



Merchandising In The Modern Era: More Important Than Ever

Benchmark Report

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Sponsored by:

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 **Retail Strategy Group**

Executive Summary

Key Findings

We conduct a merchandising benchmark every year. What a retailer chooses to sell – and the fusion of art and technology that it utilizes to make those decisions – is vitally important. However, this year we wanted to change things up a bit. While this year's report is the newest deep dive into how retailers view their efforts - and which technologies are using and budgeting for - we also survey shoppers to find out how they think retailers are faring.

Here are some of the high-level findings of this report:

- Retailers have a high opinion of their understanding of the next generation of merchandising tools and solutions. However, *much of this appears to be overconfidence*. Nearly all (93%) think that they can keep pace with shifts in demands – and specifically in meeting customers' increasing demands for localized assortments, but **more than half** (58%) say they are being hamstrung by an overdependency on data to make effective decisions about which products to sell.
- At the same time, despite all the data that retailers currently collect about the people who shop their brands, *consumers don't feel as though retailers know much about them at all*. Only 39% think their favorite brands have the ability to make relevant product suggestions, and only 34% say retailers make relevant offers. Shoppers think retailers are still just trying to sell them whatever they want to sell, and not products shoppers want to buy. This is jarring contradiction to how retailers rate their own capabilities.
- As it relates to environmental concerns, there is another solid disconnect between what retailers *think* consumers want, and what shoppers *want*. Retailers think sustainably sourced products are nothing more than a story that needs telling to pacify customers, and *88% say they are doing a good job of telling that story*. Shoppers, however, don't care about buzz. 90% want products that are better for their health - especially grocery and beauty items - and **84% are willing to pay more for products** that are. If a product goes in a consumer's mouth or on their skin, a product's environmental footprint is already affecting more than 50% of shopping purchases currently made in the United States. Retailers are missing huge opportunities here.
- When asked about plans for using new merchant tools, retailers say the biggest opportunity is the integration of automatic replenishment, demand planning and product lifecycle management. These should reflect customer insights and shifts in demand - adjusting reorders and planned assortments based on data, avoiding manual intervention, and the investment plans retailers share beginning on page 32 support these notions.

Based on our data, we also offer several in-depth and pragmatic suggestions on how retailers should proceed. These recommendations can be found in the **Bootstrap Recommendations** portion of the report.

We certainly hope you enjoy it,

Liza Amlani and Steve Rowen

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Research Overview

Getting Merchandising Right: More Important Than Ever

For every year since RSR's inception in 2007, we have conducted a Merchandising Benchmark study. What a retailer chooses to sell – and the fusion of art and technology that it utilizes to make those decisions – has warranted deep inspection every year. Moreover, we cannot imagine a time in the future when it will not. The space is *just that fascinating*.

What is new for this year's research is that we have a guest contributor helping us to conduct it. Having operated as a merchant for more than 20 years, Liza Amlani brings an expert voice to the retail merchandising space, particularly regarding product demand, design, and creation. RSR is thrilled to have her analysis and perspective in these pages.

Because so much buzz surrounds sustainability in the merchandising space, this year we also wanted to dig deeper into how retailers are rethinking the sustainability profile of the products they sell – and how that viewpoint may evolve in near-real time. To that end, we included a line of inquiry specially intended to find out just how much of a “big deal” eco-friendly product (and the messaging about those products) is becoming to retailers today.

And lastly, this year's report also includes some data drawn directly from customers. We surveyed over 1,000 US shoppers ages 18 and above to find out their thoughts about retailers, the products they sell, and what the ecological impact of those products means while shopping for themselves and their loved ones.

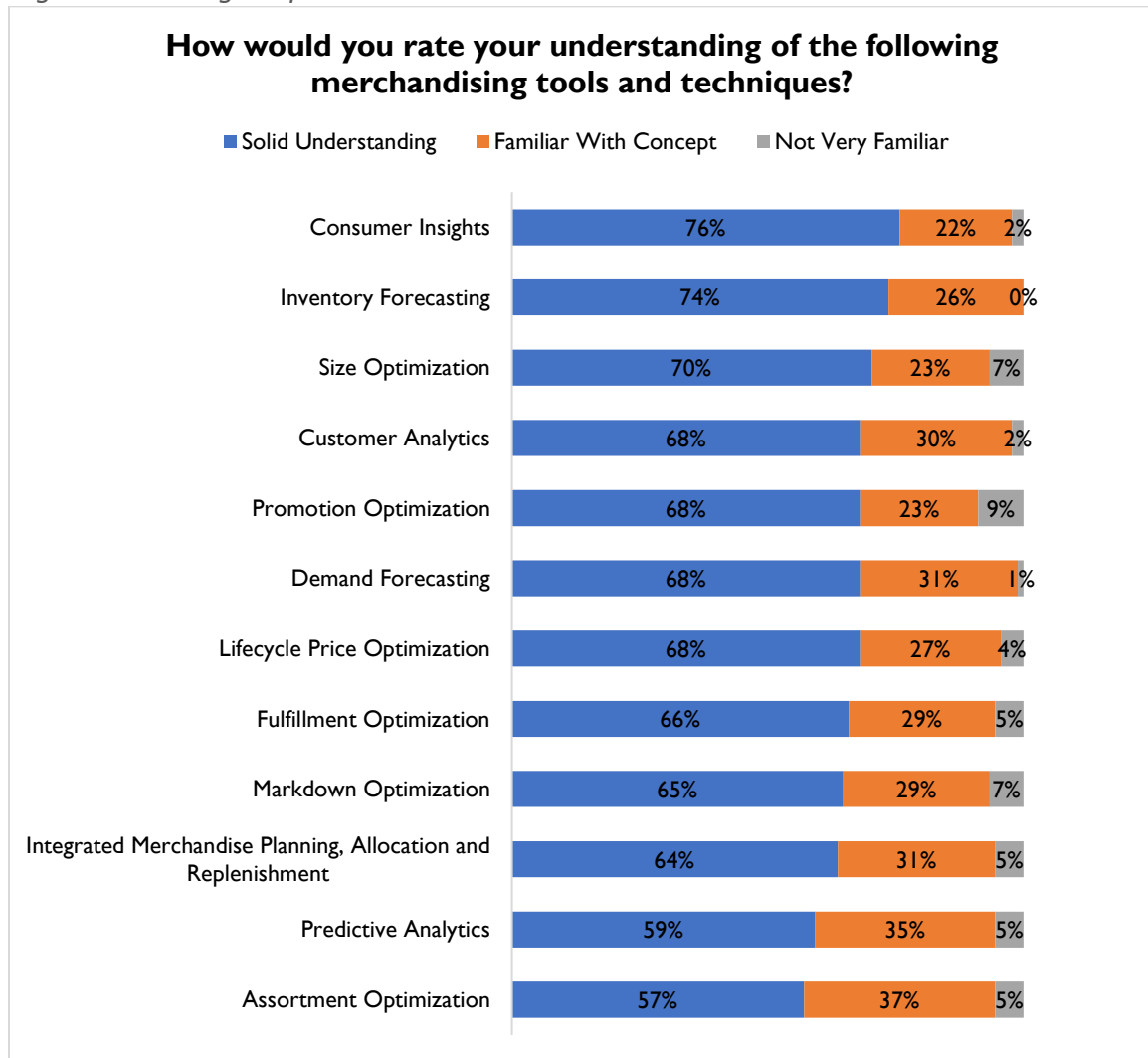
As the pages of this report will uncover, merchandising correctly is not only more complicated than ever, but of vital importance to retailers large and small, near and far. **Effective merchandising is paramount to survival in today's hyper-competitive retail marketplace.**

Retailers Set The Stage

The title of RSR's first Merchandising Report - nearly 15 years ago - was “**Tech Enabled Customer-Centric Merchandising.**” At that time, retailers knew that a blend of art and science was paramount to tuning their product mix for increasingly demanding consumers. What they couldn't know, however, was just how much *more* important it would become, as very few shoppers had even heard the term “iPhone” at the time.

Nearly 15 years later, we asked retailers to rate how they are doing in this increasingly complicated landscape. As Figure 1 shows, they report having a **firm grasp on the technologies** and processes required to have a product mix that both differentiates and delights.

Figure 1: A High Opinion



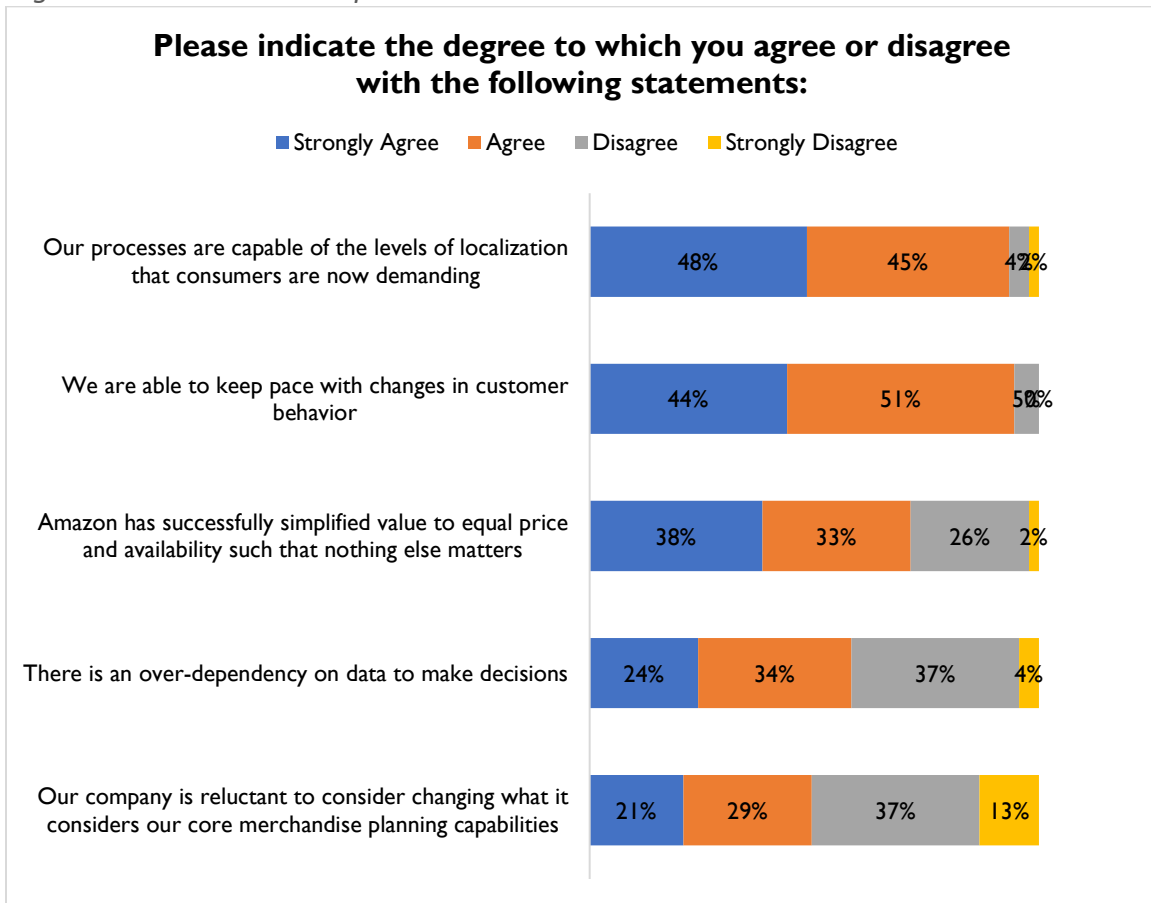
Source: RSR Research, January 2023

From inventory and demand forecasting to virtually all kinds of optimization tools (promotion, markdown – even assortment), the combination of “solid understanding” and “familiar with concept” in Figure 1 paints a sunny portrait where all retailers are in the know: the least understood option in our list is *Promotion Optimization*, and even then, only 9% are not very clear on its value. What most retailers tell us here is that there is very little need to educate them about the value of modern-day merchant tools.

What is most interesting to note in Figure 1, however, is the topline finding: more than three quarters of retailers report having a solid understanding of what consumer insights can mean to their shoppers. As the findings of this report will show is that understanding does not always translate into the ability to act.

Retailers’ sunny self-assessment shifts quickly the moment we probe a bit deeper. When asked to rate their reaction to several positioning statements, retailers’ responses reveal that a somewhat-more-complicated mosaic lies beneath their initial rosy picture (Figure 2).

Figure 2: Meets A Complicated Environment



Source: RSR Research, January 2023

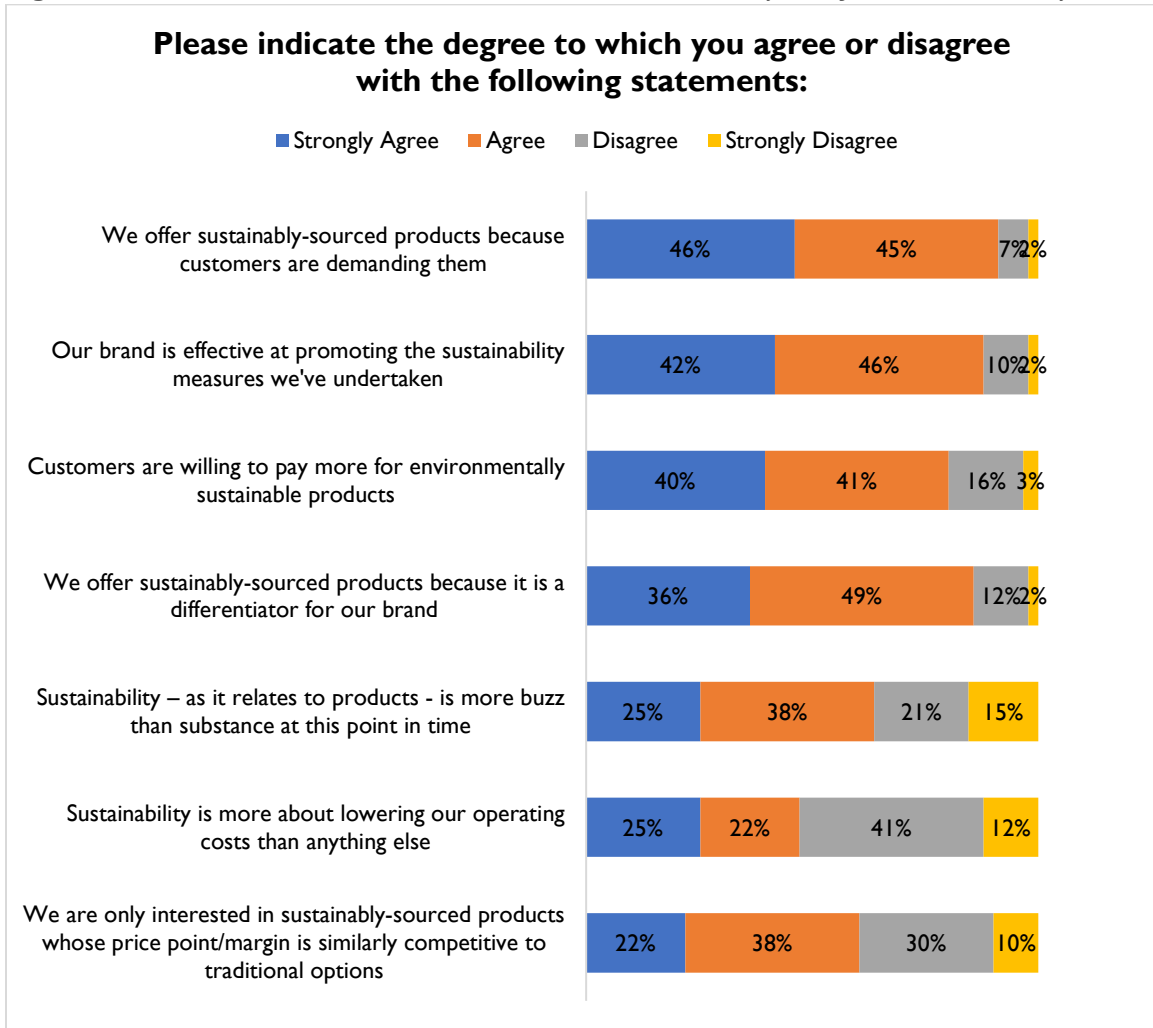
From these results, we can see that retailers are being pulled in multiple directions. Nearly all think that they can keep pace with shifts in demands – and specifically in meeting customers’ increasing demands for localized options (more on that in a moment) – but more than half (58%) say they are being hamstrung by an overdependency on data to make effective decisions. This is an incredibly tough place to be: ***has the momentum in the art/science pendulum swung too far toward tech, rendering merchants somewhat helpless to make the types of gut-feel decisions that have the potential to stand out from the competition?***

For half of our aggregate response pool, that answer seems to be a resounding yes, especially when considering the last data point in the above chart: *exactly 50% of retailers agree that their company is reluctant to consider changing what it once would have considered core merchandising-planning capabilities*. This isn’t just a case of a hung jury – this is a truly split decision.

The Environmental Issue Arises

As we mentioned in the introduction of this report, we wanted to dig into environmental issues as they relate to products and product mixes in a way we never have before. Figure 3 shows just what retailers *currently* think of the matter.

