Aligning Merchandising & Marketing Decisions With Shopper Preferences

Total Store Optimization Moves Retail Beyond Category Management

Aligning Merchandising & Marketing Decisions With Shopper Preferences

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Managing assortment, pricing and promotions on a category-by-category basis is no longer sustainable in today's digitally competitive retail environment. Shoppers are too easily lured away to a competitor if the store does not provide the specific products they are looking for, offered at the right prices. Retailers need to be able to hone their strategies to deliver a more individualized, shopper-oriented experience on their path to customer-centricity.

Traditional supermarkets already are feeling the impact of many new types of competitors, including online retailers, big box stores adding grocery items and organic/specialty brands. During the past decade, supermarkets experienced a significant decline in "primary store" status among shoppers, dropping from 67% in 2005 to 49% in 2016.[1]

In addition, retailers and suppliers need to collaborate more effectively to make better shopper-centric decisions. But unfortunately, they often are still reluctant to exchange vital data: 11.5% of retailers provide no POS, loyalty or shopper insight information to CPG partners, while 38.5% provide a "minimal amount," according to data from Deloitte and the Food Marketing Institute (FMI).

> "From 2005 to 2016, supermarkets experienced a decline in 'primary store' status, dropping from 67% to 49%."
>
> **— DELOITTE/FOOD MARKETING INSTITUTE**

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1 Winston Weber/Deloitte/Food Marketing Institute Survey, 2015

Additionally, digital-based insights are significantly underutilized: 63% of respondents said "none" or "limited" when asked to what extent they apply digital-based consumer and shopper data for category planning. But when retailers and suppliers realize the advantages of exchanging vital data — and find more effective ways to use that data — both sides will win.

Taking a Total Store Optimization approach allows retailers to make decisions across the entire store — the same way customers shop. Total Store Optimization is based on drilling down to the level of individual shopper data and using advanced analytics to understand customer behavior — the granular-level data and analytical insights are then used to simultaneously provide price, assortment and promotion recommendations across all categories at the same time, thereby providing a balanced set of recommendations across the entire store. With Total Store Optimization, retailers can boost top-line sales and revenue, increase customer lifetime value and improve supplier relationships.

This Executive Brief explores the benefits of Total Store Optimization in **four key areas**:

"Precima looks at the **whole store** to understand the full impact of promotions and pricing tactics on category performance and customer lifetime value based on deep models of customer buying propensities. The approach puts **buyers and marketers on a common footing** with shared customer analytics."
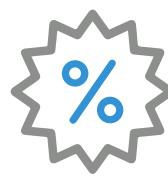
— **GREG GIRARD, PROGRAM DIRECTOR, WW OMNI-CHANNEL RETAIL ANALYTICS STRATEGIES, IDC RETAIL INSIGHTS**

ASSORTMENT   **PRICING**   **PROMOTIONS**   **MARKETING**

1

Total Store Assortment Optimization Maximizes Shelf Productivity

Shoppers seek more choices in some categories than others, and these preferences can vary widely from store to store. Applying Total Store Optimization principles to assortment allows retailers to devote the appropriate amount of shelf space to individual brands and product types, offering an appealing mix to customers while maximizing overall category profitability.

CASE IN POINT

Because consumers see little variation among different brands of bottled water, and because 12-pack and 24-pack sizes of these items take up large amounts of shelf space, retailers can reduce the number of brands they carry without risking shopper disappointment. Armed with shopper-level data about product preferences, retailers can be confident customers will switch their bottled water purchase to the available brands/sizes. With additional "real estate" to play with, retailers can expand their assortment to include more facings of healthy lifestyle beverages, which offer greater opportunities for high-margin sales.

> Because consumers see little variation among different brands of certain products, retailers can reduce the number of brands they carry without risking shopper disappointment, and use the additional 'real estate' to expand assortments of products offering higher margins.

2

Total Store Price Optimization Improves Customer Price Perception *And* Achieves Performance Targets

Pricing is one of the most powerful "levers" retailers have to stimulate demand and boost traffic. As many as 49% of retail "winners" use pricing to drive demand[2], according to RSR Research. But today's pricing decisions need to be balanced within the context of the entire store. For some products, consumers expect lower prices because they place a lower value on the entire category. For other products, prices can be higher because shoppers place a higher value on the overall category (e.g. fresh produce, meat and bakery items, organic foods, ethically sourced household products). Retailers need to achieve the right balance of prices across the entire store to deliver improved price perception, grow market share, achieve performance targets and earn their customers' loyalty.

> "49% of retail 'winners' use pricing to drive demand."
>
> **— RSR RESEARCH**

CASE IN POINT

Retailers routinely lower prices on traffic-building products and use them as "loss leaders" that are designed to bring customers into the store. The retailer hopes that these customers will then buy other items at the regular price, which will allow them to make up for the losses on the loss leaders, but it is rare for a retailer to actually analyze the decision to see if it does, in fact, make financial sense. Taking a total store approach to pricing allows retailers to ensure that this formula is actually working to the store's benefit, aligning prices with shoppers' determination of value across the entire portfolio of products in the store.

