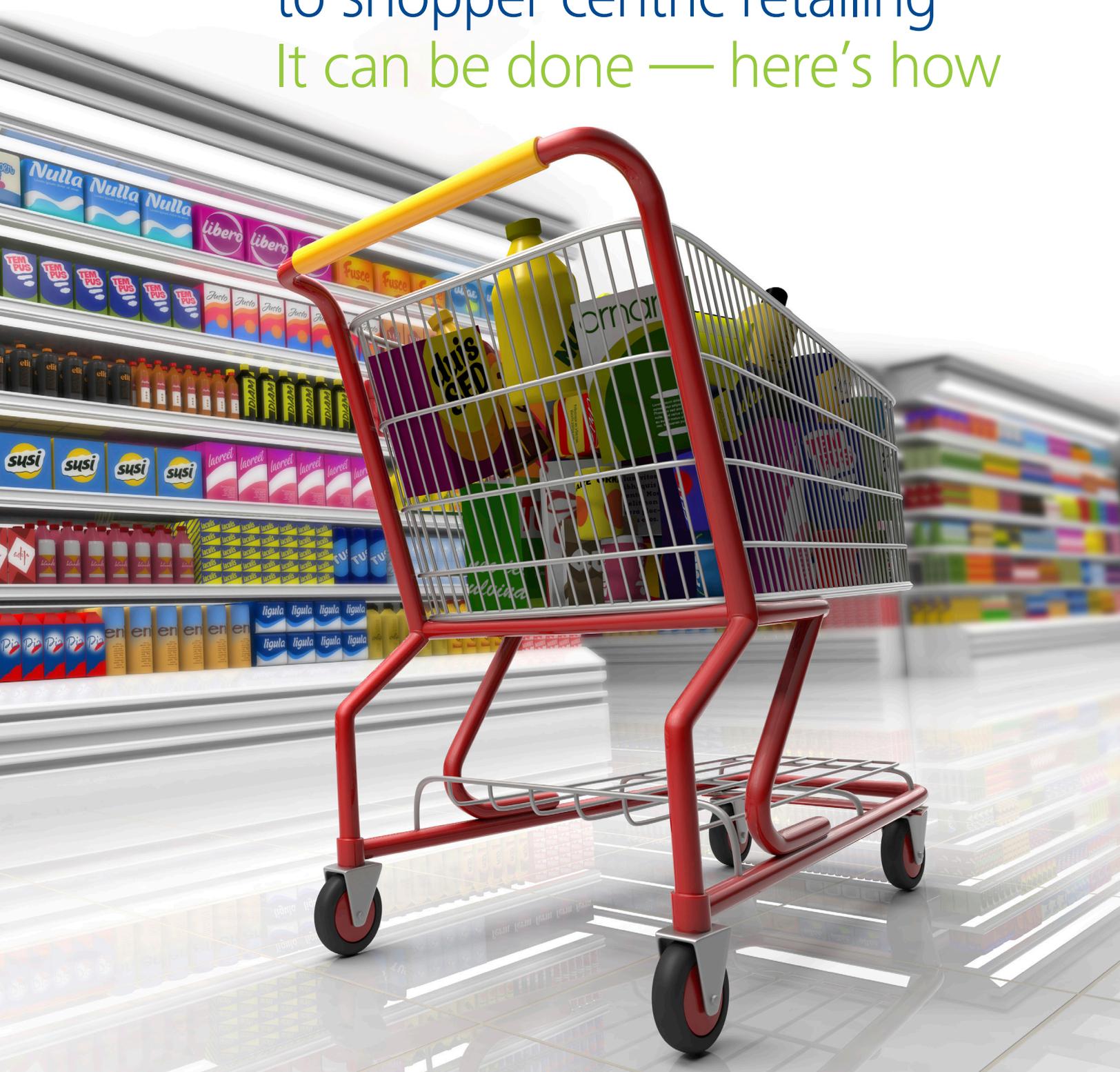


From category management
to shopper-centric retailing
It can be done — here's how



Key insights

1. The industry has spoken: We must move beyond category management.

In this 2015 Shopper-Centric Retailing Study, authored and produced by Food Marketing Institute (FMI), Winston Weber & Associates (WWA), and Deloitte Consulting, 85 percent of companies said they have made only moderate or no changes to the original seven-step approach to the category management process that was introduced in the early 1990s and prescribed in 1995 (by the industry-wide Efficient Consumer Response Task Force), while 100 percent said change from this model was necessary. When one considers the ubiquitous innovation and the scale of industry changes outside the world of merchandising since the early 1990s, one is likely to agree that the process could benefit from new thinking. While the perceived need for change is emphatic, the industry struggles with what this more advanced approach would look like. The purpose of this report is to help paint that picture.

2. Industry respondents agree that change must happen; most insiders believe it should be built on the existing foundation.

While all respondents see change as necessary, most believe that the foundational components of category management must be taken into account. In its early days, category management provided the basis for the application of new technologies, gave retailers a framework to measure returns on IT investments, encouraged fact-based decision making, clarified the importance of category-merchandising strategies and tactics, put sharper focus on supply chain efficiencies and item-level costs, and inspired improvements in joint retailer/supplier planning. The consensus of industry respondents now seems to be that the capabilities fostered by the practice of category management must be preserved and built upon as the industry evolves from a product/category-focused process to a shopper-centric approach.

3. Category management has too many limitations for a retailer to produce the desired results.

When asked to select the biggest shortcomings of category management, most respondents (54 percent of retailers and 64 percent of manufacturers) cited reasons related to its narrow focus on single categories and a deficiency in factoring in shopper perspective. This suggests that the planning process should stretch beyond categories and into the aisle, departments, and overall characteristics of each store. This also has implications for retailer organization structures that are typically compartmentalized, with merchandising and store operations structures seldom aligned. The magnitude of changes required to address these issues might be minimal to moderate for some retailers, but they will likely be significant for most.

4. Decision Support is still a fragmented, unstandardized function for most retailers.

If the industry is to evolve to a more shopper-centric approach, the Decision Support function should become the critical pipeline of insights needed to enable the change. However, the Shopper-Centric Retailing Survey indicated broad variations in how this function is performed across retailers, from having no formal function at all (25 percent), to providing some form of a consolidated function (30 percent), to providing a separate Decision Support function for each merchandising process (40 percent), such as pricing and space management. This data indicate that the industry is still in a premature stage in terms of positioning Decision Support as a strategic asset.

Key insights (cont.)

5. Very few retailers and manufacturers have tapped into the significant potential of digital-based insights.

Both retailers and manufacturers in the Shopper-Centric Retailing survey gave themselves low grades in the cultivation and application of digital-based insights. Across the manufacturer-retailer landscape, 63 percent of companies responded “none” or “limited” when asked to what extent they apply digital-based consumer and shopper data while developing insights for category planning. Though this finding represents a significant self-reported capability gap, this report will describe several technologies that are available in today’s market to help companies get started with—or reinforce—a digital approach to cultivating shopper insights.

6. The emergence and growth of new “food lifestyles,” which isn’t likely to slow down, will compel a more shopper-centric approach.

The rapid growth in “free-from,” vegan, paleo, non-GMO, local-only, and other proliferating food lifestyles and preferences, which have been documented in several other FMI publications, has challenged the industry due to its largely unforeseen and dramatic emergence. These trends, which are clearly inter-category and solution-oriented in nature, represent another impending test to ascertain whether the industry is shopper-centric enough to stay ahead of the consumer. It will be difficult for the industry to overcome this challenge without undertaking significant change.

7. Both sides are satisfied with CPG-retailer joint planning; both sides also see an opportunity for more shopper-centric collaboration.

On a 1-to-5 scale, a satisfactory composite grade was given by both retailers (3.3) and CPG companies (3.7) in response to the question of ROI they each receive from collaborating. However, when specific aspects of the relationship related to intelligence-sharing were probed, satisfaction levels were not as high. On a 1-to-4 scale (i.e., 2.5 being average) retailers collectively rated supplier-provided category-level insights at 2.8, banner-level insights at 2.4, and qualitative shopper research at 2.1. On the other side, close to half of the retailers (45 percent) provide minimal to no POS, or loyalty or shopper insight information to suppliers. This needs to change if both parties are to truly align on shopper centricity.

