Shaping Superior Shopping Experiences at the Shelf

Using Digital Approaches to Delight Digital-savvy Consumers

by Jeffrey Hill and Julie Fraser

Newer shelf planning approaches can keep up with today's consumers

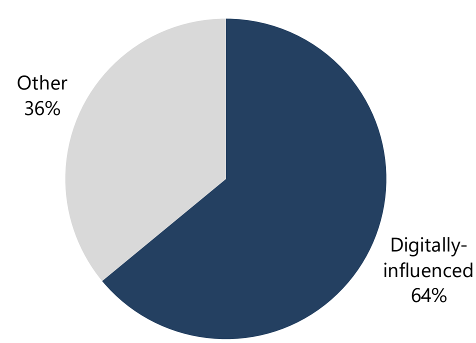
The key to success is to walk in the consumer's shoes and see through their lens. That lens changes constantly, based on their digital-assisted buying approaches. Thus, rapid ability to launch products and improve shelf experiences are priorities for consumer packaged goods (CPG) manufacturing and retail companies.

Every day, teams come together to create, test, and consistently deploy new products and shelf layouts. The concept is always to fine-tune and refine both the products and the shelf to maximize the shopper's positive reaction and drive greater profit for both the CPG company and the retailer. However, making it happen has not been so easy.

This is because the buying process is complex, as is designing and testing the shelf experience. The pressures from on-line competition, cost-conscious consumers who constantly scan for better deals means that shelf design must be fast, accurate and repeatable. This is the only way to maintain margin in the face of revenue per item per store is shrinkage for many retailers and CPG companies.

How consumers buy is changing really fast. Technology is part of that; recent research shows that most buyers are influenced by their digital activities before entering the store. Once in the store, they still use their mobile devices – which can have the effect of encouraging them to spend more – if they can readily find what they want and then be hooked in by the shelf.

Can retailers and their CPG suppliers transform their business models to gain major benefits by using technology as astute consumers have done? We think so. The key is to ensure that the technology is really delivering value and helping keep up with consumers' buying patterns and approaches. Used appropriately, technology can help to improve the shelf experience, driving category and store profits and compliance.



Source: *Navigating the New Digital Divide: Captitalizing on digital influence in retail.* Copyright © 2015 Deloitte Development LLC

Most in-store sales are now digitally influenced – and buyers want shelves to help them follow-through on their resesarch.

Table of Contents

Note: This paper is based on *Maximizing the Shelf Experience for Profit* © 2012 Cambashi, with revisions and updates by Iyno.

Sponsor: Dassault Systèmes

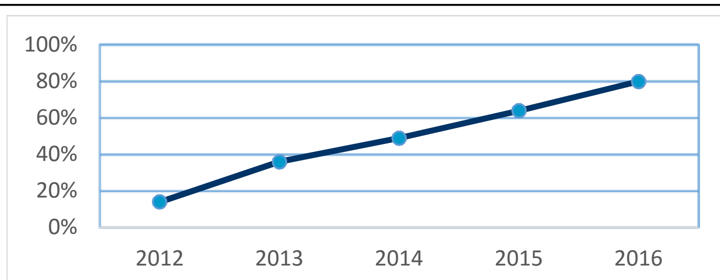
Dassault Systèmes, the 3DEXPERIENCE Company, provides business and people with virtual universes to imagine sustainable innovations. Its world-leading solutions transform the way products are designed, produced, and supported. Dassault Systèmes' collaborative solutions foster social innovation, expanding possibilities for the virtual world to improve the real world. The group brings value to over 210, 000 customers of all sizes, in all industries, in more than 140 countries. For more information, visit www.3ds.com.

CPG and Retail Industry Challenges

We could cite myriad challenges for CPG and retail companies. However, one clearly involves an effective shelf experience. Here, merchandising and assortment strategies must be tested in a realistic environment, fine-tuned, and deployed in stores. We'll focus on five topics that relate directly to the retail shelf experience here: consumers, new products, shelf planning, execution, and getting it right the first time.

Can retailers and CPG suppliers gain major benefits by using technology as astute consumers have done? We think so.

Consumers. Today's consumers use their personal technology devices earlier in the shopping process to research and compare product features and prices, often before they enter the retail store. Deloitte's research shows that mobile devices influenced 28% of annual retail sales in 2014.[1] Digital-influenced in-store sales continue to grow rapidly as Figure 1 shows.



Deloitte Mobile Influence Survey 2015

Figure 1: Digital devices are influencing an ever-larger percentage of in-store sales.

Why is technology-influenced shopping growing so fast? Because it actually helps shoppers define their requirements, narrow product choices and ultimately save themselves time at the store.