Figure 3: Retailers: We Know The What's And Why's Of Sustainability



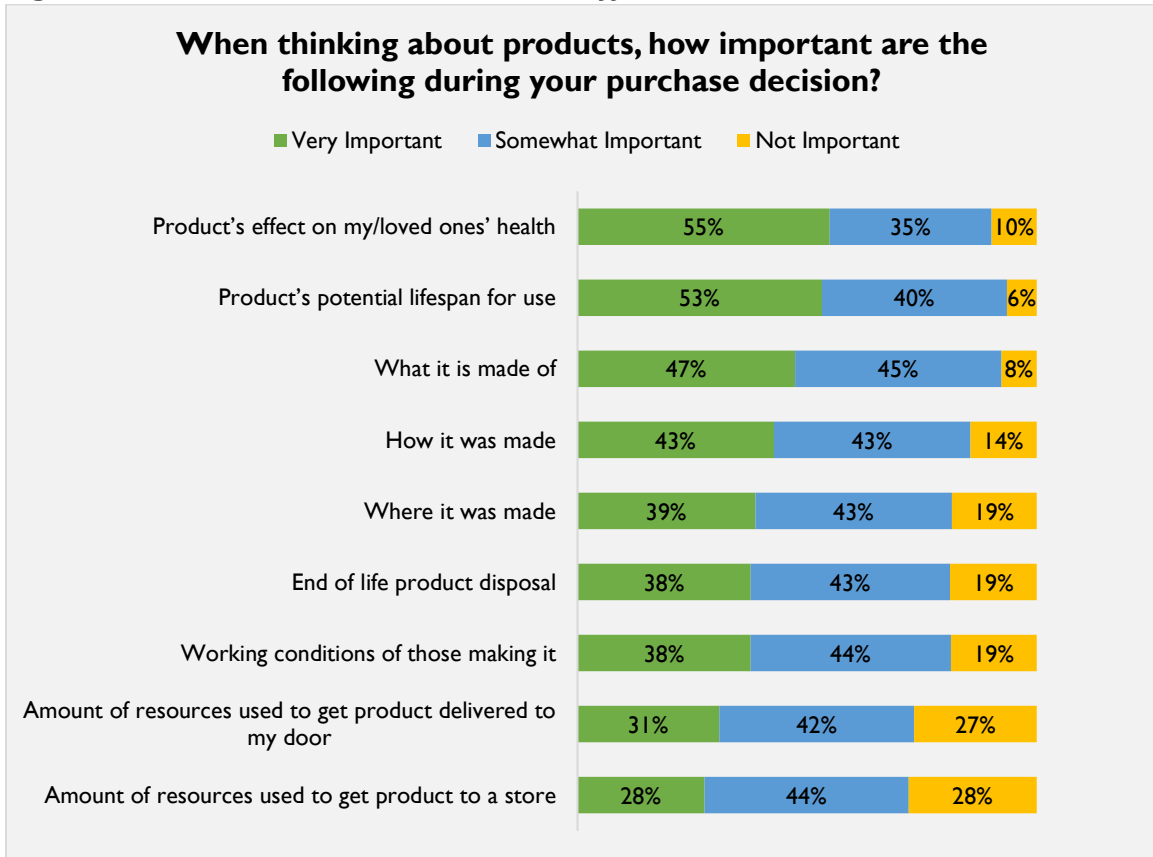
Source: RSR Research, January 2023

The “story” the data above tells can be summarized succinctly:

- According to retailers, sustainably-sourced products are a customer-driven initiative, period – full stop. This is not even about lowering operating costs – this is about telling a story to please customers
- A majority think that story is more about buzz than it is substance, to date
- The vast majority (86%) think sustainably sourced products can thus be a differentiator for their brand, and
- Nearly 9 out of 10 retailers think they've done a good job promoting their efforts in this space to date

However, based on some past sustainability research we've conducted (not related specifically to merchandising), we anticipated that retailers would likely give themselves high marks in this department; and as we'll see in a moment – in some other departments, as well. Consumers have different ideas about what sustainability means when they are picking out products (Figure 4).

Figure 4: However, Consumers Have Different Ideas

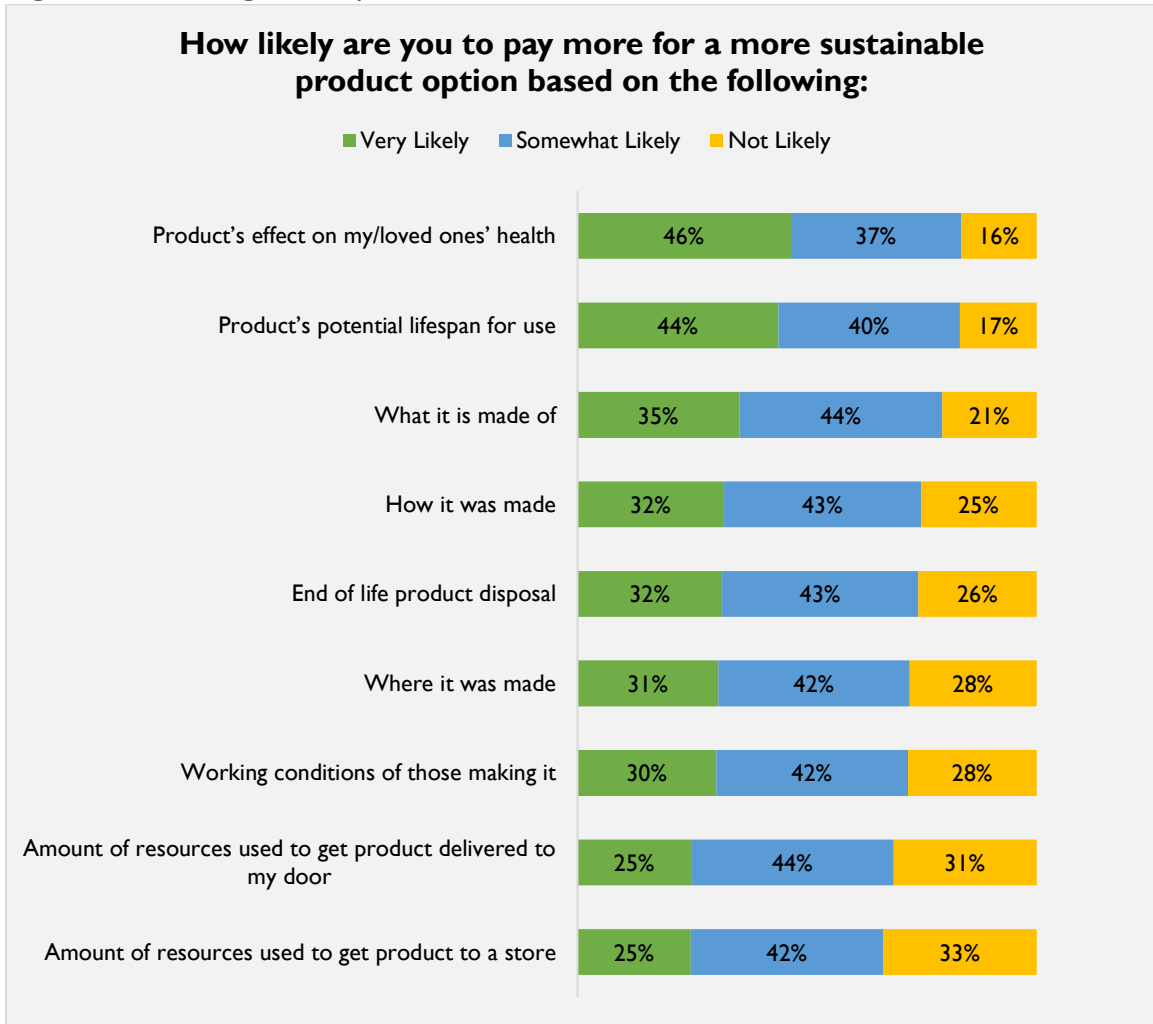


Source: RSR Research, January 2023

When analyzing “very important” and “somewhat important” together, we can see that *where* a product was made, *how many resources were required* to get it to a buyer’s door or even to a store shelf – all these things are important to shoppers. But what **really** matters most to them relates directly to health concerns: what the product is made of, its overall lifespan and its direct effect on the user’s health. These are highly personalized concerns.

For Consumers this isn’t about buzz, and it isn’t about things that might easily be put out of sight and therefore out of mind (CO2 emissions, manufacturing environments, etc.). This is about **them** – and their health. And it doesn’t just stop with importance: shoppers tell us they are willing to put their money where their mouths are (Figure 5).

Figure 5: Willing To Pay

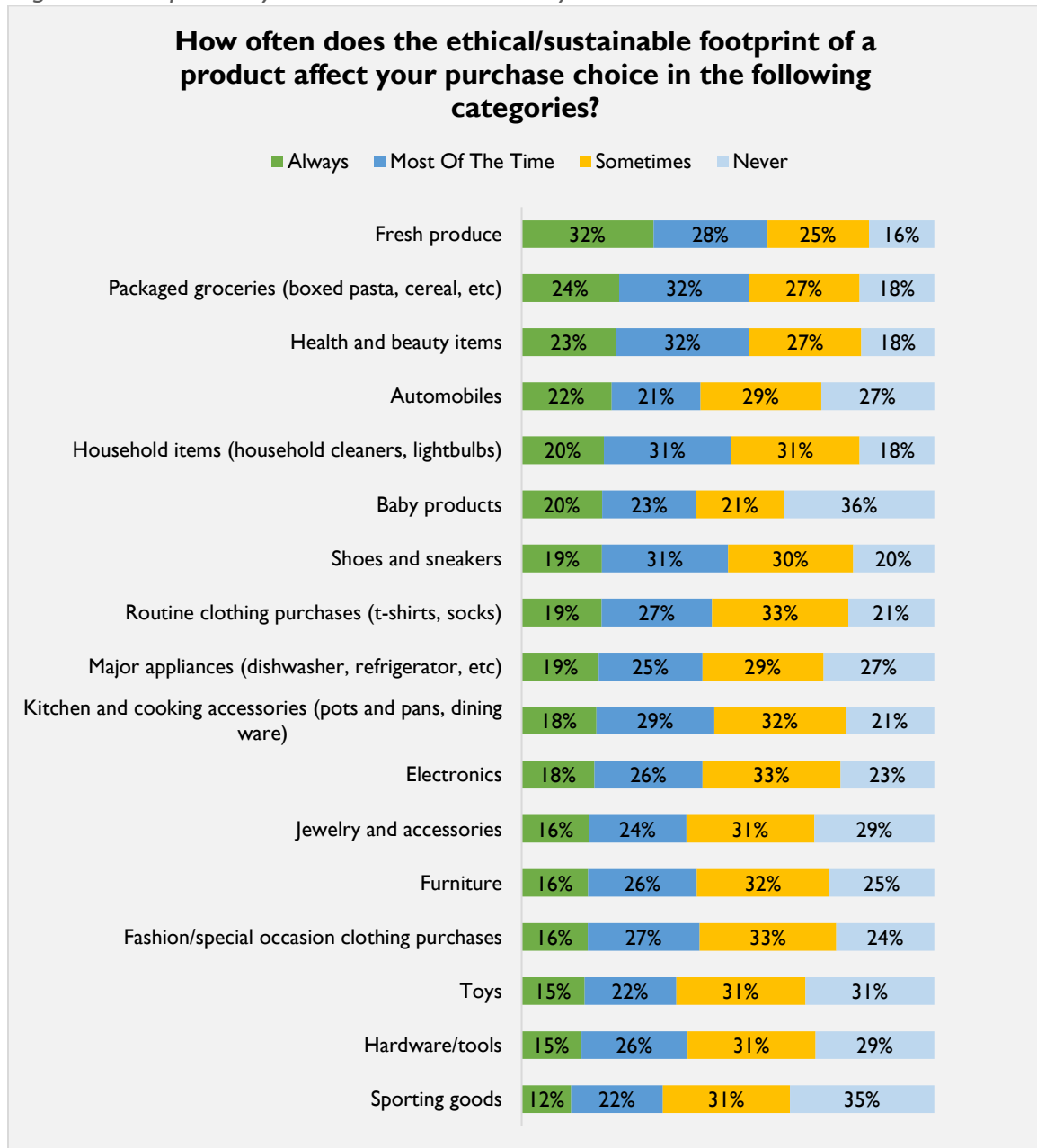


Source: RSR Research, January 2023

When Does It Matter?

A moment ago, we said that customers are willing to put their money where their mouths are. This statement only becomes that more relevant when we ask the types of products where “sustainability” matters most to shoppers (Figure 6).

Figure 6: Especially For Food And Beauty Items



Source: RSR Research, January 2023

Put plainly: if a product goes in a consumer's mouth or on their skin, a product's environmental footprint is already affecting more than 50% of shopping purchases currently made in the United States. Fast moving consumer goods retailers (FMCG: defined as grocery, pharmacy, and convenience retailers) should be aware of this trend as **reality right now**. For retailers selling everything else – from Fashion to Consumer Electronics to Hard Goods, the writing is clearly on the wall. This is not buzz. Shoppers want better options.

Retail 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

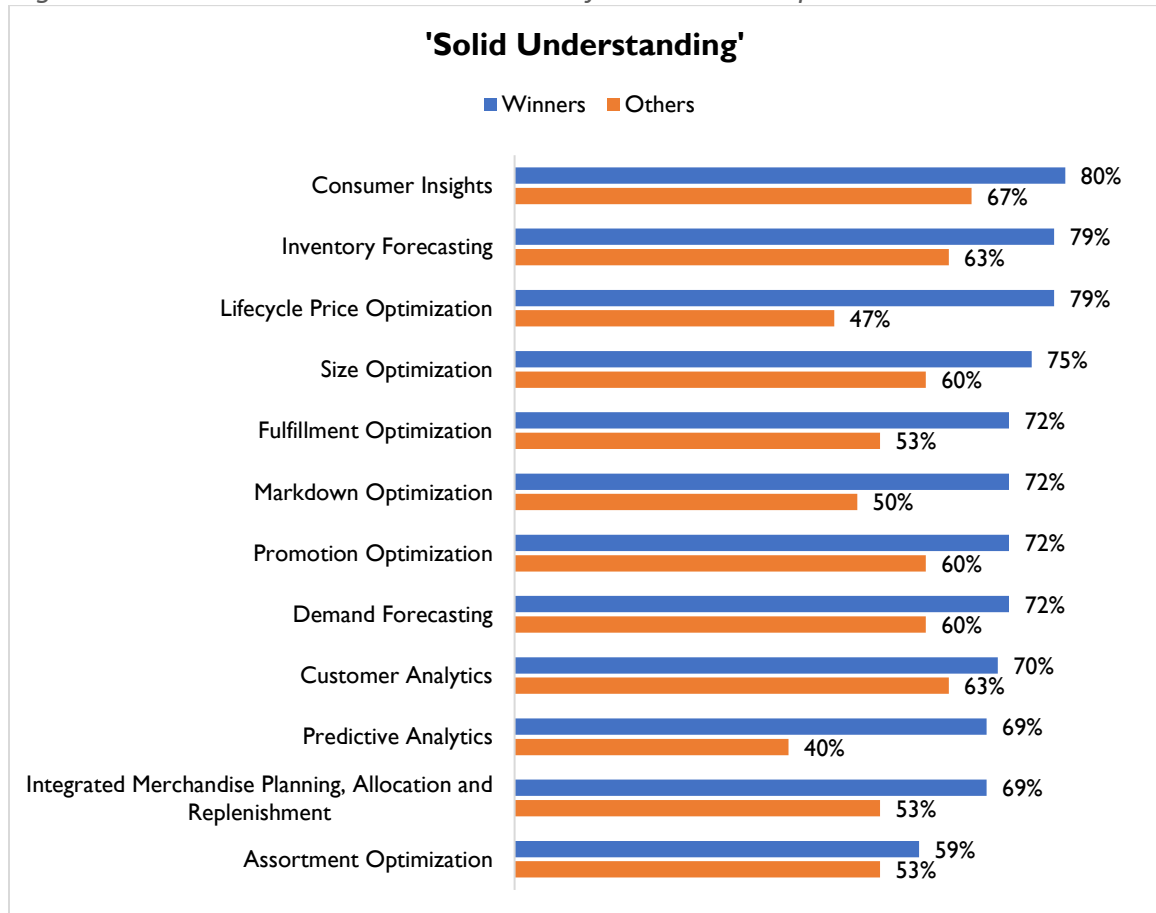
performance is an outcome of a differentiating set of thought processes, strategies, and tactics. We call sales over-performers “Retail Winners.”

RSR’s definition of these Winners is straightforward. Assuming industry average comparable store/channel sales growth of **7 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.”

One trend that will emerge throughout this report is that Retail Winners don’t just do the same things differently, but they tend to do entirely different things. They approach merchandising differently and tend to look at problems with much more of a “big picture” viewpoint than those struggling just to keep the lights on.

For example, when we set the stage for this report in Figure 1, we asked the full response pool to self-assess their understanding of the tools available to the modern merchant team. Figure 7 shows just how differently that assessment is when viewed through the lens of sales performance.

