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Retail Entry Transformation

Moving Consumer Products Companies Successfully into the Retail Arena

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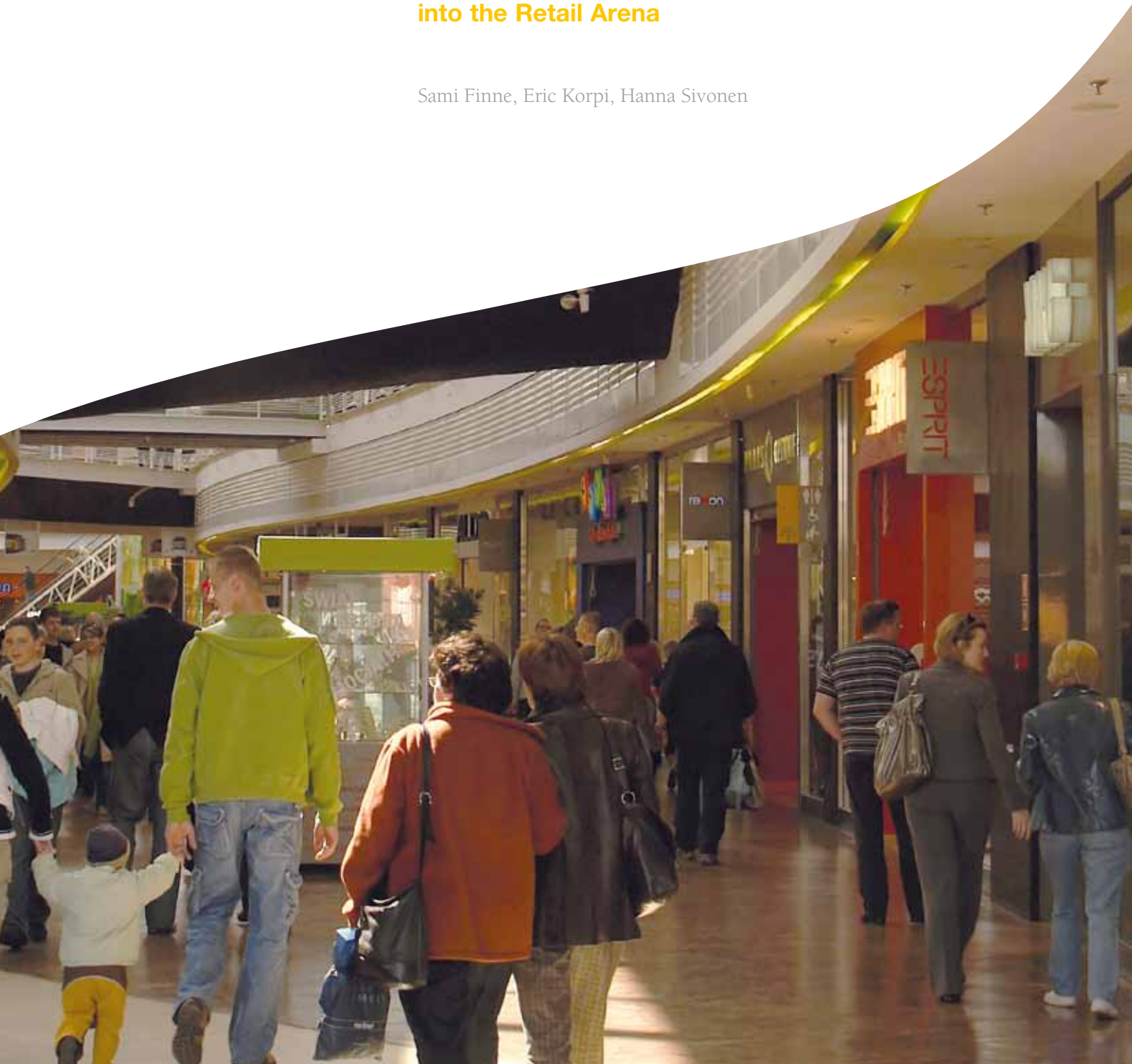


> **“Fighting value retailers over pure price is a tough battle. A better one for own stores might be to provide a more unique shopping experience with industry best-in-class service, where shoppers can test products in a safe and inspiring environment.”**

The margin squeeze for consumer packaged goods (CPG) companies accelerates as value retailing with bare minimum standards gains ground – making price the only thing that seems to matter. Likewise, private labels are gaining shelf space and market share over the traditional branded consumer products at an ever-quickening pace. These trends have been developing in retail for over 30 years, with the result that services and shopping experience are being sacrificed for pure price competitiveness (see Figure 1).

