How E-com Will Change CPG Marketing and the Retail Experience

E-Com is changing every aspect of CPG marketing especially the retail experience. This paper predicts what will happen and suggests a path forward in a turbulent rapidly changing environment.

Learn How Brands and Retailers Can Win in the Future

Why read this paper?

CPG marketing is in crisis. This paper offers a way to turn the current crisis into triumph. Right now things look bleak. Growth is everyone's problem. Categories are stagnant. Ninety-five % of major brands are losing share. Meanwhile retailers are leaking 25% of their shopper's volume to other retailers. Margins are shrinking across the CPG value chain.

Now comes e-com, the most disruptive event in the last 75 years. This new retail "channel" will soon surpass today's combined volumes of all other channels except bricks and mortar food stores. E-com is growing and will grow because it saves shopper's time.

While it frees up an hour a week or more, e-com profoundly changes the shopping experience. The "store" shrinks from 45K sq. ft. of labyrinthian aisles to a small dynamic screen driven by software that understands shopper's buying habits and needs.

This suggestive functionality of the retailer's e-com graphic user interface (GUI) is the key to addressing the retailer's leakage problem because it enables marketing by shopper "need state". A shopper's order of disposable diapers triggers an on screen "display" of the other "infant care" need state items.

This paper asserts that "need state" marketing will become the new external marketing platform for the retailer while CatMan remains the internal operating platform. Need state marketing will emerge because it is (1) the way shoppers organize their shopping trip and (2) a superior way to combat the retailer's leakage problem and build volume. Need state marketing benefits shoppers and retailers.

This paper urges the CPG marketing community to embrace and excel in need state marketing. Those who do will prosper. Those who don't will suffer.

What to do if you are a retailer:

- Align internally around the critical need states offering the most strategic and financial advantage.
- Start by identifying the critical need states based on the appeal of the shopper cohort and the available unrealized profit pool.
- Create a multi-functional team from marketing, the need state categories and your e-com IT group.
- Adopt a process for positioning the need state with shoppers and coordinating the disparate vendors essential to need state success.
- Begin to develop an on-line community of need state shoppers so that you may communicate with them effectively.

This paper offers a detailed discussion of each of the issues above.

If you are a brand owner:

- Recognize that the retailer controls the digital "store" in ways that can disadvantage you. Example: any e-com order in your need state can trigger an offer on a competitive brand in any category in the need state.
- To prosper you must align with need state thinking, developing shopper insights and e-com knowledge that makes you an attractive partner for retailers migrating towards "need state" marketing.
- Specifically, develop knowledge about the need state and your category's role in the need state. Develop insights about the unique attitudes of the on-line shopper in your categories.
- Help assemble an online community of shoppers in your need state

How is e-com changing CPG marketing and the retail experience and what should you do about it?

The purpose of this paper is to provide a framework for CPG practitioners to understand and react to a confusing, rapidly changing marketplace as it migrates towards a more digitally driven e-com intensive environment. We will attempt to describe the emerging end state and identify what practitioners should do today to prepare for tomorrow.

EXECUTIVE SUMMARY

The digital revolution and the e-com retail channel enabled by it are disorienting CPG practitioners. This massive disruption is occurring just as all CPG practitioners are struggling to grow in a marketplace with mature stagnant categories under siege from multiple quarters. Brand owners are losing share. (> 90% of the leading brands in the US lost share or volume in 2016). Meanwhile, retailers are watching their loyal shoppers leak volume to digitally enabled retailers large and small. **Even the best and brightest retailers lose at least 25% of their shopper's volume in every category to competitive retailers.** Out of enlightened desperation, brand owners themselves are rushing to open on line stores.

Change is coming at a pace that overwhelms practitioner's ability to understand it and respond strategically. For example, we know that numerous grocery stores in upscale urban markets are already selling >10% of their volume on line by e-com. Nielsen is predicting that by 2023, 20% of all CPG volume will be ordered by e-com. If that estimate is remotely accurate, e-com would then comprise a retail "channel" bigger than today's volume at Clubs, dollar stores, hard discounters and C-stores combined.

The e-com tsunami is growing as dozens of established Brick and Mortar (B&M) retailers begin offering e-com options different from those of primarily home delivery e-com retailers such as Amazon, Walmart.com and Peapod. These B&M retailers with thousands of familiar neighborhood locations are beginning to offer convenient "click and collect" (C&C) options for their millions of loyal shoppers. Because C&C is inherently cheaper to offer than home delivery, this new e-com option will both increase the popularity of online ordering and comprise a serious threat to home delivery. In the process, C&C e-com will continue to change shopper behavior and market dynamics in ways difficult to predict.

The inchoate state of the digitally enabled market makes it difficult to discern the long-term effect of on shopper behavior by demographic groups, by category, brand, channel and individual retailer. **But one central truth is emerging from the mist: the principal marketing platform for the digital e-com age is the shopper "need state". Category management will remain the internal retail operational platform but need state management will become the external strategic marketing platform.** That is the thesis of this paper which we will attempt to develop in the ensuing pages.

