



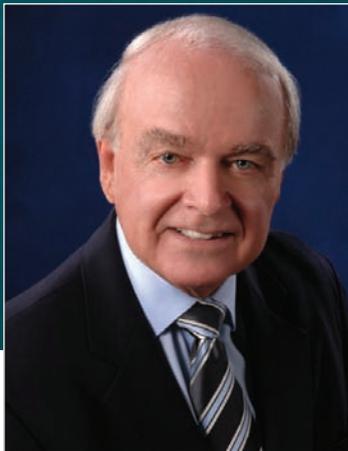
'Shopper Centricity' is the stated goal of every industry player today.

But it's an impossible dream unless today's slow-to-change retailers fundamentally restructure to align functions now working at cross purposes and change incentives that reward behaviors at odds with the objective — and unless suppliers take collaboration well beyond out-dated category management.

— In My View —

It's Time for the **TURTLES** to Fly

By WIN WEBER, CHAIRMAN and CEO
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Win Weber

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■ SHOPPER CENTRICITY. IT'S ON EVERYONE'S LIPS.

It's the subject of vision statements and expert advice. It's the theme of industry conferences. It's recommended by consultants; it's the stated strategy emanating from the executive suite. *But is it achievable?*

IN MY VIEW, NO.

Why not? Quite simply, becoming truly shopper centric requires *fundamental change in industry structure* — and this structural change is yet to be made.

The CPG and retailing industry, as most of us would acknowledge, is slow to evolve. In too many areas, we have moved at about the pace of a slow-moving turtle. This is particularly true of retailers.

Yet today, we're an industry in which the dynamics are moving extremely fast. In my view, we have now reached the point that, unless there is *immediate, significant change* in retail structure and supplier support thereof, many companies will not be able to make the critical transition to shopper centricism.

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Shopper-Centric Readiness Rating Scale

Retailer Supplier Survey



For most companies, 'shopper-centric' is still a pipe dream.

Source: Winston Weber & Associates, Inc.



for a shopper-centric environment. But the day-to-day running of the business is a different story.

Today, many category managers are still focusing on the best cost. Their focus is mirroring last year's deals. It's a "negotiation" focus. In short, the focus is still on the supply side, rather than on the demand or shopper-centric side.

Why? Because, quite simply, *we don't have the processes in place* to support a shopper-centric environment at the category management level. Nor are the performance measures in place.

At store level, as we all know, execution continues to be the Achilles heel of retail. *No matter what we wish to implement, the issue is the store.* No retailer, no supplier in this industry is really satisfied with store execution. For example, reportedly, 60 percent of promotions is about the best suppliers can hope to get executed.

What's the problem? Why, despite years of hand-wringing, have we not solved it? In my opinion, a major stumbling block is category management. We made a big mistake in 1991 when we designed category management: *We excluded store operations.* Today, store operations is not fully integrated into the category management process. *We do not have a functionally integrated process across the entire retail organization.* More about that later in this article.

MEANWHILE, IN MY VIEW, IT'S TIME TO RETIRE CATEGORY MANAGEMENT. Every retailer we speak with today agrees with this key statement: *"Category management has done a great job of bringing discipline and objectivity to the business, and helping us grow it. It has also helped us become great analysts."*

TODAY, AS WE HAVE ALL HEARD, SHOPPERS RULE.

We have moved rapidly to where, today, the store is the primary demand generator — *or should be.* The store is much more important today than it has ever been. It is a primary communication vehicle, a primary information vehicle.

Indeed, today 74 percent of consumers buy off list — that is, they don't make many of their decisions until they're in the store.

This suggests that the store can help, to its benefit, in making those decisions. Indeed, the very definition of shopper centricism might be: *a store experience that motivates incremental shopper spending.*

By this definition, I strongly believe the industry is not ready for shopper centricism. In fact, if the industry, on

the retail side, stays structured the way it is today, and if suppliers continue to conduct business the way they do today, we will not even come close to meeting the expectations of the consumer, and our own expectations.

