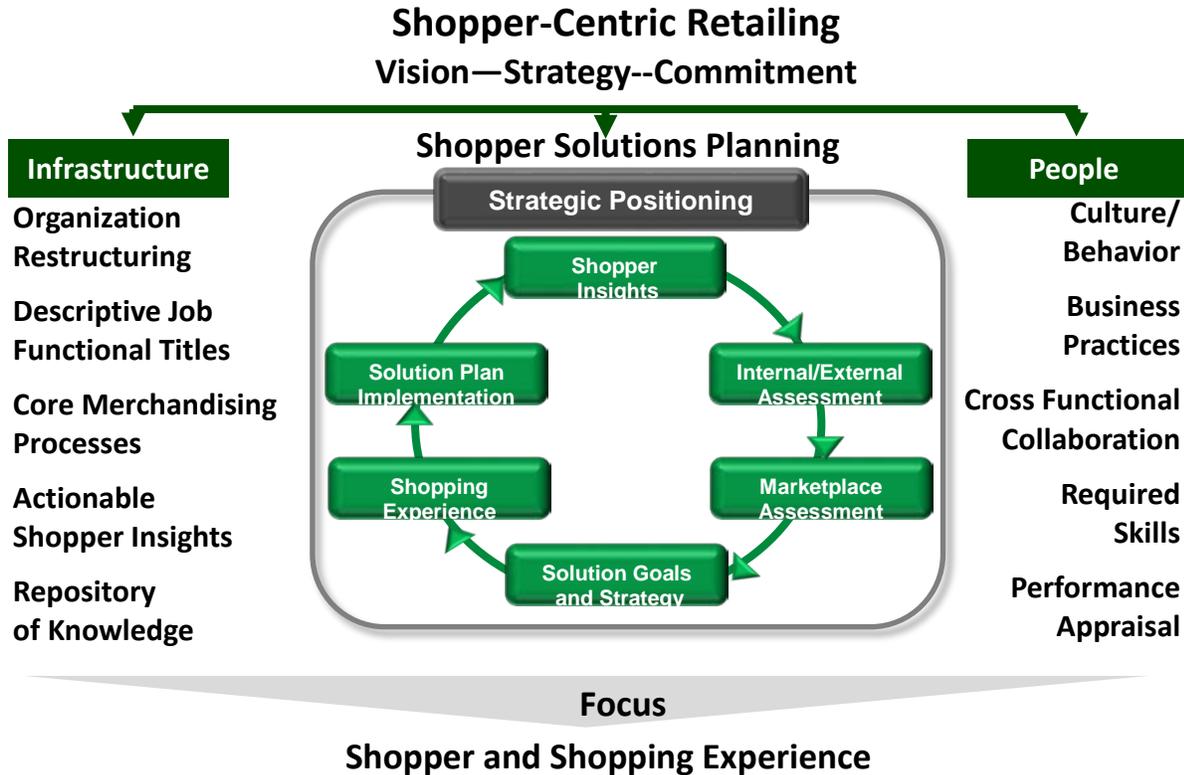


SHOPPER SOLUTIONS FOCUSED ALIGNMENT

Today and Tomorrow...Shopper-Centric Retailing

The new **Shopper-Centric Retailing** business model, with its core **Shopper Solutions Planning** process that focuses on merchandising solutions and the shopping experience, is a foundational requirement if retailers are to effectively earn shopper loyalty. By Win Weber



Shopper-Centric Retailing is an all-encompassing and transformative business model which focuses all functions within a retailer on increasing sales by exceeding shopper expectations. This means evolving beyond ingrained business policies and practices to a fully integrated top-down, cross-functional focus on the shopper, shopper solutions and enhancements to the shopping experience. Considering the fact that the grocery industry is experiencing the most dynamic change in decades with expanding food lifestyles, digital connectedness, social media, on-line shopping, delivery options and increasing generational complexities, this new business model provides the support necessary in today's shopper centric environment to deliver sustainable incremental gain. It is expected to be a key contributor to industry growth by delivering customer satisfaction for years to come.

