Retailers vs. Consumer Package Goods Companies: Worlds Apart?

Benchmark Report

Brian Kilcourse and Steve Rowen, Managing Partners

August 2024

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Executive Summary

Key Findings

This research is unlike any RSR has conducted in the past. While we have long maintained that merchandise planning has been more about what retailers and their suppliers want to sell than what consumers necessarily want to buy, consumers are increasingly vocal that **this model no longer works for them**. As a result, we elected to query both sides – retailers AND CPG providers - to find out their challenges, internal struggles and future plans in order to make real progress.

This report is the result of a survey of all involved, and seeks to answer questions about how retailers and CPG provider collaborate now to bring products to market. We wanted to understand the extent of product category managers' current and future realities on both sides of the trading relationship. We also wanted to home in on how planners use technology, particularly geo-location data and analytics, to better localize and refine assortments, prices and promotions.

What did we find, and who's to blame? Are retailers and suppliers in the fight to bring more relevant products to shoppers together? Or are they truly worlds apart? Some key findings from the data:

- At a high level, retailers and CPG providers *stop shy of pointing fingers*, but are distrustful of one another. In an era when information about how customers shop is gold, ***retailers worry that open sharing this data will simply allow CPG providers to "go around" them***, ***selling more products direct to consumers***. Conversely, CPG providers fret that retailers – especially ***grocers – would use this same information to go around <u>them</u> by using it to develop more and better private label product***s. As such, both parties are currently operating as frenemies; they agree to collaborate – but not *too* much.
- While all are challenged to make the most of the customer data *do they have in their control*, both sides ascribe real importance to new analytics tools to help accomplish that goal. However, when we scratch deeper and analyze responses by performance level, the best performing retailers are ***far more critical*** – and suspicious – of their supplier brethren's actions.
- When it comes to **Opportunities**, CPG providers are much more driven to use customer analytics as key inputs in merchandise planning. Eighty-one percent of CPG Winners want to use customer analytics in their planning, versus just more than half of Retail Winners. CPG over-performers view it as a competitive advantage.
- In the **Inhibitors** section, stores still present far too many blind spots to both retailers AND the people making the goods that retailers sell. Both share a vision for investing in analytics capabilities that help respond to changing conditions in as-close-to-real-time as possible. The difference, however, is that ***CPGers have a much stronger version*** of this vision. Fully 3 out of 4 CPG Winners identify this as the best way to get past their internal roadblocks to progress, compared to only 52% of Retail Winners.
- When it comes to **Technology Enablers**, the best retailers have *big* appetites. However, ***retailers are not the ones with budget set aside to make big changes in the near-term future***. More than 60% of CPG Winners have planned and budgeted changes in place for 2 specific tech solutions: optimization technologies for functions like **price, promotion, assortment and space planning**, as well as **external data** (competitive

metrics, market metrics, environmental data, etc.) **to improve forecasts**. CPGers – *the best CPGers* – are tired of being left in the cold on things their retail partners likely already know but have not been willing to share openly.

As always, we conclude with recommendations derived from the insights revealed in the report for all - both retailers AND suppliers. We certainly hope you enjoy the report!

Brian Kilcourse & Steve Rowen

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Research Overview

The State Of Collaborative Planning & Execution In CPG

RSR's benchmark research reports focus on the business use cases that drive the adoption of information and technology in the retail industry. One feature of our research is that we identify "winning" behaviors – those things that over-performers ("Retail Winners") do to win sales and profitability above the competition. Those winning behaviors frequently provide the go-forward recommendations that are a hallmark of our benchmark reports.

On occasion, we have conducted "360-degree" benchmarks, comparing retailers' attitudes about the challenges and opportunities in today's retail environment, to those of consumers. This gives us an opportunity to test retailers' priorities against what consumers want from them, and sometimes the differences can be glaring. For example, in one recent study we asked retailers to assess the value of the store for consumers; in that study, we learned that retailers are far more optimistic about how much shoppers "*love to browse stores*" than consumers are (88% compared to 69% of consumers)[1]. The fact that over 30% of consumers ***don't*** love browsing in the store should be a warning flag.

In RSR's studies, we have consistently found that Retail Winners maintain a laser focus on consumer attitudes, behaviors, and lifestyle preferences. In the past, the most frequently used measure of customer satisfaction was product movement transactional data from instore point of sale systems, but over-performers have more recently taken advantage of non-transactional data created by consumers (for example, click stream data from the Ecommerce site, targeted e-mail "opens", social media, and geo-locational data from mobile phones) to better understand how consumers interact with the brand (for example, time-of-day traffic patterns can influence localized assortments). Using new non-transactional data created by consumers in the merchandise planning process is the essence of "customer centric" retailing.

RSR has opined for years that merchandise planning has been more about what retailers and their suppliers want to sell than what consumers necessarily want to buy. This has been particularly true for retailers that feature highly standardized and replenishable CPG ("consumer packaged goods") assortments; the very best retailers perfected this *mass merchandising* model by limiting the number of choices consumers had and buying "big" – passing the cost-of-goods savings on to consumers in the form of low prices.

But with the rise of omnichannel shopping, retailers are moving towards more localized assortments, prices, and even promotions, to create a more relevant shopping experience in the stores for their best shoppers. However, they can't transition to more customer-centric planning alone – they need to work closely with their trading partners to develop more relevant and targeted value propositions to consumers while still preserving the cost-of-goods advantages of the mass merchandising operational model. This obviously affects how retailers and their supplier partners must plan.

With that in mind, the RSR team set out to do something new, to take a 360-degree look at how retail companies that feature CPG products in their assortments[2] and the suppliers of those

[1] **Why The Retail Store Won't Survive As A 'Tech-Free Zone',** RSR Benchmark Report, April 2024

[2] **FMCG** ('Fast Moving Consumer Goods" retailers), principally grocers, convenience stores, chain drug, and "dollar" stores, and **GM** ("general merchandize") retailers, principally mass merchants like Walmart, Target, Costco.

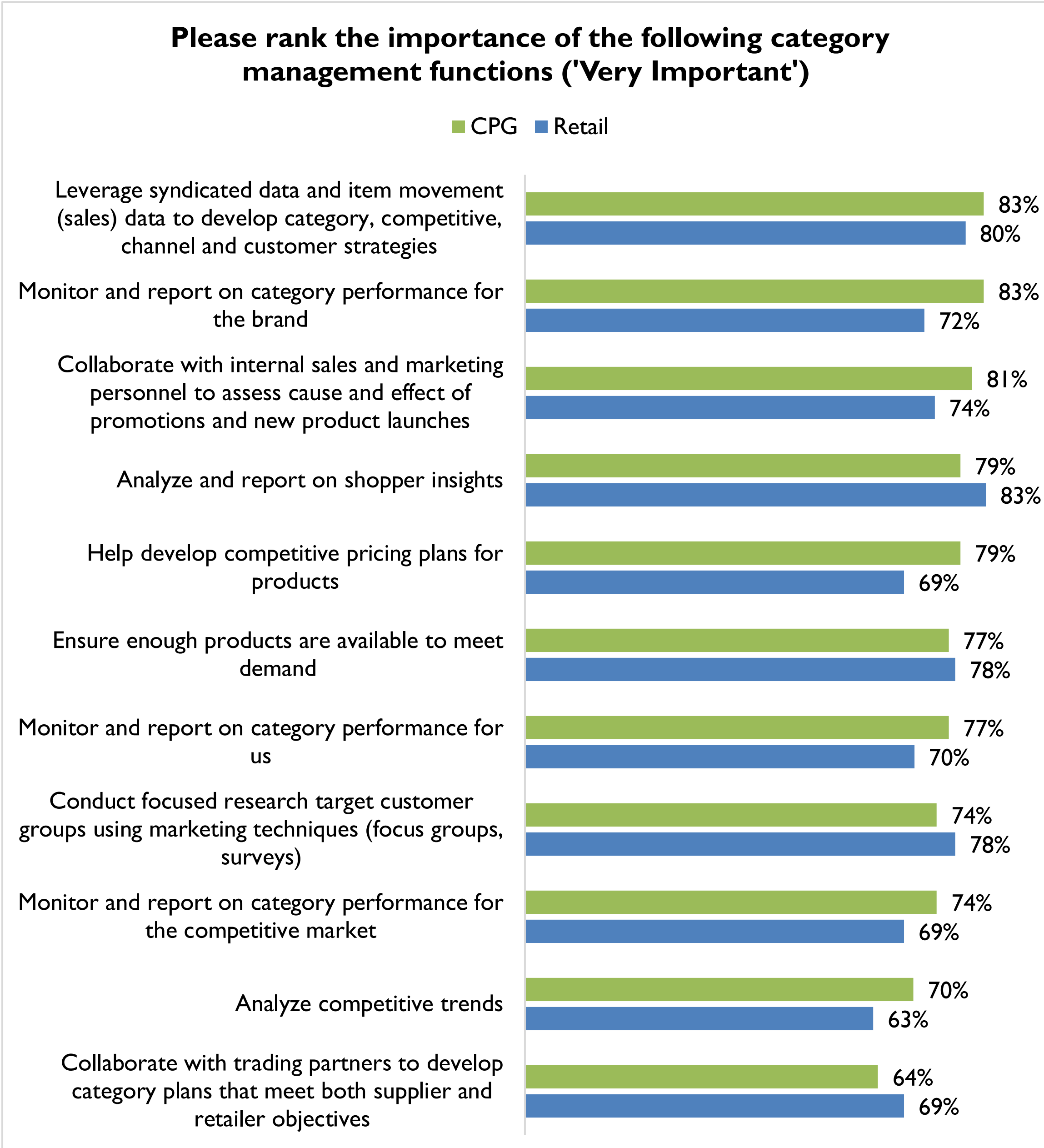
products collaborate to bring products to market. We wanted to understand the extent to which product category managers[3] on both sides of the trading relationship work collaboratively to achieve their business objectives. We specifically wanted to better understand how planners use ***geo-location data and analytics*** to better localize and refine assortments, prices, and promotions.

Are Category Managers Working In Sync, Or In Parallel?

To help set the stage, RSR asked respondents to the study's survey to rate the importance of tasks associated with category management (Figure 1). The good news is that the trading partners are largely in sync on the importance of these tasks.

[3] According to the website workable.com, "A **Category Manager** is a professional responsible for managing a specific group or category of products within a company. They analyze industry and consumer trends, develop strategies, and oversee pricing, promotion, and product range management to maximize sales and profitability."

Figure 1: Both Sides Now

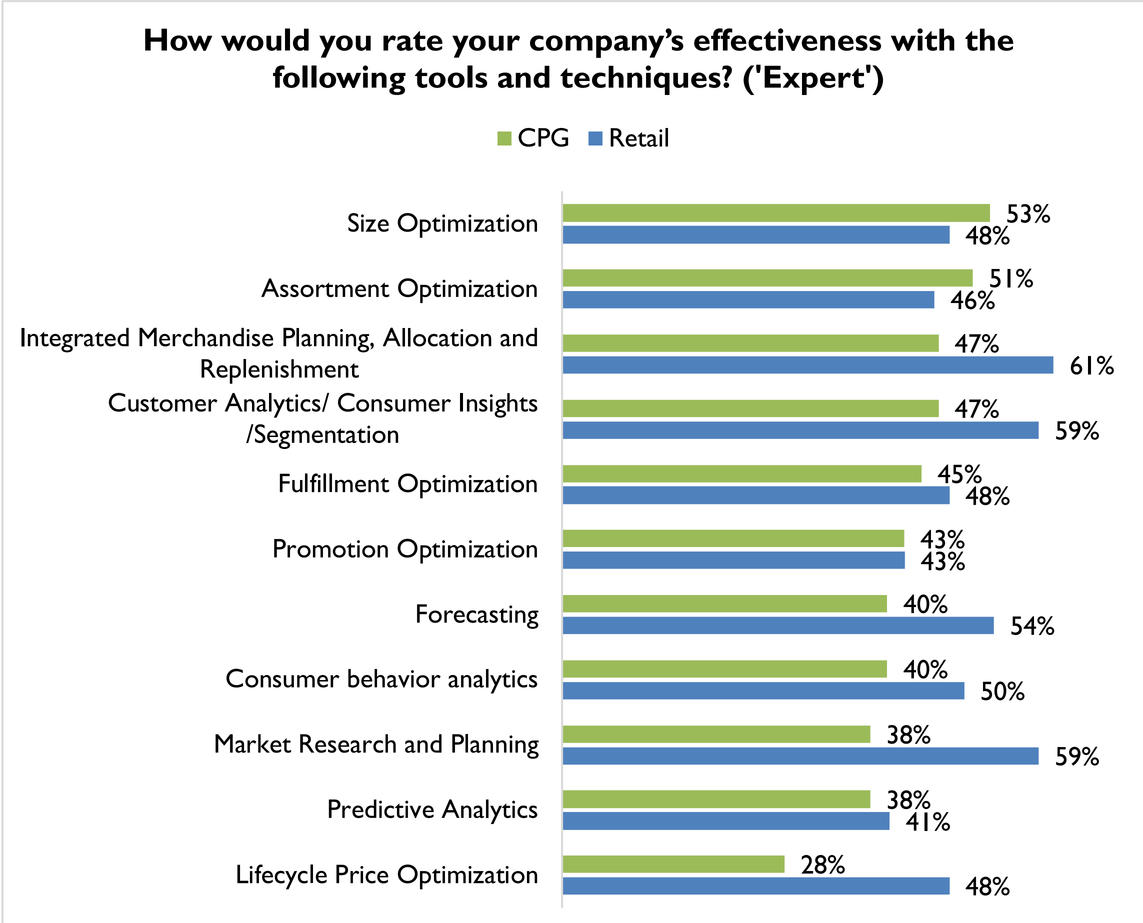


Source: RSR Research, August 2024

The working hypothesis for this benchmark was that retail and CPG category managers need to work more closely than ever, coordinate processes, and share data to achieve their objectives. We wanted to find out if category managers on both sides of the aisle are working in sync with each other, or in parallel.