Therefore, today we need to be very sensitive, if we are to move forward, to the need to structure our retail model to support the power of the store.

At the senior level of retailing, most of the major players "get" this (see chart, above). They know what they have to do, and they're taking action. The shopping experience is one of their strategic pillars. We're now seeing very aggressive initiatives in terms of new formats and store layouts.

THE CHALLENGE IS AT THE CATEGORY MANAGER LEVEL AND THE STORE LEVEL. Yes, at the top of many companies, management has a new framework

Category Management: Due for Retirement

The 16-year-old model has too many limitations to refresh ...



Source: Winston Weber & Associates, Inc.

BUT WHERE ARE MOST RETAILERS AS MERCHANTS? The industry has backslid in terms of being good merchants. The majority of people sitting today at the category management desks are excellent analysts. But most are *not* good merchants.

So, a key question for all of us is: *How can the industry move forward in an environment that is now top-line-sales focused, that is now striving to focus on the shopping experience — while the people making the decisions on a day-to-day basis, and who interface with suppliers, do not have fully developed merchandising skills?*

“Well, okay, then,” a number of industry observers, advisers and players are saying, “so let’s refresh category management.”

But the game is not refreshing something that has as many limitations as category management does (see chart above). The need is to go beyond a 16-year-old model with something

new. The name of the game is catching up to the consumer.

TODAY, WE NEED A WHOLE NEW MODEL. We need a model designed to bridge today’s silos — the functional silos across store departments. We need to shift the focus from category to aisle, department and store. *Today, a category focus is too narrow. We have to go much further.*

A whole new model is what it will take to restore the emphasis on being good merchants. Such a model should move us well beyond sameness, and create a significant shift in collaboration between supplier and retailer. It should shift the focus of everyone’s efforts to *merchandising for growth*.

This model will be truly shopper-centric — and here’s what shopper-centric means: It means aligning all functions and processes on the retailer and the supplier side to *enhance the*

shopping experience — for it cannot be repeated too often: Today, the name of the game is *enhancing the shopping experience*.

So — strategies and tactics must be aligned, processes must be aligned, merchandising must be aligned, and performance measures must be aligned. They must be aligned across all functions, to focus on the touchpoint of the shopper — and that touchpoint is the store.

This, in turn, will require a significant shift in performance measures, behavior and structure.

LET’S CONSIDER PROCESS. In today’s world, the day-to-day relationship between the retailer and supplier is focused more on *tactics* than anything else. But in fact, the category manager should focus on *being a student of the business* — on becoming an expert as it relates to the consumer and shopper.

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To repeat: *The category manager should be an expert.*

Now, what does this require? To be an expert requires working very closely with the retailer's own consumer research people and with suppliers to understand the consumer and shopper in the category manager's categories.

But today, there is no discipline or requirement for people to possess this expertise. So, the first step is to require that category managers focus very directly on shopper insights.

One important area of shopper insight is customer segmentation. As an industry, we have made giant

strides in the past year in targeting specific consumer segments, with the focus on behavioral and psychographic segmentation. This is going to require suppliers to rethink how they go to market. In most supplier organizations today, the marketing department is still saying, in effect: "We must have 75-percent all-commodity volume distribution on all new items."

But that day is gone. Going forward, there must be much more aligning of supplier brands with retailer shopping segments. This alignment is the kind of collaboration on new products that will be necessary from now on for all industry players.

THERE IS ANOTHER SEGMENTATION THAT FEW PEOPLE IN THIS INDUSTRY TALK ABOUT — *job-based* segmentation.

What's different about this form of segmentation? All other forms are, essentially, looking in the rear-view mirror. Yet, to really understand the shopping experience — and thereby enable change in shopping behavior — one must understand *the emotional drivers* of the purchase decision.

So as we focus on the shopping experience, we need to educate our category managers and build in processes, measures and rewards that help, encourage and require them to better understand the emotional pur-

A New Shopper-Insights-Based Model

Category planning must begin with and be driven by shopper understanding ...



