

Results of the NACDS “Winning with Digital” Study

As digital marketing increases, what do retailers find effective, and what do they want from CPG manufacturers?



Broadly speaking, advertising trends are dramatically shifting from traditional, print-based media to newer, more effective digital channels. But which specific digital marketing vehicles do retailers find most attractive? What are their digital goals, and which techniques are proving to be the most successful? And what are the implications of these trends for consumer packaged goods (CPG) manufacturers?

In trying to better understand social media users, **retailers are open to insights from CPG firms.**

To answer these questions, the National Association of Chain Drug Stores (NACDS) and global management consulting firm A.T. Kearney conducted a digital marketing study (see sidebar: About the Study). The study's results show that in trying to better understand social media users, retailers are open to insights from CPG firms. Retailers currently use digital marketing to drive traffic and brand awareness, though in the future they may harness it for community-building tools. And retailers' current priorities involve mobile and tablet applications, as well as integrating digital with traditional marketing functions.

This white paper discusses the results of the study. In a companion piece, *Implications of the "Winning with Digital" Study*, A.T. Kearney consultants discuss their interpretations of how individual CPG manufacturers and retailers can use these study results to prepare for the future.

About the Study

Executives from more than 120 retailers were invited to participate in the study, which involved a mix of surveys and interviews. Of those who participated, 33 percent were from traditional drug chains, 43 percent from supermarkets, 14 percent from specialty stores (including health and beauty care, convenience, and dollar stores), and 10 percent from mass merchants. About one-third of the companies have more than \$10 billion in revenues, slightly more than one-third have between \$1 billion and 10 billion, and slightly less than one-third have less than \$1 billion.

Each respondent addressed 21 questions, broken into five digital marketing categories:

- **Consumer insights.** For example: How well does your retail organization track what your shoppers want by category?
- **Capabilities and organization.** For example: Which vehicles have been most effective in the past year? Which vehicles do you expect to be the most effective for your organization in the next few years?
- **Strategy.** For example: With regard to digital coupons, to what extent does your existing POS [point-of-sale system] accept digital coupons currently?
- **Collaboration between retailers and suppliers.** For example: With respect to digital marketing, please rank your preferred method for a supplier or manufacturer to approach you with a digital promotion.
- **Expectations of medium-sized and small suppliers.** For example: To what extent do you have different expectations of large suppliers or manufacturers from medium-sized and small suppliers or manufacturers.

The Challenge

“Digital” is hardly a monolith. And yet digital marketers are under pressure to understand both the dynamics of individual channels and the way users interact with each of those channels. The landscape of digital marketing vehicles is fragmented. As retailers seek to market digitally, they must choose vehicles—with Facebook, YouTube, Twitter, Google+, LinkedIn, and Pinterest representing only the top six in the social media category—based in part on the habits and demographics of those vehicles’ users. The choice is complicated, because it often introduces a strategic decision about target audiences and their characteristics that might not have been previously relevant to marketing.

Digital marketing is particularly complicated because it opens the brand up to two-way communication. Despite the fragmentation and the sheer volume of social media opportunities, digital marketers are being asked to understand the customers’ communication expectations within each of those channels and manage the brand within each of these unique situations. For example, 25 percent of consumers who post product complaints on Facebook or Twitter expect an answer within an hour—an expectation that should play a role in designing a presence on one of those channels.

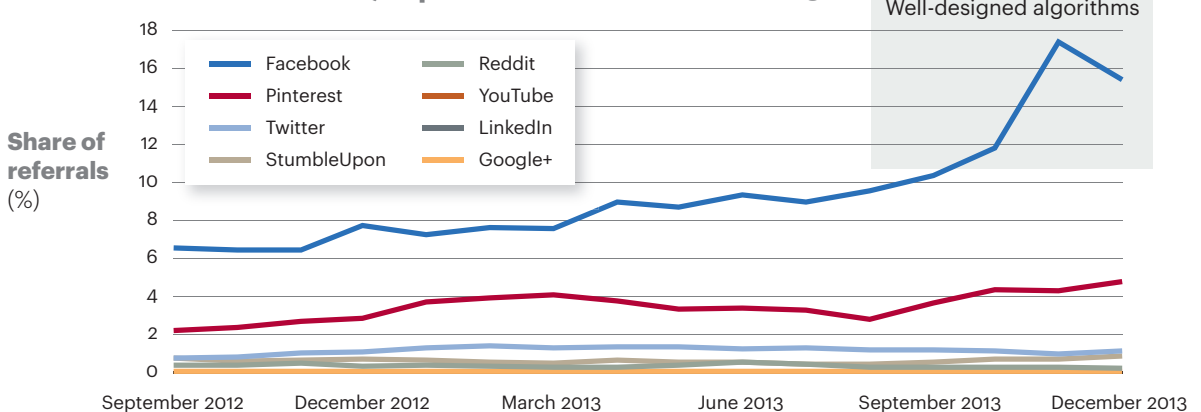
Despite the challenges, the potential payoff is great. Among all of the social media volume, digital marketers are hoping to be heard. As anyone who has used the phrase “going viral” knows, social media mentions can take on a life of their own—and sometimes virality can be used by digital marketers very productively. For example, a late 2013 change to the algorithm behind Facebook’s news feed caused a spike in social media referrals (see figure 1). And those referrals have important economic value—the social media advertising company Unruly observes that nine percent of people who receive a shared video advertisement go on to buy that product within three days of viewing the video.

