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Digital

The Merchandising "C" Change:
An evolution from category to customer

Achieving real differentiation and growth with customer-centric merchandising

Customer expectations and behaviors are evolving faster than ever, fueled by myriad factors: non-traditional competitors, innovative startups, a perceived time crunch establishing convenience as the most essential battle front, improved digital-physical experiences, economic bifurcation, and more—not to mention the acceleration of these factors by a global pandemic.

The good news: technology is keeping pace. Companies' ability to understand the customer is no longer anchored to scanning UPCs or tracking loyalty cards. Customer data is more granular and available than ever. Accessible and user-friendly technology can process the massive amount of customer data to generate intelligence.

The bad news: retailers aren't. Retail *organizations* haven't kept pace with changing behaviors or technology, leaving them ill-equipped to respond to the customer evolution. Customer centricity that does exist isn't pervasive. Established retailers are rapidly falling behind competitors who are unburdened by, or rapidly deviating from, outdated merchandising traditions.

The winners will be retailers closest to the evolving needs of their customers. These retailers are well positioned to bring holistic, cross-functional solutions to market quickly. In this context, traditional merchandising capabilities and operating models (linear, siloed, and slow) need to be challenged.
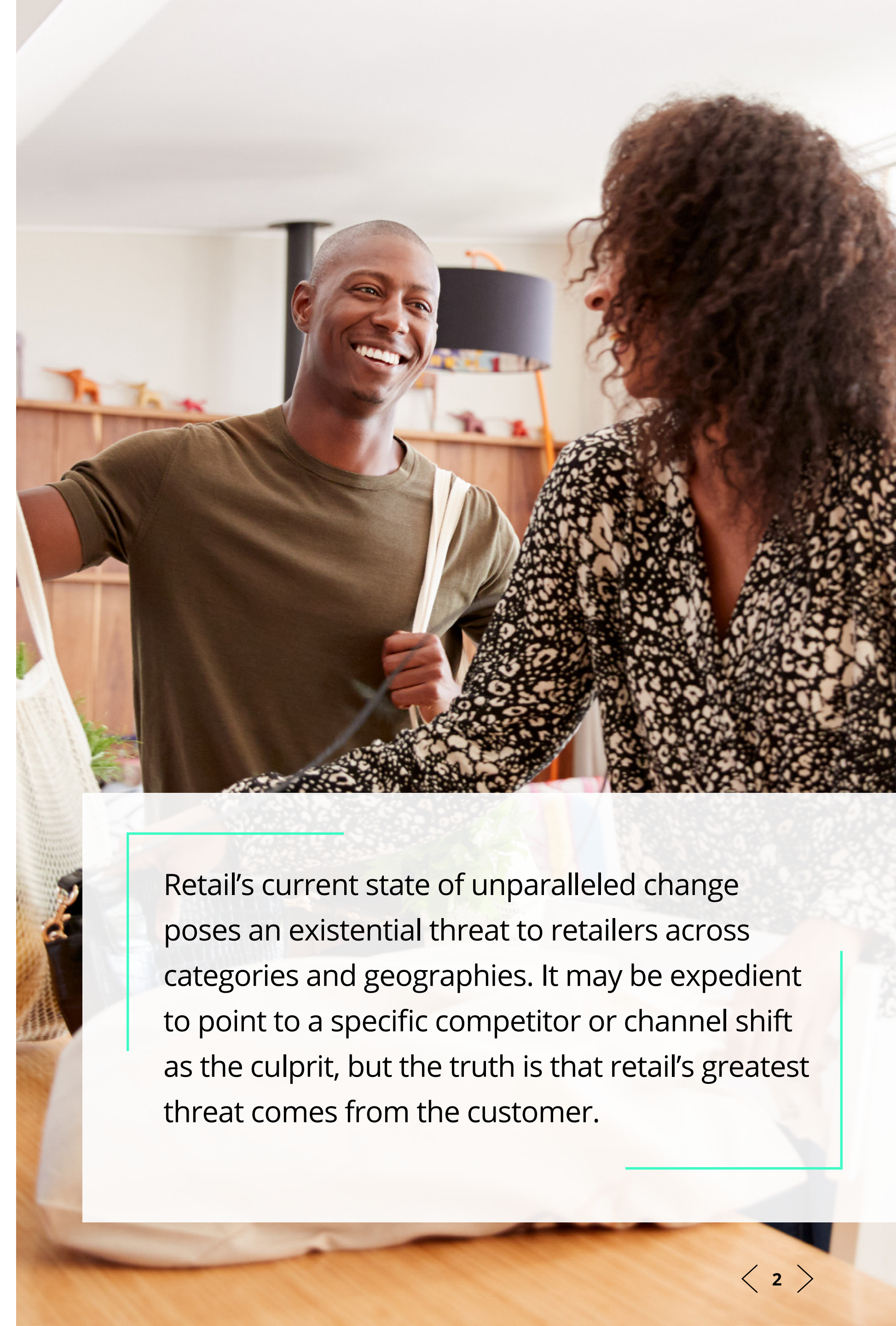
> Retail's current state of unparalleled change poses an existential threat to retailers across categories and geographies. It may be expedient to point to a specific competitor or channel shift as the culprit, but the truth is that retail's greatest threat comes from the customer.
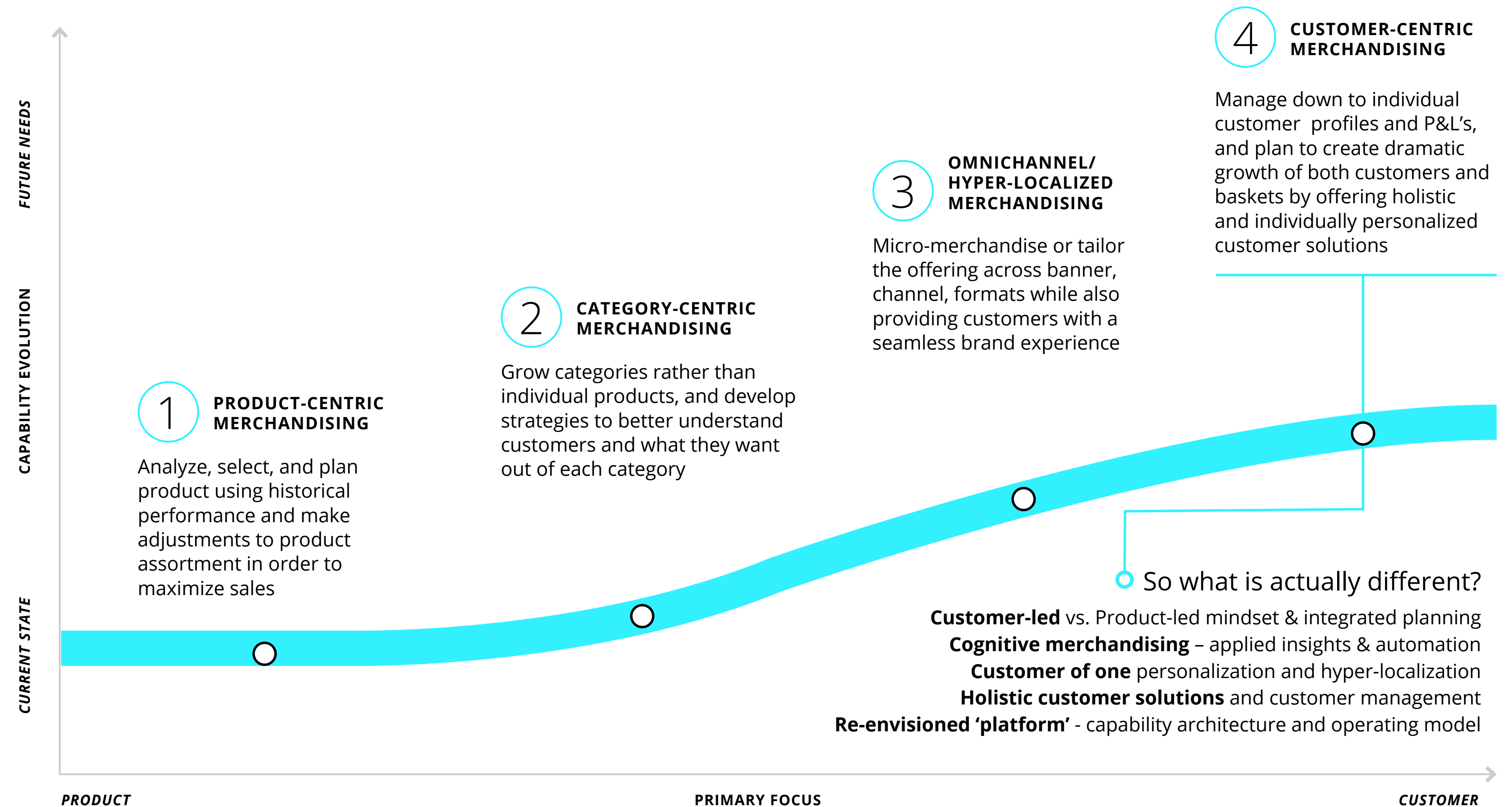
Merchandising, as we know it, needs to change