At the same time, CPG companies are finding that media fragmentation makes it even harder to reach consumers. As several retail studies over time have stated, about 70% of purchase decisions in many categories are done on the store floor, making marketing in the stores an ever more attractive proposition - and one which consumer products companies are bound to take advantage of, either in collaboration with retailers or by building their own retail channels.

Many consumer products companies have already moved into the retail arena with an eye towards enhancing consumer shopping experience and improving brand visibility. Their mode of retail entry varies from own retail stores or factory outlets to flagships and online stores. Many consumer products companies are also partnering up and venturing into retail through a network of franchise partners or by launching shop-in-shop formats. Evidence of success is clear from a number of leading consumer products companies:

Apple manages a network of almost 300 own and franchise stores with revenues of over 6 billion US dollars. Apple's own retail stores have enabled the company to simplify and enhance the presentation of their products and supporting services, while truly bringing customer service into the spotlight.

Adidas operates roughly 2200 stores and receives 18% of its group revenue from retail sales. The stores of the Adidas group have provided the company a platform for strong product launches and efficient promotions. Adidas stores are also perceived as key meeting points for the consumer and the brand.

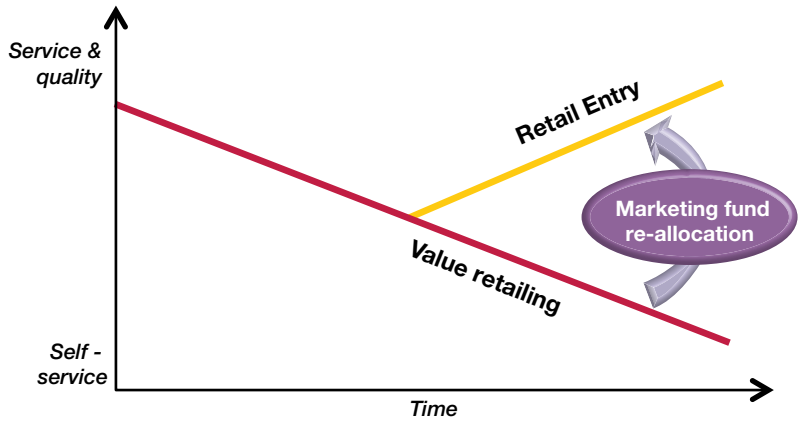
Sherwin-Williams is a US-based paint manufacturer which has greatly benefited from a worldwide launch of own retail operations. Through the global store network of 3300 stores, Sherwin-Williams has gained access to new B2B customer segments, generated revenues of 4.2 billion US dollars, with a profit of 600 million US dollars.

Disney stores are a shrine to its brand and the enchantment created by the stores reinforces all of the company's core businesses. Meanwhile the stores provide revenues of 700 million euro, representing roughly a quarter of all Disney consumer products sales.

Godiva Chocolatier runs 450 stores worldwide. Own stores act as the main sales channel for Godiva chocolates, but the products are also sold at finer department and specialty stores. In addition, the company has recently introduced a shop-in-shop concept with airport retailer, Duty Free Shopping. This new concept allows them to create a customer experience unique in travel retail.

As these cases demonstrate, consumer products companies from many

Figure 1: Breaking the trend towards value retailing



Source: Capgemini

different sectors have succeeded in setting up their own retail business. A common denominator for all of these companies is that they tend to have a strong portfolio of brands, although many of these brands are losing power in the traditional retailing sense because of the strong pressure from value retailers.

Occasionally, a manufacturer can turn into a single channel retailer. In fact, many of the world's best differentiated retailers are also manufacturers; consider examples such as IKEA, H&M and Zara.

