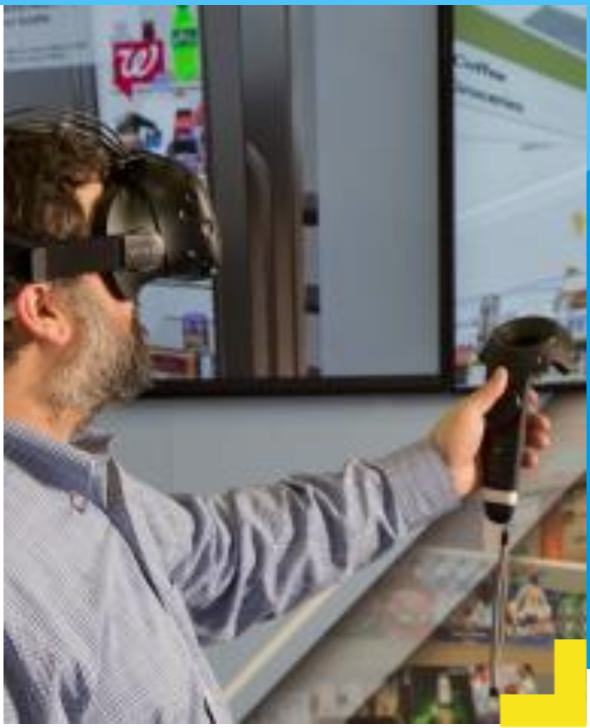
The Retail Innovation Challenge: Change Agents & Virtual Reality's ROI

Change can be daunting. But it's also inevitable, and the Retail and Consumer Packaged Goods industry is no exception to that rule.

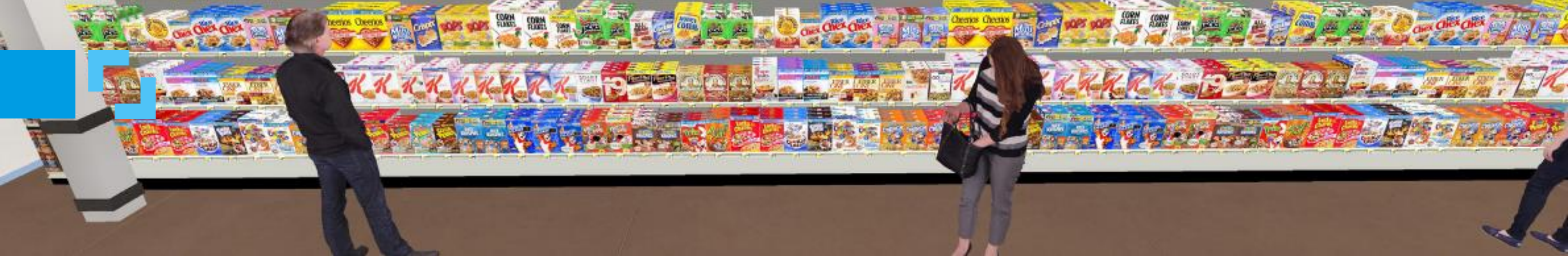


As Gen Y and Gen Z consumers create a space that requires more nimble, convenient and tuned-in retail options, traditional brick and mortar stores are dealing with ecommerce competition and decreasing resources, and an evolving center store footprint.

The Wall Street Journal recently reported that "grocery-store chains around the country are building new stores that have less space for traditional packaged foods in the center aisles", which means maximizing the return on shelf space is more important than ever. Questions like, "how does a national brand get on the shelf?" and "how can we differentiate beyond price?" are posed daily. Retailers and brands want to know how to make their own experience memorable and different, but the resources to do so are already stretched thin.

More and more companies are implementing zero-based budgeting systems in order to keep costs in check and reduce unnecessary spending, while mergers, acquisitions and consolidations are ramping up in an effort to offset declining growth rates within center store categories. The financials are an easy equation when topline growth is stagnant: reduce costs, focus on acquiring high growth businesses, and minimize the exposure of poor performing businesses.

While these strategies can address short term growth expectations, the question becomes how do you drive sustainability in the new norm? One solution that InContext customers are turning to involves shifting the mindset of talent to focus on adopting new capabilities, techniques, and technology. Driving this attitude requires organizational change—and an openness to evolve how we have always done business.



The Challenge to Innovate

Even in good times, businesses tend to stick with tried and true methods— many of which the food, drug, and mass industry has been using for years. Employees are changing roles on a regular basis to drive professional development, which can limit the chances we are willing to take during our rotation in any given role. Change can be overwhelming, and to many it means risk—and dollar signs.

