Consumer Solutions at Retail – Beyond Category Management

BY BEN BALL

THERE'S A NEW OLD WATCHWORD IN RETAILING … CONSUMERS HAVE THE POWER.

The surge of options competing to meet consumers' needs continues unabated. The "balance of power" debate between manufacturers and retailers has been rendered moot. The power has shifted to the consumer and, as usual, it is retailers who are being impacted first.

Retailers' response to this competitive environment is an object lesson in history. They are once again seeking to bond with their consumers in a manner reminiscent of turn-of-the-century storekeepers – they want to build a relationship – they want to build equity. This is driven by a need for retailers to gain new competitive advantage, something beyond supply chain efficiencies and category management, and to date it has been underway largely without the involvement of most manufacturers (**Figure 1**).

Simply put, leading retailers are combining products, services and information in new ways, and across traditional categories, to provide new solutions and create greater equity with their consumers. They are *branding* these solutions, and in so doing are intruding upon the brand connections traditionally enjoyed by manufacturers.

The Implications for Manufacturers are Onerous … but Avoidable

As a result of these new initiatives by retailers, manufacturers run the risk of their brand connections becoming partially or perhaps even totally eclipsed within the store environment. This places manufacturers at increased risk for continuing margin shifts and commoditization.

But manufacturers can influence their own destiny in this new competitive environment. Three things are required.

1. Brands that matter
2. Thought Leadership in Demand Generation
3. Be "the Collaborator of Choice" for retailers

Figure 1:
EVOLUTION OF RETAIL SOLUTIONS

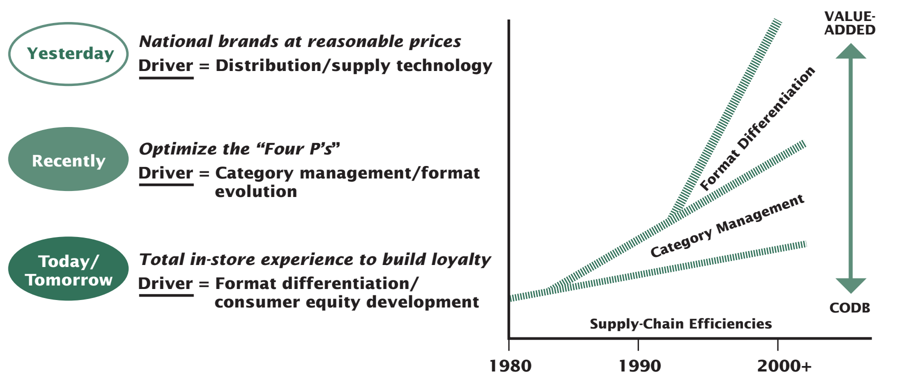

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Figure 2:
THE NEW CONSUMER EQUITY

Consumer' "Need Sets" Based On Lifestyle Drivers ...

But before we discuss what to do, let's understand what it is that retailers are trying to do better.

How Leading Outlets Are Enhancing The Total Retail Experience

Today's consumers increasingly *expect* to receive the basics of good retailing from their preferred outlets. After all, who wants to shop at stores that don't offer convenience, value, selection, good presentation and decent service?

Beyond these, there is an evolving set of criteria by which consumers select their stores of choice. Leading retailers are becoming more savvy *marketers;* finding ways to enhance the consumers' total in-store experience.

These new criteria consist of more qualitative and emotive attributes and connect retailers to consumers as a *brand* at levels above individual products and categories. These attributes include "retail-tainment," affinity of product choices to lifestyle, in-store novelty, shopper education, social interactivity and just plain fun and excitement.

Leading retailers, in fact, are redefining category and brand relationships, from those based on traditional criteria, into new groupings of products and services that better match consumers' broader lifestyle needs. These include maintaining wellness, meal/cooking entertainment, child enrichment, conveniences for busy working couples, or supporting an extended family, among others (**Figure 2**).

