# Merchandising
## Know-How

BY MAURA KELLER

Merchandising is not just for big box retailers anymore. While some retailers have entire teams strategizing the most effective merchandising techniques, an increasing number of gasoline marketers and c-stores are integrating unique marketing strategies to drive more customers from the gas pump into their stores.

Jim Hollen, president, San Diego Division, Agility Retail Group, says the retail industry exhibits the same characteristics as other mature industries – competitive intensity, slow growth, modest profit margins, and continued consolidation. Until the turn of the century, retail merchandising suffered from a lack of innovation, unimaginative visual presentations, and underinvestment in technology.

"In 2001, Apple opened its first store, which featured a minimalistic design, open floor plan, and clean aesthetics," Hollen says. "At a time when other retailers were stuck in a "product merchandising mindset," Apple changed the game by focusing on the customer experience, providing expert technical support through its Genius Bar, implementing mobile checkout, and prioritizing product education over product sales. The result was a compelling in-store experience and a huge spike in Apple brand loyalty."

While Apple continued to expand its retail footprint, Amazon was pioneering the e-commerce industry, which was the single most significant disruptor in the history of the retail industry. Feeling the existential threat from eCommerce, physical retailers were forced to pivot by adopting omnichannel sales models and rethinking their in-store merchandising techniques.

"Unable to compete with the unparalleled convenience of online sales, retailers took a page out of Apple's playbook and began to focus more on retail environments and creating enjoyable, memorable, and experiential in-store shopping experiences," Hollen says. Also, as product proliferation within physical retail has made it increasingly difficult for brands to stand out, storytelling has become a central tenant of effective merchandising. Today, retail merchandising has become much more brand centric than ever before.

"While historically, brands have always mattered and brand loyalty remains critical to generating repeat sales, the impact of social media and the power of product influencers are driving the success of the hottest new brands at retail," Hollen says. "Prominently featuring those brands within a store's planogram has proven to be an effective way to generate in-store traffic."

Relative to other segments of retail, Hollen says a disproportionate share of c-store revenue is derived from impulse sales rather than destination sales. Impulse sales are not only vital to c-stores, but they are becoming more important for many retailers as online sales have taken a meaningful toll on what has traditionally been considered destination sales.

"Cross-merchandising is one of the most effective and time-tested approaches to capturing incremental sales," Hollen says. Cross-merchandising is different from upselling or bundling. Upselling is where you persuade a customer to buy a more expensive item than they initially intended to buy. Bundling involves packaging two or more items together, typically at a discounted price, in order to get a customer to spend more than they would have otherwise. Both upselling and bundling are effective merchandising techniques to increase revenue per customer.

"Cross-merchandising is when you display a different product or a product from a different category alongside the product you wish to sell," Hollen says. "Because there is a limit to the amount of money a consumer will spend incrementally on an impulse item, cross-merchandising ideas tend to work best with lower-priced items or items priced lower than the product the consumer originally intended to buy."

"Generally speaking, approaches to merchandising have evolved by doing less. In other words, putting fewer products into assortments and being quicker to cut low-performing SKUs. Further, there has been investments into new technologies to increase forecast accuracy," says Raj Dhiman, co-founder of Retail Strategy Group.

Today, merchandising teams seek to improve how they extract customer insights from data. Dhiman says it is imperative to loop such insights into product assortment decisions. This ensures that the assortment resonates with customers and drives sell-through.

"Successful retailers are learning how to introduce products that a customer would not necessarily expect," Dhiman says. "This way, the retailer becomes a one-stop shop. C-stores and gas stations are unique because they sit at an intersection of grocery stores, quick serve restaurants, and general merchandise. There is also the challenge in having these different functions but with limited square footage. So, such retailers have to be very focused and intentional with the product assortment."

Dhiman says the most important component of successful merchandising is to be close to the customer. How is this accomplished?

First, spend time in the store and talk to customers. Second, mystery shop your own store to get a true sense of what the customer experience is like. From Dhiman's point of view, many executives (and merchants/category managers) do not spend enough time in stores to fully grasp what is going on in the field.

"Next, use data to gather additional insights about customers; this could be sales data or loyalty data," Dhiman says. ▶

"Then, you can put together a complete picture of who your customers are and how you should build the product assortment accordingly."

Further, do not be afraid to cut SKUs that are underperforming. As Dhiman points out, the physical space of a c-store needs to be maximized to stock products that sell through at a high rate.

Also, Dhiman advises retailers to use customer feedback and partner with vendors to seek out new products to compliment the store's existing assortment. This can be applied to new food/beverage products and the development of private label.

