

Attention: Shoppers

By Win Weber and Brian Ross

As leading retailers intensify their quest for rich, data-driven insights into their best shoppers, manufacturers have a unique opportunity to bring their own analytical strengths to the cause.

Viewing today's marketplace challenges through a common lens – the perspective of the individual shopper – CPGs can collaborate with their retail partners to transform deeper intelligence into higher sales, greater market share and more profitable long-term relationships.

A few progressive retailers are leading the way in this shopper-centric revolution. But there's still plenty of time to catch up.

Already, forward-looking manufacturers are working closely with their key retail partners, shaping more powerful strategies to target highest-value shoppers. In doing so, they're stretching the traditional boundaries of category management.

PART ONE: The manufacturer's pivotal role in shopper-centric category management

Retailers have been analyzing shopper data since the first point-of-sale terminal was installed more than three decades ago. But in recent years things have changed. Loyalty programs have grown increasingly sophisticated, making it easier than ever to link specific transactions to the individuals behind them. Advances in analytics have kept pace, bringing a new level of refinement to understanding how, when, where and, most important, why people shop the way they do.

Armed with these unprecedented insights, retailers are finding more effective ways to influence behavior, focusing in particular on those shoppers who are likely to yield the most value over the long term. A recent study commissioned by Precima and conducted by

IDC Global Retail Insights reveals that 75 percent of retailers rank becoming more shopper-centric as one of the top three keys to success.

Where do manufacturers fit into this revolution in shopper-focused retailing?

The leading CPG companies have been building up their analytical expertise for years, investing heavily in richer sources of consumer data and the talent required to decode it. Now, as leading retailers leverage their shopper data in the quest for still-deeper insights, manufacturers have a unique opportunity to apply their own proven strengths in furthering that goal.

The drive among progressive, shopper-focused retailers to rethink marketing and merchandising strategies is matched by the energy that leading CPGs bring to increasing understanding of their categories and brands. Where the two can come together is in viewing the challenges ahead through a common lens – the perspective of the individual shopper – as they collaborate to transform data-driven intelligence into higher incremental sales, greater market share and more profitable shopper relationships.

Starting from the shopper's point of view

Traditionally, CPGs have focused on determining what kinds of consumers shop an overall category, or buy a particular product, or choose a unique size or format or flavor. At the risk of oversimplifying, manufacturers' strong suit has been analyzing consumer preferences and brand attributes – determining, for instance, whether people would be more inclined to buy pre-prepared microwavable entrées if they included different ethnic cuisines, or if they were packaged in individual serving sizes.

But more and more retailers are saying, "Let's start by homing in on our most loyal and valuable shoppers. What motivates them to buy one brand over another – or to choose a specific item – or to shop the category at all?"



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Using transaction-based data, a shopper-focused retailer starts by identifying key groups among its best shoppers. One of these high-value segments may be time-starved large families who are looking for quick and easy weekday meal solutions. And one of the product categories addressing that need may be microwavable entrées.

From there, close analysis of basket contents will yield insights into what might motivate current entrée purchasers to buy more, or how to attract other shoppers within this segment. This in turn may lead to product-specific decisions around cuisine and serving size. But the starting point is gaining a deeper understanding of what priority shoppers want.

Targeting a retailer's highest-value segments

The power of these new shopper insights extends far beyond traditional relationship marketing. Using personalized transactional data to target one-to-one communications has long been standard procedure for any retailer with a reasonably good loyalty program. Now, guided by expert analytics, it's possible to identify four or five key segments within a measurable tier of best shoppers and then fine-tune every aspect of the retail experience to suit their needs and preferences.

Retailers who've embraced the new analytics are tailoring promotions with more specificity than ever before. They're learning that their best shoppers may not have the same priorities or brand affiliations as consumers generally. For example, these high-value shoppers may show a surprising lack of price-sensitivity in some categories, or they may make unexpected connections across categories in arriving at a purchase decision.

In this new shopper-centric landscape, manufacturers face a critical question: How do you go to market with a portfolio of national brands if every

retailer is going to develop a different set of high-value shopper segments and a different set of approaches to address each segment's unique needs? The answer is to work closely with retail partners – starting with key accounts – to tackle the enormous challenge of incorporating shopper-based analytics into category and brand management. This article will try to provide some helpful perspectives on how that can ideally be achieved.

But ahead of any specific collaborations in sharing data or pushing the boundaries of brand-centric thinking, manufacturers and retailers first have to achieve a meeting of minds around common goals and the best routes for reaching them. Because while no one is suggesting that all established approaches will be swept away in this new wave of shopper-focused retailing, there's no question that the game is fundamentally changing.

What's required is a new kind of relationship, at the highest strategic level, between manufacturers and their key retail partners.

Working together to develop new strategies

Retailers and manufacturers both want the same thing. The parallel goals of market share and category share converge in the ability to profitably change the behavior of individual shoppers – measured by share of basket and wallet.

As they get to know their best shoppers better than ever, retailers are using those insights to rethink every aspect of how they do business. Manufacturers, in order to stay relevant to their retail customers, will have to incorporate the same kind of shopper-based analysis into their established models for driving brand and category growth. In turn, retailers will get even more mileage from their shopper information by tapping into the talent and resources of CPGs that have invested heavily in analytical horsepower.

