The Changing Face of Retail

BY THOMAS HAIRE

Through the first half of 2017, news of brick-and-mortar retail closures has seemed to arrive with troubling regularity.

"The anchor store got its name based on the notion that it would anchor a series of retail storefronts because it served as a destination for shoppers," says Peter Koeppel, founder and president of Dallas-based agency Koeppel Direct. "With major anchor store retail chains such as Macy's and JC Penney shutting doors, what will compel shoppers to visit the local mall? This is arguably one of the biggest disruptions that is a byproduct of e-commerce and it begs the question: what will the shopping center of the future look like and what is going to occupy all of that empty real estate?"

Any American consumer knows the growing strength of e-commerce as a shopping outlet — but have we reached a tipping point where all physical store locations are in jeopardy? Not quite yet. According to the U.S. Census Bureau, e-commerce sales' slice of the overall retail sales pie rose 11 percent in 2016, but brick-and-mortar sales still account for nearly 92 cents of every dollar spent by shoppers.

Still, Pew notes that four in five Americans have made a purchase online — with more than half now having purchased via mobile technology. The researcher also contends that more consumers are using the internet to price compare, to find product reviews and ratings, and more. Yet, two-thirds of American consumers say that — all things equal — they still prefer to purchase in a physical store.

At the same time, the coveted millennial demographic remains a quandary for marketers. Its influence on the zeitgeist is undeniable — but baby boomers and Gen-Xers still carry much more financial sway. Does this mean that e-commerce's solid growth numbers will remain consistently decent — yet not quite groundbreaking — until the buying power of millennials catches up to their cultural influence?

Read on to find out what Koeppel and other members of the *Response* Advisory Board have to say about the current state of retail — from your mobile phone to your local superstore.

How can marketers best face the reality of e-commerce's increasing sway while also working in what is still a brick-and-mortar heavy retail world?

Tony Besasie, Cannella Media: Major brick-and-mortar retailers are losing sales to their own e-commerce platforms, as well as increased competition from pure play dot-com sellers. That trend will continue as consumer shopping habits continue to shift to desktop and mobile. For mar-

Members of the *Response* Advisory Board tackle a series of questions about how e-commerce and brick-and-mortar stores can coexist in a world of rapidly shifting consumer desires.

keters that don't sell direct-to-consumer, the dot-com business — in some respect — is just another sales channel with similar fundamental business pressures as before. Marketers used to be subject to the demands of Walmart, which represented a majority of their sales. Now they have the same Walmart demands and similar business demands from Amazon.

However, the issue that these marketers now face is more competition from other brands and private-label brands. There are only so many SKUs a retailer can fit into a 50,000-100,000-square-foot store, so the retailer had to be selective of the brands they carried. That benefited established brands and companies. The competitive set was smaller and cost of entry for a smaller brands was larger. That's changed.

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Amazon is reported as merchandising between 300 and 400 million SKUs at the end of 2016. In this new world of too many options and competitive threats, one thing marketers should think more about is how to build franchises to leverage brand recognition, familiarity, and trust across product categories. A branded-house mentality vs. a house-of-brands mentality allows the marketer to leverage brand equity and take advantage of the halo effect.

Peter Feinstein, Higher Power Media: It's important for retailers who wish to capitalize on e-tailing to keep their eye on offering more attention to customer service in both platforms. The lesson lost on most companies is that their online automation will take care of everything; it's a mistake of potentially catastrophic proportions. It would be like a restaurant's owners thinking that serving the best food is enough to win the day, when in fact superior food coupled with even mediocre service is a recipe for disaster at the cash register.

Peter Koeppel, Koeppel Direct: Increasingly, the internet has become a place where consumers turn to look for product and service information, validate claims, shop prices, and buy. Yet if you examine where they are buying, you'll find that big players dominate. Amazon accounts for more than half of all e-commerce purchases — and at brick-and-mortar retail, a handful of discounters, led by Walmart, control the landscape. Therefore, it is important that a marketer have a good handle on its online reputation and be in control of it, versus a third party — even a retail partner.

Secondly, to the extent possible given the powerful nature of these retail partners, the marketer has to be able to offer different product SKUs or bundles. That way, consumers can't necessarily make direct price comparisons when shopping between online and offline retailers. Otherwise, the marketer will face endless margin pressure, which will force a race to the bottom among discounters who strive to have the lowest prices.

