

Shopper-centric retailing

Shopper insights at the point of decision

A large, stylized version of the IBM logo, rendered in two shades of orange and brown. The letters are thick and blocky, with a slight shadow effect. The 'I' is a solid brown color, while the 'B' and 'M' are split vertically, with the left half being a darker brown and the right half being a lighter orange. The 'I' and 'M' are also split horizontally, with the top half being a darker brown and the bottom half being a lighter orange. The 'B' is split both horizontally and vertically, with the top-left and bottom-right quadrants being a darker brown, and the top-right and bottom-left quadrants being a lighter orange.

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Retail evolution and shopper intimacy

The “good old days” of mom-and-pop retailing are gone.

Understanding shoppers’ needs seemed easy then. Shop owner-operators knew their shoppers by name and their preferences by heart.

Merchandising wasn’t very scientific, but it was personal and, in its way, intimate.

With the explosion of mass media and the economic expansion of the 1950s, mass retailing also boomed, feeding the surging demand of a culture oriented around consumption. Manufacturers could reach consumers with a 30-second spot on three TV networks and a coupon in the Sunday paper. Retailers rolled larger and larger stores out across the landscape, pacing the expansion of suburbia, and serving the hegemony of the national brands. For a brief, golden period, merchants could stack ‘em high and watch ‘em fly.

“In the mass-market era, the shopper became an abstraction – a mass market responding to mass methods.”

The growth of mass markets led over time to industry consolidation, and the emergence of truly national and global retailers. By the 1980s and 1990s, we were experiencing an explosion of consumer product choices and media outlets. Retail chains grew larger and more operationally intricate, even as cable television and the Internet caused audiences to splinter.

Retailers and manufacturers adapted by adding technologies to their arsenal. By the 1990s, retailers were hiring consultants to build econometric models representing consumer demand and to provide advice on pricing, promotion, and assortment to optimize their categories. By the turn of the century, these techniques were packaged into software tools designed to enable demand modeling, forecasting, and optimization on a repeatable and scalable basis. Retailers reaped significant rewards from category-centric merchandising optimization, with the ability to better meet consumer demand and achieve their business objectives.

But, along the way, true intimacy with the shopper had been lost. Even sophisticated demand analytics could reveal a story descriptive only of the average shopper.

Today, much more targeted shopper understanding is required. The new era is all about segmentation, personalization, and shopper engagement in context. It's about finding and reaching those shoppers who will ultimately drive the biggest results for the business. It's about going beyond descriptive and even predictive solutions to prescriptive solutions that recommend the best course of action. And it's about doing all of this in an omni-channel, shopper-empowered world.

Now demand analytics and optimization intersect with shopper identification in brave new ways. Retailers are prepared to operationalize their segment strategies in both merchandising and marketing.

That's why at IBM we focus on true shopper-centric retailing.

“Operationalize segment strategies in both merchandising and marketing.”

The mythical average shopper

Despite years of entrenched mass-merchandising practices, all retail professionals know instinctively there's no such thing as the average shopper. Each individual differs in their desires and preferences. In fact, they vary with every trip to the store.

Even in today's complex store environments, shoppers leave hints about themselves with every transaction. For decades, retail marketers have taken advantage of this data with shopper segmentation programs that uncover behavioral traits of different groups of shoppers. These investments have resulted in better performance across their marketing programs. However, the category-centric optimization tools used by the merchants did not support insights and decisions at a segment level.

Retail evolution and the death of “average”

Mass era retail	Targeted retail
Mass markets	Segmented markets
Mass media	Targeted media
Prototype store	Clustered stores
Uniform assortments	Cluster-level assortments
Treat all shoppers the same	Focus on key shoppers segments
Share of market	Share of wallet

One optimized price	Segment-targeted prices
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The opportunity to regain shopper intimacy has always been with us. We just needed to find the right ways to marry the merchandising optimization techniques with shopper segment strategies.

“We can put individual faces back on our shoppers. We can get to know them personally again. We can learn to see what makes them different.”

As retailers and manufacturers adopt new tools for understanding and managing shopper data, we pursue promising new opportunities. We can put individual faces back on our shoppers. We can get to know them personally again. We can learn to see what makes them different.

We can meet their needs and exceed their expectations.

In the new omni-channel world of retail, we understand which shoppers are most valuable to our long-term success and what they find important.

This means we merchandise and go to market based on shopper insights, as well as category and brand objectives.