Here are the four clear trends driving us towards need states as the marketing platform of our digital e-com future:

1. **E-com offers unparalleled convenience and time saving** at a price point many people will pay. Many moms have a child, a household to care for and a job outside the home. What they don't have is free time. In the last analysis, e-com gives time stressed shoppers what they value most, another hour or so once a week. That is why it is growing. That is why it will grow.

2. **The shopper is being empowered** by access to all the information available along the digital Path To Purchase (PTP). In the power struggle between retailer, brand owners and shoppers, the shopper is winning. Margins at retailers and brand owners are being squeezed. That's why retailers and especially brand owners are embracing zero based budgeting requiring Draconian cost cutting actions such as reducing staff and re-using the flip side of printer paper. Today's shopper has more choices and more information than ever. More choice + more information = a more powerful shopper = < prices
and < CPG margins.

3. **The on-line SHOPPING and BUYING experience changes everything, most importantly the manufacturer's understanding of marketing tactics.** The digital PTP is dramatically different from the aisle cruising planogram dominated experience of yesteryear. The 45-minute stock up scavenger hunt within the 20+ aisles of the typical 45.000 square foot B&M store is replaced by 90 seconds of cursor clicks over a small screen measured in inches. The result of this completely transformed shopping experience? All the marketer's knowledge about shopper behavior collected over the years at great expense is virtually worthless. Who knows how the e-com experience effects assortment, pricing, visual merchandising and promotion? The answer is …no one. Filling this information void is Job One throughout the marketing community.

4. **The functionality of the e-com GUI offers retailers a powerful new weapon.** Retailers can reduce volume leakage and improve the shopping experience by offering meta category "need state" solutions. An e-com shopper's mouse click on baby food can trigger on screen an immediate offer on all the other categories in the" Infant Care" need state (e.g. disposable diapers, wipes, baby shampoo and car seats).

E-com is unencumbered by the physical space barriers endemic to B&M. This enables retailers to offer simultaneously on the floor/screen of their digital store an array of related products, even including some items supplied by other retail partners, greatly reducing store inventory and channel leakage. In turn this permits retailers to build sales with their most valuable "prospects", current shoppers.

And e-com can deliver in-depth information at the "point of sale" far beyond the practical capabilities of B&M; e.g. recipes, Rx information, instructions, brand benefit information, etc. No longer must the brand's package "carry the entire load" of informing the shopper/consumer at point of sale.

Please note that over the next few years, voice interaction with the e-com interface will grow in popularity. Shoppers will simply tell the GUI what they want. This functionality will be merged with the visual GUI so the voice order of "Gerber baby food" will trigger an on screen or verbal prompt from the software to consider "Huggies". The importance of the "need state" approach does not change, only the way the shopper interacts with evolving technology.

Defining the vocabulary of the evolving digitally driven e-com marketplace

Everyone is confused and a little frightened by the pace of change. One factor contributing to the confusion is the lack of a common vocabulary when discussing the marketplace. Concepts such as "path to purchase "and "e-com" mean different things to different people. Various issues are conflated and this contributes to confusion that frustrates problem solving and strategy development.

Let's start by defining the "path to purchase" (PTP), where it starts and where it ends. The PTP begins when a shopper perceives a need and decides to shop to meet that need. To simplify the discussion, we will use the weekly stock up trip as the start of the PTP. Today's shopper, according to Market Track, uses multiple information sources to inform her trip. The most frequently used information input is the PRINTED circular from a retailer. Increasingly, the shopper seeks information from digital resources provided by retailers, manufacturers and a plethora of third parties ranging from Facebook to internet based affinity communities. The shopper may search coupon sites, open an app from her favorite retailer, scroll through e-mails for coupons from retailers and manufacturers. Each of these activities is a stepping stone on a PTP unique to each shopper.

PLEASE NOTE: The process described above is NOT e-com. It is the PTP!

The PTP outlined above often involves multiple digital elements that may lead either to a B&M store or to a digital shopping cart. The point is this: The Path to Purchase includes many stepping stones of various cost/influence/information types/ROI. It is more digital today than yesterday and will be more digital tomorrow. Understanding the relative ROI of stepping stone A vs. stepping stone B is of enormous importance but… The PTP is NOT e-com. It is the process of making a buying decision. The actual purchase can be made in B&M or digitally on Amazon, Jet.com or Kroger.com. Practitioners must separate the act of information gathering (shopping) from the act of buying itself.

Therefore, we define the word "E-com" to mean the act of BUYING something on line. Please keep this distinction between the PTP (information gathering) from the act of buying on line, e-com, in mind as you read further. It will help clarify your thinking.

The online store on your desk and in your hand

99% of the marketing knowledge accumulated by manufacturers and retailers was derived from a physical shopping experience in enclosed spaces varying from a 2,500-square foot c-store to a 100,000-square foot supercenter. In e-com that "store" space is shrunk to screen size often referred to as a "graphic user interface" or GUI. The critical difference between buying in multiple labyrinthine grocery aisles versus a dynamic digital GUI renders obsolete all your old marketing behavior information re the ROI's of various marketing expenditures.

