Channel Blurring: Trends and Implications for Manufacturers and Retailers

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Agenda

• What is Channel Blurring?
• Channel Shopping and Shifts
• Channel Blurring Effects
• Channel Blurring and Supply Chains
• What should Retailers and Manufacturers do
• Rise of Online Channel
• Online and Offline Channel Blurring
What is Channel Blurring?

• Consumers increasingly move purchases of a product category from its traditional channels to alternative channels

• As a result, retailers traditionally not associated with certain categories are selling those categories
  • Mass merchandisers, such as Walmart, carrying a considerable grocery products
  • Pharmacies, such as Walgreens and CVS, stocking toys and household items
  • Online and offline channels inextricably linked

• Understanding this phenomenon has many important implications for:
  • Manufacturers
  • Retailers
Channel Blurring Phenomenon

- Due to budget constraints, customers are reducing their basket sizes while making more frequent trips to nearby drug, dollar and grocery stores (SymphonyIRI).

- As a result, drug and dollar stores have boosted their food and beverage offerings, while many grocers are rounding out their personal care product lines.

- Consumers are more likely to shop at multiple channels to get what they want at the prices they want.
  - 55% consumers eating out less often than before recession.
  - Grocery retailers offer convenient prepared foods to attract more consumers.
  - Across channels, 2/3 of CPG categories have enjoyed increased merchandising support.

- Supercenters are enhancing their product assortments after attempts to scale back the number of SKUs resulted in some customers shopping elsewhere.
  - “Retailers must understand and deliver against the needs of key shoppers. A broad assortment, one-size-fits-all approach is simply not effective.” - Mark Parise, President of IRI.
Channel Shopping

Number of Channels Shopped
Percent of Consumers 2011

- 28%
- 14%
- 10%
- 7%
- 2%
- 1%

- ONE
- TWO
- THREE
- FOUR
- FIVE
- SIX
- SEVEN

Source: SymphonyIRI Consumer Network™, 52 weeks ended 6/5/11

Percent of Consumers Shopping Multiple Channels By Number of Channels Shopped Quarterly Point Change vs. Year Ago, 2010-2011

Source: SymphonyIRI Consumer Network™
## Channel Penetration Levels and Changes

### Percent of Households Buying by Channel

<table>
<thead>
<tr>
<th>Channel</th>
<th>Penetration</th>
<th>Pt. Chg v 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>98.7%</td>
<td>+0.1</td>
</tr>
<tr>
<td>Supercenter</td>
<td>72.9%</td>
<td>+1.5</td>
</tr>
<tr>
<td>Mass Merchandise</td>
<td>76.4%</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Club</td>
<td>52.5%</td>
<td>+0.9</td>
</tr>
<tr>
<td>Drug</td>
<td>78.8%</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Dollar</td>
<td>63.7%</td>
<td>+0.3</td>
</tr>
<tr>
<td>Convenience</td>
<td>34.6%</td>
<td>+0.1</td>
</tr>
</tbody>
</table>

**Source:** SymphonyIRI Consumer Network™, Shopper Insights Advantage™ (SIA), 52 weeks ended 6/5/2011
## Major Channel Shopping Shifts

<table>
<thead>
<tr>
<th>Department</th>
<th>Channel</th>
<th>Dollar Share Point Change by Department, 2011 vs. 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frozen</td>
<td>Grocery</td>
<td>+ 0.7</td>
</tr>
<tr>
<td>Beauty</td>
<td>Drug</td>
<td>+1.0</td>
</tr>
<tr>
<td>Health</td>
<td>Drug</td>
<td>+1.5</td>
</tr>
</tbody>
</table>

*Source: SymphonyIRI Consumer Network™, Shopper Insights Advantage™ (SIA), 52 weeks ended 6/5/2011*
Channel Blurring in Healthcare

Key Healthcare Categories:

<table>
<thead>
<tr>
<th>Dollar Share Point Change 2011 vs. 2010</th>
<th>Grocery</th>
<th>Drug</th>
<th>Supercenter</th>
<th>Club</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Aid Accessories</td>
<td>(0.1)</td>
<td>+2.2</td>
<td>(0.8)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>First Aid Treatment</td>
<td>0.0</td>
<td>+0.9</td>
<td>+0.1</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Cold/Allergy/Sinus Tablets</td>
<td>(0.1)</td>
<td>+1.8</td>
<td>(1.1)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Gastrointestinal Liquids</td>
<td>+0.4</td>
<td>+1.9</td>
<td>(0.9)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Gastrointestinal Tablets</td>
<td>+0.7</td>
<td>+1.4</td>
<td>(0.6)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Internal Analgesics</td>
<td>+0.1</td>
<td>+2.3</td>
<td>(0.8)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Nasal Products</td>
<td>+0.9</td>
<td>+1.4</td>
<td>(0.6)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Vitamins</td>
<td>+0.6</td>
<td>+1.1</td>
<td>(0.7)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Weight Control/Nutrition Liquid/Powder</td>
<td>+1.5</td>
<td>+0.2</td>
<td>(0.2)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Home Healthcare Kits</td>
<td>+0.1</td>
<td>(1.1)</td>
<td>+1.3</td>
<td>+0.2</td>
</tr>
</tbody>
</table>

Source: SymphonyIRI Consumer Network™, Shopper Insights Advantage™ (SIA), 52 weeks ended 6/5/2011

- 1/3 of consumers striving to reduce medical expenses through self-treatment
- Retailers are placing a strong merchandising emphasis on healthcare treatments and accessories
- Drug retailers’ share of dollar sales climbing in 9/10 healthcare categories
- Grocery retailers added health-related products and gained dollar share in 7 categories (SymphonyIRI)
Channel Blurring in Fashion Business

• The line between prestige and mass retailers is vanishing
  • Neiman Marcus and Target partnership for Target + Neiman Marcus Holiday Collection available at both stores and websites
  • Nordstrom and UK retailer, Topshop: Topshop and Topman sold in Nordstrom stores

• Why?
  • Shoppers no longer willing to deal with the barriers of price point or the delay from runway to store
  • Shop with a “high-low,” “want it now” approach, and expect retailers to deliver

Source: Forbes
http://www.forbes.com/sites/wendyliebmann/2012/10/09/channel-blurring-on-steroids/
Channel Blurring’s Effect on Retail Sales

- Since so many options are now available, there is no longer such a thing as the “average shopper” (IRI Symphony)

- “More than 80% of shoppers visit 3 or more channels to carry out their CPG shopping journey. And, as more nodes crop up along the path to purchase, capturing shoppers’ attention and wallet will become increasingly complex. Retailers and manufacturers must provide value to each and every shopper through individualized targeting and flawless execution.”- Susan Viamari, Editor, Thought Leadership, IRI

- Club channel getting more of its dollars from pantry stock-up missions; drug channel is playing more of a fill-in role (IRI)

- Grocery channel losing share in core food and beverage departments, including refrigerated, general foods and beverages

- Club is winning in beverages and general food, while also gaining in liquor. Mass/Super lost ground in a number of departments, including home care and general merchandise to club

- Dollar channel is holding steady across major departments, with slight gains in beauty

Source: Food Business News
http://www.foodbusinessnews.net/articles/news_home/Food-Service-Retail/2014/10/Channel_blurring_taking_a_grea.aspx?ID=%7BDF00B69B-14CB-4B21-9811-765C8C0A71A%7D

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Channel Blurring Effects

- Extensive private label users exhibit low channel blurring.
- Deal-prone buyers and small basket buyers engage in high channel blurring.
- Retired, Double-income, High-income households exhibit low channel blurring.
- Households with kids engage in high channel blurring.
- Households with deeper assortment exhibit low channel burning.
- Drivers of channel blurring vary across departments in a store.