Figure 7: Winners Have Wider View Of The Landscape

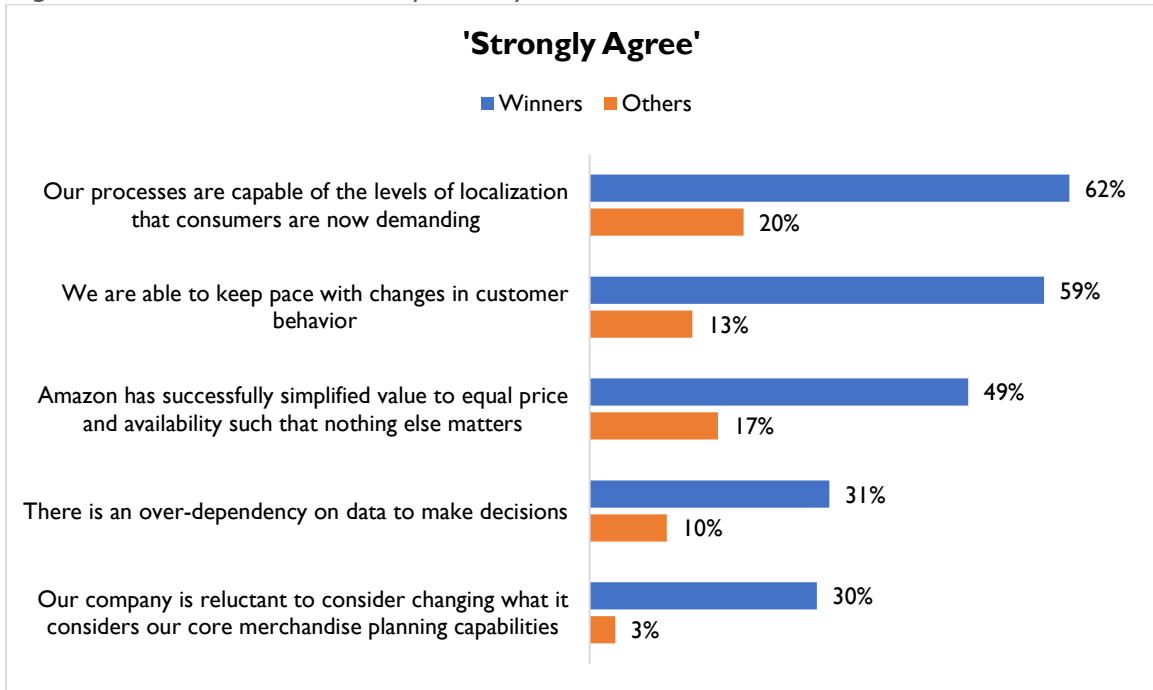


Source: RSR Research, January 2023

Across the board, Winners have a far deeper understanding of the tools at their disposal. This extends to both technologies that have been around for a long time (markdown and assortment optimization, for example), as well as newer tools (such as predictive analytics and demand forecasting infused with cutting-edge AI capabilities). What is perhaps much more telling, however,

are the areas where their opinions about our previous list of positioning statements differ (Figure 8).

Figure 8: ...And Greater Capability

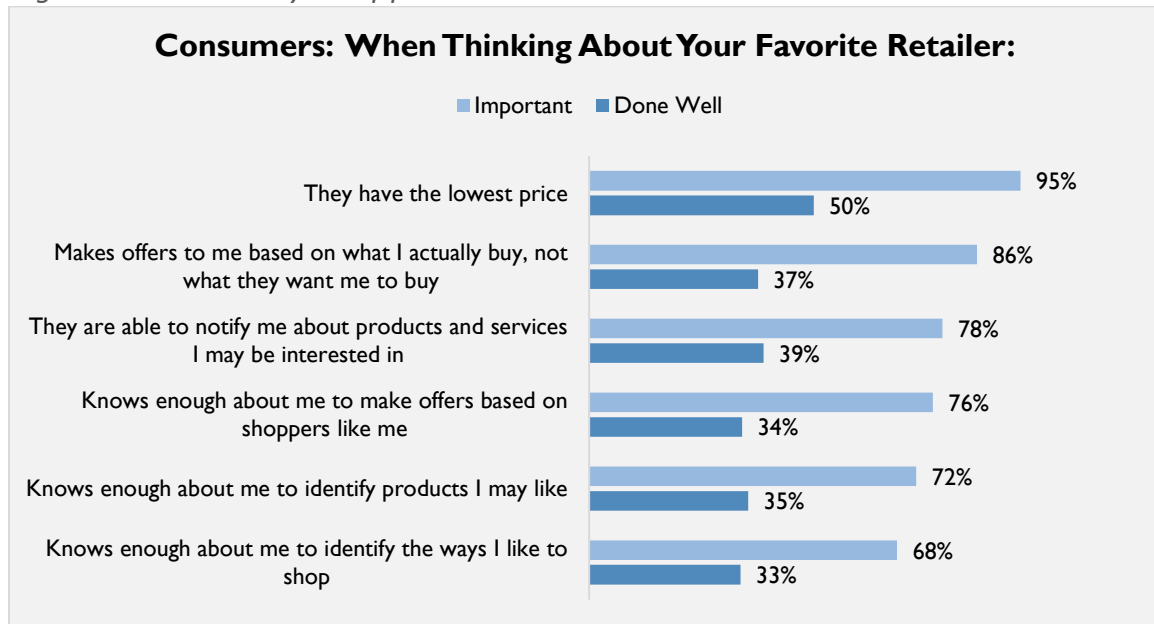


Source: RSR Research, January 2023

Winners are MUCH more likely to feel they can localize products in ways that bring relevance to consumers. They are the ones leading the way in keeping pace with customer behavioral shifts, but they are also most vexed by Amazon's ability to make price and availability to the only two plots on the graph of what is important to shoppers. Are they correct?

Figure 9 shows where they are – and where they aren't.

Figure 9: Too Many Dropped Balls



Source: RSR Research, January 2023

According to consumers, the *lowest price* is more important than retailers realize – making the Amazon effect even more devastating. The good news, however, is that a lot of other things matter to shoppers as well – and retailers have room to improve in all of them.

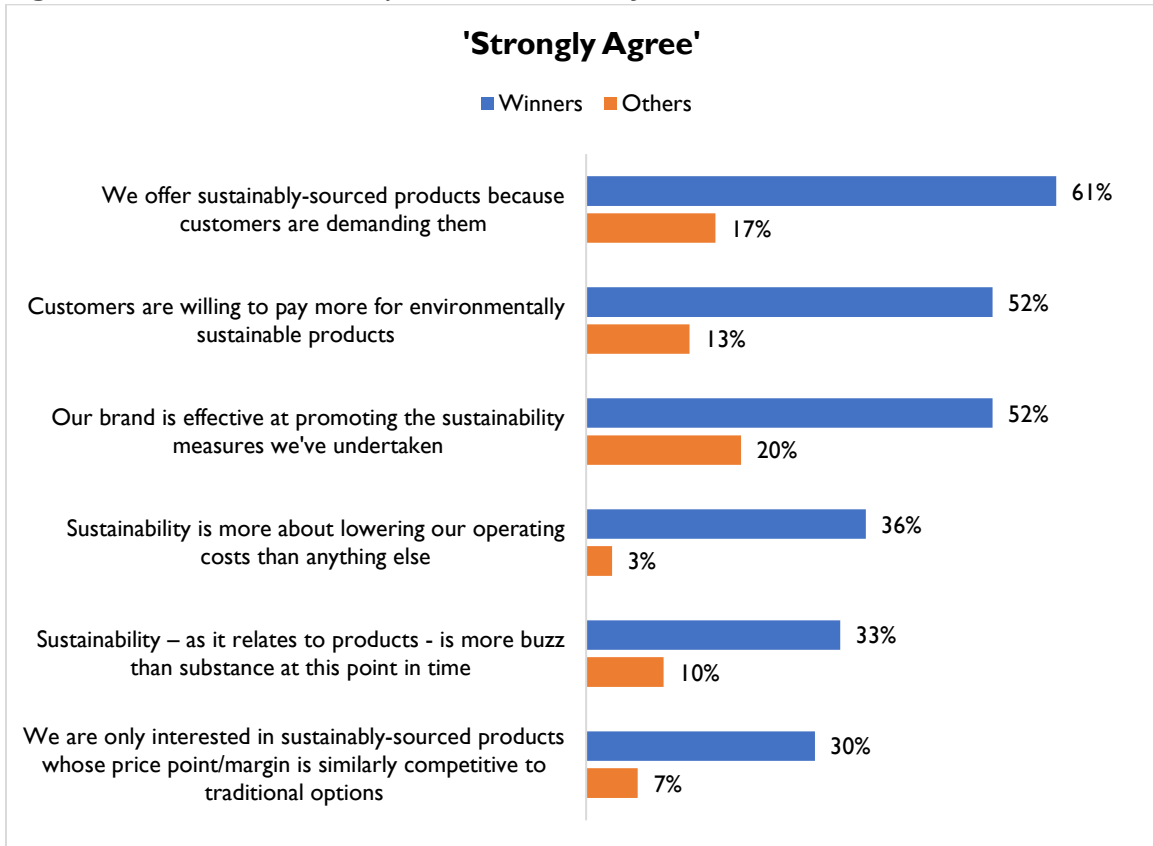
Despite the treasure trove of data that retailers currently collect about the people who shop their brands, consumers don't feel as though retailers know much about them at all. Even when thinking about their favorite brand, they don't believe retailers can make relevant product suggestions, to make relevant offers, or even to make offers based on what the customer actually buys: shoppers think retailers are still just trying to sell them whatever they have too much of.

To meet consumers expectations, merchants have their work cut out for them.

The Environmental Issue Returns

It is also worth noting just how differently Retail Winners view the role that sustainability plays in today's merchandising landscape (Figure 10)

Figure 10: Winners Vastly More Aware Of 'The Environmental Issue'



Source: RSR Research, January 2023

As we can see in Figure 10, it is Winners who are driving sustainability issues:

- Winners are 3 times more likely to offer sustainably sourced products to meet customer demand
- They are FAR more likely to understand that customers are willing to pay more for “greener” options
- And they are doubly effective at promoting the sustainability measures they've taken so far. Winners are making their environmental sustainability differentiation a vital part of their overall “brand story”

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 October – November 2022 and received answers from 91 qualified retail respondents. Respondent demographics are as follows:

- **2021 Revenue (US\$ Equivalent)**

Less than \$250 million	5%
\$250 million - \$499 million	15%
\$500 million - \$999 million	37%
\$1Billion to \$5 Billion	30%
Over \$5 Billion	12%

- **Products sold:**

Fast moving consumer goods	31%
Apparel, footwear, and accessories	24%
Hard goods	22%
General merchandise	23%

- **Headquarters/Retail Presence:**

	<u>HQ</u>	<u>Retail Presence</u>
USA	93%	98%
Canada	2%	51%
Latin America	0%	26%
UK	3%	37%
Europe	1%	33%
Middle East & Africa	0%	8%
Asia/Pacific	0%	14%

- **Year-Over-Year Sales Growth Rates** (assume average growth of 7%):

Average & worse than average (“All Others”)	33%
Better than average (“Retail Winners”)	67%

Business Challenges

Three Macro Issues Emerge

As we've already seen, "lowest price" supersedes every other consideration for consumers. But for retailers, being price-competitive is a barrier to entry, i.e., if the brand isn't price-competitive, then nothing else matters. But once the "price" barrier has been overcome, other challenges quickly rise to the top.

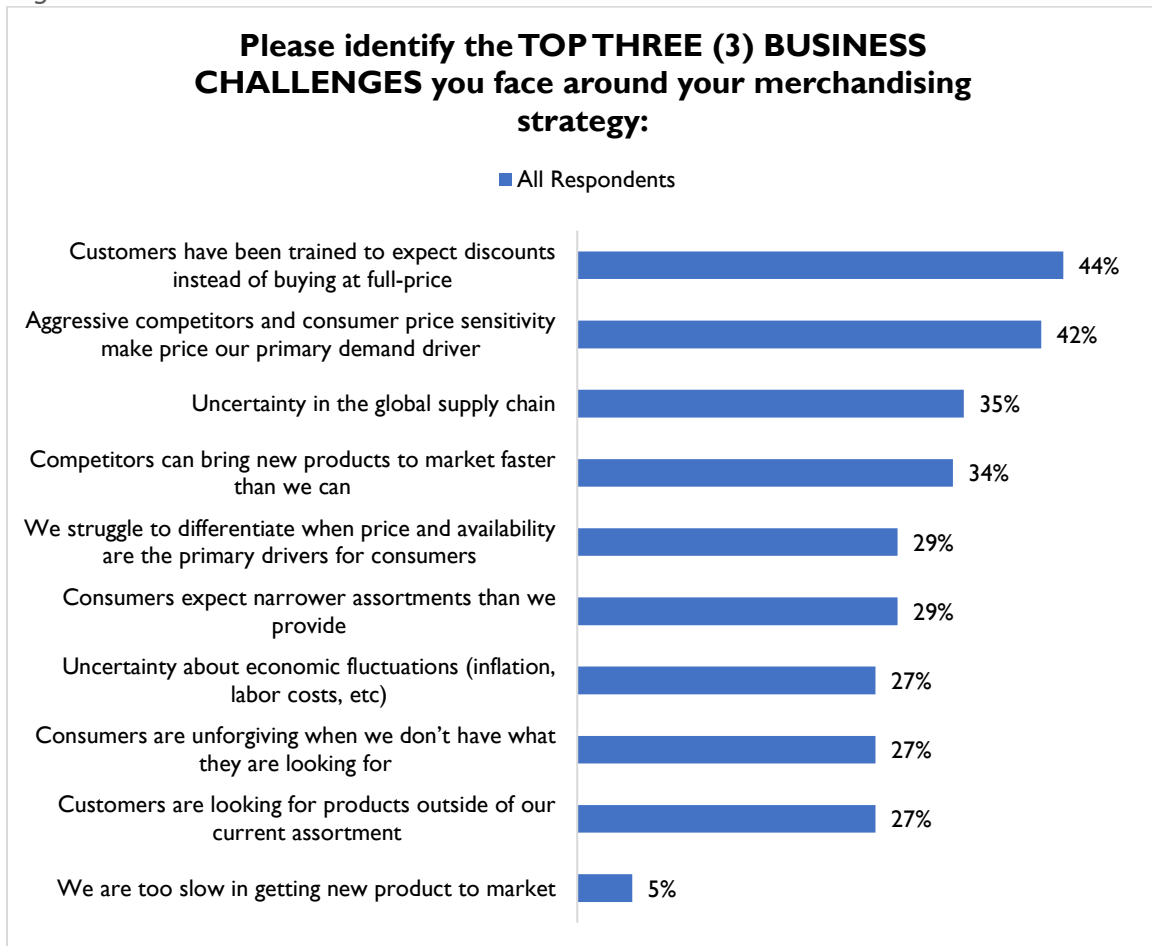
When we asked our survey respondents to identify and rank their top challenges in merchandising strategy and merchandising management, the results reveal three macro challenges:

1. Pricing and promotions
2. A disconnect between merchandising strategy and execution
3. Inventory

Pricing and Promotions

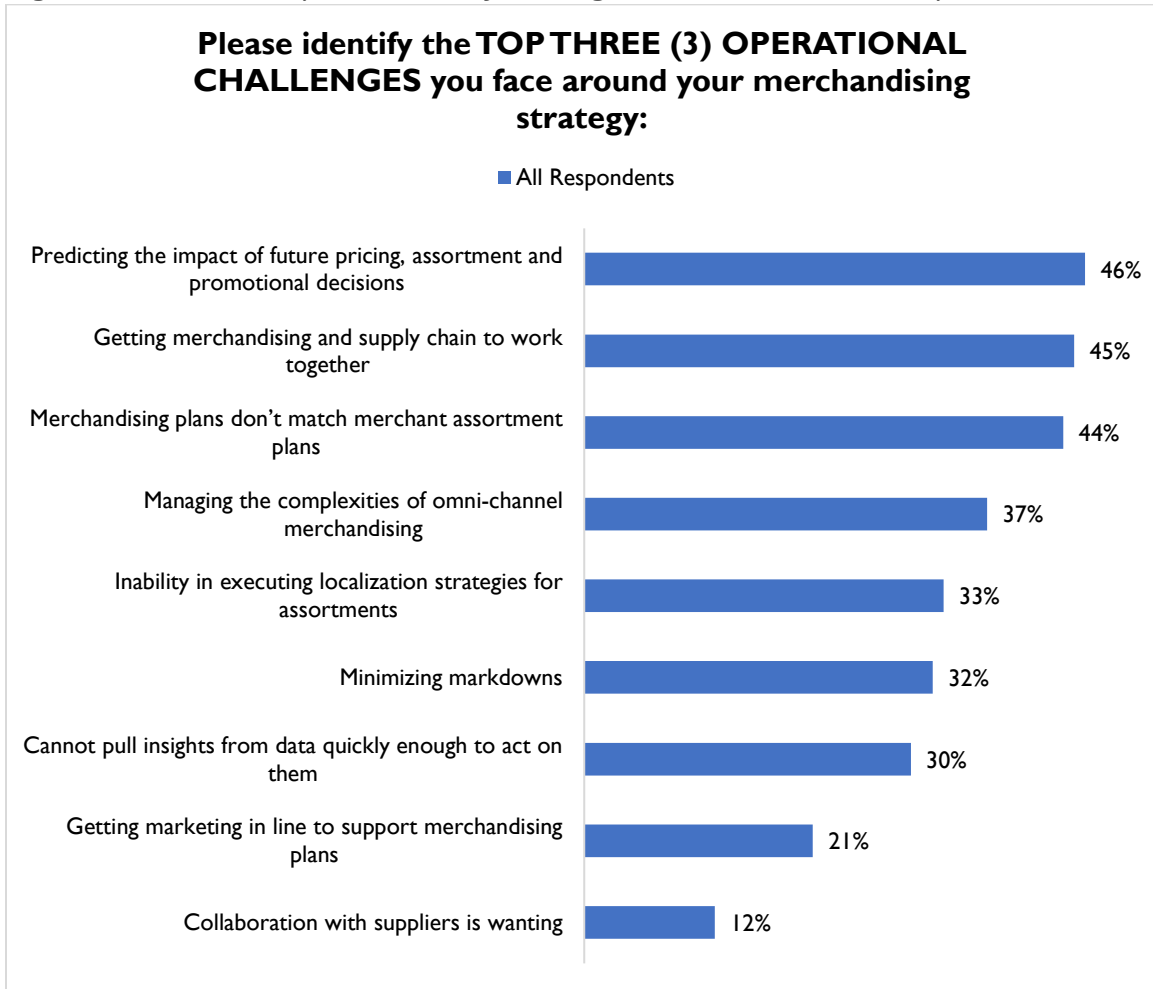
Respondents identified their top three business and operational challenges in their merchandising strategies. Results from the business perspective are shown in Figure 11 and the operational perspective are in Figure 12, where as expected, issues related to pricing and promotions rank the highest.

