

COMPLEXITY, DATA & GREATER UNCERTAINTY

HOW RETAIL
MERCHANDISING
IS CHANGING

Contributor

trax

The Ground is Shifting Beneath Retailers.

Why merchandising is seeing a **data-centered** overhaul.

Merchandising has long been considered the core of retail operations. Yet, while visual merchandising remains central,¹ merchandising in practice incorporates a wide-and-widening range of elements the consumer is never going to see much less have cause to investigate, from the needs of exclusively digital storefronts² to skincare, convenience stores and your local coffee shop.^{3,4,5}

It is inevitable that a rapidly changing digital, omnichannel Web3-emergent global communications landscape would necessitate a major change in retail,^{6,7} one of the largest and most public-facing market functions in the world: *“...the historical core of every retail organization—namely, the merchandising function—is finding itself at a critical inflection point.”*⁸

Indeed, COVID-19’s acceleration of tech-based services (e.g., VR)⁹ also strengthened many of the trends that define the consumer and client demands of the digital age as a whole, namely *speed, efficiency, and transparency.*

“In the last five years, there’s been this continued trend whether it’s a retailer or a manufacturer to get things done now. They need

fast solutions. They need flexible solutions. They need to be able to start programs very quickly [and] wind programs down very quickly,” argues Ken Drish, VP Sales, Dynamic Merchandising at Trax Retail, a retail professional with over 25 years of experience.

“Having most of the market offer services that are more of a traditional one-size-fits-all approach [isn’t] what people need these days,” Drish continues. “I think it has been exacerbated by COVID-19 with supply chain issues and labor issues.”

Traditional merchandising is today struggling to meet the ‘complicated’ demands of the elusive modern consumer,^{10,11,12} where a focus on legacy merchandising consulting firms, longer-term, inflexible contracts, and a significant emphasis on old-fashioned client relationship-building is increasingly proving unable to respond to rapidly emergent modern needs that require more efficient, data-centered operations such as what providers like Trax Retail¹³ have emerged to specialize in.



AUDITING THE SHELF:

Where Retailers are Feeling the Pain within the Merchandising Process

To better identify trends, needs, and pain points for retailers in 2022, RETHINK Retail conducted a survey of decision-makers from across the globe. Some results are predictable enough—such as the fact that 75% of respondents report using 3rd party merchandisers—while reporting on (e.g.) pain points proved instructive. When asked what decision leader’s three biggest merchandising challenges were, ‘*Preventing Out-of-Stocks*’ prevailed at a nearly 80% response rate, clearing out as far and away the top challenge.

This is perhaps unsurprising in the wake of COVID-19, a catastrophe that lethally exacerbated already significant supply-chain struggles.¹⁴ Adding to this has been the ongoing labor shortage, a multidimensional challenge.¹⁵ Even in the absence of these extraordinary conditions, however, Drish notes that out-of-stocks have long been a top issue.

“At any given point, regardless of how much service is out there and how great the retailer is, a retailer is going to have an overall out of stock problem of anywhere between 8-10%,” Drish

revealed during an interview with RETHINK Retail.

