

CPG eCommerce: The Store Is Dead; Long Live the Store!

By Michael Stich, Bridge Worldwide and Jim Leonard, MVI Retail Insights

Executive summary:

With 50+ million US households regularly shopping online, new strategies must be forged to create collaboration-driven partnerships that pull the best thinking from both the online and brick-and-mortar worlds. Forward-thinking CMOs face the challenge of encouraging all partners to embrace a unified strategy. To that end, this article explores four key strategies—sell to the niche consumer, create a compelling business model, create a compelling product, and dramatically improve the purchase experience—and provides a CPG eCommerce scorecard that allows CMOs to gauge integration of retail along a continuum.

Evolve. Your shopper already has.

For some products and categories, online distribution has fundamentally changed retail (think Amazon or iTunes). For other products, the touch and feel provided by traditional retail remains king (think organic produce or luxury apparel). The “right” distribution theatre depends on the shopper, who now shops across channels, and discovers brands across media. Regardless of shopping mode, CMOs must now address both need states in order to seamlessly integrate the “distribution divide.”

Brands and retailers face a hardening choice to ensure relevance with core shoppers. They can (1) pursue and serve consumers separately or (2) build a collaboration-driven partnership that pulls the best thinking from both worlds into a fully shopper-centric, highly flexible integrated distribution model.

Unify and win.

Forward-thinking CMOs are treating the current physical retail environment as a relic of an offline world. The web continues to be a goldmine of consumer research. It affects more than a quarter (\$13 billion) of CPG sales¹ today, half resulting in direct online sales. These trends undermine the “divide and lose” strategy in favor of “unify and win.”

¹ www.forrester.com

Category stewards at CPG brands and retailers are now constructing a new working partnership. They create new experiences based on consumer habits, and deliver greater choices and tightly-tied check-out across multiple channels. The road to relevance entails mastering e-commerce as a source of killer shopper insights that fuel innovation across all distribution channels.

Create a distinctive e-commerce business model.

E-commerce success results from jointly experimenting with four fundamental strategies: sell to a niche consumer, create a compelling business model, create a compelling product, and dramatically improve the purchase experience. These strategies work consistently across categories, and extend to models in the offline world:



Sell to the niche consumer (examples: Williams-Sonoma, RadioShack, Wine.com, Zappos). This approach offers a certain consumer access to items they are unable or unwilling to find in local retail. This can be driven by product scarcity, or desire for

discretion (items like lingerie). Stores can also expand reach by using their web site as an online catalog for niche consumers.

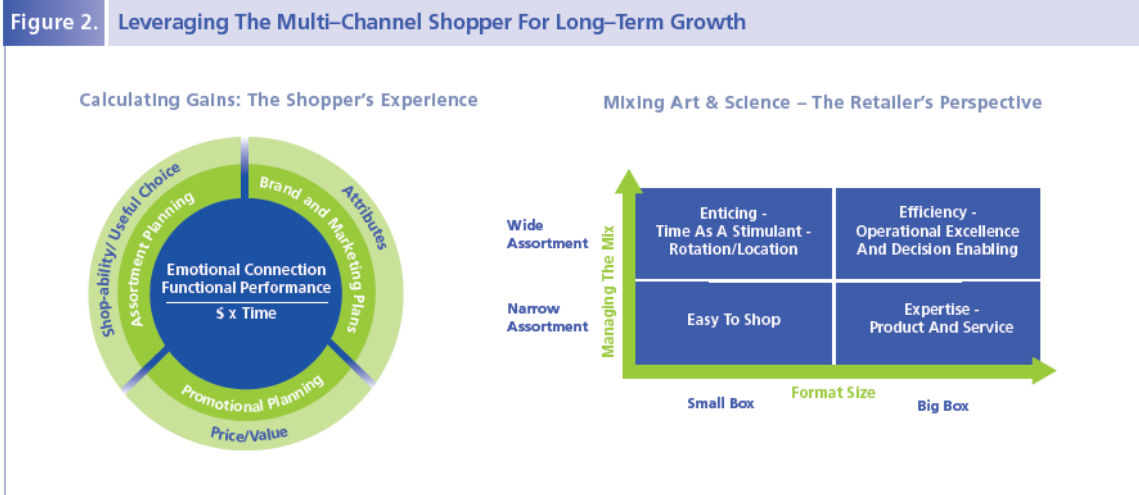
Create a compelling business model (examples: eBay, Amazon, Orbitz). Online-enabled marketplaces, exchanges, and direct distributors have proven enormously successful. These innovative business models strike a chord with consumers, and lead to new ways to cross the channel divide. For example, online recommender systems can enhance the in-store consumer experience.