Figure 1
Marketers must understand different social media user habits and demographics to invest in strategies across vehicles

Social media users refer others to those items for which they have passion...

... and well-designed algorithms have the power to place items more visibly or precisely

Social media traffic referrals, September 2012 – December 2013



Sources: Shareaholic Social Media Traffic Report, December 2013; A.T. Kearney analysis

In general, study respondents are confident in their knowledge of their customers’ desires and digital usage. Not surprisingly, larger retailers tend to report the strongest digital knowledge, but nearly all respondents believe they are at least as good as average. This Lake Wobegon result (where everyone is above average) may reflect bias in those who chose to participate in the study or perhaps a degree of retailer overconfidence. If the latter, an opportunity may exist for CPG manufacturers to support retailers in this knowledge, perhaps even helping to identify blind spots.

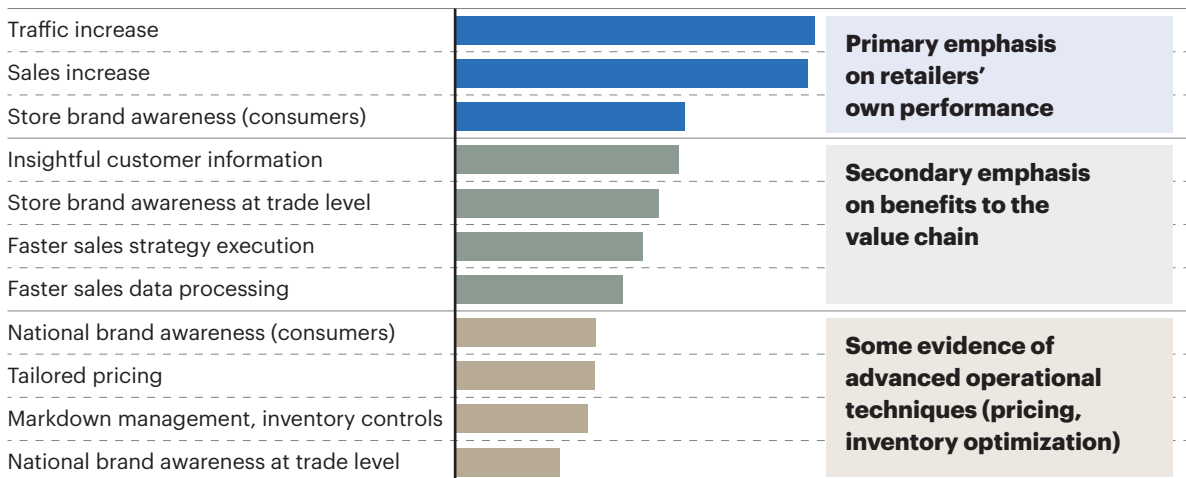
Indeed retailers—even those with ample knowledge—are interested in these insights. Nearly 40 percent of retailers express *strong* interest in collaborating with suppliers (as opposed to *some* or *modest* interest; all have at least some interest in collaboration). Their primary desire is for consumer analytical support, especially shopper analytics (with 54 percent of respondents expressing interest), shopper digital activity analytics (46 percent), and retailer analytics (46 percent). Note, however, that the retailer interest is in consumer-focused analytics; there’s less interest in benchmarks such as retailer sales vs. peers (23 percent) or supply chain collaboration efforts such as demand planning (8 percent).

Results of Meeting That Challenge

What do retailers hope to get out of digital platforms? Up until now, they have focused on their own performance: increasing traffic, sales, and private-label awareness (see figure 2). Benefits that extend across the value chain—such as insightful customer information or faster sales strategy execution—have been lower priorities. And although retailers have shown some awareness of using digital platforms to improve operations (for example, through tailored pricing), these goals generally ranked lower than those associated with top-line growth.

