

# PRODUCT AUTHORITY *Second of Three Parts*

Why retailers need product authority, what it is, who has it, and how, more and more, manufacturers will be required to drive it with appropriate and relevant products and services.

**WE'VE ENTERED A NEW RETAILING ERA.** As detailed in Part 1 (*last issue, Vol. 8, No. 6, Midwinter 2006 GMA FORUM*), consolidation, concentration, saturation, substitution and changed consumer behaviors (especially declining trips per shopper and per store) have set the stage for lower than average growth across chain retailers in North America and Europe. Retailers need new growth strategies beyond the traditional focus areas to include the will to create real "product authority" with consumers. Their goal: to grow by winning disproportionately with shoppers in each store's trading area. In the GMA FORUM's three-part conversation with Dan, we explore why, and the implications for the CPG manufacturers who supply the big chains.

A conversation with retailing expert  
**DANIEL W. O'CONNOR**

For high-performing retailers, why it's all about

# PRODUCT AUTHORITY



**Dan O'Connor**

President & CEO, *RETAIL NETWORK GROUP* (RNG) and Founder, *Management Ventures, Inc.* (MVI).

Today's biggest challenge facing chain retailers today is that SHOPPING TRIPS ARE ESSENTIALLY FLAT, in an environment where chain retailers' store growth exceeds five percent overall, says Dan O'Connor. New stores have opened at twice the rate of the over-all population and household growth in most parts of North America. Assuming—as we do—that there is now adequate retail square footage in each market to adequately serve consumers there, this means DIMINISHING PER-STORE PRODUCTIVITY. Even the very largest chains now understand that a traditional organic store growth strategy will have to give way to develop a sustained point of distinction that will help re-activate their existing stores, says Dan in Part 2 of our conversation with *GMA FORUM* editor/president Carol Fensholt.

**GMA FORUM:** To recap, Dan, you say the Number One challenge to growth for retailers today is trip capture. With so many new retailing options, why are trips flat and why is trip capture so important?

**Dan O'Connor:** At best, we now live in a trip-neutral environment. For years, shoppers have been reducing the number of trips they make to buy what they need. In Part One (last issue), we discussed the forces driving this reduction. We would suggest that this and other shopper behaviors are related patterns — pair these with retailers' growing square footage and number of stores and you will find stores that have a declining number of shoppers per store.

In North America, for example, we believe an average super-market may need 8,000 to 10,000 households to deliver a 25-percent ROIC and market level growth rate. Yet as most of the large retailers supermarket stores mature (those over four years old), each often has at least a 1,000 to 2,000 household deficit.

While you can make some of this up by selling more to your best customers, you cannot win disproportionately until you make up this household deficit.

So for the big public chains especially — which *must* grow —

the business questions are: "How do I capture my fair share of households and trips in an over-served market? In the absence of growing share of trips how do I deliver increasing return on invested capital (ROIC)?"

**GMA FORUM:** And, as noted in Part 1, you spent several months examining what today's retail share gainers are doing to win disproportionately, concluding that the best of today's retailers are now focused on achieving what you term 'product authority.'

**Dan O'Connor:** Right. We started with selected "Super A" retailers — those with A-plus growth rates, ROIC and capabilities — all are major "share gainers." We visited their stores and spent a lot of time trying to figure out how they keep even their mature stores growing.

We studied what enables their relationship with the shopper to grow. We were especially focused on how they make mature stores grow.

We concluded that the winning strategy of these "Super A share gaining retailers" boils down to a simple concept — their ability to establish genuine PRODUCT AUTHORITY in the target shoppers' minds.

While easy to say, it is, obviously, very hard to achieve.

**GMA FORUM: How do you define this ‘product authority?’  
How is it measured?**

**Dan O’Connor:** “Product authority” is a consumer-defined and -influenced concept. It is all about the shopper seeing your store as the destination for *those trips that you want to win*.

It’s reasonably easy to measure. For example, simply ask 100,000 households: “Which are the first, second and third retailers you think of when you think of prepared foods, apparel, beauty supplies, perishables, consumer electronics (or any category/merchandise class)?”

If only one percent of those 100,000 households brings your chain’s name up as number one, two or three, you don’t have any product authority — shoppers aren’t listening to you in that business. But if 30 percent of households say: “When I think of product category X, I think of Retailer Y” — then Y clearly has very strong product authority, and thus has the ability to lead and communicate with that shopper.

