

Constant Berkhout

# THE RETAIL INNOVATION TOOLKIT



42 CATEGORY MANAGEMENT TOOLS FOR GROWTH

Lannoo  
Campus

**To Carola, Thomas and Isabel,  
with whom I learn, unlearn  
and relearn every day**

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# Introduction

## Welcome!

Over the last couple of years, the world of retail has experienced a massive disruption as a result of the increasing share of online sales, digitisation of services, rise of discount brands, higher competitive pressure driven by decreasing population growth, and consumer demand for sustainable, transparent solutions. These developments require a new perspective on shopping, and perhaps even a reinvention of current retail models. To mobilise change, organisations do not only need a clear vision from top management but also fresh perspectives from all team members and partners across the value chain. This book offers tools to help retailers and their suppliers to analyse, activate and innovate their categories, and to improve mutual collaboration.

## Retailer: Desire to connect with the shopper

Shopping at a retailer where you are known and where your personal needs are met feels so much better. Shoppers experience that service best in mom-and-pop stores, but this retail model has become hard to operate and make profitable today. Though retailers are still in direct contact with their customers, they have not been able to maintain that level of personalisation. For many years, the best shoppers got were pictures of friendly smiling staff at the entrance and statements about customer-driven values chalked on the wall. Fortunately, digitisation of retail operations and data analytics allow retailers to reestablish this personal connection with the shopper. There is not much time to lose because shoppers easily get used to new services and increase their expectations each time someone in the marketplace improves the shopping experience. Shoppers have come to expect the best 24/7 service and the highest quality at the lowest possible price. Oh, and don't forget to make the retail business fully transparent with regard to costs, fair labour

practices, impact on the planet and supplier business practices. The sudden rise of COVID-19 has come as a wake-up call for new approaches to product delivery logistics and store operations. However, the need for change was already there.

### **Supplier: New ways of bonding with the shopper**

When suppliers take an optimistic view on the current Cambrian diversification of media and distribution channels, they see more touchpoints to start and build their relationships with shoppers. In fact, media and distribution are merging as illustrated by the combination of Google Search and Shopping, the buy buttons on social media such as Instagram, and the digital advertising screens in brick-and-mortar stores. Historic definitions of what channels are disappear as retailers continuously add new categories in search of incremental revenue. They come up with new, seemingly weird combinations such as books and eye care, and a hairdresser with a bicycle shop. Every time a new type of retail model arrives on the scene, such as category killers, TV-shopping and service-oriented hard discount, suppliers need to assess if they match their brands. New business models such as market places, search engines and comparison websites create the possibility to deliver the shopper directly and restrict the number of intermediary players. We always assumed that categories such as shoes and fresh produce required personal assistance till Zappos and Ocado taught us that shoppers enjoy buying these online. It is no longer sufficient to ask shoppers for feedback on the product itself, because shoppers evaluate the full shopping journey from search till consumption. It's not just the product, but also the characteristics of the context that make the brand. The old days of imposing the consumer price and the control on brand experience are not coming back. The diversification of media and distribution channels offer suppliers great starting points for co-creation with retailers and shoppers.

### **Meeting point: Category level**

It's not just a matter of technology. The world is changing at such high speed that people across functions and organisations need to mobilise and acquire the right set of innovation competencies. Retailers and suppliers need to prepare their own organisations, but also seek ways of working together. The natural level of conversation between the two is the category, because the category level allows space for discussion where the interests of retailers



(coming from the perspective of the complete store and retail brand) and those of suppliers (coming from their brands' perspective) meet and can be taken to new heights. Category management can be defined as a retailer-supplier process of managing categories as business units with the goal of delivering consumer value.<sup>1</sup> This may seem a bit abstract and it helps to realise that the category management philosophy rests on a number of core principles: think category rather than brand or product segment level, deliver value to consumers, enhance collaboration between retailer and supplier, and consider the interaction between supply and demand activities. The creation of sustainable value for consumers by building on the mutual interests of retailers and suppliers offers great inspiration for addressing today's challenges. Since the birth of category management some 25 years ago, the world has changed. Thus, while keeping the mindset and positive aspects of category management, new category management working practices need to be embraced:

- Complement the consumer focus with shopper experiences;
- Shift from project to process way of working;
- Apply advanced analytical tools to explore new data opportunities;
- Be versatile across formats, channels, markets.

