

Optimizing the Shopper Experience:

Virtual technology can help retailers and manufacturers adapt to changing market conditions and provide a competitive edge

With all the hype about online shopping and digital retailing, it is hard to imagine brick-and-mortar stores as essential to retailers' ultimate success.

But Nadia Shouraboura, Founder & CEO of Hointer, Inc., believes they are.

In "Reinventing Brick and Mortar Retail," an education session at the 2015 SPECS show, Shouraboura said brick-and-mortar stores are transitioning from being seen as 20th century retail relics to being understood as the linchpin of 21st century omnichannel retailing.¹

In fact, 94 percent of total retail spending still happens in stores, and in-store conversion rates are four times higher than online-only conversation rates.² In addition, the traditional store experience still holds more importance for consumers than online or other channels.³

"Customers are naturally baffled by many omnichannel efforts because they don't think in terms of channels, they think in terms of experiences," states the 2014 Shopper

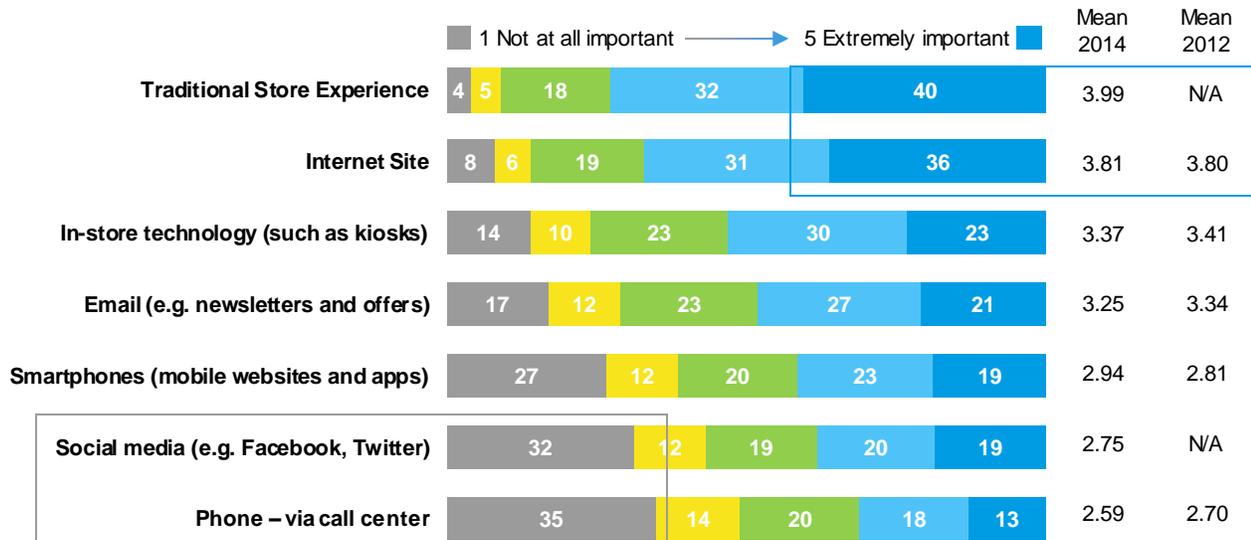
Experience Study Cognizant conducted in collaboration with RIS News. "For a customer there is only one true channel—the "my-experience-with-you" channel."⁴

Yet many retailers are failing to provide a satisfying experience. Gaps exist between consumer expectations related to product offerings and pricing and the ability of retailers to deliver what customers want. When Accenture asked consumers which aspect of the shopping experience most needs an upgrade, 39 percent of those surveyed ranked the physical store first.⁵

"Both retailers and CPG manufacturers are in a mad dash to catch up with consumers," says Brooks Augustine, CCO at InContext Solutions. "For retailers the data shows that one of the most critical factors to keeping existing shoppers and attracting new ones is a unique, compelling shopper experience. We believe that everyone knows this but the tough part is finding the right way to optimize it."

Virtual 3D interactive technology—including ShopperMX™ and virtual store research from InContext Solutions—are the tools with which companies can fine-tune that in-store experience.

FIGURE 3: THE RELATIVE IMPORTANCE OF THE PHYSICAL STORE IN THE PURCHASE AND PAYMENT OF A PRODUCT



Source: Digital Shopper Relevancy Report 2014, Capgemini

“We can recreate any shopping experience—create new layouts, ideas, concepts—and test them online in a realistic environment that mirrors a brick-and-mortar store to enable better decision-making,” Augustine explains. “We don’t have to shut the store to change things around, and then wait six months to measure impact. Retailers and manufacturers can leverage virtual technology for a faster, less-expensive way to test new concepts and make the right decision, the first time.”