The new Shopper-Centric Retailing business model represents a major paradigm shift similar to what the industry experienced when I introduced category management to the U.S. market, at HEB, in 1990, a concept that has so many limitations it is no longer viable in today's marketplace. 100% of retailers and CPG manufacturers surveyed agree. We must move beyond category management to a new business model.

Titles and Vocabulary Changes to Reflect the Evolution to Shopper-Centric Retailing

Job titles and the vocabulary within retailers changed 28 years ago, when the industry shifted from basic buying to category management. Now, with another significant change taking place, evolving to a truly shopper-centric approach to retailing, it is extremely important to reflect this commitment throughout the organization. Functional job descriptions and titles are part of this vocabulary that should be changed. This update will reinforce the commitment to shopper centricity and send a

powerful message internally across functions down to store level and externally to suppliers. For example, at the department level, the term “category management” should be replaced by the term “shopper solutions”. The category manager job title should be changed to Shopper Solutions Manager. The functional title, Store Operations, should also be a candidate for change. While this term dates back to the “mom and pop” store days and reflects all aspects of operating a store, it does not convey the importance of serving and meeting the needs of the shopper. It certainly does not convey a passion for the consumer. One retailer has already made the change to “Customer Experience Team”. This helps put the shopper at the forefront of roles, responsibilities, and discussion at all levels.

Shopper Solutions Planning Translates Insights into Solutions

Shopper Solutions Planning is the next-generation process specifically designed to translate insights into shopping solution enhancements at the category, aisle, department, and total store. It shifts category management’s tunnel vision from products and categories to those solutions the shopper is seeking and enhancements to the shopping experience. This aligns with what we know about today’s shopper. We know the traditional definitions of categories no longer dictate the shopping journey with shoppers wanting solutions tailored to their lifestyles. It is the combination of items, bought with a particular solution in mind, which often defines a successful shopping trip. In a recent survey shoppers themselves scored solutions-based merchandising as significantly more attractive on almost all key metrics than item-specific displays and signage.

Shopper Solutions Planning is a continuous process allowing for adaptability to and staying in front of changing market dynamics. It begins with and is driven by an in-depth understanding of the “why” behind the “what” that drives merchandising solutions, with a focus on shopper insights that identify actionable shopping experience issues and opportunities. The internal/external assessment step, which looks at actual and anticipated market performance for merchandising-solution potential, is an in-depth collaborative process requiring transparency in the sharing of consumer and shopper insights between the retailer and CPG manufacturer. This leads to the development of solutions groupings. Solution groupings capitalize on the growth power of complimentary categories and products that comprise the solution from a shopper’s perspective. Solution groupings, combined with shopper insights, leads to the development of shopper solution strategies. Strategy statements must align with the corporate strategic initiatives and be consistent with the role of the category. The leveraging of digital tools is an integral part of the Shopper Solutions Planning process.

The preparation of the final plan is a retailer driven in-depth collaborative process that focuses on the shopper, shopper solutions, the shopping experience and building shopper loyalty. This process sets a new standard for the industry, with CPG manufacturers participating to-date rating it better and more productive than any they have experienced in the past.

Merchandising Realigned to Focus on Solutions and the Shopping Experience

There are certain structural elements that should be applied to how a retailer structures it’s organization if it is to optimize its shopper solutions management capabilities, including how support is provided to the merchandising teams, how merchandising and operations should interact, and how store execution should be addressed.

Our experience suggests the traditional department structure (grocery, nonfood), based on merchandise attributes, needs to evolve to a solutions based structure focused on shopper attributes. This means that the current siloed department alignment, which does not lend itself to the concept of solutions thinking, evolve to one with a focus on shopper solutions. In this new structure there are Solutions Group Managers responsible for managing solutions groups. For example, pet care including dog food, cat food and litter, treats and snacks, leashes and collars, pet carriers, shampoos and grooming supplies would be assigned to one Solutions Group Manager. Other solutions group examples include baking needs, household care, baby care and more. Reporting to the Solutions

Group Managers are Shopper or Customer Solutions Managers, formerly known as Category Managers. They would manage categories within the solutions group or individual solution groups with a focus on driving sales, understanding shoppers, creating solutions and exceeding shopper expectations. Within each Solutions Group Team is a manager working with the Solutions Managers Team on the promotional and solutions elements of the plan.