To keep the conceptual framework clear around this new retail paradigm, we should make sure we're all speaking the same language. The terms *customer*, *consumer* and *shopper* tend to be used interchangeably. The water is further muddied by many manufacturers who refer to retailers as customers. We therefore endorse the recent industry practice of referring to people who patronize retailers exclusively as *shoppers*.

The distinction between *shopper* and *consumer* is crucial to defining the pivot point between the old and new approaches to retail strategy. Consumer research looks at general behavior patterns to predict what certain types of people are likely to do. Shopper data indicates how specific individuals act (or don't act) in the context of the retail experience. Consumers are people with identifiable attitudes or predispositions. Shoppers are consumers on a mission: they're looking for a solution to a need, or at least are in the mood to buy.



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Both partners understand a fundamental truth: the categories that count most in retail are those that generate the most demand. In the absence of deeper insights, the best way to gauge the relative impact of categories is by analyzing sales in every way possible while reading the results against broader assessments of consumer preferences.

Now retailers have the ability to identify precisely the most profitable segments shopping at particular store formats and individual locations. They can use shopper insights to craft more effective promotion and pricing strategies, and also to tailor merchandising techniques and store designs to fit the needs and tastes of shoppers who will yield the highest returns.

Forging a stronger dialogue on strategy

Manufacturers have a central part to play in the shopper-focused enterprise, not simply aligning brand and category decisions with retailers' new insight-driven approaches but working alongside them to develop comprehensive strategies.

CPGs hoping to increase their influence with key accounts must start incorporating those retailers' shopper data into their recommendations. By weaving deeper insights into their strategies, manufacturers can play a more central role in areas where historically they've been on the periphery. They can exert more influence on pricing decisions, accelerate the pace of assortment changes and raise the overall ROI on promotional analytics – all by rethinking the building blocks of category management in light of what shoppers want.

Manufacturers who fail to shore up their skills and thought leadership in this area risk falling behind and losing their status as category captains or valued advisors. To work together effectively, manufacturers and retailers have to overcome any past hesitation to share proprietary data. Those who have their eyes on the horizon understand that a fruitful dialogue does not begin with “What are you going to do for me?” The question that counts is “What are we going to do together to win those key shopper segments?” And unless that win is three-way, with the shopper front and center, everyone loses.

Of course, all of this sounds good in concept. Indeed, the kind of revolutionary change we're talking about begins at the conceptual level, where brand strategy and the vision for a category are redefined through the lens of customer insight. But the full impact only becomes clear when we focus in on the points where strategy translates into tactics – in the aisles and on the shelves.

Moving beyond traditional forecasting

While a handful of leading retailers have been pursuing shopper-focused strategies aggressively, we're still in the early days of this transition. Manufacturers have a huge opportunity to take the lead in a movement that is, at most, a step or two above the ground floor.

In its recently published *Retailer-Direct Data Report*, the Grocery Manufacturers Association confirms that the majority of mass retailers are sharing unprecedented quantities of data with suppliers. What is striking about the report is the degree to which it focuses on data sharing related to inventory and supply chain issues. In its discussion of marketing applications, the emphasis is on promotional strategies driven by sensed demand – that is, on real-time, product-centric information indicating what items are out of stock or moving too slowly through distribution channels.

Supply-chain data is critical to effective retailing strategies. But in the realm of shopper-focused promotions, while there's clearly a need to know what's in the store, it's far more crucial to understand who's buying what and why. Indeed, as manufacturers and retailers bring more shopper insights to their collaborative strategies, the inventory control sheet is just one of many familiar tools that will become less decisive in determining strategy.

In the old world, a promotion for cheese would be keyed to the forecasted sales volumes for each store. In the new world of shopper insights, a promotion might focus on specific cheese varieties and pair them with, say, gourmet olive oils – because that's what will most likely attract high-value shoppers.

Using shopper insights to fine-tune pricing

Let's look at how adopting the shopper perspective changes one of the fundamentals of category management: pricing.

Retailers' lives have already been made a lot easier by price-optimization software. They can use computer-generated models to calculate elasticity and correlate that information with cost and inventory data to arrive at ideal pricing strategies.

Now these powerful analytical tools, based on general transactional data, can be augmented with shopper-focused analytics to bring even more precision to forecasts and planning. A retailer can identify key value items (KVIs) on which priority customers show the most price sensitivity, as well as those that offer opportunities for reclaiming margin and increasing revenue – while maintaining the



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retailer's overall price position in the marketplace.

The pricing solutions shaped by shopper analytics are often unexpected. A leading manufacturer recently sought help in determining whether the pricing strategy of one of its grocery partners was yielding optimal results. Analysts conducted a thorough assessment using shopper purchase data and were able to rank the importance of every item in the category to the grocer's highest-value shoppers. They also identified price sensitivities around specific items.

Many items that were very price-sensitive for priority shoppers were in fact fixed relatively high compared to the retailer's competition. To improve price perception and strengthen the loyalty of a key segment, the grocer implemented an everyday low pricing strategy for these items.