Source: Winston Weber & Associates, Inc.



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chase drivers in their categories. Suppliers, too, need to understand this, and what explains shopper behavior.

ONE IMPERATIVE FOR CATEGORY MANAGERS TO UNDERSTAND is that there are two types of shopper behavior.

One is *routinized* behavior — “grab and go.” The other is job-based or *disruptive* behavior. The only way to generate incremental sales — truly *incremental* sales — is to disrupt routinized behavior. This can occur via new products, or new merchandising schemes.

Thus, key to growth is to get category managers to think about these behaviors, and about how they can disrupt routinized behavior with more effective merchandising and

promotional approaches — approaches designed to grow the basket.

In a self-serve environment — and the supermarket today is a self-serve environment — *how many category managers understand — or even think about — shopper behavior?*

Today, there probably isn't a category manager in the country who thinks about the two types of shopper behavior in the self-serve environment.

That's the box most retailers — and by extension all suppliers — are now in.

SOLUTION GROUPINGS IS ANOTHER IMPORTANT CONCEPT for category managers — one that will lead to

complete redefinition of their job, even their titles — or should.

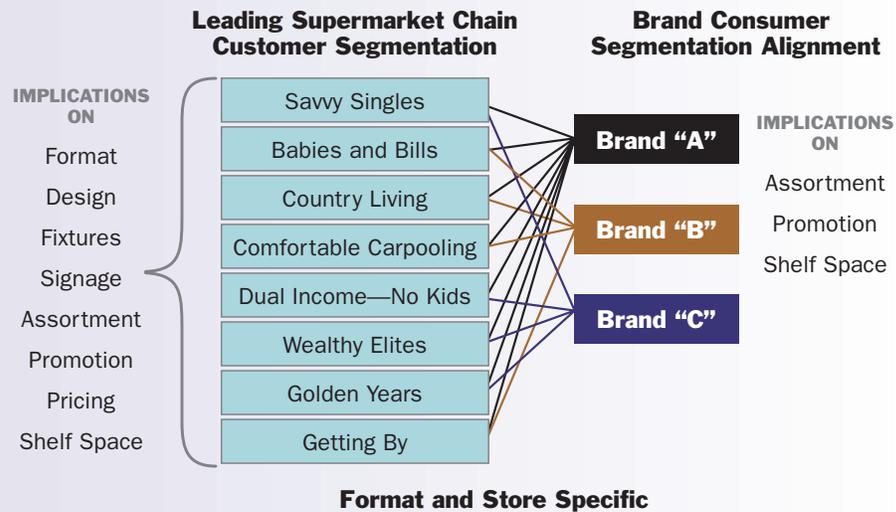
The fact is, how products are bought by retailers does not need to dictate how they are merchandised in the store. Yet today, it almost always does. Consequently, walk into any supermarket in America, and you are guaranteed to find a misalignment of strategies and tactics all across the store:

In some supermarkets, you can buy pizza in six different departments. You can buy crackers in the deli and in center store. You can buy salad dressing on the perimeter, in fresh, and center store.