"As a corollary to this, always make time to comp shop and observe what your competitors are doing," Dhiman says. "Comp shopping provides useful information that can be applied to your merchandising approach."

## Trends in Merchandising

Recently, several merchandising trends have proven successful among today's consumers and c-store owners and operators are taking notice.

Dhiman says partnering with vendors to create new products is an underrated opportunity.

"Small, independent retailers across categories have a lot of flexibility to do this. And, this is how convenience stores can introduce novel products that cannot be found elsewhere," Dhiman says. "For example, Jones Soda Company is introducing a new line of beverages, called Fiesta Jones, specifically for the convenience customer. The inspiration came from customer feedback, via c-stores, asking for beverages with particular characteristics."

Another trend involves keeping pace with the explosive growth of GLP-1 drugs. "And, of course, food companies are adjusting their offerings accordingly," Dhiman says. "C-stores need to adjust their food assortment to incorporate relevant items. This includes ones that are low-calorie, high-protein, or energy drinks that are branded as 'lifestyle' products."

Private label is another merchandising opportunity for retailers to introduce products that compliment current assortments. As Dhiman explains, the grocery category is seeing more private label development for items such as snacks. Private label products are appealing for price sensitive customers and carry a higher margin than their branded counterparts.

Keith Carpentier, founder and CEO of Qbuster Technologies, is continuing to see QR codes and other promotions in checkouts and merchandising zones as part of digital solutions that are successful in supporting merchandising initiatives and meeting customer expectations.

"Social media also will remain an ever-present theme for merchandisers to consider. After all, many c-store chains have a loyal following and those customers want to share their in-store experience with their online community – which, of course, can then lift foot traffic and sales," Carpentier says. "Making displays and seasonal set-ups truly unique and social-media-worthy will continue to be a powerful win for c-store operators."

When determining the best merchandising strategies to take, Carpentier says checkouts hold absolute power – yet they're often overlooked. It's the one place 100% of paying in-store customers pass through, so keeping up with queue management and merchandising strategy there is paramount.

As such, Carpentier recommends retailers:

• **Make sure your merchandising area is well stocked and seasonally relevant** – there's no need to miss out on holiday-specific sales because go-to items are missing.

• **Don't let space go to waste** – think vertically by applying impulse bowls or trays on top of stanchions you already own – it's a perfect way to maximize the revenue-generating power of something you've already invested in.

• **Don't forget digital** – as we hear more and more about brand-funded content, in-the-queue digital screens are an excellent tool to share entertaining brand-collaboration content and promotions and support other marketing and loyalty initiatives.

## The Role of Technology in Merchandising

The retail industry has been historically slow to adopt new technology. In response to the erosion of brick-and-mortar market share to online sales, retailers have demonstrated a greater willingness to invest in technology that can improve the customer shopping experience, streamline operations, and increase sales.

As Hollen points out, in 2018, Amazon opened its first Amazon Go store, which was the first cashier-less convenience store that enabled customers to shop and skip the checkout line by using Amazon's Just Walk Out technology. This innovation inspired the retail industry at large to place greater emphasis on technology investment as a means to improve the customer shopping experience and gain a competitive advantage. To enter an Amazon Go store, customers can use the Amazon App, a credit card, or Amazon One, which enables customers to use their palm to pay, enter, and identify themselves.

"While the rest of the retail industry continues to lag behind Amazon, self-checkout is one of the technologies that is becoming more widespread among retailers," Hollen says.

Another technology that has become popular in many retail stores is digital media. As Hollen explains, digital media players can take the form of continuous looping videos that are activated by motion detectors. These players can tell a brand's story, communicate valuable product information when store personnel is not available, and engage/entertain the shopper to enhance the shopping experience.

"Digital media players can also take the form of touchscreens, which enable shoppers to select content that is more relevant to their interests while making the shopping experience more interactive," Hollen says. "Touchscreen media players can have localized content or be WI-FI enabled, which enables the content to be controlled and changed remotely. "

Much of the technology being used for merchandising takes place behind the scenes. The technology is being used to improve forecast accuracy, inventory management, and extract customer insights from data. Without question, AI is found in all of these areas.

"On the front end, self-checkout kiosks are useful to help expedite the checkout process," Dhiman says. "The trick will be how to maximize the selling space immediately around the kiosks to increase transaction sizes."

