



Retail



PAPER
SERIES

created by *CART*

Preface:

Retail 3.0

noun | 1 the next-generation retail industry ecosystem driven by: relevant marketing to the individual shopper; realtime marketing and supply chain synergies; built on the foundation of shopper-identified transaction data.

The Development of national broadcast television in the 1940s facilitated the growth of national brand consumer goods as manufacturers leveraged the new medium to reach broad swaths of the population efficiently and effectively. For decades subsequent to that event, consumer goods manufacturers held sway in the industry using their significant revenue and profit margins to fund consumer research, direct-to-consumer promotion, and national advertising. These same companies helped turn marketing into a science. Retail shelves were seen simply as real estate to be leased or purchased to facilitate distribution of the valuable national brands. Power within the supply chain clearly resided with the manufacturers. Retail 1.0.

About

The Center for Advancing Retail & Technology brings the Retail 3.0™ vision to a live store environment. It is the epicenter of the shopper movement to demand more value from the entire retail supply chain. CART features a learning center on top of its open store format.

advancingretail.org

It was in the mid 1990s that two significant trends reached a tipping point and began to converge. The first was consolidation in the Fast Moving Consumer Goods (FMCG) retail channels, in part caused by the growth of Walmart and its entry into such new channels as food retailing. The net result was fewer, bigger, retailers—significant market share held by a relative handful of companies. These larger retail firms leveraged their size and buying power into a more forceful position when dealing with the consumer goods manufacturers. In addition, these retailers used their newfound size to adopt some of the same sophisticated marketing skills formerly the province of the national brands while also funding development of strategic private label programs. Such events began the shift of power in the supply chain to the retailers and away from the manufacturers.

But it was a second significant trend occurring simultaneously and ultimately converging with the first that more clearly marked the end of an era: the development and rapid growth of loyalty programs within many retail channels.

It was not loyalty that was of importance, so much as it was the detailed shopper purchasing data gathered through the programs. While it can be argued that many, perhaps most, of retailers launching such programs—a trend that spread like wildfire through supermarket and chain store drug retail sectors in the mid to late 1990s—have failed to live up to their initial promise, the accumulation of such powerful data, combined with consolidation, indeed drove the power shift. For the first time, retailers had more powerful and actionable data than the consumer goods manufacturers. Retail 2.0.

We are at the dawn of the next profound power shift in the retail supply chain, and this time the power shifting to the individual shopper. This is Retail 3.0. And, just as with previous shifts in industry power, it is the convergence of several developments that is driving this change. Today one can observe:

A supermarket retailer heavily leveraging web-based technologies to efficiently and effectively provide personalized ad flyers to each of its shoppers, communicated across multiple digital channels and delivered automatically into the transaction at checkout—realizing increased sales, shopping visits and customer retention through the power of relevancy;

A collaborative marketing portal enabling supply chain partners to create content and promotions, enabling actionable collaboration at a shopper level with different shopper segments receiving different marketing initiatives across different channels, and closing the loop by providing effectiveness measures for each, from ad flyer to email to kiosk interaction;

A next-generation system for making shopper data actionable, automatically creating extensive shopper segmentations based on behavior, and supporting category managers and buyers as they collaborate with manufacturers—realizing improved trade promotion ROI from more relevant and timely marketing initiatives that integrate traditional product category management with customer category management;

Development of a new supply chain distribution model, where goods flow from point of manufacture to automated mammoth distribution centers, where mixed pallets of case quantity goods are built by robots and staged for delivery to the store, with skids built by aisle to maximize efficiency. This disintermediates traditional wholesalers and regional depots while providing realtime views into inventory movement, from manufacture to store delivery dock, and realizes significant cost reductions through speeding up the distribution cycle, reducing inventory, and creating new efficiencies at the store level;

A retailer providing realtime views of POS movement data by SKU and by store to vendors via the web, enlisting its trading partners in measuring promotion effectiveness, and realizing millions of dollars in increased revenue by minimizing stock issues and reduced costs through just-in-time deliveries;

Retailers availing themselves of time- and location-based mobile marketing services, able to communicate a lunchtime promotion to a shopper's mobile phone a mile away from the store at noon—the system then shifting to providing marketing promotions based on where the shopper is in the store.

Each of these solutions is powerful in its own right. Each provides a new level of marketing and supply chain efficiency while driving revenue and cost savings. But consider what happens when you begin to connect these seemingly disparate pieces, when you start to leverage the synergies that can be created across the supply chain, both in product efficiencies and in marketing effectiveness—all with the individual shopper as the focus. This resulting environment, this ecosystem, is what we call Retail 3.0: relevant, personalized marketing to individual shoppers, supported by realtime marketing and supply chain synergies, built on a foundation of shopper-identified transaction data.

Enter Retail 3.0

Andy Grove, past Chairman of the Intel Corporation, stated “Everything that has an information element can be digital, increasingly inexpensively. That leads to wholesale personalization of everything.” The digitization of information throughout retail industry marketing and supply chain activities sets the stage for the personalization of marketing on a massive scale—while also creating synergies with the physical flow of products through the supply chain enabled by realtime views of product inventory and location.