Yet if you think about the store as a communications vehicle, as being

Supplier Impact: Shopper Segmentation at Retail

Shopper segmentation changes the way retailers and suppliers go to market

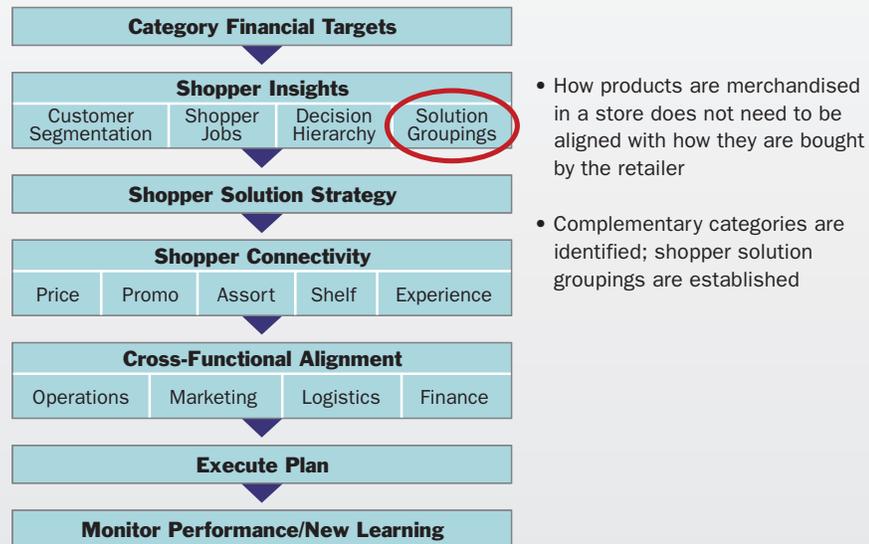


Source: Winston Weber & Associates, Inc.

SOLUTION GROUPINGS allow shoppers to make sense of the store, experiencing it as meeting their needs in a logical way. It's one element in the new operating model that, we believe, needs to replace 16-year-old category management.

A More Logical Model ...

Alignment by complementary categories shifts the focus to shopper solutions ...



Source: Winston Weber & Associates, Inc.

critical in terms of providing information and helping consumers make decisions, how does that make any sense at all?

At Coles of Australia, a full-service supermarket chain operating over 740 stores "down under" and employing more than 92,000 people, we addressed this problem by restructuring the merchandising function into solutions groupings.

At first, company executives were skeptical when we recommended putting service bakery and commercial bakery together. But think about it from the shopper's perspective: *Why should service and commercial bakery*

work against each other on any given day? It doesn't make any sense. There should be an expert in *bakery* — all bakery.

Another solutions grouping: health and wellness, HBC, vitamins, natural foods. *Natural foods under the same group as vitamins?? Doesn't make sense, does it?* Yes — it makes a lot of sense.

Canned meats and vegetables. Again, we restructured totally, into solutions groupings.

Today, solution groupings is the focus of this retailer — a radical change.

SUPPLIER RELATIONSHIPS CHANGE

ACCORDINGLY. At Coles, the shopper solutions strategy also includes processes whereby category managers interface with suppliers on a much more shopper-centric basis, seeking their perspective on what cross-merchandising and complementary products and categories can *help grow the total basket.*

This process evolves to where solutions and strategies are developed across the entire store; these will provide the framework for category managers in more-productive negotiations with suppliers: true shopper planning.

TRUE SHOPPER-FOCUSED PLANNING IS

The Shopper Solutions Difference

A total-store strategy ...



Source: Winston Weber & Associates, Inc.

SOMETHING WE DON'T SEE YET; today, we're still basically focused on price, promotion and assortment. But let's consider the shopper experience: How many category managers today are actually thinking: *How does my shelf communicate to the consumer? Do I have the right information on the shelf? What's the value proposition I'm giving the shopper? Is shopping in my section or aisle worthwhile?*

If your experience mirrors mine, category managers are not thinking about these things at all. Instead, they're thinking: *What SKU should I buy? What SKU should I delete? Should I promote at the same time this year as I did last year? Should I reallocate my space?*

Which is to say, are category managers really thinking about the store *through the eyes of the shopper*? Or rather, through the “eyes” of the basic mechanics they — and we — have followed for years?

In short, while the need is to look at the store in a totally different way — at the category on a much broader basis to determine the shopper-cen-

tric adjacencies and complementary categories — category managers, and suppliers, too, are still looking at the store the way they did 50 years ago.

WHERE TO BEGIN TO CHANGE? Let's consider organization structure, including the role not of a *manager* but of a *merchant* — a very important semantic difference.

As we all know, Wegmans — with whom we worked on restructuring years ago — doesn't have category managers. It has category *merchants*. Shoppers spend more time in Wegmans than they do in other grocery stores.

