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Building a Winning Shopper Value Equation

By Jon Hauptman

The Benefit

Supermarket operators can no longer afford to be “all things to all people.” Instead, progressive retailers are finding that they need to clearly define and articulate a compelling and differentiated shopper value equation—a go-to-market strategy—that fills important shopper needs in a unique and appealing manner. This edition of *Competitive Edge* examines how retailers can drive growth with a unique, sustainable shopper value equation.

Walmart is Getting Back to Basics

Earlier this month, AdAge.com reported that Walmart is reversing many of their recent pricing, promotion, assortment, and merchandising strategies and tactics. These changes appear to be an attempt to “get back to basics.” Walmart had significantly revised their go-to-market strategy over the past year to boost sales and enhance efficiencies; however it appears that in doing so, this retail giant may have wandered too far away from what shoppers were expecting.

- ▶ **Pricing/promotion** – Walmart will be cutting back on the vast number of “Rollbacks” (temporary price reductions) they had been offering; many of which had been funded out of Walmart’s margin and not from incremental supplier support. Instead, they’re reemphasizing the well-known EDLP (everyday low price) model. Walmart is also dramatically reducing their ad spending as part of this new, back-to-basics approach.
- ▶ **Assortment** – Walmart had been reducing product variety substantially as part of their Project Impact initiative. However, now Walmart will bring back thousands of previously delisted items. Apparently, Walmart shoppers are looking for greater assortment when shopping the aisles.
- ▶ **Merchandising** – Walmart is also returning merchandising displays to “Action Alley” aisles; a key component of their traditional merchandising strategy that had been shelved.

Walmart is demonstrating the importance of developing a clear, appealing shopper value equation. Often, when retailers veer too far away from what made them successful and special, shoppers rebel.

Many Retailers Are Struggling

Supermarket operators find themselves facing increasing competition from traditional and non-traditional competitors. And, many retailers are losing the battle for several key reasons.

- ▶ ***They strayed too far from what made them unique and appealing.*** Some retailers have responded to increasing competition by expanding their offerings—and diluting what makes them special—to protect their sales. However, attempting to satisfy all needs and be “all things to all people” is not a sustainable strategy. Instead, operators need to identify what they can stand for—and lead—in the marketplace.
- ▶ ***They did not keep up with shopper needs.*** Many retailers continue to position themselves and tailor their offerings based on their outdated understanding of what shoppers are looking for. It’s critically important to identify the latest shopper preferences, expectations, and needs and then tailor the go-to-market strategy to uniquely satisfy today’s shopper.
- ▶ ***They were lulled by their own accomplishments.*** There are countless examples of supermarket chains across the country that are truly outstanding in key components of their offerings, e.g., produce assortment/quality, meat assortment/quality, customer service, promotions, etc. However, in many of these cases, competitors have elevated their offerings to be on par with that supermarket chain’s best efforts, thereby neutralizing their competitive advantage. Retailers have to keep track of their competitors’ accomplishments and continuously enhance their own offerings to keep one step ahead.
- ▶ ***They were blindsided by new, unexpected competition.*** As more and more formats sell food, some supermarket operators find themselves losing significant business to retailers they had never considered as their direct competitors. Aldi, Walmart, and dollar stores are attracting an increasing number and diversity of shoppers; traditional operators including upscale chains need to pay attention.

Building a Successful Shopper Value Equation

The shopper value equation is comprised of all key elements of a retailer’s value proposition, e.g., broadly defined as price, promotion, assortment, service, produce quality, meat quality, communications, etc. It’s not uncommon for retailers to include over 20 different components within their shopper value equation.

Driving growth in today’s competitive marketplace requires a retailer to establish, implement, and maintain a shopper value equation that ensures the retailer is a recognized, undisputed “market leader” in at least one or two components of the value equation—true leadership in more components is difficult to afford and sustain—and at “market

Building a Successful Shopper Value Equation (Cont.)

parity” in all other components. It’s not enough to be great at something important, a retailer also needs to neutralize it’s vulnerabilities in order to remove distractions and earn full credit for their leadership position(s).

We’ve worked with several progressive retailers on a three-phase approach to create the optimal shopper value equation designed to enhance shopper satisfaction, retain shopper spending, and drive profitable growth. This approach involves capturing shopper insights (Shopper Assessment), taking a clear-eyed look at the retailer’s own stores and those operated by competitors (Market Assessment), and identifying areas in which to lead and those which must be improved to achieve market parity, i.e., developing the shopper value equation/strategy (Strategy Development).

Shopper Assessment

First, retailers need to understand the up-to-date preferences, perceptions, needs and behavior of their shoppers in general and/or for selected segments of target shoppers in particular.

▶ **Key “shopper” questions to answer**

- ▶ How important is each component of the value equation in determining where consumers shop? Retailers should avoid trying to “lead” in areas that are no longer relevant or important to target shoppers, and instead focus on leadership in more important areas.
- ▶ How well do the retailer and key competitors perform? This indicates to what degree the retailer will need to change shopper perceptions to establish leadership or advance to parity in each component of the shopper value equation.
- ▶ How much of their shopping budgets are target shoppers spending at the retailer and key competitors; and why? This prioritizes competitors and helps define the “size of the prize,” i.e., spending lost to competitors.
- ▶ **Capturing insights** – Conducting qualitative and quantitative shopper research is required to answer the shopper questions. Additionally, retail executives and managers also provide great insight into what is important to target shoppers and how the retailer and competitors are responding.

Building a Successful Shopper Value Equation (Cont.)

Market Assessment

Next, retailers need to take a clear-eyed look at the retail environment, i.e., their stores and those operated by their key competitors.

▶ **Key “market” questions to answer**

- ▶ How well is the retailer performing in each component of the shopper value equation? Retailers can benefit from an objective assessment of their offerings with detail into why performance is not as strong as expected.
- ▶ How well are competitors performing in each component of the shopper value equation? Just because the retailer is performing with excellence in a particular area does not mean that retailer can be a market leader in it. By applying the same objective assessment to competitor stores as applied to their own stores, retailers can identify where competitors have caught up to them and areas in which competitors are vulnerable.
- ▶ **Capturing insights** – Conducting objective assessments requires following a detailed and disciplined evaluation framework covering all corners of the store and all components—and sub-components—of the shopper value equation.

Strategy Development

Once retailers have completed the shopper assessment and market assessment, they're ready to develop the new, differentiated and sustainable shopper value equation strategy.

▶ **Key questions the strategy will answer**

- ▶ In which component(s) of the value equation can the retailer be an undisputed leader? What does the retailer need to do to get there?
- ▶ In which components of the value equation does the retailer need to improve to achieve “market parity”? What does the retailer need to do to get there?
- ▶ **Leveraging insights** – Insights and metrics from the shopper assessment and market assessment will help retailers define what they're going to be known for in the marketplace, i.e., something that is important to shoppers and achievable given the retailer's current situation and competitive environment, and the action steps required to get there. The insights will also help shape the roadmap to achieving market parity in all other areas.

Next Steps

Building a differentiated and sustainable shopper value equation is an important way for retailers to “win with shoppers” and drive long-term profitable growth. It may require difficult choices and significant investment, but will yield strong returns for the effort and resources expended.

If you have any questions regarding this month's *Competitive Edge* or would like to discuss how you can build the best possible shopper value equation for your chain, please feel free to contact Jon Hauptman at 847-756-3714 (jon.hauptman@willardbishop.com) or Craig Rosenblum at 847-756-3726 (craig.rosenblum@willardbishop.com).

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