Key Benefits of Retail Entry

Consumer products companies can benefit from retail entry in various ways (see Figure 2). For many of these companies the underlying reason for retail entry is either enhancing the customer shopping experience or improving brand visibility and positioning in the eyes of the consumer. In an own store, it is possible to showcase the full breadth of product and service assortment or handpick the assortment or campaigns to draw focus to.

Fighting value retailers over pure price is a tough battle. A better one for own stores might be to provide a more unique shopping experience with industry best-in-class service, where shoppers can test products in a safe and inspiring environment. Basically, it's fighting the self-service trend with a carefully designed service model concept and customer journey, aided by a well-trained sales staff and in-store customer self-service shopping aids. Own retail networks also address the need for personalization of products and service offerings based on the needs of specific customers. This is especially relevant in the electronics industry, where after sales services not only provide a boost to consumer experience but also create significant revenue stream. Consider, for example, Apple Genius Bar or Best Buy's Geek Squad.

Many consumer products companies finance part of their retail entry through re-allocation of their advertising budget. As the advertising landscape becomes more fragmented, traditional brand marketing spend is providing less

Figure 2: Key benefits of entering into retail

Key benefits	Description
Brand visibility and re-positioning	• Enhanced brand visibility at Point-of-Impulse – better return for marketing spend • Better price positioning – increased margins – with holistic shopping experience management
Enhanced customer shopping experience	• More consistent and enhanced shopping experience – increased customer satisfaction • Improved use of shopping aids yielding to higher customer conversion and add-on sales
Increased ability to provide full range of products	• Ability to have a showroom with full range of products/services • Beside benefits to consumers, can be used as training ground for other retailers • Opportunity to offer consumers value adding services (including after sales services)
Reaching new customer segments	• Better access to new customer segments with own retail channel • Ability to sell obsolescent stock to new customer segments without diluting the price image (factory outlets)
Better control of promotions and pricing	• Better alignment (including timing) of promotions with media marketing activities. • Higher profits with exclusive product launches and special products
Consumer insight and relationship building	• Ability to collect consumer insight and test new concepts/products in practice • Direct access to building relationship with consumers

Source: Capgemini

value. By focusing advertising money on point of purchase, consumer products companies can guide consumer decisions at the moment of truth. However, this requires significant competence building, since much of in-store advertising – like fixture solutions and consumer shopping aids – are not the core competence of typical CPG company marketing departments and category management organizations.

Own retail operations make it easier to synchronize a product launch with advertising and marketing campaigns. With own retail consumer products companies can ensure that a new product is displayed in the most advantageous manner and that it receives the right amount of visibility in stores. Besides product launches, alignment of point of purchase activity with advertising will also benefit other campaigns the company is running.

The retail industry has a joint challenge both in providing sustainable industry growth and educating consumers about new and sustainable – and more profitable – products. While some opinion leaders and active consumers can be reached through social media, in store retailing is still the best channel for large-scale consumer involvement. Own retail channels and shop-in-shops can provide new shopping aids that help consumers learn about new products and services. One good example is the Tchibo shops in central Europe. They change assortments in tens of thousands of stores and shop-in-shops bi-weekly, and create new consumer experiences regularly – impulses for buying.

There are hundreds of ways to inform consumers in-store and bring excitement to shopping and the best manufacturers have learned the art of storytelling to sell their products. An exciting story about the origins or usage of a certain cheese or meat can often result in a purchase that can not only create value for the consumer but can even enhance the consumer's social status.

Retail entry can also change value chain power dynamics significantly. Typically, when CPG companies are trying to achieve good product penetration for a new product they find themselves at the mercy of retailers when it comes to range, space and pricing. However, if you are a company like Apple, who can drive a significant portion of total sales in own retail, you can introduce the new product exclusively in the own channel. Those retailers who are chosen to sell the product in a second wave need to provide certain standards in terms of product visibility, shopping environment, fixtures, and employee training/competence levels, all compliant with the manufacturer's requirements. The remaining retailers would sell the product in a third wave, or often not at all, if the shopping experience doesn't warrant it. The power dynamics in the retail value chain have changed for good.

An own retail channel can also be helpful when it comes to reaching new customer segments. One of the best examples of this is a paint manufacturer, Sherwin-Williams. Through their 3,300 stores they have succeeded in selling to small businesses and creating relationships with local consumers. Another good example is factory outlets that can improve a brand's presence in price-oriented consumer segments without diluting the price image.

