MULTICHANNEL RETAILING

SMOOTHING OUT THE POINTS OF FRICTION

WHY
IS MULTICHANNEL SUCH A BIG DEAL?

Everyone has a view on multichannel retailing. Some see it as a gradual evolution, others as a panacea for falling sales. At IGD, we see something different. We see an opportunity, not without challenge, but one that will force a fundamental re-evaluation of how shoppers, retailers and suppliers relate to each other.

IGD has explored the shopper drivers in depth, surveyed the responses from retailers worldwide and itemised the challenges for supply chain teams. In this paper, we concentrate on the consequences for relationships and offer advice on how to work together towards positive outcomes.

Multichannel is not just about where people do their shopping but also how they make their decisions and what they buy. Whatever role you play in the food and consumer goods industry, multichannel will have a big impact.

The change is already underway. Shoppers tell us, for example, they no longer sit at home writing long shopping lists for their once weekly 'big shop.' Instead, they tend to make shorter lists on the move, using tablets and smartphones to do their food shop (41%) and spread their grocery shopping across a variety of channels throughout the month (using on average 3.9 channels per month) *IGD ShopperVista.* If current trends persist over the next five years, big box retailing will see its sales fall by some £3bn whereas online, convenience and discount will see their combined sales grow by over £30bn. *IGD ShopperVista.*

Digital technology gives shoppers access to unprecedented amounts of information and huge flexibility in how they shop. It provides retailers and manufacturers with new ways to engage with shoppers and add value to their experience. At the same time new technologies risk stifling efficiency, forcing every player to add cost for little extra benefit in sales. Destabilising the status quo could upset relationships between the food chain's participants and create tension.

A high performance supercar needs the right lubricants so each of its component parts can perform smoothly together. Like a supercar, multichannel grocery retailing has great potential, but we need to understand how its component parts work together and how to keep them well lubricated.

THREE POINTS OF VIEW

There are many views on what multichannel means. The topic is everywhere and it's spawned a variety of questions about channels, technology and seamlessness. At IGD, we believe in a simple imperative: multichannel means being shopper-centric. It's about putting shoppers at the heart of everything, delivering what they want, when they want it, wherever they want it.

Shoppers, retailers and suppliers all see multichannel through a different lens and have their sights on different objectives:

THREE POINTS OF FRICTION

Each participant has subtly different objectives from the 'supercar' of multichannel retailing so inevitably, friction points arise. Looking at the sector from all angles as IGD does, these frictions become visible and so too do some of the actions – or lubricants – that could help smooth things out. Here are three big friction points that warrant close attention:

The chase for loyalty

- Retailers yearn to increase the loyalty that shoppers show to them and their brand
- They want more bespoke solutions from their suppliers to support this goal
- Manufacturers are fighting for loyalty too, looking for the best ways to secure sales
- Shoppers appreciate choice and variety and resent barriers that might reduce their freedom to shop around.

Complexity vs. efficiency

- Grocery businesses run lean operations working to slim margins
- Sales and marketing teams push for greater product tailoring, while production and logistics functions dislike cost-adding complexity
- Higher costs arising from multichannel operations have to absorbed somewhere along the supply chain
- Shoppers will resist paying higher prices, opting for low cost, no-frills retailers if necessary.

Backing the winners

- Investment choices can be difficult to make but the multichannel landscape will force businesses to take such tough decisions.
- Do suppliers opt to prioritise existing big customers or the emerging fast growth retailers?
- Retailers face whether to invest in accelerating growth from hot channels or shoring-up existing assets
- There are many choices to be made because it's usually impossible to be all things to all people.

THE CHASE FOR LOYALTY

While the economy has returned to growth, the food and grocery sector has not in real terms and many categories are experiencing both falling volumes and price deflation. There are many reasons behind this, ranging from changes in consumption to reductions in household waste, but the result is both retailers and manufacturers fighting harder for their share of spend.

All the major UK retailers have expanded their store portfolios since the onset of recession. Many have invested heavily in their online grocery platforms and collection options to give customers more opportunities to shop with them.

Offering flexibility seems like a solid strategy but with many retailers pursuing the same approach and no volume growth in the market, simply offering multiple channels is not enough. Many shoppers are making a conscious decision to 'pick and mix', shopping around to get the best combination of range, value and convenience.

Savvy behaviours, like better planning to help resist impulse purchases, have become more prevalent across all demographic groups (43% of AB shoppers in the last three months *IGD ShopperVista*). Shoppers are prepared to invest time to hunt for bargains and shop in different ways at different times of the day or week.

To reverse the trend and win shopper loyalty, food retailers are seeking to link their channels together, using the data they hold about each individual to create a personalised experience based on their needs and shopper missions. Suppliers will need to play a major part in delivering this service too by ensuring the right products are on hand at the right time. This is in stark contrast to how grocery has previously developed with big suppliers producing high volumes of standardised products for sale through ever bigger stores.

Understanding new shopper decision making processes is critical. Traditional research methods can now be supplemented by new ones, such as studying social media behaviour, that rely on timely analysis of data. If harnessed in conjunction with practical experience and clear goals, they can open up new ways for retailers and suppliers to deliver what shoppers want, when and how they want it.

Of course, not everyone can or will pursue a multichannel strategy. Aldi, Lidl and Ocado are choosing to specialise, making it simple for customers to understand their proposition. In the push towards multichannel, businesses could lose their clarity of purpose. Although all retailers and suppliers must evolve, they mustn't lose sight of what won them loyalty in the past. Their brand values need to shine through.