Unprecedented insights and understanding of individual customer behavior is demanding that retail, and especially merchandising, evolves.

Today, merchants are quick to argue that they are customer centric, or even "customer obsessed." The truth is that most are simply customer aware: cognizant of purchase patterns, but ultimately operating with processes and incentives tied to product and categories. Simply infusing customer insight and technology into outdated, product-focused merchandising organizations, processes, and decisions is NOT customer-centric merchandising.

If current change is being driven by consumer shifts, how can organizations structured around product expect to react, let alone keep up?

Even the best merchandising organizations are still instituting only incremental, not transformational, change. Retail functions remain siloed and cling to legacy ways of working. The linear, end-to-end go-to-market approach (plan-buy-move-sell) and calendar has remained relatively slow and unchanged. Retailers keep pulling on the same value levers (product, cost, price, promotion).

FUTURE NEEDS

CAPABILITY EVOLUTION

CURRENT STATE

4 CUSTOMER-CENTRIC MERCHANDISING

Manage down to individual customer profiles and P&L's, and plan to create dramatic growth of both customers and baskets by offering holistic and individually personalized customer solutions

3 OMNICHANNEL/ HYPER-LOCALIZED MERCHANDISING

Micro-merchandise or tailor the offering across banner, channel, formats while also providing customers with a seamless brand experience

2 CATEGORY-CENTRIC MERCHANDISING

Grow categories rather than individual products, and develop strategies to better understand customers and what they want out of each category

1 PRODUCT-CENTRIC MERCHANDISING

Analyze, select, and plan product using historical performance and make adjustments to product assortment in order to maximize sales

So what is actually different?

Customer-led vs. Product-led mindset & integrated planning
Cognitive merchandising – applied insights & automation
Customer of one personalization and hyper-localization
Holistic customer solutions and customer management
Re-envisioned 'platform' - capability architecture and operating model

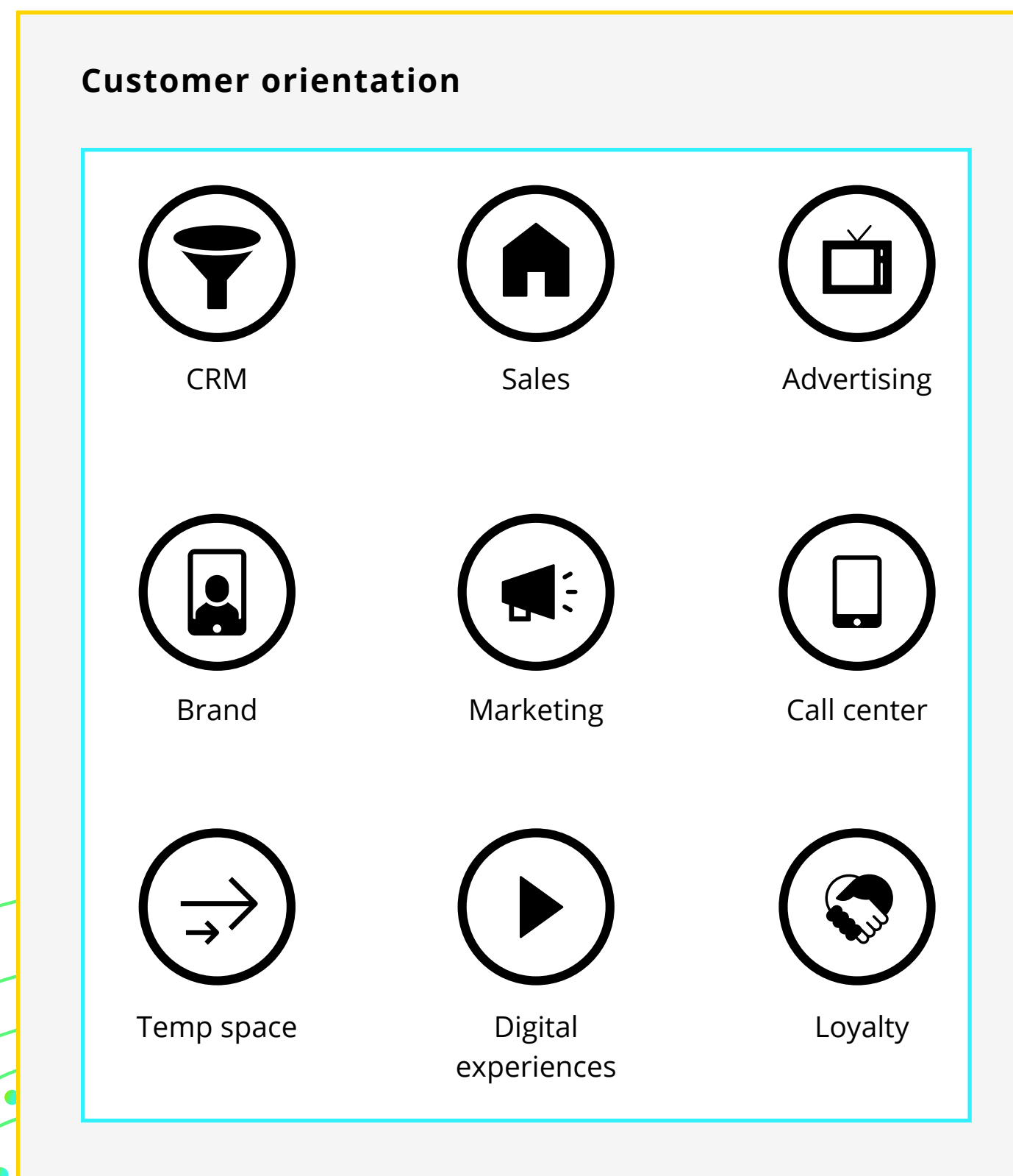**PRODUCT**   **PRIMARY FOCUS**   **CUSTOMER**