Just knowing isn't enough. We need to take effective action on this new and improved understanding. Routinely. By embedding highly responsive practices into our operations every day.

Newer technology is ready to help us renew our intimacy with the shopper, target our plans, and deliver competitive advantage.

What's more, latest technologies allow retailers to understand shoppers prescriptively in an omni-channel environment.

Operationalize your shopper segments

For retailers, merging advanced shopper segmentation with merchandising optimization capabilities can have a huge impact on the business. The shift from mass and average to targeted and differentiated has a profound effect in how retailers:

- Optimize merchandising and marketing together
- Plan assortments and protect highly loyal items of key shopper segments
- Tailor promotions to the right shoppers through multiple venues
- Set competitive, effective prices across channels and protect unique image items by shopper segment
- Collaborate with consumer products (CP) partners

All of these transition from an optimization process based on averages to a more finely tuned process that detects and leverages the variability in demand across shopper groups, and does so prescriptively, in an omni-channel environment.

1. Optimize merchandising and marketing together



Retail strategy defines various goals in key areas: financial, shopper, and category. Plans flow from these objectives, informed by shopper insights and our best understanding of demand.

To be effective, we must fine-tune our planning and execution process to address category objectives like sales and profit, as well as shopper objectives like trips or loyalty.

The new breed of retail applications extends optimization science in exciting new ways:

- Shopper segmentation becomes integral to the merchandising optimization process
- Shopper insights are embedded at the point of decision
- Superior planning and collaboration are enabled with consumer products suppliers

We combine segmentation and merchandising optimization, and can act on subtle yet important segment differences. We know intuitively that young families with children have different purchase priorities than retired empty nesters, to cite one clear-cut example. No amount of price cutting will motivate Golden Oldies to purchase more baby formula. That's easy to guess even without optimization tools.

But hundreds of more subtle, yet enduring, purchase preferences that define shopper segments may be very difficult to identify without next generation tools that automatically sift the data for actionable differences. "Broadcast" merchandising methods overlook these differences, spreading finite resources too thinly, leading to results that may be good, but could be better.

If Golden Oldies are a strategically important segment in our stores, we need to identify and pursue merchandising and marketing programs that will be meaningful to them, and elicit desired purchase behaviors.

Combining merchandising optimization technology with the discipline of shopper segmentation lets us identify and incorporate a host of segment behavioral differences into our merchandising and marketing decisions. To operationalize our shopper segment strategy, we need:

- Merchandising technology for assortment, pricing, and promotion
- Optimization and segmentation combined and actionable for planners at the point of decision
- Active collaboration with CP partners

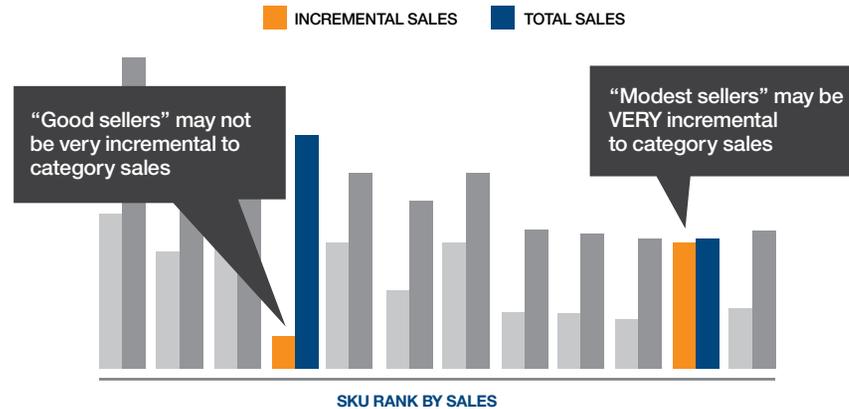
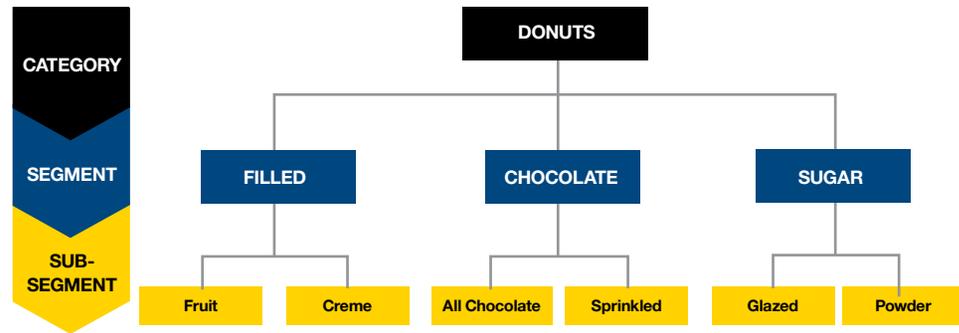
This integrated approach to merchandising activities is key to retailing success..