## The Retail Innovation Toolkit

I obtained the ideas for this book when working in the fields of Category Management, Customer Experience, Product Innovation and Design Thinking. Just as the world of retail is mixing things, combining ideas from these different fields helps retailers and suppliers to learn and implement new ways of meeting the (future) expectations of shoppers. The tools in this book help you to analyse, grow, innovate and even reinvent categories in a quick and an enjoyable manner. To facilitate the application in your working environment, I kept the text short and focused. Therefore, the step-by-step instructions are enriched with visualisations of the tools and case studies across a high number of industries. The toolkit offers both basic tools and more complex exercises. Each of the tools indicates the expected experience level, the ideal number of participants and the duration of the action phase. Together they constitute a great manual and reference book to help professionals on both the retail and supply sides accelerate their

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1 Definition based on: Category Management Best Practices Report, ECR Europe (1997).

understanding and skills of managing categories and improving trade relationships. In summary, the rationale of the book is:

- Today's retail landscape is changing rapidly and dramatically.
- The category is a great meeting point for building partnerships.
- Combining techniques from category management and other fields builds a skillset on how to analyse and activate categories.
- The design of the book allows you to read with a goal in mind and to absorb lots of information at a time.

### Who could benefit from the book?

The toolkit is developed for professionals working in shopper and trade marketing on the supplier side, and for category managers, format managers and concept developers in (non)food retail. The tools also enable other functions within the team to learn about category management in a fun and pragmatic manner without the need to attend intensive category management trainings. You can apply some of the tools individually, but most are useful when confronted with a growth challenge as a team. More and more shopping journeys integrate physical and online touchpoints. The tools can be applied holistically across online and brick-and-mortar stores and they have been tried and tested in different situations and environments. The benefits of this book are that it:

- Contains the main ingredients of the category management concept and practice without the need to attend courses or read more data-intensive books.
- Offers practical suggestions for 1) Analytical review 2) Creative solutions building 3) Energisers for improved collaboration between retailer and suppliers.
- Taps into the need of millennials and other practitioners for transferring knowledge in a highly graphical manner and through appealing and original design.
- Puts the shopper interest first so that retailers and suppliers can work together on category level.
- Represents the latest way of doing things in the field of category management.
- Offers simple frameworks and makes pragmatic suggestions on how to make things work based on my hands-on experience.

## How to use the 42 tools of the Retail Innovation Toolkit

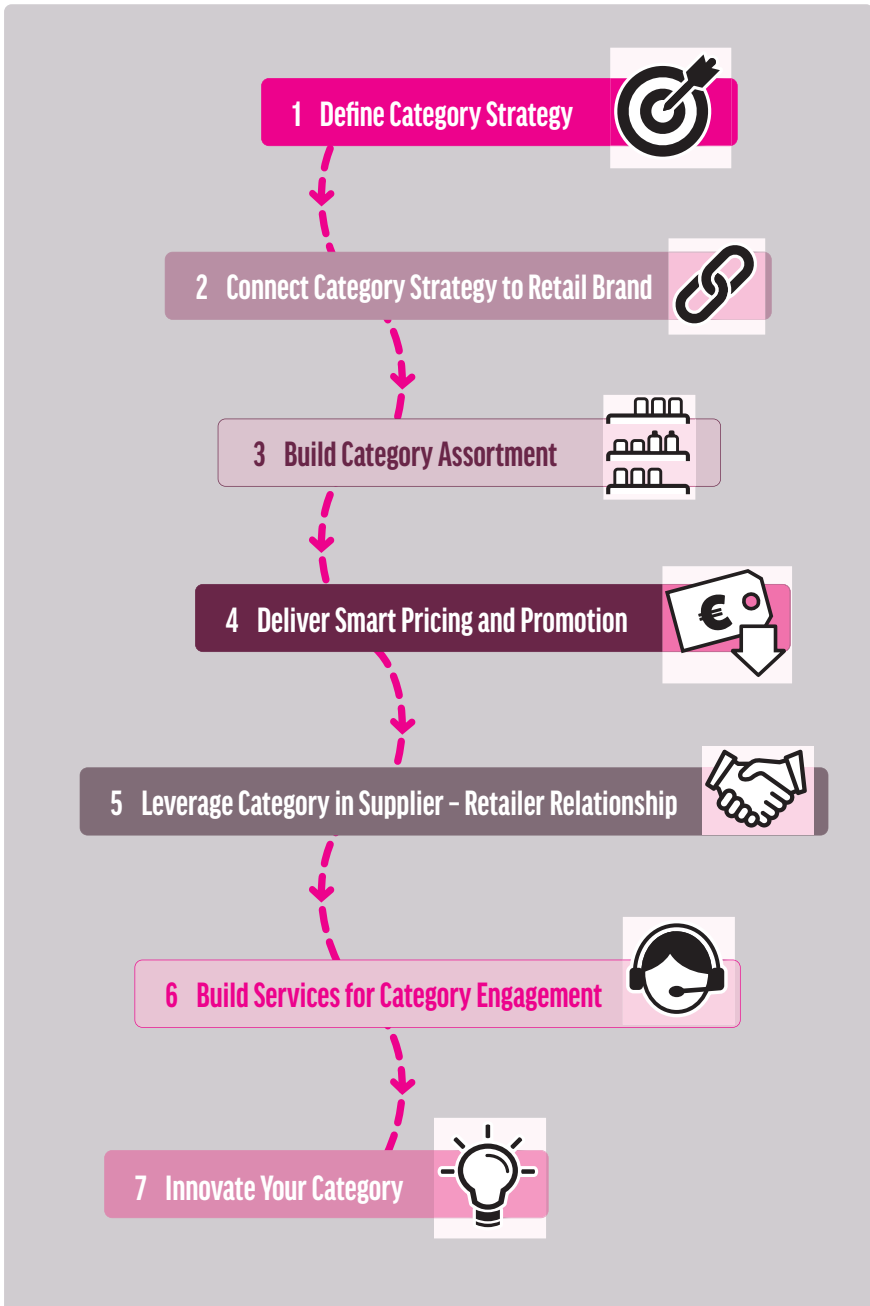
Pick up the relevant tool when confronted with a retail growth challenge. These tools offer concrete directions for solutions rather than leaving you with more questions. The idea is to identify ways to grow the category in a quick and enjoyable manner. The tools are designed to support your creative process, to help you to think things through and to collaborate with others while doing so. This is the way the book is structured:

- The toolkit has been divided into seven groups, each with six tools. The tools are numbered and follow a logical order. For example, first you need to define the category strategy before you build the category assortments. That said, you may pick up a specific tool when the need arises.
- Each tool is divided into five sections and is accompanied by a key visual. A tool starts with the description of a context or challenge occurring commonly in the field of category management, which makes it easy to relate to your situation. A clear goal is then stated. Preparations are indicated in relation to any tools, data and/or team setting that you need to have ready in advance. Then, the activity is explained in a succinct, step-by-step manner followed by a description of the desired outcome.
- Each tool tells you how much time you require in the action phase. The estimated duration depends on your experience in the category management field and the composition of your team. To this end, the expected sophistication and experience are signaled for each tool through a star rating whereby basic category management expertise is assumed in the case of one star (\*), and very advanced skills in case of five stars (\*\*\*\*\*).
- Two or more case studies illustrate the retail context in which the tool is applied and give inspiration on how you could adapt the tool to your situation.
- Some of the tools are more applicable to the retailer side than to the supplier side or vice versa, and therefore the user group indicates whether the tool is typically used by R(etailers) and/or S(uppliers). Still, it is interesting to study the tool if you work 'on the other side'.
- As you use the tools more frequently, you can start reiterating the order depending on things that need reviewing, evolving and adapting for the context of your retail operation.

User Group:	R & S
Challenge Level:	***
Time in Action Phase:	1.5 h

This book is the result of the exploration of several knowledge areas over the past 25 years. It would not have been possible without the help of others who shared their thoughts and ideas on retail innovation. Special thanks are owed to three people who provided me with great feedback on an early draft of this book: Carola Verschoor, Linda van Rijn and Rob Mienis. I hope that the application of the tools accelerates your skills in managing categories, mobilising teams across organisations and creating memorable experiences for shoppers. Enjoy!

# Tool Index



## Series 1: Define Category Strategy

Each category has a role to play for the retailer, and for the shopper. Taking into account the characteristics of the category helps define the category strategy that forms the playing field of brands.

In this series of tools, you first define what the category actually is according to the consumer. Next, you define objectives and category strategies that determine how you achieve incremental category growth.



### Tools

1. How to define the category
2. How to formulate a category vision
3. How to identify category drivers
4. How to allocate categories to category roles
5. How to assign category strategies
6. How to link category tactics to a category challenge

## Series 2: Connect Category Strategy to Retail Brand

Retailers have a choice of where and how to play. How they wish to be perceived is reflected in decisions they make on the category strategy.

Most of the exercises in this series are designed for retailers. They need to understand the benefits of the retail brand in order to make these come alive in day-to-day category management.