Social media also influences consumers in certain categories than in others more than others during the shopping process according to Deloitte. For example, more consumers are influenced by social media in categories such as baby and toddler (56%) or home furnishings (40%) than in categories like food and beverage (21%) or entertainment (18%). This these categories coincide with heavier use of browsers of retailer's web sites and increased reliance on product reviews, This creates an additional challenge for retailers to provide reliable product information and easy access to customer reviews.

New products. Given all of these shifts, new products are critical to companies' success. They will help to address the needs of new consumers and help to keep the interest of shoppers who already prefer a brand or store. Problem is, often new products do not meet their profit goals, as we pointed out in the introduction. Promotion and failure to deliver product in a reasonable time after promotion are key factors in the failure of products to meet their profit objectives.[2] This research, based in the grocery sector, showed that it took an average of 28 weeks for product to reach grocery shelves in quantity.

Another area of concern is inadequate market analysis which is especially critical in a changing landscape of consumer shopping behavior influenced by readily available digital devices. Companies must do a better job of analyzing and testing products prior to launch. Whether new products are line extensions, packaging or promotional changes, or major innovations, each new product needs to fit into the overall category and merchandising mix.

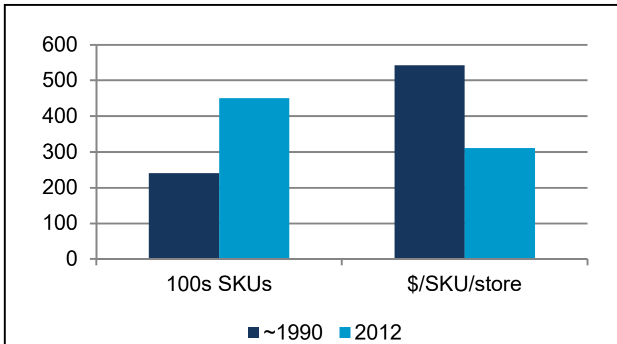
[1] *Navigating the New Digital Divide: Captitalizing on digital influence in retail.* Copyright © 2015 Deloitte Development LLC http://www2.deloitte.com/us/en/pages/consumer-business/articles/navigating-the-new-digital-divide-retail.html?id=us:2el:3pr:diginf15:awa:retail:051515

[2] *New Product Traction Through Targeted Shopper Interaction,* Copyright © May 2016 Catalina Partners http://www.catalina.com/ws_download/new-product-traction-through-targeted-shopper-interaction

Shelf planning. A critical part of the process is to test merchandising layouts for a category with shoppers in a realistic shelf environment. Ideally, companies can make changes that will improve the buyer's experience and likelihood to try the new product. Category captains, or suppliers who have a significant role in retail management, can push some of what they learn to improve not only their results but their retail partners' as well. Unfortunately, working with agencies, CPG companies find shelf planning a slow and expensive process. Worse, it is not easy to simulate multiple layout scenarios while the test shoppers are in the process. This can result in ballooning costs and time to conduct the studies. This delay alone can hurt the margins of a new product.

Creating realistic virtual shopping with software is a breakthrough in time-to-shelf.

Execution. Retailers' merchandising plans do not always clearly present to shoppers the offerings or choices that would be most profitable or attractive. Assortments are often not optimized as they do not leverage potential synergies between channels and clusters of complementary stores. The number of stock keeping units (SKUs) and their interactions makes all of this planning complex at headquarters, and even more difficult to execute locally in the stores. Figure 2 shows that food retailers carry nearly twice as many SKUs as they did in 1990, and make over 40% less per SKU[3] - a profitability crisis.



Source: *Four Forces Shaping Competition in Grocery Retailing* © 2012 Booz & Company

Figure 2: Food retailers carry far more SKUs and show 43% less velocity in revenue per SKU per store now than they did about 20 years previous.

Getting it right the first time. Precision retailing leverages data for improved merchandising results, but has not yet created a consistent shopping experience across all channels. Nor have most retailers been able to help their store personnel achieve shelf compliance. Each store is tasked with taking the shelf concept – typically presented in a simple two-dimensional view on paper - and modifying it to their exact store layout, shelving and fixtures. Compliance with the merchandising plan is a matter of interpretation. Few companies have good control over this today. As a result, the shopper's experience is not as good as it could be – nor even as good as it was designed to be in the original merchandising plan. This leaves money on the table.

Improving the Consumer Cycle

The goal is to create an affinity between the consumer and the brand of both the products they buy and the stores in which they buy them. Companies must optimize every aspect of a consumer's buying cycle for packaged goods to gain the full opportunity for profitability and growth available. Figure 3 shows that buying cycle. It truly is about creating an experience for shoppers that matches their lifestyle. Fortunately, there is technology available today that can help create a compelling shelf experience – and one that will pull the buyer through at every stage of this cycle.