8. The roadmap to shopper centricity is not built on theory; enablers to get there already exist in today’s market.

The talent, technology, change capacity, required processes, organization models, and key performance measures that enable shopper-centric retailing are all accessible in today’s market. This report describes actual companies’ experiences, each involving some combinations of elements described in this report. Clearly the promise of shopper-centric retailing is significant, and tomorrow’s consumer may accept nothing less. It can be done, and it is possible now.

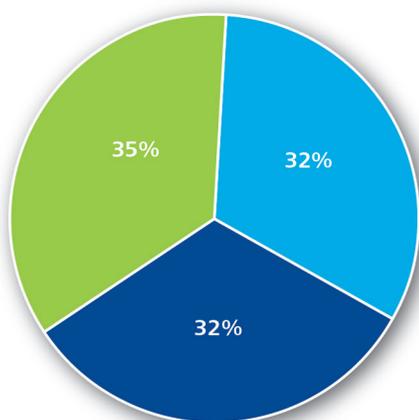
Study overview and report structure

The 2015 FMI WWA Deloitte Consulting Shopper-Centric Retailing Study focuses on the gaps between merchandising practices common in today's Consumer Package Goods (CPG) manufacturer-retail environment and the practices that can be applied for the industry to become more effectively shopper-focused. This study draws on the perspectives of a proprietary Shopper-Centric Retailing Survey, submitted to the CPG manufacturer and retail trade, which resulted in 68 responses (34 retail and 34 CPG manufacturer). It also draws on the collective client engagement experience among FMI, WWA, and Deloitte Consulting in addressing merchandising challenges in the food, drug, and mass-merchandising sectors.

The survey questions cover the respective company's experience in merchandising practices, as well as their perspectives on overall industry experience. Topics covered included company backgrounds and their experience with category management, supplier collaboration, merchandising toolsets, shopper-insight sources and quality, merchant organizational structures, and results measurement.

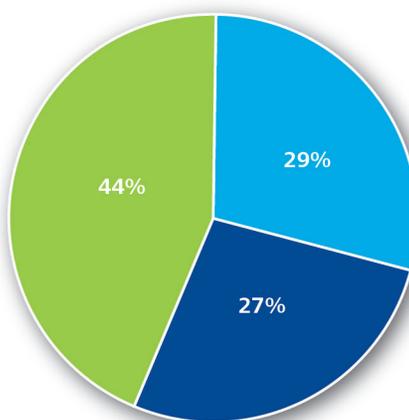
The respondents covered a diverse background regarding size, geography, and (for CPG manufacturers) channels served.

Retailer respondents by size



■ <100 stores ■ 100-500 stores ■ >500 stores

Manufacturer respondents by category range



■ <5 categories ■ 6 to 10 categories ■ >10 categories

Deloitte Consulting LLP and WWA would like to thank the Food Marketing Institute for the opportunity to conduct this research and for their valuable support and assistance in developing this in-depth report on such a strategic and important topic for the industry.

The authors and main contributors to the report are listed below.

Winston Weber	Winston Weber & Associates	Chairman and CEO	Co-Author
Tom Compernelle	Deloitte Consulting	Principal	Co-Author
Mark Baum	Food Marketing Institute	Senior Vice President, Industry Relations & Chief Collaboration Officer	Contributor
Pat Walsh	Food Marketing Institute	Vice President, Supply Chain & Chief Business Development Officer	Contributor
Paul Christman	Winston Weber & Associates	Executive Vice President	Contributor
Jean Michel Fally	Deloitte Consulting	Principal	Contributor

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Executive summary

The case for change and the promise of shopper-centric retailing

The term “category management” has been common currency and business practice in the retail industry for more than two decades. It was originally developed in the early 1990s, in a time when retailers purchased products by supplier, instead of by category, and when product variations and introductions started proliferating beyond the capacity of existing shelf space. With category management, technology and analytics could be applied to these challenges, prescribing formulas that would optimize several objectives—sales, margin, inventory, cost, speed-to-shelf, and shelf-space productivity—at the category level, versus maximizing objectives and SKUs in isolation of each other. In addition, the approach provided an opportunity to integrate tactical merchandising decisions—assortment, pricing, promotion, and presentation—around cohesive strategies. The approach was built around a portfolio framework, requiring prioritization and balanced role definitions that could act as a material extension of how the retailer wanted to brand the store and image. While category management in practice had process variations across industry practitioners, most variations shared these common objectives.

Category management made demonstrable improvements across the industry after its initial introduction in the decade following its standardization in the 1995 Efficient Consumer Response (ECR) industry-wide initiative. However, in today's rapidly changing business environment, the term typically carries the impression of “yesterday's news.” In the Shopper Centric Retailing survey behind this report, 100 percent of both retail and manufacturing respondents reported that they believe some degree of change is required, and 25 percent indicated that an entire redefinition and transformation is necessary. The case for change is compelling, and reinforced by survey responses, as well as our own experience working with both manufacturing and retail companies.

The case for change is compelling, and reinforced by survey responses, as well as our own experience working with both manufacturers and retailers.

Three key pillars in today's marketplace support this change:

Number one...



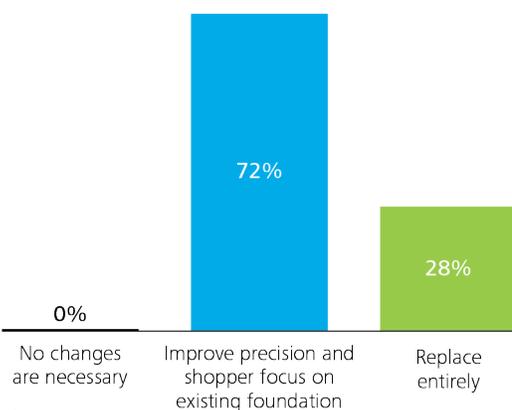
No major upgrades have occurred in the past 20 years.

According to the Shopper Centric Retailing survey supporting this report, 85 percent of retailers have made either “no change” or “moderate change” to the initial ECR-prescribed eight-step category management process. When one considers breakthroughs since the mid-1990s in such areas as cross-company electronic data exchange, web-based applications, in-store technology, supply chain innovations, loyalty analytics, shopper marketing and monitoring, precision replenishment, and all the manifestations surrounding the word “digital,”

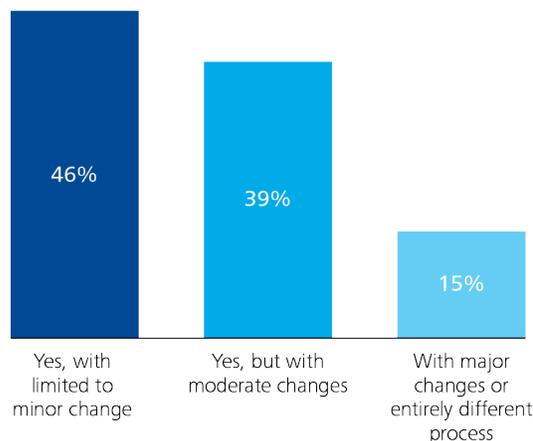
one may wonder whether the same seven-step process is long overdue for new thinking. Undoubtedly, the industry would look much different today if retailers still ordered, received, stored, handled, and distributed merchandise on a 1990s model. While 100 percent of those we surveyed see the need for change, the industry also struggles with what a more advanced approach would look like; this report's purpose is to describe how that could look.

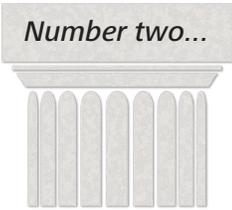
100% see change as necessary while only 15% have made major changes.

What do you see as required improvements for the future of category management?



Do you practice the basic seven step category management process (as prescribed in the 1995 ECR guidelines)?





Number two...

A more shopper-centric approach is essential to understanding and addressing several trends that challenge the industry.

From the survey, the “lack of shopper focus” was rated the most critical flaw (among several proposed) in today’s category-management approach. Two common criticisms of the current approach are its focus on the product rather than the shopper, and its intra-category approach, versus an inter-category or total store focus. The question of whether consumers shop categories or shop stores is an old one, but experience is coming down on the side of the latter.

It is true that today’s category management approach does not necessarily preclude the use of shopper insights (e.g., through application of shopper segmentation, loyalty program data, syndicated data, or other sources) in crafting its roles, tactics, and strategies. On the other hand, it does not place sufficient emphasis on the importance of understanding the shopper prior to developing a plan. In addition, the assessment step and all the steps that follow it are still confined to a single category or category cluster.

