Minding the Store

By Chris Hoyt

Hoyt & Company LLC

Have you gotten a hug from a consumer lately? That's what happened to Walmart U.S. chief executive officer, Eduardo Castro-Wright, from an elderly woman in Fairfax, Virginia, as he, clearly looking like Walmart management in his suit, entered the store.

Along with the hug, she told him, "I want to thank Walmart for helping me survive these times." While it's not usually so physical, most people would agree that connecting with the consumer at an emotional level is what marketing is all about.

Shopper marketing must not be subordinated to category management.

Traditionally, retail has focused on merchandising rather than marketing — a one-size-fits-all approach where 'stack it high and watch it fly' ruled the roost. But a rapidly growing number of retailers including Kroger, Safeway and Best Buy — as well as many regional retailers — are developing the marketing side of their business and are reaping the rewards on their bottom lines.

Make no mistake, marketing is not in control at these retailers. As Walmart's chief marketing officer Steve Quinn acknowledges last month in *Advertising Age,* "Certainly it's not a marketing-led company in the way a lot of packaged-goods companies would consider themselves to be ... But I do think marketing has a seat at the table. This company has a strong merchant and operations culture, and now we've added this third leg of the stool."

This is why retailers ought to be seriously concerned with the major push afoot in certain quarters of the industry to kick out this third leg of the stool before it can really take hold. Both the FMI (Food Marketing Institute) and newly-formed "Retail Commission on Shopper Marketing" (sponsored by Coca-Cola N.A.) are championing the idea that shopper marketing should be integrated into the traditional best-practice, eight-step category management process and rebadged as "Shopper and Category Development."

This new version of shopper marketing is defined as, "A distributor-supplier process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer/shopper value." As many will recognize, this is exactly the same definition of category management introduced *20 years ago*, only with the addition of the word "shopper" at the end of the sentence.

The other difference is that even though category management will now attempt to incorporate the many different and varied facets of shopper marketing, the traditional eight-step category-management development process will be "simplified" and reduced to five steps: 1) Insight Generation; 2) Strategic and Tactical Planning; 3) Initiative Development; 4) Plan Launch and 5) Plan Review.

"Retailers have to see how a [shopper-marketing] initiative proposed by a product manufacturer connects into the standard operating procedures they use in category management, merchandising and, in particular, store operations" says a spokesman for this movement. "There is a lot of historical precedent that says this is the way to go."

Table I
Authorizations By Department (2004)

Dept.	Albertsons	Kroger	Safeway
	Average Weekly Items		
Bakery	753	775	774
Dairy	2,240	2,142	2,238
Deli	764	764	736
Edible	13,817	13,770	13,656
Frozen	2,681	2,739	2,719
General Merch	1,117	1,251	1,227
HBC	3,998	4,108	4,188
Non-Edible	3,214	3,294	3,155
Totals	**28,584**	**28, 843**	**28, 693**

Source: *IRI CRMA Scan Data, 2004*

In other words, let's fold this "marketing stuff" into business-as-usual category management.

For the uninitiated, category management has evolved into a predominantly supply-side methodology to deliver efficiency — the right product at the right place at the right time — although it was originally positioned as a solution to improve retailers' demand-side issues as well.

There is no question that category management has provided enormous benefits to retailers on the supply-side of their businesses in terms of helping to align inventories with shelf demand and facilitating enlightened data-based distribution and assortment decisions.

On the demand side, however, category management has not met expectations in terms of *strategic* benefits — defined as enabling retailers to achieve meaningful non-price differentiation through proactively addressing targeted shopper needs or through facilitating the development of relevant marketing platforms that cut across all categories and help establish one's position in the marketplace.

Achieving this type of differentiation has been the Holy Grail for most retailers, especially supermarkets in their struggles to compete against Walmart and other value discounters. In fact, what 20 years of process-driven category management has done is have the opposite effect — to the extent where virtually all categories in most food retailers are now characterized by an eerie sameness that provides shoppers with little or no incentive to choose one store over another on any basis other than price.