? *Where would you place your organization on the merchandising journey?*

Customer-centricity isn't a new concept for retailers as a whole.
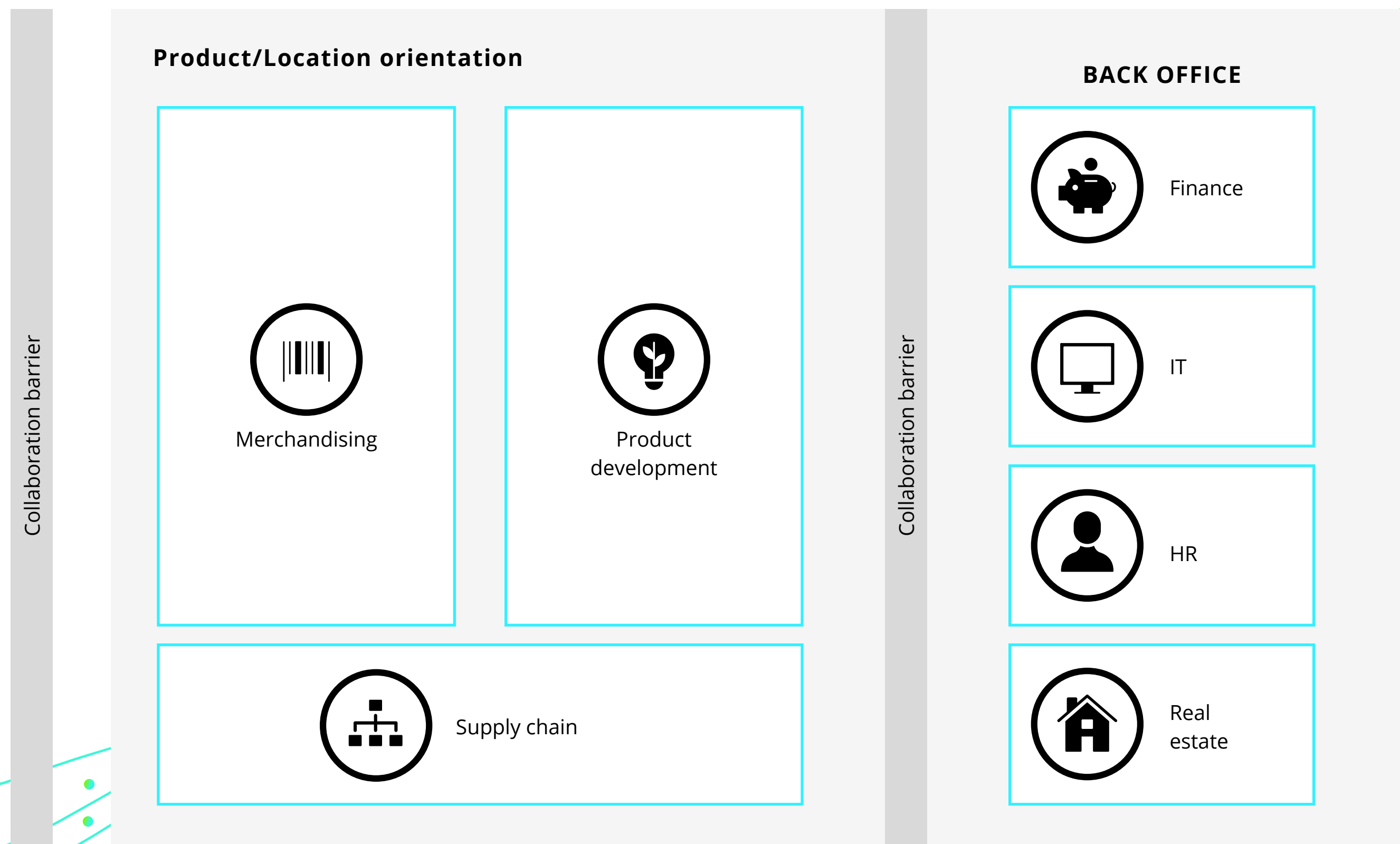
Areas of retail organizations, particularly marketing, have embraced the customer as their focus for years. The problem is that it has not permeated throughout the organization. Particularly problematic is that it has not been fully embraced within merchandising, traditionally considered the heart of retail.
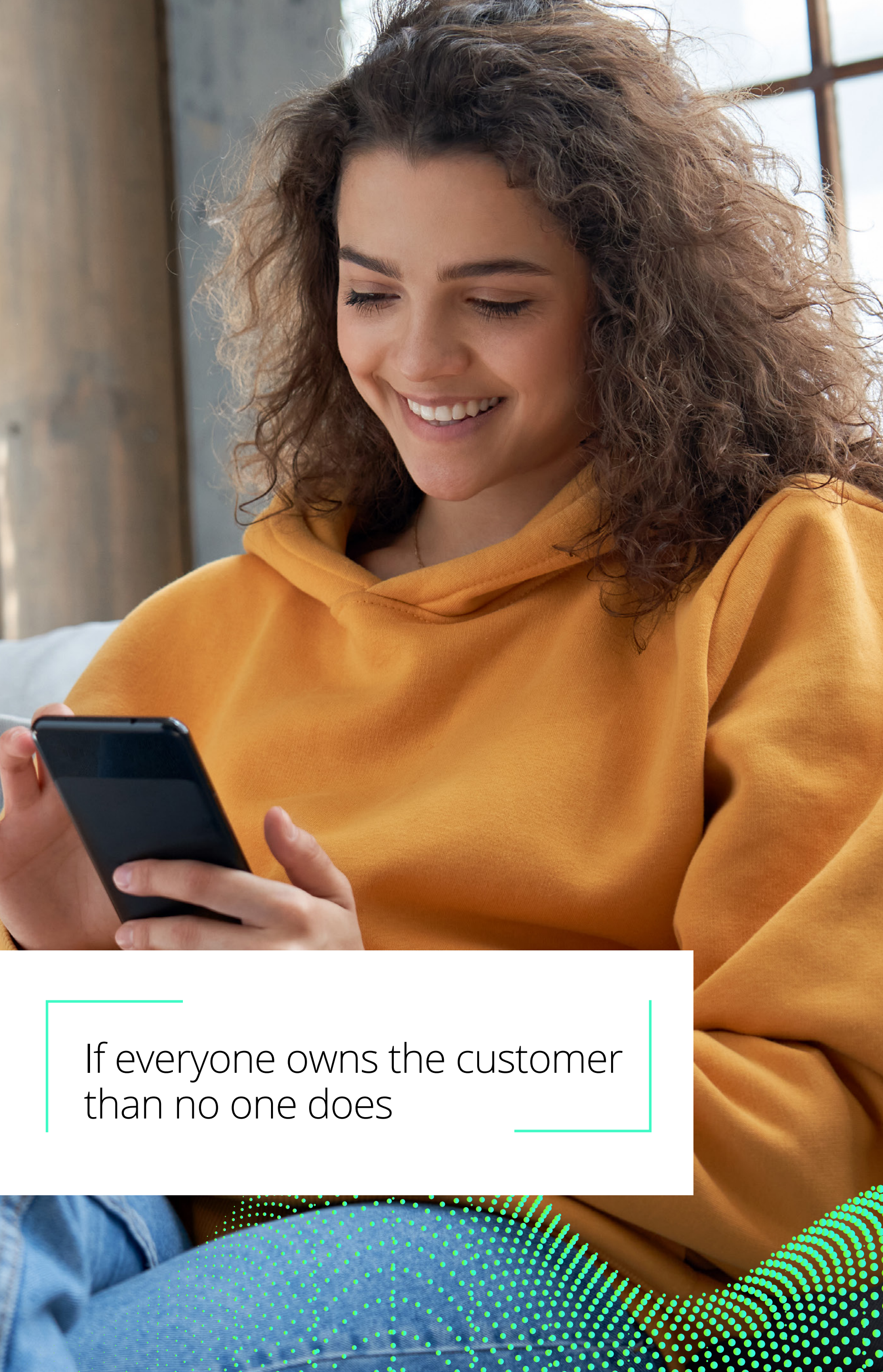
The biggest need to address evolving customer demands at scale and pace is to establish responsibility and authority for the customer *within* merchandising and integrate it with customer-focused efforts throughout the retail organization. Even well-intentioned customer-centricity will be doomed to under perform if it stops short of transforming the end-to-end value chain.