In the final analysis, has category management (as practiced throughout the last 20-plus years) won battles on the category front, but lost the war on the shopper front? Several trends suggest the product-focused approach has fallen short and will likely continue to do so. The following three trends, both historic and emerging, demonstrate the point:

1. **Channel Migration:** A profound change in the market since the mid-1990s is the 20-plus share-point shift of sales from the conventional supermarket sector to alternative retail formats. This represents the same period as category management’s prominence in the supermarket sector. Despite the improved science and precision applied at the category level, the overall supermarket value proposition was not compelling enough to prevent millions of consumers from moving to a variety of retail outlets with different merchandising formats.
2. **Erosion of Center Store:** The merchandising legacy under category management has not been able to stop a pervasive and continuing decline of center store departments (generally defined as grocery, frozen foods, dairy, HBC, and general merchandise). Whether due to defection to other formats or unforeseen shifts in eating and shopping habits, the lack of shopper focus is a reasonable hypothesis as to the industry’s inability to address and reverse this trend.

These most recent shopper trends, which are clearly inter-category and solution-oriented in nature, represent another impending test as to whether the industry is shopper-centric enough to stay ahead of the consumer.

3. **Emergence of New Food Lifestyles:** This is a more recent trend, but the rapid growth in “free-from,” vegan, paleo, non-GMO, local-only, and other proliferating food lifestyles have challenged retailers due to the dramatic pace of change. These trends, which are clearly inter-category and solution-oriented in nature, represent another impending test to ascertain whether the industry is shopper-centric enough to stay ahead of the consumer. It is difficult to see how this challenge can be met without taking a deeply shopper-centric approach, one that is guided by behavioral motivations versus marginal category-by-category tactics.

In the final analysis, has category management won the battles on the category front, but lost the war on the shopper front?

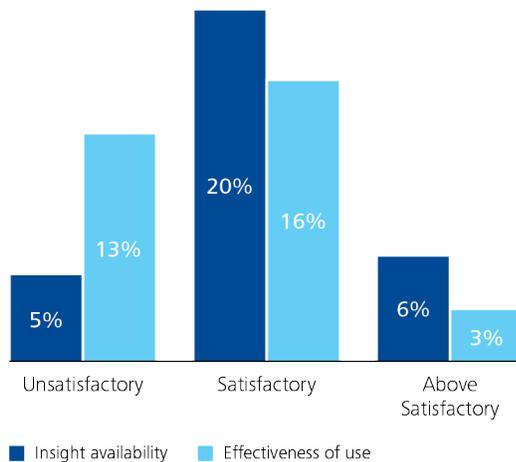
Number three...



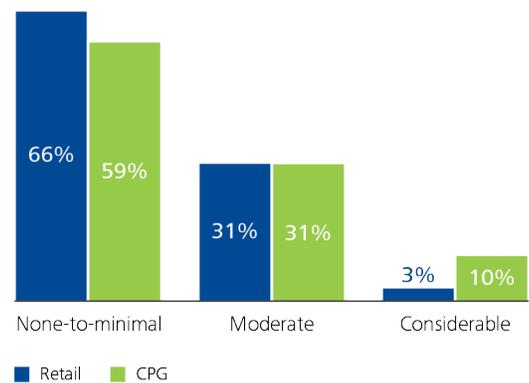
The industry recognizes that the vast amounts of quality shopper data and insights enabled by today's technology have yet to be harnessed.

Two survey results indicate a perceived gap between actual and potential use of shopper insights. First, retailers self-reported a wide gap between availability of shopper insight data (high) and their effectiveness in applying them (low). Second, both retailers and manufacturers give themselves very low grades in their ability to apply digitally based consumer and shopper data in category planning, with 63 percent assessing their ability as “none” or “limited.” This represents a significant, though self-reported, capability gap.

Too what extent do you think the market data provided to category managers contain readily usable category or shopper insights? To what extent do you think it is effectively put to use:



To what extent to you apply digital-based consumer and shopper data in the development of insights for category planning



“Big Data” has great potential in guiding marketing and merchandising decision making. All the dimensions of the digital age—most specifically mobile devices, social media, cloud computing, and data analytics—have the potential to unlock the “why” of shoppers’ decision-making versus answering only the “what.” Perhaps the most compelling aspect of this opportunity is the fact that the pieces of the puzzle are available to the industry now, with today’s technology. This report describes several examples of today’s technologies that could significantly expand the horizon on the scale and quality of shopper insights. These include “in-the- moment” technologies, digital curation, shopper monitoring, digitally-sourced compliance auditing, and digitally influenced design.

One current constraint is the industry’s capacity to discover inventive ways to harness and translate the technologies already there into quality insights. Those who get there ahead of the others could achieve the shopper-centricity retailing vision described in this report. Survey results reinforce our own practice experience in that the migration to true shopper-centricity will require comprehensive and significant change, as well as an industry-wide commitment. This change can create an enhanced consumer shopping experience along the path to purchase. It could also enable companies to differentiate themselves from competitors who do not offer the same experience and capabilities.

What shopper-centric retailing looks like

Magnitude of change

The changes required to implement and adhere to the shopper-centric retailing guidelines in this report will vary by retailer, with a few retailers requiring minimal to moderate change, and a majority likely requiring significant change. By change, we mean evolving beyond ingrained business policies and practices, including category management, to a business model that has a fully integrated top-down, cross-functional focus on the shopper and enhancements to the shopping experience.

The evolution to shopper-centric retailing should begin at the retailer CEO/COO and senior executive levels, as this is truly a cultural change necessitating a defined shopper-centric vision, strategy, non-negotiable commitment, and reinforcement of the process that permeates all aspects of the organization, across all functions, from the top down to store-level. Strong sponsorship for change is essential within each functional group.

An important component of shopper-centric retailing is the need for the retailer-supplier relationship to be aligned and interdependent across all functional areas, with a mutually beneficial focus on the shopper.

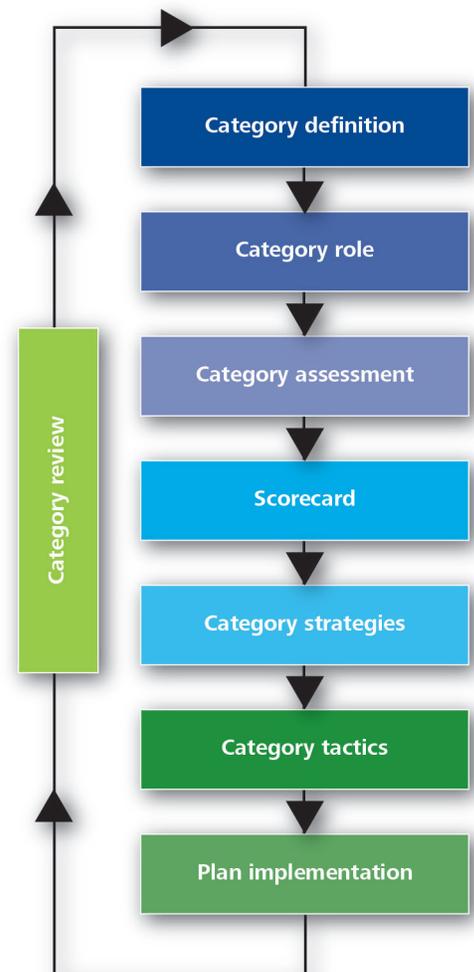
In today's environment, the seven-step category-management process has too many limitations and is no longer positioned to produce the intended results.

What must change

In today's environment, the eight-step category-management process, as outlined on the right and prescribed by the 1995 ECR guidelines, has too many limitations and is no longer positioned to produce the intended results.

