

Evolving from Product Warehouses to Retail Experiences

By Eric Seiberling

Many retailers have a new four-letter word in their vocabulary. It is called “showrooming.” That is when shoppers scope out products at a local retailer, compare prices online using mobile devices in the store, and then buy them from the cheapest source. In some ways, it is like a legal form of shoplifting. The retail store does all of the work, yet online retailers get the benefits.²⁸

Many retailers have expressed deep concern that this trend will continue to grow as more customers leave the store without a trip to the cash register. But a Columbia Business School and AIMIA report, *Showrooming and the Rise of the Mobile-Assisted Shopper*, shows that “only 6% of mobile shoppers already plan to buy online when they walk into a store, while 30% are committed to purchase in the store, but using mobile to look for additional information to guide their decision.”²⁹ Retailers are using additional price incentives, free

28 Stock, Kyle. “Maybe Showrooming Isn’t Killing Retailers After All.” BloombergBusinessweek. September 12, 2013. <http://www.businessweek.com/articles/2013-09-12/maybe-showrooming-isnt-killing-retailers-after-all>

29 Quint, Matthew, David Rodgers and Rick Ferguson. “Showrooming and the Rise of the Mobile Assisted Shopper.” Columbia Business School and AIMIA. September 2013. <http://www8.gsb.columbia.edu/globalbrands/m-shopper-research>

delivery, and loyalty programs to prevent the customer from walking out their doors and purchasing the product somewhere else.

What we need to realize is that this is not a new phenomenon. Local mom and pop stores experienced showrooming when shoppers used their experienced staff to understand different products and then left to buy them at the Walmart down the block. Grocery stores saw customers stop buying basic food and household items as they purchased many of their essential needs at a lower price in bulk at the local club store. Online stores have challenged brick-and-mortar retailers in the same way.

Showrooming is not the death knell of retail. It is nothing more than an attempt to make sense of a shifting retail landscape as new options are made available. Consumers are now empowered with more information, product choices, and buying venues than ever. In other words, the market has become much “flatter” and retailers need to rethink how they will compete for shopper’s attention and dollars as they reevaluate their purchase behaviors based on price, convenience, previous experiences, service, and other factors.

Evolving from a Product Warehouse to a Retail Experience

We are seeing an accelerating evolution of the shopping experience. Since the first grocery store was launched by Piggly Wiggly in 1916, the concept of the retail environment as a self-service product warehouse was born. Different packaged goods are warehoused together to be able to meet the demands for a consumer. As grocery expanded into mass, club, c-store and dollar formats, the form factor remained relatively the same.

Online retailers have changed the playing field by combining a wide variety of products and low prices with the convenience of both easy shopping and home delivery. Now consumers can shop a broader set of “warehouses” for the best deal and even get free delivery. This is increasing the pressure to compete on price, and pushing retailers to leverage trade promotion management and price optimization to create the best “offer” to shoppers.

As all of these different channels compete on price, profit margins are getting squeezed. Chains like Best Buy, Sears, JC Penney and many other consumer goods and electronic stores have closed thousands of stores, while a number of marquee retail chains like Circuit City and Borders have ceased to exist. Wal-Mart's "Everyday low price" and the recession since 2008 have placed a number of retailers in distress and struggling to stay afloat.

As an additional threat, there is a re-emergence of online grocery shopping and home delivery. Companies have learned from the failures of Webvan, and others and are slowly developing viable home delivery models. Amazon.com plans to expand its AmazonFresh's online grocery business to up to 40 urban markets after five years of testing in its hometown of Seattle.³⁰ Likewise, Wal-Mart has been testing its overnight and same-day delivery of online grocery orders in San Francisco, while companies like Fresh Direct and Safeway are making headway to deliver fresh produce, milk, meat and other products ordered online.³¹ These providers appear to be building the infrastructure necessary to cherry pick high-end grocery shoppers from the market similar to what has happened in the electronics, music, and book industries.