Analytic Support is viewed as a Strategic Imperative and Essential Investment

Analytic support for a retailer's Merchandising Solutions function, in the future, should be viewed as a strategic imperative and essential investment. This takes into consideration the Solutions Managers role going forward will evolve from the narrowness of a specific category and product focus to a more strategic and merchandising solutions-oriented role with a multi-department, total store shopping-experience perspective. Solutions Managers need the right information for making decisions in this environment. They cannot be expected to be experts in everything. They need to be supported by a number of specialists with deep expertise in specific areas.

This will require the consolidation of the consumer/shopper insights and category analytic functions into one group. Consolidation better positions the analytic function to identify opportunities through integrated analysis of disparate data/information, and is essential when considering the analytic complexity related to the digital revolution. Consolidation has worked so well with one client they are planning to establish a Solutions Support Team "Center of Excellence", which in addition to analytics consolidation, will include all merchandising support functions reporting into a centralized decision support team. This Center of Excellence structure is designed to lead to standardization, simplification, and continuous improvement.

New Position Establishes Vertical Alignment of Merchandising and Shopper-Centric Priorities

Retailers should create a senior-level executive position within their Store Operations structure that will be responsible for executing merchandising plans, interfacing with the solutions team to ensure that plans are implementable, communicating with the stores on all merchandising activities, providing input on the need for locally relevant merchandising, including local brands or ethnically important items for the neighborhood, and acting as the feedback loop from the stores to the Solutions Team on what is working and what is not. This position establishes vertical alignment of merchandising responsibilities and shopper-centric priorities. As the Solutions Teams are developing plans, they should be interacting with this function to ensure alignment and execution. Importantly, it creates an alignment that is more conducive to collaboration between the two organizations.

Store Management Realignment Addresses the Decades Old Execution Problem

The decades-old store-execution problem must be addressed, since enhancing the shopping experience is essential in today's shopper-centric and highly competitive marketplace. Out-of-stock conditions have remained in the 8 percent to 10 percent range for years, with 72 percent of the problem directly related to store ordering/forecasting and "in-store, not-on-shelf" conditions. Add to this the wide-ranging planogram, assortment, display, and pricing compliance issues. Apart from investing in new predictive technologies, improving how merchandising programs are executed and enhancing the in-store shopping experience is directly related to the organizational structure and deployment of resources at the store level. A new management function, reporting to the Store Manager titled Manager Merchandising Solutions and Execution, should be added to store-management teams with the responsibility of coordinating cross- merchandising activity within the store, supporting the execution of corporate initiatives, and being the conduit for local merchandising within tight guidelines. This will improve a retailer's capability to tailor in-store merchandising to "touch" the local customer. This position is accountable for the execution of all cross-merchandising activities across the store. It should be understood that process and tools alone will likely not produce the desired results

Strategic Alignment and Information Transparency is a Must

A vast majority of retailers and CPG manufacturers still have a long way to go before establishing the types of relationships required to support a shopper-centric retailing environment. Many joint or collaborative-planning processes are too tactically focused on individual brand-building opportunities in an environment that strongly suggests that strategic alignment is needed for both parties. The alignment of business strategies and capabilities in a solutions-oriented environment, with a focus on the shopper and the shopping experience, presents a significant opportunity for both parties. By seeking ways to rise above brand-centric biases through a shopper-centric alignment of business strategies, both sides can share and benefit from the same common goal. The goal is to grow the business, increase overall sales, and forge valuable long-term shopper relationships.

Sharing information is also an essential component of a successful strategic alliance. Information-sharing, by both parties, is a foundational component to establishing shopper-centric strategic alignment, and it needs to be improved.

Finally, evolving beyond category management to shopper-centric retailing and shopper-solutions planning processes, combined with the importance of establishing productive strategic alliances, will have implications to how CPG manufacturers conduct business with retailers in the future. The manufacturers, who wish to develop strategic alliances, and actively participate in the shopper-centric solutions planning process, need to upgrade and better align their capabilities with the retailer.

