# SHOPPER-CENTRIC SOLUTIONS FOR THE NEW NORMAL

The power shift from manufacturers to retailers to consumers has been well documented. How manufacturers and retailers address the question of how to target consumers in an age of omnipresent technology, information overload, economic stress, and high shopping expectations will determine the winners, losers, and those who just tread water.

Strategies for addressing these consumers were discussed by speakers at the 2010 LEAD Marketing Conference held in Rosemont, Ill. on October 11-13, 2010. (LEAD, produced by the Shopper Technology Institute, stands for Loyalty, Engagement, Analytics and Digital).

Opening speaker **Gary Hawkins**, president, **Center for Advancing Retail Technology**, Skaneateles, N.Y., expanded on the concept of "Retail 3.0" he presented at the 2009 conference, saying, "There's a lot of activity that is happening in this space, more so than a year ago." Hawkins also is president of **Green Hills Market** in Syracuse, N.Y. He explained that "Retail 1.0" was supplier driven through mass media. "Retail 2.0" saw power shift to the retailers with data drawn from loyalty programs. In "Retail 3.0," consumers are in charge because of their access to information through the Internet and other technologies.

It's not enough to look at current trends in shopper behavior. As **Stephen Horne**, associate partner, business analytics and optimization, consumer products, **IBM Global Business Services**, Armonk, N.Y., said: "We are looking at the future value of the customer. We are looking at the consumer as being the driver of brand strategy for the future and how do work with the consumer to move that brand strategy that parallels their future behaviors and future buying patterns."

There are many paths to that future. Leading experts in the consumer packaged goods and retail fields presented their thoughts on how to get there.

## *Key Conference Themes*

### Use Customer Data More Effectively

CPG companies and retailers waste too much promotional money on "renting" customers who cherry pick or pantry load, or otherwise take advantage of short-term deals, said **Milen Mahadevan**, senior vice president, client solutions, **dunnhumbyUSA,** Cincinnati. Meanwhile, the best customers are being trained to wait for the promotions.

A widely acknowledged leader in loyalty marketing, dunnhumbyUSA is a joint venture of the **Kroger Co**., Cincinnati, and London-based **dunnhumby Ltd**., which is majority-owned by **Tesco**, Cheshunt, U.K.

Mahadevan addressed four common mistakes companies make in using customer data:

- *Asking the wrong questions* — Ask about customer behaviors, rather than brands and stores.
- *Using the wrong data* — Use more customer data, as opposed to attitudinal data or POS data.
- *Not balancing loyalty and customer acquisition* — Spend more on the best, most loyal customers, not the uncommitted.
- *Not improving enough systematically* — Because of better customer data, the feedback loop is much shorter, but companies are not taking advantage of it.

"You want to build a DNA of all your customers. You want to look at what they buy, how they buy, when they buy, why they buy, and build a series of segmentations that are relevant to the behavior that you are trying to influence," Mahadevan said.

Because of the economic environment, **Marsh Supermarkets**, Indianapolis, has found more of its best customers are buying items promoted on the front page of its circulars said **Mark Heckman**, vice president, marketing. Using shopper data, the retailer has found that about 154,000-16,000 people, or 24% of its customers, account for 57% of sales of front-page circular items. "They drive 65% of our sales, or about 75% of our profits," he said.

"If you target a group like that, and you target them in the right way, that not only can move departmental sales, but can actually move store sales. So you can start to move the needle at the very top lines, and not just have these little internal home runs," Heckman said.

Horne of IBM spoke about six data areas:

- Consumption-based consumer segmentation and ranking
- Brand sensitivity and health analysis
- Future value of consumers
- Out-of-stocks management (on-shelf optimization)
- Freshness/unsaleability analytics
- Trade promotion optimization.

"There are incredible volumes of data available, the cost of managing that data is coming down, and the analytics necessary to pull the knowledge out of that data is becoming more sophisticated. So bringing those two processes together is enabling companies to think about them as an individual segment and not just a large homogeneous group," Horne said.