Own retail networks allow companies to constantly gather consumer insights and build direct relationships with key consumer segments – engaging opinion leaders and involved consumers. New marketing, category management and merchandising concepts can be tested in real life, with instant feedback from shoppers before a wider roll-out. Similar methods can be used for new product development and best practice companies have product development people working in stores from time-to-time to elicit the real customer expectations.

Own retail channel can also function as an early indicator for product demand, supplying information that can be used to adjust production plans efficiently and accurately. Online channels often provide the best information, collecting data about customer interests even before the product is available. These early demand signals are a benefit not only to own retail channel but also for collaboration with other retailers.

Finally, many companies enter retail purely for direct financial gains. Retail has provided many companies with higher profit margins than their traditional manufacturing business. Offering exclusive products or launching new products first in their own retail channel has provided retailer-manufacturers with the opportunity to control the pricing over the critical first weeks of the product lifecycle and to ensure a full alignment of advertising with the point of purchase activities.

All these add up to a better return on investment for the whole company. However, entering retail is neither cheap nor easy. It is necessary to have a holistic business case in place that includes all the major cost elements, top-line benefits and cross-channel effects.

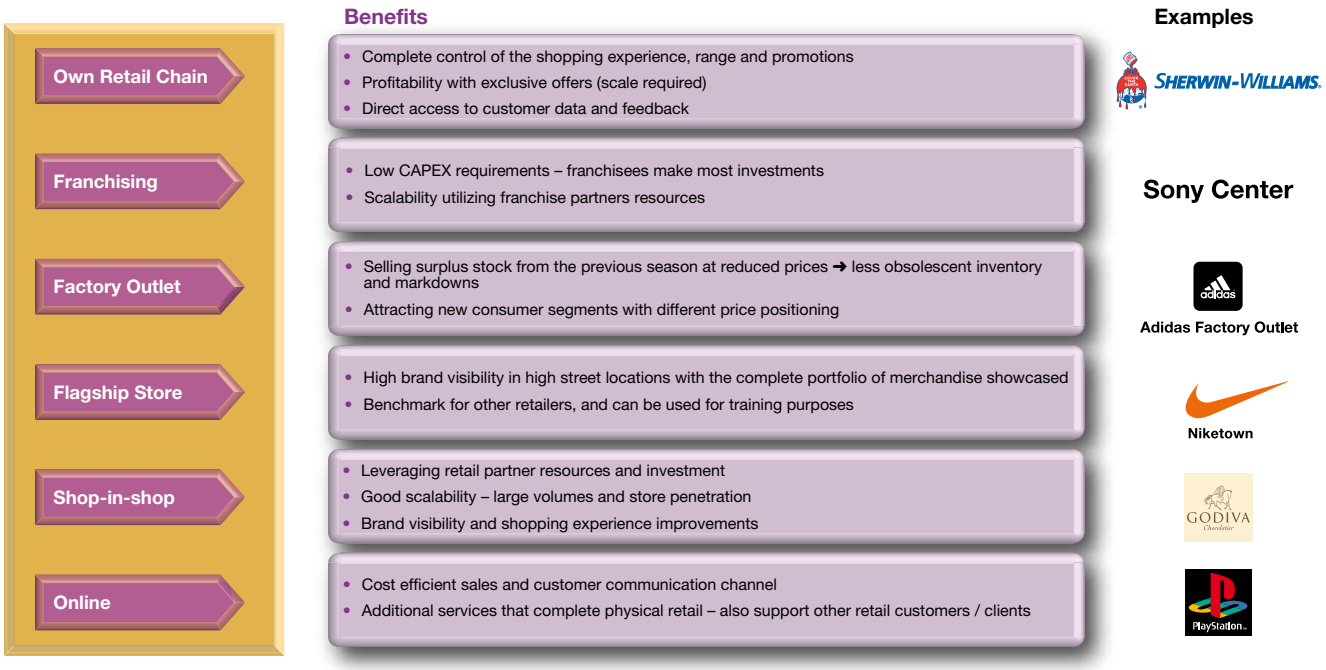
Key Formats of Retail Entry

Entering retail is never cheap, what with fixtures, marketing, staff and any number of capital costs included. When expanding with a full blown **own retail chain**, capital expenditure requirements are huge, and still, the share of the total channel sales might be limited for quite some time. Visibility is often significantly more important than the direct financial impact.