FOCUS OF CUSTOMER CENTRICITY

Customer orientation

CRM	Sales	Advertising
Brand	Marketing	Call center
Temp space	Digital experiences	Loyalty

Collaboration barrier

LEGACY PROCESS, METRICS, AND GOVERNANCE

Product/Location orientation

Merchandising

Product development

Supply chain

Collaboration barrier

BACK OFFICE

Finance

IT

HR

Real estate

Today's customer isn't just expecting a great product, but a holistic solution

Despite being a customer service industry, most retail organizations have no *single* role or position that really "owns" accountability to the customer and their needs. Many would suggest that marketing owns the customer, yet marketing rarely owns decisions on in-store experiences, digital experiences, merchandising assortments, supply chain strategy, etc. Most retailers have disparate functions managing different points of accountability, often with separate leaders and teams across each brand and each channel.

Each function has different intimacy, understanding, and perspective about the customer, which makes executing a cohesive go-to-market approach incredibly challenging, much less at the pace demanded by the changing customer.
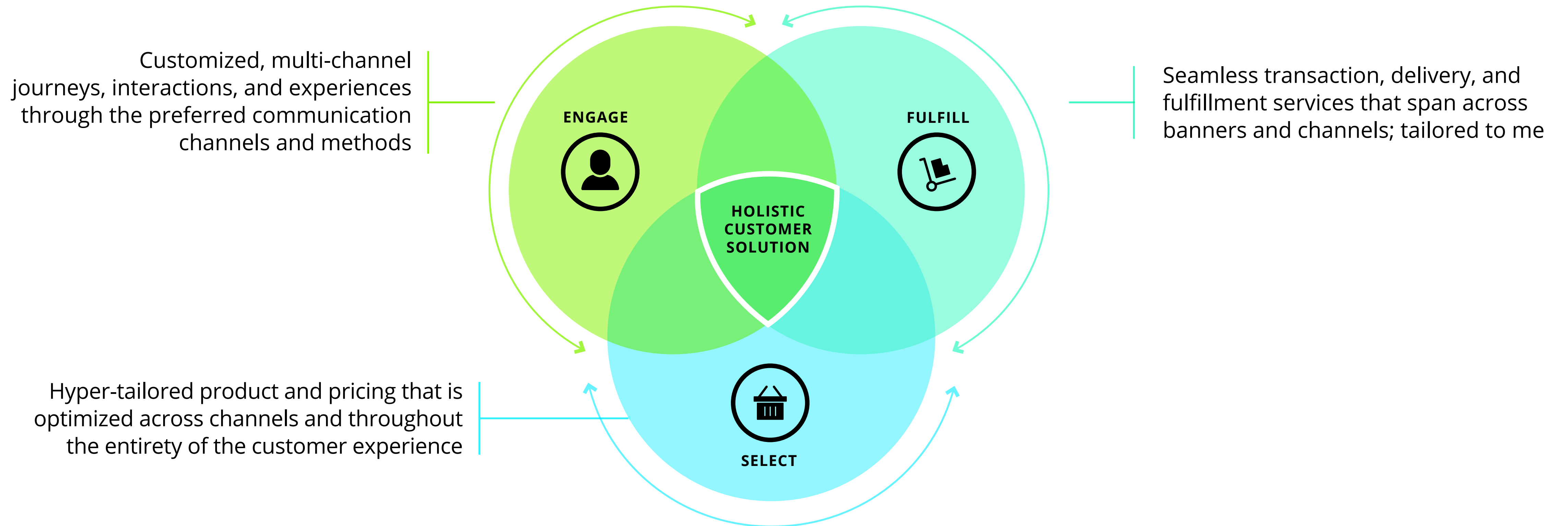
If everyone owns the customer, then no one does.

The result is a disjointed experience at best. In today's complex retail ecosystem, consumers have a wide array of definitions for value across product and services. A **holistic solution** is key to combining customer engagement, product offerings, and fulfilment methods to meet individual customer needs.