Source: Luchs, Inman, and Shankar 2014
Growth in Channel Blurring

Source: Luchs, Inman, and Shankar 2014

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Channel Blurring By Department

Channel Blurring Index

Dry Grocery: 0.6
Frozen Foods: 0.4
Health and Beauty: 0.9
Overall: 0.6

Source: Luchs, Inman, and Shankar 2014

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Channel Blurring and Supply Chains

- Companies like Amazon, who have advantages of price, assortment, and service, threaten in-store shopping
- More categories moving online

Source: Nitin Chaturvedi, Mirko Nartich, Brian Ruwadi, and Nursen Ulker McKinsey & Company
https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Retail/Articles/Future_of_retail_supply_chains.ashx

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Channel Blurring and Supply Chains

- Retailers and suppliers not ready to meet cost effectiveness and efficient logistics demands. Retailers do not have nearly enough distribution centers to serve customers in a cost effective and efficient way.

https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Retail/Articles/Future_of_retail_supply_chains.ashx

Photo: Google
Channel Blurring and Supply Chains

- Current structure of most retailing businesses is set up for stores, and online part is normally just treated as an add-on. This results in poor cross-channel coordination.
- SKUs to fulfill the endless assortment has created new inventory challenges related to cost and capacity.
- Traditional retailers face a huge cost disadvantage wrt pure online players.

Exhibit 3: Amazon’s lower-cost structure depends on a world-class supply chain.

Source: Nitin Chaturvedi, Mirko Nartich, Brian Ruwadi, and Nursen Ulker  McKinsey & Company
https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Retail/Articles/Future_of_retail_supply_chains.ashx

Photo: Google
What should Retailers and Manufacturers do

• “Services back” design: Retailers need to become more than a place to purchase but a central location for all service bundles. The purpose of the supply chain is no longer just to put the products on the shelves, but to offer many different services with many potential starting and ending points.

• One supply chain: For most retailers, building several distribution centers is out of the question. Therefore, they may need to make their products available for customers at each and every point during the process. This starts with unifying the online and offline supply chains, inventories, eventually creating 1 business.

• Agility and many-to-many flows: Moving to one supply chain requires the supply chain to be more agile with several delivery methods, such as in-store pick up, same-day deliveries.

https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Retail/Articles/Future_of_retail_supply_chains.ashx

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What should Retailers and Manufacturers do

• The retailer as conductor: Retailers will become conductors for all business functions, such as relationships with suppliers, partners, and shoppers and serving customers efficiently and cost effectively.

• To achieve this revolution, businesses should:
  • Aim high
  • Orient toward the gaps
  • Start from a clean slate
  • Think end-to-end
  • Plan for uncertainty

Source: Nitin Chaturvedi, Mirko Nartich, Brian Ruwadi, and Nursen Ulker McKinsey & Company
https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Retail/Articles/Future_of_retail_supply_chains.ashx
Rise of Online Channel

The percentage of online sales is still small but is growing rapidly.

Source: By Antonio Regalado, MIT Technology Review
Rise of Online Channel: Macy’s

- When people think about Macy’s, Santa Clause and the New Year Parade emerge in their minds

- It is now only a very small part of the retail giant. It is now “an omnichannel retail organization operating stores and websites”
  - On its website, it installs 24 different tracking cookies for a visitor
  - On TV, it runs ads with Justin Bieber that urge millennials to download its mobile app, which tells them the closest store
  - Once inside the store, shoppers use the app to scan QR codes on a pillowcase or shoes
  - Online orders ship from the backrooms of 500 Macy’s stores that act as mini-distribution centers

Source: By Antonio Regalado, MIT Technology Review
Retail Turning More Online

• Retailers invested only 2% of revenues in technology while most other industries invested 2-3 times as much (2008 Accenture study)

• Amazon has annual sales of $60 billion, 6 times the online sales of its nearest competitor, Walmart

• eBay and Google investing in immediate gratification with same-day delivery

• Traditional retailers reaching customers on social media, on web, and phones. With technologies (e.g., Wifi sensors, indoor mapping), they can turn stores from liabilities to advantages

• “Retail has become a blur. And the blurring is 100% driven by technology” - Tige Savage (Partner, AOL founder Steve Case’s investment company)
Blurring Online and Offline Channels

• In the retail world, digital marketing has engrained itself as a part of the brick-and-mortar shopping experience

• More than 60% of the shoppers research on mobile devices while in store (Columbia Business School study)

• Such usage heavily affects their shopping experiences and empowers them with tremendous amount of information. Simply, it is changing the moment of truth for buyers’ purchasing decisions (e.g., showrooming phenomenon)

• More stores allow customers to order online and pick them up in stores. It eliminates the need of waiting for the product to arrive.

• Retailers need to ensure their online and offline marketing strategies work together