

Retail *as* Habitat

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With the economy in recession, market shifts seasoned by fear and uncertainty are redefining the competitive landscape. Reduced disposable income, inflation, and decreased consumer confidence have the potential to alter purchasing habits and disrupt the normalized order in an industry that has had relative stability.

We now stand at the crossroads of perhaps one of the greatest economic declines in recent American history. It is fitting to reassess one of the more volatile questions faced today in the retail landscape: *do store brands pose a significant threat to traditional brands in new ways, and if so, are brands destined to accelerate their decline, disappear in their current form, or evolve with new strategies?*

Yes—this is a controversial discussion, but it is even more important now because of changes in the underlying market foundation and because of strategic implications for manufacturers in their approach to being seen by shoppers at retail.

STORE BRAND INCURSION

For years, store brands trailed their national counterparts in quality and consumer loyalty. Now, store brands are material and growing players. Forty-one percent of American shoppers now call themselves “frequent” buyers of store brands versus 36 percent just five years ago, and a mere 12 percent fifteen years ago.

Three key issues have contributed to this meteoric increase. First, retailers have been able to keep their own products on the shelf longer, utilizing their distribution networks, merchandising, operations, and sales staffs who have a vested interest in eliminating out-of-stocks far more zealously for their own products than for others.

Second, retailers are constantly interfacing with

The retail environment is a hothouse for national brands.

shoppers on a one-to-one basis and therefore are able to react more quickly and effectively to changes in tastes and preferences (*i.e.*, retailers have first-hand versions of the customer story). Third, talent transfer has—and is—playing a huge role in promoting innovation within store brand portfolios. Brand marketing talent has been able to transfer product knowledge, strategic

initiative, marketing skill, and ability to execute across battle lines.

This is not the first time this has happened in a consumer industry. Witness the shift that took place in apparel retailing in the '80s and '90s as companies such as The Gap transformed themselves from merchants of manufacturer brands such as Levi Strauss into true consumer brands with their own, internally controlled brand, product, and sourcing departments.

“Specialty” apparel retailers evolved as they added true (and talented!) design, technical, and sourcing departments to their internal rosters and went into competition with their brand suppliers. It is common today to think of many fashion retailers as true national or international brands (because they are), but that was not always the case.

A NEW CHALLENGE

The changes taking place along the consumer packaged goods value chain (from manufacturer to retailer to shopper to consumer—*i.e.*, grocery, mass,

and pharma) are allowing retailers to treat store brands much like traditional brands instead of like the former traditionally cheap knockoffs; they now give consumers a legitimate choice with a differentiated new value proposition.

Superior shelf positioning, highly focused direct in-store promotion and even advertising both at the point-of-sale and integrated strategically throughout the store—professionally designed and integrated packaging—all focus on highlighting the benefits of the store brand to the shopper while she walks the aisles.

Retailers are now able to differentiate themselves and utilize their stores as a brand-building medium while leveraging traditional mass communications by advertising their own products in retail inserts alongside (or instead of) traditional brands to drive store traffic.

The strategic advantage of store brands is now being realized and used to gain competitive advantage, drive profits and enhance customer loyalty. According to Willard Bishop's *Competitive Edge*, store brand movement and adjusted gross profit performance are significantly higher than the numbers for national brands, per SKU and per square-foot facing.

National brands now face a challenge they can no longer disavow, and find themselves surrounded by store brands that can outflank them given the channel advantages they enjoy and that can encroach on their traditional leadership positions.

MULTILINGUAL MERCHANDISING

Cognizance has even been raised in store brand segments regarding consumer acquisition. For example, savvy retailers have become proactive in eliminating the language barrier and implementing initiatives to attract and retain more Spanish-speaking consumers.

Though historically enjoying wide acceptance among the Hispanic community (store brands have a positive perception among nearly 80 percent of all Hispanics), nearly half of those who speak Spanish more prominently than English do not share this opinion.

These shoppers, who comprise 27 percent of the overall Spanish population, do not feel that they know enough about store brands to warrant a purchase, and have historically remained loyal to brands for this reason.

To build inroads, retailers are aggressively stepping up their involvement in the community to create positive influential impact and are intensifying marketing activities geared toward this segment. The cumulative effects of these initiatives over time may erode traditional brand loyalty and resistance to trial.

DAMN THE TORPEDOES

With the markets a mess and store brands becoming more sophisticated each day, one conclusion is that national brands, may be poised to wilt. This is not the case!

Despite less disposable income, consumers are not inclined to sacrifice proven quality and confidence but continue to seek brands that they trust, although their tighter wallets are leading them to try store brands in increasing numbers. And traditional consumer packaged goods companies have experience building brands through traditional media channels that many retailers do not have.