To start to get an answer to that question, we asked our survey respondents to rate their expertise on various category management related processes (Figure 2).

Figure 2: In Sync Or In Parallel?



Source: RSR Research, August 2024

The very first insight that jumps out is that - with a few exceptions - one-half or less of both retailers and CPGers claim to be "expert" in the tasks we asked about. **We don't think this is false humility** – merchandise planning is undergoing industry-wide retooling as a result of the new customer and market data that is available today, as well as new data analytics toolsets that can help make sense of all that data. And while more retailers claim to be expert at analysis tasks associated with consumer data, CPGers show a heightened interest in getting consumer feedback into the planning cycle. This is interesting, because it shows that they want more than aggregated demand from retailers.

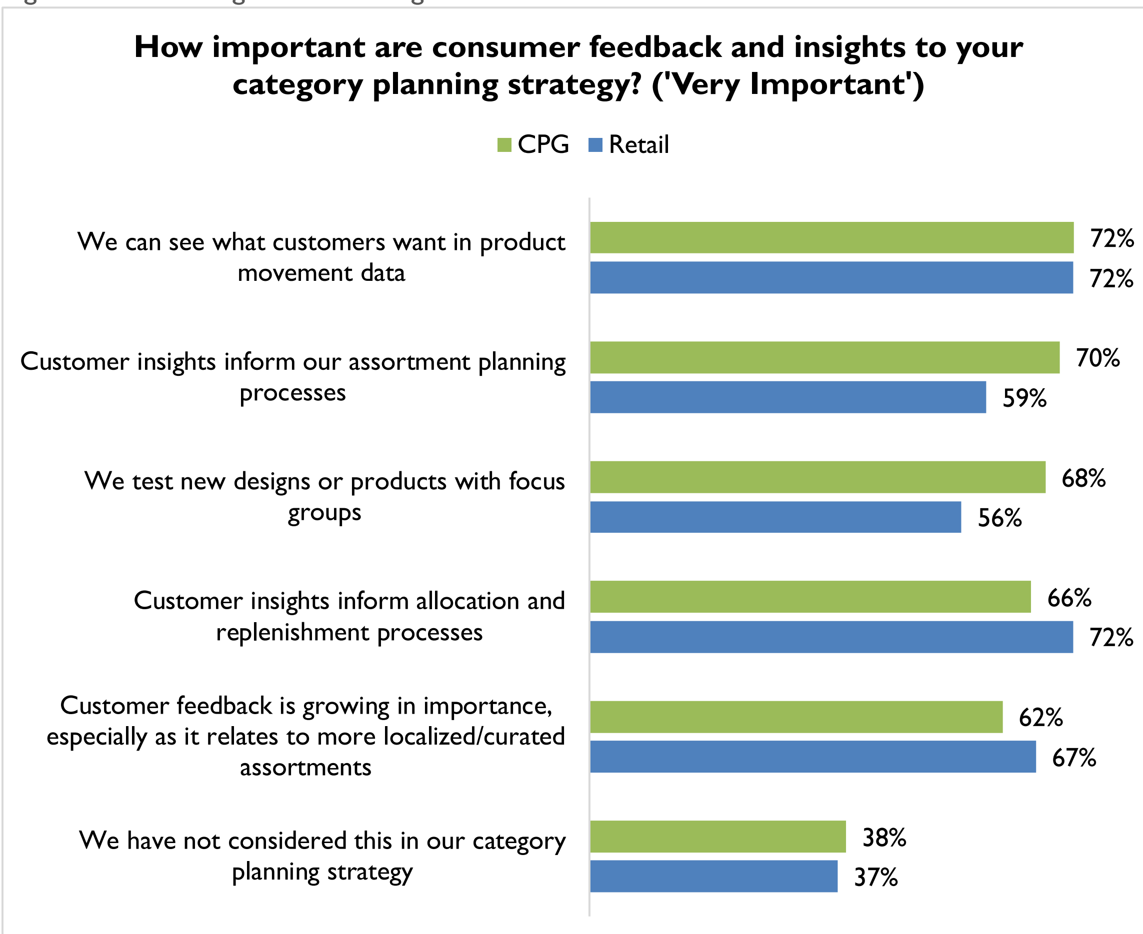
Bottom line, there's plenty of room for improvement on both sides of the aisle on almost all of the tasks associated with category management.

How Important Is New Data?

As already mentioned, product movement in the store (as represented by items scanned through the point-of-sale system) was the virtually the only proxy for consumer demand for years – that is, until consumers were able to generate non-transactional data from their digitally enabled lives to better inform retailers' and suppliers' planning.

Much has been written about the importance of these new data, but for the majority of merchants it is no longer even debatable: using customer feedback and insights in the planning process is ***very important*** (Figure 3).

Figure 3: Trading Partners Agree



Source: RSR Research, August 2024

While both CPG companies and retailers believe that they can understand what consumers want based on what they have bought in the past, there's an apparent recognition that that alone is not enough; CPGers in particular want to inform their planning processes with *customer insights*. That highlights the degree to which CPGers want something beyond the aggregated sales data (at "sku/store/date" level) that retailers have traditionally made available to them. Retailers see themselves as the "owners" of the customer interaction and the granular demand data that results, and they have historically been very stingy about sharing it with suppliers. But the times may be forcing a change in that attitude.

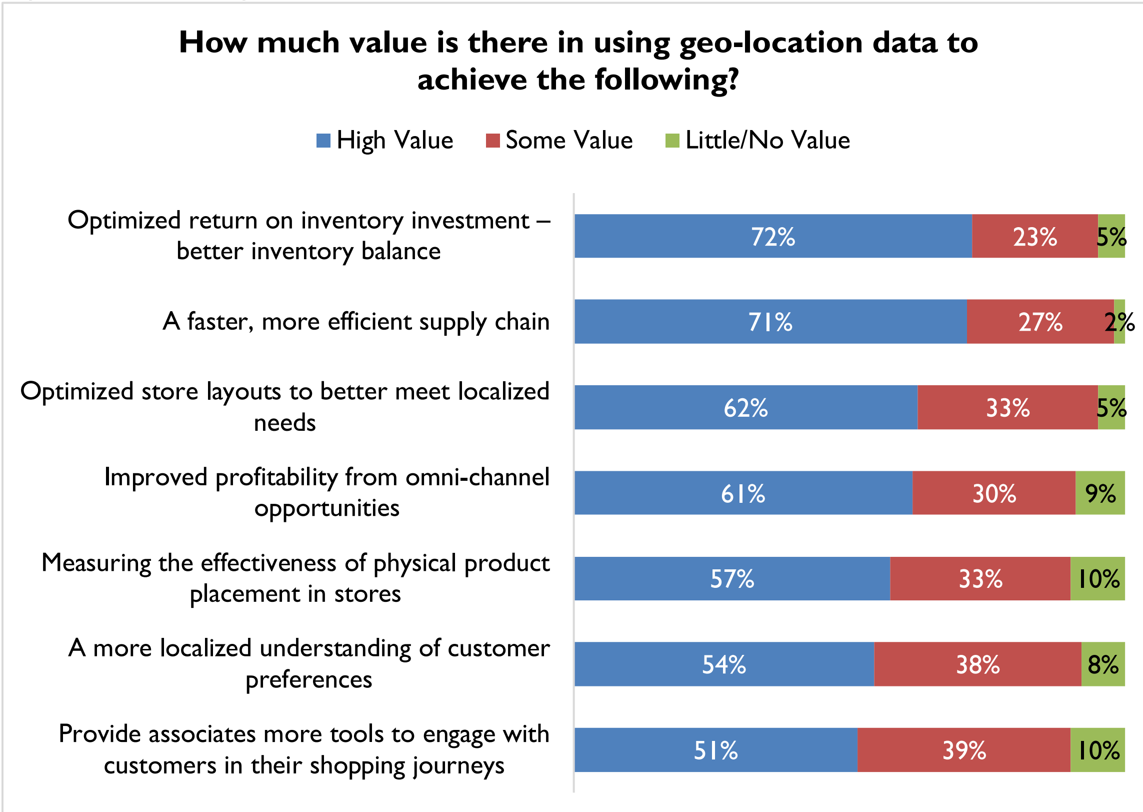
What Is The Value Of Location Data?

In this benchmark study, we also wanted to explore the extent to which planners are using *geo-location intelligence* in their processes. RSR first introduced the subject of geo-location intelligence (geo-location data and the analytics required to derive insights from it) in 2017[4], and we have seen

[4] https://www.rsrresearch.com/research/location-analytics-new-data-new-opportunities

it grow from a curiosity to a necessity. Now, respondents to this survey show that it is viewed as providing essential insights to help them to achieve various business objectives (Figure 4).

Figure 4: The High Value Of Location Data



Source: RSR Research, August 2024

The use of geo-location data to enable not only improved planning but also improved real time responses to events as they are happening is relatively new to retailers and their suppliers, but it is already apparent that it creates real strategic advantages. And that inevitably brings us to focus in on what constitutes a "Winner".

Winners And Why They Win

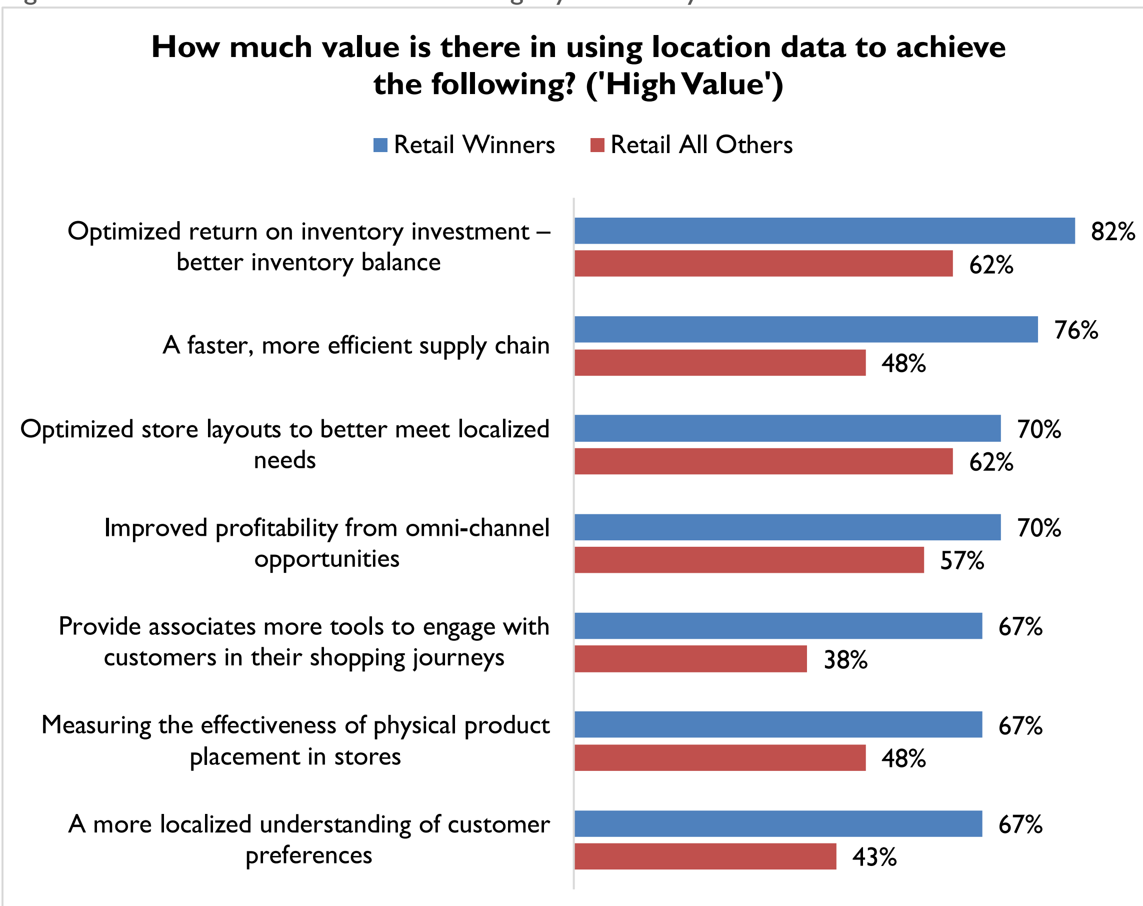
In our benchmark reports, RSR quite frequently cites differences between retailer over-performers in year-over-year comparable sales and their competitors. We find that consistent sales performance is an outcome of a differentiating set of thought processes, strategies, and tactics. We call sales over-performers "Retail Winners."

RSR's definition of these Winners is straightforward. Assuming industry average comparable store/channel sales growth of **5 percent**, we define those with sales above this hurdle as "*Winners*," those at this sales growth rate as "average," and those below this sales growth rate as "*laggards*" or "also-rans."

For this study, we applied the same metric to CPG companies as we did for retailers – performance improvement greater than 5% in 2023 indicates a "Winner". Spot-checking public earnings announcements, we can see that a 5% YoY growth rate for CPG companies has been hard to achieve (for example, Kellogg grew 2.5% while competitor General Mills grew only 1.1%). But we applied the same hurdle to both retailers and suppliers for this study for consistency. As a result, 61% of our retail respondents were identified as "Winners" vs. 34% of our CPG respondents.