> If everyone owns the customer than no one does

Customer centricity isn't a one-size-fits-all approach

What "value" means to a customer looks different for everyone. By utilizing granular, data-driven customer insights, each customer can receive the personalized experience across their individual customer journey

Customized, multi-channel journeys, interactions, and experiences through the preferred communication channels and methods

Seamless transaction, delivery, and fulfillment services that span across banners and channels; tailored to me

ENGAGE

FULFILL

HOLISTIC CUSTOMER SOLUTION

SELECT

Hyper-tailored product and pricing that is optimized across channels and throughout the entirety of the customer experience

The proliferation of customer insights and outside data gives retailers a more complete picture of customer behaviors and spending patterns, enabling retailers to anticipate how they want to engage, what they want to buy, and how they want their product fulfilled.

Who is responsible for your organization's customers? What does value mean to those customers and how would you describe your holistic solution offerings?

Unlocking potential customer value

Customer management as a function is not new to business. It has long existed, even dominated, business-to-business (B2B) industries such as travel and hospitality, professional services, and wholesale/distribution.
In those sectors, customer management is separate and matrixed from the product organization but with authority and responsibility for customer outcomes and success.
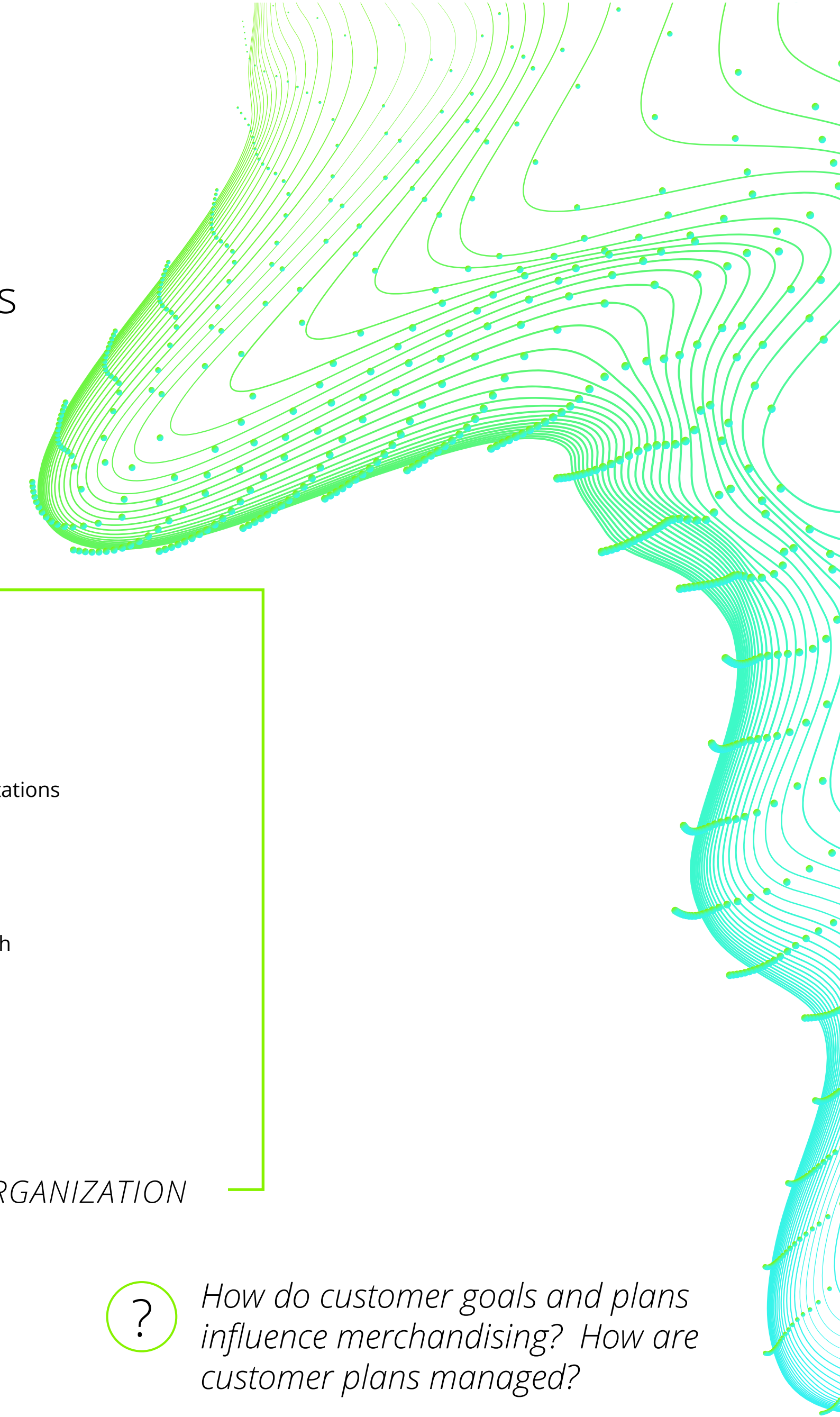
By contrast, customer management as a concept has existed in business-to-consumer (B2C), but generally is embedded within functions, lacking the authority to influence the organization cross-functionally. Ideally, customer management would assign representatives to each customer as in B2B, but since that isn't practical within B2C, it has to be viewed and executed a little differently.

The key to unlocking customer value within and beyond merchandising is customer management

This team needs to drive cross-functional, holistic solutions leveraging the organization's full capacity to offer, engage, and fulfill the customer's needs. This means:

Individual customer-of-one profiles and P&Ls, aggregated by behaviors and occasions

Clear accountability and incentives for customer goals and KPIs/metrics

Integrated planning that is coordinated across and influenced by traditional business functions

Granular, customer-level forecasting to assort, plan, and allocate from the individual customer up instead of the "same as last year" approach

Engage customers through extended reality to digitize voice of the customer testing and research

Uses outside-in data to drive and understand customer personas

Delivers the assortment framework and specific, localized needs to the product team

Guides macro and micro space allocations based on customer behaviors

Collects voice-of-customer data to inform strategies

CORE CUSTOMER MANAGEMENT RESPONSIBILITIES

Creates a holistic solution and strategy for a customer persona

Provides customer fulfillment expectations and needs to inventory managers

Develops segment and basket growth targets for customer segments

Develop and manage customer level financial plans

THE NEW "QUARTERBACK" OF THE ORGANIZATION

New technology advancements, including enterprise platforms - finally getting around to merchandising, coupled with analytics, AI, and automation - are making it possible to rethink how and where work gets done and by whom (or what).