Figure 11: Customers Are In Control



Source: RSR Research, January 2023

Figure 12: The Complications Of Seeing Around Corners Compound



Source: RSR Research, January 2023

Notable results include:

1. Aggressive competitors and customer price sensitivity make price the primary demand driver (42%)
2. Customers have been trained to expect discounts instead of buying at full price (44%)
3. Predicting the impact of future pricing, assortment, and promotional decisions (46%)

Looking inside these results, it is notable that more **FMCG** retailers are challenged by aggressive competitors and customer price sensitivity than other categories (61% for grocery versus 33% for all others). The rise in inflation may be the main reason for this result as customers are more careful in purchasing their essentials and household items. As for the customer expecting discounts, **General Merchandise** is challenged the most here with a 62% response (compared to 44% overall).

As a result, retailers need to make decisions as to how they price their products, to what extent they need to discount and how buying patterns influence product assortments going forward. Hence, the top operational concern is the uncertainty of the impact of those decisions.

If customers have been trained to expect discounts, then planning the assortment at a competitive price point is crucial. However, lowering price points could devalue the brand and deter customers from buying at full price.

Further, retailers need to work to avoid unplanned markdowns in-season. Whether these arise from issues related to excess inventory or aggressive competitors, there is ambiguity on what will be long-term impact of these short-term decisions.

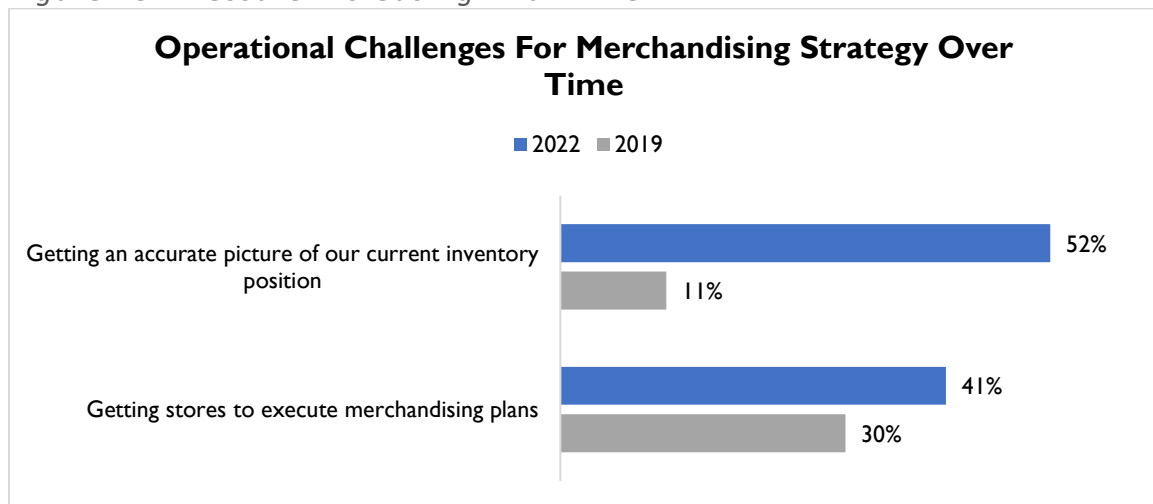
Disconnect Between Strategy And Execution

In analyzing survey responses, we see a disconnect between the merchandising strategy *ahead of the season* and execution of the merchant assortment plan *in-season*.

Revisiting Figures 11 and 12 - we see that this ranks within the top three identified challenges.

Also, looking at Figure 13, there is a growing concern in “getting stores to execute on merchandising plans”, especially compared to our [2019 benchmark study](#) results¹; there is an 11% jump in the response.

Figure 13: Pressure Increasing With Time



Source: RSR Research, January 2023

There are several reasons that are likely contributing to this, some of which are substantiated by other findings in this study:

- First, assortments may not be arriving at the desired and intended time of the seasonal drop. There is enough evidence to support this idea from our survey responses: there is a lack of alignment between supply chain and merchandising, too little of the right kind of inventory and out of stocks are persistent problems.
- Merchants plan to maximize time in the market for products to maximize full-price sales. Ship windows for orders are typically three months, and so merchants prefer to plan assortment drops at the start of these delivery windows. But because of persistent supply chain issues, product may arrive later in the season and towards the end of ship windows.

¹ Mastering The Art Of Merchandising In The Technology Age, RSR Benchmark, March 2019

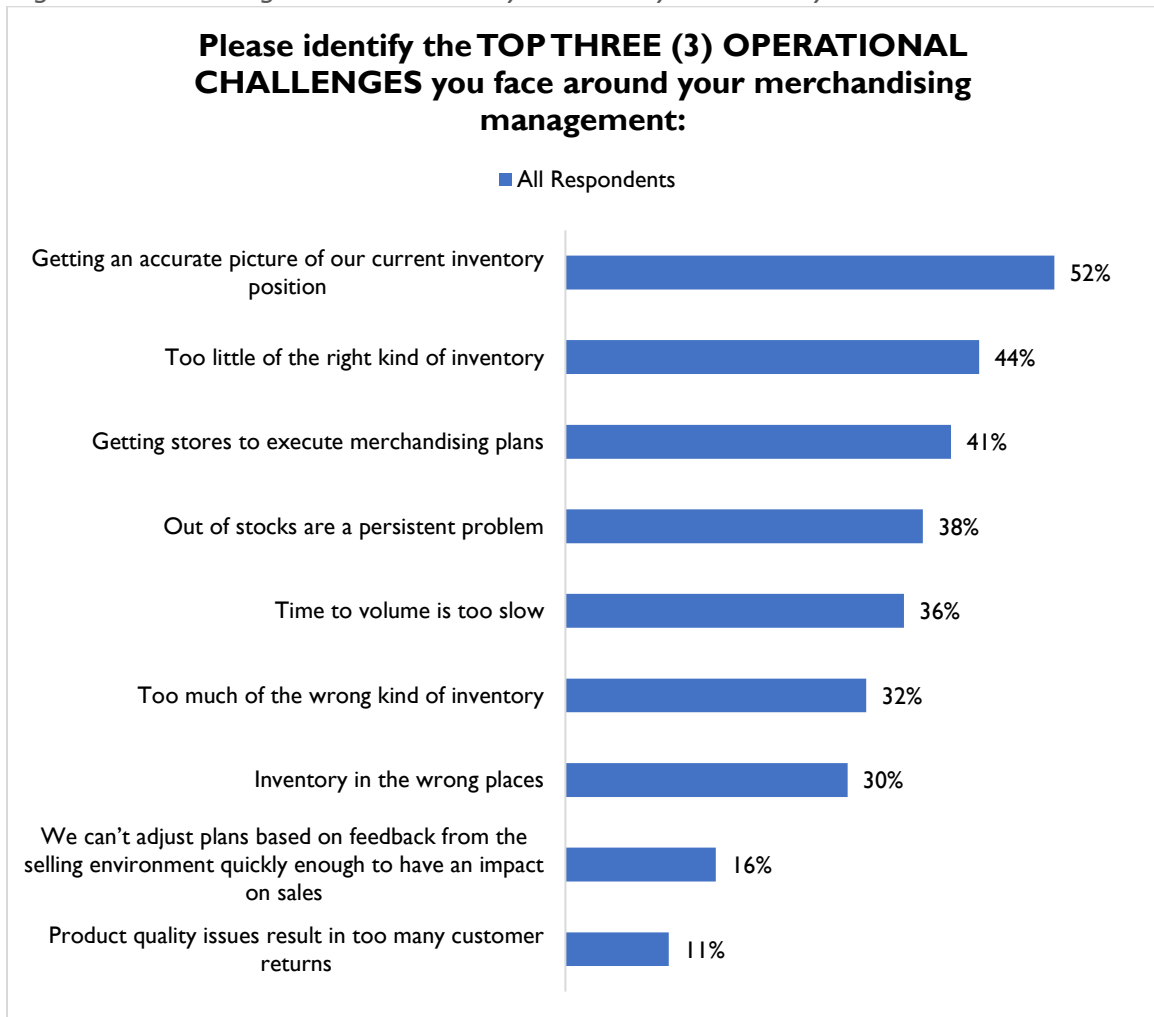
As a result, the product is not on the floor when originally intended. This is reflected in the execution of the merchant assortment plan not matching the original plan.

- Supply chain partners, including sourcing and logistics companies, may not be involved in the upfront planning process in providing their insight. If supply chain partners (from sourcing to logistics) are not involved early enough in the merchandising strategy, they cannot be proactive in responses to changing assortments.
- On the other hand, it is possible that retailers have not retained enough of the right kind of talent to execute on merchandising strategy. For example, Apparel and Hard Goods brands require store leadership and visual merchandising talent. Grocery and General Merchandise retailers need labor and brand ambassadors to rapidly receive and replenish stock.

Where's The Inventory?

When it comes to merchandising management, inventory challenges are abundant (Figure 14).

Figure 14: Management Seriously Vexed By Inventory



Source: RSR Research, January 2023

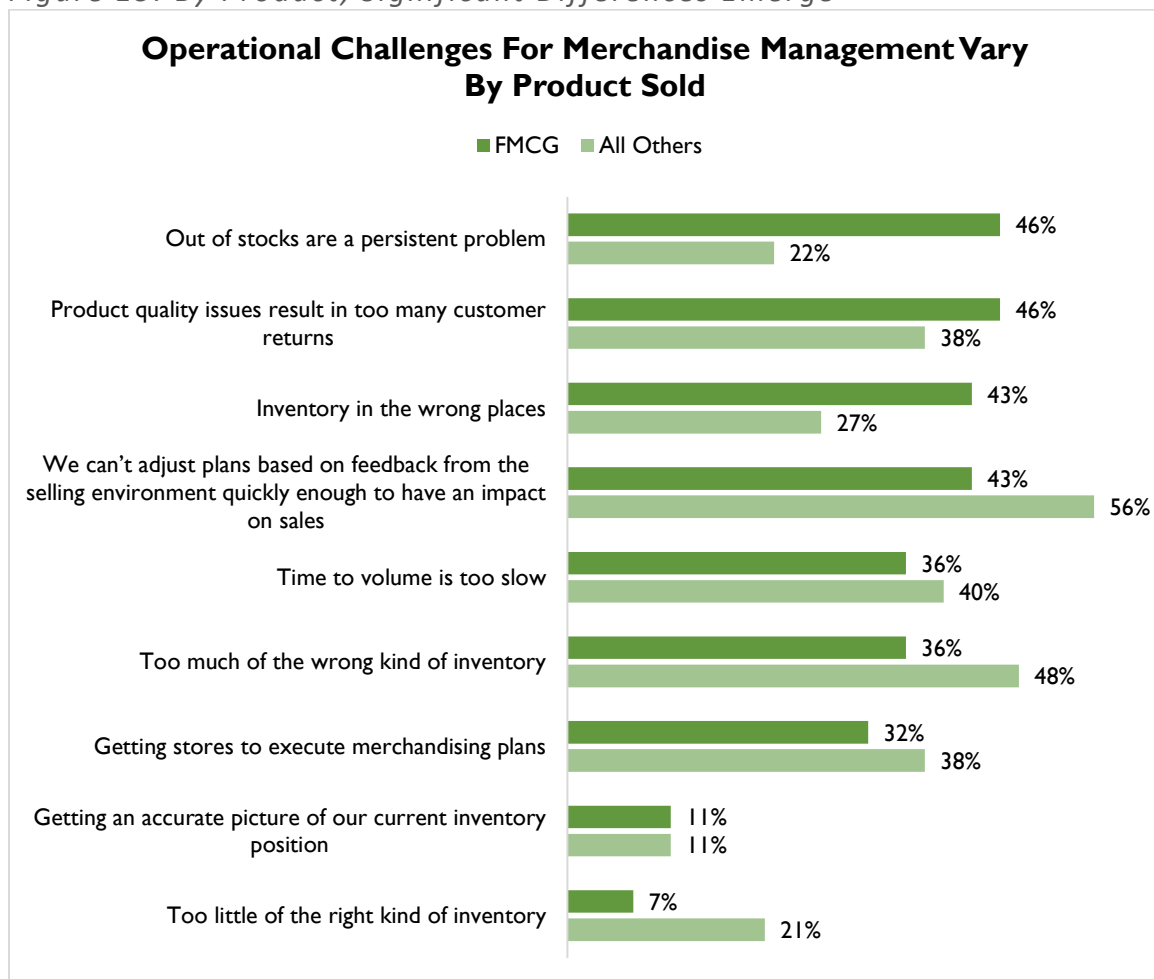
The top challenge for retailers is getting an accurate picture of their current inventory position, with a 52% response rate. Looking inside this result by category, we find that Apparel leads the way at

64% followed by General Merchandise at 52%. But to further emphasize the importance of that challenge, there is a 41% jump from the responses recorded to the same question in 2019 (Figure 13).

While 44% of respondents say that they have too little of the right kind of inventory, Hardgoods and Apparel brands lead the way (55% and 45% respectively). Apparel brands don't appear to have issues with the location of inventory, with only 9% reporting that inventory is in the wrong place. These brands have a good handle on where the demand is located but appear to fall short on having enough of what customers want.

While retailers note that they need more visibility into their inventory positions, they also note more specific challenges related to both the amount and the location of their inventory. The differences between FMCG retailers and all others is particularly pronounced (Figure 15). Inventory in the wrong place and too much of the wrong kind of inventory is the biggest headache for those retailers (46% and 43% respectively).

Figure 15: By Product, Significant Differences Emerge

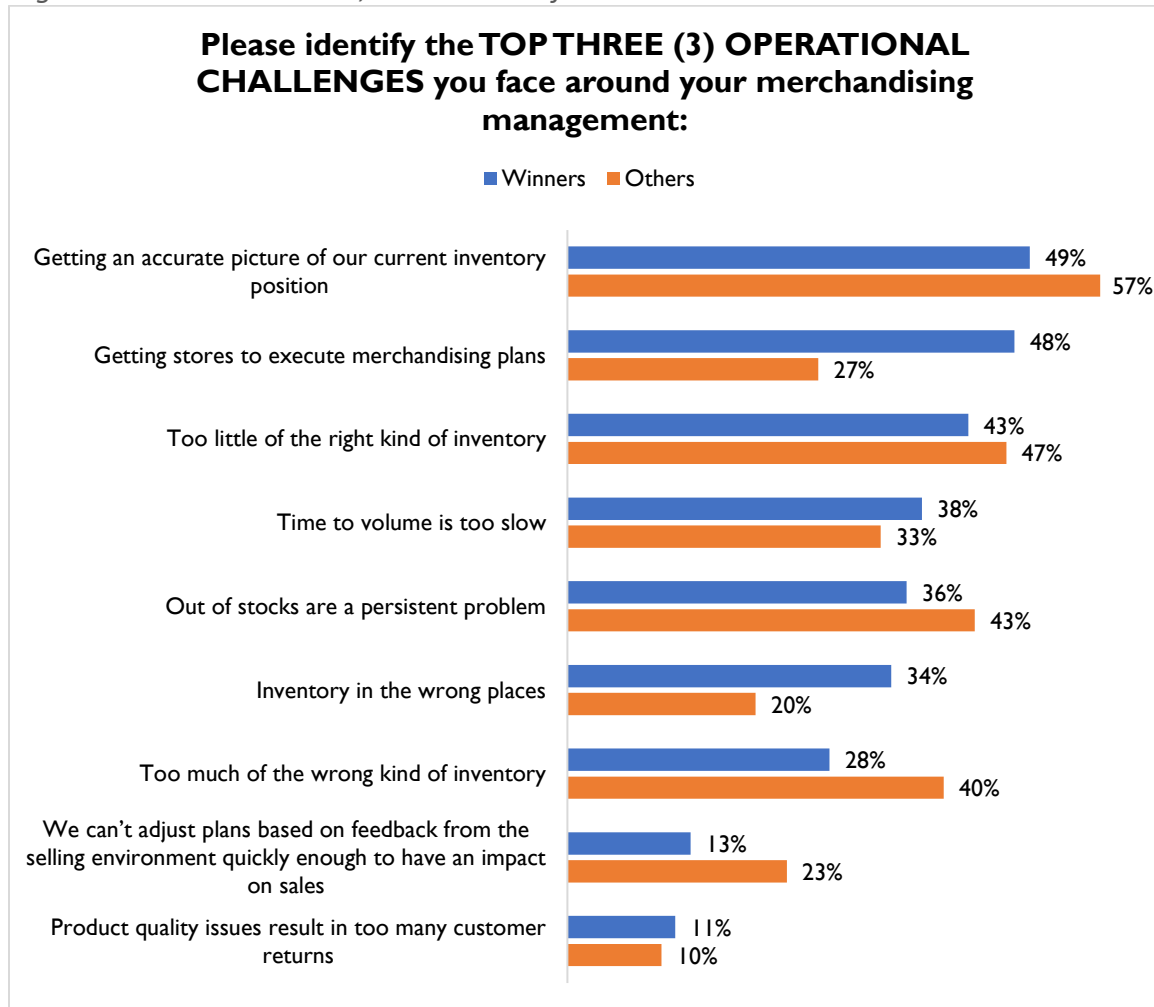


Source: RSR Research, January 2023

When comparing Winners versus others (Figure 16), non-Winners tend to have too much of the wrong *kind* of inventory (40% of others compared to 28% of Winners). Conversely, Winners will

have inventory in the wrong *place* to a greater extent when compared to others (34% for Winners versus 20% of others).

