IS BRICK AND MORTAR CRUMBLING CLICK BY CLICK?

The Impact on CPG Brands

BY MICHAEL J. MUSSO,
MANAGING DIRECTOR, CONWAY MACKENZIE, INC.

Borders, Blockbuster, Circuit City, and RadioShack are iconic brands, all killed or dying as a result of the Amazon Effect. Could the next wave include Macy's, Sears, Best Buy, PetSmart, and even big grocery?

The demise of brick-and-mortar retail is said to be overexaggerated, and while that may be true, the impact e-commerce is having in forcing both retailers and brands to reinvent themselves has been understated. As a result, consumer brands, including fast-moving consumer packaged goods (CPG), must make significant changes to their go-to-market strategies to grow and survive.

Unquestionably, the shopping experience is changing, and CPG manufacturers and retailers must be prepared. According to IBM's Retail 2025 report (referenced recently in *Computer World*), during the next decade stores will evolve into showrooms providing brand experiences, and orders will be shipped directly to consumers. Additionally, online and consumer-direct sales are expected to increase and account for 50 percent or more of revenue.

E-commerce currently accounts for a small share of CPG sales, but it's accelerating rapidly. Shoppers have increasingly moved their purchasing online—online sales have improved 15 percent annually since 2010, according to eMarketer, far outpacing brick-and-mortar stores. In addition,

consumers now have turned to their mobile device as the medium to research and purchase. So reaching consumers is significantly more complex, and building brand loyalty, a staple of long-tenured consumer brands, is much more complicated than ever before. If CPG brands can't elevate their brands and engage the consumer, they will follow the path of dying brick-and-mortar stores.

The path to success for CPG brands in the digital environment should be built around the following:

- **Assortment:** Build the right variety mix and display complimentary brands together online. Innovate with new product highlights and new solutions. Be found by being present.
- **Merchandising:** Ensure a strong digital presence across all platforms, especially mobile, and build sound promotional platforms. Engage consumers in event programs and with cross-promotional tie-ins.
- **Pricing:** Build a pricing model dedicated to online shoppers with

continued on page 24

continued from page 23

a keen eye on competition. Ensure sustainability and profitability by managing distribution costs and returns. Bundle pricing and quantity discounts are very effective. The freight policy is a key differentiator.

- **Shopper Marketing:** Make the offering simple. Eliminate conversion obstacles. Link ads to a specific product offering, just as one would an in-store program. Capture, study, and implement data findings to adjust on the fly.

- **Feedback:** Use consumer and site feedback to ensure engagement and build loyalty. Build a process to re-engage consumers who talk to the company or about its brand. Reward consumers for taking time to recount their experiences.

To build successful digital platforms, U.S. retailers plan to invest $15 billion in e-commerce over the next three years, according to IRI. E-commerce is a viable platform for launching new brands and growing existing ones. It must be part of a diversified distribution platform, which is critical to both growth and survival. CPG brands will have to contribute to this investment in a very big way while not underfunding traditional platforms.

This investment will certainly apply margin pressure on brands already compressed by a lack of inflation over the past five years. Smaller brands will struggle to find places to grow roots with the decline of physical retail space. Innovation, already costly and with a very high failure rate, will be critical as consumers demand more product segmentation.

With the changing landscape for both retail and CPG brands, it is inevitable that there will be fallout. For many retailers, the ship may already have sailed, but for CPG brands, survival may rest in consolidation. Scale is an important factor in surviving the new landscape and 2+2, with synergies and leverage, can often yield 5. Whatever the strategy, focus and speed are of utmost importance to success. Seat belts are required for the ride ahead.

Michael J. Musso is a managing director with Conway MacKenzie, Inc. He is a senior operations, turnaround, and restructuring executive with 30 years of experience in leading and rebuilding underperforming companies as CEO, financial advisor, and chief restructuring officer (CRO). Musso has a blue chip consumer products foundation, having served in various leadership roles of increasing scope at Procter & Gamble, Pepsi Cola, and Frito-Lay.