? *How do customer goals and plans influence merchandising? How are customer plans managed?*

Transforming merchandising is hard

Historically, merchandising has been passed down largely in an apprenticeship model with deeply engrained ways of working and immense daily (sometimes hourly) pressure to deliver profitable growth. In our experience, most merchandising organizations' time and resources are allocated toward execution vs. strategic activities—leaving little to no time to think about the future, much less how to transform the way work gets done. And despite data and digital technology emerging as key differentiators, many merchandisers are still wading through weekly reports, slide decks, and days packed full of meetings to run their business and trade partnerships.

This model, while well known and followed, is broken.

The first step in merchandising transformation is setting a North Star aspiration and aligning on the capability and operating model to achieve it. Embracing customer centricity is not an incremental

change. Identifying customer-centric experts and freeing up some of your best minds to reimagine how work gets done is essential, including both what to *stop*, as well as *start*. Now is a perfect time to take a fresh look at future merchandising capabilities and operations, identify needs, and prioritize.

The skills and talent required to lead a strong customer management function are very different than the traditional merchandising capabilities, though the need for those traditional product skills isn't diminishing. Merchandising organizations may have people with the required focus, but many organizations may also need to reach outside of merchandising — to marketing, for example — for people who have made understanding and empathizing with customers their livelihood. Even then, most of the insight that will fuel customer management will likely come from outside merchandising.

Going beyond organizational change

Bringing customer centricity to life requires challenging legacy thinking, culture change, and leadership buy in to new ways of working. The operating model underpinning customer centricity is functionally oriented, allowing teams to narrow strategic focus and gain operational efficiencies. Roles will be predominantly omnichannel and teams will be focused on bringing to life the customer-centric strategies developed by the customer management teams.

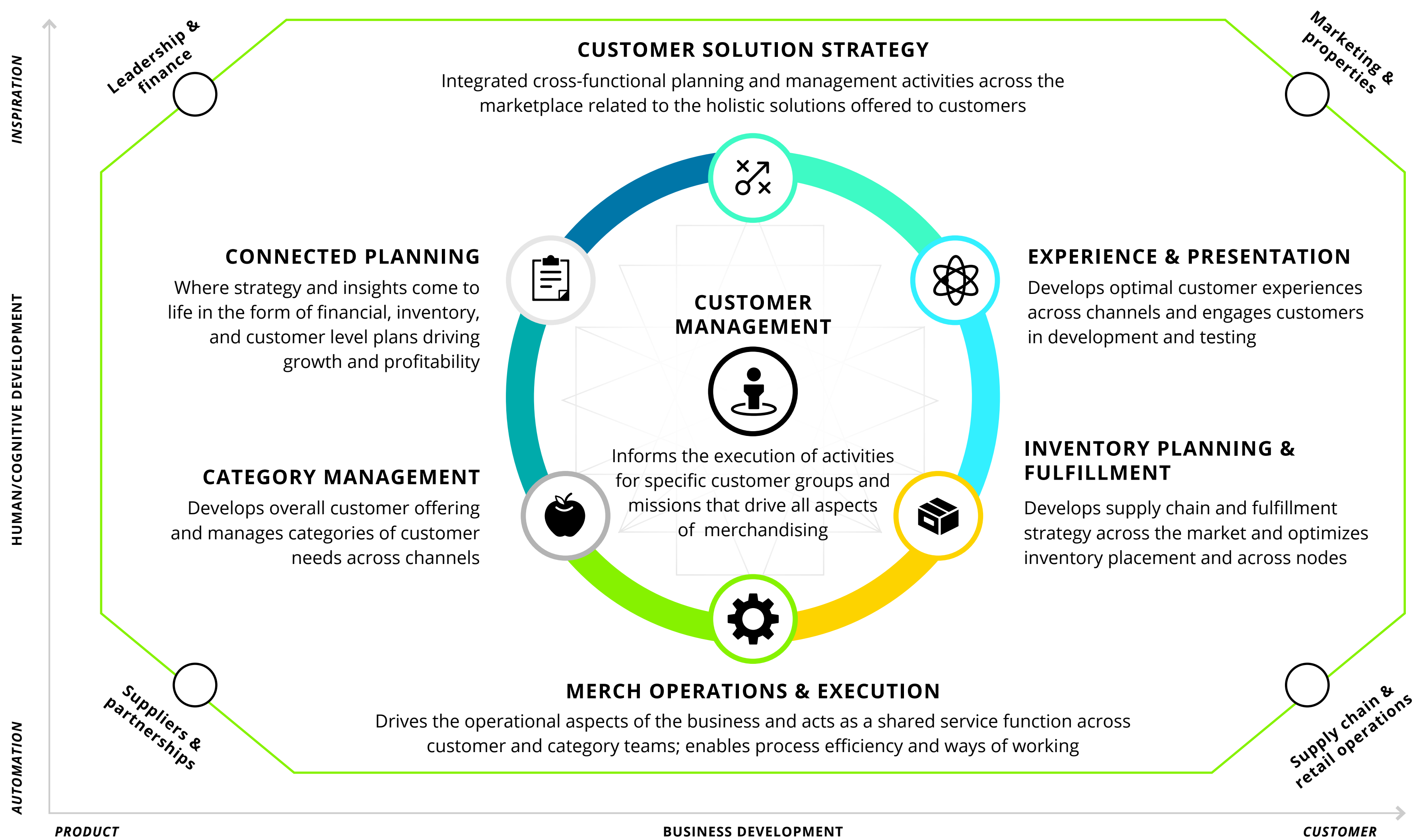## The C-Change in action – what has to happen

Establish and pilot a "customer management" function to build true accountability and authority aligned to consumers' needs and behaviors

Adapt the operating model centered around customer management, tying together disparate functions in service of truly customer-centric service and experience

Execute an achievable playbook to transform from current to future state, covering organization, talent, process, systems, data, and results management

Leadership & finance

Marketing & properties

Suppliers & partnerships

Supply chain & retail operations

CUSTOMER SOLUTION STRATEGY

Integrated cross-functional planning and management activities across the marketplace related to the holistic solutions offered to customers

CONNECTED PLANNING

Where strategy and insights come to life in the form of financial, inventory, and customer level plans driving growth and profitability

CUSTOMER MANAGEMENT

Informs the execution of activities for specific customer groups and missions that drive all aspects of merchandising

EXPERIENCE & PRESENTATION

Develops optimal customer experiences across channels and engages customers in development and testing

INVENTORY PLANNING & FULFILLMENT

Develops supply chain and fulfillment strategy across the market and optimizes inventory placement and across nodes

CATEGORY MANAGEMENT

Develops overall customer offering and manages categories of customer needs across channels

MERCH OPERATIONS & EXECUTION

Drives the operational aspects of the business and acts as a shared service function across customer and category teams; enables process efficiency and ways of working

PRODUCT

BUSINESS DEVELOPMENT

CUSTOMER

Customer management at the core of merchandising can break down silos and unite the organization under common goals, metrics, and aspirations. As the new "quarterbacks" of the merchandising organization, customer management teams should be comprised of digitally savvy, collaborative, and curious talent that work together to define holistic solutions for defined customer groups. They can then spearhead cross-functional, customer-centric integration: supporting marketing strategy, collaborating with supply chain to make those strategies achievable, engaging with finance on the economics, customer and enterprise strategies will be one and the same, used as the guiding light for functional initiatives and priorities.

