable and agile growth. To that end, we will briefly address each of the following:

- **REprioritize Shoppers**: How will we engage today’s shopper niches with the media and relational, contextual messaging (microtargeting) required to drive commercial opportunities?
- **REcalibrate Value**: How will we have a conversation with shoppers that asserts purchase drivers other than price and emphasizes the overall customer experience?
- **REalign Format**: How will we address brick-and-mortar format specialization with regard to trip missions and align to the fastest-growing format – online?
- **REstructure Commerce**: How will we retool our go-to-market demand chain to engage shoppers on boundaryless terms?

*Source: Kantar Retail analysis*
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The Retail and Shopper Specialists
Reprioritize Shoppers

Reprioritize may seem like an unusual word choice, especially as many companies—asserting “shopper” as a company priority—have added dollars, head count, and structure to shopper marketing over the last 5 to 10 years. Though this work is important, the reprioritizing here is around strategy and shopper understanding. Companies that simply continue to pour more resources into old vehicles—or that narrowly define shopper marketing as “activation-centric marketing that takes place at a specific customer”—will fall behind more progressive and thoughtful competitors.

Shopper fragmentation has upended mass marketing as we have known it. In response, we expect companies to undertake a “great re-sort” of their brand portfolios over the next several years, because many legacy brands are simply misaligned to today’s shopper. Consider your typical supermarket’s center-store food selection relative to the cross-generational desire for healthier food options. Or the “new premium” natural options that have eclipsed what we previously thought of as “prestige” health and beauty products.

Similarly, the mix of promotional media used to influence shoppers requires an audit, particularly given the rise of targeted, digital media that actively engages (versus passively reaches) shoppers. Such media requires contextual engagement through micromoments that blend with shoppers’ lives where they are as part of their niched “narrative stream.”

This shift to holistic, relational marketing—which will yield transactions as outcomes, not as strategies—will require suppliers and retailers to first be sure they have the radar to discern shoppers’ needs. Too many companies today are not deploying the right listening tools—let alone the aligned conversational skills—that will drive shoppers’ sense that they are heard before they are spoken to.
Shoppers are self-curating retailers, categories, and promotional vehicles, becoming more demanding of their “chosen fewer” points of commerce and influence. With fewer shoppers (but more trips) per outlet, suppliers’ capacity to specifically target shoppers – from customized endcaps to beacons and digital messaging – will be a critical success factor to drive return on shopper investment in a world of fragmenting trade spend patterns.\(^3\) Such microtargeting reflects the fact that while most retailers’ shopper bases (the denominator) have become smaller, conversion expectations (the numerator) should increase, thus driving ROI. As a result, the ability to drive and consistently reinforce loyalty will distinguish the winners, because the importance of each shopper, SKU, and promotion rises. At the same time, loyalty drivers themselves will come under greater scrutiny, particularly as in-store and online experience and customization become the litmus test for shoppers seeking retailers that are loyal to them first and foremost (Figure 3).

Figure 3. Examples of Shopper Tailoring: Safeway (top) and Lowe’s (bottom)

Source: Kantar Retail analysis and store visits; Safeway.com

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\(^3\) “2016 U.S. Trade Promotion Study: Confronting Trade Promotion Fragmentation” (http://www.kiql.com/BigIdea/Index.aspx?id=1486516)
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REcalibrate Value

In considering value, the overwhelming reliance on price-driven promotional efforts will require a recalibration of trade spend in the future. Though more customized to individual retailers, pricing and promotion strategy requires an enormous investment in time and analytics across the industry. Nonetheless, retailers often leverage pricing as a blunt force instrument rather than as an outcome of an array of measured value drivers.

Price matters, and we expect to see continued growth in personalized, contingent pricing powered by algorithms. Even today, retailers’ best shoppers seldom pay the shelf price or even the price advertised in a circular due to digital apps that provide customized pricing as an outcome. Automated analytics – not human analysts – will make such pricing calibrations, often in real time.

At the same time, recalibrating the elements of value will require examining just what shoppers do esteem in our products and stores. Are we saving them time and minimizing stress? Are we providing quality? What services do we offer that make their lives better? What affiliations or values do we promote that align to their lifestyles today? It is not clear that our marketing sufficiently “values” these elements (and, therefore, incorporates them into price), though some efforts are underway (Figure 4).

The comprehensive shopper value proposition and the customer experience across touchpoints will become an increasing area of tension between retailers and suppliers as they negotiate power and equity along points of influence. Who owns the value scheme at

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Certain points in the shopper journey to transactions will be a very lopsided conversation if suppliers offer only price and availability. Reconsidering the value drivers we align to and deploy, and reconsidering when we deploy them, is the task at hand.