How I live: Voice of Consumer

Market researchers need to understand consumer profiles and trends. Technology can help to capture shopper behavior by category and specific regions or even stores. One of the main challenges currently is finding technology that integrates that voice of customer (VOC) input into the shelf space strategy

[3] *Four Forces Shaping Competition in Grocery Retailing* © 2012 Booz & Company http://www.booz.com/media/uploads/BoozCo_Four-Forces-Shaping-Competition-in-Grocery-Retailing.pdf

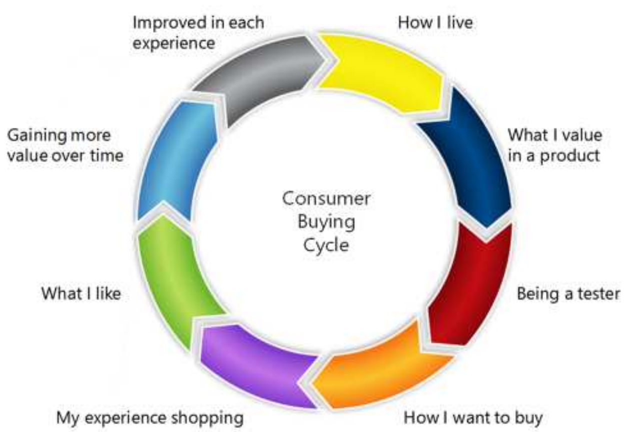


Figure 3: To maximize the shelf experience, CPG and retail companies must understand, support, and test every stage of the consumer buying cycle.

and planning. Integrated software platforms are emerging that can connect market insight quickly and inexpensively into merchandising and shelf planning. This is a critical foundation for maximizing the shopper's experience and thus profits for both CPG and Retail partners.

What I value in a product: Design & development

Brand, category and shelf managers are tasked with expanding revenues and profits from each category, but given few tools to conduct coherent analysis. In most cases, they must pull together information manually and cannot correlate changes to outcomes easily. Many people will immediately think of business intelligence (BI) or data warehousing for this type of analysis challenge. However, because this is design data with planograms, fixture and layout diagrams, and merchandising elements - traditional BI cannot meet this challenge. This requires a platform that not only enables correlating multiple types of data, but ensures that unstructured customer feedback and profiles can also feed better decisions. Solutions are available today that target this type of shelf experience; the best of these deliver focused analysis and decision making.

Being a tester: Delivering virtual shopping

While only a few consumers have the opportunity to test products, this is a crucial stage for shelf planning. This is the point at which the brand and retail companies can observe shoppers in a virtual shopping environment. While most companies work with agencies to develop these visually, they are not realistic shopping experiences. Fortunately, there is technology to change that. Today, software technology can enable an immersive virtual shopping experience where companies can put test shoppers in position to test out shelf plans, pick up products, interact and react in real-time. Using software to create this realistic experience, companies can quickly re-vamp and try different scenarios to gauge the shopper's reactions in a single session. With this software, category managers can quickly develop plans that have considered the various options and incorporate test feedback. This is a breakthrough in time-to-shelf for new products, and for re-vamping category displays.

How I want to buy: Strengthening relationships

Shoppers can develop relationships with stores and brands. However for this to be a lasting loyalty, CPG and retail companies must partner closely to develop appropriate shelf space strategies. So the technology must help with the collaboration as well. Working together, brand and store owners can develop category and shelf strategies that strengthen both the consumer relationship and cement trust and understanding between CPG brand owner and retailer. The CPG companies need this to become a category captain and on-board their retailers' teams. For example, JM Smucker embarked on extensive analysis of how to improve coffee aisle performance across the US and regionally after it acquired the Folgers brand in 2009, and created recommendations that retailers have followed with some success.

Companies must optimize every aspect of a buying cycle to gain the full opportunity for profitability and growth available.

My experience shopping: Implementing in the store

Despite the best collaboration on plans, in-store execution can often fall short. Store managers usually want to comply, but often face challenges. This can be partly a matter of store variation (there is a pole in the way, or the shelves are spaced differently), but also often some challenges in communicating the intent behind the shelf design. An integrated 3D-software-based system can deliver shelf specifications that have less room for interpretation, and that can provide some guidance for special cases. Consistency of execution can often determine a shopper's experience. Most people have a "home store" in a chain, and are happiest if they can find the items they want exactly where they expect them in a different store location. The point of sale (POS) data from the registers will often reflect how consistently the shelf plans are executed.