“Combining merchandising optimization with shopper segmentation lets us identify and incorporate segment differences into our decisions.”

2. Plan assortments and understand loyalty

It's about understanding how much variety the shopper truly needs and wants, and how much simply adds duplication and confusion, making the shelf harder to shop and less productive. Key to this is knowing which items are substitutable and which ones will deliver the highest incrementality to the category. Coupled with shopper loyalty, the best scenarios can be generated to not only pursue volume goals, but shopper segment goals as well.

Of particular importance are the concepts of transferable demand and incrementality. An understanding of these two principles will help you understand how substitutable different products are in different categories and stores. It is crucial to have software that can accurately predict how much of a product's demand will shift to other products in your assortment and how much will disappear from your store.



New approaches to retail take these concepts even a step further, enabling shopper segment demand and loyalty to become key drivers of optimization scenarios.

Optimization science reveals that some strong-moving items add relatively little to category performance. If the shopper is willing to replace them with other items they may be delist candidates. Other, slower-moving items may be highly incremental, representing higher net sales that will be lost if the item is delisted. Other items may offer little incrementality to the category in general, but have a high preference or loyalty among a key shopper segment. These items should be protected from deletion.

Item loyalty (a.k.a. share of requirements) for kids and family segment

Kids and Family shoppers who bought Fruity Pebbles, purchased Fruity Pebbles 2 out of the 4 times they bought cereal, therefore, are 50 percent loyal to Fruity Pebbles



Item loyalty (a.k.a. share of requirements) for Golden Oldies

Golden Oldie shoppers who bought Raisin Bran, purchased Raisin Bran 3 out of the 4 times they bought cereal, therefore, are 75 percent loyal to Raisin Bran



3. Tailor promotions to the right shoppers

Shopper-centric retailing applies segmentation and targeting principles throughout the promotion process. It adds value across the entire sequence of actions, from: managing deals, to optimizing promotion plans, to advertising execution, and measurement.

At each stage, the game changes when we consistently ask the question:

“for which shoppers...?”

Shopper-Centric Retailers focuses on:

- Targeted promotions for specific segments
- Varying ad versions by segment
- Tracking and understanding response by segment

The result is better use of finite promotional resources, applying effort and dollars where they will be most effective: toward the customer segments that care most about the category or the brand, or are most valuable to the business. This capability naturally leads retailers to work more collaboratively with vendors on trade promotions.

Different segments respond differently to different promotions. While this may seem intuitive, until the arrival of next generation retailing solutions we had very limited capability to act on this understanding. Promotion lift was calculated across the entire store and shopper base, without understanding its behavioral elements.

But WHO responded to the promotion? How effective was the vehicle? Should you do it again? In the example below, Golden Oldies show a strong promotional response when coffee is on display. In contrast, Budget Families are unmoved. But looking across the row, it’s clear that Budget Families are generally more responsive to multiple pricing, although tactic is less effective with Golden Oldies. Next time around, if the goal is to grow coffee sales to Budget Families, we might try the “two-fer” lever, but we shouldn’t expect much bump from the Golden Oldies.

Targeting promotions to specific shopper segments will inevitably lead to an increase in versions of your flyers and other marketing deliverables. Would your system be able to handle a doubling or tripling of versions? Retailers need a scalable system to manage this added complexity.

		COFFEE	DIAPERS	CEREAL	
YOUNG FAMILIES	TPR		▲	▼	Young Families very sensitive to most promotion levers for most categories
	Feature	▲	▼	▲	
	Display		▲	▲	
	Multiple	▼			
BUDGET FAMILIES	TPR	▼			Budget Families not as responsive to coffee promotions
	Feature	▼			
	Display	▼			
	Multiple	▲	▲	▲	
GOLDEN OLDIES	TPR				Golden Oldies sensitive to display
	Feature				
	Display	▲		▲	
	Multiple				

4. Set competitive, effective prices and protect image items by shopper segment

Leading retailers have been benefiting from price optimization tools for a decade. Adding segmentation improves targeting and offers a substantial opportunity to improve decision-making accuracy throughout the pricing life cycle – from base or everyday prices, to promotion prices, markdowns, pricing rules and price maintenance. Adding prescriptive recommendations across multiple channels takes the practice to another level.