Figure 4. Publix Asserting the Values of Time and Quality

Source: Publix.com
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REalign Format

Whereas our industry remains tooled for the aggregated scale afforded by large formats, Kantar Retail forecasts that formats of less than 50,000 square feet in the U.S. will drive more than half of brick-and-mortar sales growth through 2020, and that online alone will drive nearly 30% of all retail sales growth. Said another way, online plus smaller formats will drive nearly 70% of all U.S. retail sales growth in the next five years. Considering the retailer curation referenced in the “REprioritize Shoppers” section, a rise in format specialization will drive suppliers to realign their sales forces in response. In other words, as formats realign to shopper needs, suppliers must realign to the formats meeting those needs best.

Therefore, as traditional channel delineations continue to lose relevance, suppliers must assess retailer formats and then reaggregate them according to shopper mission fulfillment. Importantly, suppliers will need to assign the trip roles of formats by product category, leading to a portfolio matrix that can then drive price, promotion, and assortment planning. In this way, though format differentiation will continue, new shopper-aligned aggregations will allow scale-based efficiencies to take hold. The growth of store-within-a-store layouts will add a layer of opportunity to this matrix, especially as services take up more selling space and offer untapped alignment possibilities for brands (Figure 5).

Figure 5. Carrefour Express Bistros

Source: Kantar Retail store visit
Of note, brick-and-mortar shelving constraints do not limit the online format – elevating experience, personalization, and contextualization to drive commerce. Suppliers – especially in CPG categories – have yet to unpack the possibilities for truly immersive online merchandising. At the same time, the opportunities for online synergies with brick-and-mortar – from digital list management to curbside pickup – abound, adding a further avenue of sales growth (and complexity) for suppliers to manage in realigning format roles (Figure 6).

Suppliers that do not align to this new format ecosystem will find that their traditional channel definitions obstruct their own path to the shopper, limiting growth in the service of silos.

Figure 6. Walgreens App (left) and Sam’s Club Pickup (right)

Source: Walgreens.com, SamsClub.com
Finally, the nature of commerce itself has changed, since shoppers are no longer limited by space or time along a linear path to purchase. Shoppers expect a seamless commercial environment, one that is truly omnichannel and incorporated into their lives. This expectation drives a need for both retailers and suppliers to restructure their go-to-market approach to keep pace with commerce that occurs across a multitude of touchpoints.

Certainly the digitization of commerce – from points of influence to transactions to fulfillment – must be integrated end-to-end into the industry’s commercial planning and logistics. Much of eCommerce today functions as a bolt-on to existing operations, often siphoning off resources (labor, technology, analytics) from the brick-and-mortar “host” operations. As part of the broader redeployment Kantar Retail is advising, functions ranging from store labor allocation and inventory deployment to packaging design and third-party relationships will need restructuring.

Third-party relationships to manage the shopper interface, back-end operations, and fulfillment will likely be a pillar of this restructuring. Consider that Amazon uses more than 300 outsourcing logistics companies in Greater London. Matrixed logistics networks will replace today’s more linear, all-in-one providers, leading suppliers and retailers to become fluent in managing network components they do not fully control. In this world, the capacity for agility versus load will be a core requirement of commerce.

This phenomenon suggests that the elevation of demand-chain logistics must account for less predictable purchase behavior, more distributed points
of sale, and shorter delivery windows. As stores adjust their fulfillment roles and smaller formats proliferate, analytics that account for a range of outcomes will serve as a source of leverage between trading partners. Historical assets that served the industry well in an age of supercenters will no longer meet today's shopper requirements. Instead, being able to selectively deploy with precision will increasingly characterize winning retailers and suppliers in the future (Figure 7).

Figure 7. Coca-Cola Life Launched on Amazon (left), Loblaws Click & Collect (middle), CVS Store Pickup (right)

Source: Amazon.com, Loblaws.com, CVS.com
REdeployment
Calls to Action

As this discussion shows, the reconfiguration of retail’s parameters has given way to a call for action – redeploying assets and processes to align to new realities on the ground and online.

We recommend the following actions as first steps in redeployment. Those who follow these strategies will win increasing shares of shopper relevance and loyalty in the years ahead:

REprioritize Shoppers
Audit your brand portfolio against revised shopper criteria, then assess how well you align to how that shopper accesses media. This exercise will result in a new matrix of brands and media (and expose the gaps therein). This will enable new media partnerships, trade promotion targeting, and retailer prioritization for more precise, customized, and relational microtargeting tailored to trip missions – the overdue evolution from broad channel and retailer strategies. Implicitly, divestitures, acquisitions, and the integration of shopper marketing into all supplier functions will be critical.