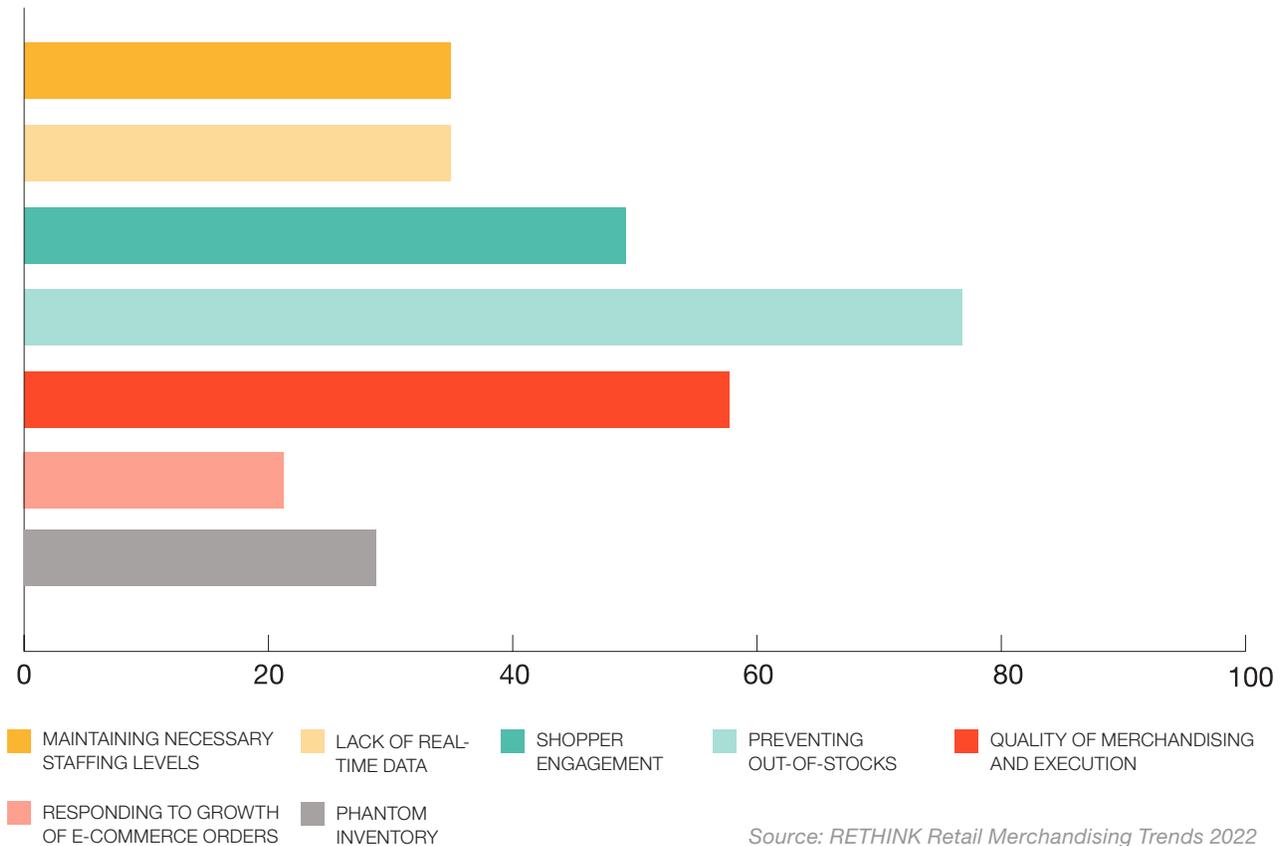
Rather, COVID-19, along with the tremendous inflation it indirectly caused via Fed strategies such as quantitative easing¹⁶, made worse what was already a well-present issue (e.g. reports from as recent as March 2022 note a merchandise-trade deficit shortfall that grew 18% to 125.3 billion).¹⁷ In exacerbating these disruptions, COVID-19 demonstrated that inflexibility in the face of major upsets (of the sort projected to increase in frequency this century)¹⁸ can result in significant losses.

“Companies need to have the ability to turn service on but also turn it off very quickly,” recounts Drish. “Many companies contractually bound to a traditional sophisticated model were [stuck when COVID-19 hit with reps paid to visit in-store] and not be able to correct anything because there was no stock there.”

Drish recommends a provider whose model allows for not only for rapid on/off service needs but utilizes a targeted data approach to save retailers money via major efficiency gains:¹⁹

“It can be as simple as picking up the phone and saying, ‘We need to stop coverage for a while. We don’t have product flowing into the stores,’” says Drish. “I also think more of a targeted approach to using data and identifying where those out of stocks are [is critical,] being able to quickly fix them and/or address the root causes.”

Biggest Merchandising Challenges



Given that a typical retailer is **only running about 60% to 65% of their labor capacity**, utilizing data analytics to achieve these efficiency gains is not a ‘nice-to-have,’ but a ‘must-have,’ particularly when compared to a more traditional merchandising strategy’s ‘one-size-fits-all’ approach to (e.g.) product shipments where a less traditional data-centric approach can help to identify specific needs within a supply-constrained environment rather than relying on old-fashioned assumptions or emotive (e.g. anxiety-based) decision-making.²⁰

Returning to the survey, following ‘out-of-stocks’ was ‘Quality of Merchandising and Execution’ at 57% followed closely by ‘Shopper Engagement’ at 50%. With regard to the former, Drish emphasizes the need for clear expectations going into their prospective relationship with a merchandising

service, a need that relates strongly to transparency.