The shopping experience enabled by the digital GUI is totally different. Aisles disappear. Displays disappear replaced by new graphics, new information and new incentives. Some of this new data is pushed to the shopper by retailers and manufacturers. Some is pulled from cyberspace by the shopper herself. Shoppers have traded physical space for a digital interface. They must learn to shop within this small digital space which has its own navigation rules defined by the software's functionality controlled by the retailer. Today retailers offer different GUI's, shopping taxonomies and functionalities. In the long run, all these user interfaces will gravitate toward a similar functionality that will reflect the optimal experience for the shopper and the retailer. Through research plus trial and error, the software functionality will begin to coalesce around a similar user experience reflecting shopper preference.

We do not know exactly what he optimal e-com GUI will look like but it is likely to have several common functionalities

- The shopper's past purchase data will drive the shopping experience on screen

- Targeted offers will appear dynamically and instantly as you buy

- The purchase of item X will trigger offers on other items in item X's "need state"

Why are we sure these functionalities will prevail? Because they are advantageous to the retailer who controls the digital "store" and they improve the shopping experience for the shopper.

From the retailer's perspective, these functionalities replace the price off, coupon and display incentives that existed in the B&M store. They also offer the retailer an opportunity to upcharge brand owners for special on screen attention just as they previously charged for end aisle display space. Lastly, the software can suggestively sell affinity items triggered by the selection of a specific "lead" item in the same "need state".

This latter functionality, the capability of offering multi-category "need state" solutions is one of the most important "disruptions" of the e-com era because it offers an antidote to the CPG industry's slow growth and the debilitating leakage problem. Every marketer understands that the easiest way to grow is to sell more to a current customer in the act of shopping/buying. The great thing about e-com is that it knows what shoppers have bought, what they haven't bought and what they may need. **Therefore, optimizing need states will be the major differentiating factor of on line E-com versus the B&M experience.**

Need State marketing as the end state of e-com

We believe all the trends in today's marketplace: (1) the slow growth of categories;(2) the leakage of volume from retailers and (3) the functionality of the digital interface will drive marketers, especially retailers toward the rapid adoption of "need state" marketing. Although category management will remain a dominant retail operating platform and a critical entry point into the shopper's journey, that journey will often lead to a multi-category "need state" (Infant care, pet care, healthy dining, diabetes care, party planning, etc.). **The operational platform for CPG retail will be the category. The marketing platform will be the multi-category "need state".**

But all market participants face significant challenges within the new end state comprised of need states. None of them, neither retailers nor brand owners nor solution providers are organized to compete in a world of digitally enabled need states. They lack data, they lack appropriate organizational skills and they lack a process to enhance the category management process that has served them so well for the past 25 years especially in its new iteration as CatMan 2.0.

Unfortunately for industry practitioners, history suggests digitally driven change comes relatively rapidly. Look at how rapidly Google, Facebook and Amazon have transformed commerce. Even the most skilled and determined practitioners are challenged to understand change of such vertiginous speed and kaleidoscopic complexity. Therefore, practitioners, both retailers and suppliers, must start now to develop a clear understanding and a plan for the new need state e-com environment. They need to ask and answer critical questions such as:

- What need states are of most strategic importance to me as a retailer?
- What are the profit pools available by need state and where are the biggest gaps in my share of my shoppers' wallets?
- What categories are the critical entry points into the most important need states?
- Which suppliers are the best partners to help me capture my prioritized need states?
- Who are the other, complementary retailers with whom I should partner to fully satisfy a need state (e.g. baby furniture manufacturers)?
- What process shall we follow to produce the most desirable outcomes?
- What new data do I need to prosper in this new environment?

This paper offers initial suggestions to address these challenges. We propose using the familiar metaphor of category management as a guide to the new world on the theory that it is easier to understand something new by contrasting it with a known practice, in this case category management. We begin with some definitions and follow that by suggesting the five things you need to do immediately as you start your journey into a new commercial cosmos where the laws of gravity and physics are so different from today's B&M world.

What should practitioners do today?

- **Create internal strategic alignment—**The digitally driven commercial environment is changing rapidly. Multiple internal functions are involved in developing a response to change of such complexity. Practitioners need internal strategic alignment. We propose using an approach called OGSM (Objectives, Goals, Strategies and Measures). This is a mature process tool developed originally in the Japanese "Total Quality" movement. It is powerful yet relatively quick and easy to use. The end state is a single page document which aligns all relevant corporate functions around a small focused set of strategies with a series of associated projects aimed at delivering the agreed objectives. This strategic alignment tool is invaluable in answering the kind of confusing multi-disciplinary challenge offered by e-com.

- **Redesign the organization—**One of the "strategies" emanating from the OGSM exercise is likely to address the organizational resources and approach required to succeed in the new digital environment. The e-com environment is so new to most companies that it probably requires dedicated resources or certainly an individual responsible for coordinating such a complex issue. One of the unspoken challenges of e-com is that the corporate c-suite itself is often abysmally ignorant of the e-com environment which has materialized after their long climb up the corporate ladder. Therefore, the c-suite must bless the new design but is unlikely to be the source of the new design itself.