Figure 16: For Winners, A Matter Of Execution



Source: RSR Research, January 2023

Given the headlines over the past year discussing retailer inventory levels, these findings are not terribly surprising.

A Comment On Speed To Market

Out of the challenges listed, we noticed that retailers rank “We are too slow in bringing new products to market” at the very bottom with a 5% response rate. In other words, this is the least of their concerns.

However, the results suggest an inherent contradiction in that point of view.

Figure 12 showed that 34% of respondents believe that their competitors bring products faster to market than they can - this is essentially neck-and-neck with their uncertainty in the global supply chain. This holds true across categories, revenue levels and Winners versus others.

The figure also shows that 29% of respondents struggle to differentiate when primary customer drivers are price and availability. Being different in the market can take many forms, delivering innovative products not found elsewhere for example.

When looking at the entirety of the results, **short-term challenges dominate**. Speed to market involves process innovation which requires a long-term view. However, retailers must recognize that speed to market does not refer to things like next-day delivery. Rather, speed to market is about getting closer to the customer and delivering the products they truly want. This alleviates inventory-related challenges and allows for a greater connection between merchandising teams and what is happening on the shop floor.

Opportunities

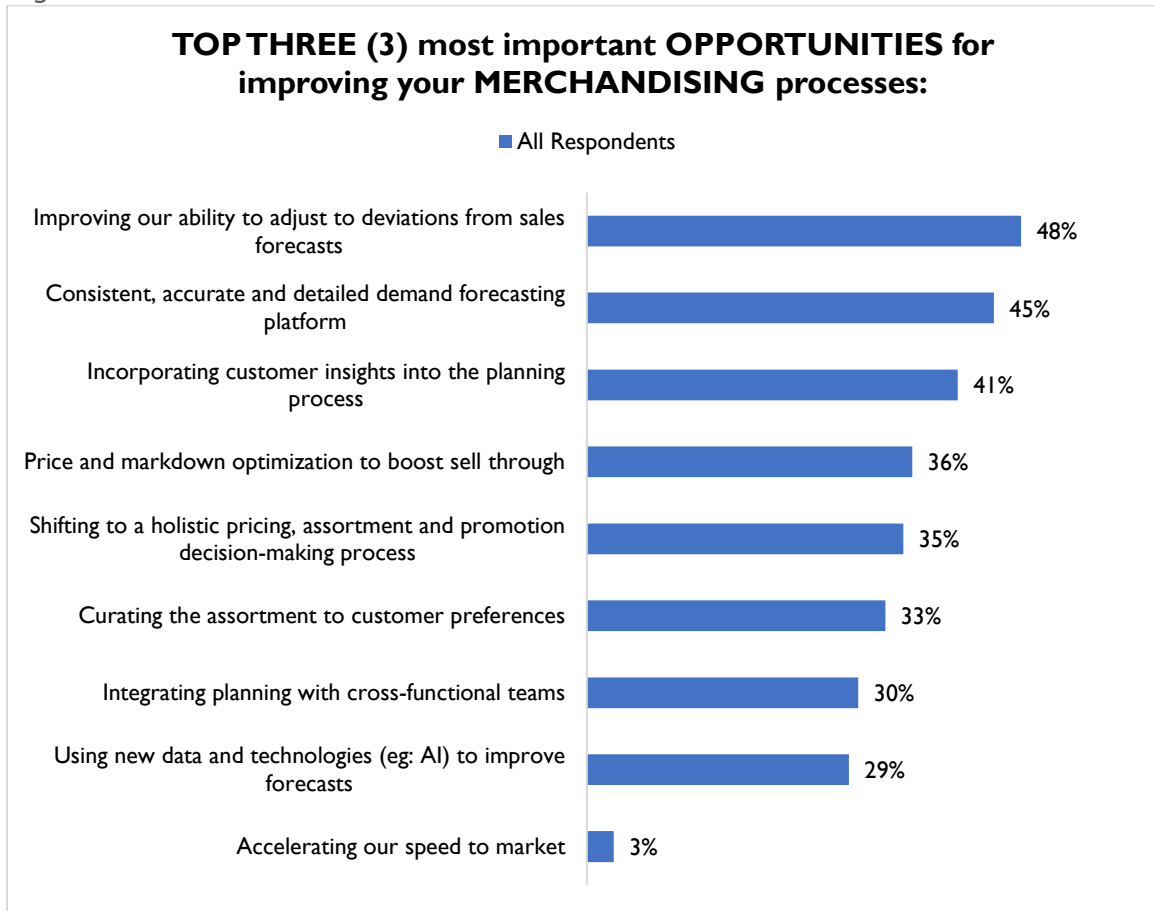
Managing Unpredictability

Respondents to RSR's survey were asked to choose their top three opportunities to improve their merchandising processes; the results are shown in Figure 17. The *ability to accurately forecast demand* and *adjusting to changes in the forecast* top the list. To further punctuate this point, the importance a demand forecasting platform jumped by 10% (from 35% to 45%) when we look at a YoY analysis of our findings.

After forecasting, retailers identify incorporating customer insights into the planning process as another opportunity. We have a more in-depth discussion about customer insights later in this section.

In the meantime, these results indicate that current merchandising processes are rigid - retailers cannot rapidly adjust and adapt to changes in consumer behavior. One of the implications of this is the amount of excess inventory that retailers are currently clearing out. What follows are reactionary measures to salvage as much profit and margin as possible.

Figure 17: When 'Not-Normal' Becomes The Norm



Source: RSR Research, January 2023

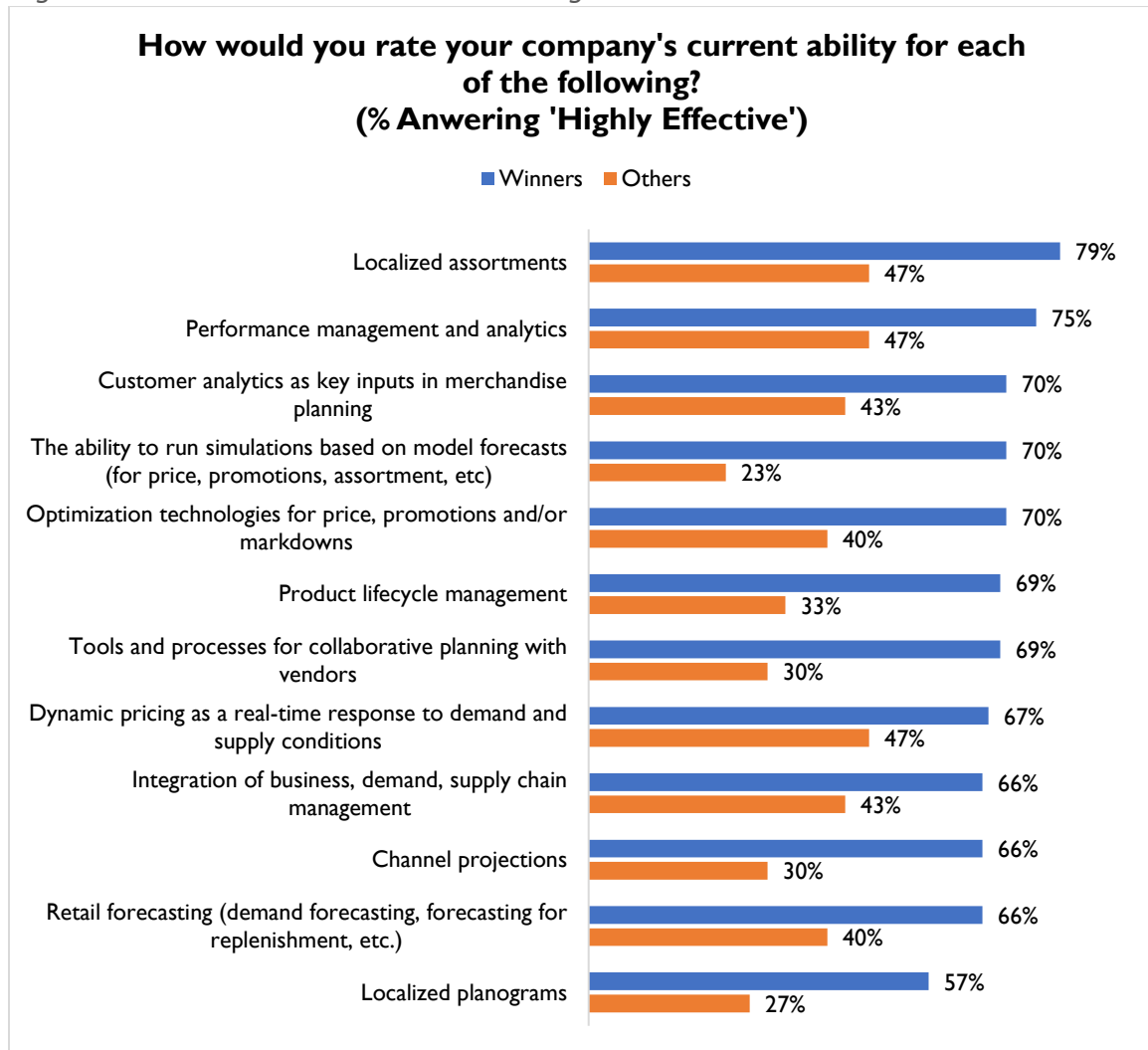
When tying all this together, the path forward for retailers is incorporating insights into the planning process *prior* to assortment lock. This way, adjustments in sales forecasts will reflect true customer demand. Also, there is clear opportunity for retailers to use technology to meet the need of improved demand forecasting.

The Difference Between Winners And Others

Figure 18 provides a comparison between Winners and others when considering areas where they are highly effective. We looked at various functions including *localizing assortments* and *retail forecasting*.

It's no surprise that Winners excel in all areas when looking at the absolute value of the responses. What becomes interesting is looking at the differences in values to see where Winners really pull ahead.

Figure 18: Winners Show Their Strength



Source: RSR Research, January 2023

Looking at the figure above, we can see that Winners have a tremendous advantage when they have the ability to run simulations based on model forecasts (47% difference over others). The

intention here is to discover what *might* happen because of decisions on price, promotions, and assortment. As we saw in the **Business Challenges** section of this report, *predicting the impact of such decisions* is a top priority.

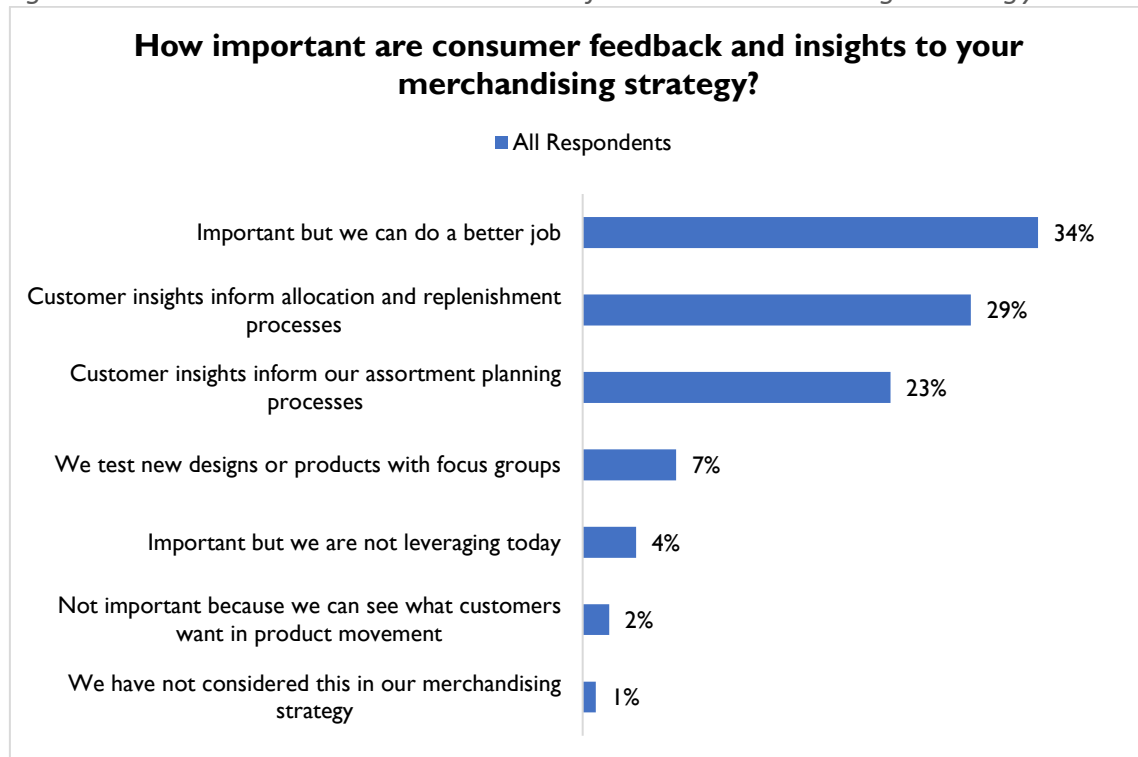
Going down the list, Winners excel over others when they have tools and processes to collaborate with vendors (39% over others). Those retailers that have effective product lifecycle management practices (36% over others) also have an advantage.

What are the implications of this? When merchandising has a true partnership with vendors plus a robust PLM capability, it gives them access to real-time information. In turn, the real-time visibility of the information enhances the quality of simulations or a modeling exercise. This enables for rapid decision making to occur with confidence. Merchant teams looking to raise the bar for performance should consider how to increase confidence in their decision-making processes accordingly.

Closing The Customer Feedback Loop

As with other findings in this report, merchants indicate that are increasingly aware of the importance of the consumer point of view. We asked about the importance of customer feedback and insights to the merchandising strategy. Most responses highlight either using insights to inform processes or the awareness that a better job can be done (see Figure 19). Only a small percentage either don't make use of or have never considered using insights.

Figure 19: Does Customer Feedback Inform Merchandising Strategy?



Source: RSR Research, January 2023

When we looked at the Winners versus others comparison in this discussion, 23% of Winners can do a better job to inform strategy; 53% of others feel the same way. As it relates to informing allocation and

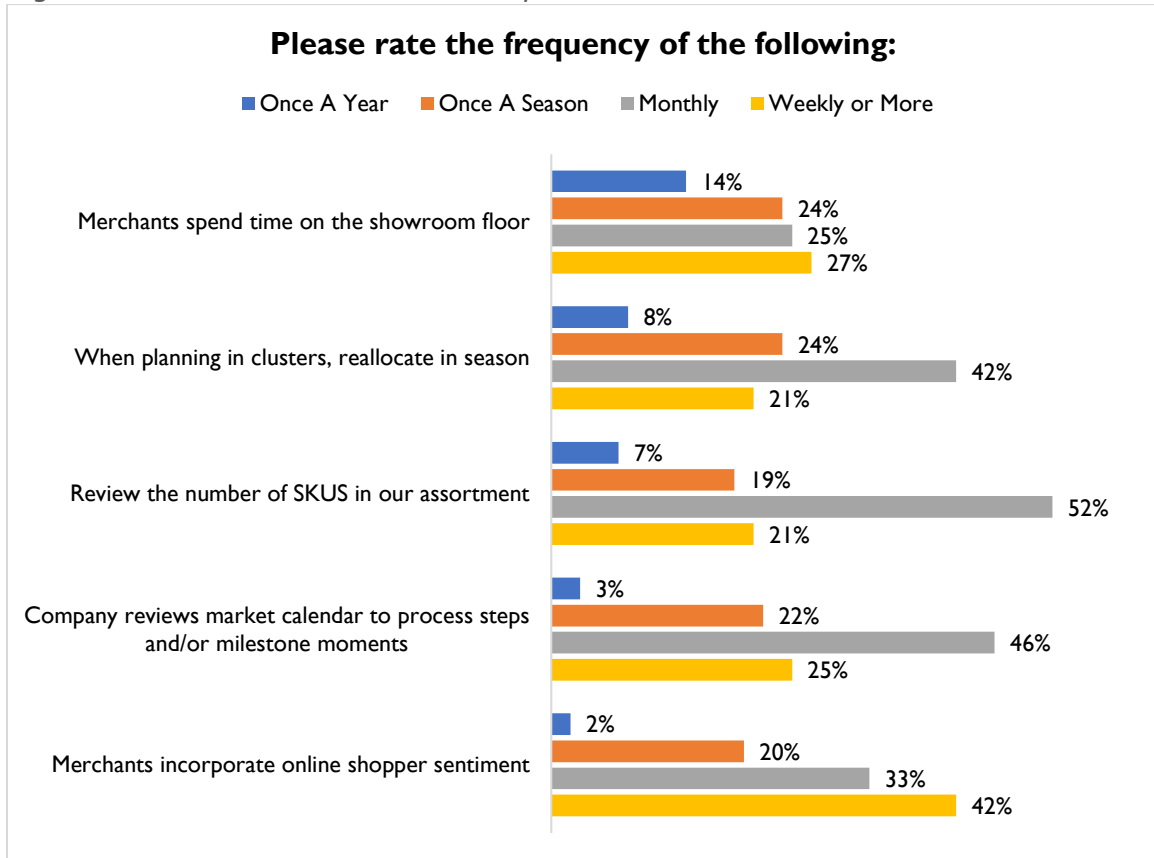
replenishment processes or assortment planning, Winners are engaged more so than the others. The obvious conclusion here for retailers is to double down on consumer insights to inform strategy.