According to a **2016 MIT Sloan Management Review and Deloitte digital business study** “nearly 90% of surveyed participants anticipate that their industries will be disrupted by digital trends to a great or moderate extent, but only 44% say their organizations are adequately preparing for the disruptions to come.” There are a few reasons why today’s manufacturers may be holding back from leveraging technology to make transformative changes in how they do business:

- It may seem inconvenient to learn a new platform and implement it company-wide
- They don’t know how to calculate ROI of new technology versus traditional methods
- Pessimistic outlooks toward the fate of brick and mortar obstruct change

If you want to win at retail, you have to change the status quo. One way is to invest in new solutions that help your business operate more efficiently and drive your organization to think differently. Luckily, there are solution partners for retailers and manufacturers that are helping do just that. But effective execution requires a well-rounded leader who has a vision, and has the support of leadership to evolve business process.

The CEO of a multinational manufacturer—and one of our leading clients—has said “to win at retail we need to evolve how we get to market; we no longer have the luxury of taking our time to develop innovation, evaluate it, and activate it with our consumers and shoppers.

Speed is currency. We need to fail fast, and learn from our mistakes.” They have done just that. By focusing on an enterprise deployment of tools and capabilities that allow them to develop ideas, test those ideas with real shoppers in a matter of days, and activate their learnings in market, they have successfully turned around a declining center store business. These ideas aren’t limited to new products or packaging, but innovation across all functions including sales, category management, shopper marketing, shopper insights and more.

A Change Agent

Even in good times, businesses tend to stick with tried and true methods— many of which the food, drug, and mass industry has been using for years. Employees Enter VR. Virtual store simulations have been around for years, yet very few have realized the value of VR and its impact on a return on investment. That’s because VR historically has been a costly, centralized capability used primarily for customer presentation: a wow factor. That all changed with the launch of ShopperMX™.

Fluctuations in shopper behaviors affects packaging demands and food trends. It also affects how manufacturers and retailers have to look at their store footprints, categories, trade dollars, and more. Adapting to those changes can take months and years when you think about the time it takes to come up with a new concept, test it and implement it through collaboration between manufacturer and retail partners. It can also be a huge budget buster, which translates to huge risk when you’re not confident that those changes will result in a return on investment.

ShopperMX™, our enterprise VR software platform for retail, is a leading change agent company leaders have been implementing when it comes to staying competitive in today’s retail industry. Those that are effectively adopting the solution are seeing significant return on their investment, tied to real dollars and cents. How?

Whether you're a manufacturer or a retailer, ShopperMX™ optimizes these key areas of the go-to-market process across your organizational functions:

It is inherently risk-free

New concepts are created and iterated within a virtual space, eliminating the need to build physical mock stores or new products. The elimination of physical prototyping reduces costs significantly.

It saves time

Making real-time concept changes only requires a mouse and a computer, and is done in a matter of minutes, rather than weeks. Understanding how these changes may impact shopping behavior at the shelf used to take months through rigorous controlled store, mock store, or virtual testing. With ShopperMX™, this now takes two weeks or less. Communicating the results to your sales organization or business partners can be streamlined and provides more rigor to your materials by repurposing the VR content produced.

It creates a collaborative environment

Working within an enterprise VR platform removes silos and closes the loop between teams, and between manufacturers and their retail partners. Multiple teams in different locations can make notes, suggest changes and demonstrate new ideas in real time.

It improves manufacturer/retailer engagement, and ultimately ROI

Because that's the goal—implementing new concepts that resonate with shoppers, all while saving time and money and improving the bottom line. You can do all that with virtual.

Let's explore an example of how a successful enterprise implementation of ShopperMX™ drove a clear impact for one manufacturer and one retailer.

VR Solutions in Action #1

Manufacturer X wanted to accelerate their speed to market, reduce cost of innovation, and drive topline growth based on their trade spend. They partnered with InContext Solutions to identify how virtual reality could be one tool to help meet these goals, and then activate the new capabilities, audit the return on investment, and report back to the leadership. For the purpose of this exercise, we will focus on one of the 13 functional areas in which ShopperMX™ plays a role today at Manufacturer X: Promotions.

Manufacturer X has 23 major promotional events throughout their fiscal year. While these are critical events that drive a high level of retailer and consumer engagement, they come at a significant investment. The cost of activating a national program— including marketing, displays, and sales efforts—is tremendous. Yet when we audited the process, we realized there was very little rigor that went into ensuring they were engaging and converting shoppers at the point of purchase. The team identified three immediate areas of impact in which the capabilities were activated:

Prototyping of Concepts

Historically, Manufacturer X would hire an agency and have them develop two different design concepts. The promotional leadership would provide feedback and align on a design reviewing 2D renderings, coming to a subjective decision on colors, display style, messaging, etc. The display supplier would partner with the agency during each round of revision to produce two or three physical prototypes. These prototypes would be reviewed in the office without any context of how they would play out in-store, where they would be merchandised, if they stood out amongst other displays, etc.

Shopper Research

While it would be ideal for Manufacturer X to conduct research on the design of these displays knowing how important these programs are to the brands topline sales, no research was ever conducted at the program level. It was just too costly and the timelines were too short to conduct research.