Consider these examples:

- **CVS and Rite Aid** are developing new store concepts and services which provide their shoppers a total wellness approach to healthcare. (Source: Target, CVS, Rite Aid Annual Reports, industry publications)
- **Genuardi's** "The Kitchen" represents a whole new store-within-a-store (SWAS) approach to HMR, while **Hannaford's** latest prototype uses innovative layouts to better unify specialty departments with the center of the store. (Source: Supermarket News)
- Many specialty outlets are creating unique, retail experiences, including **Barnes & Noble**, which provides several in-store innovations to encourage browsing – including a coffee shop and children's reading/story center. **Williams-Sonoma** offers total solutions for the complete kitchen, cooking, and meal entertainment experience. **Bath & Body Works** provides compelling lifestyle affinity merchandising relative to its *own brands* of personal care products, including thematic and image-intensive presentations. (Source: WSL Strategic Retail)
- In specialty grocery, **Gelson's** offers shoppers a unique shopping experience through an extensive variety of little "extras" in-store like live cooking, floral classes and sampling items at food demonstrations. Similarly, **Bristol Farms** offers in-store Wine Tasting and "My Chef" services take-home meals with menus changing daily throughout the month.

Why New Retail Connections to Consumers Threaten Manufacturers

These new retail connections create challenges for manufacturers who have historically enjoyed the lion's share of the brand linkages with consumers, and enjoyed the economic benefits.

That paradigm is changing as never before, with changing consumers, changing technology and communications, and the growing importance of the store itself in the marketing mix. As retailers increasingly offer new creative solutions, they are making a step change beyond category management and loyalty programs. Manufacturer's brand connections are at risk as retailers are leveraging very different factors, which impact the total in-store experience for consumers.

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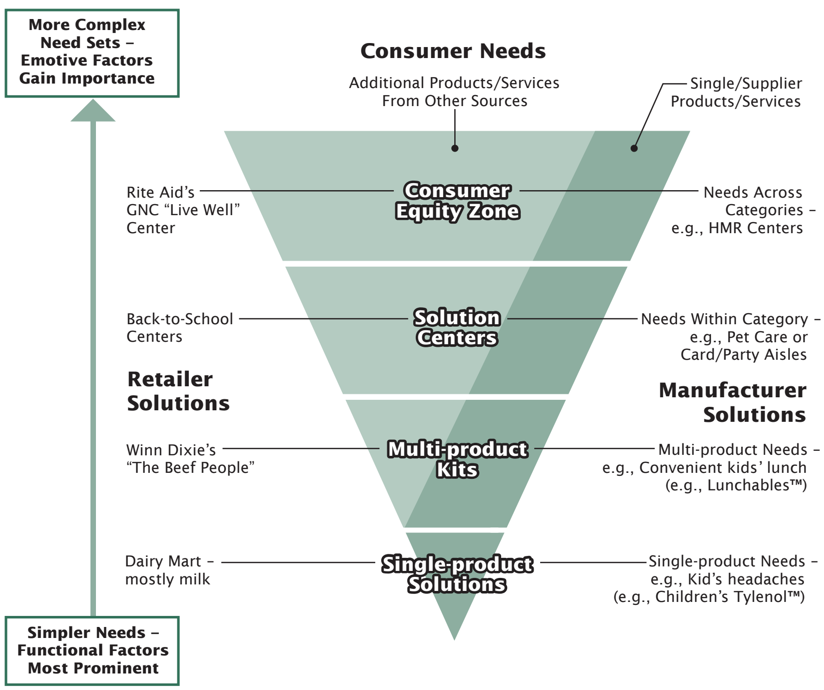
Figure 3:
HIERARCHY OF CONSUMER SOLUTIONS



The upside-down pyramid in **Figure 3** presents a framework of solutions. "Solutions" move from simpler needs at the bottom that a single product can address, to needs which multi-product kits can fulfill (e.g., Oscar Mayer Lunchables™), to those that require a broader range of products within a category to finally, solutions that meet higher-level "need sets" by combining products, services and information across categories. These "equity zones" at the top are often implemented as SWAS areas that also contain distinct brand connections beyond those of the manufacturers' constituent products.

Single manufacturers typically cannot provide all of the products or services for broader solutions, as shown by the darker band at the right. As consumer needs broaden, other elements must be added. This provides retailers the opportunity to step in and connect at higher levels, often addressing important emotional needs. In fact, real brand equity is built and sustained on emotive benefits that others cannot easily replicate.