Typically, profitable own retail occurs in high margin businesses, most often in fashion or electronics. Using a **franchise model** can help reduce the required CAPEX and increase the scale of mono-branded retail outlets. But franchise partners will also need a comprehensive support network to ensure a consistent shopping experience in the branded stores.

Factory outlets and **flagship stores** are two specific types of mono-branded outlets that operate at different ends of the spectrum.

Figure 3: Key formats of retail entry



Source: Capgemini

Flagships are expensive; because they pay a premium for desirable high street locations, they will often have difficulty covering costs and should be seen partly as a marketing investment to show full product and service range and create a premium product testing experience. However, if paired up with an **online channel**, own retail can reach significant volumes. Flagships can also serve an important function in training staff from other retail channels and showcasing new products.

On the other end of the spectrum, factory outlets provide access to the more price-sensitive consumer segments and help to reduce excess inventory. Careful consideration must be given to ensure that sufficient assortment is available throughout the year and to make sure that the price image of the company is not too heavily compromised.

Shop-in-shops provide scalability and are most often the easiest way to enter into retail. Consumer products companies are constantly battling for shelf space and with lucrative shop-in-shops they can beat the competition. Selecting the right retailers to work with and developing the right support and compliancy monitoring model are key to success with the shop-in-shop model. Many CPG manufacturers should consider shop-in-shops as a retail alternative; as an opportunity to increase brand visibility in stores, improve shopping experience and especially, "educate" consumers. For example, it is well known in the industry that healthier foods and sustainable products are often higher priced and provide better margins, but the challenge is to educate consumers about the product benefits. Product packaging in small font size is not the best way to do that but typically that is the only option available if the product is sold in a regular supermarket. With shop-in-shop solutions manufacturers can provide information about products and their benefits, and provide several aids to support the consumer's shopping process. Best practices can be taken

from the cosmetics industry which has a long tradition with shop-in-shops and aiding consumers with testers and other shopping aids, including advanced tools, such as the kiosk type skin analyzers by L'Oreal.

Key success factors in retail entry

Starting a retail business, like starting any new business, is not an easy challenge for any company. Based on our experience with numerous Retail Entry Transformation projects globally, Capgemini has formulated what we think are the key factors for success (see Figure 4):

Clear strategy and vision is needed for the new retail concept. Key success factors need to be well defined and top line impacts considered. Key business objectives can vary from company to company – some might be looking to improve brand visibility and strengthened customer experience, some might want to enhance after-sales services and others might want to get rid of excess stock with factory outlets – but in all cases, the business objectives need to be well defined. A good retail strategy always has a clear customer value proposition and is easy to communicate. The strategy needs to be easily understood by thousands of people, both in the stores and in other areas of the business, including the business partners.