“Quality is all about clear communication of expectations upfront between the client and the service provider,” says Drish. “Alignment on those goals is absolutely going to be critical.”²¹

Regarding ‘Shopper Engagement,’ Drish argues that brands must invest significant time and energy into how they want to best leverage themselves, looking to everything from basic strategies (such as “direct marketing and FSI inserts/coupons”) to ‘gamified’ solutions such as a digital currency Trax employs called ‘Kicks’ which customers can accumulate and redeem for gift cards, a program that is seeing “tremendous traction.”

Mapping Change: Strategies for Merchandising and Improving Third-Party Outcomes

Identifying specific needs always comes first: for brick-and-mortar outlets, visual merchandising strategies remain critical monitoring points, calling on foot-trafficked retailers to leverage trends such as experiential merchandising, increased informational signage, and sustainability.²²

Digital merchandising, however (“*the selection and presentation of products and content to make best use of screen real estate*”) might not benefit from something like experiential merchandising, rather looking to web page-specific strategies such as “offering downloadable circulars and coupons on your website.”

Yet, overlapping trends will always exist: for every variety of retailer, a greater use of mobile technology (e.g.) has seen reliable growth for over a decade.²⁴ However, *all retailers* must continue to invest deeply into their data in terms of collection, precise analysis, and appropriate application.

“Looking to the future, retailers should consider more novel ways to incorporate data and analytics into the merchandising universe, [seeking] a more diverse set of data sources instead of an overreliance on historical data.”²⁵

Indeed, stringent data collection and analysis is going to remain core for any retailer to understand their business and—most importantly in a less inherently-loyal consumer world—what their customers want, particularly online as Web3 continues to dominate.^{26,27}

BUT, WHAT DOES IT MEAN TO ACTUALLY USE ALL OF THAT DATA?

When it comes to (e.g.) utilizing shelf data to improve sales, Drish admits that “*There are so many ways and there's so much data out there right now. It can almost put somebody into analysis paralysis. [That said]...the first set of data that I would be looking at if it were available*

and I was a manufacturer would be the retailers' point of sale data.”

For example, by monitoring average sales, retailers can identify storefronts by volume, data that allows retailers to determine how many shipments of what should go where rather than the aforementioned traditional ‘one-size-fits-all’ approach, data that has arguably never been more essential than it has been in the last three years.

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Yet, for the majority of companies surveyed (75%) what improved merchandising will often look like de facto is improved outcomes with their outside, third-party merchandisers.

In brief, when working with their merchandising teams, the best way retailers can mitigate the most widely reported challenges are to emphasize **1) data sharing, 2) strategic alignment (particularly prior to project initiation), and 3) clear expectations for regular communication and reporting.**

To help lay out why, RETHINK asked leaders to identify which capabilities were most important to them in their merchandising teams, as well as rate those teams’ ability to execute on those needs. The top response at over 90% ‘very important’ is simple: Driving ROI/Sales; however, *only 9% felt*