A July 2013 survey by Market Force Information may offer some insight into how retailers can break the "commoditization of retail." Their survey was designed to discover where consumers prefer to shop and why they favor one grocery chain over another. It also analyzed where they spent the majority of their money over the past 30 days to understand actual purchase behavior.³²

According to the survey, Trader Joe's, Publix, Whole Foods, Wegmans,

30 "Amazon Plans Major Move Into Grocery Business." Reuters. June 4, 2013. <http://www.cnbc.com/id/100789495>

31 Wells, Jane. "Your next meal may come compliments of Amazon." CNBC, July 26, 2013. <http://www.cnbc.com/id/100916844>

32 "Trader Joe's is Consumers Favorite Grocery Chain, According to Market Force Study." Marketforce. July 24, 2014 <http://www.marketforce.com/press-releases/item/trader-joes-is-consumers-favorite-grocery-chain-according-to-market-force-study/>

and ALDI ranked high on the consumer delight index. These retailers have found the right mix of selection, pricing and promotions and designed shopper experiences for their high-value consumers. As a result, these chains are experiencing high single-digit growth and stronger margins while the grocery industry revenues have declined 1.3% over the same period. These growing retailers have created unique experiences that spark with their shoppers.

Discount retailers like Wal-Mart rated lower both in terms of satisfaction and recommendation by consumers, suggesting that price – while important – does not drive where people shop. According to the report, top performers “received high marks for courteous staff, inviting atmosphere and high quality produce.” This represents a subtle shift where price may not be “king.” The importance of operational issues, an integrated shopping experience, and created social experiences inside the store can change the game and reduce the commoditization of retail.

Retailers must differentiate themselves in the marketplace both against brick-and-mortar stores and online competitors. This requires a change from a warehouse mentality for products to creating shopping experiences for their consumers. Retailers need to have a deep understanding of the target shopper and their needs, and then design the right mix of pricing, products and experience to meet them.

Defining Retail Experiences

Joseph Pine and James Gilmore were among the first to identify this shift from products to experiences in their 1999 book, “The Experience Economy: Work Is Theatre & Every Business a Stage,” in which they warned that big-name stores could be in trouble. They studied the evolution of business and articulated “The Progression of Economic Value” from commodities to goods to services to experiences.³³ At each stage, the price for the buyer and the margin for the seller increased by an order of magnitude. Two cents worth of coffee beans

33 Pine, Joseph B. and James H. Gilmore. “Welcome to the Experience Economy.” Harvard Business Review, July 1998. <http://hbr.org/1998/07/welcome-to-the-experience-economy/>

(commodity) can be sold for 10 cents as ground coffee in the grocery store (product), one dollar at McDonald's or Dunkin Donuts (service), and for \$3 to \$5 at Starbucks (experience). As competition and expectations rise, products and services are becoming commoditized in the minds of consumers.

This same progression has also happened in retail. Cooking classes at Sur La Table, rock-climbing walls at REI, and golf-swing simulators at Dick's Sporting Goods are all efforts to create experiences in store that drive traffic and sales in store – and some are even charging for the experience.³⁴ They offer experiences that cannot be found anywhere else to attract shoppers and drive loyalty.

A look at the leaders of a Market Force survey shows that they all have created elements of a distinctive shopper experience. Each one takes a unique approach to transform itself from a product warehouse into a shopping experience that delights consumers and meets their needs. For example:

- **Trader Joe's** creates an “an offbeat, fun discovery zone that elevates food shopping from a chore to a cultural experience.”³⁵
- **Publix** is beating Wal-Mart in the grocery game by focusing on service and quality over price, yet delivering 5.6% net margins in 2012 vs. Wal-Mart's 3.8%.³⁶
- **Whole Foods** focuses on healthy eating and sustainability to create “America's Healthiest Grocery Store” and guides every

34 O'Connell, Jonathan. “In the experience economy, retailers are selling much more than goods.” Washington Post, December 7, 2013. http://articles.washingtonpost.com/2012-12-07/opinions/35673581_1_geek-squad-big-name-stores-retailers

35 Kowitt, Beth. “Inside the secret world of Trader Joe's.” Money.com. August 23, 2010. http://money.cnn.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/index.htm

36 Solomon, Brian. “The Wal-Mart Slayer: How Publix's People-First Culture Is Winning The Grocer War” Forbes, July 24, 2013. <http://www.forbes.com/sites/briansolomon/2013/07/24/the-wal-mart-slayer-how-publixs-people-first-culture-is-winning-the-grocer-war/>

element of their store design, product selection and marketing to deliver on this promise.³⁷

- **Wegmans'** personal touch and "European open-air" feel has enabled it to take nearly every top retail honor available, including an award from *Child* magazine for being "the most family-friendly supermarket in America."³⁸
- **ALDI's** tight focus on cost conscious shoppers offers great products at the lowest possible prices in a simple and easy-to-navigate shopping environment.³⁹

While it takes greater time, effort and cost to create these shopper experiences, it has paid off with rich financial dividends and greater shopper loyalty even during a recession. Each of them has keenly understood the desired shopper experience, how they shop, and orchestrated their time in store to deliver against their expectations. ALDI's "warehouse" feel would not appeal to the Trader Joe's shopper – and they do not have to. Instead, they deeply understand what their specific shopper wants and deliver it every time.