Time Well Spent

We asked merchants about the specific activities where they spend their time. These include re-allocating inventory, reviewing the number of SKUs and walking the shop floor.

Figure 20 shows that merchants are frequently engaged in these activities – often doing so with a monthly frequency, which is highly encouraging. However, the frequency of re-allocating in season is not as encouraging. In either case, there are opportunities that arise from this set of data.

Figure 20: Where Do Merchants Spend Their Time?



Source: RSR Research, January 2023

First, with merchants spending time on the shop floor monthly, they should be collecting a significant amount of customer insight. To compliment the time spent in store, merchants also incorporate online shopper sentiment on a weekly basis.

However, in previous sections of our report, merchants note that they could do a better job of incorporating insights into strategy. This uncovers an opportunity worth exploring – either merchants need to improve how they are collecting information, or how they extract insights. Conversely, there may be a missing link in the consumer insight loop informing merchandising strategy and the assortment.

Finally, based on the level of in-season re-allocation, clustering and pre-allocation is not a reflection of where full-price sales are happening. For context, General Merchandise re-allocates more versus others with an 81% response at a monthly frequency. In turn, this limits the overall time in market of products, thus putting a ceiling on the level of full-price sales that can take place.

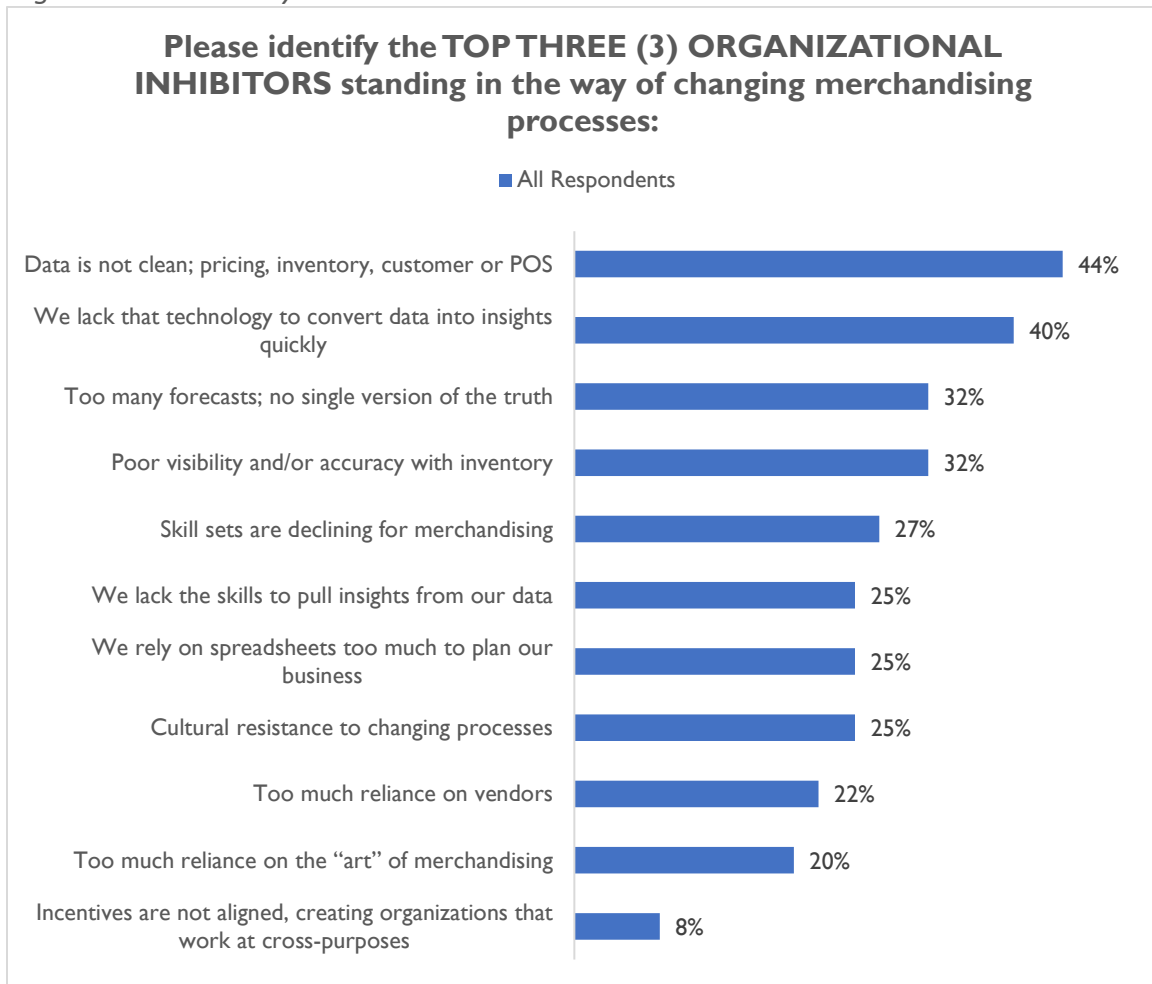
For retailers to maximize profitability, they need to maximize time in market of the assortment. Pre-allocation as a function of customer demand is an opportunity for retailers to accomplish this.

Organizational Inhibitors

The Data Problem

Several things stand in the way of forward progress for our retail respondents, and as is customary, we asked them to prioritize those roadblocks. As we can see in Figure 21, **dirty data** is public enemy #1.

Figure 21: A Messy Situation



Source: RSR Research, January 2023

Data purity is often ranks high on the list of what is preventing progress, across different RSR benchmark reports. For example, in our latest research around the [next generation of Key Performance Indicators](#)², dirty data was listed not only as a top inhibitor, but also as a top *operational challenge*. Indeed, the only thing ranked higher in that report was that specific data are too often siloed in the operational systems that produce them.

² How Retailers Are Operationalizing Analytics With New KPIs, RSR Benchmark, June 2022

But one of the most important findings from that report – which was intended to show the new ways retailers are measuring the efficacy of their myriad efforts in an often-times frenetic new marketplace – was the following:

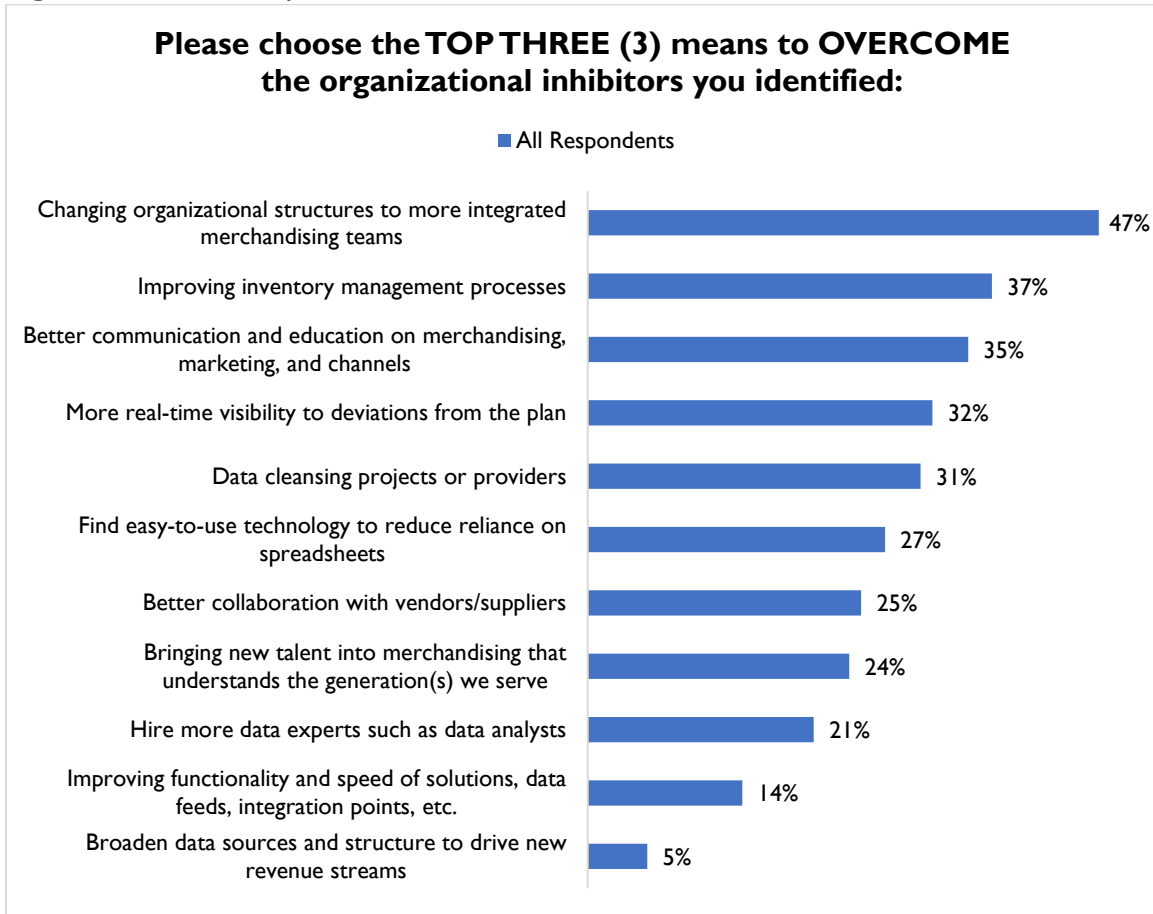
The better a retailer is already doing, the more likely they are to have virtually every decision-making member of their enterprise make those decisions based primarily on data. This is undeniable proof of why Winners win. With the exception of merchandising decisions (where gutfeel still plays a vital and somewhat artistic role, particularly in fashion), Retail Winners go where the data tells them to go. They trust it – and they are reaping the benefits of that trust at the sales till.

What the data in Figure 21 shows us is that maybe Merchandising is not the exception. Merchandising may still require more “art” than other areas of the business (IT, Finance, or Marketing, for example), but in an age where more decisions are being fueled by actionable intelligence, it is still very important. It’s nearly impossible to make informed decisions about what to sell if a retailer cannot trust its current inventory data, its current pricing data, or virtually any data coming from its current selling systems. This is the messy situation in which retailers find themselves.

How To Break The Cycle?

With such a difficult data situation at hand, how are retailers expected to proceed? We asked them what they think is the best way out of this current quagmire, and as Figure 22 shows, they overwhelmingly support whole-scale organizational restructuring.

Figure 22: The Way Out?



Source: RSR Research, January 2023

Integrated merchandising teams have, for some time now, been a key objective for many of the retailers we engage with. The idea of having cross-functional consortiums of experts from marketing, merchandising, supply chain, finance, and the selling channels lend their expertise to the merchandise planning would help eliminate much of the possibility for error. The problem, of course, is that getting inter-departmental cooperation is inherently very difficult to achieve.

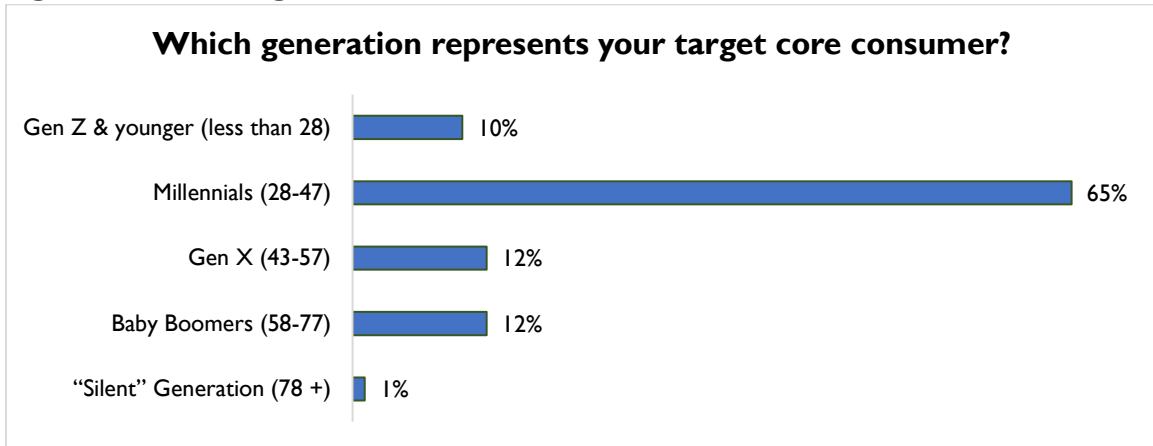
To achieve such collaboration requires an executive vision which decrees – *and incentivizes* – people to work together. Natural human tendencies to be possessive and protective of one’s own work are at odds with such collaboration, as are the structures that frequently exist within most retailers’ operations.

We would argue that in the age of Amazon.com, the immediacy associated with the global pandemic – and the dramatic changes in consumer shopper behaviors that resulted - is greater than ever. Retailers need to find ways to break down these siloes and achieve much a greater degree of collaboration in the merchandising efforts of their day-to-day business.

Who Is Our Customer?

A few years ago, we started using this report as a chance to ask retailers who their target market is. From the first time we asked in 2016, the percentage answering “millennials” has only grown: shoppers aged 28-47 are clearly *the* focus for retailers.

Figure 23: Chasing Millennials



Source: RSR Research, January 2023

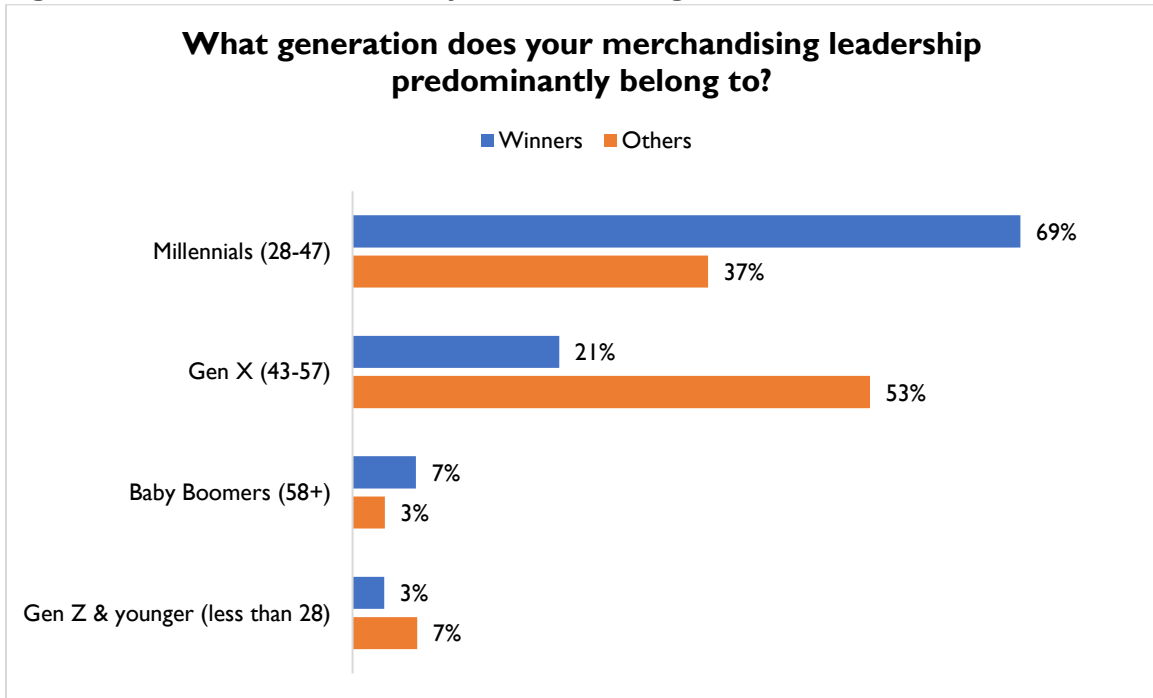
Our research uncovers more interesting data about millennials:

- Just 8 years ago, 17% of retailers identified Millennials as their core consumer. That number has now exploded to 65%.
- Retail Winners are leading the charge here: 69% of Winners (vs. 57% of all others) identify millennials as their target shopper
- Hardgoods retailers are even more directly focused on this generation: a whopping 80% of those selling homewares, furniture, and electronics view Millennials as their primary target.

Answering The Call

If the younger generation represents the future of retail sales, the next question is whether merchandise planners are representative of the target demographic. As Figure 24 clearly directs: Winners “get it”.

Figure 24: Winners Better Reflect Their Target Consumers



Source: RSR Research, January 2023

Simply put, Retail Winners value the input that a newer generation of leadership can bring to merchandise planning. The future is – literally – in their hands.