The Case for Change...One Retailers Experience Says it All

“Becoming a Shopper Centric Retailer and incorporating Shopper Solutions Planning is an evolution and a journey” says a Senior Vice President of Sales and Merchandising for a regional supermarket chain. “After so many years working a category management business model, shifting course to Shopper Solution Planning takes time internally and externally. We are still learning. The idea of creating business solutions at store level for the customer, learning how key categories throughout the store play together and how items within those categories respond to particular customer behavior versus looking at categories in silos has been a change. Customer behavior is the driver.”

“Shopper Centric Retailing can be broken into three lenses: customer, supplier partner and retailer. Each lens has a role in the process. The foundation is all about understanding the customer and what drives their behavior. For us, Shopper Solution Planning takes tightening the definition of “local marketing” to a new level. Understanding at both a macro and a micro level the demographics around a store, the social economics of the marketing area, customer segmentations with that particular market and shopper cohorts all have an impact on our plan. All these factors play in defining a category’s roll, assortment, as well as having an impact on a products role within a category. Product flow and potential store layouts can also be affected.”

“Shopper Solution Planning creates trust in supplier partners. To be successful in building plans, collaboration and sharing of data and insights with trusted supplier partners as well as gaining access to resources that only a supplier partner can provide is the foundation to building the plan. For the supplier partner, the ability to gain access to your data is invaluable. The retailer holds the data around product and customer interaction, along with insights into your customer’s basket. The retailer also holds information around shopper’s demographics. This is gold to supplier partners as they look to improve connectivity with customers, understanding how the customer behaves and responds to promotions, shelf placement, and product adjacencies help guide suppliers decisions on growth and spend. For them, the ability to gain access to our data is worth the effort and resources they put into the process. Every supplier partner has been extremely pleased with the sharing of information, collaboration around the plans and the insights they are able to gather and take back to their organizations. The level of involvement and resources put against the planning process has been nothing short of amazing. Supplier partners also like the idea of joint accountability. As we build these plans together, the idea of being able to hold each other accountable is something many have never seen before. Each action outcome of the plan has timelines with measurable goals in the form

of a scorecard. Each goal has check points and dates of execution that help ensure everyone's stays on course."

"The solution planning process does take time. A thorough gathering and analyzing of data, researching the marketplace and building solid recommendations help build a successful plan. Our plans presentations by the Shopper Solutions Manager are done with full participation of the executive leadership team including Marketing, HR and Operations. The key supplier partner with whom we collaborated with is also in the room to assist in the presentation. It is as much their plan as it is ours. This also allows for more open dialogue, stimulating thoughts and further vetting details of the plan, the industry trends, as well as category or financial performance. This part of the process ensures buy-in from the top and quicker execution of the plan. The Shopper Solutions Manager only needs to "sell" the plan once."

"The categories planned to-date have seen positive results regardless the category size. For example, one category that had been seeing erosion, executed the plan as outlined with a new set, consumer awareness and education along with a shift in promotional strategy to improve the categories profitability. The team has exceeded its growth goals and profits goals by a whole point. It also improved its sales versus trend."

"To accommodate this planning process change, as well as support of the Shopper Solutions Managers, we created two key departments. First was Decision Support. We have a loyalty card as well as a warehouse full of data. We needed people to sift through the data and compile into something the teams could work with. We broke the department into two teams. One team focused on product and the other on the customer. We bring them together to look at the basket. Their insight helps guide decision making during the planning process. They assist the Shopper Solutions Managers in interpreting the data. The second department created was In-store Merchandising and Execution. This team works with both the Shopper Solutions Managers and key supplier partners to ensure store execution of the plans."

"Becoming a Shopper-Centric Retailer and incorporating Shopper Solutions Planning is an evolution and a journey."