Create a compelling product (examples: Dell, M&Ms, Nike, Nespresso). Companies succeed here by delivering a build-to-order or upgradeable product, uniquely enhanced by the web. Several traditional companies are implementing this approach, exciting consumers with newly customizable choices, but without diluting the value of the core brand.

Dramatically improve the purchase experience (examples: Netflix, Target, Blinds.com). Leading companies deploy this strategy to enhance the consumer experience. The web is a great enabler for new payment options, a simplifier of complicated pricing schemes, and even a channel to give back to the community while shopping. This strategy also results in integrated offerings, like the ability to buy a product online with the option to pick it up at a store to avoid the delay and cost of shipping.

Successfully manifest e-commerce strategies in the store.

The web's ability to capture data on purchases, shopping behavior, and history is just the start. To persuade the skeptics, the CMO should commission a fresh look at consumer behavior, and how the brand engages consumers where they are in their lives.



A consumer's shopping investment can be "calculated" using a simple equation. Leading retailers will study shopping behavior to optimize overall experience across channels.

Retailers leverage the "4 E's" to improve the shopability of their channels. CMOs increasingly apply insights from one experience to test and improve the others.

Some early examples show just how well an integrated approach can work:

Best Buy: An early leader in shopper segmentation and retail integration, Best Buy has reported encouraging results from its multi-year commitment—involving budgets, people, and IT resources—to better serve its core shoppers. Preliminary results show a 25%-50% sales uplift in segmented stores from 2004-7. Beyond traditional data-mining, Best Buy derives insights from shopping patterns and basket analyses, both in store and online. The retailer uses these insights to improve assortment, merchandising, and formats to meet the needs of its shoppers. The next generation of shopper segmentation will enable near-real-time in-store innovation, guided by online user preferences, behavior trending, increased interactivity and product customization, and secure personalization.

Circuit City: Not to be outdone, Circuit City has improved its multichannel retail offer in a variety of practical ways. For example, shoppers can purchase online with the option to pick up in store within an hour of online payment. Once the shopper arrives in store, trained associates offer relevant cross and upsell options (accessories, warranties,

services), which drives up loyalty and total basket ring. In turn, traditional shoppers are enticed to visit the retailer online to redeem store coupons.

The key takeaway for forward-looking brands? Increase strategic alignment with key customers by speeding the “channel-less” evolution. Start by knowing your customers’ customers’ priorities. Serve up only relevant products or services, and improve the in-store experience (virtual or real-world)—all while entertaining and educating the shopper, or saving her time, money, or both.

How to Get Started: The Consumer Experience Scorecard.



The scorecard provides a checklist that allows brands to gauge integration of retail along a continuum. Different situations will favor different executions. Supplier-side CMOs can use it to track retailer progress, while retailers can use it as a guide for how to phase e-commerce principles into their stores over time.

CMOs face the challenge of ending division by encouraging all partners to embrace a unified strategy. It's easier said than done, but the segment's history of building an emotional engagement with the consumer provides a running start. CPG leaders in the next phase of e-commerce will excite consumers by tailoring a single brand experience across channels.

For more information contact Michael Stich at M.stich@bridgeworldwide.com or Jim Leonard at jleonard@mventures.com.