An example of Winners' ways is in the value that over-performing retailers assign to using location data to improve operational processes (Figure 5). The aggregate retail results shown in Figure 4 obscure the fact that is it clearly Retail Winners who are getting the best value from location data and analytics.

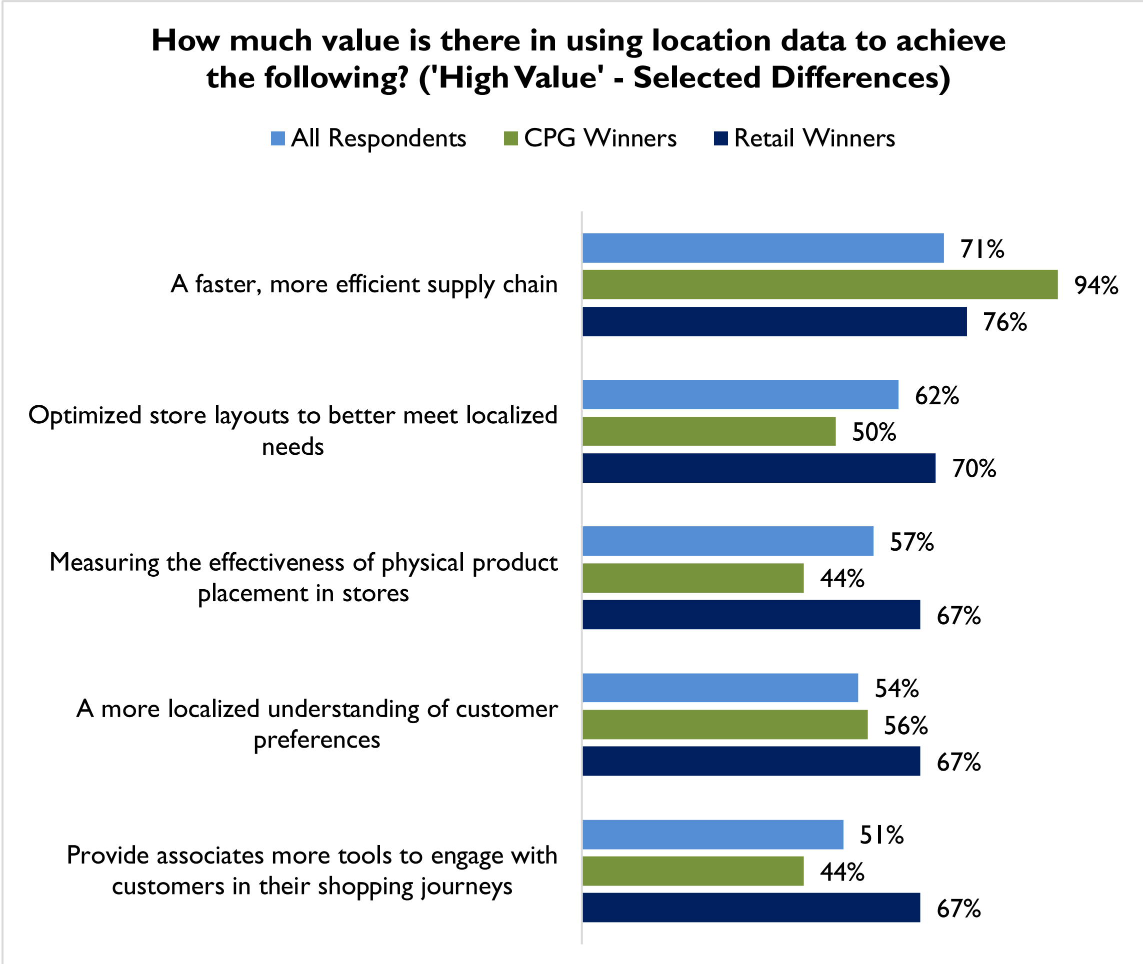
Figure 5: Even More So For The Mighty Minority



Source: RSR Research, August 2024

When we compared responses from Retail Winners to CPG over-performers, the focus that guides each party comes into play. While both place a high value on a "*faster, more efficient supply chain*", the **majority of CPG Winners are focused on that almost to the exclusion of other considerations** (Figure 6). Retailers are much more focused on the customer experience itself – more localized assortments based on customer preferences, physical product placement in the stores, and the ability to engage with consumers while they are shopping.

Figure 6: A Matter Of Focus



Source: RSR Research, August 2024

This is at odds with what CPG respondents told us earlier, that they want to inform their assortment planning processes with customer insights (Figure 3). But the question is about *location intelligence*, and CPGers see value in those insights more for managing the flow of goods. That's an operational issue.

For Retail Winners, the focus is on getting products to the stores where it's most likely to sell – thus the focus on localization. That's a planning issue. While these two focuses obviously aren't mutually exclusive, we'll see differences like this as the report unfolds.

Methodology

RSR uses its own model, called The BOOT Methodology© to analyze Retail Industry issues. We build this model with our survey instruments. See Appendix A for a full explanation.

In our surveys, we continue to find the kinds of differences in thought processes, actions, and decisions cited above. The BOOT helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Survey Respondent Characteristics

RSR conducted an online survey from May-June 2024 and received answers from 101 qualified retailers and consumer products goods companies. Respondent demographics are as follows:

- **2023 Revenue (US$ Equivalent)**

\$250 million - \$499 million	30%
\$500 million - \$999 million	29%
\$1 Billion - \$5 Billion	31%
Over \$5 Billion	10%

- **Products sold:**

FMCG: C-store, Food & Drug, Health Care Products	13%
General Merchandise: Discount, Mass Merchant	87%

- **Industry**

Retail	53%
Consumer Products Goods	47%

  - *Food & Beverage* *36%*
  - *Beauty & Wellness* *15%*
  - *Household Products* *49%*

- **Year-Over-Year Sales Growth Rates** (assume average growth of 5%):

Worse than average	6%
Average	46%
Better than average	49%

- **Markets Served**

USA	100%
Canada	43%
Latin America	17%
UK	24%
Europe	20%
Middle East	15%
Africa	6%
Asia/Pacific	15%

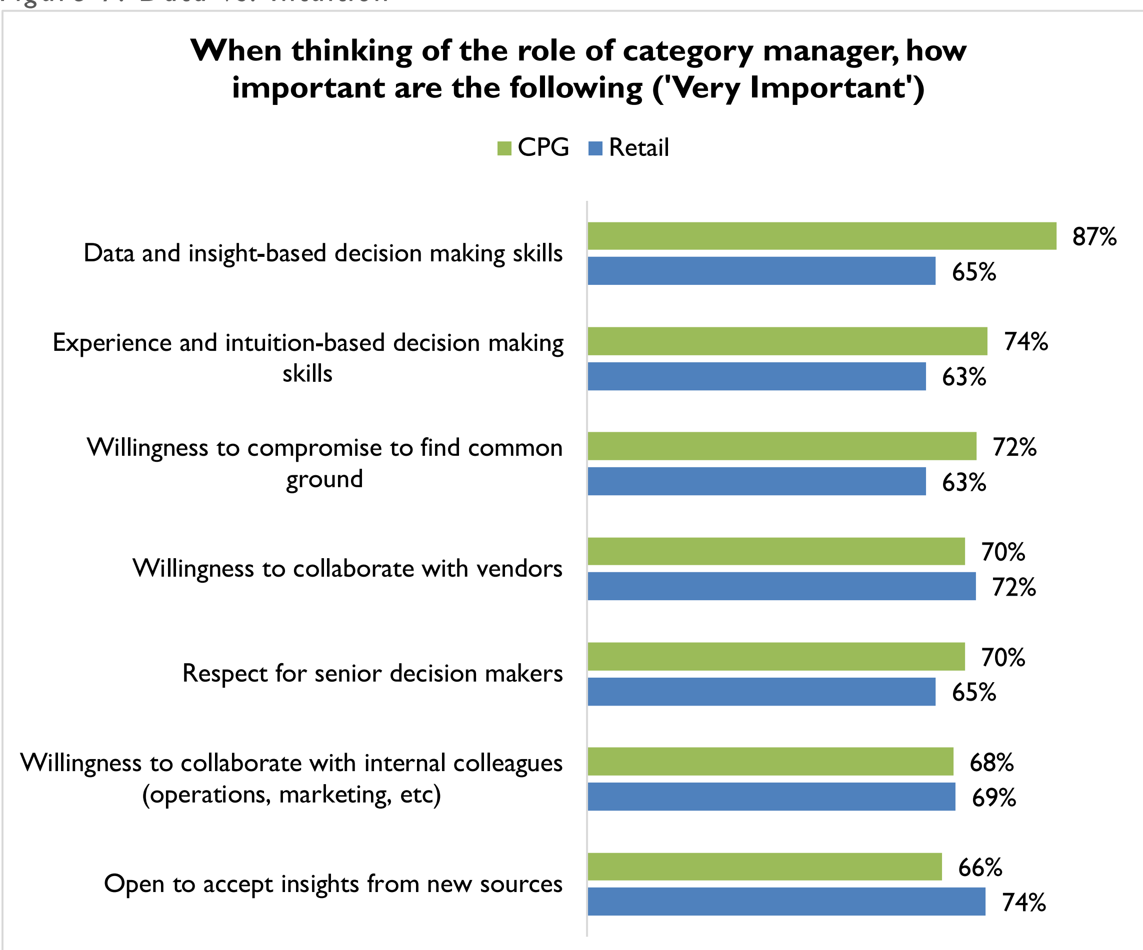
Business Challenges

Worlds Apart?

RSR studies categorize challenges into those coming from outside the theoretical four walls of the enterprise, and those coming from inside the four walls. Typical “outside” (or ‘business”) challenges might be shifts in consumer behavior, new disruptive competition, etc. “Inside” (or “operational”) challenges often have to do with siloed processes, organizational friction, lack of funding, etc.

When it comes to the collaborative planning processes that CPG companies and retailers use to bring the right mix of products to market, one of the biggest challenges is that there isn’t consensus as to how a “category manager” makes decisions. While retailers and CPG companies both value strong experience and a willingness to work with others and accept new ideas, CPG companies put much more weight on the value of *data-based decision making*, as opposed to *intuition and experience* (Figure 7).

Figure 7: Data vs. Intuition



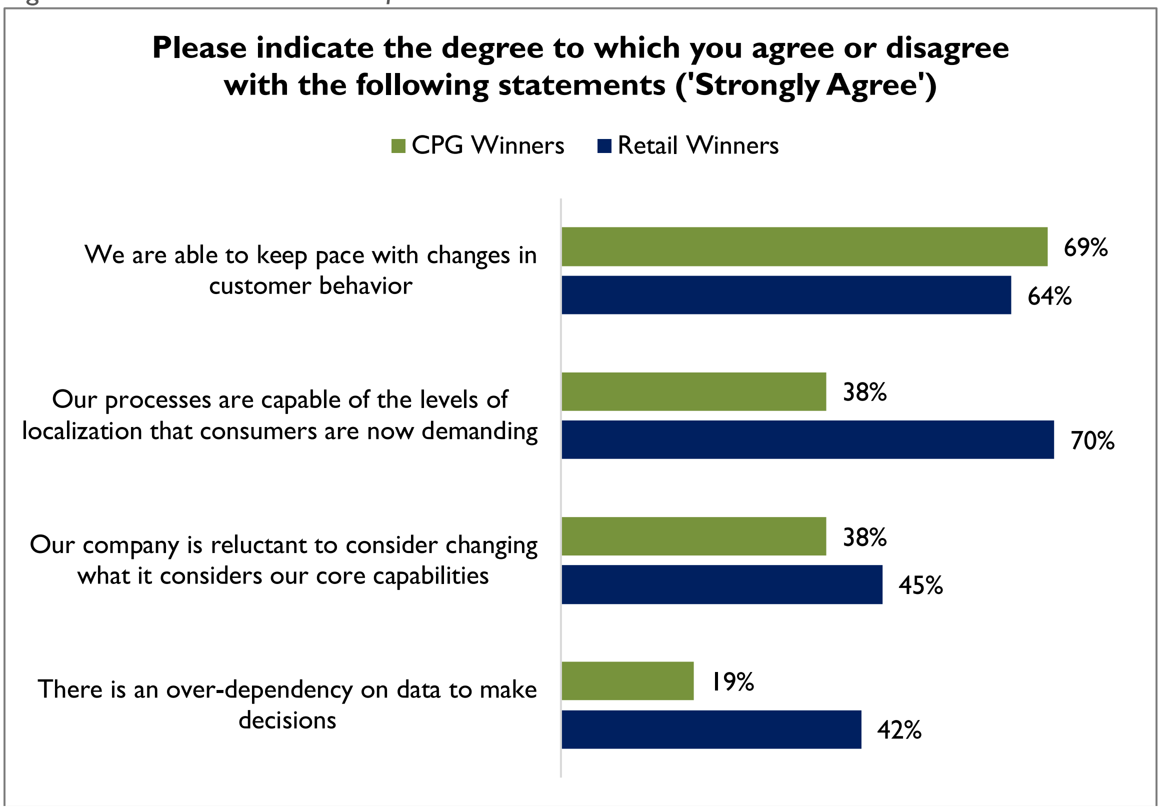
Source: RSR Research, August 2024

When we compared over-performing “Winners”, the difference is even more pronounced; virtually all CPGers (94%) rate “*data and insight-based decision-making skills*” as “very important” vs. less than three-quarters (73%) of Retail Winners.