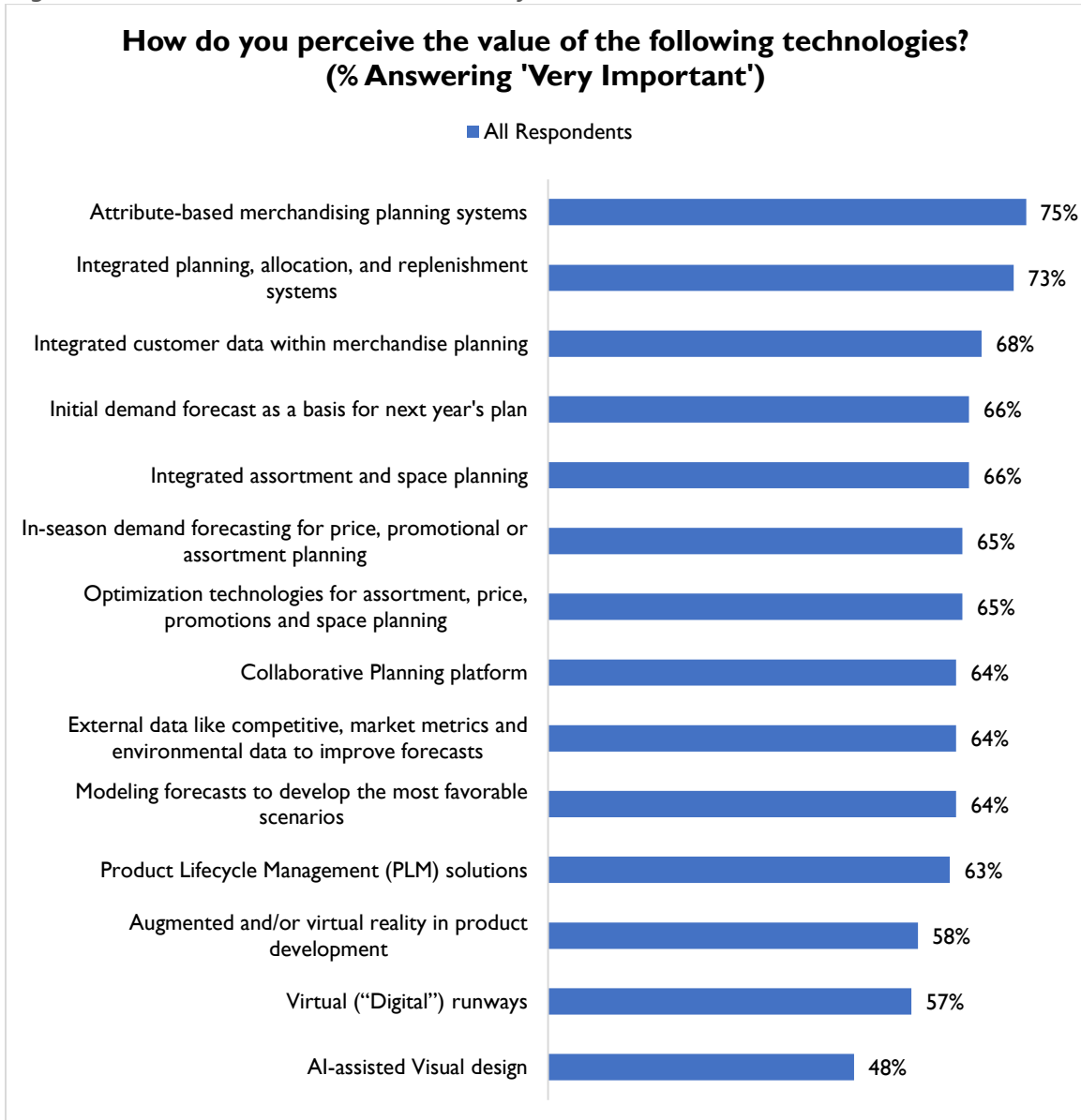
Now let's see the ways technology can help.

Technology Enablers

With business challenges, opportunities and organizational inhibitors identified, we can explore areas where technology can (and in some cases already is) make an impact.

When asked about the value of specific technologies, retailers say that feeding information into the planning process is very important (Figure 25).

Figure 25: Processes Needs More Information



Source: RSR Research, January 2023

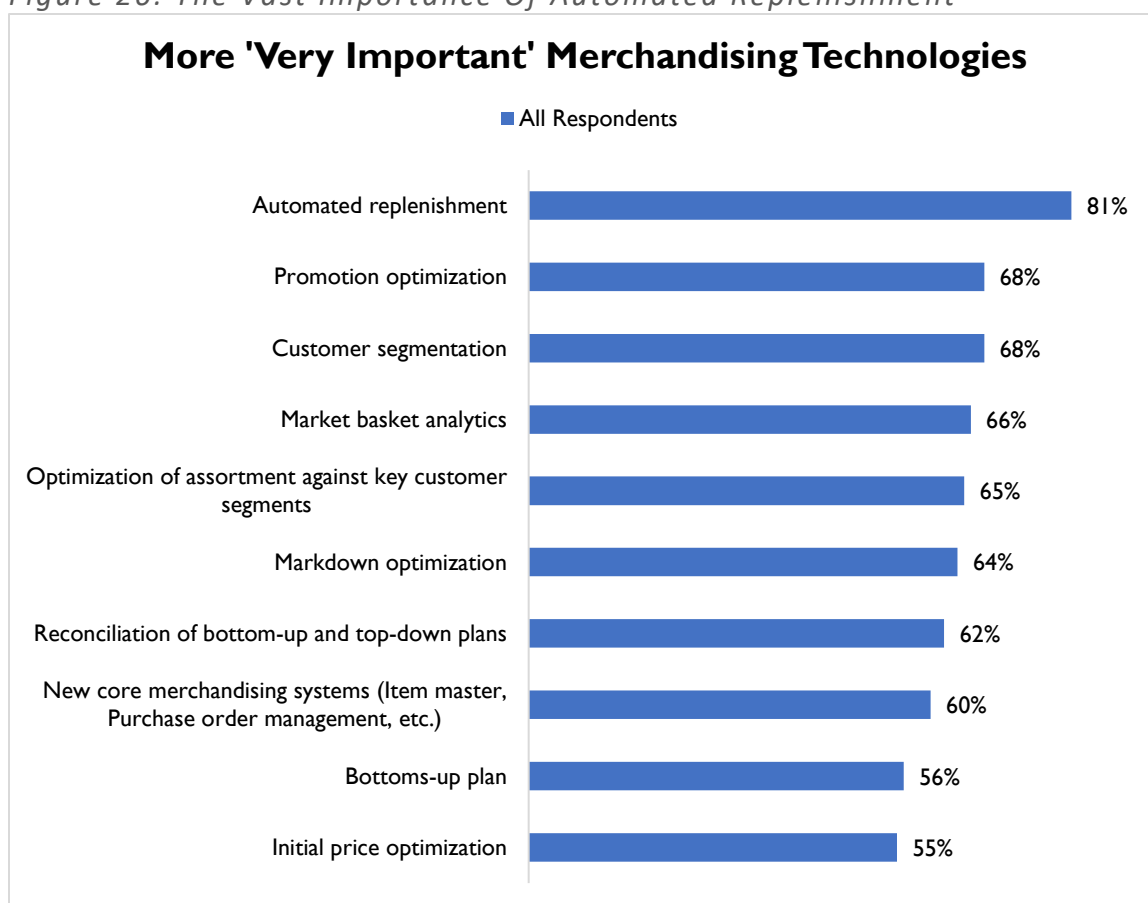
In reviewing the data, we find the following:

- 75% of respondents rank an attribute-based merchandising system as very important. This is more prevalent in Grocery than in other categories.
- 73% rank integrated planning, allocation, and replenishment systems second on this list.
- Taking third spot at 68% is the integration of customer data into merchandising planning. Apparel and Hard Goods lead other categories at 77% and 75% respectively.

Further, we notice that other forms of “information integration” rank high on the list. These range from using initial demand forecasts to plan for the following year or integration assortment and space planning.

When we asked about additional areas of technologies and their importance, we found the results shown in Figure 26.

Figure 26: The Vast Importance Of Automated Replenishment



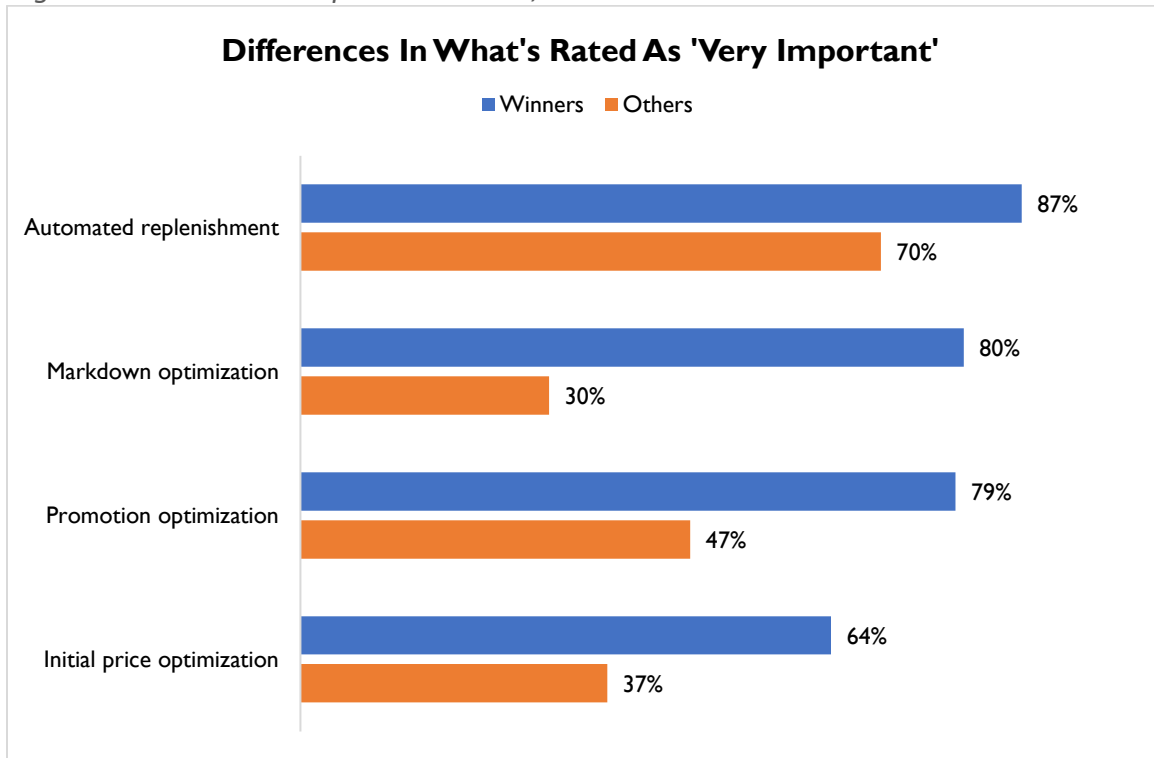
Source: RSR Research, January 2023

In the chart, we clearly see that automated replenishment ranks at the top of this list. By category, FMCG leads the way with a 93% response rate followed by Hardgoods at 85%. Winners also rank this at the top of their list at 87%, compared to 70% for the others.

After that, we have a “dead heat” of responses ranging from optimizing promotions, assortments, or markdowns to understanding customers better. What is interesting to note here is the difference

between Winners and others when considering promotion, markdown, and initial-price optimization (Figure 27).

Figure 27: Winners Optimize Price, Promotions AND Markdowns



Source: RSR Research, January 2023

It is evident that Winners place high importance on optimizing markdowns and promotions. For example, 80% of Winners believe that markdown optimization is very important, compared to 30% for others. These findings are consistent with other sections of our report - retailers need to know the impact of their pricing decisions to preserve profit and margin.

What does this information tell us and what does it mean for retailers?

First, the importance of automated replenishment combined with the level of in-season re-allocation tells us replenishment decisions are being manually overridden. Currently, systems do not automatically adjust threshold and location for replenishment. Further, customer insights are not being incorporated to either adjust or inform plans; therefore, causing products to be moved around for future or in-season orders.

Next, the integration of planning, allocation and replenishment is very important. This is telling us that systems are currently not able to communicate with one another efficiently. There is a downstream impact that follows in other areas of the business.

As an illustrative example, imagine that green tops have been ordered for this season (with an option for replenishment) and ordered for future seasons. However, customer insights say that the customer prefers blue. The system must be able to incorporate these insights and cancel replenishment and future season orders of green. Technology should also inform vendors via an

integrated PLM to adjust green to blue. Vendors will see the current season selling and customer insight in real-time, shifting production accordingly.

The opportunity for technology here is the integration of automatic replenishment, demand planning and PLM. These should reflect customer insights and shifts in demand - adjusting reorders and planned assortments based on data, avoiding manual intervention.

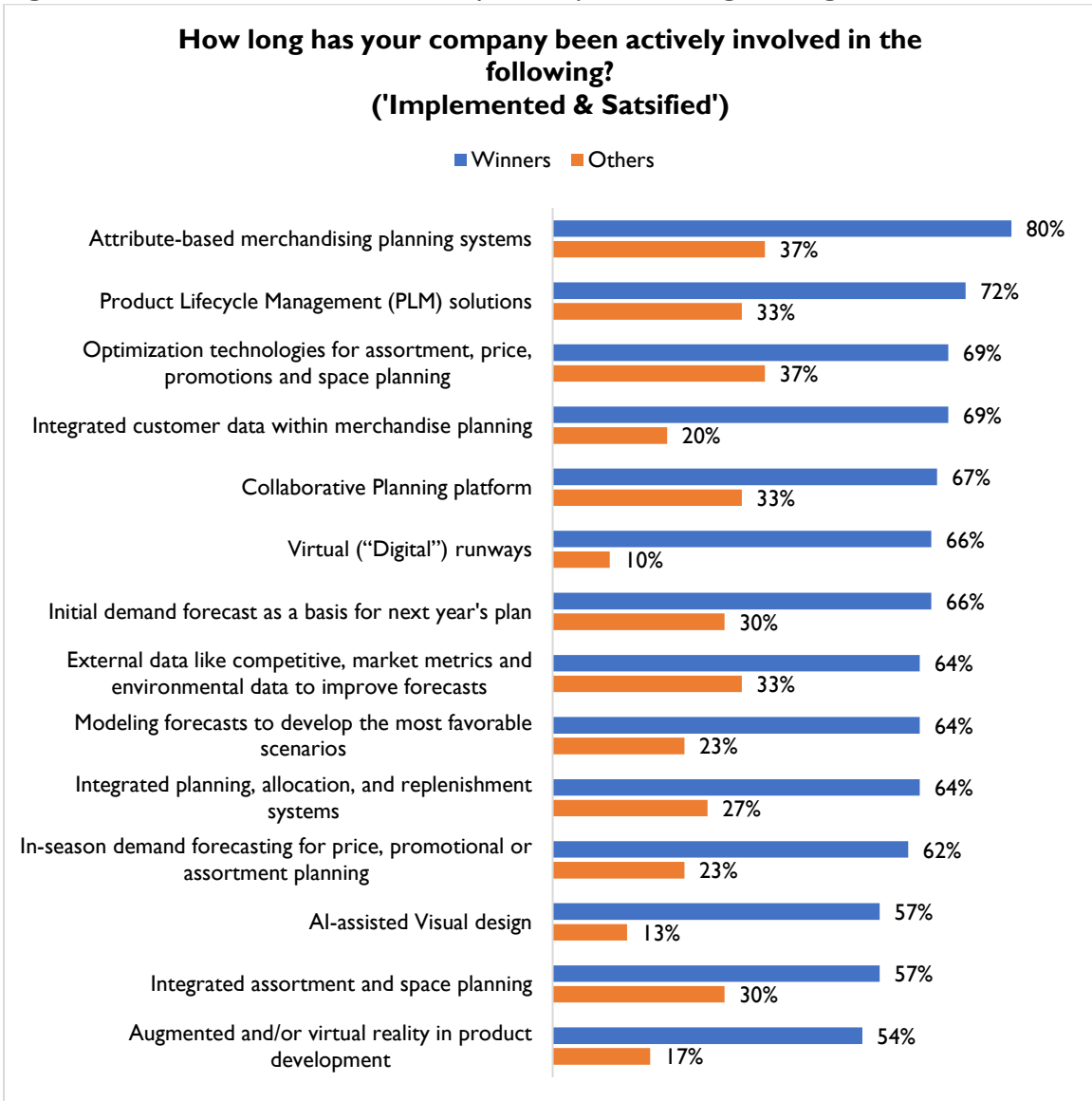
Finally, markdown and promotional activity are reactions (not responses) to either buying product that the customer does not want, or competitor promotion. This is another signal that customer insights are not being brought into the assortment planning process. However, retailers are clear in saying they want to do better - it's substantiated from the data in the report. They know they need to leverage customer insights but lack the technology to do it. With an increase in retailers developing their own private brand assortments, customer insights driving merchandising strategy is more important than ever.

Putting Up The Money

With retailers flagging what areas of technology are of importance, the question is to what extent have retailers planned and budgeted to implement these tools? We asked about areas of technology where they have taken action - either technology has been implemented or there is a change that has been planned and budgeted.

In all areas, there is strong majority of respondents that have implemented a change they are satisfied with or have planned a change. What is more impactful is to look at the extent to which Winners have implemented a change; this is shown in Figure 28.