The retail leaders we studied have real product authority in at least five major departments / sections of their stores. It is this that enables them to win disproportionately with their shoppers in a reasonably sustained way.

**GMA FORUM: What are the elements of product authority?  
What enables a retailer to achieve it?**

**Dan O’Connor:** We think there are at least five or six major elements that, when taken together, begin to explain product authority. These are *store positioning, store context, managed merchandise differentiation, modern marketing capabilities* and *consumer-centric information and services*.

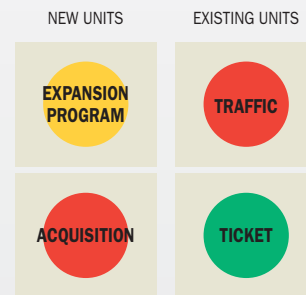
**GMA FORUM: Let’s consider them one by one, beginning with STORE POSITIONING.**

**Dan O’Connor:** Positioning (or targeting) the store is an essential first step on this journey. This is all about understanding and managing the stores’ “personality.” Positioning begins with an understanding of the core trips that a retailer’s highest-potential shoppers make — within a store’s trading area — and then really driving the principal characteristics of the store to maximize your share of those trips.

These characteristics include the rational and the emotional

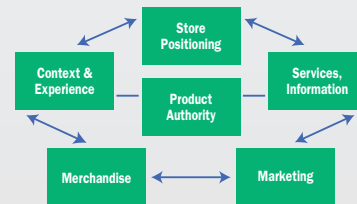
**RETAILER GROWTH OPTIONS NARROW**

The warning lights are flashing. Soon, higher baskets within existing stores will be the only way most retailers can realistically expect to grow their volume and profits.



**ACTIVATING THE STORE**

The elements of product authority and superior shopping experience ...



elements. The goal is to maximize the meaningful differences — to be really, really clear about what the store stands for in terms of visual image, speed, cost, service, associates, etc.

While this may not sound revolutionary, the fact is that today, many retailers with thousands of stores are now the proud owners of many outlets that *don’t* in fact resonate with their intended target — at least not any longer. Often, updates, relocations and/or fundamental rebranding and redesign are required to get the message across to the shopper as to what each particular store’s personality is, and is all about.

One retailer using in-store TV right now thinks it SAVES THREE PERCENT ON IN-STORE LABOR by getting rid of POP and moving to digital media systems inside the store.

**GMA FORUM: In your view, what are the biggest challenges for a retailer in this regard?**

**Dan O'Connor:** There are a three points to make here.

First, for most retailers, the really hard part is to stop thinking of itself as a "store format." Instead, they need to think of themselves as a shopper does — a personality, a specific shopping occasion, a destination for specific goods on specific occasions (e.g., a place to go to get ready for camping trips, parties, everyday meals, etc.). Shoppers build affinities for a specific store based on its personality and its usefulness for specific trips. Understanding this and driving the positioning — the personality of the store — across the internal organization in a way that it is really understood and interpreted consistently can be complex.

Second, by definition, no single personality will be attractive to all shoppers — which is, after all, the point. Retailers like Shoppers Drug, Trader Joe's, Whole Foods and Marks & Spencer Simply Foods have pretty well defined those shopper segments that use and *don't* use their stores.

Third, an often-overlooked dimension of positioning is the importance of common positioning and shopper experience, whether in a retailer's store, call centers, catalogs and/or the

Web. Staples, for example, does a great job of providing a very consistent brand experience among all four elements. Its personality is pretty consistent. As a result, those shoppers who shop two or more of its selling platforms often buy four or five times the amount of a single-channel customers.

Food retailers who are working this pretty hard include Wal-Mart, Food Lion, Publix and Harris Teeter.

**GMA FORUM: What about about the second element that leads to product authority, STORE CONTEXT?**

**Dan O'Connor:** Store context is about leveraging in-store merchandising tools to best present merchandise to shoppers. This is often called creating the context or the merchandise environment. We all know that an item sells differently in different environments.

Managing context is about *setting the tone* — what the shopper feels as he or she enters the store — and *overcoming shopping barriers* — those things that affect product visibility in ways that interrupt shoppers from shopping across the store and thus reduce their purchase incidence ("in-store closure rates").