Exploring this issue further, we learned that fewer Retail Winners than CPG Winners are interested in changing practices to take advantage of new data and insights that could aid in their category planning (Figure 8). In fact, the majority of over-performing retailers are clearly comfortable with their abilities to keep up with changes in consumer behavior and localize assortments to the level necessary to meet consumer demand, based on their current practices.

While an almost identical number of CPG Winners also believe that they are good at keeping up with changes in consumer behavior, the similarities end there.

Figure 8: A Little Too Comfortable?



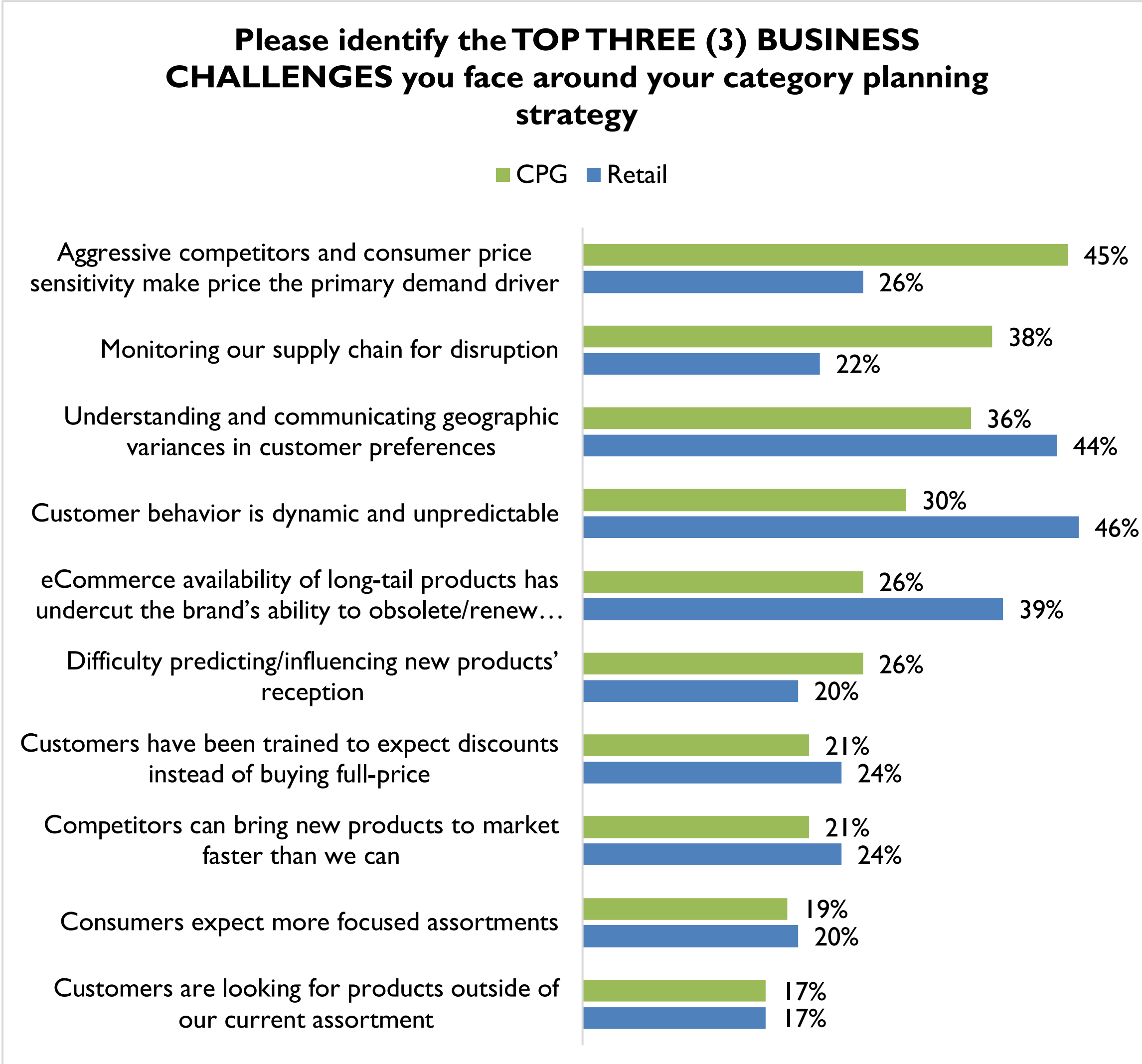
Source: RSR Research, August 2024

Whether the level of comfort that Retail Winners exhibit about their capabilities is justified is another matter; when we asked about business (external) challenges that both retailers and CPGers face, we get a more nuanced insight (Figure 9).

Retailers in particular complain that *consumer behavior is unpredictabl*e and that they struggle to *understand and communicate geographic differences in demand* to the organization.

CPGers #1 worry is that *aggressive competition* forces them into price wars, followed by a concern that they need to *monitor the supply chain for disruptions* more closely. That is undoubtedly an echo from events in the supply chain during and immediately following the global pandemic in 2020-22. Since memories of extreme shortages in a wide range of products are still fresh in their minds, CPGers want to be sure that they can deliver what they've committed to deliver.

Figure 9: Reality Bites



Source: RSR Research, August 2024

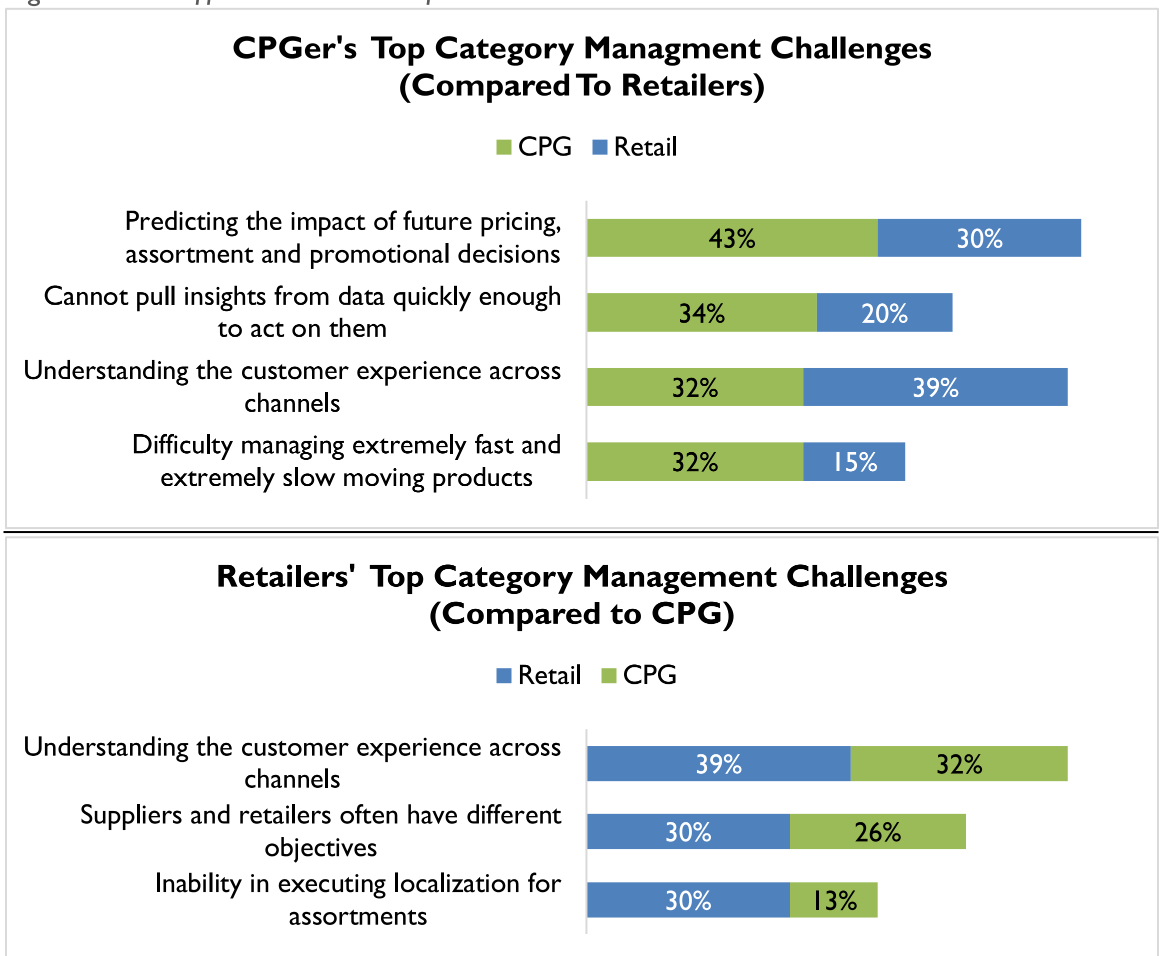
In a 2023 RSR benchmark report[5], we commented that "*Inventory visibility is an enabler … to identify supply chain bottlenecks and disruptions, and ultimately to optimize the flow of goods in an agile manner as market demands dictate*." That is an important objective for CPG companies; retailers are relatively unconcerned, and instead lean on the CPG companies to get products to the stores.

Retailers' concerns about customers (as opposed to the supply chain) come into sharper focus when we look at the top operational challenges they face compared to CPG companies (Figure 10). Clearly, *understanding the customer experience across channels* is the top concern. While CPGers worry about that too, category planners are primarily challenged to *predict the impact of pricing, assortment, and promotional decisions*. That further underlines why CPGers value *data &*

[5] **The Digital Transformation Of The Retail Business Model,** RSR Benchmark Report, July 2023

insight driven decision making skills (Figure 6, above) – modeling the impact of decisions before implementing them in the marketplace is a key objective.

Figure 10: Different Points Of View



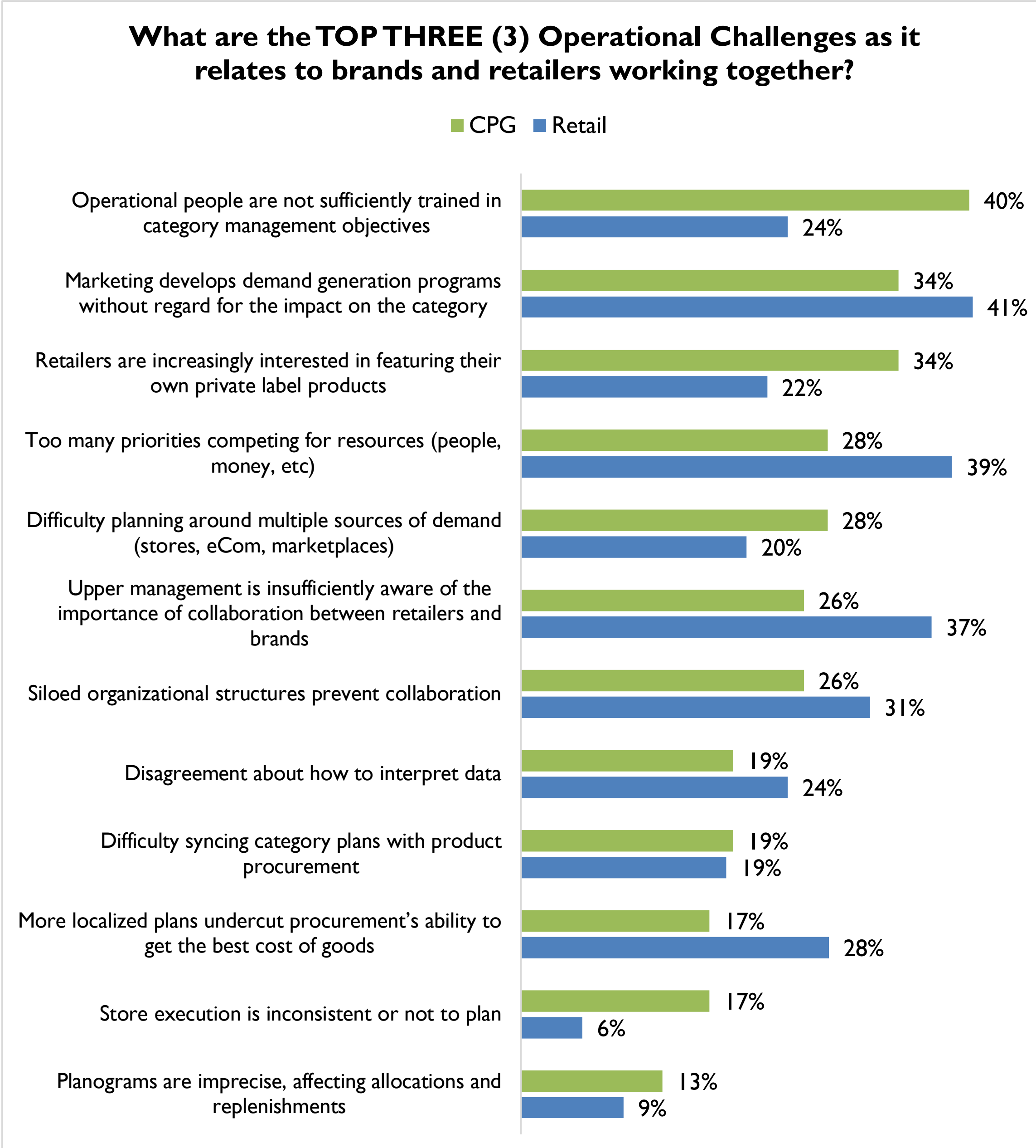
Source: RSR Research, August 2024

Given these insights, it is small wonder that about one-quarter of both retailers and CPGers agree that "*suppliers and retailers often have different objectives*". While the trading partners may not be worlds apart, a substantial number of them certainly view the world they are in via different lenses.