A true "equity zone" assembles products/services from multiple categories that are not traditionally grouped, addresses a major need state on emotive as well as functional levels, provides compelling affinities/connections with important lifestyle needs, and is implemented in a clearly identifiable format (often a SWAS) that has brand linkages beyond its components.

Examples in the Marketplace

Examples of new solutions are becoming more evident, and run the gamut from combining products into new groupings to developing genuine equity zones. Manufacturers are reinforcing their brand connections while retailers are developing new consumer relationships:

- **New Retail Brand to Lifestyle Connections in Rite Aid** – Rite Aid has developed a strategic alliance with General Nutrition Centers to create an innovative SWAS featuring a wide array of nutrition and wellness products, services and information under the banner of GNC "Live Well."
- **Reinforcing/Expanding the Manufacturer's Brand in Supermarkets** – Hallmark has taken charge of a number of supermarket's greeting card aisles, turning them into card and party solutions called "Hallmark Expressions."

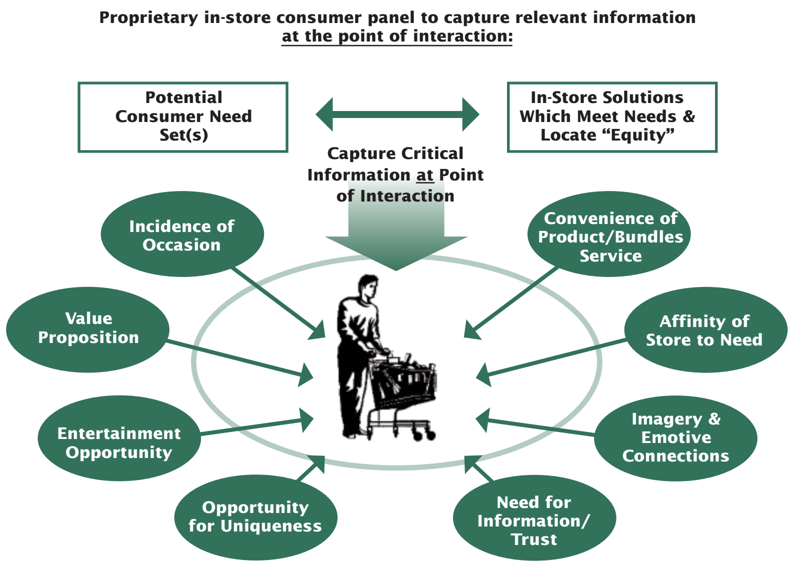
The Challenge for Manufacturers

We are not predicting that every major retailer is about to turn the entire store into a series of equity zones. Nevertheless, this trend toward solutions marketing by retailers is growing. It threatens to intrude upon the brand space traditionally enjoyed by manufacturers.

As a result, we believe manufacturers should choose to proactively collaborate with top customers to develop new and innovative connections to consumers. These unique solutions will defend their brand space while at the same time meeting the customer's objectives for competitive differentiation.

Manufacturers must evolve their marketing, trade relations and sales activities, to increase capabilities beyond today's "category management," to what we term the *"collaborative consumer equity development"* of tomorrow.

Figure 4:
RETAIL IMPACT MAPPING™



To stay in the game, we believe manufacturers must bring new value. Specifically, manufacturers need …

- **To build brands that matter,** brands that stand up to our definition of a "power brand" … a brand for which the consumer will go to another store to purchase the category if that brand is not available.
- **To commit to true thought leadership in demand generation,** developing strategic solutions against the top business-building opportunities with major customers.
- **To provide a workable process** by which account managers and teams can address the entire spectrum of the customer relationship in a way that makes the manufacturer a "preferred collaborator" for retailers. This is essential to success.

To generate this added value, manufacturers must identify new ways to build brand and consumer equity at retail, *within the context of their product/service offerings.* New approaches are just beginning to be explored and defined. There is an opportunity for leading-edge manufacturers to bring a new "science" to this process. Those that do so successfully will have a competitive edge.