Surveying the changing landscape

There’s no question that almost every aspect of grocery retailing is evolving at a very rapid speed. Same store sales are down, locations are being shuttered, acquisitions are occurring, and the Amazon Effect is taking hold.

“Looking at the dynamics of the grocery industry, the pressure is on the middle. Traditional grocers like Jewel-Osco, Randalls, Safeway, Fry’s and Albertsons—stores that have always had 65 to 70 percent of overall CPG volume—are under extreme pressure,” Augustine says.

Research from the Food Marketing Institute (FMI) shows that mid-market food retailers face difficult competitive pressures. Compared to 2011, consumers in 2014 were

less likely to name mid-market stores as their primary purchasing venue. “Today’s fastest growing supermarkets have focused strategies based on the pursuit of a single value proposition, arguably more in tune with the demands and dynamics of modern food culture,” according to FMI. Two versions of this strategy have had particular success: retailers with a premium/fresh focus targeting affluent consumers or those willing to pay more on certain occasions, and those that have positioned themselves to provide extreme value/savings to the consumer.⁶

Augustine compares the state of the industry to an hourglass, with healthy growth at value/low price stores like Family Dollar, Dollar General and Aldi and at premium positioned businesses like Whole Foods, Kroger, Mariano’s and Wegmans.

“Everything is changing for retailers and CPG companies and they must understand how to adapt in order to survive,” Augustine says. “We believe the shopping experience is absolutely essential to reinvigorating the center store in grocery and to regaining share of wallet. Store design really matters now.”

In fact, as McKinsey & Company notes, “...industry observers predict that retail will change more in the next five years than it has over the past century.”⁷

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COGNIZANT/RIS NEWS 2014 SHOPPER EXPERIENCE STUDY



Understanding the evolving consumer

It is not only the retail landscape that is undergoing a transformation; America's consumers are evolving, too.

Post-recession shoppers are more confident and willing to spend again—and the grocery category is benefitting.

The Gallop Economic Confidence index showed some of the strongest levels since reporting began in January 2008, and 54 percent of shoppers said they enjoy grocery shopping again.⁸

Results of a June 2014 *Consumer Reports* National Research Center study mirrored Gallop's findings. Seven out of 10 people told the publication they feel flush enough to make purchases and decisions they've put on hold for as long as five years, and younger Americans—those 18 to 34—are particularly anxious to start spending. Forty-six percent of respondents said they are spending more on groceries.⁹

However, the way consumers make purchasing decisions has changed, creating new challenges for retailers and suppliers trying to capture market share. Increasing ethnic diversity, the influence of millennial shoppers, the rise in the number of single-person households, longer working hours, an uptick in moves to urban areas, and a renewed focus on health and wellness as it relates to food culture are macro-level shifts significantly impacting how Americans eat and shop.⁶

How can stores address these macro-level shifts and cultural influences, and ultimately equip themselves to successfully address evolving shopper demographics?

Virtually testing new concepts, and measuring shoppers' reactions to proposed changes in store design and product placement can help enhance the shopper experience in ways that will enable them to successfully compete in the quest for consumers' dollars.

"InContext Solutions has the right tools to help retailers and manufacturers enhance the shopping experience," Augustine says. "For traditional grocers, net margins are in the one to four percent range, so it is a huge risk to allocate up to \$1MM for a complete store remodel. We can lay out new concepts, test them and identify the best options that will increase sales by two to three percent—ideas supported by data at a fraction of the cost. HUGE ROI!"

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**BROOKS AUGUSTINE, CCO,
INCONTEXT SOLUTIONS**

Taking omnipresent technology into account

As important as brick-and-mortar stores remain, the role technology plays in the overall shopping experience can't be overlooked. After all, in today's omnichannel world, people are always shopping!