Lubricants ... how to reconcile the differences

1. Put shoppers' interests first – relevant new rewards for loyalty are more attractive to shoppers than barriers which aim to lock them in
2. Consider proprietary websites and apps as well as open, third party technology platforms since both play a role in making shoppers' lives easier
3. Recognise your trading partners have different but equally valid objectives on loyalty – discuss and find the overlapping sweet spots
4. Support industry-wide efforts for data standards that will make data sharing quicker, cheaper and easier.

Questions to consider in the chase for loyalty

1 Are you clear what motivates your shoppers? Have you put this at the core of your business?

2 Can you simply and easily state what you want your business to be famous for?

3 Can you articulate the consumer benefits that set your proposition apart from your competitors?

4 Are you delivering on the basics like value, service, quality, availability and hygiene?

COMPLEXITY VS.EFFICIENCY

Good businesses will always strive to reduce costs and address inefficiency. Grocery operations have been working for years to become leaner and the industry continues to lower costs (in real terms) for consumers. In 2012 for instance, ECR UK – a forum led by IGD for FMCG supply chain directors – completed an efficiency drive that saw the UK's food distribution network reduce road miles by 204 million. However, multichannel retailing, complete with greater personalisation, threatens to run counter to these improvements and reintroduce cost.

Many businesses are investing to understand the needs and behaviours of shoppers and reaching the realisation that yesterday's mass market solutions are no longer fit for purpose. Smaller stores, discount operations and online retailing require different products, variants and processes.

In order to remain relevant, both retailers and suppliers must respond to new demand signals and this could mean more frequent, smaller product runs and shipments. Life could become more complicated still with the development of new hybrid channels like Booker's local discount stores, new convenience formats from Aldi and Lidl or Tesco's food-to-go trials. The intention in each case is to better serve customers' needs but supply chains could become more complex and costly as a result.

This friction point impacts not only on relationships between retailers and suppliers, but also those within businesses as functions wrestle with conflicting objectives. Sales and marketing teams must follow shopper trends wherever they lead and provide the appropriate solutions. Manufacturing and supply chain teams will attempt to keep service and availability high while operating as efficiently as possible. Business leaders must therefore balance these competing needs carefully to safeguard both the top and the bottom line.

Lubricants ... how to reconcile the differences

- Recognise the need for greater levels of collaboration, both internally and externally
- Ensure everyone is aware of their role in the total supply chain and the impact their actions have on others
- Establish balanced KPIs to create a stronger sense of joint accountability between teams
- Share appropriate information across the business and assess every element of complexity for its value to the shopper
- Build agility in to the DNA of your company, through your decision making, information systems and production equipment.

Questions to consider

1 Are you close enough to your trading partners' multichannel objectives?

2 Are your current product ranges (cases sizes / pack sizes) fit for purpose?

3 Are your production lines, vehicle fleets and store facilities flexible enough to cope?

4 Are you aware of the true cost-to-serve for each route that goods take to reach shoppers?

BACKING THE WINNERS

The trend for shoppers to spread their spending across more channels creates a dilemma for retailers. They need to restructure their businesses and yet the migration of shoppers away from large stores is squeezing profits and the funds available to invest. Retailers are looking to suppliers to help and yet they too are feeling the pinch. Many manufacturers are also wrestling with whether or not to sell through discounters and attracted by new online platforms including direct selling to consumers.

We forecast that the UK food and consumer goods market will offer just £2.9bn in volume growth over the next five years, *(IGD Retail Analysis)* which would be an improvement on recent conditions but not enough headroom for all retailers to offer their suppliers growth. Manufacturers need to ask themselves which retailers offer the greatest potential.

So this is a time for big directional choices shaping trading relations for many years to come and this is bound to introduce tensions. It won't be possible to be all things to all people and so tough decisions are required. Essentially this comes down to the right balance of supporting new opportunities versus shoring up existing business.

In this environment, both retailers and manufacturers are seeking long term commitments from each other and yet with so much uncertainty surrounding the future, few are prepared to declare their hand fully.

Many suppliers are asking probing questions about the online channel in particular:

- How much investment is justified, given the relatively small but fast growing market?
- Will supporting online cannibalise store sales and damage the bottom line?
- Will this channel become significantly more profitable as scale increases?
- Will heavy investment now in this area establish an unassailable lead or is the better strategy to watch and follow?

Lubricants ... how to reconcile differences

1. Ensure you have clear strategic objectives – agree them at the senior level with your key trading partners
2. Take a structured approach to investment decisions, starting with a clear identification of where you want to play and win
3. Apply a rigorous approach to category management so decisions are based on solid evidence and well communicated
4. Assess performance before, during and after implementation so you can learn from experience and prioritise areas of joint benefit

Questions to consider

1. Are you allowing short term reactions to constantly overtake your long term strategy?
2. Are you using activity based costing to get an accurate view of the profitability of serving different channels and customers?
3. Are you evaluating investments fully before embarking upon the next one?
4. Have you pre-calculated the 'walk away point' for your business when discussing investment with trading partners?

WHERE DO YOU GO NEXT?

The whole industry is on a steep learning curve on its journey to multichannel retailing. Mistakes will be made, costs will be incurred and some friction is inevitable. However, we retain an optimistic view that by taking full advantage of new ways to enhance our service to consumers, new value will be created and rewarded through growth and loyalty.

We see five essential ingredients for smoothing the friction and realising the value:

• Build a deep understanding of shoppers and consumers • Work closely with trading partners to deliver joint benefits
• Develop a strong, integrated supply chain through balanced KPI's and teamwork
• Create teams with the right capability and culture to win • Underpin your business with effective use of technology and data

WE CAN HELP

Many of our members have asked us to help them understand the implications of multichannel and provide them with the tools they need to prepare for the future. We'd love to help you with this too. Contact our Head of Channel Insight David Shukri to find out more, by calling **+44 (0) 1923 851975** or emailing **david.shukri@igd.com**