  Manufacturers and retailers face a similar problem in organizing for need state management and e-com. These functions require new and different skills than are likely to be found in the CatMan organization within manufacturers or the merchandising (buying/retail CatMan) function. Within retailers we are seeing the marketing function "inherit "e-com and the nascent need state focus. This is challenging because of the retailer's internal functional silos exacerbated by the historic weakness of "marketing" vs. merchandising and operations within retail and most importantly, the absence of a process to encourage collaboration among the functions much less with a multi-vendor need state. Within manufacturers a similar problem exists most easily described as the gap between sales and category management vs. brand marketing and shopper marketing.

  Manufacturers need an internal process to collaborate both internally and externally with their retail partners if they are to realize the promise of need state marketing driven by retailers. CatMan 2.0 offers a well- developed sophisticated process for shopper marketing collaboration. This process can be readily adapted internally for e-com and need state marketing. But by its very nature, need state marketing involves not just one retailer and one manufacturer but several non-competitive brand owners. This puts the onus on retailers to develop a process for managing a multi-vendor need state effort We have developed a logical process for collaboration between retailers and a multi-manufacturer environment in need state marketing.

- **Leverage the new data and analytics to establish updated marketing ROI's—**The e-com environment is new. It creates new data requiring new analytics leading to new success metrics. Here again, the OGSM exercise will probably develop a strategy and several projects aimed at rapidly developing appropriate analytical pathways through the morass of new, often-frustrating data sets. This issue is discussed again later in this white paper.

- **Develop partnerships with various digital and e-com experts—**The retailers and brand owners who have the most experience in the e-com environment strongly urge developing partnerships with various solution providers to hasten the journey towards success in e-com. These "experienced" practitioners point out that everything is so new and rapidly changing that having partners who have developed expertise in some area of e-com dramatically accelerates learning and minimizes costly errors.

- **Create an e-com data catalogue (a Voice of the Shopper Need)—**The new data which the PTP and e-com create will need to be organized into a standard best practice taxonomy of Who, What, Why, When, Where and How. Using this orderly cataloguing procedure will enable rapid understanding and deployment of the data across all corporate functions that need to use it. It will also identify gaps in e-com knowledge that need to be filled by either marketplace testing or shopper research work.

The Joint Business Planning Process Challenge of Need State Marketing

At present, retailers and brand owners lack a common process for collaborating to manage "need states". We know that trading partners will sub-optimize their results unless a common process is used. After lengthy review, we believe the best solution to the process vacuum is using the familiar framework of the CatMan 2.0 process shown below, but with major changes in the content of the process steps to reflect the realities of Need State Management. Think of this new process as "E-Com 1.0."

- **Begin by aligning internally.** As in CatMan 2.0, we recognize that effective collaboration externally in need state management begins with effective alignment internally. Both retailers and manufacturers must get their own internal organizations aligned before they can collaborate effectively with their trading partners. Aligning internally about need states is inherently different from CatMan internal alignment because it involves multiple categories within a need state and probably multiple non-competitive brand owners within a common need state. For example, Nestle Nutrition, the owner of Gerber baby food needs to understand how to interact with a company like Kimberly Clark who makes Huggies disposable diapers.

  But first, brand owners and retailers need to identify which need states they wish to focus upon. Retailers have >100 categories but cannot possibly manage 100 multi-category need states assuming 100 meaningful need states even existed. The same applies to brand owners but to a lesser degree. Both retailers and suppliers need to define the strategically and financially important need states and begin the process of developing analytics and "insights" around the need states of highest strategic interest. The "Voice of the Shopper Need" (VON) mentioned above is a major contributor to this internal strategic alignment step.

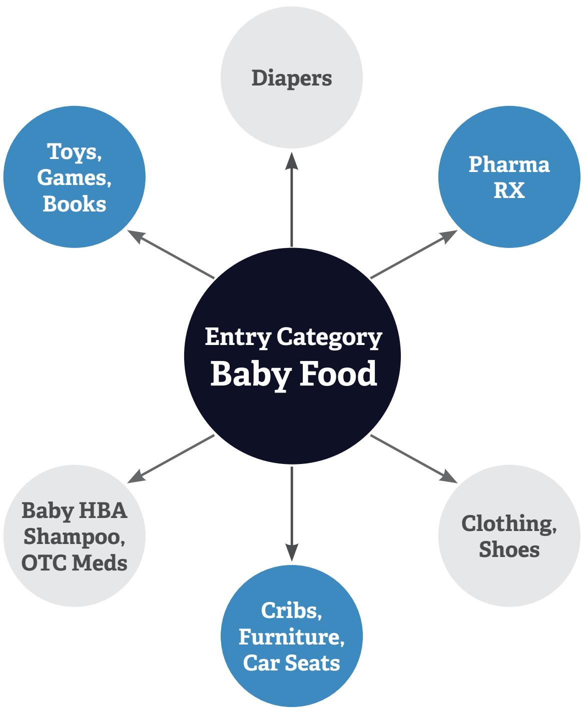
  We see this definitional work proceeding on parallel paths at both the retailers and the brand owners. For example, Target may decide that "infant care" is a key need state. Separately, Nestle or Kimberly Clark may decide they are the key CPG "trip drivers" of the infant care need state and deserve to be the thought leaders among suppliers for that need state.