Figure 2
Survey respondents say they focus on digital platforms primarily for traffic and brand awareness purposes

Relative importance¹



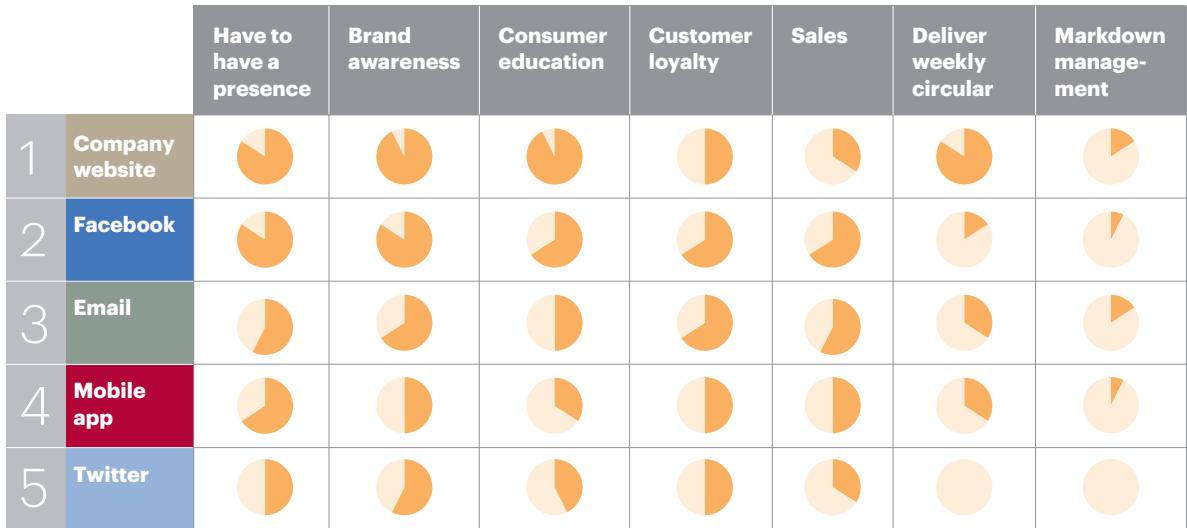
¹ Respondents ranked each goal in order of importance.

Sources: “Winning with Digital” Survey, February 2014; A.T. Kearney analysis

Retailers find that five primary vehicles meet most of their goals (see figure 3):

Figure 3
The top five most used vehicles cover most reasons for retailers' digital marketing

% of respondents



Sources: "Winning with Digital" Survey, February 2014; A.T. Kearney analysis

- A **company website** is the most dominant channel, with 80–90 percent of respondents using it to drive brand awareness, educate consumers, and deliver weekly circulars. About half also use it to increase customer loyalty and to drive increased sales.
- A large majority also use **Facebook** to drive brand awareness, again with slightly smaller numbers also focused on loyalty and increased sales. Here, weekly circular distribution is an afterthought.
- **Email** is popular for educating customers, and is used by about 60 percent of respondents for brand awareness, loyalty, and sales. Approximately 40 percent use email to distribute weekly circulars.
- As discussed further below, **mobile** is a current priority to drive brand awareness, loyalty, and sales and is very well suited to loyalty and sales purposes.
- **Twitter** is primarily used to drive brand awareness and establish social media presence.

Other vehicles (including YouTube, Google+, LinkedIn, Pinterest, MySpace, Instagram, Tumblr, and Foursquare) are used much less frequently. In the aggregate, retailers' strategy is to be relevant in the big vehicles, but other vehicles may be well suited to and strongly used by particular retailers.

Interestingly, as respondents report their intentions for digital marketing vehicles, the most popular overall response was "Have to have a presence." Observing that this response reflects

both a lack of strategic focus by some retailers and a purposeful placement of “small bets” for other retailers, A.T. Kearney advises clients to learn quickly through experimentation to sharpen and deepen investments in the most productive vehicles for each purpose.

These are the goals that retailers have had to date, but it seems likely that in the future, consumer preferences will drive these goals toward more community building. Whereas traditional marketing was largely limited to *informing* consumers about features or promotions, digital platforms offer the opportunity to also *engage* consumers, building one-on-one relationships by using relevant media and analytics to generate content that’s meaningful to a specific consumer; digital platforms also offer opportunities to use holistic targeting techniques to *acquire* profitable customers. And what’s compelling about digital channels is that consumers crave exactly this sort of content and entertainment, and are thus eager partners in these new opportunities.

Retailers are aware of these trends. When asked about future plans, they say they anticipate shifting away from manufacturer coupons, buy-one-get-one-free offers, and general sales. They will move toward more offers that are time-bound, signup-based, or otherwise limited in number or scope. Thus CPG manufacturers should include increasingly digital-friendly (and especially mobile-friendly) offer types in their future presentations to retailers.