Let's Get Together

With the different challenges that retailers and their CPG counterparts are grappling with, the next question might be, "*how well are you working together*?". We asked that, and the answer is that there's definitely room for improvement (Figure 11).

Figure 11: Lots Of Room For Improvement



Source: RSR Research, August 2024

While both Retail and CPG category managers complain about Marketing's apparent penchant for developing promotional plans without regard for the impact on the category, similarities end there. The trading partners' related-but-different objectives (retailers: to attract and keep customers, CPGers: to move products through the sales channel) are front and center in the challenges that each party perceives in working better. Clearly, the uber-challenge is a ***misalignment of objectives***.

In the next section of this report, we'll explore how both retailers and CPG companies see the opportunities coming from that uber-challenge.

Opportunities

General Agreement On Important Capabilities

In the last section of this report, we observed that retailers and their CPG partners tend see the world through different lenses. For retailers, the objective is to attract and keep customers, while for CPGers, the goal is to move more of their products though the sales channels. These of course aren't mutually exclusive goals; presenting more of what consumers want at the right place, time, and price, and less of what they don't want, achieves both objectives.

But when it comes to success factors, the trading partners exhibit a high level of agreement to the top-two capabilities needed: *retail forecasting* and *better coordination between demand planning and supply chain management* (Figure 12).

Figure 12: Alignment (More Or Less)

Source: RSR Research, August 2024

Beyond the top-two capabilities, there are a few differences in emphasis. More retailers are focused more on *dynamic pricing* and *price/promo/markdown optimization*. Retailers are well aware that consumer price sensitivity remains a top challenge. In RSR's 2024 benchmark on the state of the store[6], we noted that *"for average and under-performers, the top challenge is consumer price sensitivity. That concern is consistent with what RSR learned in our recent survey of U.S. consumers[7]; in that study, 62% rated 'prices matter more today than ever' as 'very important'.*

But beyond price, consumers also want *relevance*. In the same November 2023 survey of over 1,100 U.S. consumers, we learned that only 33% of the survey respondents thought that their favorite retailer is very good at "*<making> offers to me based on what I actually buy, not what they want me to buy."* This gets to the ability of retailers and their trading partners to market to consumers at a more personal level – and that helps explain why CPGers want to use "*customer analytics as key inputs in merchandise planning"*.

And when we look at that data point by performance, this emphasis is much more pronounced. Eighty-one percent of CPG Winners want to use customer analytics in their planning, versus 61% of Retail Winners (which is in line with the emphasis that *all* retailers put on the capability). Not only is that a 20-point swing between CPG Winners and all retailers, it's also a 20% swing between CPG Winners and CPG non-winners. In other words, CPG over-performers view it as a competitive advantage.

RSR agrees. We've written extensively about the non-transactional data created by consumers that retailers have available to them, such as Ecommerce click streams, marketing email opens, offer redemptions, consumer geo-location data, and social media input. Many retailers are using at least some of that information to inform their marketing campaigns and demand forecasting processes, but it's clear that CPG planners aren't satisfied with working with only aggregated sales data. Instead, they want to be able to use the same insights derived from non-transactional consumer data to better inform their plans, that retailers do.

The differences between the trading partners are further highlighted when we ask about the top opportunities to improve category management processes (Figure 13).

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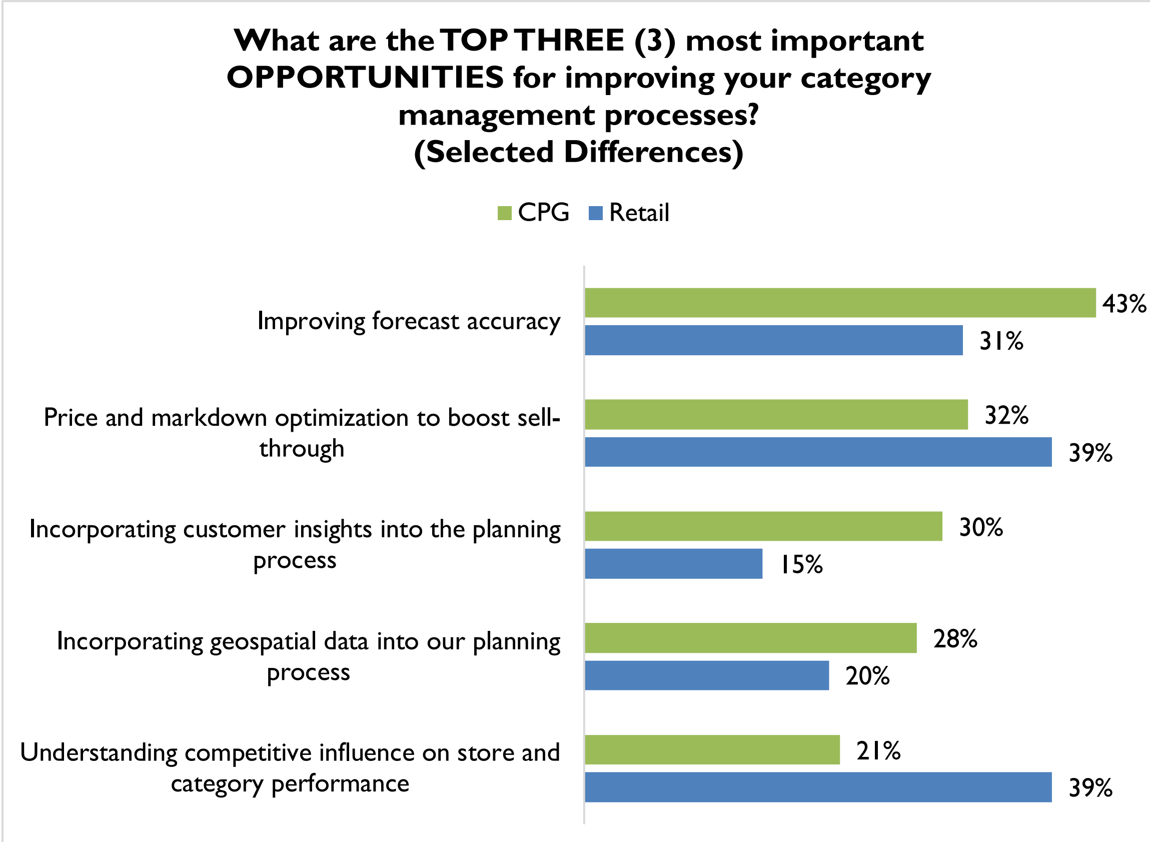
6 **Why The Retail Store Won't Survive As A 'Tech-Free Zone',** RSR Benchmark Report, April 2024

7 In November 2023, RSR conducted a survey of 1132 U.S. based consumers, to better understand shopper attitudes about retailers and shopping.

Figure 13: Different Chapters Of The Same Book



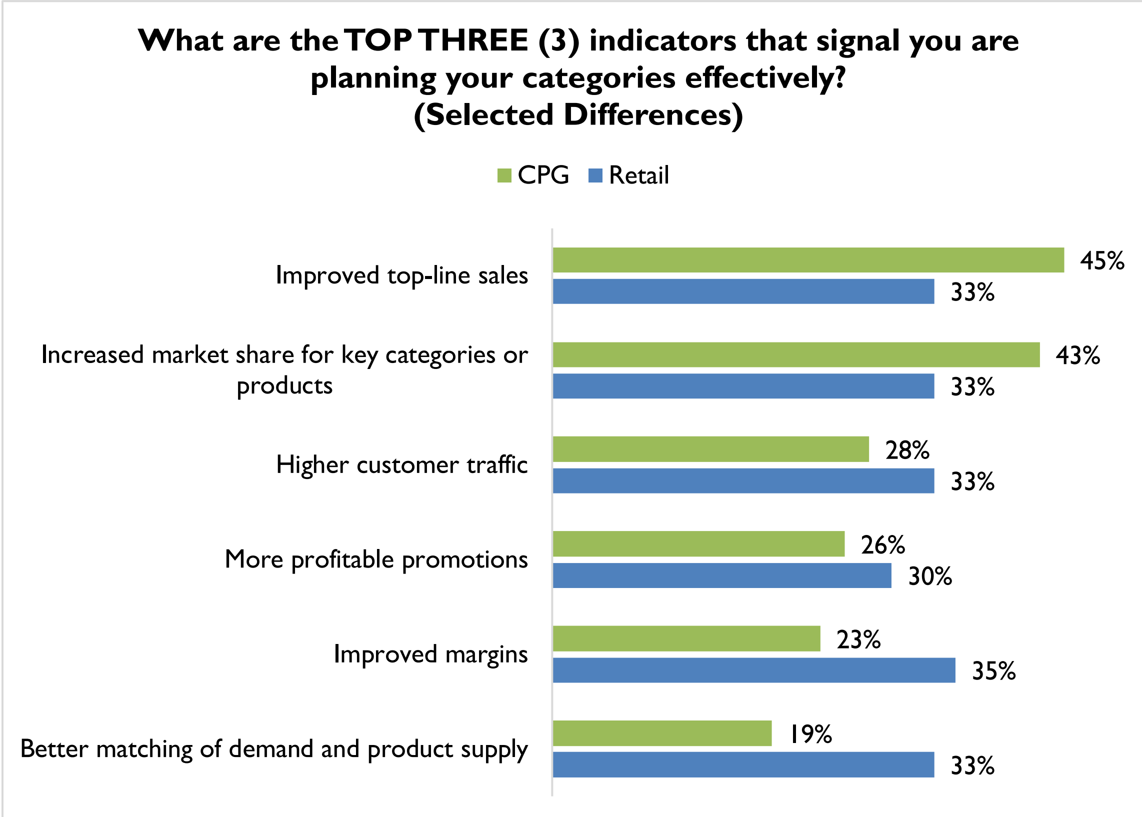
Source: RSR Research, August 2024

Retailers are most concerned about how competition affects category performance and seek to use price and markdown optimization to address that competition. CPGers for focused more on the quality of the plan itself.

How Do You Measure Success?

The story so far is that while retailers and their CPG partners agree that improved collaboration in category planning will help them achieve their objectives, even if those objectives are more in parallel than in sync. When we asked how success is measured, it's perhaps not surprising that retailers and CPGers have a tendency towards different - although related - indicators (Figure 14).

Figure 14: Same Scenery, Different Glasses



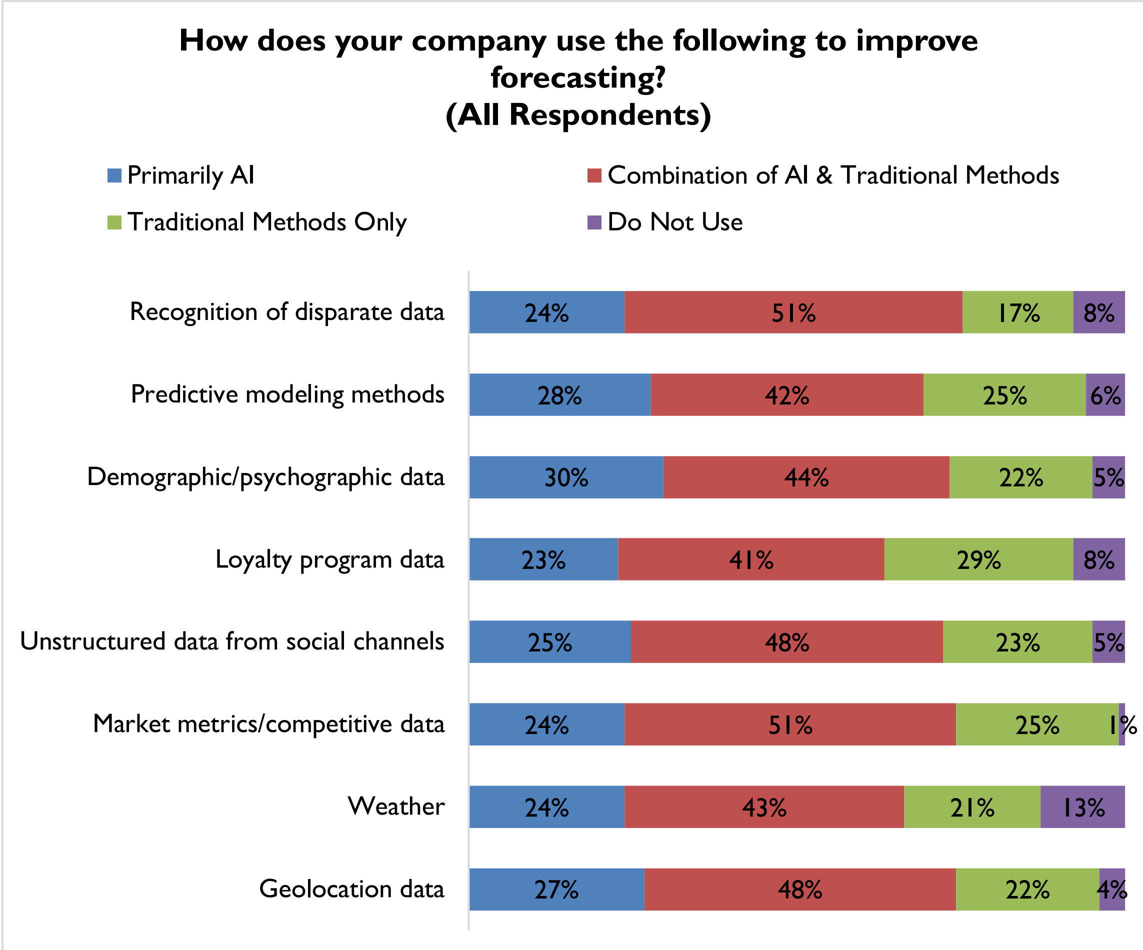
Source: RSR Research, August 2024

Retailers look for margin improvement: CPG companies look for top line sales. Retailers favor higher customer traffic: CPGers favor increased market share. They are different but closely related. And it's useful to note that these performance indicators are standard – there's nothing particularly new about any of them.