## Getting Closer To The Shopper

There's a world of technological opportunity for marketers, but "before a retailer or a brand can exploit and take advantage of a lot of these new technologies, they need to stress the need for understanding of customers, understanding of customer value, of customer lifetime value, and shopping behavior. They need to understand what it is they are after, where they are going, and then how to get there, rather than, 'This is a new cool idea. I'm going to try this technology today,'" Gary Hawkins said.

This kind of understanding gets "put on steroids through the use of some of these new data warehouse tools that enable a retailer or a brand to drill into massive quantities of data very, very quickly," he said. This helps them see and understand – almost in real time – what is happening in-store, such as the impact of promotions, displays and signs. Then the industry should be thinking about the implications of true one-to-one marketing as mass promotion starts winding down.

"How are they going to compete against retailers, or against brands that do know what their individual customers want, when they want it, and are able to deliver that to them?" Hawkins asked.

'Informational retailing' is the key to reaching today's profoundly changed customers, said **Mark Shapiro**, president and chief executive officer, **Gladson**, Lisle, Ill. The old adage was that 80% of decisions were made in-store, but "that is now a two-way street because shoppers are proactively seeking information about products and they are doing that before they ever enter the store." If they hear information from a brand owner, "it may be tainted" in their minds. "But if they are hearing it from what they view as a third-party, then it has much greater credibility," he said.

How to reach those Internet third-parties? "We believe the solution lies in *informational retailing* hubs. That is the only means by which brand owners can reach all of these thousands of points of media," Shapiro said.

"Informational retailing hubs allow brand owners to penetrate all these media, and allow the media or the information providers themselves to have data in a manageable format that they can then distribute and show on their sites or their mobile apps," he said.

Today's customers are very polarized in their choices, said **Michael Sansolo**, a retail food industry consultant based in Potomac, Md. He is a member of the Coca-Cola Retailing Research Council and a former senior vice president of the Food Marketing Institute. Sansolo's presentation was based on the Council's report: "Getting Inside the Mind of Your Shopper."

"We have some customers who love shopping and some who hate it. We have people who love cooking and people who hate cooking. They key for a retailer is, you've got to be careful about being all things to all people. If you are just ordinary and there is no specific reason for people to come and shop you, what we found in our study is the level of satisfaction and loyalty customers have with you drops. But when you are specific and you deliver on the promise, the loyalty and the satisfaction goes up," he said.

"Whatever kind of company you are, understanding your point of differentiation and why that point matters to your customer is essential." Whether retailer or manufacturer, companies need to understand the current situation facing the customer and then align themselves around their strengths and weaknesses relative to their competition. "You've got to be exact with your marketing or position these days, or you fail," Sansolo said.

## Re-Imagining the In-Store Experience

The in-store experience still matters, and CPG companies and retailers need to develop a holistic plan to deliver the brand experience to keep up with rapidly changing consumers, said **Lynn Gonsior**, executive vice president and chief marketing officer and **Rhonda Hiatt**, senior consultant, **Interbrand Design Forum**, Dayton, Ohio

"We will continue to see the rise of digital technologies as influencers," Hiatt said. "It's about the brand strategy and knowing what's right for your shopper, and not just investing in every technology that comes along because it exists."

Gonsior added: "Clearly, we still believe in the power of the store. It's about how we create rich experiences in-store. The store may change, it may evolve, it may become something smaller, or something larger, but it's not going away. We need to make sure that we are engaging the consumer the same way in-store as we do online."

One retail company that is in the process of reinvigorating its Center Store shopping experience across all its banners is **Supervalu**, Eden Prairie, Minn.

The company has grown by acquisition and now boasts such retail brands as Albertsons, Acme, Shaw's/Star, Jewel-Osco, Cub and Shop 'n Save. Working with media and marketing services company Valassis, Livonia, Mich., Supervalu conducted an audit of stores which found that there were more than 700 templates across the various banners, and an average of about 1,000 signs in a single store. These have been cut by about 25%, said **Shawne Murphy Johnson**, group vice president, brand strategy and marketing.