The "tools of the trade" include flooring, lighting, fixturing,

**THE RETAIL STORE BASE IS AGING**

Saturation pressures have forced major chain retailers to grow the existing store base above historical averages. By 2009, almost 95 percent of US chain stores will be over three years old.

	# OF STORES OVER THREE YEARS OLD		# OF STORES OPENED		SHARE OF STORES OVER THREE YEARS OLD		SHARE OF NEW STORES OPENED	
	2005	2009	2002-2005	2006-2009	2005	2009	2005	2009
Top 25	42,718	53,219	6,620	4,887	86.6%	91.6%	13.4%	8.4%
Top 26-50	43,706	54,463	9,558	4,306	82.1%	92.7%	17.9%	7.3%
Top 51-75	69,974	76,023	5,313	2,078	92.9%	97.3%	7.1%	2.7%
Top 76-100	23,139	32,186	7,373	3,258	75.8%	90.8%	24.2%	9.2%
Remaining 256	101,849	109,605	8,057	5,829	92.7%	95.0%	7.3%	5.0%
North America Chain	281,386	325,496	36,921	20,358	88.4%	94.1%	11.6%	5.9%

WE BELIEVE THAT SERVICES WILL BE 10-15 PERCENT of the typical large-scale retailer's revenue stream as we move towards 2010.

sight lines, intended traffic patterns, in-store marketing and media systems, as well as merchandise presentation choices — adjacencies, affinities and visibility.

Today, the Super A retailers are very tuned into context. They are much more disciplined about updating and localizing their mature stores — they're working to re-fixturing, brighten and better present the merchandise, change the navigation, rethink the site lines — in short, to make the store environment more appealing and comfortable for the target shopper.

Food Lion has successfully demonstrated the importance of doing this one entire market at a time (as opposed to one store at a time) so that the shopper experiences all stores in a consistent way — a great decision that is paying huge dividends to it.

One of my favorite retailers is Shoppers Drug in Canada. As part of its repositioning and contextual upgrade, the company took a building that once looked a lot like a large CVS or Walgreen's and, in effect, visually broke it into three distinct sections — Beauty, Health & Wellness and then Convenience Foods and related merchandise. It is a highly segmented experience across these three major sections — and its results are outstanding.

Longs Drug here in the US has attempted the same thing more recently, but has been constrained in many ways by its existing real estate.

**GMA FORUM: So, retailers are changing to actually market the stores and the goods they sell — not just replenish, price and sell. How are retailers' marketing models changing?**

**Dan O'Connor:** This is the third element — distinctive marketing capabilities. Marketing has often been the most direct route to the CEO seat in branded goods companies, but not in retailers. Marketing was seen as a support role, to merchandising and operations. This has changed significantly over the last five years. Retailers realize that they cannot simply merchandise or operate better than their competitors and expect to win disproportionately.

So we see five major marketing capabilities growing quickly across "Super A" retailers:

1. Trend management & commercialization;
2. Shopper insight AND activation models;
3. Clearer/updated "brand stands" (or "brand guideposts");
4. Updated marketing and media platforms;

5. New organization structure, roles and accountabilities.

**GMA FORUM: Let's talk about each of these briefly.**

**Dan O'Connor:** Each is important. Regarding "trend management and commercialization," every retailer wants to catch the right trends — each wants to be "trend-right." The challenge is making the right choice — so, all too often, they don't choose at all: It's my experience that, across the merchandising, marketing and other functions, retail executives are monitoring or acting on 70-100 trends that they feel are right. This lack of focus adds huge complexity to shopper messaging.

By contrast, the Super A retailers have a process to monitor, prioritize and execute on the *most important* trends — and can now tell everyone internally and externally the five to 10 trends on which they want to lead.

In my view there are three key issues retailers face here:

- Each retailer executive sees it as his or her role to monitor trends, but most retailers lack a function or person who's responsible for bringing these all together — prioritizing, timelining, and clarifying for merchandising and shopper messaging.