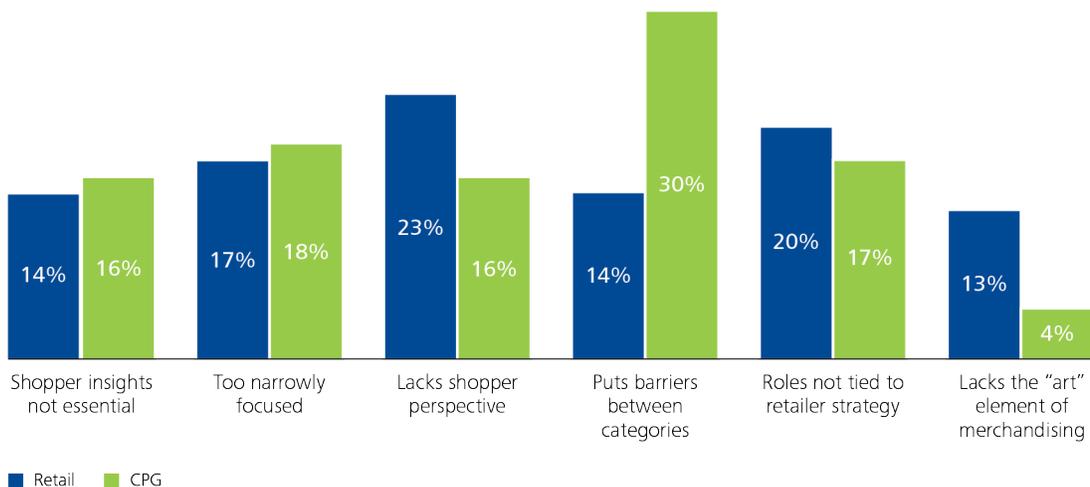
The following issues illustrate priority areas in which change needs to occur:

1. **Organizational alignment does not support shopper centricity.** . Category management does not provide sufficient shopper-centric focus and performance-measurement. This leads to a lack of alignment horizontally (across retailer functions) and vertically (from the top down to store-level). Specifically, this relates to the alignment of category management and store operations, the two key stakeholders in the process. As a result, implementation continues to be a significant barrier to effective category management. Roughly 68 percent of the survey's retail respondents scored the effectiveness of "in-store execution" of plans at 3 or less on a 1-to-5 scale (with "5" being top execution).



2. **Consumer/Shopper insights subject matter expertise is not defined as an essential first step prior to development of the category plan and total store plan.** This results in a lack of understanding of those factors that are necessary in the development of merchandising solution strategies and tactics that focus on enhancement of the shopping experience. This includes a thorough understanding of who the shopper is, what the shopper is seeking, what information the shopper is seeking before going to the store or on-line, what missions drive them to the store, what other outlets could provide the solution and what other alternatives inside the store could fill the solution need.
3. **The process is too narrowly positioned by focusing solely on a category.** The category-management process is too narrowly positioned by focusing solely on a category instead of more broadly on the solutions that the shopper is generally seeking. These solutions can often cross several categories and departments, all factors which can influence the effectiveness and ease of the shopping experience. Even the name, “category management,” reinforces this narrowness.

Do you agree one of more of these represent a potential shortcoming of category management in today’s marketplace?



4. **Category roles are not properly positioned.** Category role definition is rarely tied with retail strategic planning. The role of each category should be part of the retailer’s go-to-market strategy, based on where investments will be made, where positioning will be created, and where the organization believes it can win in the marketplace. This should be part of an annual process for the retailer, one that is tied to the budgeting and goal-setting process.
5. **Merchandising solutions skills are not in place.** Category management’s primary emphasis on analytics and producing the category plan—without sufficient emphasis on developing creative merchandising solutions—is seen by many as resulting in a noticeable deterioration in the “art” of merchandising skills across the industry.

Business policies, practices, and other related areas may also have to be modified.

Essential change: Retailer organization realignment

Based on a retailer’s strategic positioning, scale, resources, and related factors, it is logical to assume that one shopper-centric organization model will not fit all retailers. However, there are certain structural elements that can be applied to how retailers structure their organizational designs in the future. These elements include how support is provided to the merchandising teams, how merchandising and operations should interact, and how store execution should be addressed. In addition to making changes to the way organizations are structured, job titles and the vocabulary that is used may also require updates.

Titles and vocabulary to reflect the evolution to shopper-centric retailing

Job titles and the vocabulary within retailers changed 25 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 descriptions and job titles are part of this vocabulary and should be changed. This update will reinforce the commitment to shopper centricity and send a powerful message internally to employees across functions down to store level and externally to suppliers. For example, at the department level, the term “category management” could be replaced by the term “Shopper Solutions Team” or similar terminology. The category manager job title could be replaced by titles such as shopper solutions merchant, shopper solutions manager, solutions merchant, manager of shopper solutions, etc.

“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. The aging Store Operations title could be changed to “the Customer Experience Team” or similar title. This helps put the shopper at the forefront of roles, responsibilities, and discussion at all levels, including part-time stock clerks and cashiers.

For the balance of this report, we will refer to the current category manager title as the more appropriate category solutions merchant title.

Shopper-solutions-focused structure

Our experience suggests that category solutions merchants should be focused on driving sales, understanding shoppers, creating solutions that differentiate from competition, and exceeding shopper expectations. The Shopper Solutions Team structure should move from the current department structure based on merchandise attributes (grocery, nonfood) to focus on solutions based on shopper attributes. More on this change is covered in the “process and approach” section. Within each Solutions Group Team should be a manager working with the solutions merchants on the promotional and solution elements of the plan. This position may be called the planning manager, promotion manager, solutions manager, or a similar title that clearly defines the role. A sample of this structure is below.

With the need to be focused on the shopper in mind and the growing complexity of this position, removing support personnel from the category solutions manager’s span of control should be considered.



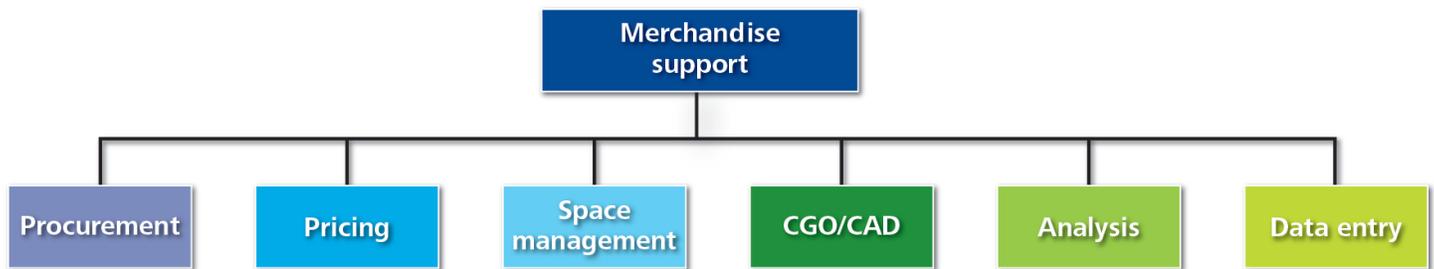
Functional descriptions and job titles updates will reinforce the commitment to shopper centricity and send a powerful message internally to employees across functions down to store level and externally to suppliers.

Solutions support

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 that the category solutions merchant's role going forward will evolve from the narrowness of a specific category and product to a more strategic and merchandising solutions-oriented role with a multidepartment, total-store shopping-experience perspective. Solutions merchants 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.

One possible structure is to establish a Solutions Support Team "Center of Excellence" to ensure consistency within each functional area and to maintain best practices across the business. A Solutions Support Team should be organized with all merchandising support functions reporting to a centralized team. All support (pricing, planogram, analytics, data entry/integrity, replenishment) should be managed in this decision-support team. These experts would have "dotted-line" responsibility to the solutions teams, but not report to them.

This Center of Excellence structure is designed to lead to standardization, simplification, and continuous improvement. Importantly, it can help position a retailer to translate data and shopper insights into actionable solutions.



Solutions and experience alignment

Retailers should create a senior-level executive position within their Shopper Experience (formerly Store Operations) structure that is 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 assortment—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, this creates an alignment that is more conducive to collaboration between the two organizations.

One added enhancement of this alignment between the solutions and experience teams is the clarification of the reporting relationship of the merchandising or field specialists. Today this function reports to solutions teams (merchandising) in some retailers, and to experience teams (operations) in others. The ideal roles for these specialists are to be the coaches and trainers for the experience teams, ensuring that merchandising standards are realized. Focus on the experience must occur. We believe that the reporting relationship to ensure this focus should be to the solutions team.