Shelf tag types were reduced even more dramatically, from 133 to 11. "Some of the key benefits of this included the ability to reduce material costs by standardizing sizes, simplify our tag processes and improve our labor efficiencies across the enterprise," she said.

“We had reached a point where the consumer was more inundated with branding messages of products that were in the store than those that communicated what the Supervalu banners were bringing them as branded stores,” she added.

**Barilla America**, Bannockburn, Ill., has found virtual shopping to be a more efficient and timely way to hone in-store assortment, said **Douglas Healy**, senior market research analyst with the company. Working with **Decision Insight**, Kansas City, Mo., Barilla found that “virtual shopping is a tool that enabled us to build better relationships both with our retail partners and internally. It allowed us to do some things to give us data that we could feel confident in to go into retailers within the time and under the budget that we needed to get a project like this done,” he said.

“Virtual store research is a methodologically correct, cost effective, efficient way to understand which planogram can be most effective in the retail space,” Healy added.

Using consumer-centric assortment principles from **Henry Rak Consulting Partners**, Libertyville, Ill., **PepsiCo** division **Quaker Oats Co**., Chicago, has seen sales increases while optimizing stockkeeping units, and is now rolling the program out to 2,000 stores, said **Vince Salyards**, senior manager, category and consumer insights.

In tests at PepsiCo’s Smart Lab in Dallas, “we have seen as much as 30% increases, but when we have taken it to stores, we have seen at least a 4% to 7% increase in sales just by changing the organization of the shelf. So it is pretty powerful,” he said.

**Mike Downey**, principal at **Henry Rak Consulting Partners**, noted: “Many, many categories have too many SKUs on shelf. Retailers are looking to reduce their SKU count. This is a very simple, fact-based way to reduce your SKU count while still growing category revenue.”

**Hormel Foods**, Austin, Minn., boosted sales of the Center Store convenience meal category by using shopper insights, said **Robert Samples**, director, category planning and support.

The main learning was that “adjacencies trump signage” when designing shelf plans. Sales for the entire category rose 17%, and 53% of shoppers made an unplanned purchase when Hormel implemented the program, Samples observed. This involved vertical blocking, or “making sure that you set it up by meal occasion and usage occasion,” he said.

“Understand how your shoppers are shopping for the ultra-convenient meal, and the way that you can best address them is by blocking the things that match that solution with vertical blocks, and by meal occasion stacked on top of each other,” he advised.

## Using Social Media and Mobile Marketing

Consumers have learned to use the Internet to gather product information, social media to communicate with others about it, and are increasingly using mobile phone technologies to do this even while they are in the store.

“The Internet is not going away,” said **Rick Brindle**, consumer vice president, eSales and industry relations, **Kraft Foods**, Northfield, Ill. “The Internet generation is growing up. We have an activity of purchasing groceries, which is fundamentally closer to a chore than it is to an event, and we have this group of consumers growing up that is going to be looking for new and different and exciting ways to provide groceries and meal solutions to their home.”

If your organization is not using social media now, you will be soon, advised **Michael Schiff**, managing partner with **Partners in Loyalty Marketing**, who led a panel discussion on the topic. He emphasized this point with these statistics:

- 110 million Americans use Social Media
    - An average of 1 hour per day
- As of July 30th there were over 500 million Facebook users
    - 700,000 of those are businesses
- There are 50 million tweets per day
    - 2-3 new accounts are activated every second
- 50+ million members on Linkedin
- 14 million articles on Wikipedia

His panel consisted of **Shelly Nelson**, Director of Communications Strategy & Media, **SuperValu; David Carlson**, Creative Director, **Rayovac**; and **James Tenser**, Principal, **V.S.N. Strategies.**

There are three primary goals companies are pursuing in regard to social media, said **Jim Sullivan**, partner, **Colloquy**, Columbus, Ohio:

1) Build brand awareness
2) Acquire new customers
3) Build and grow the loyal relationships they have with current customers.