Why? *Coincidence?* We don't think so. We suggest everyone turn their category managers into merchants.

After all, it's a *merchant's* job to enable a feeling in the shopper. Who creates the emotional experience? Who creates the experience in the store? Is it the store? Or is it the shopper?

It's the shopper. It's what's *in the shopper's mind* that creates the shopping experience. It's the task of the store to

make a positive experience possible.

How do we go about creating the kind of store environment that will provide a desirable shopping experience? Put yourself in the shoes of a woman trying to decide what she is — what *you* are — going to serve for dinner this week. You go into the store ... *now you need the store's help.* How do we help the consumer develop menu ideas, incremental product purchase ideas? How do we help her think her way through the store? How do we help the shopper who is *just looking* to determine what to buy? What ideas are relevant?

Again, put yourself in the shoes of the shopper and consider, for example, one of the most emotional categories in the supermarket — candy. Candy is an emotionally driven purchase — yet it is one of the most boring categories in the store. It provides the store with good margins. So, why is it that the industry has not figured out how to create a candy store in a supermarket?

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Another unemotional — perhaps *the* most boring — category in the supermarket is the detergent aisle. Yet, it's something everyone needs and buys. Is that a reason to let it be such a bore?

Let's let a merchant take this challenge on. We have to remove the title "category manager" from our vocabulary. It's a "merchant" who will think well beyond the category — to the total shopping experience.

Then go a step further: The manager of the new category merchant should be called the "Solutions Group Manager." That's what they are — or should be. We need to start better describing, in their titles, what people's roles are — or should be.

We also recommend putting a shopper insights function within merchandising. Shopper insights should be a primary support function within merchandising, helping them understand, interpret and apply shopper and consumer insights.

This insights function should also

interface directly with the same function on the supplier side in terms of shopper-specific research. They need to work together to help define the research, and how it should be applied.

FINALLY, MAJOR CHANGE IS REQUIRED ON THE EXECUTION SIDE, in operations.

Below at left (*chart*) is today, *Current State*. It is also 1980, 1970, 1960, because in 50 years, retail operations has not changed its structure. The store manager's priorities — customer service, labor, store cleanliness, shrinkage and back room — are the priorities of every store manager in the country today.

But category managers, as you can see below, have different priorities.

The result, obvious at a glance, is a *misalignment between operations and merchandising*. How, then, can we expect operations to be good at execution? *It's not their priority.*

At right below, for comparison, is the *New Model*, which reflects the

new operations structure.

The key change is that there is now a Vice President of Shopper Solutions within operations. This position interfaces directly with the vice presidents on the merchandising side. This person is a key resource in terms of *Can we execute?* or *Can we not?* The person with this title has to commit that *Yes, we can execute*. All merchandising communications to the store moves from this function down to the stores.

And for the first time, there is a *full, dedicated commitment at a senior operations level to store execution*.

RADICAL AS THIS MAY SEEM, EVEN THIS IS NOT ENOUGH: The store, too, must be restructured. Today, the store is divided — siloed — into departments. Instead, we need a merchandising manager within the store with full merchandising responsibility for that store.

Why? If we do this, we can align performance measures, and this merchandising manager will be evaluated based on execution. He or she

Organizational Alignment Around Shopper Experience

The truly shopper-centric organization will align the priorities of merchandising and operations ...

Current State		New Model	
Store Manager	Category Manager	Store Manager	Merchant
PRIORITY RESPONSIBILITY	PRIORITY RESPONSIBILITY	PRIORITY RESPONSIBILITY	PRIORITY RESPONSIBILITY
#1 Customer Service	#1 Pricing	#1 Customer Service/ Shopping Experience	#1 Shopping Experience
#2 Labor/Payroll	#2 Cost of Goods	#2 Labor/Payroll	• Pricing
#3 Store Cleanliness	#3 Product Mix	#3 Store Cleanliness	• Promotion
#4 Shrinkage	#4 Promotion	#4 Shrinkage	• Product Mix
#5 Back Room Inventory	#5 Planogram	#5 Back Room Inventory	• Planogram
#6 Product Mix	#6 Service Level/ Inventory		• Communication
#7 Space Allocation			#2 Shopper Insights
#8 Planogram			#3 Cost of Goods
#9 Display/Signage			#4 Service Level/Inventory

Source: Winston Weber & Associates, Inc.



