WHITEPAPER:

BRAND GROWTH AND INCREASED LOYALTY IN THE AGE OF CUSTOMER EXPERIENCE

MOVISTA



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EXECUTIVE SUMMARY

A judicious look at the last few decades will reveal a seismic shift in consumer behavior, a trend that values experience over ownership. Studies comparing how consumers spent their money in 1959 to 2000 found that, as a percentage of income, spending on services increased from 40 percent to 58 percent. From 1987 to 2000, the share of each food dollar spent on dining out went from 29 percent to 41 percent.[1]

And the trend kept going. A 2019 study revealed that 76 percent of consumers prefer to spend money on experiences instead of products, a 200 percent increase from the same study seven years earlier.[2] In the first half of 2021, drops in COVID cases and restrictions were met with immediate surges in sports events, concerts, and cruise ship bookings.

In the new millennium, experience rules. Consequently, delivering customer experiences that grow brands is more complex and competitive than ever. Nothing highlights this trend more than the click-to-brick movement. A 2018 JLL study predicted that by 2023, digital-brands will open 850 brick-and-mortar stores.[3] The headlines from the intervening years bear them out.

This market development has particular implications for consumer packaged goods (CPG). In an area where consumers might perceive brands to be interchangeable, customer experience is an essential differentiator. Native digital brands that choose to navigate the click-to-brick transition have the added complication of discerning the path to success when partnering with retailers or launching and managing their own brick-and-mortar presence.

In fact even experienced brands that have traditionally sold through a retailer channel, or their own brick-and-mortar stores, still struggle with getting execution right as they try to manage the logistics for shipping, labor, inventory, executing planograms, and optimizing a distributed network.

The goal is to build the brand and provide a unified customer experience—a physical experience that is every bit as good as the digital experience. However, in that journey, many CPG brands face challenges in execution, such as:

- The lack of ability to view all store execution by workforce type, eg. employees vs outsourced labor
- Inconsistent outcomes due to the difficulty of engaging and coordinating with third-party reps
- The perennial struggle to find and retain top talent

In this paper you will find:

- How the Golden Age of Advertising was surpassed by the Golden Age of Engagement
- The role of inventory in the success of experiential marketing
- The importance of brand reps, retail employees, and contingent labor in creating a successful customer experience
- How digital transformation plays an integral role in pulling everything together

CUSTOMER INSIGHTS

Experience Remains Essential

It was the heyday of brands. The Golden Age of Advertising. For three decades, from the 60s through the 80s, brands experienced a renaissance of awareness and reach, primarily via television, but also in print and radio. Larger-than-life campaigns, outrageous SuperBowl ads, catchy memes.

“I can’t believe I ate the whole thing.” “Where’s the beef?” “Sometimes you feel like a nut.”

An advertising jingle became a world-wide hit song, charting in the top-ten in seven countries. Coca-Cola really did teach the world to sing, or at least lured them into singing their jingle.

What signaled the end of that age? Some say cable television, which fragmented the audience and diluted reach. Perhaps we can blame the internet, which was released into the wild in 1983 and gained traction in 1995, the year Amazon, Yahoo, eBay, Windows 95, Internet Explorer, and Java were launched.

While some mourn the passing of that halcyon era, the truth is that we are now in a new, more exciting era, the Golden Age of Engagement. In the battle between Advertising and Engagement, our money is on Engagement.

The Golden Age of Advertising relied on one-way broadcast methods to reach their customers: television commercials, radio ads, newspaper ads, magazine ads. Brands were reduced to dealing with groups, not individuals, using media that lacked the capacity for interaction, focusing on a transaction.

The Golden Age of Engagement has the advantage of two-way communication channels: social media, email, apps, digital shopping assistants. Brands can target groups or individuals interactively in an on-going, personalized conversation. More channels equal more opportunities to connect with your customers and engage them at their point of interest.