Brian Norris, Dish Media Sales: Marketers should continue to segment their audiences to deliver the right message to the right consumer. Leveraging first- and third-party data, advertisers can define their consumers. For instance, data can reveal repeat customers to brick-and-mortar locations by using information from sources like loyalty cards. Knowing who the consumer is and how he or she shops can inform the timing and content of the message.

Richard Stacey, Northern Response Intl. Ltd.: Marketers today need to be able to play two or more games simultaneously. Customers are accessing products through multiple distribution channels, and marketers need to carefully align media strategy with distribution strategy. Measurement and attribution are more important than ever before.

What are the best tactics for marketers to reach consumers who have grown increasingly comfortable making purchases online?

Besasie: Probably the biggest shift in the path to purchase is the influence of online reviews. If a customer had a bad experience, they used to tell their friends and family — and the collateral damage was minimal. A customer's voice reaches many more people, stays active much longer, and is much more accessible to other shoppers. Marketers need to spend more time managing their online reputations, which often takes a department of people. The other tactic is to produce branded content that can be shared online and consumed in video format.

Feinstein: It's important to have a testing plan in place for all of your advertising, especially online. More and more, brands and stores rely on a series of intermediaries to help them. It's pretty much how the game is played online — ad agencies, brokers, ad-tech, and such — that they tend to muddy the waters and diminish ROI. Maintaining a testing posture will help identify the strongest and/or weakest messaging, regardless of who stands between brands and their media.

With online advertising being the land of algorithms, it's critical to not get tied into too much of the digital hocus-pocus offered by ad-tech. Each time you use a tool, like retargeting, or second- or third-party data for narrowed targeting, you're reducing your pool of potential customers. The best approach, in fact, may be to have side-by-side tests going, where you can have a bare-bones targeted campaign running against a highly targeted campaign and see which spend yields the better ROI. You might be surprised by the results.

Koeppel: First of all, it has to be easy for consumers to find you using search. While we'd like to believe that prospects are typing in the advertised URLs, most people are still using search and it is too easy for competitors to ensnare them. Second, the site has to be optimized for mobile. That may sound fundamental, but it's surprising how few websites really are. That means less text, more imagery, and judicious use of video. Think of it this way: what is the key information a consumer needs to know to make an informed purchase decision and how should it be sequenced?

Finally, how easy is it for a consumer to buy? What can you do to make your shopping cart and checkout process require as few steps as possible?

Norris: I can speak to my experience, which is in TV. Just like consumers, TV has changed and gone mobile as well. Over-the-top (OTT) and TV Everywhere platforms deliver premium, full-screen content on mobile devices. Those platforms also deliver full-screen advertising with targeting capabilities. Not only are TV watchers within arm's reach of their mobile devices, they are often watching on their mobile devices, in their hands, ready to transact.

Stacey: In the consumer package goods (CPG) space where we operate, we've blown past the buyawidget.com model and are now just driving everything to marketplaces like Amazon. Amazon is now close to half of all product searches on Google, so it's hard to compete with that — no matter what your SEO strategy is.

With more consumers using the internet to price compare, find product reviews and ratings, and more, two-thirds of American consumers still prefer to purchase in a physical store. What does this tell marketers about how to maximize a combination of online/in-store opportunities?

Besasie: Amazon Prime has set a new standard with free shipping and two day delivery, so marketers have to be more calculating in their pricing strategies. There was a time when factory direct implied a cheaper price. What's the value of a 1:1 customer relationship to a marketer to sell future goods to with lower cost marketing channels to an in-house list? Is it worth the price of free shipping, overnight delivery, and a bonus offer only available from the factory? What's the value of shelf space if viewed as a limited media channel where the fight for share of mind among competitors is lessened?

Feinstein: The first thing that comes to my mind is reaching the consumer as close to their destination as possible — my mind goes to radio. The most recent research I've seen on people listening to radio in their car shows that the number remains higher than 85 percent. That's the kind of scale you just cannot ignore. And it dovetails perfectly with location-driven digital marketing efforts, so the consumer is reached multiple times as they drive to their destination.

Koeppel: Control your online search placement and reputation and have the best possible placement within the planogram of your key retailers. Why? Because the practice of showrooming — that is, looking up product and pricing information online while standing in the retail aisle — suggests that those who are in the position to catch a consumer's attention will benefit the most, providing their online placement and reputation is solid.

Conversely, the practice of webrooming — researching products online and then going to retail to buy them — also suggests that you need a leading online presence, and your products should be easy to find on the retail floor once someone is primed to buy.