Shoppers Want Experiences, Not Transactions

Shopping can be a chore. On some level, stores can be viewed as nothing more than transactional environments – just places to put products on shelves. Many store environments create confusion and make it difficult for shoppers to find what they want to buy, whether they are modern trade or high frequency store layouts. As with any chore, shoppers want to get their shopping done as fast as possible, at the lowest cost to themselves.

But what if shopping can become something that is delightful and

37 Whole Foods Corporate Website. <http://www.wholefoodsmarket.com/company-info>

38 Abelson, Jenn. "First taste of Wegmans experience." Boston.com. October 9, 2011. http://www.boston.com/business/articles/2011/10/09/first_taste_of_the_wegmans_experience/?page=full

39 Simms, Natalie. "Publix, ALDI to offer very different grocery shopping experiences." Hometown headlines, July 29, 2013. <http://johndruckenmiller.com/publix-aldi-to-offer-very-different-grocery-shopping-experiences/>

where they want to spend their time and money? Wharton's Jay H. Baker Retailing Initiative teamed with Verde and the Retail Council of Canada to discover how retailers can create an extraordinary experience for shoppers.⁴⁰ The report titled *Discovering 'WOW' – A Study of Great Retail Shopping Experiences in North America*, points to five major areas that contribute to a great shopping experience:

- **Engagement:** Being polite, genuinely caring and interested in helping, acknowledging and listening.
- **Executional Excellence:** Patiently explaining and advising, checking stock, helping to find products, having product knowledge and providing unexpected product quality.
- **Brand Experience:** Exciting store design and atmosphere, consistently great product quality, making customers feel they're special and that they always get a deal.
- **Expediting:** Being sensitive to customers' time on long check-out lines, being proactive in helping speed the shopping process.
- **Problem Recovery:** Helping resolve and compensate for problems, upgrading quality and ensuring complete satisfaction.

If we take a step back and review these elements, many of these issues can be addressed in the design of the store before a problem occurs. Simplifying the shopping experience by getting the basic assortment and merchandising right, improving the store layout and navigation to fit the way the consumer shops, and designing the right atmosphere and branding to create an emotional bond with the shopper will set the stage for a delightful experience. This will help store personnel to engage the shopper, avoid execution issues and problems and help expedite their shopping trip.

40 "Getting to 'Wow': Consumers Describe What Makes a Great Shopping Experience" Knowledge@Wharton, July 8, 2009. <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2275>

Defining the Consumer Journey Using Virtual Reality

It starts with the shopper journey. McKinsey & Company consultant Dorian Stone and John Devine, in their report *From Moments to Journeys: A Paradigm Shift in Customer Experience Excellence*, ask a question: Why are customer loyalty and engagement so slow to improve while the business reports positive customer feedback after every interaction? Their analysis found that focusing on “moments of truth” provides too fragmented of a view of the customer. Customer loyalty and perception is based on the sum of interactions around a specific need, which they call a Consumer Journey.⁴¹

Both CPG manufacturers and retailers need to view the sum total of the entire shopping experience, while today’s tools focus on a specific category or department of a store. Transaction logs (t-logs) show a shopper’s basket size and items, but miss the emotional components involved in the shopping experience. Category management, price optimization and trade promotion tools are focused on the choices and prices a shopper makes, but fail to understand the motivations behind the choices.

In the past, it was quite expensive to conduct consumer research in the context of the shelf and store. Retailers would either need to disrupt current store operations to conduct research or need to mock up shopping environments in specialized research facilities. Only the largest CPG companies could create their own “research stores” in innovation centers, spending hundreds of thousands of dollars to test a single store format and constantly purchasing competitive products to create a realistic store.