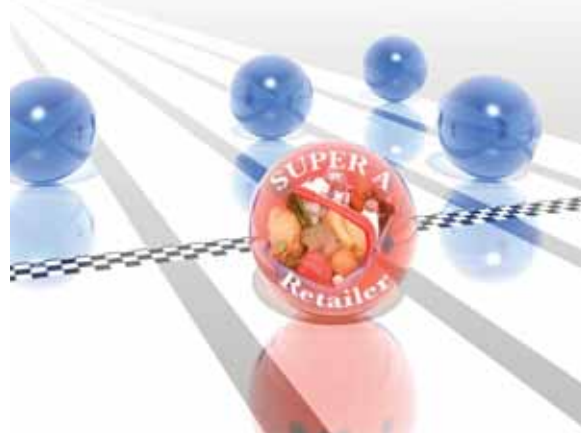
- Suppliers spend millions on account and trend-specific research. Much of it is supplier-initiated, so it may or may not tie to the chosen trends that senior retail management wants to commercialize. Accordingly, much of it is never acted upon. Here's the test: Ask the suppliers to a retailer how many studies they have done in the last three years — and how many of these have made it into something other than a merchandising program.

- Retailers' own market research functions are typically tasked with measuring shopper satisfaction and standard analytics; few include trend-monitoring and commercialization responsibilities.

The Super A retailers are really getting organized here — some with our help. This simple act can be transformational, moving the organization deeper into dialogue about what is important to the shopper and where that retailer can lead. We see this in food retailing especially.

**GMA FORUM: What about shopper insights and activation?**

**Dan O'Connor:** Every major chain has all the shopper insights and segmentation that it can deal with today (that's my opinion). This is no longer a point of difference. What they generally lack is experience with:



■ **Shopper activation** — that is, how to actually get their specific shopper segments, especially those that are not already loyalists or who actually shop with a competitor today — to behave differently.

■ **New tools that help with activation.** We believe that new tools such as viral marketing, mobile and fixed media networks (e.g., Wal-Mart TV), social promotional networks, in-store community rooms, health clubs, beauty and nutritional counselors and other approaches will be part of the new marketing arsenal across the Super A retailers.

**GMA FORUM: What about brandstand, new media and marketing platforms?**

**Dan O'Connor:** "Brand guideposts" relate to the functional and emotional benefits of brand. They serve as the "guard rails" of the retailer's offer. They:

- Sum up the identity of the brand in key words that do not change over time.
- Can be translated into a brand benefit which expresses a brand "truth" that is compelling, own-able and single-minded.
- Apply to all formats.
- Are relevant and motivating to consumers today / in future.
- Connect emotional and rational.
- Are deep and resonant.
- Are simple and allow for understanding throughout the organization.
- Become the ethos in offer and category development, business and operational decisions, and culture.

It is not easy to get these right, because what is right and important, for the shopper cannot always be translated to retail.

Today "Super A" retailers' tremendous energy has been brought to bear on more clearly articulating the high-potential shopper and then a brand message that resonates with that shopper. Staples is a best-in-class example. The "Easy" button is a Staple icon — when shoppers see it, there is only one retailer that comes to mind.

Staples has taken this a step further; the "Easy" claim now surrounds its key sub-brands — services and departments: Easy Print, Easy Rebates and the like.

You can see, then, how this "brandstand" then drives all the merchandising decisions — *and not the reverse.*

For many retailers, this will have big organizational implications.

Retailer marketing platforms, too are changing both in and out of the store. While this is an article in and of itself, it is safe to say that the "Super A" retailers are:

- Cleaning up their stores — they're reducing the number of in-store marketing platforms (thereby reducing the number of opportunities for vendors to communicate their brands to the shopper).
- Using a number of new digital and print, fixed and mobile vehicles to connect with their target shoppers in and out of the store.
- Incorporating many more private labels as a way of reinforcing their merchandising distinctions and brand.

While all of these have huge implications on suppliers, none is as significant as private label growth. Virtually all Super A retailers now (or will) have three or four private label tiers, including "price fighters" (OPP), "brand equivalents," super-premiums and often a "good for you, your kids or the earth" brand. As retailers incorporate two or three private label brands into each high-frequency category, the space for vendor brand decreases — as do brand-blocking opportunities. This is happening in food and non-foods alike.

**GMA FORUM: What does marketing look like today inside these retailers?**

**Dan O'Connor:** Again, retailers cannot merchandise or operate their way to product authority. It requires them to *engage in a dialogue* with their shoppers — which, in turn, requires consistent messaging, store positioning, context, merchandising, information and services. Managing all these elements is a challenge often better suited to people with very strong marketing as well as merchandising skills.