Further, Dhiman says digital and electronic shelf labels are useful for c-stores to manage inventory and quickly make price adjustments. The intention here is to drive efficiencies by removing manual tasks for staff. This way, staff can focus more on serving customers.

## Merchandising Mistakes To Avoid

There is an enormous difference between retailers who can survive the current competitive environment and those who are able to thrive, grow, and achieve financial success. As Hollen explains, those who thrive continue to reinvent themselves, have a relentless focus on the customer and the customer in-store experience, and make smart investments in technology and store development.

Hollen says c-store operators can learn from some of the common merchandising mistakes that retailers make, which include:

• **Stale and tired product mix** – Great merchandising starts with the right product mix. "Many c-store operators simply accept the same product mix they have offered for years without questioning how those products fit emerging trends," Hollen says. "This false acceptance has historically been dictated by their wholesaler, who does not have a dog in the merchandising fight. Taking charge of the merchandising mix and focusing on healthier grab-and-go products, trending brands, and popular impulse items that lend themselves to cross-merchandising could help boost sales and store traffic."

• **Underinvesting in POP displays** – Some retailers view POP displays and store fixtures as a necessary evil. They spend as little as possible on them and view them as a cost. According to Hollen, this mindset tends to lead to poor sell-through and lower sales. Instead, retailers should view displays and fixtures as an investment. They should recognize that the quality of the display has an important impact on the perceived value of the product.

• **Poor product placement/store layout** – Without a clear understanding of traffic patterns, product sales volumes, and product economics, it is easy for a retailer to sub-optimize when it comes to product placement and store layouts. Hollen ▶

says the challenge for many c-store operators often begins with getting customers to come inside the store. Many c-stores fail to take advantage of the merchandising space outside the store. Outside merchandising can be hard to police and limited by weather, but it can also provide effective bait for luring customers inside the store.

"Once inside the store, a thoughtful store layout, tasteful wayfinding signs, and a concentration of high volume/high profit margin products near the checkout area are important success factors," Hollen says.

• **Overly cluttered/complex messaging** – In an effort to maximize sales per square foot, many retailers make the mistake of jamming as much product into their stores as possible. "Clean, uncluttered stores with logical traffic flows and simple, clear messaging are likely to drive the best results," Hollen says.

Retailers also commonly make the mistake of assuming that more supply equals more demand. However, more products available on the shop floor does not equate to more purchases.

"Customers want to have the 'right aisle' of products as opposed to having an 'endless aisle,'" Dhiman says.

Indeed, from Carpentier's experience, forgetting what the customer wants is one of the biggest merchandising mistakes he sees retailers make. "'Know your customer' is the number one rule in business development…but sometimes the message gets lost," Carpentier says.

One of Carpentier's previous client projects involved developing a front-end program focused on impulse revenue generation for 1,800 stores. The deployment and merchandise assortment worked well, and the program exceeded ROI projections.

"It was going perfectly until an in-house team member replaced a full section of merchandising space with 'healthy snacks,'" Carpentier says. "They removed the chips, pretzels, and candy and brought in kale chips, dried apples, and health bars. Sales revenue dropped precipitously because the operator's team had forgotten who the customer was and what they wanted."

He says it's important for retailers to remember that impulse shopping is about short-circuiting the purchase decision process. There needs to be familiarity, non-comparability, economy, and accessibility to impulse products.

"The buyer of 'healthy snacks' was not grabbing a well-known brand of chips and putting it in the basket. They were reading nutrition labels and comparing sodium and fat and other ingredients," Carpentier says. "This was an unintended consequence of swapping out merchandise selection. We know

it's important to test new products and keep assortments rich and exciting, but we jeopardize sales by going too far out of our primary shopper's comfort zone."



## Merchandising of the Future

Merchandising has always been, and will continue to be, a critical success factor in the future of any retail space. Since most retailers have limited personnel available to assist customers, merchandising serves as a "silent salesman." It is an essential ingredient in the creation of an engaging store experience.

As the customer's preferences evolve, the c-store needs to evolve its product assortment. As Dhiman explains, a compelling assortment helps drive repeat visits and transaction sizes. More importantly, it provides a competitive advantage that helps create a strong connection with customers.

"Those who get it right will win more often. Those who get it wrong – or willfully keep it a low priority – will lag behind in the market," Dhiman says.

Hollen further explains that with online sales at 16% of total retail sales and growing, merchandising can be an effective tool for retailers to increase in-store sales, build brand loyalty, and create repeat customers.

"As AI and other technologies continue to evolve, merchandising will need to adapt, but it will always remain a key driver of the customer experience," he says. ★