In this column, I address current retail trends and hot buttons and how you as a supplier of retail products or services can leverage them to craft differentiated, retailer-centric propositions. In each posting, I'll introduce an emerging trend in retail, provide real-world examples of the trend in action ("observation"), and answer the question: Why should retailers care about these trends in the first place ("motivation")? Most importantly, I'll concentrate on how you can parlay these insights into strategies that will resonate with your retailer partners and set you apart from the crowd ("differentiation").

Retailer Trend: Localization and Limited Buys

Observation:
Back in the early ’80s, J.C. Penney was considered to be one of the larger accounts on any suppliers’ books (believe it or not, Walmart was still largely dismissed as a pure discount player that wouldn’t pose a threat outside of that channel!). J.C. Penney held another distinction as well: it was the only retailer of its size that maintained a decentralized buying structure. Each J.C. Penney store had individual buyers who could either go along with the corporate buyers’ recommendations, or they could make individual choices that they believed were best for that particular store (or, as was most often the case, they combined both strategies). Penney’s reasoning was that the store buyers knew their customers best. They defended this system even as major retail consolidation waves hit the U.S., and as J.C. Penney’s competitors subsequently moved away from regional buying offices and toward completely centralized buying structures.

Penney’s big-and-getting-bigger competitors bought products like they believed in them, with every store in the chain getting essentially the same in-depth assortments (with the exception of extreme anomaly locations such as resort stores). Their philosophy was that good product was good product and that any benefits from regionalizing assortments would be trumped by the economies of scale achieved through chain-wide buying.

Soon, Penney’s model began to look outdated and cumbersome by comparison and in 2000, J.C. Penney, which was, by then teetering on the brink of bankruptcy, began moving toward a centralized structure as well . . . no easy task since Penney’s store buyers were used to having final say and the retailer’s corporate buyers weren’t that used to, well, buying!

At the time, J.C. Penney’s near failure was lumped together with localization. The jury was in: it simply wasn’t efficient to cater to local markets or niche tastes and the costs far outweighed any benefits, particularly as Walmart’s store counts began heading into the stratosphere and as its ruthless efficiency-wringing became the industry standard.

Motivation:
Fast-forward a few years and the pendulum has swung back wildly from generalization to localization and specificity. Retailers are realizing that making chain-wide buys—and then calculating the overall profit and loss in order to plan next year’s purchases—is a losing game, particularly as shoppers, empowered by the Internet, are increasingly able to indulge their very specific tastes and address equally specific concerns. Whether preferences are driven by ethnicity, size, dietary requirements, belief systems or just hobbies and interests, one-size-fits-all retailing clearly doesn’t cut it anymore!

Fortunately, retailers and brands are learning how to execute locally through their existing centralized buying models. Macy’s recently launched its My Macy’s localization strategy, which leverages proprietary software and newly created teams of district planners and merchants to ensure that each Macy’s store is relevant to the community it serves. Jeff Gennette, Macy’s chief merchandising officer, stated that Macy's also wants to be "the place to launch" and an "incubator" for emerging brands and products that will differentiate Macy's from its competitors.

Best Buy is encouraging its store teams to go off-script by instituting everything from community-specific store hours to merchandising variances that place regionally relevant items front and center in certain stores. And, in a radical departure from the previous corporate-knows-best information flow, Best Buy is gathering insights from individual stores in order to drive incremental opportunities that otherwise might escape notice. This shift from strictly top-down decision-making to bottom-up insight is allowing Best Buy to maintain corporate-buying efficiencies while capitalizing on localized trends.

Home Depot began sorting its stores into "clusters" with similar attributes after realizing that some stores were selling one riding mower per month while others were running completely out of tools under its one-size-fits-all purchasing structure—and Wal-Mart, through its Store of the Community program, intentionally distributes certain products and brands to limited stores based on the attributes of particular communities, and even neighborhoods.

Differentiation:
One of the more common problems I've begun to encounter in my consulting practice is retail suppliers misunderstanding, or not knowing at all, their retail partners' visions for their products, brands or services. When a supplier's efficiency-through-scale expectations are completely out of alignment with a retailer's more limited intentions, misunderstandings—and in some cases, business failures—result. A consumer electronics client that I worked with was stunned when one mid-tier retailer eliminated its brand entirely from one geographic region due to the growing strength of its top competitor in that market. The client had always been an "all-store" resource and assumed that wouldn't change. In another recent example, a supplier assessment that we conducted revealed that our toy client's top retail partner planned to drastically reduce shelf space for the client's premier licensed brand—the brand that my client had assumed would drive 30% of the company's growth over the next five years!

As localization and specialization proliferate, it's critical that you as a supplier understand your retailers' visions for your brands and products . . . and that you also arm you and your retail partners with localized insights and exception reporting that may get lost in a big data roll-up (and that may run counter to consumer data). We actually encourage our clients to bring dedicated and qualified analytical resources into their organizations before they hire a salesperson! Not only will this bolster your internal planning, you'll also have a counterpart and direct line to your retailer's planning teams. Your retailer isn't going to tell you to do this; they'll just favor your more proactive competitor!

Remember that a successful limited buy is a lot better than a mediocre roll-out and localization is in its infancy. Step up, participate and bring on the insight!