In the "Super A" retailers, marketers are:

- Choosing the trends that the chain will act on and how.
- Developing messaging.
- Articulating the category management principles that will be used to set promotional and shelf strategies.
- Managing in- and out-of- store communication.
- Managing marketing execution with agencies.
- Selling ad space to vendors on the retailer's own marketing

**BIG CHANGE IS IN THE WINGS, and it will prompt suppliers to rethink their go-to-market strategies.**

networks and other platforms.

So, these organizations are changing significantly. Marketing is gaining authority. Decision rights are shifting — and these changes can be confusing even in the very best retailer.

**GMA FORUM: The last element you cite in the “product authority” formula is “consumer-centric information and services.”**

**Dan O'Connor:** First, let's talk about information. I think retailers will continue to push to own the message. They will leverage as many print to digital platforms as they can engage to make this successful. Consumers want better information about what they are buying. They want to know what experts and their friends think — especially with health, beauty, fashion or larger value investments.

Logically, retailers are pushing very hard to improve the scope and quality of information at the point of purchase. Retailers like Target and Shoppers Drug are doing a better and better job of this with print media. The latter, for example, has a high-profile fixture that offers a brochure for every major disease and medical condition. The point: Shoppers Drug is saying to its shoppers: *“Read these. With our help, you can know more and make better product purchase decisions.”*

Eventually, the marketing platforms by which the product information is being delivered to the shopper will move from analog to analog / digital and from fixed to dynamic and much more targeted. Wal-Mart TV is a great example. We believe it has created a network that others will, for these reasons, try to replicate:

- Shopper experience and satisfaction.
- ROI. The cost of technology continues to drop while the associated revenue streams increase.
- Vendors lack alternatives, due to increasing retailer clean-store policies.
- Efficiency / sustainability. Reducing the point-of-sale material and packaging on which information is printed today can hugely change labor requirements in the store, as well as reduce recycling/handling costs. One retailer using in-store TV right now thinks it saves three percent on in-store labor by getting rid of POP and moving to digital media systems inside the store.
- Finally, execution levels go up from 50 or 60 percent to 100 percent. If it's on the screen, the store manager is absolutely going to make sure it's there on the shelf.

So our forecast is that the number of in-store TV screens, the number of retailers that have these and other kinds of in-store marketing programs, will double over the next four years.

One last and interesting point about how information demand is changing in-store: Two years ago, the UK Health Minister decided to incent that country's retailers and suppliers to improve the quality of information on food products.

Today the UK shoppers can quickly identify products with acceptable levels of sugar, fats, calories, sodium, etc.

The emphasis here is *quickly*. The US is far behind, although Hannaford and Harris-Teeter have started to understand the power of more and better product information.

**GMA FORUM: What about services? How will these change? What will be the impact on product authority?**

**Dan O'Connor:** We believe that services will be 10 to 15 percent of the typical large-scale retailer's revenue stream as we move towards 2010. There are four key drivers:

- Services are where an increasing part of the consumers spending is going.
- Consumers often value the service more than the product itself.
- Retail chain store ubiquity increases shopper accessibility.
- Retailers can be much more efficient than banks, insurance companies, travel and related service providers.

There are many, many great examples around the globe that US retailers for example can emulate — Loblaws, Tesco, Carrefour and Wal-Mart International, for example.

**GMA FORUM: If product authority is so important and the winning retailers are all managing these critical elements, will manufacturers need to rethink their whole approach to the retail customer?**

**Dan O'Connor:** The guiding principle is *evolution*, not *revolution*. I will say that the fundamental challenge for most CPG companies is they are very *supply-chain* oriented: They can fix an out-of-stock in a short period of time. They know how to roll out new items and new stores effectively. They know how to build store planograms that, in general, are very replenishment-oriented.

But most suppliers today lack any real *demand-chain* capability. They lack the ability to help retailers grow household penetration one store at a time. It's too complicated, it's too expensive and it may or may not move the needle on that vendor's own products.

But we think that big change is in the wings, and will prompt suppliers to rethink their go-to-market strategies. ■

*In Part Three in the next issue, Dan O'Connor discusses how the retailer / marketer and product authority affect CPG manufacturers, and what they need to do to succeed in this new retailing environment.*