Advertising	**Engagement**
Television, radio, newspaper, magazines	Social media, emails apps, digital shopping assistants
Groups	Individuals
One-way	Interactive
Transaction	Conversation

But the Age of Engagement doesn’t live entirely in the digital world. It encompasses the in-store experience, which is just as important now as ever. Prevailing folk wisdom may tell us that the pandemic-induced rush to online shopping will persist after the all-clear is sounded, but don’t be too quick to dismiss the importance of in-store shopping.

A January 2021 Ipsos survey discovered that less than a quarter of respondents would prefer online-only shopping going forward. The rest prefer in-store (39 percent) or omni-channel (38 percent) shopping.[4] That's good news, because you have more control over the experience when you're engaging your customer face-to-face in real-life 3D, as we shall see in the next section.

The extended reach of the new age opens new opportunities for brands to reach new markets, tapping customers who have been overlooked, or those who require the personal touch of engagement rather than the broad strokes of advertising. It also opens opportunities to more brands, as digital engagement doesn't pose the cost-related barriers to entry of a national advertising campaign across traditional media.

On the new playing field, consumers have more options, and established brands have more competition in the struggle to become or remain a household favorite. Brands that continuously provide good experiences are rewarded. Customers who enjoy positive experiences are likely to spend 140 percent more than customers who report negative experiences, and they are also likely to remain customers for five years longer than those other guys. Good customer experiences not only increase the top line, they also boost the bottom line by reducing your cost to serve customers by 33 percent.[5]

The impact of the pandemic on shopping behavior has magnified the importance of focusing on the customer experience. In the US, an unprecedented 75 percent of consumers have changed their shopping behavior and brand loyalty, with the top three reasons being value, availability, and convenience. This finding shines a spotlight on the importance of presence on the shelf, both for shoppers that return to the in-store experience and for BOPIS shoppers, as many retailers rely on store inventory to fulfill online orders.[6]

Customer experience goes beyond customer service to create touchpoints that engage your customers at a personal level, an experience that prompts them to share with their family and friends, online and offline, organically extending your brand into their personal network.

EXPERIENTIAL MARKETING GROWTH

For the past ten years, experiential marketing has experienced a growth streak, outpacing the growth rate of the larger advertising and marketing industry. In 2019 alone, experiential marketing revenues grew 5.6 percent to reach $84 billion worldwide. True, 2020 put a ding in that unbroken upward curve, but consumer experiential marketing is projected to get back on track in 2021 with 6.1 percent growth worldwide.[7]

Patrick Quinn, CEO of PQ Media, a leading retail market research firm, has a few ideas on the future of experiential marketing, "The strong desire to gain brand awareness among target audiences, create positive brand associations and, ultimately, produce sales lift will continue to favor consumer experiential marketing in the post-pandemic era."[8]

In 2019, L'Oréal, the global leader in cosmetics, pivoted squarely into experiential marketing when it opened its first flagship Lancôme store in Paris, offering "a unique and elevated customer experience."[9] The entry space, called "the Joy of Now," features physical and digital displays. Other spaces for fragrance, makeup, and skin care feature beauty advisors who guide customers to personalize their purchases to match their specific needs.

Two years later, they enhanced their commitment to customer experience by launching a web-based virtual pop-up store targeted to the US market, featuring their Advanced Génifique line of products. The digital experience mirrors the personalization that made their in-store experience so successful. A click glides you down and into the spiral virtual store, where you can engage with the brand by playing games to win offers, taking a quiz to find a solution suited to your needs, drilling down to information about the ingredients, and watching demonstrations and educational videos from their experts on skin strength, mind strength, and body strength. They designed it to engage customers in the pop-up for 5 to 7 minutes.

Then there's the Samsung 837 flagship store in New York City. It's all experience and zero shopping, an engagement destination with immersive, interactive installations, such as a virtual roller-coaster ride in 4D VR chairs, a Social Galaxy tunnel that pulls content from your Instagram feed and displays it all around, above and below as you hear your postings read aloud, a performance stage for live shows, and a giant screen showing non-stop entertainment. It's also a workspace, including a professional music studio you can use to record music and podcasts, classes, workshops, games, a coffee shop where you can eat, drink, and wirelessly charge your phone, and a Samsung tech support kiosk. It's basically a family-oriented amusement space and social-media content generator that broadcasts the brand without the hard sell.