It begins with shopper focus made possible by the application of next generation retail solutions:

- Identify price-sensitive SKUs by segment across store
- Identify storewide image items by segment
- Identify price points that drive sales by segment

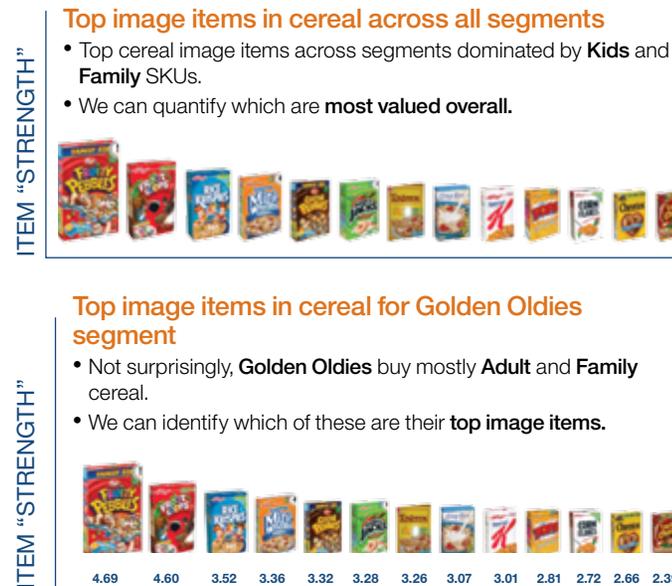
Our Golden Oldies segment, for example, may skew more strongly toward the purchase of certain unsweetened cereal brands, while the category overall may show much greater movement on kid-oriented, presweetened varieties. Here again, if we deem Golden Oldies to be an important strategic segment, our overall category assortment plan and pricing of key image items may require a degree of accommodation to their preferences that might not be revealed if the cereals were studied only at the category level.

When we optimize pricing for target segments, we also seek an understanding of the unavoidable trade-offs. What happens to other segments and the total business when you implement those prices? What happens to sales of these same items in your online store and how does that differ from brick?

So, for example, if you decide to optimize prices for my most important segment – say Foodies – what happens to your overall forecast? It is quite possible that you can raise the price of an item for Foodies

and improve performance for that group, but at the cost of a lower overall forecast. And what are the effects across channels? Depending on your goals, it may still be the right decision, but it is crucial that you have a detailed understanding of the impact of these decisions.

Needles to say, you can't do this forecasting in your head – you need next generation technology.



Collaborate with your consumer products partners

Trading partner collaboration is another area that continues to evolve at pace. In shopper-centric retailing, it goes well beyond after-the-fact reporting and data sharing to incorporate real-time collaboration on a common online platform.

Access to segment-level performance data permits your CP partners to participate in your shopper strategy. From the understanding of your shopper segment behavior to the visualization of what items should be leveraged across assortment, price, and promotional activities.

Beyond insight mining, your CP partner can also see and predict which promotions will resonate best with which segments and ultimately deliver bottom-line results.

By sharing data on a common platform, both parties can use the same online reporting capability to track and understand the impact on category growth, new shopper attraction, or any meaningful behavioral impact on key shopper segments.

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Putting it all together

In a varied and differentiated marketplace, where different shopper segments display enduring behavioral differences, and different behaviors in different channels, merchandising to an average, in-store shopper can no longer be expected to deliver winning performance.

Breakthrough results require new thinking and new approaches that recognize and reflect the differences that define shoppers across the retail landscape.

Shopper-Centric solutions from IBM let you operationalize your shopper segmentation predictively or prescriptively across channels in these crucial areas:

Optimize merchandising and marketing together

Tune the planning and execution process to be more responsive to the differences between shopper segments.

Plan assortment

Optimize assortments for category growth, while keeping in mind specific needs of specific shopper segments.

Tailor promotions

Manage the end-to-end promotion process from collaborating with vendors through planning promotional activities, forecasting outcome, and executing on highly targeted and versioned campaigns.

Set competitive and effective prices

Optimize prices across the product lifecycle with an eye on the impact of pricing decisions on various segments.

Collaborate with cp partners

Share planning with CP partners using a common online platform that is secure and dependable, and delivers access to powerful insights and forecasts.

At IBM that's what we call next generation Shopper-centric retailing.

About IBM Commerce

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For more information

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