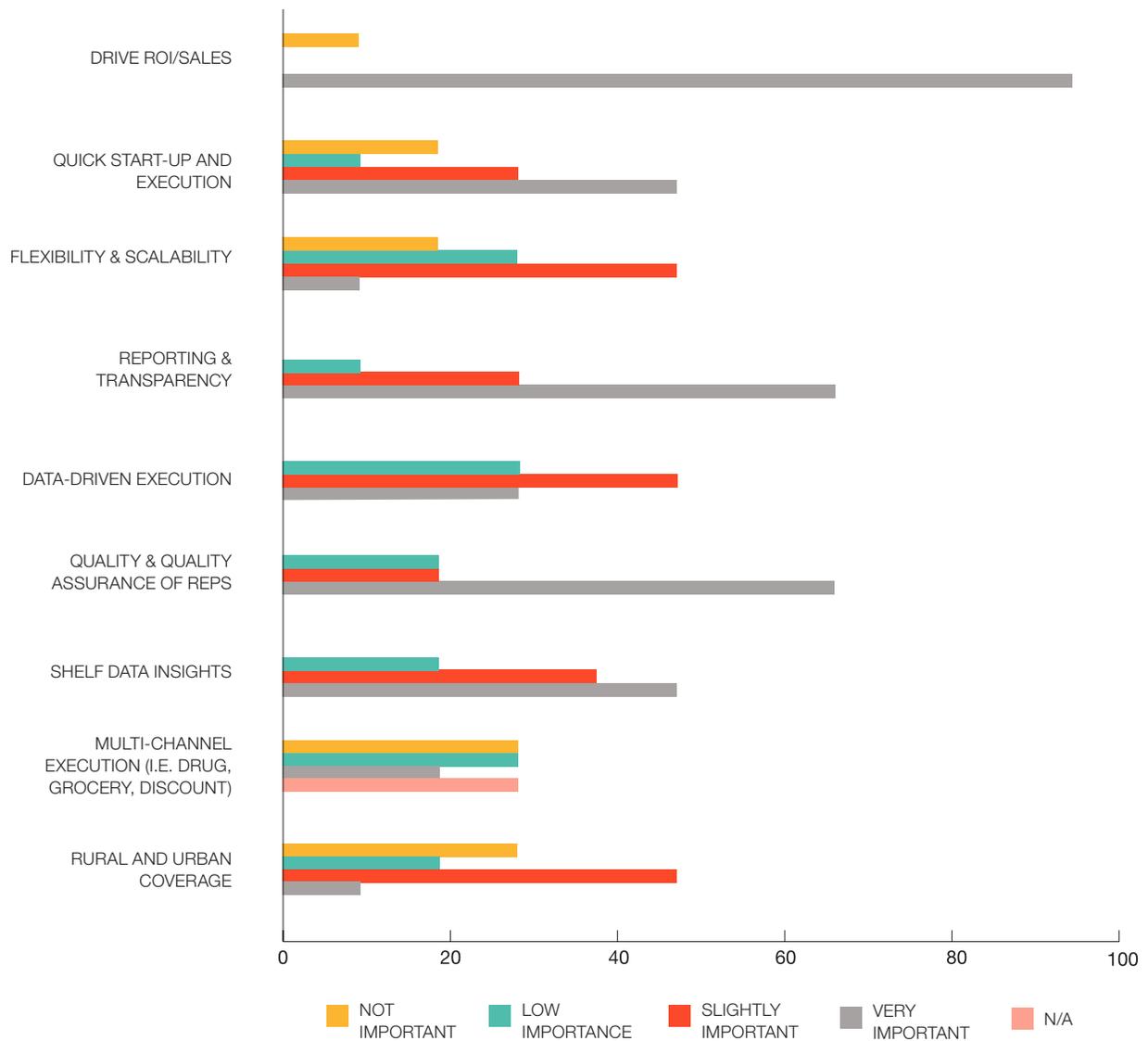
their current merchandiser does an excellent job.

For this, Drish both reemphasizes one of the most important overall trends in merchandising (that money spent on a service provider must come with a clearly delineated ROI) and **the need for increased alignment on that upfront**, reminding clients that what a servicer can measure and report on **must be provided by the store via data sharing** if they expect specific results.

“If retailers truly want to measure ROI, they need to share that sales data with us up-front,” argues Drish. *“There has to be a transparent relationship between both companies if we’re going to truly measure the impact of return on investment.”*

Indeed, ‘Reporting and Transparency’ constitutes the second-ranked capability at 63% (and while 63% reported ‘good’ transparency from their teams, not one respondent reported ‘excellent’).

How important are the following capabilities to you?



Source: RETHINK Retail Merchandising Trends 2022



Drish contends that if so, merchandising teams need to do a better job at **regular reporting (communicating periodic updates)**, something Trax emphasizes via regular dashboard updates.

“I think the responses are probably pointing most to the fact that there’s an impression they’re not getting reporting...as quickly or as timely as they want it, or as detailed and as granular as they want it,” Drish told RETHINK Retail.