### Tools

1. How to describe benefits from retail brand
2. How to align my products according to retail brand positioning
3. How to leverage my products to make my brand shine
4. How to find associations with the retail brand
5. How to decide on a national versus a local approach
6. How to get inspiration for category differentiation

### Series 3: Build Category Assortment

The shopper's first consideration is what product the retail brand offers. There is an infinite number of alternative approaches to depth, width and quality of assortment that need to be carefully aligned with shopper needs.



Assortment is the second most important driver of store choice after location/accessibility, and therefore product selections are the first step in working out the category management action plan.

#### Tools

1. How to determine the number of products in the category
2. How to rationalise the assortment
3. How to build a shopper decision tree
4. How to determine missing products
5. How to get ideas for packaging design
6. How to balance competing merchandising objectives

### Series 4: Deliver Smart Pricing and Promotion

Increased competition and price transparency require a strong pricing structure that enables flexible decision-making. Providing the shopper value through regular pricing or frequent promotions needs to be evaluated from both brand and profit perspective.



Bounded by the applicable legislation, both supplier and retailer have their own responsibility when it comes to pricing and promotions. Setting the right regular price and choosing the right frequency and depth of promotions makes the category healthy in the long term.

#### Tools

1. How to select products for price change
2. How to structure my brand portfolio
3. How to enhance category value through packaging size
4. How to find the optimal level of discount
5. How to decide on promotion frequency
6. How to improve promotional decision-making

## Series 5: Leverage Category in Supplier – Retailer Relationship

The category can come alive when the relationship between the supplier and retailer is tight and engaging. Defining the most suitable role for the category is essential so that the category story can be told in a congruent and appealing way. In this series you will learn how to select the right partner and obtain advice on things you can do to keep the relationship strong.



### Tools

1. How to prepare the conversation
2. How to structure the story
3. How to prioritise suppliers
4. How to prioritise retailers
5. How to create differentiated solutions for retailers
6. How to energise the collaboration

## Series 6: Build Services for Category Engagement

The shopper perceives services for a physical product as an integral part of the category solution. Identifying the right services helps differentiate retail brands and helps create strategies for more category value.

By researching the shopping journey, you can improve shopper satisfaction. The exercises help you create new services and store designs.



### Tools

1. How to improve the experience of the shopping trip
2. How to identify cues for new services
3. How to discern whether shoppers enjoy time spent
4. How to identify friction and triggers in the shopping tasks
5. How to create ideas for a new store concept
6. How to revisit shopper expectations



## Series 7: Innovate Your Category

New stimuli from other markets make shoppers expect every category to evolve. The reference point for new experiences is the best last experience they had in any of the categories they purchase and use. Understanding the emotions and behaviour of shoppers enables brands to proactively foresee future solutions they are likely to prefer. This will keep the category relevant in the future. This last series of tools is oriented towards the future of the category. They help you explore and select new ideas for reinventing your category.



### Tools

1. How to phrase shopper arguments
2. How to identify the source of incrementality
3. How to select the best category initiatives
4. How to scope for innovation
5. How to boost the value of a small basket
6. How to bundle new brand ideas into category themes

# THE RETAIL INNOVATION TOOLKIT



INSPIRATION

STRATEGY

ACTION

EXPLORE

**FILTER**

▼ **Define Category Strategy**

- 1 How to define the category
- 2 How to formulate a category vision
- 3 How to identify category drivers
- 4 How to allocate categories to category roles
- 5 How to assign category strategies
- 6 How to link category tactics to a category challenge

▶ **Connect Category Strategy to Retail Brand**

▶ **Build Category Assortment**

▶ **Deliver Smart Pricing and Promotion**

▶ **Leverage Category in Supplier – Retailer Relationship**

▶ **Build Services for Category Engagement**

▶ **Innovate Your Category**

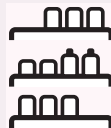
**1 Define Category Strategy**



**2 Connect Category Strategy to Retail Brand**



**3 Build Category Assortment**



**4 Deliver Smart Pricing and Promotion**



**5 Leverage Category in Supplier – Retailer Relationship**



**6 Build Services for Category Engagement**



**7 Innovate Your Category**



# THE RETAIL INNOVATION TOOLKIT

OFFLINE



## 4 Deliver Smart Pricing and Promotion



## 5 Leverage Category in Supplier - Retailer Relationship



## 3 Build Category Assortment



## 6 Build Services for Category Engagement



## 2 Connect Category Strategy to Retail Brand



## 7 Innovate Your Category



## 1 Define Category Strategy