- **Step One in the collaborative process:** Defining the need state--Just as in CatMan 2.0, the first step in the collaborative "need state" management process is defining the items/categories being managed in the need state. For many practitioners and many categories this is an intuitively simple process but in case objective "proof" is required, basket affinity analysis from retail POS data offers a reliable and sometimes surprising perspective. For example, it may reveal that seemingly unrelated low cost/ounce food products (such as Little Debbie snack cakes and Banquet frozen dinners) typify many brands in what one might call an "economy meal" need state. Defining the need state can become more sophisticated and even more rewarding when the need state includes categories not sold in most food or drug stores (such as cribs and infant car seats). The output of this work is a Need State Tree, which supplements the Consumer Decision Tree that is central to CatMan 2.0.

- **Step Two: Developing the "role" of the need state—**As in CatMan, need state management requires the role development step comprising the prioritization of the need state's relative strategic importance to the retail enterprise. This step enables more efficient allocation of retail assets (assortment, promotion support, etc.) to the most important need states. Why is this step uniquely important in need state management? Because it is difficult for practitioners and especially retailers to manage 100+ need states as they do categories. Practitioners need to carefully select the relatively few need states, probably something in the range of ten, where they will compete.

  A good example of retail need state prioritization was the recent announcement by Target's CEO, Brian Cornell that Target is going to focus on Families with Children. Women's Fashionwear and Health and Wellness. These are all "need states" which Target must learn to manage. Assessing the relative importance of need states requires a set of metrics tied to the retailer's overall strategy; i.e. the appeal of the target shoppers experiencing the need, the size and profitability of the need state, the strategic fit between the need state and the retailer, etc. A critical issue is identifying the category within the need state that serves as the shopper's key entry point into the need state. This is likely to be the category that drives more frequent need state retail visits i.e. the "destination" category for the need state. The graphic below shows a hypothetical need state, its categories and entry point.

The Infant Care Need State



Each category in the need state has different dynamics such as purchase frequency, price points, retail competitors and inventory and service requirements. Understanding these differences and their implications for category role, etc. requires aggressive assessment analyses from familiar behavioral data sources (IRI/ Nielsen store census data, NPD, household panel data, Retail POS and loyalty cards, as well as less familiar social media and PTP data). Even more challenging is developing the unifying emotional and attitudinal insights into a multi-category need state. We shall touch on both the assessment "what" (behavioral data) and assessment "why" (attitudinal data) in need state management below.

- **Step Three: Assessing the need state--Assessment "What"—** This step involves looking backwards in time at behavior captured in familiar sources mentioned above in our discussion of the Voice of the Need. (IRI/ Nielsen data, NPD, Household panel data, etc.). The obvious difference here is that we are looking across multiple categories in a three-dimensional behavioral space trying to understand how behavior X in category Y is synergistically important to the overall need state.

The second difference in e-com need management is capturing all the new information regarding shopper response to the various incentives and communication options in the e-com environment. For example, practitioners realize that in today's environment, shoppers sharing a common need state (like infant care) often congregate in on line communities wherein community members develop information sources of enormous importance to marketers. In e-com driven needs management, understanding these communities and how they have responded to various marketing stimuli is of critical importance to winning in the new environment. We shall address community development later under tactics.

A third important difference is the sheer size of need state volume leakage from one retailer to other retailers. Understanding leakage was an important factor in CatMan 2.0 but it is critically important in Need State Management because so much volume is at stake. A retailer who masters need management may increase shopper loyalty (decrease leakage) across five or six categories, an enormous prize. Conversely, if another retailer proves more adept at need management, the volume loss can be devastating. The table below estimates what infant care leakage from the grocery channel could be.

Baby Need State ($HH)

Categories	Annual $	Groc $	Leak $	% Groc
FEED	**691.6**	**378.0**	**313.6**	**54.7%**
Formula	130.0	91.0	39.0	70.0%
Juice	41.6	27.0	14.6	65.0%
Baby Food	520.0	260.0	260.0	50.0%
CLEAN	**1,221.0**	**752.2**	**468.8**	**61.6%**
Diapers	780.0	546.0	234.0	70.0
Wipes	208.0	135.2	72.8	65.0%
Shampoo	130.0	19.5	110.5	15.0%
Oil	103.0	51.5	51.5	50.0%
FUN & LEARN	**553.8**	**243.2**	**310.6**	**43.9%**
Toys	442.0	221.0	221.0	50.0%
Books	18.2	8.2	10.0	45.0%
Photo	93.6	14.0	79.6	15.0%
WEAR	**884.0**	**439.4**	**444.6**	**49.7%**
Clothes	624.0	249.6	374.4	40.0%
Shoes	260.0	189.8	70.2	73.0%
CARE	**327.6**	**117.8**	**209.8**	**36.0%**
OTC	197.6	59.3	138.3	30.0%
First Aid	130.0	58.5	71.5	45.0%
SAFE	**628.2**	**208.3**	**419.8**	**33.2%**
Crib	130.0	65.0	65.0	50.0%
Car Seat	270.4	67.6	202.8	25.0
Stroller	150.8	60.3	90.5	40.0%
Security	77.0	15.4	61.6	20.0%
TOTAL	**4,306**	**2,139**	**1698**	**50%**

- **More step three: Assessment "why"—**One of the important advances in CatMan 2.0 is the inclusion of Assessment "why", the discovery of the motivation or insight that drives the behavior described in Assessment "what". In the context of need state management, this step is extraordinarily important, probably the key to reducing leakage and increasing loyalty across all the categories in the need state. Make no mistake, developing the insights driving behavior across a need state is a challenging task.