It is important to understand all of these elements in the context of the shopper and allow them to inform our choices. According to Ray Burke, the E.W. Kelley Chair of Business Administration and Founding Director of Indiana University’s Customer Interface

41 Stone, Dorian and John Devine. “From Moments to Journeys: A Paradigm Shift in Customer Experience Excellence.” McKinsey & Company, April 2013. http://csi.mckinsey.com/knowledge_by_topic/consumer_and_shopper_insights/consumer_experience_journey

Laboratory, “Today we know what consumers are buying, but not how they’re buying.”⁴² By observing customers’ paths through the store, Burke can determine the obstacles to purchase and identify what will stop consumers in their tracks. In the future, he expects that the market will see the same kind of gains from merchandizing optimization and product presentation that are now being achieved through price optimization techniques.



Virtual technologies now allow retailers and CPG manufacturers to design and test numerous scenarios without the cost of physical stores. Research can now be conducted in days instead of months, at a tenth of the cost by designing and testing multiple shopper scenarios and recording their shopping activities as they navigate through the virtual store, pick up and examine products, and place them in the basket.

Procter & Gamble has been using virtual technologies to conduct consumer research since 1997, having identified the technology as a way to develop its products and experiences to meet shopper’s needs. According to P&G, the technology can “integrate consumer insights more efficiently” throughout a project’s design process, reduce the time and cost it takes to develop the insights, and allow

42 “Shoppability: The Science of Shopping.” Indiana University Kelley School of Business website.http://www.kelley.iu.edu/about/features/archive/fall_2007/shoppability1.html

P&G to ask more questions and probe for deeper insights in a shorter time frame.⁴³

P&G is not alone. Kimberly-Clark Corp., Kellogg Co., Johnson and Johnson and others have used virtual technologies to conduct shopper research to guide their innovation efforts and help them design the right plan to win at the shelf. Both CPG manufacturers and retailers are using virtual simulations to effectively narrow down options and refine concepts so that the ultimate in-store test has a higher chance to succeed. According to Kimberly Senter, Director of Category Management at Unilever, “It saves us the embarrassment of a failed 20-store test.”⁴⁴ Retailers like Wal-Mart, Sainsbury and others have also started using virtual technology to go beyond the data to understand shoppers, saving both time and helping to drive better merchandising plans and store designs in the process.

Designing the Retail Stage While Managing Complexity

Many retailers may feel that adopting a shopper-centric retail strategy is impossible because of the complexity of the retail environment. By their very nature, stores are very complex. An average grocery store holds between 50,000 and 60,000 SKUs that need to be configured on shelving and a space plan that fits the environment. Layer onto the complexity the constant churn of products, and it starts feel impossible to be able to define an experience that meets the needs of the local shopper.

Retailers need to use solutions that can combine assortment, category management and space planning into a single system can help manage the complexity of the product assortment, while managing the space effectively to create store specific or cluster-specific planograms. Many times, these functions are handled separately, which creates multiple rounds or rework or inefficiencies.

43 “Shaping Retail: The Use of Virtual Store Simulations in Marketing Research and Beyond.” In-Store Marketing Institute, 2009. Page 18. http://kelley.iu.edu/CERR/files/09ISMI_VirtualRetailing.pdf

44 Ibid, page 10.

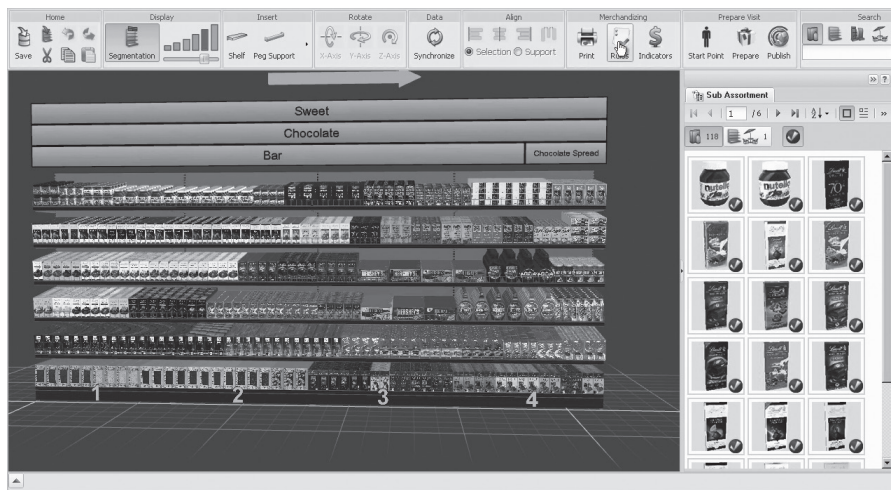


Retailers need to balance shopper preferences with a never-ending stream of new products, line extensions and promotions from their CPG partners. They need a solution that will allow them to define the products and subcategories and be able to manage their lifecycle over time. This “product life-cycle approach” helps manage the constant churn of products and ensure that the right products are available at the right place and time.