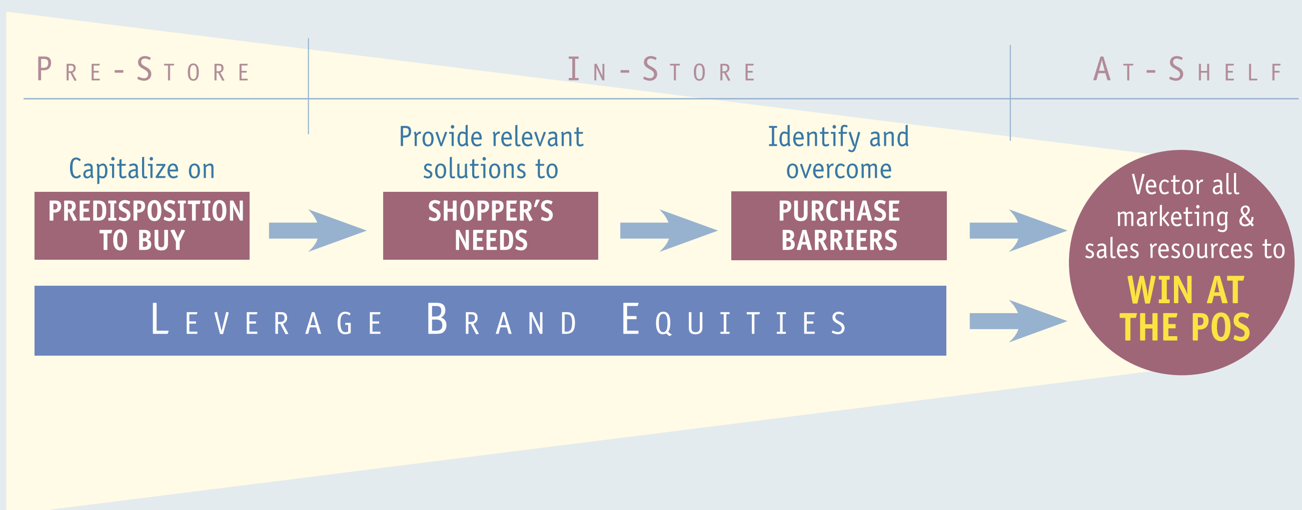
Based on "a lot of historical precedent," this is exactly what we fear might happen if retailers allow their shopper-marketing programs to be subordinated to a category-based approach. If you think this is a bit strong, check out *Table I*, which details the difference in assortment and distribution after 20 years of process-driven category management in Kroger versus Safeway versus Albertsons in 2004, before shopper marketing got started. As you can see, the largest difference in total SKUs carried by each of these retailers is less than one percent — on a base of approximately 28,500 items. In other words, the process worked perfectly. Everybody did it exactly the same way with exactly the same results for everybody — complete uniformity and *zero* differentiation.

How well might this work with shopper marketing? Let's take a look.

Shopper marketing was "officially" introduced to retailers at the FMI about five years ago in a presentation entitled, "The World According to Shoppers" (ironically, also sponsored by Coke). Many quickly grasped the potential of this and willingly invested the time and financial resources to grow their *marketing* capabilities and begin to understand the needs and wants of their particular shoppers. To this end, many did the research to segment their shoppers along demographic, psychographic and behavioral lines — with emphasis on their Most Valuable Customers (MVCs).

The objective was to provide their suppliers with a choice of pre-defined shopper segments that suppliers could use to identify a "mutual shopper" and then target this segment, as appropriate, in

Table II
Shopper Marketing Along the Path-to-Purchase



SOURCE: *Hoyt & Company, LLC*

developing brand or portfolio-specific messaging and other shopper-based initiatives.

The key to making this work for all parties is informed collaboration — wherein both parties do their homework — as opposed to the category-management model wherein retailers pushed the entire burden of data acquisition, analyses, insights development and program recommendations onto their suppliers.

Significantly, because *best-practice* suppliers have identified shopper marketing as primarily a *marketing* opportunity, they assigned this responsibility to their brand-marketing executives, not to their category-management executives. Similarly, the principal point of contact for shopper-marketing collaboration in *leading retailers* shifted from the retailers' category-management/merchandising departments to the retailers' marketing departments.

This is not to say that category management is not an important component of shopper marketing but that's all it is — one component of it — and certainly not the driver or springboard from which to plan and execute the myriad number of strategic initiatives that today make-up the whole of what shopper marketing encompasses — for both retailers and suppliers.