As you can see from these examples, engagement relies on spot-on, highly coordinated and choreographed experiences that delight the customer. It's not something that can be handed off to someone to pull together over the weekend.

RIGHT-SIZING INVENTORY IN THE AGE OF ENGAGEMENT

To deliver an engaging, potentially viral customer experience, it takes a village—spanning from the marketing execs devising the strategy, through the intermediate layers of tactics and production, all the way to the retail talent on the front lines executing the vision. And it's that final step which poses a challenge.

Specifically, a pesky little detail that drives revenue: inventory.

In 1837, the infamous guru of marketing, Robert Southey, discovered the driving principle of inventory and published it in his seminal work, "The Story of the Three Bears." It is now known as the Goldilocks Principle: Avoid extremes (too much or too little) to find the optimum condition (just right).

The right product in the right quantity at the right price in the right place at the right time.

EXPERIENTIAL MARKETING RESTS ON THE FOUNDATION OF INVENTORY.

NO INVENTORY, NO EXPERIENCE.

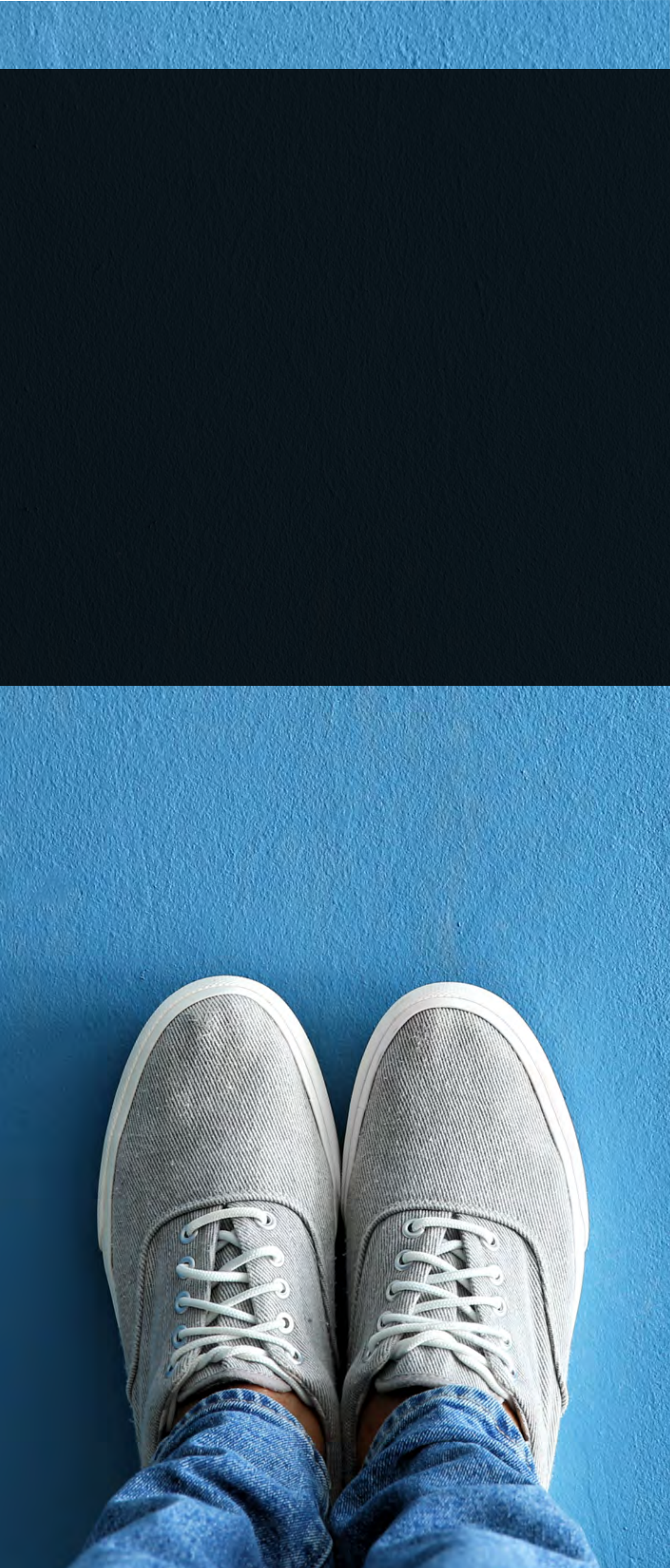
Lack of stock introduces stockout costs at both the top and bottom lines. The obvious outcome is a lost sale, which reduces revenue by the amount of the anticipated gross margin on that sale. Persistent out-of-stock conditions can magnify the damage in the form of a lost customer and the lost margins associated with all future sales to that customer.