On the other hand, there were many items that best shoppers considered important but appeared to purchase regardless of price – yet these items had been subject to everyday low pricing. The recommendation: price these items higher and promote discounts only when trying to boost traffic among less frequent shoppers.

Shopper-focused analyses have shown that 20 to 50 percent of the items on a retailer's shelves have virtually no price sensitivity among best shoppers. By following the old route of identifying KVIs and then indexing to meet or beat competitors' prices, retailers may be throwing away margin with no appreciable benefit.

In a fiercely competitive environment where price is the first point of differentiation, retailers need the precision that comes with understanding deeply who their core shoppers are and what they value most. Going forward, pricing strategy will increasingly be fine-tuned to reflect the sensitivities of priority shoppers – while continuing to align with a retailer's competitive price index and overall price positioning and image.

Manufacturers will have to weave the same understanding into their pricing recommendations, applying shopper insights to refine analyses and rethink old assumptions. A CPG's ability to speak the language of shopper insights and make suggestions that are easy to implement will open doors to new conversations with retailers.

Keying product assortments to meet best shoppers' needs

Traditionally, retailers and manufacturers have determined product assortment using simple ranking reports, often augmented by consumer research. While this approach ensures that popular or profitable

items remain listed, it does nothing to align product selection with the tastes and interests of those shoppers who matter most.

Simplifying assortment by reducing the total number of SKUs is a worthy ambition, but not if it means inadvertently deleting items preferred by high-value shoppers. The answer is to systematically scrutinize the baskets of best shoppers to understand which items are uniquely important to them.

The findings are often counterintuitive – and can yield dramatic results. The recent experience of a major cereal manufacturer illustrates the point: As a category captain, the company was asked to make recommendations on listing, de-listing and adding items in a grocery retailer's cereal assortment. In addition to reviewing sales and profit rankings, the manufacturer commissioned an analytical study to determine which items were important to the retailer's best shoppers. It emerged that one cereal item, despite being ranked in the bottom 6 percent for its contribution to category sales, was in fact purchased by 80 percent of priority shoppers. The manufacturer naturally recommended that this item be retained.

Sales and profit rankings are essential for determining a core product assortment. But decision-making around which items should be listed or de-listed is significantly enhanced with shopper-focused insights. Rationalizing SKUs based on these insights not only improves category sales; it can help a retailer retain or gain unique shopping trips while also boosting cross-category sales, creating stronger differentiation and growing overall loyalty.

Manufacturers can work alongside their retail partners to sharpen these shopper-driven assortment strategies, bringing their unique understanding of brand to a new set of preference-based metrics.

Smarter products based on better intelligence

For manufacturers, introducing new products into the marketplace follows a familiar pattern: After all the research and prototyping and focus groups are complete, you launch and then cross your fingers as you try to gauge how much volume you're achieving and where.

Here again, shopper analytics change everything. Now it's possible to see how a new product is faring not just with all shoppers but with those whom a retailer values most. Transactional and loyalty data can be used to track best-shopper behaviors over time, monitoring the specifics of trials and repeats as a pattern unfolds. What's more, the impact of a new product can be evaluated in relation to the total



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basket of a high-value shopper, illuminating how it correlates with and potentially influences (or is influenced by) other purchase decisions.

At the same time, shopper-focused insights can point to new product development opportunities. For example, if time-starved families are buying ready-to-eat meals, other items in their baskets may provide important clues for potential product extensions. They may be buying added ingredients or accompaniments that suggest how pre-prepared meals could be enhanced to suit their tastes. Similarly, their apparent preference for a competitor's product within the

category, or their choice of size or format in related categories, can all be valuable signposts pointing the way to creating new products.

So far this article has examined how shopper-focused strategies are changing the game for retailers and their CPG partners. PART TWO looks at how manufacturers can better prepare for, and profit from, the shopper-centric revolution.



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Win is Chairman and CEO of Winston Weber & Associates (WWA), a management consulting firm that provides a wide range of consulting services to manufacturers and retailers in the consumer products industry. He is recognized as one of the original architects of category management and for introducing retailer/supplier partnering to the U.S., Mexico, Australia and Asia. He is also known for his leading edge thinking and expertise relative to category management evolution to shopper centric retailing as well as shopper marketing transformation.

Prior to entering the consulting profession twenty-five years ago he held various executive positions with major consumer products companies. He has authored numerous articles on partnering, category management, shopper marketing and related subjects and continues to be a guest speaker on these subjects for numerous industry associations and corporate gatherings. Win is on the Associates Member Council of the Grocery Manufacturers Association and Chairman of the College of Arts and Science Board of Visitors, Syracuse University.



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Before joining Precima, Brian held a series of positions in LoyaltyOne businesses, notably providing client management and analytics for key Sponsors of the AIR MILES Reward Program. He has used data-driven customer insights to help shape successful business initiatives for clients in grocery, pharmacy, department store and specialty retailing, as well as financial services and consumer packaged goods. Brian shares his expertise in regular articles for marketing publications and is a frequent speaker at industry events and forums.



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