How Manufacturers Can Start Getting Ready for the Future – Today

The heart of the process is being able to hypothesize, define, measure and then implement specific retail solutions, which differentiate the customer and build equity with consumers. This will not be easy. It will require mapping "equity opportunities" in stores across attitudinal as well as behavioral dimensions. This means new research and measurement approaches.

Foremost among these are efficient, consumer-based techniques which identify new retail opportunities for in-store solutions. DHC has developed a technique we call "Retail Impact Mapping™" through which manageable numbers of trained consumers can identify opportunities for building new solutions *at the point of interaction.* (**Figure 4**). This can quickly lead to either new approaches for testing, or solutions which clients can implement with top customers. The important competitive advantage for manufacturers is that this technique allows them to proactively develop and test approaches that will deliver on the promise of "Thought Leadership in Demand Generation."

To help manufacturers fulfill on the third requirement, becoming the retailer's "Collaborator of Choice," DHC assists manufacturers through a 7-step proprietary process. In addition to Retail Impact Mapping™, this process includes developing a complete understanding of client objectives/strategies to guide business development, an in-depth Customer Development Map built off of DHC's proprietary Customer Development Model (**Figure 5**), identification of specific customer solution opportunities, business case analysis, testing, rollout and strategic customer planning.

Other Elements of Success

We encourage our clients to also recognize that focus areas in the business need to be created relative to this new consumer equity knowledge generation,

Consumer Solutions at Retail – Beyond Category Management

management and application. Improved collaboration will be needed on research and program development activities between marketing, market research, trade development and sales.

In addition, manufacturers may find it necessary to consider forming strategic partnerships with companies with complementary products, to leverage new solutions with top customers.

We believe manufacturers who act quickly to capitalize on building new equities with their top customers can reap impressive rewards. However, we believe the opportunities are finite, and the clock is ticking ….

Some Questions For Our Readers

Listed below are some questions manufacturers can use to start thinking through the ideas presented in this article:

- Do you view your business today as more product focused, or do you seek to position your products/ services as solutions to meet broader sets of consumer needs or customer equity development needs? Why is this?
- Do you perceive that your brands are coming under increased competitive pressure with certain retailers who are also seeking to establish their own brand connections with consumers in the categories in which you compete? Why or why not?
- Have you considered or actively pursued co-branding collaborations as part of your business strategy with top customers? Why or why not?

Figure 5:
DHC CUSTOMER DEVELOPMENT MODEL

- Do you have a process to identify strategic business development opportunities with your top customers? How do you identify these? What process do you have to pursue these?

Dechert-Hampe & Company would welcome hearing from you if you would like to discuss these issues and the resulting implications for your business. V

"Consumer Solutions at Retail-Beyond Category Management" originally appeared in Viewpoint Issue 12, "Enhancing Customer Value and Satisfaction."

INFOANDINSIGHTS

New Considerations for Measuring CRM Success

The true ROI of a CRM implementation is not readily apparent, as there are many variables.

On the cost side, quality knows no dollar amount. To protect against overspending, organizations must prioritize their top concerns and understand how and where they can best drive returns to significantly impact the bottom line. Some experts even go so far as to recommend abandoning enterprise-wide solutions for applications that are focused more on the individual components of a business. For example, if a company's top priority is automation of its sales force, that doesn't always necessitate integration of legacy systems, streamlined customer databases or support for multiple selling channels as well. Companies need to be cognizant of the marketing dollars that software companies spend, and not be oversold on un-needed bells and whistles.

Then again, training and change management costs should not be ignored or understated. Cutting costs up front here can result later in employee turnover and resistance to change, which can end up costing even more in the long run.

On the return side, less tangible benchmarks must be considered alongside the obvious. Reduced costs and greater efficiencies are easily measured, but improved customer retention and loyalty are often overlooked. The inability to establish success criteria that takes a company's entire operation into consideration can lead to misguided assumptions of failure. Definitions should be broadened to also recognize the benefits of things like strong vendor relations and an eager sales force.

Source: *"It's Payback Time Should You Gamble on CRM?"* By Cindy Waxer, SAM Magazine July/ August 2001