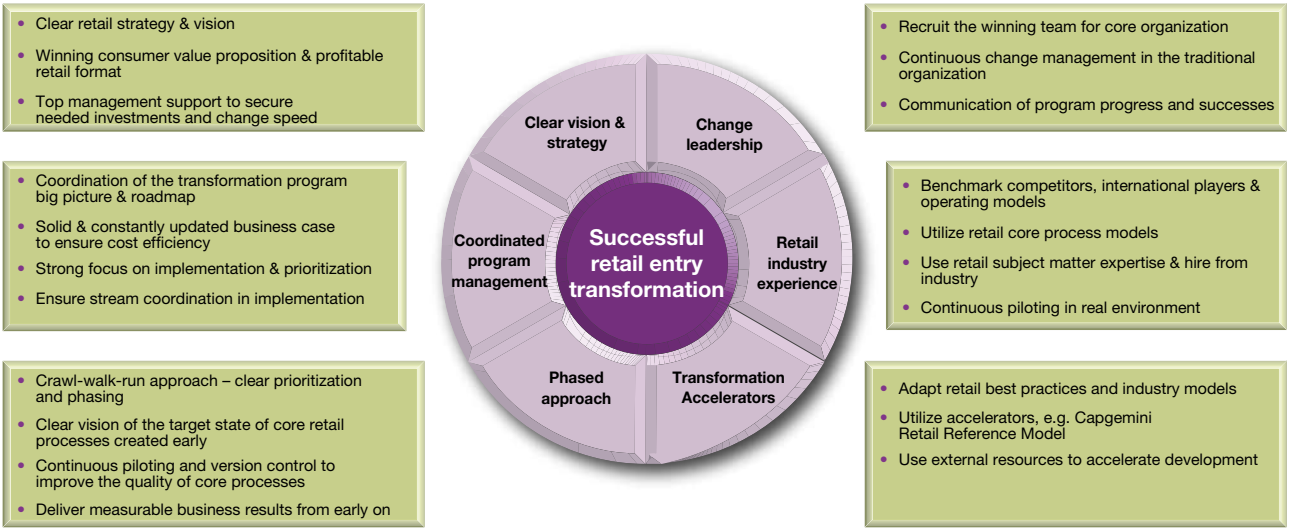
Retail transformation also requires significant investments. Therefore, the strategy needs to include a "what will it take" perspective – a big picture view of the key capabilities, processes and IT – to gain a solid understanding of the key cost structure elements, some of which can be shared with possible retail partners. Retail is volume business, needing heavy up-front investments in chain functions and shared services, and the retail strategy should clearly state the store volumes necessary to break even.

As with any major transformation, ***change leadership*** is a pre-requisite for change. For the new retail organization, recruiting a core team with a winning spirit is crucial. Also, continuous change management in the parent organization is necessary to ensure that retail will be integrated into the existing organization in the best possible way. Regular communication of the program progress, especially the key successes, helps to maintain and encourage high motivation.

For many companies, a retail launch also requires adopting a completely new business model. To avoid potential costly postponements, top management will need to make necessary decisions with less information and in a quicker timeframe than normal. Best practice companies have typically allocated significant decision making power to the new retail channel management team early on.

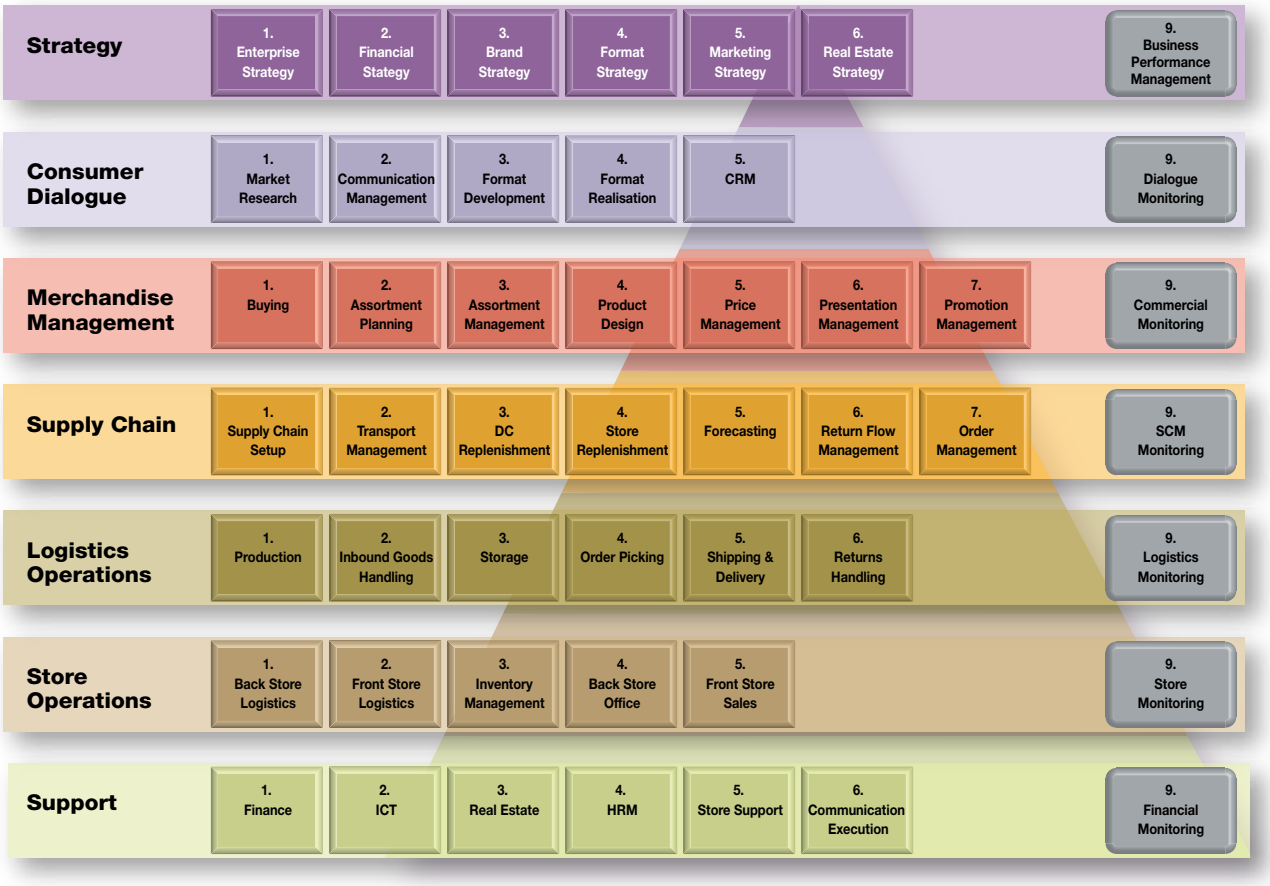
Retail businesses have been around for centuries and consumer products companies entering retail should use ***retail industry experience*** from established players in the industry rather than reinventing the wheel. They should often be able to utilize over 80% of standard retail processes. Benchmarking both direct competitors and international retailers is always an important step in positioning and is also a significant part of developing competencies within the own retail organization. Selected key positions should be filled directly from the industry, with individuals who have a clear vision of function, and can support that with their own "war stories". Hiring key personnel from established retailers and utilizing external retail subject matter expertise in the early phases will accelerate change significantly and help avoid many pitfalls.