But stockout costs don't end with the lost sale. Stockouts also affect the bottom line in the form of the increased costs required to replenish inventory on short notice, such as a rush fee or overnight delivery charges.

Ironically, persistent stockouts can cause brands to swing the pendulum to an equally damaging condition, overstock. The annual additional cost of holding excess inventory can run up to 32 percent per year.[10] When cash is tied up in excess inventory, it affects cash flow, which can result in suppliers pressuring for payment. Short-term financing to cover the gap results in interest payments that reduce profits. And the overstock condition reduces your flexibility to adapt to demand by taking up space that could be put to better use for stocking products that are moving. Depending on the product, other costs can emerge, such as depreciation, creeping obsolescence, pilferage, and unplanned costs in the form of insurance and taxes. Many turn to heavy discounts to move the inventory, further reducing profits.

If a Goldilocks "just right" inventory is so critical to success, why do stockout and overstock conditions occur? It comes down to visibility, or rather, a disconnect in visibility between brands, the retailers they serve, and the front-line labor force executing the vision.

Lack of shared technology creates blindspots for brands, who don't have access to accurate numbers regarding what is available to their customers in the stores. And as more stores follow the growing trend of engaging shared labor due to rising costs for maintaining full-time employees, the blindspots will only increase.



DIGITAL TRANSFORMATION AND WORKFORCE COLLABORATION

The consumer goods brands that are building an infrastructure for the engagement economy are focusing on digital transformation. Among its many benefits, digital transformation serves as an enabler for workforce collaboration, which is the emerging solution for addressing rising labor costs and the increased complexity of managing both omnichannel sales and elastic labor.

