What's in Store? Nothing Less Than Total Transformation.

Successful Merchandising in the Evolving Retail Environment Demands an Enterprise-Wide Transformation

To say that the world of retail is changing rapidly is a bit of an understatement. But these changes are not just having the obvious impact on the physical store environment. Truth is, they ultimately will force product manufacturers to change just about every aspect of their go-to-market strategy.

The operative term here is **STRATEGY**, not just a knee-jerk reaction to major market disruption. So, while Clarion USA confirmed last month that it will soon discontinue all brick-and-mortar product distribution in the United States, and instead sell exclusively through Amazon.com and two other online-only retailers, that's probably not the right choice for you — even though Clarion, according to a spokesperson, "believes the rest of the industry will likely follow suit sooner than later."

Clarion's move probably makes sense for them considering the company's unique position: It operates in a high-end, low volume segment of consumer electronics — a product category that already has migrated largely to e-commerce. And, Clarion operates through a fairly complicated dealer network, not a handful of key national accounts. So scaling back on distribution will save a lot of time, money and headaches. Extreme or not, Clarion's move nevertheless exemplifies the need for manufacturers to re-evaluate the way they do business — not simply how their products are merchandised but how they're delivered. And how they're warehoused. And manufactured. And developed. And maybe even sourced.

Let's Be Clear About One Thing First

The brick-and-mortar store is still the center of retail activity. Yes, RetailNet Group believes that digital shopping activity will drive as much as 50% of all retail sales as soon as 2020. But it only expects 15% — or even less — of those sales to leave the physical store entirely.

How does that work? In RNG's forecast, 25% of retail purchases will take place online — but 10% to 15% of those orders will be picked up at a store through some type of "click and collect" service. Meanwhile, another 25% of retail purchases will be made by shoppers using personal mobile devices, while in a physical store, where, in the words of RNG's Dan O'Connor, the devices will "take the friction" out of the traditional shopping experience.

That leaves 10% to 15% of sales becoming "purely" digital in the near term, and of course the other 50% still taking place as traditional checkout transactions. So product manufacturers beware: bail out of brick-and-mortar now at your own peril.

On the Flip Side

Of course, these statistics also illustrate the need for pretty dramatic change to the traditional store in order to address such new shopping realities. Retailers must find ways to enable and capture the 25% of digital sales that will take place on mobile devices within the store and the 10% to 15% that will be picked up at the store. (Kantar Retail describes this need in terms of understanding the store as both a shopping environment and a delivery hub). Both efforts will require the assistance of product manufacturers because the traditional practices of category management, product merchandising and P-O-P advertising all must evolve. For starters, retailers and manufacturers will need to work together to determine what products — indeed, what categories even need to be stocked on shelves.

The Shift in Retailing Focus

RNG expects "merchandising" to steadily shift away from the standard focus on products toward broader "experiences and events," with space allocated less for specific SKUs and more for shopper solutions that will create convenience and drive traffic. Supermarket retailer Ahold's recent emphasis on meal kits is just one example.

Canadian Tire is employing that strategy storewide in a new format designed to "take the shopping experience to a whole new level," according to chief operating officer Allan MacDonald. The 140,000-square-foot store boasts a unique mix of "old school" merchandising concepts (themed departments, brand shops, product showcases) and more than 100 digital screens serving up product information, recommendations and additional purchase options.

An even more revolutionary example is playing out at home improvement retailer Lowe's, which now has 19 U.S. stores equipped with a "Holoroom," a virtual reality experience that lets shoppers design their dream room and preview how it will look by moving through a simulated environment.

That kind of enhanced shopping experience is certainly more engaging than standing in front of a typical fixture showcase in the store. It also delivers some of the retailtainment that's needed to make it worthwhile for shoppers to continue making trips. And it's more than likely that it also ultimately will let Lowe's carry less inventory in the store. There's no reason why the Holoroom experience shouldn't conclude with an order that's shipped directly to the shopper's home exactly when the products are needed for installation.

Will the day come when a Lowe's store is nothing but a warehouse of VR rooms with no tangible products to buy? Not very likely, since there always will be DIY'ers who need things faster than even an Amazon drone can deliver them. But such a strategic mix of merchandise and experience might be the blueprint for success.

Implications Beyond the Store

It's easy to see, what's happening will have a much more profound impact on the business of manufacturers than simply how their products will be sold. The entire “supply chain”, for one, needs an overhaul. The longstanding practice of shipping mass quantities of product to strategic distribution points, and then to individual stores, is no longer sufficient in all cases.

The standard 52-week "set and pray" distribution model has to migrate to a more nimble system that lets manufacturers react to more frequent — maybe even daily — demand at the local level. Target just hired an Amazon veteran to be chief supply chain and logistics officer. (Amazon promptly sued, by the way.) The release announcing his appointment said he was hired to "transform" the retailer's supply chain operation. Procter & Gamble raised eyebrows just a few years ago when it became one of the first manufacturers to let Amazon set up shop inside a warehouse and direct-ship P&G products to consumers.

Now, such streamlined supply chain management seems like a great way to avoid stockpiling unnecessary inventory and speeding up delivery times. And then there's brand management: Truth be told, SKU proliferation was always more about sales momentum than consumer demand. And that seems to be proving out online, where most shoppers are still buying a consistent, concentrated number of SKUs. But the shift toward smaller, experiential stores probably leaves room for only the highest-volume or highest-potential SKUs. (New products still do very well on secondary display, if anyone asks.)

So a future brand portfolio likely involves fewer items in mass production and, when necessary, the rest at the ready for custom orders (my M&M's, anyone?). Volume has always been the name of the game, not only in regard to sales, but also to drive manufacturing and warehousing efficiency. Future success will depend more on flexibility and speed.

Implications Within the Store

The bottom line is that in-store merchandising has gotten a lot more complex. It's no longer sufficient to build displays solely to supply additional volume and drive incremental, promotion-driven sales. Product manufacturers, and their merchandising partners, need to work with retailers to develop merchandising strategies that will enhance the store environment, keeping the brick-and-mortar store relevant in the minds of shoppers. (Does Ahold need help creating and promoting those meal kits?)

And they'll need to incorporate digital technologies that will help shoppers make those 25% of device-enabled purchases. Those same digital tools will be needed to promote what isn't in the store: Retailers will need help tying together their physical and e-commerce offerings, promoting the inventory that isn't right there on the shelf but can be ordered online. And, with fewer SKUs merchandised in stores, manufacturers themselves will need to let shoppers know what they can find elsewhere.

Is Your Innovation Really Just Renovation?

A recent study from Accenture found that the CPG industry has focused too much on "renovation" and not enough on true innovation, "with new product development increasingly characterized by line extensions … and few breakthrough innovations."

All of the changes discussed above should force the issue back toward true product innovation again.
So maybe Clarion is making the right move with its new distribution strategy. On the other hand, maybe it's leaving the door open for an innovative competitor who'll develop unique merchandising concepts that will make shoppers want to visit a brick-and-mortar location and experience the products. And then buy them. We need to leave the old notion of the store behind. But we shouldn't be leaving the store just yet.