Engagement and Collaboration

When activating these displays with their DSD sales organization, they would send 10 to 15 Powerpoint slides describing the specifics of the program. Most of the detail was related to the costs and images of the display. There was no communication around the optimal placement in store, or the expected return on the investment based on performance. The sales team was selling with little data to justify the spend.

IMPACT

Through the implementation of ShopperMX™ in partnership with InContext, the Promotions team launched a new process that was proven successful with the first program that ran.

Step 1: Conduct our prototyping within the context of the store.
The team quickly learned that design feedback should be conducted within the context of the store, around what else is happening in-store, where it is being merchandised, and how it will fit in. In this case, the agency provided three designs: simple (least expensive), medium, and complex (most expensive.) The promotions team decided on the complex concept; while the most expensive, they felt it would provide great value as it had lots of design features including lighting, graphics, messaging, and more.

Step 2: Spend a little to get a lot.
While traditional research methods may cost upwards of $50,000 to evaluate 3 to 4 prototypes and can take months, ShopperMX™ Indicators are a relatively low cost option providing quantitative results related to sales performance in a matter of days. Through the use of these quick iterative tests, Manufacturer X learned that the most expensive version of the display would actually result in poor sales performance, and the least expensive display performed best: a savings of $40/display X 22,000 displays= $880,000.

Step 3. Use technology to drive sales.
Since the designs were already in ShopperMX™, we quickly converted these into storytelling videos, integrating not only a voiceover story highlighting historical performance, but insights related to optimal placement, expected results, and shopper perception. These were then deployed to the field teams' tablets through ShopperMX™ Mobile, resulting in program sales being the highest in the past four years.

VR Solutions in Action #2

Retailer Y approached InContext Solutions through their consulting partners. They were faced with increasing scrutiny from leadership on reducing the costs of resets. While meeting with this retailer's leadership, we identified a few alarming concerns:

- In most cases, final arrangement and assortment decisions were based on subjective decision making (using historical sales data and other sources), ultimately by the buyer and buyer's leadership.
- Resets could take up to 6 months to activate in-store
- 60% of their resets did not yield category growth

By implementing ShopperMX™ in this part of the organization, we expected to reduce costs, drive efficiencies in their reset process, and build in rigor that didn't exist.

Prototyping of Concepts

Historically, Retailer Y leveraged their mock store (a life-size prototype of one of their actual stores) to set the shelf and have multiple rounds of iteration from leadership. Often, leadership would walk through and ask for revisions, which resulted in days to adjust and schedule another walkthrough. In addition to the time, the maintenance and labor costs of maintaining their two facilities was extensive:

- $1.5M to complete initial setup
- $300k to staff annually
- $250k to maintain annually
- $400k in leased space

Shopper Research

Seldom could the final arrangement/ assortment be tested prior to rolling out in store. For high risk resets, a controlled store test may be conducted within 25 to 50 stores. This controlled store test would take 3-6 months, was limited to the geographic footprint of the test stores, and lacked control, as there was limited exposure to competitive activities, store promotions, and other variables.

Engagement and Collaboration

When communicating resets to the stores, the organization would distribute physically printed and bound merchandising books, the costs of which were $500/store each year, and were produced off of ad-hoc pictures or JDA files.

IMPACT

Step 1. Reduce time, labor costs, and facility costs by migrating low risk categories to virtual layout and revision.
As Retailer Y started to test this process, they quickly realized that changes could be made on the fly. Their Post It notes with SKU level data were migrated to visuals overlayed on the virtual wall. Leadership walkthroughs went from three rounds down to one session. The costs for these resets were reduced significantly:

- $200k – $400k to setup
- $75k – $170k to staff annually (assumes 1 – 2 employees)
- $25k - $100k to maintain annually
- $7k - $10k in leased space annually

Step 2. Mitigate risk of non-performing resets by integrating standardized testing into the reset and revision process.
During the course of the launch we worked closely with one buyer who was making significant category changes, yet there was no plan to test the new planogram in-market. The buyers' assumptions were proved incorrect with an alternative recommendation generated from ShopperMX™. This was validated subsequently through a controlled store test: the resulting sales data was .02 brand share points from the reporting data from ShopperMX™.

Step 3. Leverage virtual content to communicate more effectively with your stores. With the final planograms integrated into ShopperMX™ and their virtual store, they had a great medium to communicate to their store managers. The new ShopperMX™ Connect deployment enabled store managers to walk the floor and visualize the changes and how they would need to come to life in-store, rather than reviewing 80-100 pages of paper.

These are just two examples of how successful leaders are investing in technology to create a significant return on investment. At InContext, we track ROI for each of our ShopperMX™ customers; for every dollar spent, we provide our customer base with a $14 return on average. By modifying traditional behaviors and processes, adopters of a change agent like ShopperMX™ are able to create engaging in-store experiences that resonate with customers, in less time, for less money and with better results.

For more information,
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