Link between merchandising and operations

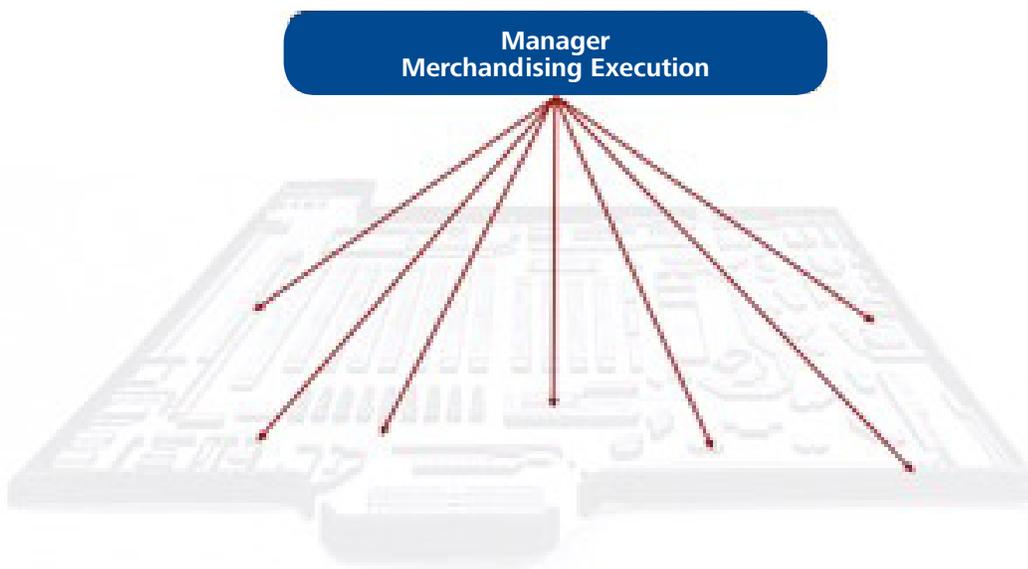


Organizational structure of the store

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 range for years, with most of the problem directly related to store ordering/forecasting and "in-store, not-on-shelf" conditions¹. Add to this the wide-ranging planogram, assortment, display, and pricing compliance issues—with many recognizing store execution as the Achilles heel of category management—and retailers can no longer delay the inevitable. Improving how merchandising programs are executed and enhancing the in-store shopping experience are directly related to the organizational structure and deployment of resources at the store level.

A new set of management functions, titled Manager of merchandising 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 serving as the conduit for local merchandising within tight guidelines. Alternate title for this role could be Manager of Store Execution, Manager Shopper Experience, or Manager Merchandising Solutions. This position would be accountable for the execution of all cross-merchandising related activities across the store, with the manager's compensation directly related to specific shopper-experience measures. This investment could be quickly recovered through the positive impact of store conditions on sales. It should be understood that process and tools alone would likely not produce the desired results.

Improving how merchandising programs are executed, and enhancing the in-store shopping experience are directly enabled by the organizational structure and deployment of resources at the store level.



¹ Solving the Out-Of-Stock Problem, FMI and GMA Trading Partner Alliance Report; 2013

Essential change: Category solutions merchant required skills

A real challenge is the upgrading of the category solutions merchants' skills and knowledge to support basic category management, so they are able to effectively support a shopper-centric approach that focuses on merchandising solutions and all the factors that can influence the effectiveness of the shopping experience. Since a shopper-centric approach draws on a broad range of skills and knowledge sources, category solutions merchants will likely face the daunting challenge of being asked to be experts across a range of highly diverse areas. Of course, they cannot be expected to be experts in everything. Building off of their basic category-planning skills, they will be expected to be very good strategic thinkers and be able to apply these skills when developing shopper-solution strategies and tactics. However, one key will be how well they can apply the knowledge provided by subject-matter experts. This will require understanding the most commonly employed consumer and shopper research methods, and the advantages and applications to different types of shopping-experience questions. When developing shopper-solution strategies, they will have to understand the key components of a positive shopping experience, shopper-solution opportunity identification, and development of compelling and differentiated shopper-solution strategies. This includes understanding the value drivers of the shopping experience and the "touch points" for influencing in-store shopper behavior. Understanding the multiple dimensions for monitoring and measuring shopper behavior metrics (e.g., household penetration, purchase frequency, conversion/leakage, basket size, etc.) is also important.

Even with specialist support, expecting the category managers of today to transform themselves into the category solutions merchants of tomorrow is asking a lot. While some may have the skills required, many may not. Investment in this area will be critical.

Essential change: Build upon category management to the next-generation model

Shopper-solutions planning is the next-generation process specifically designed to translate insights into shopping-experience-enhancement at the category, aisle, department, and total store. It is a continuous process that focuses on the solutions the shopper is seeking, allowing for adaptability to and staying in front of changing market dynamics. This process is designed to build upon the foundational components of category management while overcoming its many limitations. It can significantly change how a retailer's category solutions merchants must think about and conduct business. They should become more shopper-focused when conducting business.

This next-generation process is described by the FMI WWA Deloitte Consulting team as a remedy that addresses the shortcomings of the current category management approach as cited by respondents in our survey.

Shopper Solutions Planning Process

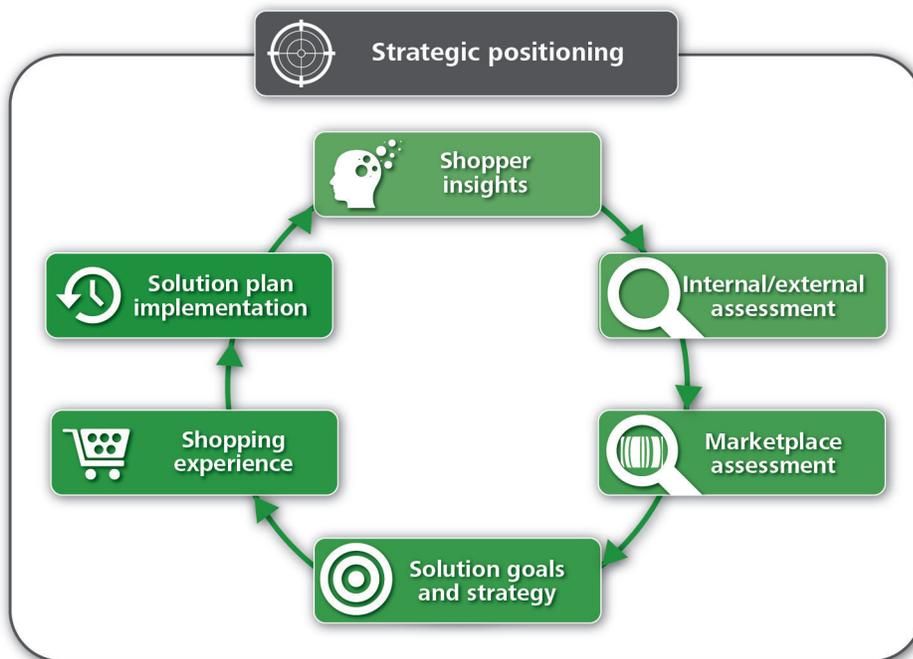
An overview of shopper-solutions planning is outlined below:

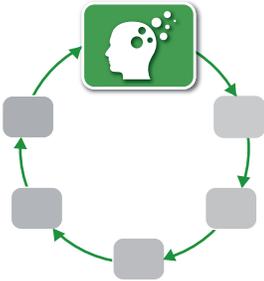
Strategic positioning

Strategic Positioning is the umbrella under which the retailer's planning process exists. It consists of those key components of a retailer's go-to-market strategy that should be accessible throughout the planning process. This includes plans for new formats/banners; entry into new markets; new store concepts; retail/store branding and strategies; customer segmentation and targeting; competitive positioning; store clustering, and category roles (defined from both a consumer and retailer perspective). Category roles should be incorporated as part of strategic positioning, not as part of the planning process as they are in category management. This is a significant and fundamental change designed for alignment of shopper-solutions planning with the corporate strategies. The roles of departments and categories should be viewed as inputs that guide the planning process.

The Strategic Positioning umbrella ensures that all solution plans that are developed are done within the context of the retailer's go-to-market strategies.

Category roles are incorporated as part of strategic positioning, not as part of the planning process as they are in category management.





Step #1: Shopper insights

Understanding what shopper decisions are made pre-store and what decisions are made in-store is very important. A path-to-purchase perspective is an essential first step in a solutions-oriented process focused on enhancing the shopping experience. This can create a deep understanding of the shopper. It was previously noted in this report that a significant weakness in category management is that it leaves out this essential first step.

Shopper insight is more than just understanding past performance alone, such as sales, transaction data, purchase data, panel data, purchase history, and past loyalty. It means understanding the “why” behind the “what” that should be driving merchandising solutions and targeted marketing. Through qualitative research and social media, it uncovers unmet needs, impulse drivers, cultural and behavioral trends, brand loyalty trends, retailer loyalty trends, influencers, family dynamics, and usage habits and practices. These findings help create a deep understanding of shopper needs, mind sets, and behaviors.