The customer-centric merchandising platform

Most retailers would respond that they are already "customer-centric" — while in fact, they are only just taking the initial steps. Bringing this vision to life will require challenging legacy thinking, a cultural evolution and elevation of skills, and a willingness to move into new ways of working.

THIS VISION IS **COMPLEX AND BOLD** AND WE HAVE **THE PLAYBOOK** TO GET YOU THERE

So, what is really different with a customer-centric approach?

Everything. Though there are transformation steps that can minimize disruption to the business, the end result is an entirely new way of working. From merchandising and assortment strategy, to presentation and promotion, to in-store execution, every aspect of what merchants do today will be impacted.

Much of this will even be automated entirely, allowing merchants to focus more on the most strategic decisions. A successful transformation includes defining the future of merchandising down to roles, processes, and capabilities to build the vision and bring the organization along on the journey.
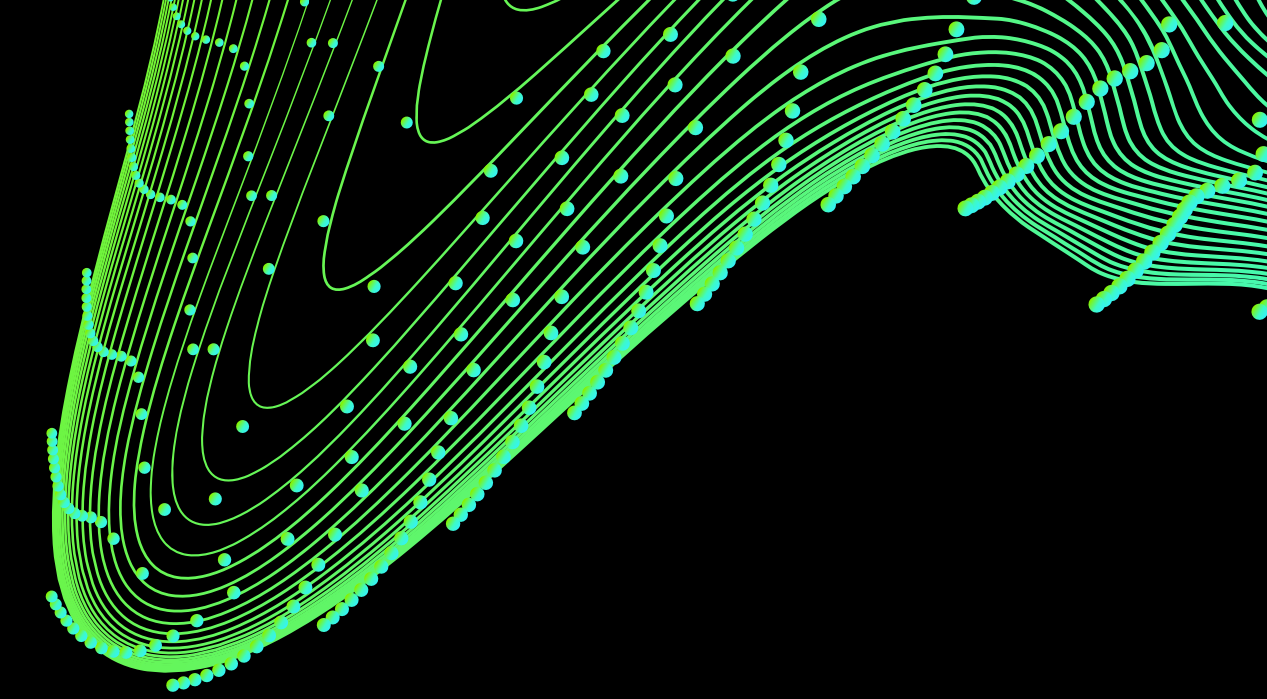
Old paradigm:
CATEGORY-LED
Wired for COMP

Category (product) sales & margin comps vs. last year

Role & intent based on target customer 'personas'

Keep / add / drop based on last year in-store sales

CPG selling, syndicated data, and pay for space

Physical walk throughs and market testing

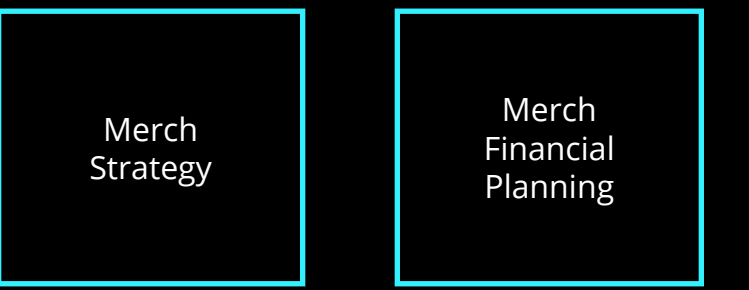National, regional, zone pricing; rules & competitive intel

Vendor-funded promotions to drive product sales

Low inventory accuracy and unknown compliance to planogram

Store ordering and lack of trust; separate distribution center & buying

Fill the shelf

Merchandising
'Products' or Capabilities

| Merch Strategy | Merch Financial Planning | Line Planning & Sourcing | Merch Pre-sentation (Space & Assortment) | Pricing | Marketing & Promotions | Buying & Inventory | In-Store Merch & Fulfillment |

New paradigm:
CUSTOMER-LED
Wired for GROWTH

Customer financial planning and holistic solutions (products & services)

New customer metrics & incentives

Data-driven household purchases across channels, marketplace & competition

Localization based on actual customers in channel/store

Digital/virtual testing with customer

Localized and personalized pricing & promotion

Re-allocated trade funds to joint customer goals and micro-segments

Inventory on-hand visibility and placement aligned to customer fulfillment preference

Centralized, demand-driven, end-to-end inventory mgmt

Optimized service levels and days-on-hand for every item & location

? *Have you defined your organization's 2025-30 merchandising ambition, capabilities, and operating model?*

Am I customer centric?