  The infant care need state is a great example of this. Research seems to suggest that the most intensely felt need for mothers is the reassurance that their child is developing normally. This insight is critical to the retailer and brand owner's ability to bond with mothers and dominate the need state. Similar sophisticated insights are available in other need states. This means that practitioners who wish to succeed in need sate management must develop the capability to attain insights from the collective understanding of the various brand participants in the need state or that they spend the money on research to develop an original meta-insight across the need state.

- **Step four: Scorecard development—**CatMan 2.0 has an entire 18-page chapter on scorecard development. BUT… Need state management opens new issues and new metrics for practitioners. For example, an important leading metric can be the size of the retailer's need state "community" or the number of hits on the retailer's "infant care" website page. Another metric could be the average number of need state categories present in any basket having one of the need state categories present. Developing proper scorecard metrics will focus practitioners on the strategies and tactics necessary to win the hearts and pocketbooks of shoppers.

- **Step Five: Strategy Development—**Need state management will require a new level of "umbrella" strategy to encompass the discrete categories that comprise a need state. In CatMan 1.0, the strategies were narrow and focused on shopper behavior; for example, "traffic building" and "transaction size." CatMan 2.0 took category strategy to a higher level that included shopper motivation as well as behavior; for example, Excitement, Education, and Innovation as strategies on which to anchor tactics.

  E-Com 1.0 will deal with meta-category benefits, such as the pet owning community's desire to improve the lives of all pets and a mother's desire to create family bonding experiences. For example, a grocery retailer wishing to own the Pet Care business may adopt a strategy expressed as "We love pets as much as you do" and then deliver the broad array of products and promotions necessary to pay off that promise; e.g. including promotions supporting neighborhood rescue shelters. This strategy will be aimed at preemptively "owning" the pet care category, even in the face of specialty pet retailers.

  Other examples might include a "Prideful Meals" strategy expressed as "helping you delight and bond the entire family with a memorable dinner" or a "Caring Mother" strategy expressed as "The home of healthy babies." A convenience strategy might be expressed as "the time we save you gives you more time with your family." In all cases, these umbrella strategies center on "end benefits" to the shopper; that is, not just the benefit of product taste or function, but rather the benefit of improving your life and the lives of those around you.

- **Step Six: Tactics Planning—**Need state management involves the same tactics as CatMan 2.0 (assortment, pricing. presentation and promotion) plus a new tactic which we call "community building" mentioned briefly above. But all the tactics in needs management are further enabled by the digital component of e-com and the unique nature of need states themselves. Perhaps most importantly, needs management in the e-com environment involves a completely new set of skills and analytics beyond those used in B&M marketing. In fact, most of the learning's accumulated over years of experience are of little value in evaluating the efficiency and effectiveness of e-com needs management. The difference between this environment and B&M is profound. We discuss a few of these differences below.

  - **Community building—**The critical difference between the digital e-com environment and yesterday's B&M environment is the online shopper community which shares the need and the attitudes and information about the need among themselves. Importantly, the community members often pursue solutions to their need based on the collective knowledge developed within the community. This puts a premium on the development of online communities and the effective influence of community members. Practitioners both retailers and brand owners who have historically spent money on printed circulars etc., now find it necessary to build and cultivate digital communities. An entirely new marketing discipline is being developed around the research, creative and media planning skills necessary to win in this digital environment.

  - **Assortment—**One of Amazon's perceived advantages is its capability to offer an endless aisle of items to meet the need of the most exotic shopper. Most conventional retailers will find this an unrealistic option BUT the e-com environment does offer certain assortment advantages that are not immediately obvious. In the first place, CPG retailers may partner with other noncompetitive retailers or non-CPG vendors to offer items in the need sate which they normally do not even carry in their warehouse. An example is infant car seats which are rarely sold in B&M grocery stores but could be offered and sold within an e-com environment with the items shipped direct from the manufacturer. The originating retailer who stimulated the purchase would receive a selling commission without incurring any inventory expense.

- Another aspect of e-com assortment may be an ability to offer FEWER and larger sizes because of attitudes of the e-com shopper. Practitioners may discover unique items of great appeal to the need state community. Certainly, the ability to understand the needs of shoppers down to quite granular levels opens new vistas of assortment management to be explored.

- **Pricing—**The data rich e-com environment offers practitioners a quantum improvement in pricing management. That's because pricing can be changed dynamically online depending on the item bought, the number of units bought, the importance of the shopper in the community etc. For example, jet.com reduces prices dynamically to induce the shopper to increase the order size. Sophisticated analytics enables multiple ways to use pricing that are, in many cases, impossible in the B&M environment

- **Presentation—**The digital environment of e-com raises presentation to a new level of sophistication. As mentioned earlier in this paper, a shopper's selection of item A can trigger offers instantly on other items in the need state overcoming the aisle barrier in B&M and enabling larger rings plus enhanced shopper satisfaction. Predictive and propensity analytics enable offering the shopper a range of items that in B&M would be out-of-mind and probably four aisles away. An entirely new analytical discipline of "suggestive selling" enabled by machine learning of shopper behavior will prove a boon to retailers, brand owners and most importantly to shoppers.