What *is* new is the new data available to the trading partners, and the power of new analytical tools that can help them to understand the underlying causality that affect those performance indicators.

That's where new data and analysis tools like artificial intelligence come into play (Figure 15).

Figure 15: New Analytical Tools Are Gaining Acceptance



Source: RSR Research, August 2024

It's clear that both retailers and their partners are using *new* tools and *new* data to their improve forecasting capabilities, at least to some extent. The responses suggest that old analysis capabilities are more often being improved rather than replaced.

AI data analyses are particularly good at finding statistically significant relationships between (often disparate) data, and that in turn vastly improves planners abilities to model (predict) outcomes from the various assortment, price, and promotion decisions that are being considered. Those disparate data go well beyond past sales transactions and product movement; they can include demographic/psychographic (behavioral) data, sentiment data from social channels, weather and geo-location data.

Further in this report, we'll discuss the extent to which retailers and CPGers are using new data and new analytics to improve planning, but first we'll take a look at the organizational inhibitors that may stand in the way of improved collaboration.

Read on!

Organizational Inhibitors

Problems One And All

While we have so far uncovered real differences in the ways retailers and CPGers view the modern market, there is one reality they share in common: obtaining actionable insights from store data is a universal problem (Figure 16).

Figure 16: All In This Together

Source: RSR Research, August 2024

Both retail and CPG respondents report that *store execution data* is the top inhibitor to category management improvements. In an era of data proliferation, unprecedented technology, surveillance and tracking, how can this be?

While the issue of unclean – and therefore untrustworthy – data is absolutely part of that challenge (retailers have increasingly rated this as a top-tier concern in recent RSR research across a broad range of topics), the fact remains that dirty data is an issue that cuts across myriad functions of the enterprise. It has been cited as a reason for lack of progress in virtually every operation: an inhibitor to better pricing, a roadblock to supply chain advancements – even as a reason not to enhance (or even introduce) a loyalty program.

However, as it relates to stores and category management, the answer here may be more straightforward than appears; when compared to most other venues and aspects of modern life, ***stores are still relatively technology-free zones***. Stores just have less modern technology in their four walls than they should. From RSR's most recent annual store report:

> *Nearly 3 out of 4 US-based shoppers say the way they shop stores has changed significantly in the past three years. This undoubtedly means technology, and unwise is the retailer who buries their head to avoid how quickly the modern landscape is changing. Shoppers are likely to encounter more tech-friendly options* ***at their doctor's office than they are at most retail stores*** *and are resolute in their message: they want the store experience to level up to the rest of their lives. Stores simply cannot continue to exist as the "technology-free zones."*

To further compound the issue, retailers report significant unhappiness with those technologies *in which they have* so far invested to try and understand the goings-on in stores day-to-day:

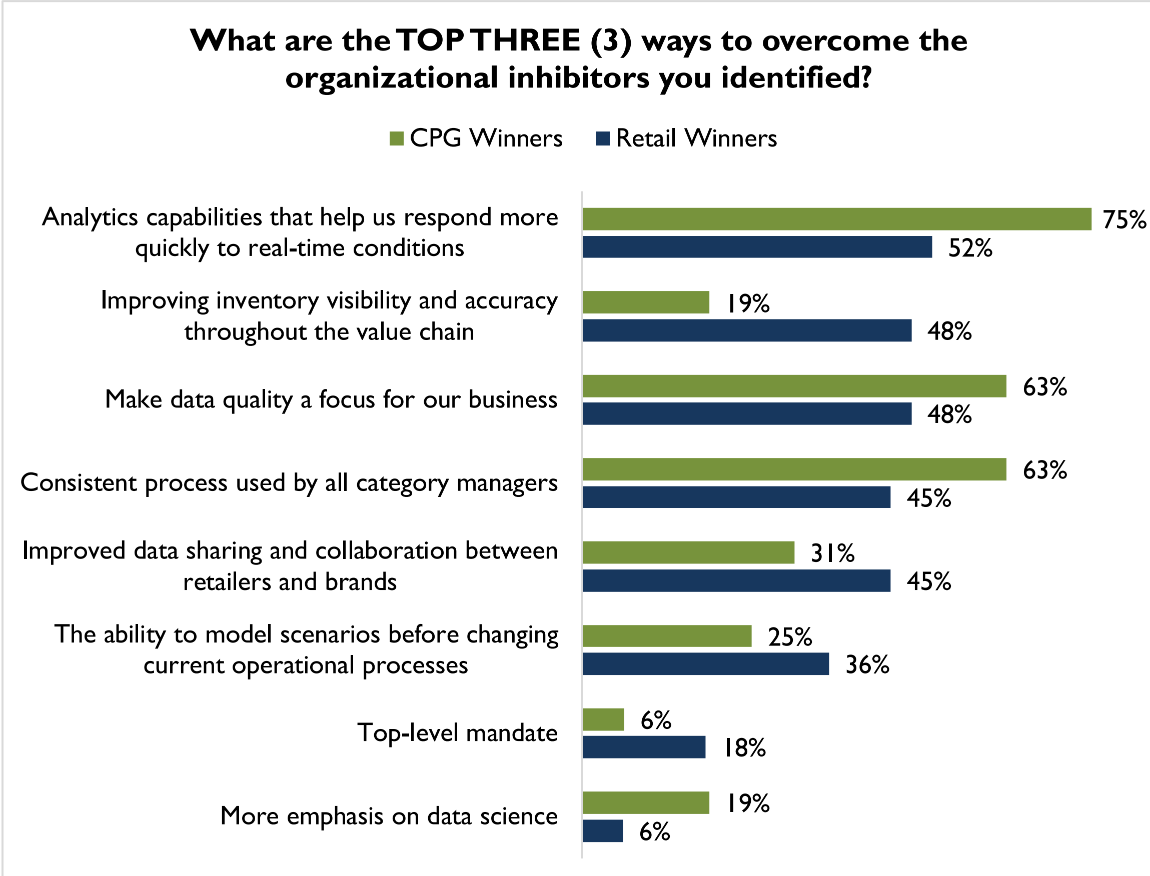
> *More retailers are unhappy with the video solutions they've installed (50%) and planning a change than are happy with the investment they've made to date (44%). The same trend extends to investments in POS exception-based reporting and alerts: 43% of retailers report satisfaction with their current solution, while 46% tell us they have implemented such tools but are* ***not*** *satisfied with them…*
>
> *When it comes to the technologies retailers value the most - those that afford them a more granular understanding of what is happening within the four walls of their stores – a very large swath is not happy with the results to date.*

Put simply, stores still present far too many blind spots to both retailers AND the people making the goods that retailers sell.

The Best Way Forward

While we saw agreement in identification of the problem – the inability to track, measure, and course-correct due to daily in-store activity - retailers and CPGers also share a vision for best way past this problem: **investing in analytics capabilities that help respond to changing conditions in as-close-to-real-time as possible**. The difference, however, is that CPGers have a much stronger version of this vision. They are the ones looking for change most here (Figure 17).

Figure 17: Analytics - A Guiding Light (For Those Paying Attention)



Source: RSR Research, August 2024

Figure 17 immediately begs the question: why are CPGers so much hungrier for improved analytics, for increased data quality, and for consistency among the processes *their* category managers employ?

Make no mistake, due to the nature of the question (where respondents can choose only the 3 most pressing issues they face directly), retailers have prioritized some issues over that of their CPG counterparts. Their list includes things like improving inventory visibility and accuracy, as well as about ability to model scenarios before making any types of operations changes. Retailers also would like to gain more inside information from their own data science tools and teams (assuming that they can afford them). These are very much in line with the pragmatic priorities of most retail executives.

But the most likely possible interpretation of this data is simply a shifting of blame. Retailers say life would vastly improve if their trading partners would collaborate more – CPGers say they could do a lot better job with category management if they were privier to real time in-store conditions and activities.

As a result, this data is in line with a more serious trend emerging throughout this report: ***trust***. How can that trust develop in an era where retailers increasingly view the data they share with CPGers as enabling further D2C sales on the part of their suppliers? And vise versa, when CPGers view the insights they share as facilitating more and better private label brands from their retail partners?

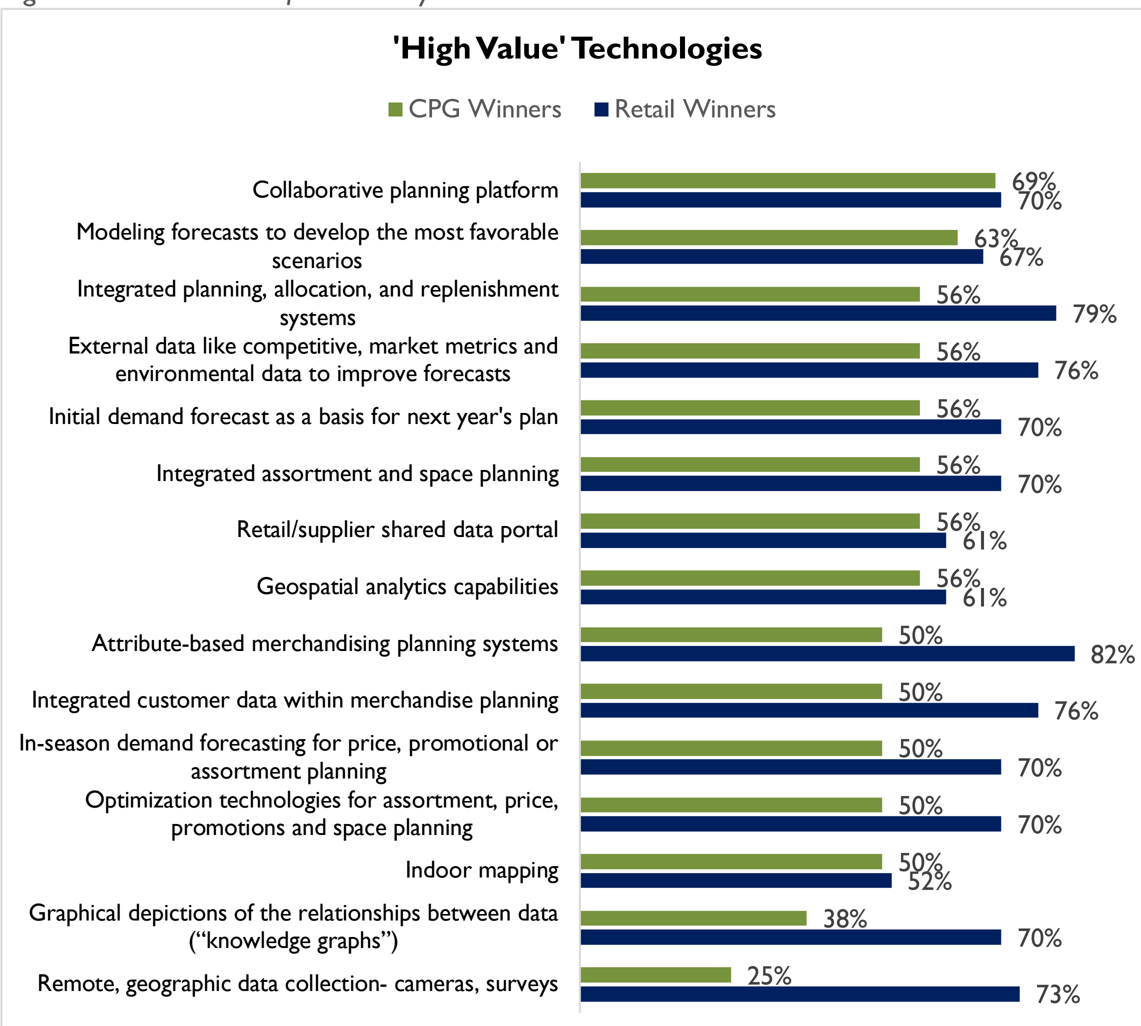
It is a fascinating quandary, and as we'll soon see in the next section of this report, **Technology Enablers**, the best players in both parties are using technology to work together better despite these hard realities.

Technology Enablers

Value Is In The Eye Of The Beholder

Technology can always be viewed in two distinct ways: first by its perceived value, and then by how that value aligns with where brands are spending their money. First things first: top performing retailers put most weight on the perceived value of virtually every technology we put on offer in Figure 18, but as we'll see in just a moment, CPGers are poised to catch up. For now, retailers have outsized interest over the best CPGers for every option from new merchandise planning systems to optimized space planning and everything in between. In short: Retail Winners have *big* appetites.