In other words, **regular and clear communication**—the cornerstone of transparency—is a key item for retailers to emphasize with their retail teams (internal or external) before a project even begins.

Tied with transparency, however, is ‘Quality and Quality Assurance of Reps,’ with 63% also reporting it as ‘very important’ (though like transparency, nobody rated their service as ‘excellent’).

Here, Drish identifies one of the key contention areas as likely one of perception, where retailers oftentimes expect providers to be experts on their brand prior to stepping foot into their store: *“The reality is when you’re hiring a service provider...you’re hiring somebody that’s working multiple brands.”*

This returns this to the issue of **alignment, particularly on expectations and timelines.**

“They’re never going to be an expert on your specific brand,” Drish continues. *“They should be an expert on merchandising and getting the job done regardless of who the brand is,”* which will be true whether utilizing Trax’s crowd worker model or via a traditional model. *“Our first goal is to send somebody in that can get the job done.”*

Furthermore, a provider capable of properly leveraging technology is critical, emphasizes Drish.

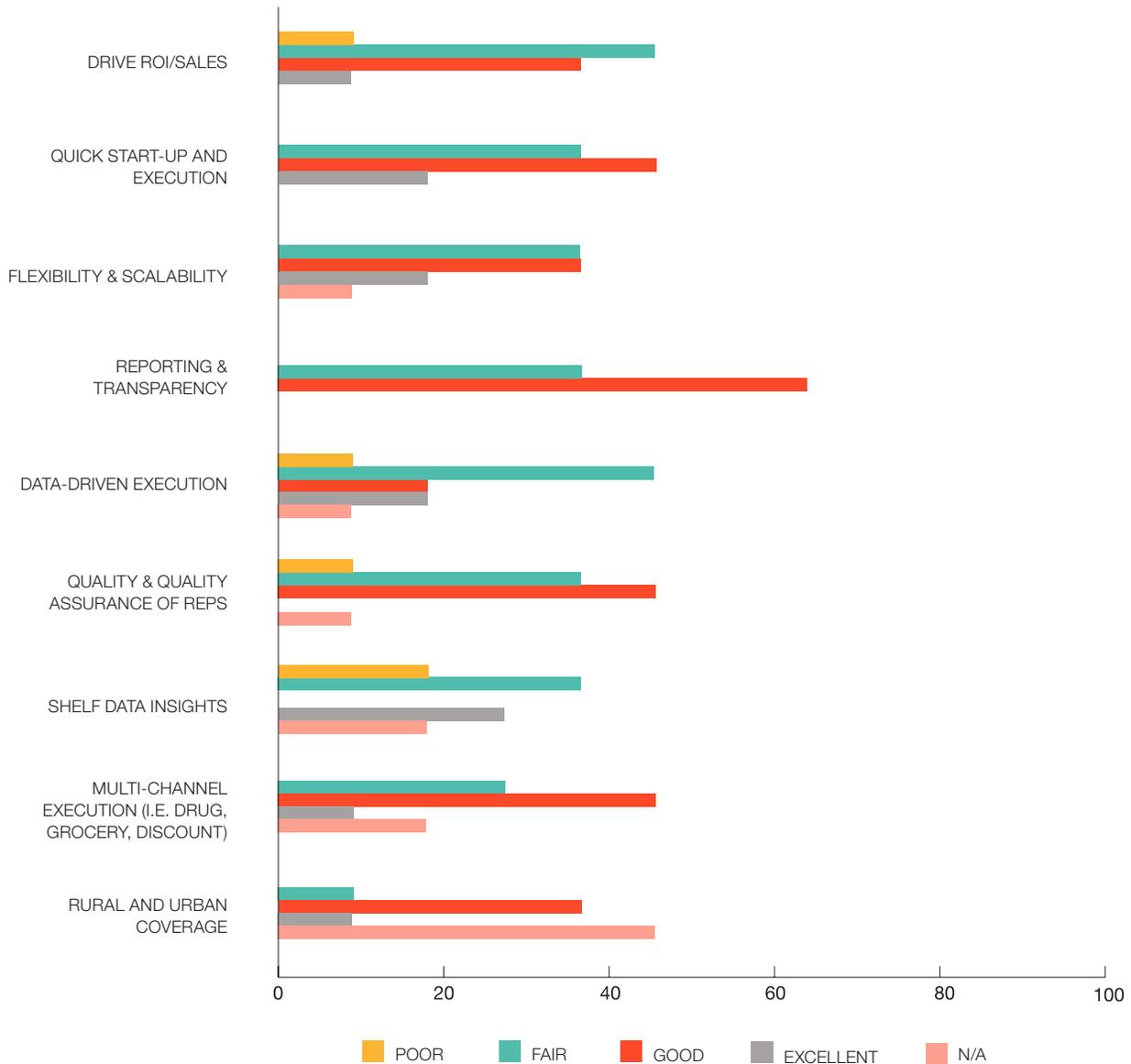
“Technology at Trax plays a very big part in how we monitor what a rep has done in the store. 100% of our visits to a store are quality control checked...our quality control people...check to make sure that the rep...did the work to the client’s specification. If they did not, that person is then rerouted to go take corrective action and fix it.”

