

Implications of the “Winning with Digital” Study

How CPG manufacturers and retailers
can collaborate to create offers that will make
a difference



To shed light on retailers' shift from traditional to digital marketing vehicles, the National Association of Chain Drug Stores (NACDS) asked us to conduct a study. The results of that study are outlined in the companion white paper *Results of the NACDS "Winning with Digital" Study*. But as we conducted that study, and reflected on our years of experience working with retailers and consumer packaged goods (CPG) manufacturers, we came to believe that beyond those concrete results this digital transformation has far-reaching implications worthy of further discussion.

It's not just that CPG manufacturers can help retailers gain insights into consumer digital behavior, nor merely that manufacturer offers need to shift to more targeted, mobile-friendly formats (although these are important findings that are fully explained in the companion paper). It's also that the transformation changes both business needs and power dynamics within and across organizations. These changes may threaten the traditional forms of collaboration between retailers and their CPG partners. At the same time, however, the more complex and demanding new environment will require that collaboration become ever more effective. In this paper we explain our perspective on how companies can use that collaboration to succeed in a digital world.

Shifting from Weekly Circulars to Digital Platforms

Traditionally, many retail promotions were centered on the weekly circular. Because they were broad-based attempts to motivate foot traffic and then move products, it made sense for those circulars to be handled by retail employees in the category management (or merchandizing) function. But consumers are shifting away from reading circulars and clipping coupons and moving toward more digital behaviors to achieve the same types of goals. Helping consumers meet those goals now requires a different set of talents.

The need for new skill sets—for example in social media and mobile marketing—brings up two types of questions. First, will retailers be able to find these people? Such talents are in high demand in many industries, and have historically not been common in retailing. So initially, retailers may struggle to find the digitally savvy people they need to really succeed at digital marketing. But second, as they do find these people, in which department should they reside? Since these are extended marketing skills, it seems likely that marketing, rather than category management, will come to own increasing—and eventually primary—responsibility for promotions. This organizational shift may pose challenges for retailers to manage effectively. It may also pose challenges for CPG manufacturers that have built relationships with category managers.

Of course the reason for that shift is a change in the types of offers being made. Compared to the few hundred offers in a weekly circular today, we can expect that in a digital world, thousands of offers will be required by each manufacturer on an ongoing basis. Each offer will target a very specific customer and will be served up by smart algorithms that, for example, see where a customer is located geographically in the store, know her purchase behavior, and predict the effectiveness of the offer. So CPG manufacturers, rather than negotiating with category managers around a few offers in the circular, now must be prepared to bring scores of win-win offers—even hundreds—with all the associated constraints, such as who to target, what to offer, when it's valid, where to offer it, and for how long it's valid. Then the retailer will have to assemble these offers into its algorithms.

Collaborating to Get There

To succeed, these efforts will rely on tighter collaboration between manufacturers and retailers. For example, they will need to share much more data—on both consumer behavior and promotional effectiveness. They will need to communicate more regularly—dictated by a cycle of continuous improvement rather than a weekly circular production schedule. And they will need to embed themselves more deeply in the other’s ways of thinking—how to devise sophisticated campaigns to generate mutually improving sales.

To collaborate effectively in digital marketing that moves product in the physical world, retailers and manufacturer partners must align on five key points:

1. Target segments: Core to successful marketing programs, articulating who to target remains absolutely critical. With all that can change with digital marketing, staying focused on the target segments is essential.

2. Explicit parameters: With digital techniques available, CPG manufacturers will want to put forth offers according to a number of parameters that potentially include gender, age range, buying history, location in store, dwell time at location, margin, competing inventory at that location, and more. Each retailer will need to make those parameters available to CPGs and, in turn, encourage highly effective offers based upon such parameters.

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3. Ample offers: Smart algorithms can search through a voluminous offer repository in real time to match and then present customer situations with relevant offers. Retailers and CPGs will need to collaborate to assure adequate volume of well-designed offers for relevant customer situations.

4. Motivating content: Content becomes increasingly important with digital. Consumers seek value-added information in various formats. Retailers and CPGs must share and even co-create such content so that it can be incorporated into the presentation of effective offers. For example, food manufacturers regularly market recipe solutions content to capture consumer interest, and seemingly any product can provide “learn more” options linked to an offer. Collaborating to present effective digital content at the right moment must increasingly be part of marketing conversations.

5. Rapid test and learn: Digital platforms offer a laboratory for rapid learning. Pure-play e-commerce retailers are legendary for presenting competing ideas to different customers simultaneously and in sizable volumes. Commonly within a matter of days (or faster), opinions at headquarters are trumped with empirical customer results and new insights improve operations. With nimble digital platforms comes the management opportunity to exploit those platforms to test ideas and continuously improve effectiveness. Organizing across marketing

and suppliers to constantly experiment with digital techniques and apply results rapidly will be a new opportunity for tight collaboration.

The majority of predominantly brick-and-mortar retailers still have large transformations ahead of them to exploit the opportunities available from digital techniques. Mindsets, organizations, and processes will change as marketing approaches shift toward digital. Meanwhile, CPGs can support their retail partners through this transformation. Those CPG manufacturers that have witnessed the growth of their e-commerce customers' businesses and the marketing approaches that such companies have employed have relevant experience to offer immediately.

Consumer adoption of digital technologies, especially those related to mobile, is incredibly swift. Transforming large retail organizations and including CPG partners in a collaborative fashion at or faster than consumers' speed of adoption will be highly challenging. In such situations, laser focus and accelerated timelines are minimum requirements. Commitment and alignment across the retailer C-suite and extended to supplier partners are further requirements for building durable collaborations that will grow margins and sales through digital marketing techniques.

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