Priorities Moving Forward

Heading into 2015, retailers will emphasize their mobile and tablet apps and integrate their marketing across digital and traditional channels. Many appreciate the way consumers use multiple channels at once—for example, using a mobile device while browsing in a physical store (see sidebar: The Promise of Beacons).

Furthermore, they see how this **omnichannel** behavior makes it of paramount importance to integrate marketing programs across channels. For most retailers, these integration goals will

The Promise of Beacons

Consumers love their mobile devices. And now low-cost, Bluetooth-enabled beacon hardware can overcome traditional impediments to locating consumers within stores, thanks to global positioning systems (GPS). The combination of beacons and connected consumers thus offers the promise of both incoming data and outgoing offers.

Data on how consumers navigate the store can be valuable in redesigning the in-store experience to increase both consumer satisfaction and retailer revenues. Furthermore, this data could be used to create

targeted offerings. For example, from customer loyalty data, a retailer may know that a particular consumer likes a certain brand of deodorant yet hasn’t bought any for three months. From beacon data, it could see that the consumer is approaching the deodorant shelf. It could then send to the consumer’s device a time-limited discount on that brand—or a competing brand—which would have a higher likelihood of conversion because of its proximity to the point of decision.

Hurdles still exist to full implementation of this vision. Beacon hardware and software is still new

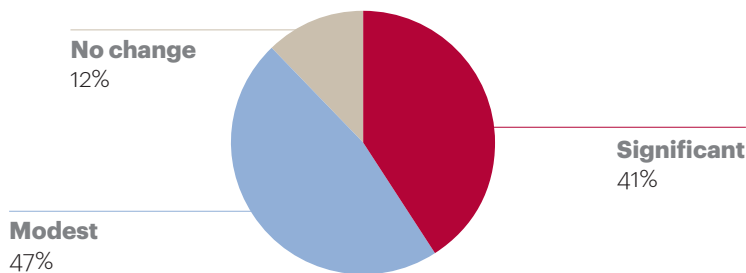
and improving. Retailers’ ability to take advantage of customer loyalty data may need to become more robust and nimble. Retailers will also need digitally talented, tech-savvy employees to design algorithms to make effective offers. And they must encourage consumers to use their mobile apps in the store—consumers have to feel like they’re getting something of value.

But if these hurdles can be overcome (and many experts believe they can be), beacons demonstrate that the power of digital marketing will extend far beyond merely putting a weekly circular on the Internet.

Figure 4

To achieve integration goals, retailers plan to realign their marketing organizations

How much organizational change do you expect in the coming two years for digital marketing purposes?



Sources: “Winning with Digital” Survey, February 2014; A.T. Kearney analysis

involve organizational realignments (see figure 4). About 29 percent of respondents said that their digital and traditional marketing plans were already fully integrated, but 50 percent said they plan to integrate in the next 6 to 18 months. (The answers “no plans,” “I don’t know,” and “other” also garnered seven percent apiece.)

As retailers invest in data, algorithms, and digital content, they see these new functions at the intersection of traditional IT and marketing structures. Additionally, as the relative role of the weekly circular declines, the role of the merchandising or category management function, which was often responsible for that circular, may also evolve. And as the power of algorithms rises, the traditional structure of CPG-retailer relationships may change as well, because at least some retailers will be able to rely on internal data, rather than CPG firms, for key insights.

Nurturing Passionate Communities

As the digital marketing wave crests, it will increase the availability of data, the importance of algorithms and analysis, and the rate of rapid experimentation. Digital marketing will increasingly drive the industry to create and nurture passionate communities. To achieve these goals in this changing, complex landscape, collaboration between CPG firms and retailers will be essential. The forms of that collaboration—currently highlighted by consumer insights and increasingly targeted and mobile-based offerings—will likely evolve as well. One key to managing that evolution will be for CPG firms and retailers to understand each other’s needs and strengths so that they can combine to win with digital.

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About NACDS

NACDS represents traditional drug stores and supermarkets and mass merchants with pharmacies. Chains operate more than 40,000 pharmacies, and NACDS' 125 chain member companies include regional chains, with a minimum of four stores, and national companies. Chains employ more than 3.8 million individuals, including 175,000 pharmacists. They fill over 2.7 billion prescriptions yearly, and help patients use medicines correctly and safely, while offering innovative services that improve patient health and healthcare affordability. NACDS members also include more than 800 supplier partners and nearly 40 international members representing 13 countries. For more information, visit www.NACDS.org.

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