In other words, when choosing a provider, **retailers must consider whether their needs align with the provider’s own service priorities and best practices.**

When that alignment is secured upfront, retailers can better assure themselves that the top overall measures for whether their third-party team is successful—efficiency (e.g., how quickly a provider can get a reset done)—is going to be maximized.

“From a CPG perspective, it’s all about speed to market when we’re talking about like activations. [If

Quality of 3rd Party Execution



Source: RETHINK Retail Merchandising Trends 2022

launching] a new item in-store, the quicker that we can get out there and get that product tagged and on the shelf or assist the retailer in doing that, the better. Looking at ‘speed to sales’ is a key metric for [retailers who] can leverage [KPIs such as] their point-of-sale data to show that,” notes Drish.

Trax Retail’s non-traditional approach saw efficient, timely gains by leveraging smart technologies when working with a leading snack food brand, reaching 9,384 stores in one week, restocking 286,000

cases, and delivering 27,000 hours of labor.

“With available shelf space being limited at impulse locations in store, the CPG needed...to grow sales for its products meant for immediate consumption...With intuitive secondary displays installed in the checkout lanes...the CPG achieved higher visibility with impulse shoppers. The points of distribution rose from 1,600 to 5,000 and resulted in a double-digit lift in sales across the retailer’s stores.”²⁸

STRATEGIC INVESTMENTS GOING FORWARD

Not every retailer can have the tools, resources, and sheer capital of an Amazon,²⁹ but every retailer can make smart investments (just as Amazon, even with its success, still has many opportunities for poor investments).

When RETHINK asked which investments leaders were most likely to make in the next year, the responses were fairly spread out, but one came out a clear winner, *'Inventory Control & Store Audit,'* at nearly 80%, with Shopper Marketing (57%) and Sampling/Product Demonstration (50%) taking the second and third spots respectively.

Drish agrees: *"I think investing in inventory is becoming a huge challenge with the supply chain issues that are out there. The problem is that many retailers just don't have enough of it."*

It is precisely because the magnitude of these issues post-COVID-19 is tied deeply to broader supply chain inefficiencies that retailers want to invest in that upfront as much as they can, an essential form of careful planning which looks well ahead.

'Shopper marketing,' meanwhile, is something Drish can see *"smart retailers"* doing *"on their*

own," tying into customer engagement and, specifically, individual brands' mandate to ensure that their brand is effective.

Sampling *"was [all but] completely shut down during the pandemic,"* notes Drish, so a greater interest in those investments is likely bolstered by the simple fact that, post-vaccines, retailers can finally begin to bring them back.

Reiterating that need for data sharing, strategic alignment, and clear communication, retailers can identify merchandising teams that best suit their needs by being clear on what those needs are and choosing a modern, flexible, efficient and quick provider that can assure those needs will be met up front.

In general, retailers should look for stout data analytics teams whether choosing a third-party provider or building an internal team.

Whether optimizing shipping routes, capturing the modern, fickle consumer, or even navigating the challenges of finding new, localized supply chains that can meet complexifying needs, data and adaptation is at the core of business, **and it should be at the core of your merchandising team.**

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