

Retail's Rise to Power

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One of today's most significant business trends is the growing power of the retailer. Retailer consolidation came first. Better data came next. And now we see a growing self-sufficiency (gulp!) among major retailers. These related trends have significant implications for anyone seeking to sell in to the trade.

Retail Consolidation

When I started my brand management career at Procter & Gamble in 1980, "National Accounts" was still a relatively small portion of the business. The core of the business depended on an army of sales representatives calling on thousands of independents and hundreds of regional chains.

Fast forward ten years to 1990, now at Mattel. There, we spoke about our top 20 accounts, which represented a whopping 65% of the business! That concentration (plus POS data) gave us the unprecedented opportunity to understand our business on an individual account level.

Fast forward again to 2000. Now in toys, the focus was on just five accounts representing 65% of the business. We became intimately familiar with those five accounts and we consumer marketers also had to become trade marketing experts. We learned how each account drove its business and showed how our product lines could support the account's strategies.

Consolidation continues, as smaller retailers find they can't effectively compete against the big guys. Power is concentrated among those left standing. Not only are margins getting squeezed, ominous trends such as consignment (or guaranteed) sales and "pay on scan" are emerging.

Retailer Self-sufficiency

The impact of consolidation alone is tough on manufacturers, but retailers are moving to vertically integrate at an unprecedented level, creating further pressure on vendors. The growing ease of Orient sourcing has enabled mass merchants to go direct to factories. They're developing proprietary brands and private label goods in most categories, and getting more sophisticated about creating brands with real consumer appeal. The result is that manufacturers are getting squeezed on shelf space and profit margins to an even greater degree.

What You Can Do To Thrive in the New Climate

The Five C's

1. **Consumer Relationships** - the foundation of a brand is its relationship with consumers. Strong consumer brands, fueled by marketing investment, have been able to achieve broad-based distribution, reasonable profit margins, and relative insulation from private label encroachment.
2. **Creatively Complex Products** - product innovation is one of the most difficult things for a retailer to drive, given their lack of specialization and the added investment in design and development it takes to truly innovate.
3. **Content-based Products** - content represents another domain the retailers can't afford to drive themselves. It takes time, and the talent required to develop meaningful and relevant content just isn't available in the Orient.
4. **Channel Management** - one can proactively address the different margin structures at mass, specialty and clubs with distinct product lines and thereby preempt a common objection. Within mass, we have started to view Walmart as its own channel.
5. **Customized Product Offerings** - With retailers striving to differentiate themselves on a basis other than price, offering customized products is a huge carrot. These can be entire product lines or specific skus within broadly distributed product lines.