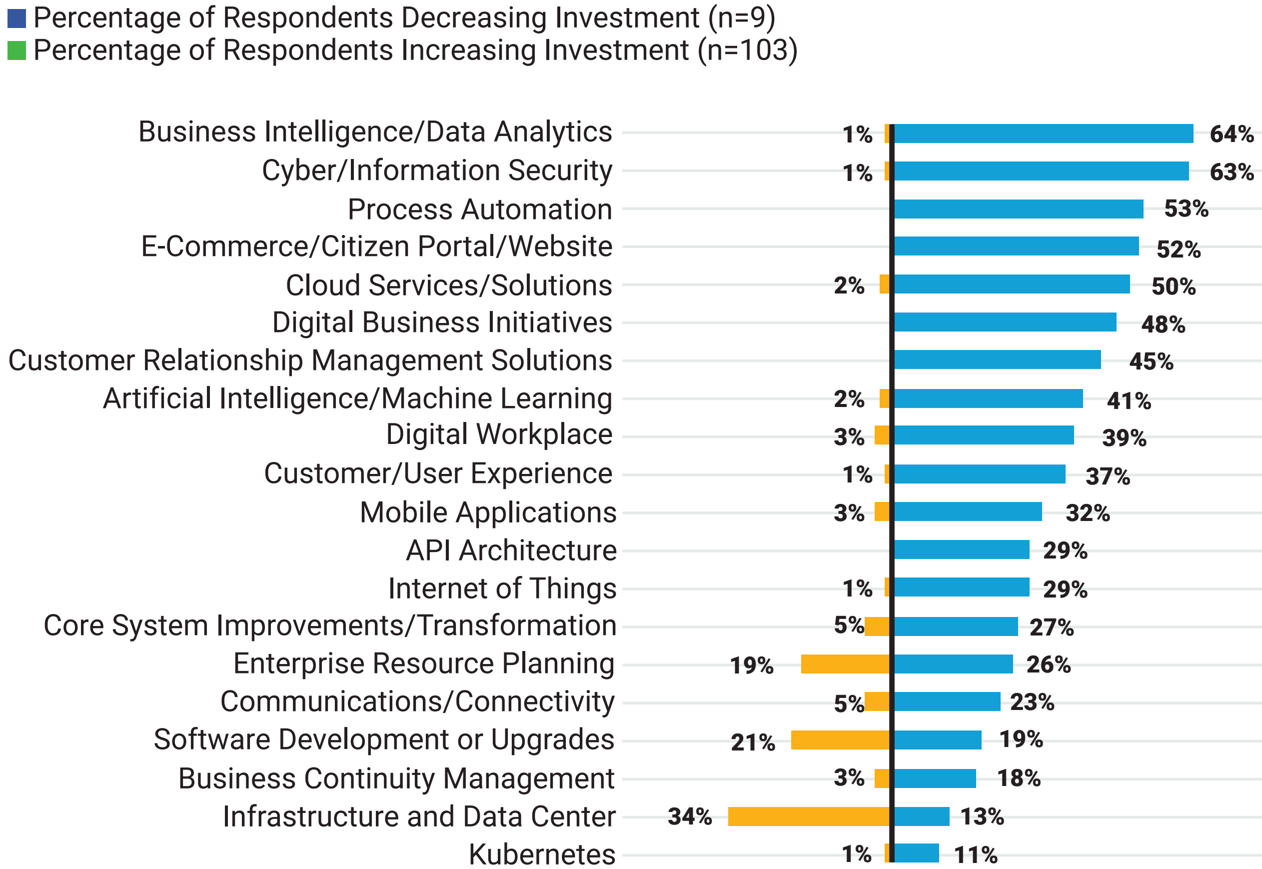
An unforgettable customer experience is built on the pillars of labor and technology

THE PEOPLE WHO EXECUTE THE VISION

to make that experience a reality and the technology that provides the infrastructure to remove friction from execution.

Changes in Technology Investments

Percentage of Consumer Goods Respondents



SOURCE: [11] Eichhorn, Ellen and Michelle Duerst. "Gartner Inc. "2021 CIO Agenda: A Consumer Goods Manufacturing Perspective." Gartner. Accessed July 5, 2021. https://www.gartner.com/en/documents/3993768/2021-cio-agenda-a-consumer-goods-manufacturing-perspecti.

An unforgettable customer experience is built on the pillars of labor and technology—the people who execute the vision to make that experience a reality and the technology that provides the infrastructure to remove friction from execution.

A recent Gartner survey has some interesting data points connected with how consumer goods companies are changing their investments in technology. Three telling categories for increased investment are digital workplace (48 percent), mobile applications (32 percent), and API architecture (29 percent). And don't miss two significant categories for reduced investment; software development (-21 percent) and infrastructure and data center (-34 percent).[12]

Each of these decisions indicate increased focus on leveraging capabilities from individual applications into a digital ecosystem, suggesting new collaborations with external partners.

In particular, a shortage of skilled labor and talent has been a consistent pain point for retailers across all business functions. This is a major problem in a sector that relies heavily on its employees for successful seasonal and non-seasonal store execution, sales uplift, and customer satisfaction.