Interestingly, on a scale of 1 to 5, with “5” being most effective, 90 percent of retailers surveyed scored 3 or lower when asked “to what extent do you think market data providing consumer and shopper insights is being effectively put to use?” Roughly half of retailers surveyed put themselves in the substandard (below 3) range. This application gap is serious and must be addressed if a retailer expects to offer a shopping experience that enables them to be distinct and relevant in the marketplace.

Apart from internal generated research, the primary resource for shopper insights is provided by supplier partners. Therefore, selecting the right partner is critical. This selection should be a combination of a quantitative and qualitative assessment of all suppliers in the category and their perspectives on the total store environment.

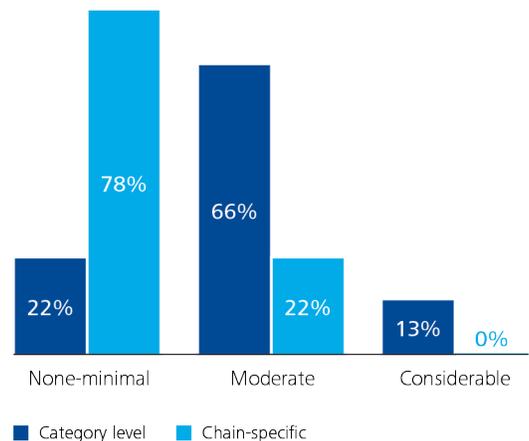
The expectations of the partner should be clearly communicated. Supplier input regarding shopper insights should include, at a minimum, the following:

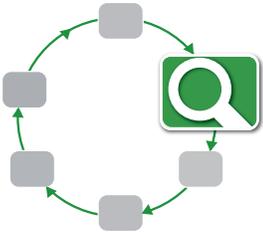
- Consumer trends in the broader market
- Consumer or category research that has been conducted
- A consumer-purchase decision tree, including any research done to support it
- Path-to-purchase research that has been conducted
- Information regarding purchase frequency and household penetration
- Research conducted regarding customer trip missions to the category and store
- Identification of complementary categories that provide a consumer solution both within and across departments
- Insights regarding key consumer demographics

Since shopper-solutions strategy drives shopper marketing success, opportunities to integrate this into the planning process should be thoroughly explored at this time.

Shopper insight — understanding the “why” behind the “what” that drives merchandising solutions and targeted marketing

To what extent do suppliers provide useful insights to help you understand your shoppers at the category level? To what extent do they provide qualitative shopper research specifically for your chain?





Step #2: Internal/external assessment

The next step in the Solutions Planning Process is a thorough assessment of category performance from both an internal and external perspective. This includes a review of internal data, syndicated data, and data provided by the supplier partner and third parties.

Internal data includes all POS data and performance information at the department and category levels relative to other departments; and categories, organized by the full chain, by banner and store cluster. The metrics on these reports should align with the key performance measures (KPMs) on the category solutions merchant scorecards. Private brand performance information should be included. This data would be provided to the category solutions merchant by the Analytical Support function and shared with the supplier partner (with the exception of retail profitability measures) as part of the collaborative process.

If the retailer has a loyalty program and related analytics, this should also be included in the internal assessment. Performance against key shopper segments should be a part of this assessment.

Syndicated data should include food, drug, club, and mass competitors at a minimum. Trends of performance across channels are a critical component of this assessment.

The final element of this internal/external assessment should include key inputs from the supplier partners. This would include the following:

- The supplier’s syndicated market view and any insights gained from syndicated panels
- Insights regarding cross-channel shopping in the category
- Any innovation concepts that have been implemented in other markets that have driven positive category and total store results
- The three-to-five year horizon for supplier’s brands based on consumer insights
- The three-to-five year forecast for the category

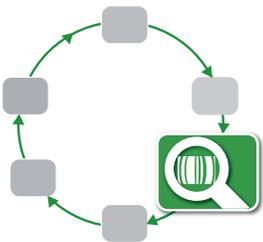
Once all the above have been gathered, a joint review meeting should occur to discuss the findings, agree on key insights, and identify potential opportunities. At this review meeting, there should be discussion and agreement on those key retail competitors who should be included in the marketplace assessment.

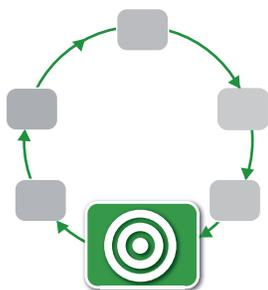
Step #3: Marketplace assessment

The third step in the planning process is focused on conducting store walks in the retailer stores and identifying key competitors as an output of the internal/external assessment. These act as advanced shopping-experience audits (tailored to the retailer) to guide the store shopping-experience assessment. The key learnings from the shopper insights and the internal/external findings should shape the things retailers are looking for as they conduct the store visits. The visits should be designed to observe the store and the category through the eyes of the shopper. The four Ps (place, price, product, and promotion) of merchandising and the overall shopping experience being delivered across the store should be the focus of the store walks. The results of these observations will provide SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis inputs for each competitor.



Once the store walks have been conducted, it is the category solution merchant’s responsibility to develop the SWOT (Strengths-Weaknesses-Opportunities-Threats) assessment. The supplier partner helps validate that the SWOT is in line with the reality of the current situation.





Step #4: Solution strategy

Prior to developing the solution strategy, a retailer must address the organizational “solution” grouping. The current departmental alignment in most retailers does not lend itself to the concept of solution thinking. A solution merchant should manage all of the categories that are part of the solution. For example, the baking solution merchant should manage both the traditional grocery categories (sugar, flour, baking mixes, etc.) as well as the traditional general merchandise categories (baking pans, utensils, kitchen accessories, etc.). Solution grouping needs to occur. This approach capitalizes on the growth power of the complementary categories that comprise the solution from the shopper’s perspective.

The current departmental alignment in most retailers does not lend itself to the concept of solution thinking.

Once the shopper insights, internal assessment, and marketplace assessment have been completed, the solutions merchant develops the solution-strategy statements designed to capture the shopper’s imagination. These strategy statements should be a direct result of the SWOT assessment and related findings.

At this point, the solution merchants should consider the cross-merchandising opportunities for the solution being planned. This could include the types of spices and rubs that complement proteins, or the side dish components for the protein that forms the “center of the plate”. Merchants need to coordinate with each other on these cross-merchandising opportunities. This is a very complicated aspect of the planning process; having a solutions manager within each solutions team to coordinate this activity within and across the solution directors in the organization can be useful. This leads to the desired total-store solution strategies that must be developed and are designed to “connect with the shopper” through effective in-store merchandising tactics.

The strategy should include statements aligned with the four Ps (see below) and those complementary categories that are part of the solution. Strategy statements must also align with the corporate strategic initiatives and be consistent with the role of the category.



Step #5: Shopping experience

Improving the shopping experience is the objective of the solution-planning process. This step of the process is where the tactical components of the four Ps of merchandising are developed, and where an emotional connection between the customer and the store can be enabled.

Regarding the four Ps:

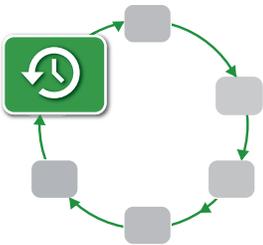
- **Price** enables the retailer to communicate value. Finding “value” is part of the shopper’s emotional connection to a store.
- **Promotions** provide the opportunity to enhance the in-store shopping experience through solutions-based execution.
- **Product** assortment provides the opportunity to truly “touch” and connect with the shopper.
- **Place** aligns the shelf with the consumer-purchase-decision hierarchy in a way that stimulates interest and entices the shopper to buy.

However, the shopping experience is more than the four Ps. Too often retailers think about these tactical elements as independent things. They need to be a cohesive collection, to deliver the experience that shoppers require. The focus, based on the category role, should be on the fixtures, signage, messaging, informational education, and solution cross-merchandising.

Based on the importance of the category role, these tactics should take into consideration the uniqueness of each store cluster and the use of digital media and mobile messaging.

The goal is to create an effective shopping experience and build shopper loyalty. This is accomplished in four critically important steps:

1. **Develop destinations.** The merchant must show shoppers who are “just looking” where to discover relevant ideas and solutions to their needs.
2. **Engage decision making.** The merchant must use merchandising tactics to spark creative thinking in the shopper’s mind about possible purchase solutions.
3. **Decipher value.** The merchant must help shoppers connect category or product differences to their important purchase requirements.
4. **Reward shopper time.** The merchant must help shoppers invest their time wisely by providing an information-rich experience.