Stacey: Henry Ford famously said that if he would have asked consumers what they wanted, they would have said a better horse. The market is moving — faster than anyone expected — toward a trust economy or recommendation economy, where reviews and ratings are now a fundamental driver of what people buy, both online and offline. As a result, companies like Snagshout have sprung up to help companies compete for reviews.

A Whisbi infographic shows that Gen-X spends the most money in e-commerce outlets. How can marketers' messages best resonate to turn millennials into customers, while also maximizing share of Gen-X and older consumers shopping online?

Besasie: The baby boomers represent the wealthiest generation, and when normalizing compensation between the generations, millennials earn less than the two preceding generations. The issue might not be a matter of messaging but more of economics. The picture isn't so bleak for millennials though. It's estimated that $30 trillion of wealth will be transferred from baby boomers to their heirs, presumably millennials. Perhaps all they need to do is wait. I'm joking, of course. Or, maybe not.

Feinstein: I don't claim to be an expert on demographics, but in all the research I've consumed, I've noted that Gen-Xers are deeper into their peak earning/spending years than the less-experienced millennials. It may simply be a matter of time and consistency of message by retailers to get through to millennials for when they hit their stride into their peak earning years.

Koeppel: Trust is key because trust is transgenerational. In a BrightLocal survey conducted in 2014, 88 percent of consumers trust online reviews as much as they do personal recommendations. That was three years ago, so I imagine that figure might be even higher today. That same year, another study from the University of Georgia found that millennials were the most cynical generation ever, so trust — in the form of online reputation and word of mouth — likely plays an even bigger role in winning them over. Despite differences in consumer behaviors across these age groups, this is the one element that can be leveraged uniformly.

Norris: For marketers, data drives the relationship with consumers. First- and third-party data tells a marketer who is a millennial and who is Gen-X. It tells them if a consumer has purchased before — or potentially from a competitor. Most importantly, good data inputs result in good data outputs to report and measure consumer behavior following a campaign. Marketers can go beyond Nielsen measurements to actual consumer actions.

Stacey: The changes in the media and retail environments are requiring marketers to make a lot of strategy adjustments at the same time. Marketers need to identify their customer base and market segments and adjust their media and distribution strategies to best achieve their objectives.

The same infographic says that 84 percent of consumers want better integration from retailers' online and in-store channels. What concerns should marketers who sell product through both have about retailers' efforts to maximize shoppers' opportunities across channels?

Besasie: Beyond price integrity, the next biggest issue for marketers is SKU management. When a marketer places product in 10,000 retail outlets, the pull-through can vary. Launching a new and improved model without careful rollout planning can be the kiss of death for products at retail.

With the internet, where anyone with a Shopify account can sell to the entire U.S., the launch of a new product can eclipse an entire brick-and-mortar base. The other day, I went to buy a new battery for an old GoPro Hero 3 camera. GoPro is on to the Hero 5, which is a completely different size and configuration. The mix of Hero 3, 4, and 5 accessories I saw at retail was a mess.

Feinstein: It's going to be critical that, as retailers expand their use and integration of online and in-store sales channels, they look to integrate their sales and pricing databases. Right now, only the largest retailers have invested in the infrastructure to unify all their sales venues. Going forward, it will become mission-critical to present a single, unified pricing face to consumers who will always be looking for chinks in the armor of any retailer — always looking for the lowest price. Without integration of sales and databases, retailers may actually find that they're competing with themselves, which will only hurt topline sales and, eventually, their net profit.

Koeppel: This is really about two primary things: ease of access to merchandise and price uniformity. In other words: "Can I get what I want, when and where I want it?"; and "How easy do the marketer and its retail partner make that process for me as a consumer?"

For example, can I get it shipped overnight with reasonable certainty it will arrive? Is there an option of holding the merchandise at the retail store so I can go pick it up with confidence that it will be there? And, finally, can I get the best and same price across all channels, but especially the one I prefer?

Stacey: Managing across a retailer's online and in-store channels requires a coordinated strategy and careful monitoring. Generally, the more media, the better for each distribution partner. If pricing cannot be consistent, the marketer may have to differentiate SKUs by channel or brand name. Media expenditure differences may need to be equalized through margin structure variations or retail programs.

We sell through all channels of distribution possible and find that they can coexist quite easily with a little advanced planning. Take a lesson from Coke: there's almost no place you can't find it — in the hotel mini bar, in the grocery store, at McDonald's, at the ball game, at Costco, at the vending machine, and so on. The same product can be sold through multiple distribution channels if managed properly. ■