Figure 18: A Tale Of One City

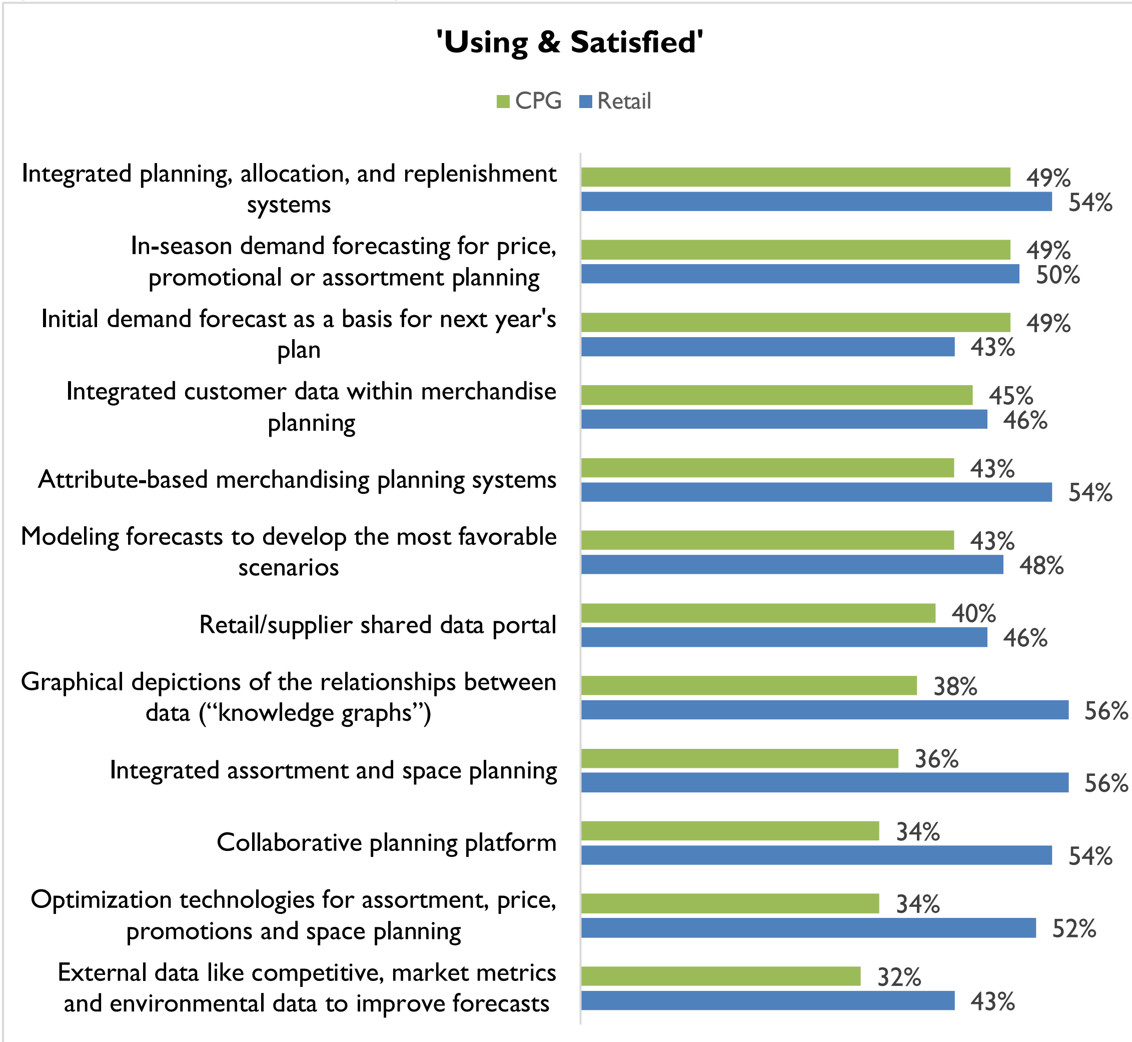


Source: RSR Research, August 2024

Value Is Also In The Hands Of The User

What's more, when it comes to the list of selected technologies, the most retailers appear far happier with many of their investments they've made to date, as well. While the numbers drop significantly (from a mean of 87% for value to a mean of 46% for using/satisfied) the data trend remains directionally consistent. Retailers are happier with their category management technology stack than are their CPG partners (Figure 19).

Figure 19: Retailers Growing In Satisfaction

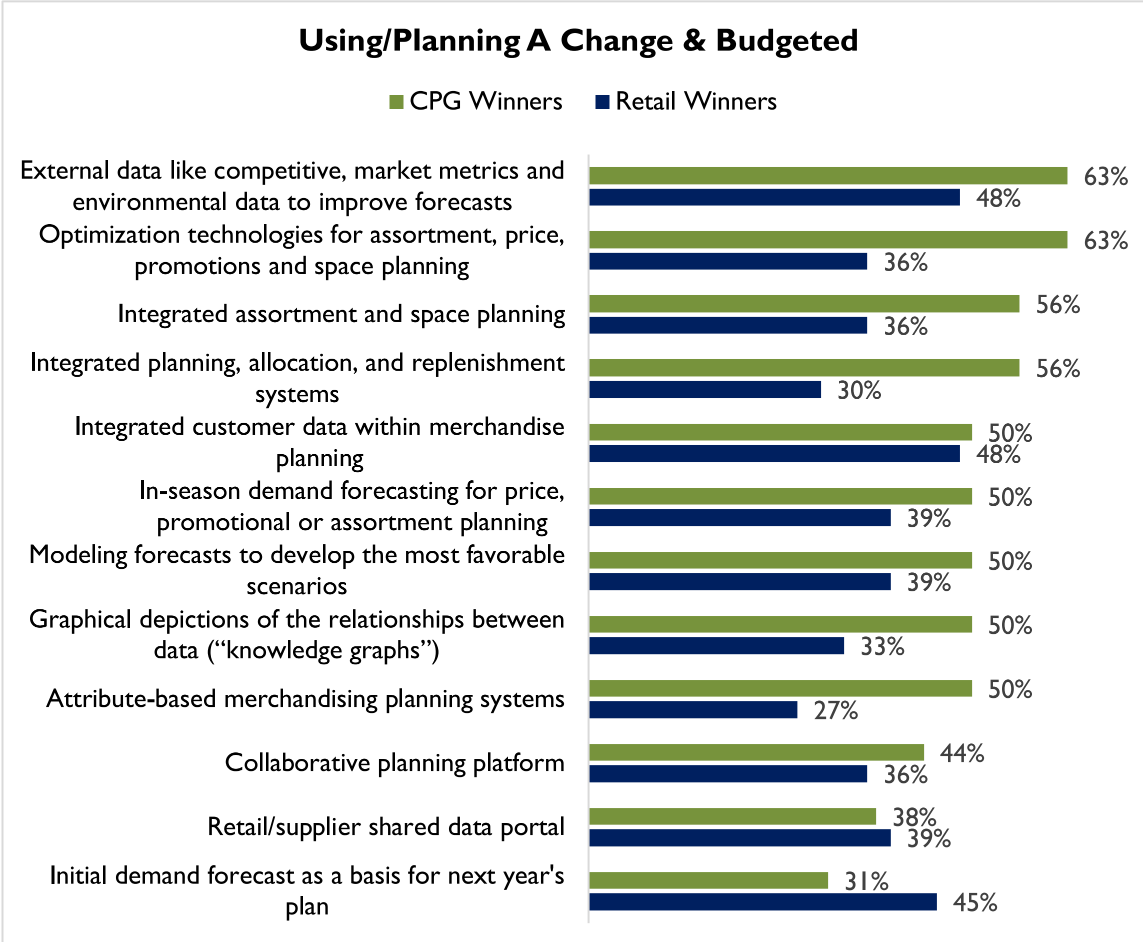


Source: RSR Research, August 2024

A Tale From The Other City

However, this research is not intended to solely report on the state of what is, but also the near-term state of ***what will be***. And the data in Figure 20 paints a clear and logical picture of the flipside of today's reality. It's not just that CPG providers will be the ones investing in making big changes to their technology portfolios in the next 12-18 months, it's the *best-performing* CPGers, specifically. Retail Winners might have had the biggest appetite here, but CPG Winners will be the ones making the most significant changes.

Figure 20: The Best CPGers Are Not!



Source: RSR Research, August 2024

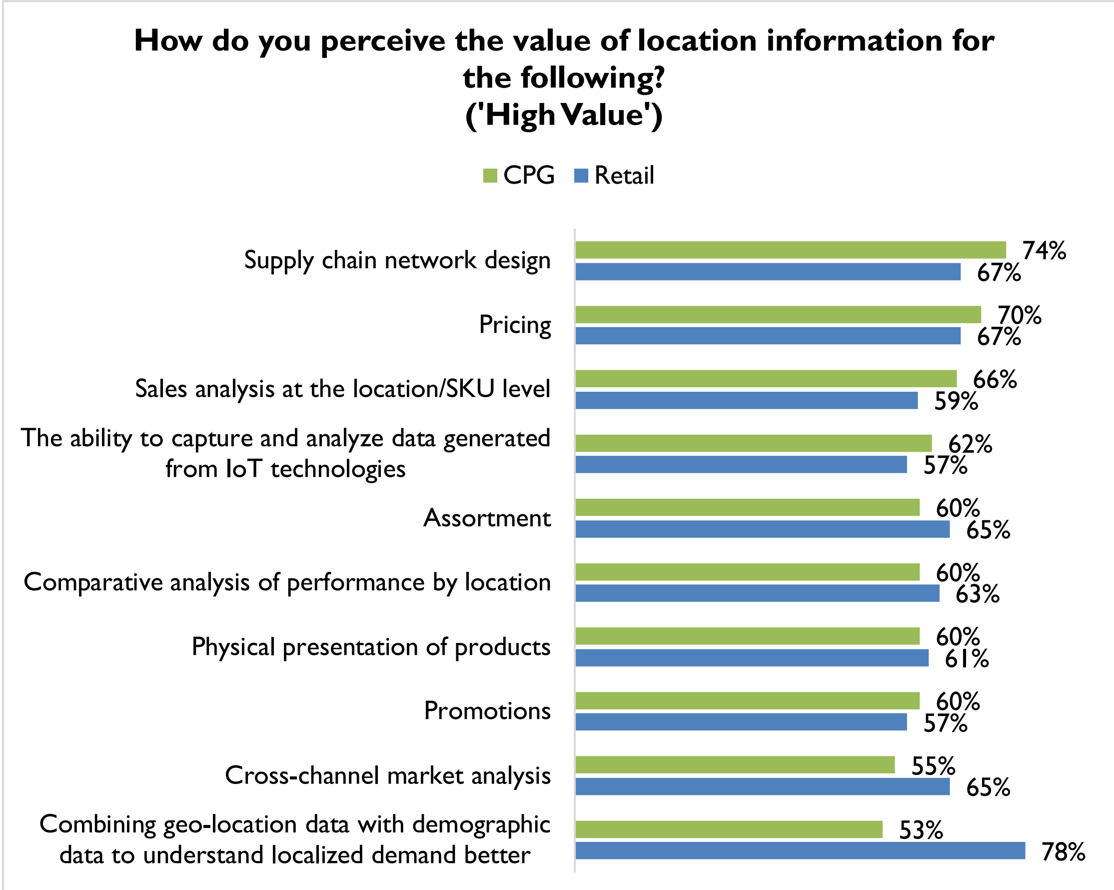
RSR benchmarks rarely identify a technology for which > 60% of an audience has planned and budgeted change in place: in CPG Winners in 2024 we find two - optimization technologies for functions like **price, promotion, assortment and space planning**, as well as **external data** (competitive metrics, market metrics, environmental data, etc.) **to improve forecasts**.

CPGers – *the best CPGers* – are tired of being left in the cold on things their retail partners likely already know - but have not been willing to share openly. They are going to have to pay for the privilege of optimizing their efforts, and they are a) aware of that fact and b) prepared to do so. The coming year will be very interesting as a result.

What Went Where Now? The Location Story Takes Shape

Within the world of **Technology Enablers**, the future of location-based technologies holds particular interest to RSR. As it turns out, that interest extends to our respondents as well – both retailers *AND* CPGers perceive tremendous value across a whole host of areas enterprise-wide (Figure 21).

Figure 21: Location Information = Real Power



Source: RSR Research, August 2024

While retailers' interest in combining geo-location data with customer demographic information to better understand customer demand outstrips that of CPGers (more on that in a moment), the list from there on out features very little variance. Both groups ascribe high value to location intelligence's ability to improve their assortments, their pricing, their promotions – even their physical presentation of products in store. Knowing where a product is, how it affected by hyper-local consumer demand and shopping behaviors, whether it is even in the correct part of the store for the promotion it is meant to be a part of – all have eluded businesses at scale for decades. For both retailers and manufacturers, the list of hacks required to check up on these things to effectively synchronize supply and demand has been far too long <u>*for*</u> far too long. New location information and analytics hold real possibility to shorten that list of manual checks and balances to understand what's ***really going on*** at store level, and both retailers and CPGers are fully prepared to embrace the new host of capabilities.