Step #6: Solution-plan implementation

The final step in the process is the critical component of solution-plan execution. This step requires a closely managed and coordinated effort among all stakeholders, including the retailer’s resources and those of the supplier partners. This is particularly relevant to coordinating in-store activities.

As the plan is being executed, a compliance-monitoring and performance-tracking process should be implemented. And finally, this step must include a process for integrating store-level input into the planning process. This would create a feedback loop based on what is working and what it not is critical.

Clarity of roles and responsibilities is required. Part of the solution team’s role is to develop and communicate the plan, as well as the experience team’s role, in order to execute it and provide constructive feedback.



Shopper-solutions planning highlights and key points of difference

The following provides an overview of those key points of difference of shopper-solutions planning compared to category management:

- a. Strategic positioning frames the process and feeds strategic and tactical planning across all functions.
- b. Category roles are incorporated as part of the strategic positioning and are no longer embedded in the category-planning process.
- c. Category planning begins with and is driven by an in-depth understanding of the shopper, with a focus on shopper insights that identify actionable shopping experience issues and opportunities.
- d. Solution groupings leverage the inter-relationship between complementary categories as shoppers see them and shifts the focus to shopper solutions, which can enhance the total store-shopping experience.
- e. Complementary category and product knowledge, combined with shopper insights, leads to the development of shopper solution strategies.
- f. Shopper-solutions planning incorporates the four Ps, as well as other relevant tactics, into a cohesive plan that delivers the desired shopping experience and creates an emotional connection between the shopper and the store.
- g. Participative involvement across functions supports alignment, buy-in, and commitment to delivering the desired results.
- h. The advanced observational auditing process, which focuses on shopping behavior, enhances the monitoring-performance/new-learning process.

Essential change: Exploiting digital capabilities

An area where the survey findings were most pronounced deals with the low self-assessments that companies—both retailers and manufacturers—gave with respect to the ability to exploit shopper insight data from digital sources. Generally, respondents said that quality insights are there for the taking, but companies lack capabilities of applying them in an effective way. As for digital, a majority of both retailers (66 percent) and manufacturers (59 percent) gave themselves a “none” or “minimal” grade when asked to what extent they apply digitally based data for consumer and shopper insights.

These two low self-assessments are related in so far as the new digital world entails a potential quantum leap in quality of insights and understanding of shopper motivations. In this new environment, a growing majority of shoppers are perpetually carrying a location-detectable device that for many has become their “portal to the world.” With this and related developments, which are described below, the stage seems set for cracking the code, not just on what shoppers are buying, but why they are buying. Understanding the “why” is key to transforming category and total-store strategies in a way that enables the next level of personalization and localization, potentially resulting in a larger share of wallet.

The survey findings also speak to a general perception across the industry that a lot of untapped potential exists. With innovation happening so rapidly, the old paradigm of applying technology only in the service of a business need has been turned on its head. New shopper-enabling technologies that were not conceived as business requirements, and thus were not evaluated, might suddenly appear on the competitive landscape and compel an equivalent response. This “intimidation factor” of almost daily news of some ever-new way of reaching or monitoring shoppers could be leading to a general sense of being left out vis-a-vis competitors.

Next, we will discuss what we mean by “digital,” and where companies should start focusing their efforts with available and practical technologies.

“Digital” defined

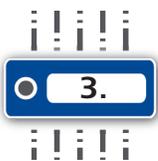
The term “digital” goes well beyond digital commerce, which is only one of its manifestations. In the context of this report, “digital” is a composite term encompassing the recent acceleration and convergence of four technologies, which give consumers more shopping power, and give manufacturer-retailers a larger data trail from which to interpret shopping behaviors and generate insights. The four enabling technologies are as follows:



Mobile: The smartphone or other technology carried by the consumer, which can include a wide range of uses, including information access, receipt and transmission of messaging, transmission and receipt of purchasing tender, initiation of commerce, application of currency, and others. All these uses can provide more monitoring details, i.e., digital “footprints” to retail merchants and manufacturing brand owners.



Social: Web-based information and human expressions broadcast among consumers, which can influence shopping patterns by shaping impressions. As is true of the above point, social sites can now be “scraped” to detect patterns of general recognition, acceptance, and satisfaction.



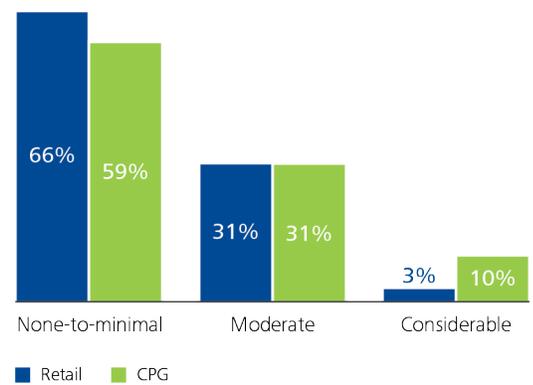
Analytics: Ability to process vast amounts of data and detect such patterns as causal correlations, relevant attribute clusters, and predictive behaviors.



Cloud: Ability to scale up computing power without large capital investments, heavy infrastructure maintenance, and long-term-planning lead times.

Thus, “digital” is meant to refer to the vast and growing infrastructure that provides real-time transparency to product, pricing, and shopper- experience information, while providing large stores of consumer-generated data that can be harnessed in the service of guiding merchandising decisions

To what extent do you apply digital-based consumer and shopper data in the development of insights for category planning



How digital can be applied in merchandising

In the Shopper Solutions Planning process, described in the previous section, the first step is called “shopper insights.” The placement of this step in the beginning is based on the notion that true category planning starts with shopper planning, which should start with a better understanding of shoppers and their motivations. When the focus is shifted to the shopper, two high-potential areas of applying digital technologies include the following:

- **Shopper monitoring:** The concept of amassing the huge amounts of data generated from digital sources; applying advanced analytics; and garnering usable insights on consumer impressions, motivations, and ultimate purchase conversion. There are many examples of this already in use (see below), but the potential is exponentially expanding as digital technologies accelerate and converge into next-generation combinations. Just a few years ago, the concept of “shopper monitoring” implied in-store monitoring. Now it is technologically practical to monitor the shopper journey pre-store, in-store and post-store.
- **Category performance:** The idea of adding shopper-related metrics to the traditional category scorecard elements, such as category P&L and ROA. Examples of digitally sourced shopper-centric additions could include trends in shopper impressions, conversion rates (for online shopping), digitally influenced purchases, and take-rates on digital-based promotions.

Where to start

As described above, the unanticipated proliferation of ever-new digital technologies can have an intimidating effect on CPG manufacturers and retail operators whose most immediate mission is to serve their customers in the here and now. While it is not wise to jump headlong into every new digital trend, it is also not a good strategy to play totally on defense (i.e., waiting for others to act first or acting only when absolutely forced to). In the coming world where shopper-centricity will be essential, start with high-potential capabilities already available and market-tested. The following five technologies represent examples that are already yielding some demonstrated success. These five examples are all in the early stages of maturity, but carry potentially large implications on achieving shopper-centricity.



1. **“In-the-moment” technologies.** The term “digital marketing” is usually understood as some form of company-to-consumer messaging through digital means. This form of messaging, commonly in use today, includes digital advertising, coupons, special offers, notices on pending events, and other consumer-valued content. What is in an earlier stage of development, and may hold much more potential for shopper-centric retailing, is utilization of the reverse path, consumer-to-company. Technology that is available at the store level today, but not yet in common use—shelf sensors, aisle “beacons,” interactive Electronic Shelf Labels (ESLs)—can provide abundant detail on traffic patterns, shelf impressions, and conversion / non-conversion decisions. In addition, “trend-spotter” shoppers can be engaged through their smartphones, to respond to questions and provide input as they shop (e.g., “Take a picture of the most visually pleasing image in the store today!”). The data provided through the above techniques, which are all possible using today’s technology, provides valuable insights into shopper engagement while “in the moment,” versus pre-digital approaches (e.g., panels and surveys) that require the shopper to remember or reconstruct their experience. This new data could also be valuable in completing the shopper assessment step as part of a successful shopper-centric retailing plan.