The Food Marketing Institute Strongly Endorses this New Business Model...It is the Future

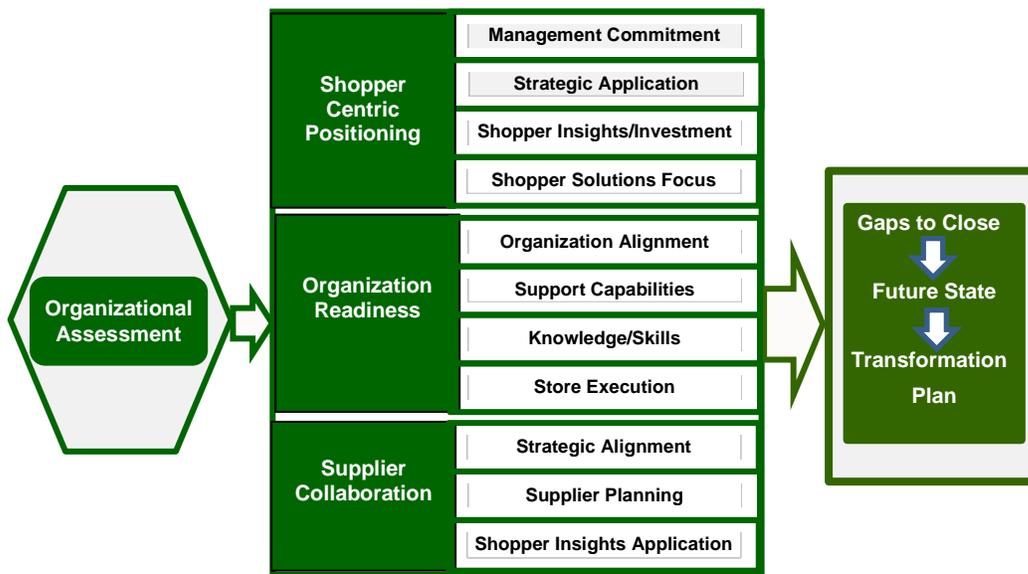
"FMI commissioned WWA, supported by Deloitte Consulting, to conduct the research and develop the report which led to our combined vision for the food retailing industry to move from category management to Shopper-Centric Retailing," says Mark Baum, FMI Chief Customer Officer, "The business case has been made. Industry practitioners –retailers, manufacturers, and service providers all agree; change must occur. The current trading partner collaboration model is inherently limiting. Many functions are sub-optimized: data gathering, analysis, and synthesis needs to be enhanced Decision support must become standardized and better utilized. Digital based insights are embryonic today and must be part of the move toward personalization in a shopper centric environment. Organization design, business planning and execution processes and practices should be upgraded. And, strategic alignment throughout the value chain is imperative. The blueprint to creating a shopper-centric model exists. The capabilities to a large-extent are in place. We encourage industry partners to come together and utilize the shopper centric roadmap to begin the journey today."

The Best Way to Evolve to this New Business Model

An important first step is to conduct a situational assessment which guides a retailers thinking relative to possible solutions, the pace at which change should be made and how change can be successfully implemented. The situational assessment process we recommend is a proven approach which begins with a comprehensive assessment that focuses on those areas of the organization which align with the future state shopper-centric retailing benchmarks as defined in the model outlined below. Within the benchmarking categories are 67 critical success factors which the situational assessment findings are benchmarked against.

The benchmarking process identifies favorable observations within each critical success factor and gap/opportunities for improvement. It provides a directional perspective leading to the future state vision and the alignment of investment and resource priorities with opportunities for improving business performance.

Shopper-Centric Retailing Success Factors



Once this situational assessment is completed and the future state clearly defined, there must be a carefully orchestrated, step-by-step transformation plan that takes into consideration those factors that can influence the pace of change. This change will vary from a few retailers requiring minimal change to a majority who will require significant change.

Yes, the Future is Now!

Retailers should view the new Shopper-Centric Retailing business model as a key priority among other transformation priorities such as technology investment, store design, new formats etc. In today’s intensely competitive and challenging environment, retailers have no choice but to make this paradigm shift, from category management to the new Shopper-Centric business model, if they are remain relevant in the marketplace. The benefits will include increased basket size, enhanced shopper loyalty, improved store execution and increased capability to differentiate in the marketplace. Importantly, it will be a significant contributor to sales and profit growth.

Win Weber, Chairman and CEO, Winston Weber & Associates, Inc., a strategic resource for retailers and consumer products manufacturers, is recognized for introducing category management to the U.S. market in 1990 and later in Mexico, Australia, Hong Kong and Singapore. Today, he is recognized as the leader in helping retailers evolve to “true” shopper centricity. You can learn more by contacting winweber@winstonweber.com