However, the first data point in Figure 21 – the one where the only real variance occurs – is worth revisiting. As we've seen in multiple recent reports on the topic, retailers recognize just how powerful it will be for their efforts to ***communicate with consumers in meaningful ways*** when they can effectively combine geo-location data with the demographic data they've been collecting for years. From 2023's ***Agility, Resiliency, And Sustainability As A Strategy In Consumer-Facing Businesses:***

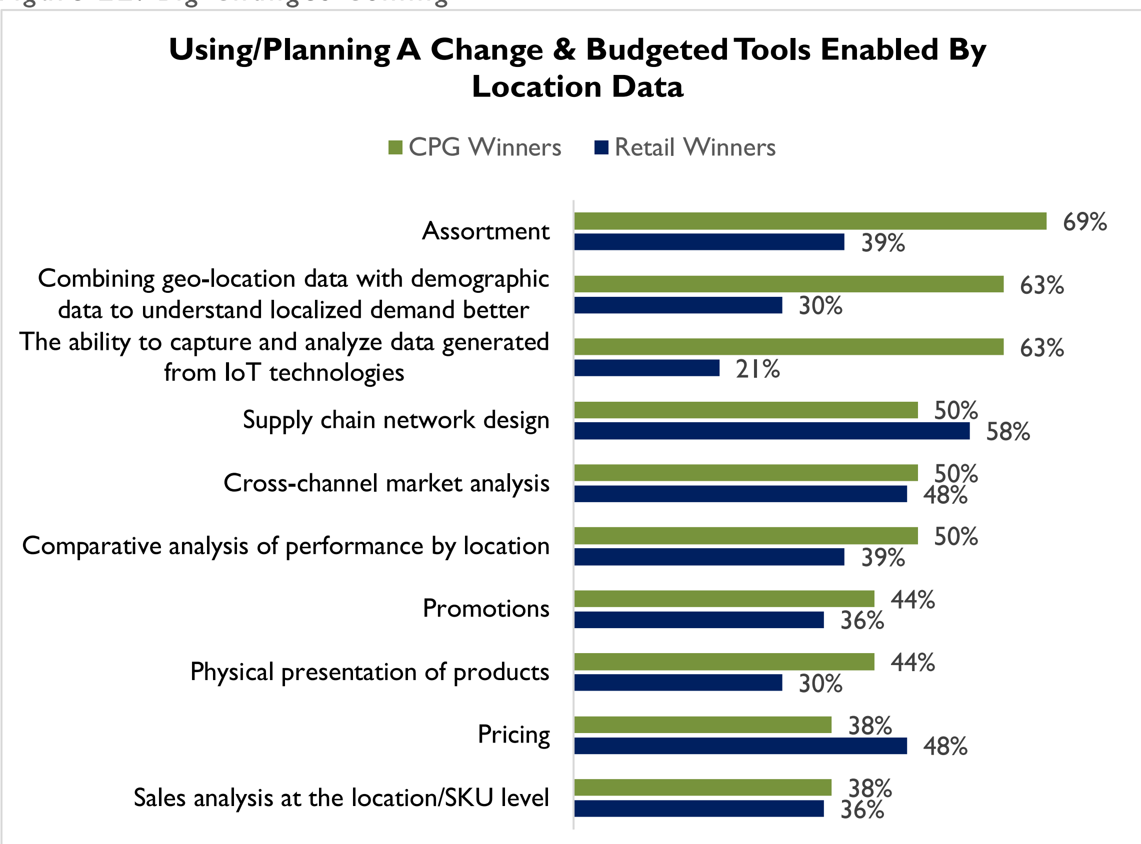
Retailers see an enormous amount of upside to implementing location-aware capabilities… this isn't just about understanding customer shopping patterns, but also as the means to improve virtually every aspect of the shopping experience by knowing how both shoppers - and inventory - move. This holds the opportunity to positively affect every component of the selling cycle - from speeding up the supply chain, to making CRM data from loyal customers more actionable - even to opening new ways to sell to existing customers. All this falls under the umbrella of improving omnichannel profitability – and ***that*** *is the name of the game in retail today.*

On this issue, it is quite plain to say, retailers "get it". The question is whether they are backing that understanding up with significant investment plans.

Backing Up The Local Chatter

What's perhaps most telling about the trends surrounding new uses for location awareness-based data is in the investment plans our respondents prioritize. As Figure 22 clearly shows, the very best CPG performers (Winners) will be the ones spending the most in this category in the foreseeable future. Retailers might "get it," but *CPGers are the ones ready to spend.*

Figure 22: Big Changes Coming



Source: RSR Research, August 2024

Indeed, CPG Winners have a lot that they're ready to replace:

- Nearly 7 out of 10 CPG Winners say their assortment could benefit directly from tools that use more location-aware information, so much so that they'll be investing in the next 12-18 months.

That is a substantial insight that confirms our previous findings: CPGers are tired of being the last to know how, where, and why product moves.

- Tools that take advantage of Internet of Things (IoT) technologies also hold far greater appeal to CPG Winners than Retail Winners – by a measure of more than 3 to 1. This may well be a direct result of the overall lack of IoT tools retailers have used into their operations to date. RSR has long been vocal in our advice to retailers to stop ignoring the power IoT could bring to retail environments – particularly stores and distribution centers – but alas, most have opted to "wait and see." By comparison, CPG providers clearly see an opportunity here to learn more than their partners have thus far. It would certainly appear their willingness to embrace – and fund investments in – cutting edge sensing devices will allow them to leapfrog stalwart retailers.

In fact, the overarching takeaway from the Technology Enablers section of this report – particularly due to the data in investment plan charts like Figures 20 and 22 - might be summed up in the following manner: Retailers might be talking the talk about the need to improve their relevance to shoppers via things like their product mix, the pricing of those products, and how they conduct promotions of those items, but it is CPG trading partners who appear far more poised to back the rhetoric up with retooled processes and brand new technologies.

This is a dangerous trend to emerge. Consider the following from RSR's 2024 Annual Store Report[8], released earlier this year:

> *What compounds this issue, however, is not just that retailers are continuing to delay investment in the technologies where they see the most value, but that they are avoiding the technologies that customers say are of most value, as well. Customers want retailers to address the following three store frustrations above all else: price, the inability to get to a person when they have a problem, and the fact that – despite years of loyalty and providing troves of personal and shopping data – even their favorite retailer doesn't know enough to identify them as one of their best customers.*

The findings in this report do little to suggest that retailers have changed their modus operandi since that research published. What it does suggest, however, is that CPGers are not following suit. They – and particularly the best performers among them – are ready to take a significant leap of faith in the pursuit of delivering relevance to customers.

Now it is time to make some recommendations based on all we've discovered.

[8] **Why The Retail Store Won't Survive As A 'Tech-Free Zone',** RSR Benchmark Report, April 2024

BOOTstrap Recommendations

Based on all we have seen in this research, we offer the following baseline suggestions for ALL retailers and CPG providers, regardless of their size, performance level, or market served.

Control What You Can

One of the most surprising findings to come from this report harkens back to data discovered early on in this report: why aren't CPG providers more expert at tasks usually associated with Supply Chain?

When asked to classify their company's effectiveness across a host of tools and techniques, surprisingly few CPG providers claim expertise across the myriad of supply chain-related tasks we put on offer (forecasting, fulfillment, replenishment – the list goes on.) ***These*** are the areas that should be ***most*** within their control, and yet as this research shows – they struggle, even compared to retailers. At a time when uncertainty swirls around so many uncontrollable factors, CPGers need to re-focus their efforts on their core competencies. They may not be able to control customer sentiment just yet – but they should be able to manage their supply network better than they currently are.

Accept What You Can't

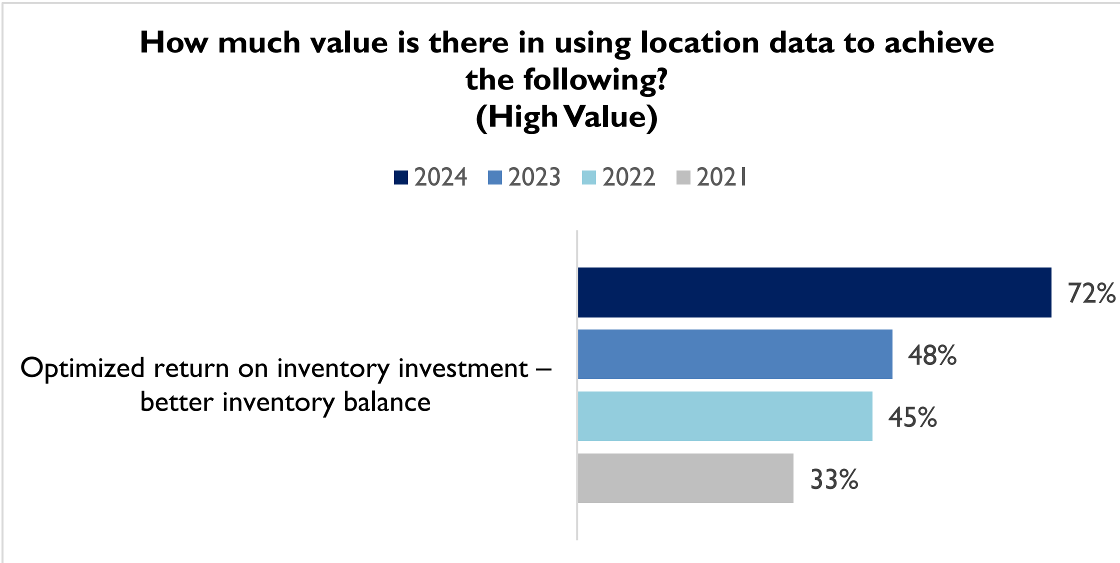
The very nature of the supplier and seller relationship has morphed significantly in recent years. Both sides display wariness that the other is trying to steal their lunch. For CPGers, this means any customer data shared with retailers will invariably help clever retailers develop new and improved private label products. For retailers, knowledge shared my very well help CPG providers bypass stores and sell D2C. This is an unavoidable truth. As such, the time has come to recognize this and move on. By refusing to share data with one another, both sides suffer. In a more collaborative world, both would invariably benefit. It is time to accept this new reality and get on with it. A rising tide will most definitely raise all boats.

Employ The Wisdom To Know The Difference

While this report does not incorporate data from auxiliary reports that RSR has conducted on shopper behavior, it does not need to. After numerous studies of thousands of North American shoppers, the short story is as follows: customers are tired of providing personal *and* shopping data to both ***retailers and brands***, only to receive irrelevant and ubiquitous promotions and messaging. Their weariness is not something CPG providers and retailers can ignore much longer: by working together to provide more relevance, brands and retailers can help to stave off the apathy shoppers have steadily been growing toward their once-favorite brands. In working more collaboratively, they may just help revert some sales from Amazon.com back to individual stores and brands.

Recognize The Power Of Location Intelligence

For several years now, RSR has been imploring retailers to take note of the role geospatial information can play in knowing more about what happens within the four walls of their stores. While this research confirms that both retailers AND brands want to utilize location tools to understand customer flow, one of the bigger takeaways from this research is that the value extends well past shopper dynamics, and into the ability to measure inventory in a way that both a) provides a better product mix and b) delivers an optimized return on initial investment. Consider the following trend from our recent surveys:



Indeed, location intelligence has earned its place in the retail and CPG provider ecosystem. Successful brands would be wise to examine the upside(s) to their organization.

Accept Responsibility/Trust Your Partners

Throughout the findings of this report (as in many others we have conducted recently), dirty, disparate, and incomplete data has made the information critical to facilitating forward progress untrustworthy and therefore – inactionable. Correcting this flaw is no easy feat, and we do not suggest to undermine its difficulty. However, retailers and brands who wish to survive/succeed ***must*** lay out a very specific roadmap for their data plan, as opposed to relying on the notion that it is "just the way it is," or "a harsh reality of doing business". It's not anymore. Newer brands and labels, unfettered by legacy systems, have made real progress in this department, and are therefore positioned to steal away market share. Any plans to get over this challenge should be stepwise in approach, and should incorporate the following:

1. Where does real intelligence about customer behaviors come from?
2. How can that data be verified/made actionable?
3. Who has access to this data – both internally and at a partner level - once trustworthy?
4. Are there others – both internally and at a partner level - who could benefit from it (and therefore help us) not yet involved?
5. If so, what is the quid pro quo for that engagement?

By doing so, brands and retailers stand a real chance to help both each other and themselves. If a partner is truly not to be trusted, the question quickly becomes: why engage with them at all?

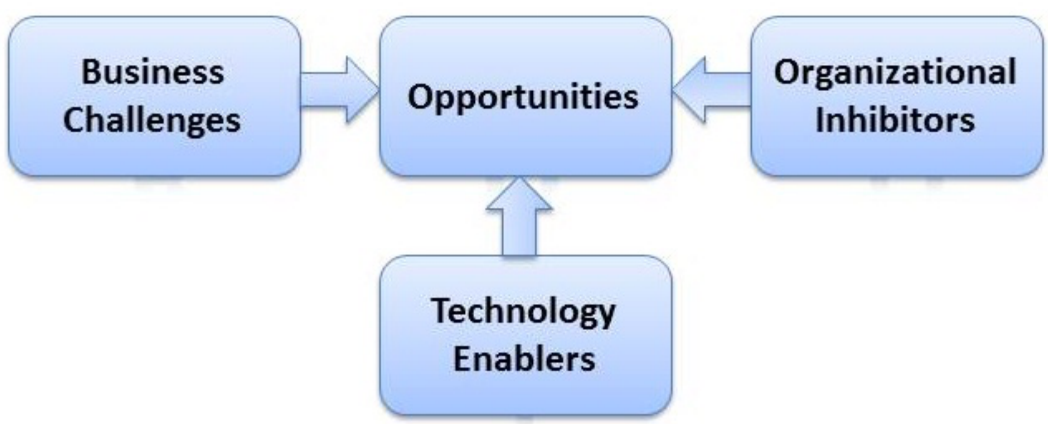
It's time to find out how much the industry – and the customer experience - can improve once more brands accept the differences and realities of the modern market.

Appendix A: The BOOT Methodology©

The BOOT Methodology© is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning Retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT Methodology© follows:



Appendix B: About Our Sponsor

Esri provides the world's most powerful mapping and spatial analytics software. Our product, ArcGIS applies The Science of Where to connect everyone, everywhere through a common visual language. It combines mapping and analytics to reveal deeper insight into data. For Retailers ArcGiS extends the key capabilities retailers need to understand why things happen where they do. Every transaction in retail happens in a specific place for a reason. Using ArcGIS, leading retailers find hidden insights in their data, enabling them to understand their customers and their enterprise.

Visit us at esri.com.

Appendix C: About RSR Research

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.