2 Retail Pricing 2017: The Dawn Of Personalized Prices, RSR Benchmark Report, March 2017

Advancing Retailer-Supplier Collaboration

Retailers adopting Total Store Optimization principles may find they come up short if they don't involve a key stakeholder: their suppliers. Supplier sales teams who are compensated on hitting volume targets will push back against attempts to take a shopper-centric approach if the new decisions result in fewer cases being shipped.

Getting suppliers on board requires retailers to share data and continuously educate their trading partners. Retailers that can more accurately match a supplier's products with customers who have a propensity to buy those products will create a "win-win" for both. In some cases, this may require re-allocating promotional dollars to different grocery banners or specific stores. Ultimately, better allocation of products and promotional funding tailored to each retailer's specific shoppers will mean more sales, more frequent turns and more satisfied customers.

3

Total Store Promotion Planning Channels Resources To Prime Targets

A total store approach to promotion planning allows retailers to spend their finite promotional resources wisely. The goal is to create promotions that work best for the entire store, and that appeal to the retailer's most loyal and high-value customers.

There's a pressing need to improve promotions for both retailers and their suppliers. "Improved access to data and analytics now allows CPGs and retailers to identify good and bad promotions, and the results do not look so good," according to a February 2017 report from the **Promotion Optimization Institute** (POI) and Precima, titled *Personalized Offers: The Cure For Tired, Ineffective Promotions*. "According to an industry analysis by Nielsen of over 100 million promotions, fully two-thirds of trade promotions do not so much as break even. Further, 22% of promotions did not generate any sales lift, let alone break even."[3]

> "Fully two-thirds of trade promotions do not break even; 22% do not generate any sales lift."
>
> — **NIELSEN**

CASE IN POINT

The ability to analyze the performance of all promotions simultaneously allows retailers to determine which promotions are working and should be continued or expanded, which are not performing but can be improved by fixing their promotion mechanics, and which should be stopped due to persistently low performance. In addition, if the retailer has a customer identifier (e.g. a loyalty card), it is also possible to start to "slant" promotions toward the retailer's most loyal customers, selecting promotions that disproportionately appeal to the loyal shoppers and also by tailoring the discount depth to the right level for the loyal customers.

Additionally, food retailers can take advantage of their role within a community to create promotions that will resonate with shoppers. The POI report identifies offers that include:

- Local projects like taking a portion of revenues to fund something charitable like a food bank, homeless shelter or the scoreboard at the local youth sports venue.
- Fun things such as in-store cooking classes.
- Meeting a celebrity cook or sports star at the store.

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3 Cracking The Trade Promotion Code, The Nielsen Co., updated November 6, 2014

4

Personalized Marketing Improves Campaign Results

Today's advanced analytics enable retailers to track individual responses to each element of a marketing campaign — from measuring open rates and click-throughs on an email blast to tracking a shopper's browsing behavior on a web site. Those retailers with loyalty programs have long enjoyed the ability to identify their top customers and analyze their purchasing patterns, but this ability is now extended via e-Commerce and smartphone apps. Personalized marketing allows companies to combine new technologies with customer data to personalize marketing campaigns. Retailers can:

- Consistently create campaigns that will resonate with specific shopper groups;
- Provide cross-sell and upsell recommendations that individual customers will highly value;
- Thank loyal customers with personalized rewards; and
- Offer incentives to encourage shoppers to consolidate their weekly grocery spend at the store.

> "Because personalized offers target an individual through use of a unique identifier, [retailers] are fully able to marry up shopper strategies with product loyalty dynamics across in-store and on-line channels."
>
> **— PROMOTION OPTIMIZATION INSTITUTE AND PRECIMA**

CASE IN POINT

The ability to target individual customers via a unique identifier (an email address or smartphone app) allows retailers to create personalized promotions that can be executed across multiple touch points, including the web, email, paper and mobile devices. "Additionally, because personalized offers by definition are targeting an individual through use of a unique identifier, they are fully able to marry up shopper strategies with product loyalty dynamics across in-store and on-line channels," according to the POI/Precima report. "This means a possibly different offer for a 'switcher,' 'loyalist' or person who has never tried the product. Past purchase behavior can be used to trigger an offer, and that offer can be extended dynamically by store, day of the week, daypart or anything else."

Retailers have little choice but to take a holistic total store approach to their key merchandising and marketing decisions. Shoppers today expect personalization in virtually all their interactions with brands, and supermarkets are no exception. Retailers that are unable to provide the products shoppers want, at the prices they are willing to pay, will find their customer base dwindling. Retailers that can adopt a total store approach will be able to increase sales and profitability in the short term, and boost customer lifetime value for the long term.

Learn More

precima®

Precima is a global retail strategy and analytics company that provides tailored, data-driven solutions to retailers. Leveraging deep analytics, Precima helps companies improve their competitive position across assortment, price and promotion optimization, targeted marketing, and supplier collaboration. Precima is part of LoyaltyOne, an Alliance Data Fortune 500 Company.

Precima can help you deliver on the full promise of customer-centricity with Total Store Optimization using machine learning to optimize merchandising and marketing decisions across the entire store for all categories simultaneously, the same way your customers shop the store.

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