RETAIL 3.0™
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A POSITION PAPER SERIES

Paper 3:

In-Store Activity

How shoppers interact with products between their delivery to the store and purchase at checkout has long been a black hole. Measuring and managing in-store activity is the new frontier for optimization.

In-Store Activity Is A Void. All stores, of course, can measure transactions, tracking the products flowing over their checkouts. Most stores have receiving systems, giving the retailer control over what goods wind up on the shelves. And some stores have traffic-counting systems, allowing them to measure the number of customers coming through the store entrance. But what happens between products flowing in the back door and shoppers with their purchases exiting the front is the retail equivalent of a black hole. Retailers are able to measure, at best, the periphery of what actually happens in-store.

- Category management is in place for many retailers, helping them to decide which products belong on the shelves and how to price them, and a great deal of planning and science can go into developing category plans. But executing such plans at store level is invariably challenging, and prone to breakdown in the dynamic store environment.

- Despite the attempt to reign in out-of-stocks through new technologies and store-level operations, they continue to dog the retail industry. The typical figure is 8 percent of sales lost to them, but the real figure is likely much worse: many shoppers simply leave the store, with all of their would-be purchases, when an item is unavailable.

- The industry has long-wrestled with promotion compliance, with many manufacturer-funded promotions improperly executed at the retailer's stores—signs not posted, special displays not built, or new products not cut in. Consider these new item launch assortment voids: major beverages, 41 percent; major detergents, 54 percent; major food items, 46 percent. Display programs are subject to voids of 20 percent. Many have sought to fix the issue, and several firms

About

The team of Hawkins Strategic is leading and supporting the next-generation retail ecosystem: Retail 3.0. Hawkins Strategic is uniquely positioned to move the industry to this next level through thought leadership, strategic guidance, value creation, and the Center for Advanced Retail Technology.

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provide promotional compliance services. But in the end most of these are manual, labor-intensive processes such as a person photographing certain categories, shelf sets, or displays. These deliver value today, but the area begs an automated solution.

- Retailers invest huge sums in store design and research to maximize the number of shoppers exposed to high margin products during their shopping trips, but this is good guesswork at best. The industry has no mechanism by which to accurately measure traffic flow around the store and conversion rates within aisles and categories on an ongoing basis.
- With few exceptions, retailers do not know who their shoppers are at any given time they are in the store, until the shopper is at checkout—and only then for retailers that have some type of loyalty program. Stores currently require shopper-identified transaction data to be fed into the their CRM system before they can make any identification.

Technology

Technology is beginning to shine a light on in-store activity, providing the industry with tools to truly measure and begin to manage it for the first time. And not a moment too soon: brand manufacturers, which have steadily increased promotion dollars flowing to in-store shopper marketing initiatives, have become focused on establishing some type of measurement system so their money does not disappear into a black hole—as it has so often in the past. In a recent conversation Hawkins Strategic had with a marketing executive for one of the world's largest CPG firms, it was revealed the company was actively seeking to develop and apply metrics to in-store marketing activity in the fashion they do for television, radio, and print campaigns. This trend will only broaden and accelerate.

But, interestingly, it is not just the brand marketers that are seeking this information: sophisticated retailers are increasingly searching for solutions that will enable them to better measure and manage in-store activity from store deliveries to promotion management, from shopper tracking to on-shelf availabilities. Leveraging new solutions to open up the in-store environment, connecting previously disparate systems together, and beginning to share realtime information, brings the Retail 3.0 ecosystem to life.

> "Neither the manufacturer nor the retailer can put off any longer solving the last big cost and profit opportunity frontier left in CPG... the store! We all recognize that measurement *is* management. We just have not been able to accurately and affordably measure in-store efforts without distortion."
>
> –Mike Spindler, *CEO, ShelfSnap*

Transaction Information

POS data has been tightly controlled by retailers from early on and, when it is shared, it is done through services like IRI and Nielsen that aggregate data across retailers. The growth of shopper-identified transaction data has been ever more tightly controlled as retailers realized it could be monetized in the fashion of Kroger-dunnhumby's practice. But Retail 3.0 demands the dissemination of realtime transaction data throughout the supply chain, both to vendors and to shoppers: vendors can be enlisted to help manage out-of-stocks and promotion effectiveness in realtime; shoppers can be provided digital receipts of their transactions as soon as they leave the checkout.

Solutions providing precisely this data to vendors and trading partners are already on the market. One of them features the ability of a user—retailer or vendor—to set triggers messaging a user via email or text when a certain promoted SKU sells a specific quantity in a period of time. Another creates sophisticated algorithms for each product based on sales frequency, then messages the store manager if a certain product has not gone through the POS in a certain amount of time to indicate a potential out-of-stock issue. With these systems retailers enlist their vendors as true partners to monitor product sales by SKU and by store so as to optimize store delivery schedules, inventory levels, and improve out-of-stocks. One deployment has been so successful that the retailer realizes lower product costs from vendors' improved efficiencies. Advanced vendors are also measuring promotion effectiveness, in addition to suggesting new promotions that provide gain for both retailer and brand.

Leveraging data throughout the supply chain is also beneficial to retailers' internal teams, from headquarters to store level, as it allows product movement to be tracked in realtime. Linking this data with historical comparisons provides opportunity for substantial gain to be pursued by decision-makers in the production of prepared foods, perishable product purchasing, carrying seasonable merchandise, etc.