To illustrate this, we would refer you to *Table II,* which encapsulates and consolidates a current best-practice view of the principal components of shopper marketing along the shopper's path to purchase. As you can see, there are many moving parts to current best-practice shopper marketing which each may involve a different discipline or function across one's organization.

Where category management comes into play is *at the end of this path* — at the shelf — where its responsibility is to make it easy for shoppers to find and buy the products they want and need. Most all of the other functions along this path — with the possible exception of overcoming certain types of purchase barriers — are responsibilities that category-management executives on either side of the table are neither trained nor resourced to address.

Faced with the prospect of two powerful industry-sanctioned bodies coming out with identical recommendations that this is the way to go, however, we would offer the following observations directed principally to the retail community:

1. Shopper marketing as a marketing function is already in place and working successfully.

Best-practice retailers are making their stores the "store of choice'" through *marketing*. Walmart beefed up its marketing department from a handful of senior executives in 2004 to more than 200 people today, with a budget of more than $1 billion.

Then, recognizing that it did not have the in-house personnel to head this group, Walmart brought in Steve Quinn from Frito-Lay to be its chief marketing officer and staffed many of its key marketing and merchandising positions with CPG manufacturer-trained marketing people.

The result — as reported by *Advertising Age* on June 8 — a 3.8 percent increase in U.S. Sales for Q1 this year, *of which 95 percent came from same store sales.* To what does Walmart attribute this success? "Segmentation, market research and advertising," says Quinn. Category management is nowhere mentioned in this article.

Walmart is not alone. Safeway achieved a 4.3 percent increase in sales in 2008 — increasing for the third year in a row. Kroger delivered a whopping 8.2 percent increase in 2008 — with a 5.0 percent increase in same-store sales *excluding* fuel.

2. Your store is (or can be) more than the sum of its categories.

The assumption that making all of the categories in the store relevant to your shoppers will translate into making the store relevant in total is a common misconception. Your store is a brand and it needs to stand for something. It needs to deliver a single-overarching message about who you are that is based on an in-depth understanding of your particular shopper's want and needs. Consequently, your message needs to be shopper-specific, not category-specific. Categories should be aligned to reinforce this image but not used to create it.

3. You want your most valuable shoppers to shop the store — not individual categories.

As retailers began to understand their Most Valuable Customers better, they discovered that an average retailer captures only about 25 percent of their MVC's CPG dollar. This presents an obviously important strategic opportunity because MVCs already have a preference for your store, buy more in your store and — since they are less likely to cherry-pick — are more profitable.

Leading shopper-marketing retailers have therefore made it a prime objective to increase the number of categories that a MVC shops, thereby increasing transaction size and/or trip frequency. In other words, the focus among these retailers is on doing a better job with current customers rather than attempting to get new customers. If you allow shopper marketing to devolve to a relatively narrow category-driven exercise, you will run the risk of severely curtailing this opportunity.

4. The focus of shopper marketing should be on shoppers, not categories.

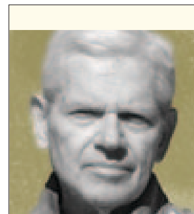
For 20 years, category management, whether intended or not, has been an exercise in supply-side efficiency — not demand-side effectiveness. It has been process-driven rather than creative. Category managers are experts at product movement but few would claim expertise in understanding shopper motivations that do not pertain to their particular categories.

Category managers are judged on short-term lift and category share gain, not total-store gains. Category managers are responsible only for their category — rarely asked to grow other categories — and have a habit of turf-protecting, making cross category marketing or merchandising an extremely difficult proposition.

Finally, most of the category managers we know have enough on their plates already. Certainly, category managers need to understand the dynamics of their categories from their shoppers' perspective, but to think that one could add a strategy as complex and unfamiliar as shopper marketing to their already overburdened agendas is simply wishful thinking.

Obviously, we do not think that attempting to integrate shopper marketing into a category-based framework is good for retailers, their suppliers or the industry in general. It risks setting back the industry 10-15 years and belies what shopper marketing is all about.

It plays directly into those who want to shortcut the process and "do it the easy way" by using existing personnel and changing titles — yet expecting different results! It is, in net, the equivalent of putting a fighter pilot into a foxhole. ■



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