Figure 28: Winners Lead The Way In Implementing Change

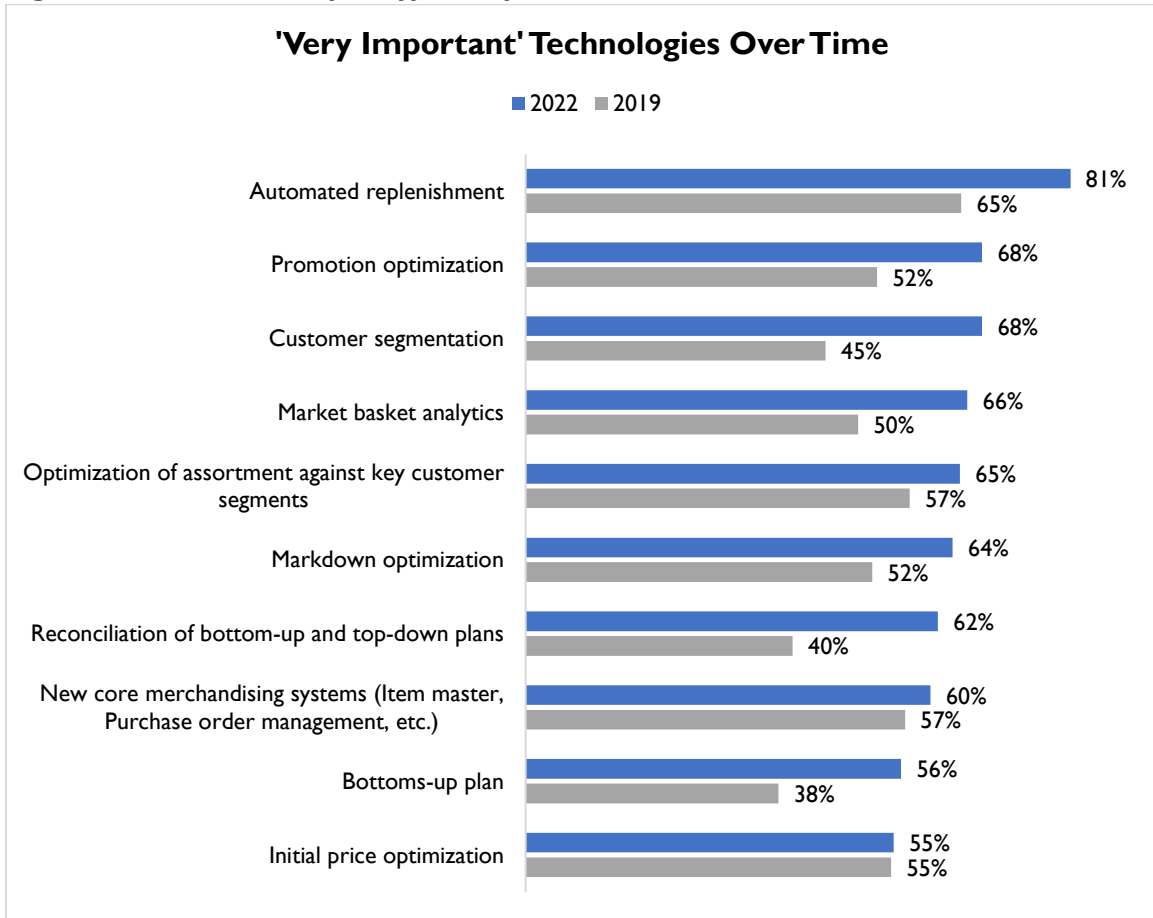


Source: RSR Research, January 2023

When comparing Winners versus others, clearly the over-performers are making strides towards “information integration.” For example, 69% of Winners have implemented and are satisfied with their integration of customer data into merch planning versus 20% of others. However, 70% of others have planned/budgeted for a change for this area of technology. These are consistent trends across the different areas of technology that we asked about.

It is encouraging to see from a YoY view, that there is an increase in the value of retailers saying they have implemented and are satisfied with a change (Figure 29).

Figure 29: The Powerful Effect Of Time

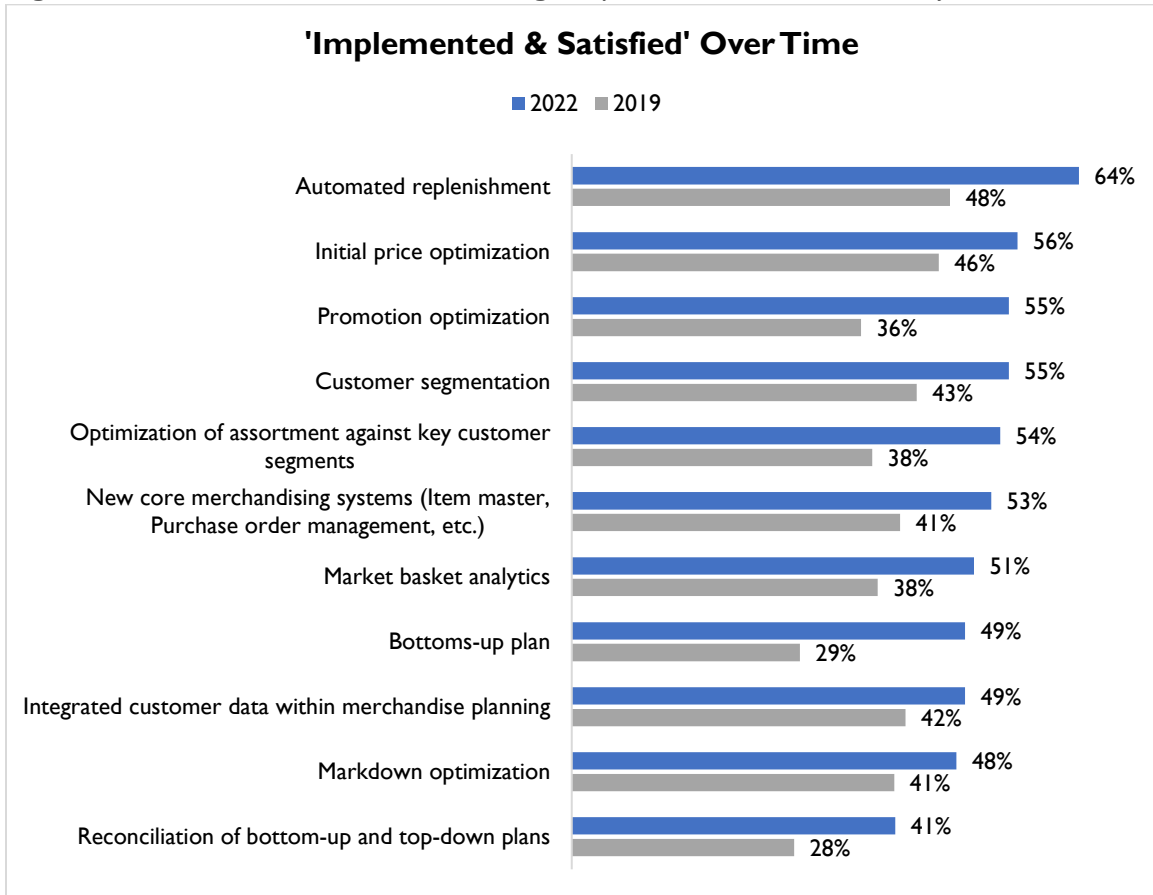


Source: RSR Research, January 2023

This comparison indicates that Winners have acted early and pushed forward with their changes in technology. Others are lagging, but this year's responses indicate that they are making moves to catch up. Tech vendors will need to assist non-winners with their efforts towards digital transformation.

When considering other top areas of technology, like automated replenishment, we see similar trends. The YoY comparison is shown in Figure 30 below:

Figure 30: Retailers Also Increasing Implementation - Quickly

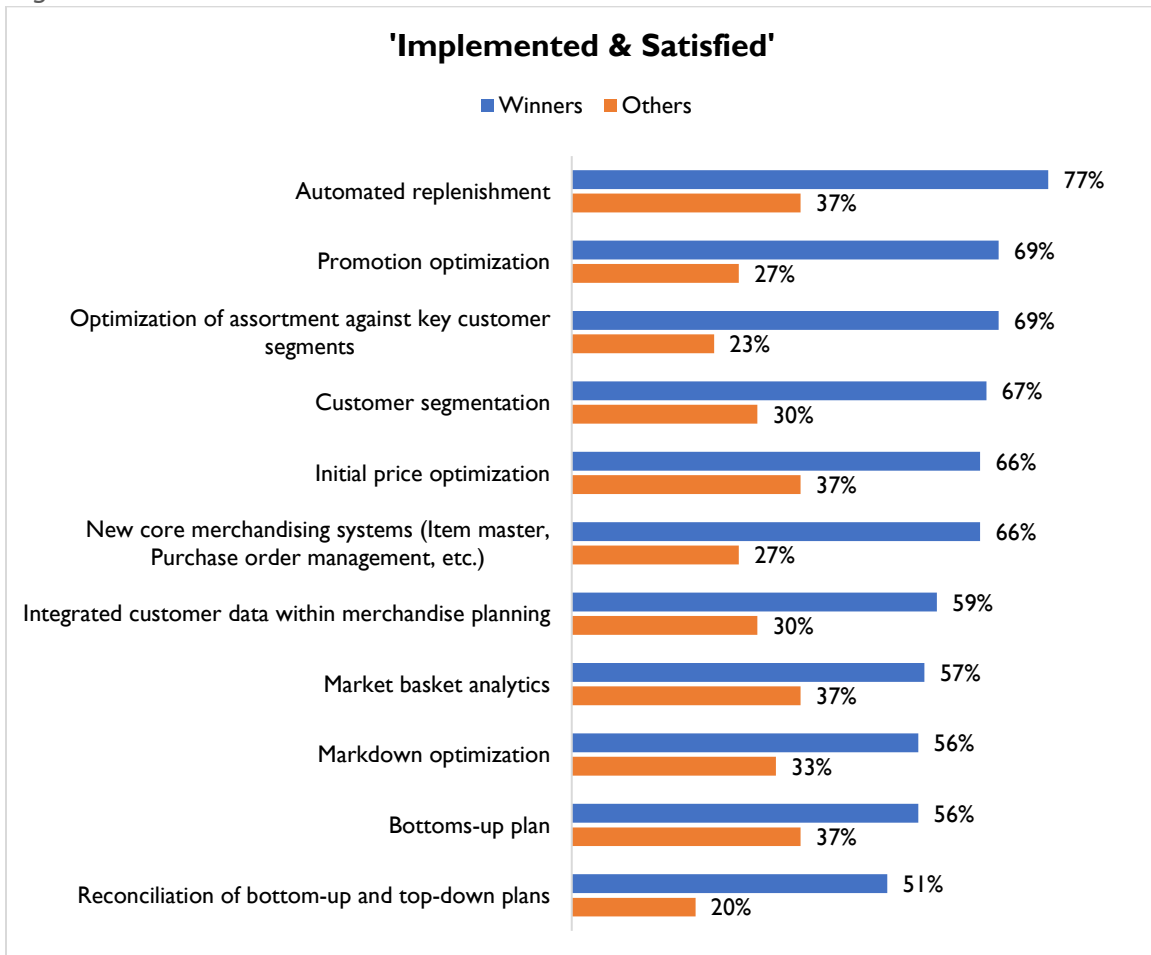


Source: RSR Research, January 2023

There are increases within each area of technology. Notable data points include the 16% increase for automated replenishment and a 19% increase in promotion optimization.

The extent to which Winners are either implementing or budgeting for a change, 77% of those over-performers are satisfied with their automated replenishment implementation versus 37% of all others. Conversely, 53% of non-winners have planned and budgeted a change for automated replenishment. As we have already seen, others are behind the Winners, but are making moves to catch up. Similar trends hold for other areas like promotion optimization and are shown in Figure 31.

Figure 31: How Winners Win



Source: RSR Research, January 2023

What is interesting to note is that 63% of non-winners have planned/budgeted a change for *new core merchandising systems*. This suggests that they are missing some of their fundamentals and are in a position of learning to walk prior to running.

In summary, **retailers are seeking out “information integration” to inform their processes.** This will be the way they elevate their performance moving forward. Whether this is incorporating customer insights or integrating systems altogether. This will help merchant teams reduce the amount of re-allocation within the season, bring the automation to automated replenishment and increase profitability. Winning retailers lead the charge having already implemented technology and are satisfied with the change. Others need to play catch up and have put aside the resources to do so.

BOOTstrap Recommendations

Based on all we have seen in this report, we offer the following suggestions for all retailers, regardless of size, product sold, geography, or performance level:

Focus On Relevance

As the world continues to get smaller, offering unique products becomes increasingly difficult to accomplish. And with more retailers widening their product mix, the ability to become a unique destination (physical OR digital) becomes more challenging, as well. With Amazon.com continuing to ratchet-up the convenience factor to an ever-increasing array of product categories, the ability to lure shoppers away from the “let’s just order it on Amazon.com” default mode becomes that much harder still.

The good news? The results in this report show that consumers want more than the current marketplace provides. Price matters – a lot. But so does a sense of being heard from both a product and a service point of view – and consumers don’t think retailers are doing a very good job of either. There is still plenty of room for improvement and plenty of opportunity for retailers to fill in these demand gaps. The best place to start is not by trying to achieve a “personalized” experience (in the traditional 1-to1 definition of personalization), but based on what the study reveals, by offering *relevance*. It’s a wonderful place to start.

Use Consumer Insights To Tell A Better Story

More than three quarters of the retailers we surveyed report having a solid understanding of the value of using consumer insights to better drive their merchandising efforts. But the shoppers in our report tell us they don’t think that retailers – *even their favorite retailers* – have a good understanding who they are, what they want, or the kinds of deals and offers that get them excited. In fact, consumers think that retailers still focused too much on what they want to sell – and don’t take much account of the products consumers want to buy. With the amount of data retailers are collecting about shoppers, this is an unfathomable break. Consumer insights are clearly being left underutilized. Retailers who can successfully incorporate more of this invaluable resource to tell better product stories have a much better chance of winning in this market.

Recognize The Importance Of Sustainable Options

RSR has been intermittently conducting research about sustainability in retail since our inception in 2007. Until now, the story has been short and underwhelming: “if it saves us money on what it takes to heat, cool, or power our stores then we’re interested.” Little else has grabbed retailers’ attention.

What we hoped to see as we head into 2023 – and what this report shows clearly – is that the tide is turning. Consumers are demanding sustainable product options – and at very specific levels of detail. Bigger-picture social and ethical issues may not be of interest to them, but what *does* matter is a product’s effect on their (and their loved ones’) health. For FMCG (fast moving consumer goods) retailers, this is a challenge that needs to be dealt with right now. For retailers selling everything else – from Fashion to Consumer Electronics to Hard Goods, the writing is clearly on the wall. Shoppers want better options, and there is tremendous opportunity for merchants to seize on this trend for the betterment of both the world *and* their bottom lines.

Prioritize Collaboration

Throughout this report, Winners have shown myriad ways they engage differently with the very same problems all retailers face. The nearly 40-point advantage they display over average and struggling retailers in their prioritization of **vendor collaboration during the merchandising process** is a prime example of such a difference. For any retailers looking to model winning behavior, this would be a wonderful place to start.

The virtuous feedback loop that begins when merchants have a collaborative partnership with vendors enables better visibility into real-time data, which in turn makes modeling exercises easier and more accurate, and the benefits just re-cycle from there. As we noted in the **Opportunities** section of this report, merchant teams looking to increase their efficacy should replicate this winning model to the best of their abilities.

See The Brand The Way Consumers See It

When RSR examines retailers' cross-channel offerings, one of the most things that makes itself obvious is which retailers "shop their own stores" – regardless of whether those stores are branded websites, mobile sites, or apps, or third-party (and increasingly social channel) marketplaces. It's easy to spot when a retailer prioritizes consistency.

By that same token, it's easy for us *and* consumers to spot how a brand prioritizes its product assortment decisions. Consumer insights abound; the question is the retailer is incorporating those insights into its assortment decisions. Consumers can tell the difference.

Recognize The Urgency To Act

Lastly, when it comes to investing in the new technologies that are available today to help retailers design, procure, and allocate their assortments, the list is long. As we have often said in past merchandising reports, the time for doubting new tools' efficacy has long since passed. Most solutions in the marketplace do what they say they can. But many of the retailers in this study indicate that their legacy merchandising systems are in dire need of refresh, if not full-on replacement.

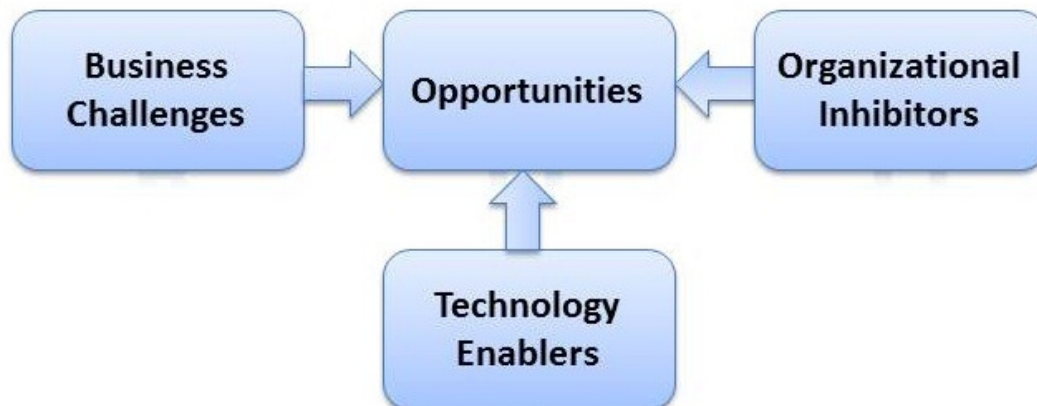
Winners are significantly happier with the decisions they've made, specifically around automated replenishment, promotion optimization, and optimization of their assortment against key customer segments. Other retailers should take their lead.

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

CLOUERA

At Cloudera, we believe that data can make what is impossible today, possible tomorrow. We empower people to transform complex data everywhere into actionable insights faster and easier with Modern Data Architectures. We deliver the hybrid data platform with secure data management and portable cloud-native data analytics. Retailers around the globe trust Cloudera to help solve their most challenging business problems.

Learn more at www.cloudera.com.

Appendix C: About Retail Strategy Group

Retail Strategy Group

Retail Strategy Group works with global brands and retailers, helping them accelerate speed to market, improve profitability and increase organizational effectiveness. Clients span performance apparel, accessories, outdoor, footwear, and more. Their client engagements range from acting as a trusted advisor, in-depth consulting projects, speaking appearances, or facilitation. Retail Strategy Group is viewed by clients as a partner in achieving dramatic growth. The firm produces a monthly newsletter, The Merchant Life, attracting senior retail leaders and executives seeking valuable merchandising insights. For more information, visit <http://www.retailstrategygroup.com>.

Appendix D: 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.

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