Figure 4: Key success factors



Source: Capgemini

Figure 5: Capgemini's Retail Reference Model



Source: Capgemini

Speed of change is another key component in a successful transformation. Companies are actively searching for ***transformation acceleration*** options to help minimize significant upfront investments in chain functions, core capabilities and retail IT, by shortening the time it takes to scale up the store base. Most retail stores also take some time before they reach their targeted sales revenue. Retail best practices, industry process models and external resources with retail competencies can accelerate the change tremendously.

Capgemini's Retail Reference Model (see Figure 5) and CRESCENT (Capgemini Retail Solutions Center) are good examples of key transformation accelerators that a number of leading players in the industry have utilized to speed up the change. Reaching the targeted store base six months earlier might enable significant cost savings.

Entering into a new business model is a huge task – and the behemoth needs to be broken down into manageable pieces. Successful transformations use a phased approach that sets clear priorities and gets the basics right first while not forgetting the differentiators. Systematic iteration is the key. For example, category management can be implemented first using very basic merchandising suggestions and then in later phases adding new capabilities such as category management reporting, campaign management, space management, and pricing optimization, all the way to integrated planning and forecasting solutions. These changes require capabilities from within the organization and IT and should be built with a crawl-walk-run approach. Capgemini recommends building a clear vision of the target state capabilities – a business process blueprint – but also prioritizing and phasing the work into manageable program streams.

Continuous piloting and testing improves the quality of the processes, and most best practice companies do their process development work in the real environment, on the shop floor. But it is important that whatever piloting is done in the stores is also scalable. A pitfall many companies have fallen into is using too many and too experienced resources in pilots, without having proper scale-up planning in place, thus resulting in costly changes in later phases.

The pilot results should be properly measured and communicated. Delivering measurable business results early on will boost the confidence of the whole organization, not just the new retail area. Communication of successes is a key task of a well-***coordinated program management***. Retail Entry influences many functions in a company, including marketing, sales, supply chain management, HR, IT and finance. Based on Capgemini

experience, building the new retail organization in a coordinated program mode has helped to ensure speed of change and allowed the successful shifting of responsibility to functions of the operational retail organization as the resources and capabilities are in place. A cross-functional steering group is a must to ensure a proper alignment.