However, the evolution of the store as a media platform is clearly outside the realm of traditional. It is a multidimensional place in space and time that promotes interaction between shoppers and products. It is also a place where individual brand messages are awash in a sea of competitive presentations and noise.

In this space, one advantage that retailers have in developing their own brands is the ability to tell a story across the store with packaging, displays, and related 3-D environmental elements that clearly communicate that all products are from the same family and have real relevance for shoppers and consumers.

The outcome is that this changing dynamic will lead to an evolving (and improving) look and feel in store—often with much better experiences, look, and feel than many retailers have traditionally delivered. There's not really an option. Even economically-challenged shoppers tire of center-store presentations that have all the environmental personality and cohesion of Brezhnev-era merchandising.

The good news is that brands can do much more in the physical store to defend against these incursions into their sovereign territory. The often-underutilized tool at their disposal lies in the design and creation of in-store environments, communications, and three-dimensional elements that visually tell category stories and even unify products from brand families across the store. Traditional brands (especially if they work together) have the ability to create similar total-store stories just as well as retailers can.

A number of leading companies and national brands are moving significant resources aggressively into shopper-marketing programs, and several are doing this quite well in terms of understanding need states, shopper habits by mission, optimizing packaging and assortments, etc.—some even on a retailer-by-retailer basis. But the piece that is often missing is the physical, creative expression of all that

Tide & Taylor

A new partnership between the retailer Ann Taylor Loft and Procter & Gamble is turning stores into launching pads for two new products, Tide Total Care and Downy Total Care.”

Ann Taylor chief marketing officer Robert Luzzi explains, “... We decided that the partnership at this time was incredibly relevant for our clients in this pretty tough economy... we want to deliver value for our clients.”

P&G’s Kash Shaikh agrees, noting, “Women spend \$1,500 a year on dry cleaning and 65 percent of those clothes are actually machine washable.” The P&G promise is that its new Tide Total Care and Downy Total Care products will “cut down on dry cleaning bills by helping clothes look new for a longer time.”

Ann Taylor Loft will offer “free samples and coupons to customers who buy machine washable clothes.” Stores will also have posters and “an eight-page magazine” offering “tips on how to keep clothes looking fresh.”

[Source: Douglas Quenqua, *New York Times*, 10/10/08]

hard work in terms of the creation of environments that draw shoppers to trial and repeat.

We are not speaking merely of single product displays, cardboard, and signs. We are talking about three-dimensional design (sometimes with a store-in-store look) that provide personality and create environments around entire categories and that link to each other across the store.

ENTER “ENVIRONMENT CAPTAINS”

Consumer packaged goods companies can also learn from the fashion industry in terms of the degree to which brand, lifestyle, and category stories can be communicated through the retail environment. Consider the physical vignettes that companies like Ralph Lauren, DKNY, and others create in department stores and use those for inspiration in terms of understanding just how far category re-invention can go.

It’s important to acknowledge that these fashion brands are creating their own brand-specific

environments and that this is a significant difference from the need of CPGs to create multi-brand and cross-category environments. But the point is that the field is wide open for in-store design innovation — led by traditional brands.

At least one CPG, Procter & Gamble, has already begun capitalizing on fashion’s potential to drive brand growth at retail in its collaboration with Ann Taylor Loft (*see sidebar*). Additionally, Crayola is doing a very good job with several retailers in creating powerful environments that create trial, and promote entire categories.

As category leaders, traditional brands must recognize store brands as participants at the supplier/category table (although store brands might have “teacher’s pet” status). It was probably not much fun for many brand managers when category management came into its own and forced them to consider competing brands from the retailer’s standpoint, but it was a reality.

The same is becoming true with store brands. One new matrix for dealing with this evolution is in management of the retail environment. Perhaps we will see the development of “environment captains” or “experience captains” — roles tied to category leadership but going far beyond to link and promote cross-category planning and selling.

It is also important for brands to understand that the 3-D design aspect of successful in-store shopper-marketing programs requires dramatically enhanced in-store execution. Achieving this must become the responsibility of both the retailer and the national brand. We expect retailers to rely heavily on suppliers for this execution.

Finally, understanding the only effective means to reach these shoppers is in the store and earmarking specific marketing dollars for very specific types of in-store programs (we’re not speaking of promotional dollars!) including professional guaranteed installation is the only viable method to effectively communicate to shoppers. Both retailers and brands must begin the process of marketing to shoppers together through store and category design and ultimately both will enjoy market share gains. ■



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