2. **Digital curation.** The contemporary age finds food lifestyles fragmenting and multiplying, while CPG manufacturers in response keep expanding the assortment: gluten-free, non-GMO, organic, locally sourced, non-hormone, and much more. Assortments of more than 50,000 SKUs in an average supermarket demonstrate the paradox of choice; too many options can work against the shopping experience rather than enhance it. Digital technologies can play a role in connecting the unique shopper with the micro subset of items pertinent to that shopper from the vast sea of products available. Emerging offerings which offer daily preassembled recipes covering a range of food lifestyles are strong examples of curation approaches in today’s market. It is in the digital world that effective curation and solution-merchandising are possible without the physical constraints and operational complexities inherent in retail stores. Effectively done, this type of merchandising feeds back more insights of shopper trends throughout multiple categories.

The unanticipated proliferation of ever-new digital capabilities can have an intimidating effect on manufacturers and retailers whose most immediate mission is to serve their customers in the here and now.



3. **Digital techniques to compliance auditing.** Merchandising decision making improves as store-level intelligence available to the merchant improves. Consumer response to merchandising tactics can be fully evaluated only in the context of knowing how effectively those tactics work. Much of the industry experience with compliance auditing in the pre-digital age was costly, time-challenged, and not integrated with merchandising processes. Digital-age approaches, which can counter these weaknesses, include automated photo reconciliation with planograms and display specifications, crowd-sourcing of the auditing tasks to enhance coverage and lower costs, and the use of shelf sensors to monitor when items go out of stock in real time. In all these examples, the retailer's data network could amass large stores of data points, which can be integrated in to the Strategic Positioning cycle of shopper-centric retailing as described in the prior section.



4. **Digital commerce.** This is still a small portion of overall food and consumables retail sales (1.9 percent in 2013), with a 9.5 % CAGR projected through 2018². This growth is largely enabled by the more recent provision of store pickup. Even if online capabilities in food retailing do not reach the prominence they have in the specialty retail world, the online process provides digital footprints that do not have an equivalent in store-level purchasing. An online “click-stream” provides an audit trail of how a specific customer, with a specific profile, navigates the site and ultimately converts. This can provide shopper insights that are even applicable to store merchandising. As the share of total sales increases and analytical capabilities keep building, this will become yet another source of valuable shopper insights for the merchant.



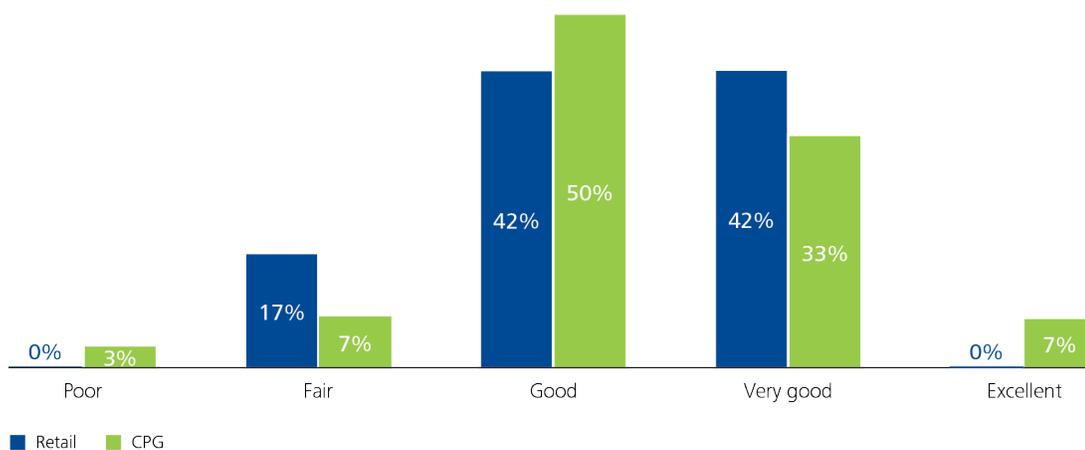
5. **Digitally influenced product design.** The concept of democratically influenced product design, now enabled by digital methods such as crowdsourcing, has not yet progressed past the test-response phase in the market. However, the approach provides a vision of how merchandising decisions overall may someday be more directly influenced by shoppers, versus indirectly through panels and POS results. This involves an entirely new paradigm and represents an extreme, but very possible, manifestation of shopper-centric retailing.

² *The Future of Food Retailing*, Willard Bishop, June 2014, http://www.iddba.org/pdfs/wis/Willard%20Bishop%202014%20Future%20of%20Food%20Retailing_Newsletter.pdf.

Essential change: Strategic alignment 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.

How would you rate your ROI on your collaborative business planning investment?



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.

It will be necessary to elevate executive and senior management dialogue, within the construct of a “Strategic Alignment” meeting, to a level where the emphasis is on strategies and strategic alignment. The meeting should focus on near term objectives and 2-3 year goals, consumer and shopper insights, innovation, differentiation and category solution concepts designed to deliver the desired shopping experience. The goal of the meetings should be to agree on where and how both the retailer and CPG manufacturer can align to achieve the desired results. This could be an improvement on current top-to-top meetings.

The retailer’s or CPG manufacturer’s selection of strategic alliance partners should be guided by a multidimensional segmentation model that not only includes sales contribution, profit contribution, and rate of growth, but also qualitative measures such as willingness to collaborate for mutual benefit, the ability to influence category performance, the availability of resources, information/data sharing, insights investment, and more. This multidimensional approach takes all aspects of the future relationship into consideration before making the decision as to who will make a good a strategic alliance partner.

Sharing information is also an essential component of a successful strategic alliance. Based on survey results, retailers’ inability to share information is an issue that must be addressed. Retailers responding to the FMI survey revealed that 11.5 percent do not provide POS, loyalty, or shopper-insight information to their suppliers; 38.5 percent said a minimal amount is provided. On the other hand, retailers surveyed rated 73.1 percent of suppliers as providing a moderate to considerable amount of consumer and shopper insights at the category level. Information-sharing, by both parties, is a foundational component to establishing shopper-centric strategic alignment, and it should 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. This will include repositioning their category-management functions to become more solutions-focused and shopper-centric, and renaming the category-management organization to be better aligned with the retailer’s shopper-solutions planning process. For example, Category Insights and Development or Category Solutions and Development are two of several options. Keep in mind that the term “category management” will phase out over time. Other changes to consider include upgrading skills to support solutions-oriented relationships; consolidating analytics into one support function to improve knowledge flow and data; and creating a more integrated sales, marketing, and retailer annual-planning process to support collaborative planning.

Industry call-to-action and proposed roadmap

The time it takes to evolve to a shopper-centric retailing model will vary by retailer, with some being able to make the transformation within one year, and many taking up to three years. Considering the rapidly changing industry dynamics, and the aforementioned timelines, transformation must begin now.

The transformation process begins at the executive suite level, with a willingness and deep commitment to institutionalize the shopping experience as the single most-important focus from the top down, and across all functions in the organization. The next step is to conduct an assessment of the current state versus those factors critical to achieving true shopper centricity. This process will identify opportunities for improvement that need to be addressed, define the vision going forward, and guide the development of the transformation timeline and plan.

A logical priority is to begin moving forward now with a plan to evolve from the current category-management process to the advanced shopper-solutions planning process. This can be accomplished within a 12-month period. Also, within this timeframe and probably sooner, the multidimensional segmentation process and identification of potential strategic alliance partners can be completed and implementation begin. Issues related to organization realignment, skills development, and digital upgrading are more complex and, therefore, will take time. The organizational restructuring of the store will take time and requires implementing a pilot test before expansion can occur.

Whatever the individual retailer's situation is, the message is clear. Considering the pace of change in the industry, the evolution to shopper-centric retailing is a must for any retailer or manufacturer that expects to be relevant and distinct in today's highly competitive and constantly changing marketplace.

The transformation process begins at the executive suite level, with a willingness and deep commitment to institutionalize the shopping experience as the single most-important focus from the top down, and across all functions in the organization.

For more information:

Winston Weber

Chairman and CEO
Winston Weber & Associates
813.963.6520
winweber@winstonweber.com

Tom Compennolle

Principal
Deloitte Consulting LLP
847.624.7858
tcompennolle@deloitte.com

Mark Baum

Senior Vice President, Industry Relations & Chief Collaboration Officer
Food Marketing Institute
202.452.8444
mbaum@fmi.org

Pat Walsh

Vice President, Supply Chain & Chief Business Development Officer
Food Marketing Institute
202.452.8444
pwalsh@fmi.org

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