A solid and constantly updated business case by PMO allows the steering group to guide the program in the right direction with confidence. Cost efficiency is always a "ticket to play" in retailing, and having a good understanding and control over the scale-up costs is critical. A strong implementation coordination of cross-functional development initiatives should be emphasized, with weekly progress reports as the norm. It is especially important that implementation coordination is centralized.

How can Capgemini support in Retail Entry Transformation?

If you are venturing into retail, Capgemini can help you accelerate the transformation. Not only does Capgemini have experience working with 25 out of 30 of the world's leading retailers, but also working with companies going through Retail Entry Transformations. Capgemini Consulting is an experienced partner who can support you throughout the entire process from strategy to large scale store network implementation (see Figure 6).

Our customers benefit from our experience in Retail Entry Transformation. Capgemini can provide key accelerators, such as the Capgemini Retail Reference Model, CRESCENT and Hothousing – methodology for creating sustainable change in store level implementations – as well as a number of Capgemini retail subject matter experts in various fields to ensure fast development and implementation. On the next pages are a few examples of how we have supported leading companies with Retail Entry Transformation.

"Successful transformations use a phased approach that sets clear priorities and gets the basics right first while not forgetting the differentiators. Systematic iteration is the key."

Figure 6: Examples of typical Capgemini support areas for retail transformation

Source: Capgemini

Capgemini success story: Nokia Retail

Situation

Solution selling is a core capability for Nokia and its retail partners in future success. To enhance capabilities in this area, Nokia, together with a number of professional retail partners is developing a global Nokia Retail channel, with the objective to provide consumers with the latest Nokia products and solutions, and offer best advice related to them.

Capgemini support

Since the development of the new retail strategy, Capgemini has been supporting Nokia Retail in this major transformation. The key question for the project was: what retail capabilities – both process and IT – does Nokia need to build in order to establish a winning global retail network enabling leading mobile computers and solutions sales. Capgemini has supported Nokia Retail with blueprinting and prioritizing the future capabilities, accelerating the work with Capgemini Retail Reference model, and has also supported Nokia in creating and deploying core retail capabilities. Key areas of transformation support have included e.g. merchandising management, retail performance management, store operations, retail partner management and store deployment, accelerating the development with retail subject matter expertise and program planning support.

"Capgemini has been an important partner for us in providing development framework and competent resources for our mission. They have challenged us whenever we have tried to shortcut too much when building Nokia Retail as the leading sales channel for mobile solutions. The first results from Nokia Retail are very promising."

Jyrki Salminen

Senior Vice President Nokia Sales

Head of Nokia Retail

Capgemini success story: Oriola-KD / Kronans Droghandel

Situation

The Swedish pharmacy market was deregulated in 2009, breaking down the government operated monopoly, and enabling new companies to enter the market. Oriola KD assigned Capgemini Consulting to help them build up a new retail organization and capabilities before the deregulation. The goal was to acquire a cluster of former state-owned pharmacies, convert them into a new format, but also to establish new pharmacies, both as own operations and in partnership with a leading hyper and supermarket retailer.

Capgemini support

Capgemini worked together with Oriola KD to form a retail strategy and business case, including alternative go-to-market plans and a partnership strategy. Strategic market positioning for implementing a "best-in-class" service positioning was developed and an analysis of the future pharmacy market and its customers was conducted. Capgemini also worked on organizational design for headquarter functions, regional sales organizations and a new role set-up in pharmacies to improve efficiency and cost structure. During the transformation program, Capgemini supported for example format development, marketing, finance and accounting, organization design and HR, sales and chain management and organization ramp-up.

"The Swedish state owned pharmacy monopoly has partly been sold and the market has opened up for competition. Capgemini was an important partner for us when analysing the coming market situation and laying the strategic groundwork. This work has been crucial for us in order to acquire and make over the pharmacies, and find our position in the new market place."

Cecilia Marlow

CEO Kronans Droghandel

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More information about our services, offices and research is available at **www.capgemini.com**

To find out more about how Capgemini can help your company with Retail Entry Transformation, please contact:

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