It is now possible to launch promotions when the product arrives at the delivery dock, and shut the promotion down as inventory is depleted: the industry is no longer held captive by the weekly ad flyer. On the other hand, personalization of marketing on a mass basis reduces or eliminates mass promotions, the accompanying costs of inventory surges, and inefficiencies of mass discounting. Instead, product flow through the supply chain is dramatically smoothed, the ROI from targeted discounts markedly improved. Realtime retailing, encompassing both marketing and product synergies, provides the foundation for significant profit gain, while increasing shopper satisfaction through improved stock levels and savings on relevant products.

These solutions exist today, and are being implemented by industry participants in the US market. Any one of them can be an on-ramp to the 3.0 ecosystem, but it is only when they are powered up, connected together, and brought online that the synergy driving the 3.0 ecosystem comes alive. Many industry firms are pursuing initiatives in some of these areas, but often these initiatives are set apart from others, lacking the synergistic effect, and without an encompassing vision of greater opportunity or roadmap of how to get there.

Retail 3.0 builds on the thoughts and ideas put forth in Hawkins’ book *Customer Intelligence* (2003) and white paper “The Age of i” (2005). Discussions and work with industry members, from FMCG manufacturers to leading distributors to innovative retailers, combined with experience in new technology solutions, provides Hawkins Strategic a unique view into industry developments. The watchwords of Retail 3.0 are relevant, connected, transparent, and realtime. Development of the Retail 3.0 ecosystem portends massive transformation in how the industry produces and distributes products, goes to market, and measures success.



What is driving the development of Retail 3.0? Why are we so sure of the creation of this new ecosystem? Because already there exist several unstoppable developments:

A logical extension of industry competition to the individual shopper. Retail competition has evolved through numerous phases over the years, from store locations to purchasing prowess to supply chain logistics. A number of larger retailers have effectively neutered many of Wal-Mart’s supply chain efficiencies: the shopper is the next battleground, particularly as sophisticated marketers understand shopper lifetime value at both a retail and brand level.

The decline of mass marketing effectiveness and the growth of in-store marketing. Mass media continues to become increasingly expensive while providing less tangible results. Brand marketers and retailers alike are

searching for new in-store marketing solutions to influence shopping behavior at the point of decision—numerous studies showing that at least 70 percent of purchase decisions are now being made in the store.

The urgent quest for improving trade promotion return on investment. FMCG manufacturers are continuously seeking improved effectiveness from their trade promotion marketing investment, and leading retailers are also increasingly focused on improving results from this massive spending—which exceeds USD 60 billion annually in the supermarket channel alone. While the financial crisis has temporarily defocused industry analysts, their attention will return to charging trading partners to improve effectiveness of this spend—or else face penalties in share price.

Consumers increasingly expect the customization and personalization available online to be available in the brick and mortar world. What is the difference between a keyword used in online search and a product purchase made in the supermarket? With every product purchase made or not made, consumers are telling merchants their interests and preferences. Retailers, at least those with shopper-identified transaction data, have a veritable treasure trove of information that can be used to personalize the shopping experience.

This series of papers will address these and other developments that are driving new industry capabilities. It will also continue on to explore the implications of Retail 3.0 on consumer marketing and promotions: in particular, trade promotion, but also impact on the organizational structure of retailers and brand marketers, the need for new skill sets within those organizations, industry cycle time, the mass customization of products, and the return of the independent as a force within FMCG retailing.

The most paradoxical impact of evolving to the Retail 3.0 ecosystem: it actually reduces costs—both marketing and product logistics—while increasing revenue, profitability, and shopper satisfaction. This is not a case of implementing solutions at a certain cost and hoping to realize incremental gain. The Retail 3.0 ecosystem implies wholesale transformation of distribution and supply chain practices, marketing and advertising, and success measures.

The series begins with Paper 1: Shopper Data, as relevant, personalized marketing implies a knowledge of shopper purchasing over time and, necessarily, how shoppers are identified to their transactions. Our view: **Those retailers without means to consistently identify shoppers to their transactions will become increasingly disadvantaged, regularly underperforming their peers and penalized in the financial markets as the Retail 3.0 ecosystem takes hold.**

From our perspective, the current financial crisis will only hasten the development of the Retail 3.0 ecosystem as industry participants are forced to implement new solutions and processes that drive revenue and reduce costs. Just as new enabling technologies have transformed decades-old business models—look no further than what Google has done to traditional advertising—so, too, will the 3.0 ecosystem change retail.

Are You A 3.0 Retailer?

Half—the shoppers in your stores you digitally communicate with each week (by email, web, mobile, kiosk, etc).

Two-thirds—the portion of weekly sales attributable to shoppers enrolled and participating in your personalized marketing program.

One-third—the portion of markdown expense that goes to differentiated, personalized promotions available only to those shoppers receiving them.

Active collaboration with suppliers at a shopper level using actionable data, while providing transparent results for continuous improvement.

Realtime view into SKU-level movement by store provided to vendors to monitor promotion effectiveness, reduce out-of-stocks, and to reduce costs via just-in-time delivery of products.