I have a role in my organization focused on specific groups of customers

I localize store assortments based on the specific customers that shop there

My promotional strategy is tied to customer behaviors and willingness to pay

My merchants have customer metrics as a part of their incentive plans

I can attribute the majority of my transactions to specific customers

I understand what products or services most influence basket size and trip frequency by customer type

My merchandising, marketing, supply chain, and retail operations teams collaborate to execute against a specific customer growth strategy

I digitally test assortment and planogram concepts with my customers through virtual means

My merchandising strategy includes services and other offerings beyond just products

I understand who my most profitable customers are

I create customer financial plans based on anticipated, individual behaviors

I can provide accurate inventory visibility to my customer across channels

I build recommended assortments based on how customers shop in stores, online, across competition, and outside of my retail sector

My pricing strategy is tied to community-based behaviors

I periodically realign my inventory placement due to customer fulfillment preference

KEY

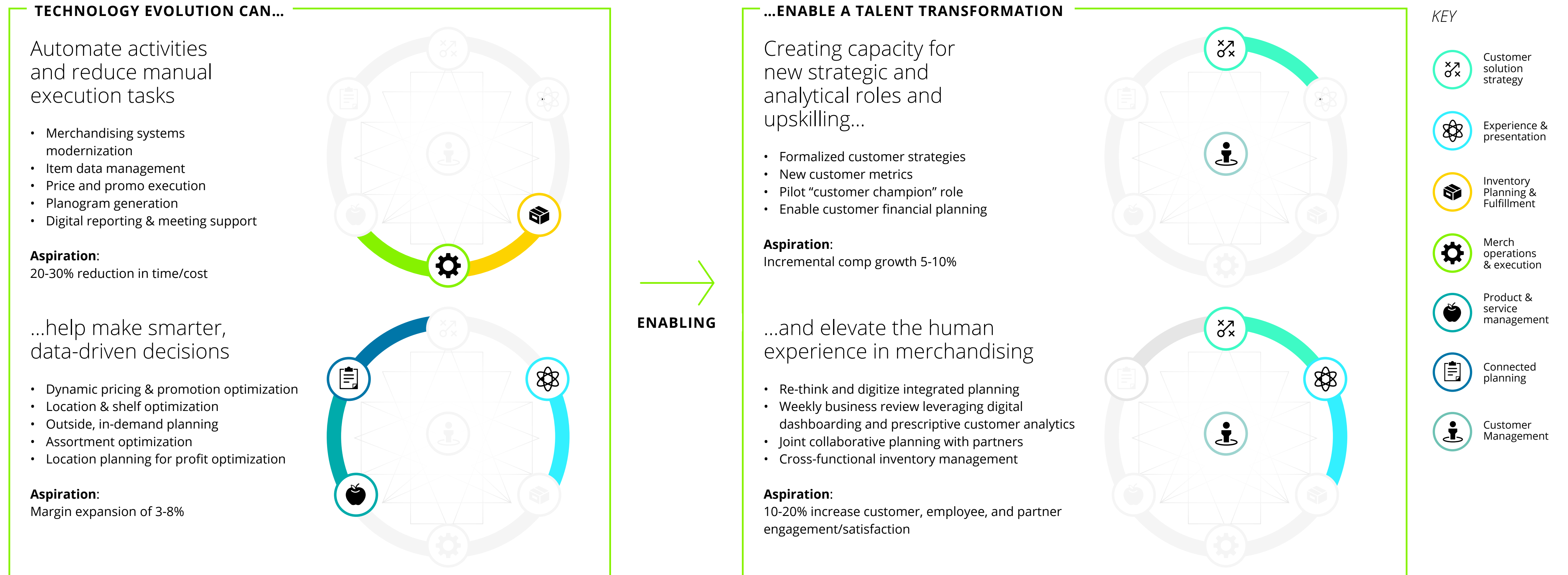| **0 - 5** | In danger of staying relevant |
| **6 - 10** | You're on your way, but more work to do |
| **11 - 15** | You might be a customer centric |

Crafting the merchandising transformation road map

Merchandising transformation can be a self-funded and accretive journey if architected correctly. There is a successful formula that incorporates technology to evolve, automate, and reimagine core business processes. Upgrading the operation to a modern machine can pave the way for automation through science and technology to free merchants from manual or underserved tasks, such as many allocation and pricing decisions, and give them more time to focus on true strategy and customer solution innovation.

TECHNOLOGY EVOLUTION CAN…

Automate activities and reduce manual execution tasks

- Merchandising systems modernization
- Item data management
- Price and promo execution
- Planogram generation
- Digital reporting & meeting support

Aspiration:
20-30% reduction in time/cost

…help make smarter, data-driven decisions

- Dynamic pricing & promotion optimization
- Location & shelf optimization
- Outside, in-demand planning
- Assortment optimization
- Location planning for profit optimization

Aspiration:
Margin expansion of 3-8%

ENABLING

…ENABLE A TALENT TRANSFORMATION

Creating capacity for new strategic and analytical roles and upskilling…

- Formalized customer strategies
- New customer metrics
- Pilot "customer champion" role
- Enable customer financial planning

Aspiration:
Incremental comp growth 5-10%

…and elevate the human experience in merchandising

- Re-think and digitize integrated planning
- Weekly business review leveraging digital dashboarding and prescriptive customer analytics
- Joint collaborative planning with partners
- Cross-functional inventory management

Aspiration:
10-20% increase customer, employee, and partner engagement/satisfaction

KEY

- Customer solution strategy
- Experience & presentation
- Inventory Planning & Fulfillment
- Merch operations & execution
- Product & service management
- Connected planning
- Customer Management

Managing as an integrated transformation program with clear business value and desired outcomes is critical. Many transformations fail without the right level of discipline, achievable milestones, defined results, and someone you trust to hold you accountable

How have you thought about and organized your transformation road map?

How-to guide:
Assets and approach to accelerate

The idea of a shift to customer-centric merchandising is not new, but the complexity of the transition has prevented even industry leaders from doing so effectively. A clear playbook defining before-and-after at the process and role level is essential to understand the magnitude of the transition and the value of doing it for everyone—merchants, customers, vendor partners, and cross-functional collaborators.

Deloitte has developed a point-of-view and assets at the level of detail necessary to make this transformation successful and enduring. These ingredients are intended as the base to help accelerate business architecture designs and operations, customized for the unique aspects and competitive advantages of each organization. That includes an approach to stabilize existing operations, using analytics and data science to automate operations and provide a self-funding engine in parallel with initiating the deeper transformation. This shift can and should be both cost effective and revolutionary.

Creating true industry leadership, differentiation, and innovation needs to leave room for craftsmanship and tailoring to the unique market context, positioning, and internal situation. Our people, highly skilled practitioners in business transformation and helping create the future of merchandising, will meet you where you are and help you go further.

How can we help future-proof your merchandising capability model and road map?

To learn more about Deloitte's merchandising consulting practice, connect with:

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We have been in your shoes. Deloitte has one of the largest merchandising consulting practice in the US and many of our core practitioners were hired from industry and have hands-on merchandising transformation experience. Our work includes long-term business transformations, change management and upskilling, technology modernization (including product management), and insights and operations services. Our intent is to understand how our team can be of greater help in serving your vision and mission—*and your evolution from category to customer.*