And if this data can be shared throughout the supply chain, it can be shared with the shopper as well via a digital receipt, delivered via email or web. Traditional retailers respond to this with, "If shoppers realize how much they're spending with us, they're going to cut back." Newsflash: credit card companies, banks, online merchants, mobile phone networks, and countless others all give consumers a view into what they're spending and how much their products are worth. Retailers' reluctance to provide this service has become a hindrance to the shopper, and those that realize it first will be rewarded.

Store Operations

Shifting attention to the front of store: Retail 3.0 is built on the foundation of shopper-identified transaction data. Retailers have long been stymied by the inability to easily integrate product data and shopper data—alternatively, integrating product category management systems with customer category management. Typically these sets of data, product and customer, are put into disparate silos, making it very challenging to bring the two together in a way timely enough for actionable reporting.

So imagine the ability to create customer segmentations and use them as a lens through which to view activity—from single SKUs to categories—of customers shopping by hour. Or perhaps through which to analyze product movement in determining whether to keep or discontinue a product. This ability would provide actionable data at the store level, and offer higher level insights to knowledgeable retailers. Suddenly a retailer could know not only the number of transactions flowing through their customer service areas (e.g., deli or front end), but by hour when their different shopper segments are in the store. Knowing that Tier 1 shoppers are most concentrated in the store on Tuesday afternoons between 2:00 and 4:00 PM is valuable information: staff levels can be adjusted accordingly; prepared foods managers can better plan production schedules and staffing; marketing managers can understand ad flyer shrink in terms of shoppers (see Retail 3.0: Marketing Communications from Hawkins Strategic).

This is already a packaged solution on the market.

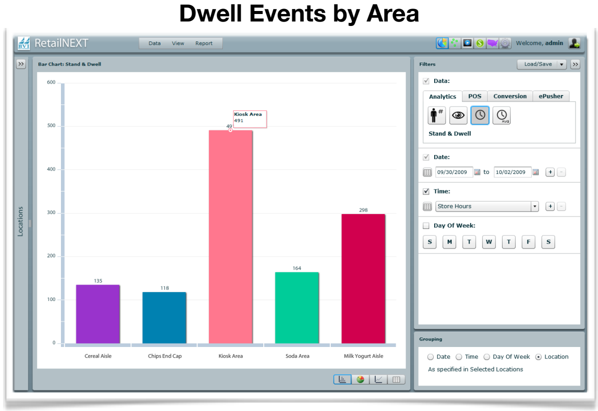
Business Intelligence

The store is going digital. Cameras, shelf-pushers and displays, electronic shelf tags—all are becoming increasingly commonplace. Holistically leveraging this digital infrastructure sets the stage for a business intelligence platform to aggregate these feeds and turn them into actionable shopper insights, and systems are coming to the fore that do just this. IP cameras strategically situated throughout a store, for example, can measure conversion rates: of shoppers entering the store, how many go down a specific aisle? Of those that do, how many linger in front of a specific category (dwell time), and how many actually make a purchase? These metrics, standardized and automated, are exactly the types brand marketers and sophisticated retailers are looking for to measure in-store shopping activity.

These technologies also allow someone at headquarters to view specific end-cap displays, store by store, to ensure promotion compliance. And, to assist in value creation, portals can be made available to certain business partners: e.g., Coke could monitor activity on all cameras that view their product category. Imagine a CPG introducing a new item and being able to view realtime shopper activity across multiple stores as shoppers interact with the category and new product. This information is powerful.

This technology is already available, positioned as a business intelligence platform, and it provides powerful, actionable information to the retailer and trading partners. As brand marketers continue to increase funds going to in-store marketing initiatives, solutions such as this one provide the standardized measures needed by the industry to gauge effectiveness and compliance.

Dwell Events by Area



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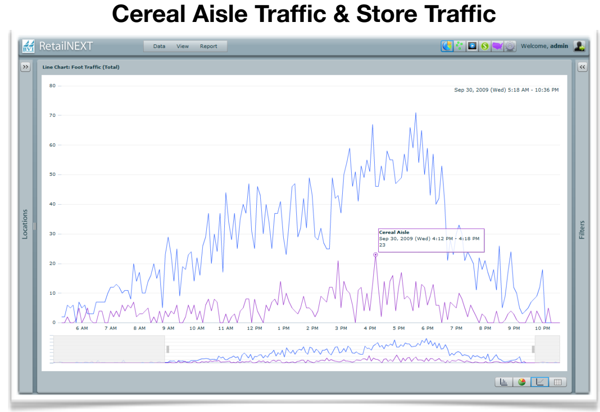
Cereal Aisle Traffic & Store Traffic



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The Digital Store

Solutions like these are but a start. Others are on the way that will add to retailers' ability to measure, manage, and react to in-store activity realtime. Information in the store is increasingly digital, and it is this that opens the way to connecting all the systems—to providing a comprehensive and cohesive view into what is happening in the store—right now. But the true power lies in joining them to realtime marketing systems. This is what allows for inventory optimization and traffic pattern recognition over time. This is the vision of Retail 3.0: aligning interests and optimizing supply chain activity up to and including in-store activity, to maximize shopper lifetime value.

Triggering—in realtime—a promotion as the product arrives at the back door, then turning it off when stock begins to run low; promoting—in realtime—fresh products that are overstocked, with the goal of optimizing inventory and minimizing shrink: this potential is unprecedented. It is also hugely lucrative. It means truly enlisting vendors as trading partners. But it requires making the in-store environment transparent.

Lighting up in-store activity and making this information transparent is powerful for the retailer. Its power is magnified as the retailer in turn opens it to its trading partners. Together, they can leverage these new tools and metrics to truly optimize the in-store environment and focus on the shopper.