REcalibrate Value
Invest in the ability to provide algorithmic, outcome-based pricing and promotions, optimizing incentives to drive targeted conversion. Marketing, including trade, spend optimization, and reallocation, remains ripe for an overhaul at many of our firms, so a cross-functional working group will likely make the most headway. At the same time, assert the value of brand benefits other than price – and then value them appropriately to reflect what your shopper actually values about your brand. Only then can you begin a more equitable conversation with your retailer partners, a conversation that reflects more holistic drivers and the power behind those drivers (supplier or retailer) along the path to purchase.

REalign Format
Redesign your sales force to focus on category trip missions versus channels by creating a matrix of retailer formats and categories. This lens will drive differentiated account plans, trade spending, and joint business planning efforts that align more to how consumers shop. This effort must also include formally integrating the online format into sales planning to drive brick-and-mortar synergies more akin to seamless commerce.
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REstructure Commerce

Redeploy demand-chain capabilities, likely leveraging third parties, to emphasize agility and responsive fulfillment. Software and analytics, operations, and talent must contribute to a new architecture that considers stores as both fulfillment and transaction sites and online as a lubricant. Importantly, the elevation of eCommerce will require greater horizontality within supplier organizations to integrate brand and trade marketing.

Across these four elements, companies that redeploy successfully will shift a number of core attributes and areas of focus:

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<tr>
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<td>Scale</td>
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The work ahead will be transformative to our industry, but the investments required will bear fruit as sustainable growth congruent with a demanding shopper. To help guide your successful redeployment, Kantar Retail will leverage the REdeploy REsources construct throughout 2016 as a central theme on KantarRetailIQ.com and at our Mid Year Forums in Boston and Chicago in June.5

5 For details about our Mid Year Forum in Boston, see http://www.kriq.com/Events/EventDetails.aspx?id=1483382. For details about our Mid Year Forum in Chicago, see http://www.kriq.com/Events/EventDetails.aspx?id=1483383.
Our Core Capabilities

**Organizational Performance**
We help you to develop the commercial capability of your organization and the commercial competency of your people through organization design; commercial process mapping; competency modeling and the assessment, design, and delivery of training academies.

**Go to Market**
We help you to improve your performance with retailers through better business planning and alignment of brand with retailer and shopper objectives and by choosing which channels to compete in, how best to access them, and how to win within them.

**Retail Virtual Reality**
We help you to create virtual retail environments and product content for virtual merchandising, store design, category management, retail execution, and shopper research so you can make better, faster retail decisions.

**Retail & Channel Insights**
We help you shape your go-to-market strategy, assess new channel opportunities, and strengthen your customer relationships by understanding how the overall retail landscape is evolving.

**Category & Shopper Solutions**
We help you unlock future sources of real growth through the development of fact-based Category Drivers and Activation Platforms. These are tailor-made for specific channels and retailers and are purpose-built to influence purchase behavior.

**Retail & Purchase Data Analytics**
We help you to apply best-in-class analytical tools and consulting services to create winning strategies in-store and online across assortment, merchandising, promotions, and price.

**Sales Process Automation**
We help you to optimize and automate sales force, KAM activities, and investments through our Sales Master 1 application, increasing your ROI.

**Shopper Insights**
We help you turn shoppers into buyers by understanding shopper needs, motivations, behaviors, barriers, and triggers across the path to purchase.
The Kantar Retail Narrative

We are
The Retail and Shopper Specialists

Our Purpose
We help our clients sell more – effectively and profitably

Our Belief and Philosophy
We connect a world-class set of retail and shopper assets with pragmatic, solution-oriented people to grow client businesses

Our Brand story
Every business challenge requires a unique solution.

We bring together a collection of retail and shopper assets – insights, tools, analytics, and experienced consultants who think pragmatically while building and delivering integrated solutions. Our passion is using the right combination of these assets to grow your business.

Our teams create real-world solutions to deliver faster growth, and we plug in seamlessly as part of your extended team. We connect these solutions to your core work, embedding them so your organization benefits systemically and continuously.

These solutions are aimed at your critical business decisions – how to best drive future growth, where to play, how to win, and how to optimally allocate resources. In turn, our solutions help you win the critical decisions made by shoppers and buyers along their purchase journey. Our specialized knowledge and expertise can be targeted toward specific business issues, while our integrated solutions transform businesses and generate breakthrough performance improvement.

If you would like to discuss any of these issues and explore how Kantar Retail could support your business in REdeploying RESources, please contact our Chief Knowledge Officer Bryan Gildenberg:
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