  Conversely, the incremental "impulse" sales driven by display and secondary placement merchandising in a B&M store must be replaced and duplicated in the e-com selling situation.

- **Promotion—**The dynamic, predictively driven e-com environment will raise promotion offering to a new level of sophistication. Knowledge of price elasticity, upsizing and multi-unit offers will occur dynamically and in so doing serve the larger purposes of enhancing the shopper experience while selling more items in the need state. Promotion will be "personalized" driven by the knowledge of the shopper's past purchases, demographics and propensity to purchase related items.

- **Step Seven: Deploying a Need State Plan—**One of the special challenges of need state management is deploying a plan with so many moving parts so many diverse stakeholders and so many diverse corporate functions. CatMan 2.0 has a comprehensive chapter on shopper marketing that can serve as a valuable guide to the development of multi-vendor need state e-com campaigns. This will not be easy but the steps are reasonable clear today.

  The digital nature of e-com makes this easier to achieve on screen than on the floor of a store but everyone should hope to have some complementary in store components simply because the messages that announce the e-com effort will and should attract most of the shoppers who prefer the B&M experience. Developing various in store digital "alerts" for the need state shoppers to complement conventional in store signage is already an artifact of some experimental GUI's.

Other Challenging Areas for Need State Management

- **The Functionality of the GUI—**Most existing digital shopper interfaces cannot yet perform all the immediate triggering of alternate offers we envision. That triggering capability will come soon and it will become much more sophisticated over time especially in the inclusion of voice driven ordering. Retailers and brand owners need to partner with the GUI developers to insure your marketing knowledge and strategies get incorporated in the GUI's.

- **The key need states to emphasize—**This will vary per the strategies and marketplace heritage of the retailers. Some need states will be embraced by many retailers; others will focus on unique areas relevant to a specific retailer. Brand owners will find their individual brands included in a finite number of need states. Retailers will want to consider the "opportunity gap" available in major need states; that is, the retailers' share of wallet and dollar gap relative to the shoppers total spending on the need state.

- **Internal organization for retailers and brand owners—**This is a challenge for everyone. Within the retailer a single need state may cut across numerous categories and therefore involve many individual Category Managers. The need state may cut across internal departmental silos (dry grocery/general merchandise/perishable/pharma) Any given need state may involve the retailer's website team, the IT team, marketing and analytics functions. Re-conceptualizing the organization must be thought through carefully in "crawl, walk, run" mode.

Brand owners have a similar problem because they will find themselves grouped in need states with non-competitive manufacturers. This will require collaboration among manufacturers for which most are completely unprepared by culture, by organizational skill and by process.

- **The lack of highly granular analytics—**All the tactical sophistication in assortment and especially price and promotion must be recalibrated for the e-com environment by category, by brand even by retailer and shopper. That is because we assume existing insights from the B&M environment data will prove irrelevant at worst or inadequate at best. We know this recalibration can be done but it will take determined laborious testing and analytics to develop the required body of tactical insights we have today in the B&M environment.

Answering the challenging questions of the future

- **Let us start with what granular e-com data we have today—**The honest answer is we do not have much that can help us predict the future. The data we have is primarily derived from the home delivery model involving a few huge players like Amazon and Walmart.com plus a few regional players such as Fresh Direct, Peapod and Instacart.

  We know little about the shopper response to "click and collect" which is inherently cheaper than home delivery for retailers to stage and deliver. This also probably means a lower C&C service fee if any for the shopper. Until we see the impact of C&C and much more granular data (cf. discussion below) we are flying blind. Individual brands are accumulating some disparate data as are some major solution providers but nothing comprehensive is out there. The big retail e-com powers have captured their own data and know more than anyone else but it is not in their self-interest to share masses of comprehensive data.

  Having said that, here are a few observations based on glimpses of data from multiple sources:

  - **We know the primary shopper appeal of CPG e-com is convenience** defined as time saving. Assortment, defined as the availability of unique niche products unavailable within local B&M outlets, is also a perceived advantage as is the availability of price reducing on line coupons.

  - **The time saving appeal of online shopping is corroborated by reports that experienced on line shoppers are taking 90 seconds when making a stock up order averaging $140.** This reflects the shopper's habit of simply repeating her previous order with a few exceptions and additions. A minute and a half and her weekly shopping trip is done! Please take a few moments to reflect on the implications of this 90 second shopping trip.

  - **The CPG online shopper is among the most valuable customers in the retail environment.** They spend lots of money on higher margin goods. They tend to be younger higher income shoppers. To succeed in the future, retailers must attract and retain these shoppers. This means understanding their needs and marketing to them.

  - **New products and impulse items may be badly disadvantaged in a 90 second repetitive shopping environment.** These items have historically depended on in store displays and other incentives to generate trial. Retailers and manufacturers will need to develop ways to "feature" these items via intrusive software driven triggering based on affinity items chosen by e-com shoppers.