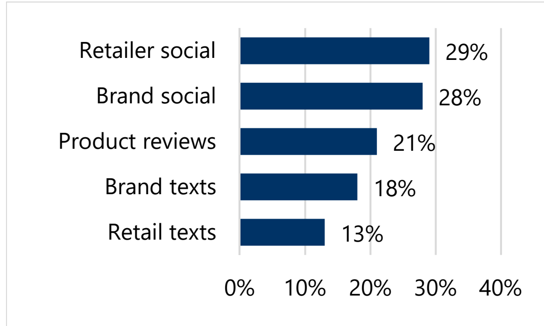
What I like: Measuring response

Retail and CPG companies must tune in to every data stream they can to understand the shifting response to their products and shelf layouts. While consumer buying data from POS has been prevalent for a long time, correlating it to changes in category management and merchandising decisions is not common today. Fortunately, today's technology can begin to correlate POS data into feedback on the shelf strategy.

Working together, brand and store owners can strengthen both the consumer relationship and their ability to enhance category revenue.

Gaining more value over time: Engaging shoppers

Consumers increasingly want to gain more value from their brand and store relationships over time. Moving beyond the basics of loyalty programs to drive more value and engagement is something most companies are just exploring now. Software will be a critical enabler, and particularly software that correlates all of those data streams and delivers actionable information to merchandising teams.



Source: *Digital tools create new shopper journeys: Epsilon digital shopping tool study 2015, Copyright © 2015 Epsilon*

Figure 4: Social media is a significant influence on consumers shopping for new products or brands.

Improving each experience: Closing the loop

Consumers want to know they are being heard, so closing the loop to improve shelf experience is critical. Today there are many software platforms that can incorporate feedback on the actual product as it's used from consumer social media sources. Social media participation is rapidly growing in importance as a tool to increase consumer loyalty. Consumers now benefit from an increasing variety of social media, including contacts from retail, brand, and friends, as well as product reviews, brand and retailer text messages.[4] Figure 4 shows the relative influence of these types of social media on shoppers. This is an increasingly important form of interacting with consumers and incorporating their buying cycle into the shelf plans

Transforming Shelf Experience

Retailers and their CPG partners must move to use technology as wisely as today's consumers do. A repeatable capability to carefully create, analyze, test,

[4] *Digital tools create new shopper journeys: Epsilon digital shopping tool study 2015*, Copyright © 2015 Epsilon: http://engage.epsilon.com/digitalshopperresearch

and present shelf strategies can offer a broad set of benefits:

- Improve the relationship between the CPG brand owner and the retailer.
- Push through higher revenues for both retailer and brand owner as shoppers find the new, promoted or higher impact products more easily.
- Positively impact the consumer's experience not only during the shopping experience, but through the relationship lifecycle.
- Better understand consumer trends and leverage VOC in shelf planning
- Design and develop products that consumers will truly value
- Streamline time-to-shelf with realistic virtual shopping test environments that allow instant changes and feedback on multiple shelf configurations
- Develop a category and shelf strategy that strengthens the relationship and builds loyalty
- Improve in-store consistency and compliance, minimizing frustration for store managers and employees while maximizing the shelf impact by enhancing the retailer's brand equity
- Measure response to the shelf and correlating shelf changes to POS data shifts
- Close the loop to continually improve the shopping experience and deliver greater value to shoppers.

While all of this may sound far-fetched, today's technology makes it possible. And today's consumer markets make it urgent. With the proliferation of regions, market demographics, products, and competitive pressure, CPG and retail companies must not expect successful strategies from current or past activities to be a good fit in new markets or with new products.

Maximizing the shelf experience is an ongoing cycle of continuous improvement that must create momentum the consumers will not want to resist. As digital informs how consumers shop, the CPG and retail company's digital approach must leverage the data to create opportunities.

- Develop a category and shelf strategy that strengthens the relationship and builds loyalty
- Improve in-store consistency and compliance, minimizing frustration for store managers and employees while maximizing the shelf impact by enhancing the retailer's brand equity
- Measure response to the shelf and correlating shelf changes to POS data shifts
- Close the loop to continually improve the shopping experience and deliver greater value to shoppers.

While all of this may sound far-fetched, today's technology makes it possible. And today's consumer markets make it urgent. With the proliferation of

Maximizing shelf experience is an ongoing cycle of continuous improvement to create momentum consumers will not want to resist.

regions, market demographics, products, and competitive pressure, CPG and retail companies must not expect successful strategies from current or past activities to be a good fit in new markets or with new products.

Maximizing the shelf experience is an ongoing cycle of continuous improvement that must create momentum the consumers will not want to resist. As digital informs how consumers shop, the CPG and retail company's digital approach must leverage the data to create opportunities.

.