Smaller companies with smaller budgets tend to concentrate on the first two, while larger companies with bigger budgets are focused on building loyal relationships, Sullivan said.

However, in researching the topic, Colloquy found that two-thirds of respondents didn’t know what their primary metric was for determining the effectiveness of social media. “That tells us this is in an immature phase of the learning process. To avoid risking credibility and falling behind, the time is now to begin developing a framework for measurement for the experiments you are doing in this space," he said.

It's important to do this now because "what's happening beneath the hype of social media is a power shift toward consumers. We know that the female aged 24 to 59 is busier than she has ever been before and when we look out into the future, she'll be even busier still. She's using social media and related technologies to form a barrier around her that will be almost impenetrable by an irrelevant marketing message. The only way to get to her is to begin the process of learning how you can become part of her network and dialog, and stop monologuing out your message. The prize is her time and attention," Sullivan said.

One retailer reaching out to its customers on their mobile phones is **Bi-Lo**, Mauldin, S.C. Bi-Lo uses an opt-in approach and is now targeting only users of smart phones, said **Bill Nasshan**, senior vice president of marketing and merchandising. "Because we have started small, we are seeing some pretty good open rates, so I'd say it has been pretty effective." One football themed promotion sent to 6,000 customers resulted in 38% of them opening the message, he said. "That's going to be harder to duplicate and maintain as we expand the amount of communications that we send out. But today we feel very good about what we have done," he said.

Mobile "is going to be a critical part of the overall marketing spend and it is going to continue to chip away at the traditional budgets. But at the end of the day, it has got to provide value to the customer if you want them to open up what you are sending them," Nasshan said.

Bi-Lo is concentrating on smart phones because "that's where we believe the customer is going to be 18 months from now. It doesn't make a lot of sense to spend a lot of time and energy on feature phones today when in fact customers are going to be in smart phones. I believe they are producing 400,000 smart phones a day in China right now. You want to be out in front as opposed to trailing the technology," he said.

**Steve Goldberg**, senior vice president, **Samplesaint,** Chicago, said, "The mobile phone is going to become, if it hasn't already, the most important single piece of hardware or equipment that most consumers have. They will talk on their mobile phone, they will communicate with their mobile phone, they will get advertising and offers from their mobile phone, they will turn on their air conditioning with their mobile phone. Therefore, the ability of a marketer to communicate and connect with the consumer via the mobile phone will be the most important method of communication on a one-on-one basis going forward," he added.

Mobile shopper marketing is a fragmented and opportunistic space today, says **Carol Lauer** of **GfK Interscope**. It is becoming a key element in the digital space via online (sampling, websites, search engines), in-store (kiosks, digital signage), and word of mouth (social networks). Moreover, it will become the fourth lane in multi-channel marketing, along with store, catalog and web.

According to the firm's latest *Futurescope* survey, digital/mobile marketing will shift power to shoppers and will transform shopping in the next four years. In fact, digital/mobile will empower shoppers to the detriment of retailers and manufacturers. Unfortunately, the readiness of trading partners for digital/mobile revolution is lacking with some 41% of them devoting less than 1% of the marketing budget to this area. Only 40% of organizations have a dedicated digital/mobile team.

Digital technologies to engage shoppers along their path to purchase are evolving rapidly, according to **Steve Horowitz**, CTO at **Coupons.com.** In an exciting and interactive presentation using smart phones, he outlined innovations in mobile that will impact the brand-consumer connection.

While FSIs dominate coupon distribution and redemption today, digital offers are generating excitement. But what about the ROI of digital coupons compared to FSIs? **Neal Heffernan**, senior vice president and genera manager of **Knowledge Networks,** has studied both extensively.

For 15 years, the research firm has relied on its National Shopper Lab to measure coupons and build a coupon ROI model. The database consists of 22 million unique frequent shopper households across grocery and drug retailers. The firm has over 1,600 coupons analyzed in its database.