  - **The most popular categories on line are those for which shoppers perceive a predictable repetitive need** especially those whose items are bulky and heavy to carry. Pet food, diapers and paper products are the classic categories. Many shoppers subscribe for regular deliveries of these familiar and predictable consumption categories.

  - **HBA categories and household staples are also popular** again because shoppers are familiar with the products and are willing to pay for the convenience of time savings and availability of specific items.

  - **Brand share performance in the e-com environment offers a fascinating often binary pattern.** Some popular brands find that their shoppers are more loyal in the on-line environment than in the off-line B&M environment. They also find their shoppers are buying the same product at the same purchase frequency on line as off line **but in larger**

sizes suggesting an increase in household consumption and thereby an increase in the annual worth of that shopper.

Conversely, many popular online products are not even available off line or have marginal shares. Health oriented niche food products are often quite popular on line.

- **From the retailer's viewpoint, the most ominous news about CPG e-com comes from the UK** where the practice is much more highly developed than in the US. Per knowledgeable observers, none of the retailers is making money in the UK's famously competitive online market apparently because retailers have not been able to raise delivery fees sufficient to cover online home delivery costs.

- What kind of data is coming to shed light on the online market? - New data of new types is proliferating to help practitioners understand what is going on in CPG e-com. That is a good thing because online marketing has disoriented everyone. All the reliable conclusions on brand equity, switching, response to incentives has flown out the window. Marketers, both brand owners and retailers need to recalibrate their understandings of marketing truth.

    - **New path to purchase data—**Everyone who visits the internet leaves behind a record of where he has been. Online e-com is no different. Certainly, e-com creates more data of new types. Some third-party solution providers are collecting on line purchase receipts from a paid panel. This facilitates basket analysis. The same third-party provider gets credit card purchase data as well as "clickstream" data revealing what sites an online shopper has visited before the purchase. This helps marketers understand which sites are more important for them to plant ads and incentives. This data will help us answer critical questions such as: What online sites drive what behavior and at what cost/efficiency?

    - **Purchase behavior data from B&M "click and collect" shoppers—**With the roll out of "click and collect" service from major B&M retailers, practitioners will soon have share and household panel data to understand how this new shopper option is changing behavior if at all. Do shoppers exhibit the same purchase patterns by category and brand on line in the C&C environment as in the B&M environment? Today few practitioners know that answer. In 18 months or so, everyone will know.

    - **Granular response data based on retail loyalty card data—**At many retailers such as Kroger, online purchases are separately captured on the retailer's loyalty card data base. This means retailers (and brand owners where they have access to the retailer's data) can understand how specific shopper cohorts are changing their behavior when they buy online. They will be able to see how shares change for H/M/L category users, for specific incentives, price points, etc.

- **What will we know within the next 24 months—**Here are the questions to which we should have answers over the next 24 months:

    - How will buying behavior change on line vs. off line?

    - Which online third party sites drive what behavior at what cost efficiency?

    - How will purchase behavior change by brand loyalty cohort/by H/M/L buyers?

    - What is the effect on brand share? on consumption?

    - How do manufacturers of new items and impulse items fare on line?

    - Can retailers use the software triggering capability to build private label?

    - What purchase incentives work more efficiently on line than off?

    - How does CPG e-com shift share among grocers/among channels?

    - How rapidly will e-com grow? Click and collect vs. home delivery?

Long term, who will win and likely lose in the new e-com environment?

- **Brands almost certainly are at the greatest risk of loss.** Brands will have <u>less control</u> of the new "virtual store" than of the old B&M store. In the e-com environment retailers can control what items shoppers see better than they controlled what shoppers could see walking down the aisles in B&M. Retailers will have all the data by category and shopper cohort. The retailer will be able to trigger offers with scant intervention from brand owners when the shopper is making the final click to confirm an online order. In the near term, leading brands may gain share at the expense of lesser brands but all brand owners should see CPG e-com as an existential threat to market share and sales volume.

- **Retailers especially large ones stand to be winners long term.** They control the shopping experience even more than in the B&M environment. They can push offers and brands to the shopper in ways not possible in B&M. Moreover, they can push item A to the shopper's GUI while in effect "hiding" another item that would have been easily visible in the B&M environment

  Retailers will retain the ability to charge manufacturers for favored position on the GUI, for triggering manufacturer offers, etc. Retailers will retain the capability to make repeated intrusive price comparisons between their private brand and comparable branded items.

  Most importantly, large retailers with the assets to invest in expensive software and the scarce human capital will win vs. smaller retailers unable to attain the capabilities required in the new e-com environment

Shoppers will be the real winners in the new environment. They have more information and more choices than ever before. Retailers can understand their behaviors and attitudes but the last "click" belongs to the shopper. She controls this first moment of truth and she comes armed with more information than anyone thought possible as recently as 5 years ago.

Closing thought: The competitive environment is changing faster than ever before. In business, the only truly sustainable advantage is speed of learning. Do you have a plan to learn faster than your competition?

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- Co-developer of > 400 components of brand planning IP based on P&G process
- Creator of trend re-enforcement business growth process
- Developer of CatMan "Maturity Curve" model
- Co-developer of CatMan 2.0 benchmarking protocol
- Product manager at P&G
- Harvard Colleges grad- Mallinckrodt Prize for honors in all segments of curriculum