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will have the responsibility for *ensuring execution across all departments*. We will no longer have compartmentalization, other than for labor reasons.

What's fascinating about this structure is that it both essentially *guarantees execution on corporate programs*, and *positions the store for local merchandising*.

After all, as the industry moves inexorably to store-specific merchandising, there's no reason a merchandising manager, who knows his market and its shoppers better than anyone, cannot be looking at his own opportunities within that store. He can integrate and put complementary categories together, and create opportunity promotions within that store.

Again, the key: This structure creates a high level of commitment *to the total store — and aligns performance criteria*.

This is a radical change, a huge change — and a necessary change.

NOW, WHAT IS THE IMPACT OF ALL THIS ON SUPPLIERS?

Today, suppliers are spending huge amounts of money on category management. But retailers are not satisfied — they say they are looking for suppliers who can help them grow traffic and sales *across the store*.

Today, some retailers are beginning to look, in their signature categories, at two- and three-year planning. For suppliers who desire to be part of these plans, the name of the game will be *shopper knowledge*. It will no longer be merely supplying hands and analytical labor, because these alone will not drive consumption and store sales. Suppliers, then, need to be thinking now about how

they will reallocate their resources, and where to invest in actionable shopper research.

Supplier/retailer interrelationships, will change fundamentally. More and more, smart suppliers and retailers will engage in concept ideation, developing unique new merchandising concepts that fit the specific retailer and its "brand." Discussion will no longer be based solely on market-level data, but on what happens in individual stores — *or could*.

TOP-TO-TOP MEETINGS WILL CHANGE, TOO — TREMENDOUSLY. The business meeting — typically, a regurgitation of past performance — will be history. Instead, partners will focus on how to grow the business in future.

Yes, of course performance reviews will still be necessary. So, the category merchant should be prepared to review — before the meeting — the historical information required, so that the top-to-top meeting can focus on future growth.

RESEARCH, TOO, WILL CHANGE. Today, according to the suppliers we speak with, a vast majority of supplier research provided to retailers is *brand attribute* research. It's focused on selling their brands, usually by stealing share from competitors.

But share-shifting doesn't grow the category. It absolutely doesn't enhance the shopping experience, because none of it reveals the emotional drivers of the shopping experience. In short, none of this type of research tells us *how to change behavior*.

Instead, we'll need consumer mind-space research — research on shop-

per emotional states that lead to real insights that tell us *what* changes to make, and *how*, to enhance the overall shopping experience.

Retailers and suppliers will need to understand and act upon this new information, giving new meaning to the word, "collaboration." How many suppliers today have a customer alignment strategy? *A formal strategy? Do you?*

How many retailer/supplier planning processes are fully integrated — from the top down, across functions — to ensure that brand strategies are truly aligned with customer strategies? *Is yours?*

If not, you're not alone — 90 percent of suppliers do not. Yet, every retailer tells us they want to do business only with suppliers who add value.

And of course, every supplier says the same: *We want to do business only with retailers who add value*.

FINALLY, SALES AND MARKETING ORGANIZATIONS MUST BE RESTRUCTURED. The sales and marketing functions need to become joined at the hip. Today, in many marketing functions, the word "*shopper*" doesn't exist. "*Shopper*" needs to become part of the marketing vocabulary — quickly. Brand managers, too, need to understand the *shopper* — not just the consumer.

CATEGORY MANAGEMENT HAS LASTED TOO LONG. The evidence is everywhere: Today, *it's not working for the shopper*.

And if it's not working for the shopper, isn't it time to do what will? ■