

Retail Reinvented

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If you have been to a Super Stop & Shop lately, you have no doubt noticed their movies department. It is hard to miss and even harder to resist. It is also one of the best examples of turning an otherwise lower-traffic aisle in the center of the store into a major attraction and a new source of growth.

Stop & Shop achieved that success by replacing conventional thinking about “managing” categories with an innovative initiative centered on shopper needs and based on ringing up more sales and profits.

It is an example worth noting not only for other retailers, but also manufacturers seeking to develop new avenues for growth. Both retailers and manufacturers share a distinct opportunity to grow by addressing a wider range of consumer needs at retail.

According to a study conducted by Meridian Consulting Group for the GMDC Educational Foundation, most retailers see the development of “new categories” as a major priority over the next three years. In fact, 62% of retailers surveyed said they expected to find business solutions from “new categories,” compared to just 34% who said they were looking to “current categories.”

Among manufacturers, the Meridian/GMDC study reported that manufacturers are challenged by market fragmentation on three fronts: channels, competition and consumer targets. First, the sheer number of channels through which a consumer can purchase goods has increased, particularly as category-killer formats and online shopping have become more prominent.

As a result, as manufacturers have concentrated their dollars on the top customers in traditional channels, they have often found themselves too narrowly focused to capture emerging opportunities. The second source of market fragmentation facing manufacturers is increased competition from smaller players who are

taking advantage of the expanded channel options — especially online.

The third source of market fragmentation, consumer targets, is a natural outgrowth of the increase in channel and competitive variety. The result has been micro-targeting of consumer groups and the development of product offerings tailored to increasingly niche market segments.

Not surprisingly, manufacturers are giving greater attention to “new channels and usage occasions,” which is analogous to the retailer expectation to find new growth and business solutions from new categories. However, entering “new channels” is a challenge that is consistently underestimated. To succeed, a strategic channel process must develop an understanding of “new” customers and their key drivers, success factors/rules, competitors, and where one can add value.

Beyond Category Management. Even when staying within current markets/categories, there is a need to move beyond the four P’s (product, price, promotion, placement) to drive growth. In particular, service offerings represent a key opportunity.

Target and CVS are leveraging one such opportunity in their partnerships with Boots, a U.K.-based health and beauty retailer. Together, they have created a solution that spans multiple categories — cosmetics, hair care, skin care and bath products.

Not only does the collaboration help differentiate their stores as destinations for beauty products, but the resulting business is big enough that Boots can

afford to place a cosmetician in-store, a service that previously had been possible only in department stores.

Increased services and new market entries actually are fundamentally two expressions of the same overall strategic imperative: expand your business scope. Hence, the industry-accepted understanding of category management, with its structured approaches and focus on narrow definitions of categories needs to change.

While manufacturers have developed a depth of knowledge against the few, tightly defined categories in which they compete, retailers are now managing hundreds of categories and are looking for a broader understanding of the business, a higher level of solutions.

Kraft, Coinstar and others use shopper insights to reinvent categories and drive growth.

The mandate is to sell against consumer “need states” or overall shopping purposes. Need states can be expressed in terms of department-level purchases, such as “grooming,” “beauty” or “snacks,” or in terms of consumer objectives, such as “making dinner,” “taking care of baby” or “getting ready for company.”

An important aspect of the need-state approach is the opportunity to break down traditional category definitions in order to involve synergistic products and services. Therefore, retailers are looking for an understanding of what truly makes up a consumer “need state” and which combinations of products and services best satisfy the consumer’s shopping

purpose, ultimately leading to the best shopping experience.

Kraft's Meal Bridge.

Kraft successfully brought that higher level of solution to the convenience-store channel, which ostensibly had no need for Kraft's products. Most C-Stores already carried other cookies and felt they didn't need anything else. But instead of simply bringing in category managers to try to persuade the C-Stores to carry Oreos and Chips Ahoy, Kraft addressed its reason-for-being within the context of the "need states" of C-Store shoppers.

A strategy called "Meal Bridge" was developed based on four different meal occasions that a C-Store can help a consumer address. This higher-level business solution worked because Kraft was really the only vendor that could truly address all four types of meal occasions. They became a much more valued partner to C-Stores, and gained the ear of senior management in terms of what they should be doing as a long-term strategy, as well.

Coinstar's Fourth Wall. Coinstar, whose portfolio includes a broad array of pay-as-you-go offerings including coin conversion machines, amusement vending machines and DVD rental kiosks, achieved success by helping retailers bring order to what is often chaos at retail's front end.

The front end, defined as the area between the checkout lanes and the exit doors, is frequently a hodgepodge of seasonal items, customer-service counters and various types of vending machines. A comprehensive review of this area — also known as "The Fourth Wall" — from both a retail performance and consumer perspec-



tive, found that bigger ideas for consumers could result in bigger profits for retailers.

From a financial standpoint, Coinstar's "Fourth Wall" strategy, by creating a new destination and basket-building upsides, presents an opportunity to generate 20 percent or more of store sales. The "Fourth Wall" currently generates just three percent of store sales, on average.

An integrated "Fourth Wall" strategy therefore provides an ongoing framework for growth. For consumers, meanwhile, the "Fourth Wall" is the first and last area they see with every visit. As such, it can provide an enhanced shopping experience.

Higher Level Pathways. As with all major strategic undertakings, developing expertise in "need states" will take time and investment. Respondents to the Meridian/GMDC study underscored three key considerations to keep in mind while

pursuing an expanded business scope:

- Consumers already think in broader terms than "categories."
- There is retail thought-leadership upside.
- Do not confuse cursory focus — e.g., targeting an adjacent category for more space — with need-state based strategic knowledge.

Creating a path for growth requires developing expertise in the "need states" of consumers beyond your categories so as to redefine your products in terms of a larger shopping purpose. Your expertise should encompass retail and consumer metrics which highlight business upsides.

Create a Strategic Plan for Channels. Manufacturers consistently underestimate the requirements for success in new channels. Your winning plan should include channel rules-of-engagement, non-traditional competition, the

customer's desired selling process, and also a clear definition of how you will add strategic value to the channel.

Finally, assess how services can be applied to drive growth. Quantify consumer involvement and convenience opportunities across categories. Use best-in-class examples from other categories and industries. ■



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