Industry data shows that 91 percent of shoppers have a mobile device (a Smart Phone and/or Tablet). "Since mobile phones are personal devices used for both lifestyle activities and business, these findings indicate the vast majority of shoppers are connected 24/7 unless, of course, they are sleeping." ⁴

Massive growth is occurring in the e-retail and mobile wallet fronts, as well. Mobile devices, including smartphones and tablets, are projected to account for 25 percent of the total U.S. online retail sales by 2017, with U.S. retail mobile commerce (m-commerce) sales forecast to reach \$108.56 billion that same year.¹⁰

Amazon has made no secret about their strategy to grab as much of traditional grocery as they can. They are launching innovative "weapons" like Prime Pantry (a shopping experience on amazon.com that allows Prime members to buy popular household essentials and have them delivered for a flat \$5.99 delivery fee per Prime Pantry box), and the Dash, a handheld device that functions as a remote control for buying groceries. Customers can scan the barcode on an empty milk carton, or tap a button and say "milk" into the device, and Amazon will automatically ship a new carton of milk with free two-day delivery.

Customers want it all—the convenience of online shopping with the comfort and immediacy of the in-store experience. And, they want to use their devices to research and price check while in stores. But retailers haven't caught up. In fact, less than half of shoppers in the COGNIZANT/RIS survey are satisfied with mobile retail experiences.⁴

"Stores are important to consumers, but it is critical that retailers with brick-and-mortar assets understand the new role the store network plays in optimizing sales, profits, and loyalty across all channels," says Michael Brown, A.T. Kearney partner and author of the company's "Recasting the Retail Store in Today's Omnichannel World" study. "Despite the dramatic shifts in consumer shopping behaviors enabled by ecommerce and mobile, very few retailers have transformed the physical shopping experience to efficiently and effectively support the new behaviors. Retailers must know how and why their customers shop and then retool and redeploy the store network accordingly."¹¹

Helping stores understand those new behaviors, then retooling and redeploying that in-store network is where InContext's virtual 3D technology solutions come into play.

"Everything we do is powered by the ShopperMX™ virtual platform," Augustine says. "We start with the easy to use, web-based software to develop the store/department/category concepts. This is ideate stage. To evaluate, we bring on-line shoppers into the virtual store on a shopping trip. We track everything they do then survey them after they check out. We can get quick directional reads or design a more comprehensive study, depending on the questions that need to be answered—questions about topics like shoppability, assortment, package design, signage/communication, etc. We do all of this virtually at a fraction of the cost and without the mess/disruption that an in-store test causes!"



Reinventing center store is a central part of both retailer and CPG manufacturer strategies. The challenge is testing new, innovative ideas is costly, takes several months to execute and causes massive disruption for the shopper. As a result, most retailers make small "tweaks" and hope for better results. Using a virtual environment enables concept ideation, testing and results in about one-third of the time and about one-third of the cost. You can't ignore these compelling facts," Augustine says.

With all the changes converging in today's competitive retail arena, there's no question retailers and CPG manufacturers must adapt in ways that will ensure their success. Employing 3D virtual technologies like InContext's ShopperMX™ simulation software and virtual research for shopper insights to optimize the shopping experience is one way companies can to adapt to the ever-evolving retail marketplace and, in the process, alleviate some of the stress they currently are under.

"Virtual 3D technology is one tool in their arsenal...it provides a faster, smarter, more profitable way to enhance the shopping experience, and bring ideas to life in a realistic environment," Augustine says. "If you put the shopper experience as the center of the bullseye, everything falls into place."

For more information, please visit www.incontextolutions.com or email us at solutions@incontextolutions.com.

¹ <http://www.chainstoreage.com/article/specs-2015-reinventing-brick-and-mortar>

² ICSC Research, October 2014/ or chain store age <http://www.chainstoreage.com/article/online-shoppers-brick-and-mortar-stores-time-facelift>

³ Digital Shopper Relevancy Report 2014, Capgemini (www.capgemini.com/resources/digital-shopper-relevancy-report-2014)

⁴ 2014 Shopper Experience Study, Cognizant/RIS News

⁵ Accenture Seamless Research Study 2015 (newsroom.accenture.com/news/us-retailers-struggling-to-meet-consumer-expectations-around-mobile-and-in-store-experience-accenture-study-finds.htm)

⁶ US Grocery Shopper Trends 2014, Food Marketing Institute (FMI)

⁷ McKinsey & Company, October 2014

⁸ The Why? Behind the Buy™, 10th Edition, Acosta Sales & Marketing, 2015

⁹ www.consumerreports.org/cro/magazine/2014/11/how-america-shops-now/index.htm

¹⁰ <http://www.invesp.com/blog/us-online-retail-sales/>

¹¹ "Recasting the Retail Store in Today's Omnichannel World," A.T. Kearney, October 2013