A master design can then be presented to shoppers virtually to test adjacencies, merchandising ideas and promotions in the context of an entire store. This allows retailers to assess the entire shopper journey from the moment they walk into the store until they check out. Without virtual technologies, ideas were either assessed through 2D paper drawings or physical tests in pilot stores. This made the testing cost prohibitive, time consuming, and risky to attempt novel designs. Virtual testing can help retailers design the right experience for their shoppers before spending significant time or capital to make it a reality.

Rules should then be formalized based on shopper understanding to be able to facilitate the translation of an assortment into a space plan for different retail environments. The solution allows retailers to use rules to adapt planograms by adjusting allocated space for the category to

the store size and format, changing shelves and fixtures to adapt to the point-of-sale furniture and align with the local assortment. This can be done locally or from a central location while being compliant with the consumer decision tree and expected overall business performance. New variants can be generated in minutes instead working days to generate them manually.



An integrated assortment, merchandising, and space management solution allows different teams to focus on the retail experience. Retailers can create an environment where shoppers can find the products they are looking for, successfully navigate through the store, and enjoy it. This requires specific attention to adjacencies designed around how the shopper thinks, creating the right signage and wayfinding, and creating the right brand experience. This is essential as retailers seek different ways to create experiences to combat the effects of show-rooming and other pressures.

Going the Last Mile to Delight Shoppers

Ultimately, execution at the point of sale is critical for a retailer. A delightful shopping experience, brand equity consistency, and operational quality are achievable if sufficient care is taken to adapt master planograms to fit the local retail environment.

Creating planograms with 3D tools can avoid many of the operational issues found in store, accelerate store set-ups, and improve operational compliance. It is common for a corporate- or regional-level planogram team to get a lot of negative feedback from store employees because their carefully-configured planograms didn't work in execution. It's often because the planogram team was trying to use 2D planning tools to figure out how something would work in the real world.

As an example, it can be difficult to determine how many blister packs will fit on a peg hook unless you know the exact physical dimensions of the package, the exact position of the peg hook and even the clearance needed so a consumer can take one with their hand. In addition, irregularly shaped objects like a DVD player that indicate a 13-inch depth but do not account for the space the electrical cord sticks out can create significant operational issues. The corporate team has to do additional work, and the stores are left with merchandise that can't be displayed properly.⁴⁵

In addition, creating mounting instructions in 3D takes the guesswork out of translating planograms. Perfect Shelf 3DEXPERIENCE from Dassault Systèmes provides the ability to generate the mounting instructions in multiple languages in a single click. Retailers using this solution have reported between 30% and 60% shorter store set times. It was easy to see how fixtures were supposed to be set up and where items were supposed to go. Compliance rates were significantly improved as a result.

Store managers can then focus their operations on delivering the right consumer experience instead of struggling with executing store designs. Time can be spent on customer engagement, operational excellence, expediting the shopping process and managing issues. The design of a store can help eliminate the issues like out-of-stocks, which frustrate shoppers, and focus employees on delighting them instead.

45 "Perfect Shelf to Design Real Shopping Experience." Desktop Engineering, September 20, 2012. http://www.deskeng.com/virtual_desktop/?p=6207

Evolve or Be Commoditized

Virtual technologies have taken these risks out designing shopper experiences by allowing retailers and CG manufacturers to co-create and test multiple ideas in days instead of months, at a tenth of the cost and effort. Many leading CPG companies and retailers are using virtual solutions to better understand the shopping experience, explore retail strategies to combat the pressures of commoditization, and validate these new designs with consumers in a short period of time. History is littered with retail chains that have failed to evolve. Now there is a way to accelerate this evolution from a product warehouse into a shopping experience that delights consumers and meets their needs.



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