Powered by the maturity of the internet, the market has stepped up to address this issue through the rise of elastic labor. Retail is no stranger to the concept, regularly engaging a contingent labor force in the form of part-time employees, seasonal workers, brand reps, and third-party labor providers. Even so, many retailers have failed to develop a systematic framework for engaging, tracking, managing, and paying elastic labor. Some workers might be provided by, and paid by, an agency. Others might be on the retailer's payroll as part-time. And others might be contractors who invoice through accounts payable.

In addition, the pressure on the minimum wage continues to mount with the momentum of inevitability. In 2020, the median hourly rate for retail store employees was $14.87/hour[13]. The labor market is tightening up and new minimum-wage floors are coming into effect, which increases the pressure on retailers to hike pay.

In June 2020, Target raised its minimum wage for employees at stores and distribution centers to $15 per hour, a $2 per hour increase.[14] In March, 2021, Costco increased their minimum starting wage from $15 per hour to $16 per hour.[15]

This scenario is yet another data point urging retail companies to explore deeper shared-task allocation and collaborative labor utilization with brand partners and third parties. This means that retailers, brands, and third-party service providers must offset the added labor expense with greater productive labor utilization in terms of adding incremental sales, customer loyalty, and service levels in the store.

In light of the current conditions and preferences in the labor market, it is clear that brands which leverage technology to partner with retailers and third-party service providers can gain a competitive advantage over those who don't. Especially over brands that double down on ad-hoc, inflexible tools, such as email and spreadsheets. Such general-purpose solutions lack the flexibility available from cloud-based collaboration platforms, which efficiently manage the multifarious challenges involved in wrangling the people, policies, and processes associated with delivering a superior customer experience.

LIMITATIONS WITHIN TECHNOLOGY ADVANCEMENTS

A recent survey showed that 80 percent of retailers expect moderate to major supply chain investment in 2021.[16] No doubt the recent inventory issues that surfaced due to the pandemic played a part in this shift in focus. However, experience shows that, as critical as technology is to success, it is not a silver bullet that solves all challenges with a flip of the switch.

Peter Drucker famously said, “Culture eats strategy for breakfast.” We would add that culture moves on to technology for lunch. While the market leaders are all supported by a powerful technology stack, their true secret sauce is customer centricity.[17] Technology makes a difference when it supports a culture that prioritizes customer-focused communication, initiative, and personal accountability.

Inventory and last mile

Among other revelations, the pandemic exposed how globalization has created vulnerabilities in the supply chain, highlighting the need to harden last-mile delivery, curbside pickup, warehouse management, and procurement capabilities against supply-chain disruption.

While retailers increase investment in technologies that help them with the last mile of execution, including barcode scanning technology, BOPIS devices, and workforce execution tools, brands can have the most impact on customer experience by focusing on in-store execution and improving inventory accuracy and availability.

Availability is especially important, considering it is one of the top three factors that determine brand preference, as mentioned in section I, highlighting the urgency of connecting your labor resources with instant visibility into inventory status. Unfortunately, only 18 percent of organizations report fulfillment accuracy rates of 95 percent or better.[18] Lack of inventory transparency leads to under- and over-stocked conditions, which can affect sales for brands and retailers.

WHAT'S TO COME

Regardless of the size of your organization, when it comes to creating an engaging customer experience, players in every link in the chain should demonstrate agility and an entrepreneurial spirit.

A purpose-built, cloud-based platform empowers in-store management to prioritize and ramp up or down for seasons, holidays, and other promotional opportunities. Managers have visibility across all tiers and workers to evaluate the efficiency of specific initiatives, repurpose proven workflows, and atdjust on-the-fly to accommodate unexpected issues. And external partners, such as brands and third-party labor, can have visibility into the information they require to deliver on engagement and experiential marketing.

There are two reasons why investing in technology will separate your brand from the herd. First, you will be aligned with the move to the shared-labor economy that retailers are already driving. Second, you will reduce the friction in working with retailers and labor providers, positioning yourself as a preferred brand to work with.

In the near future, look for these trends to surface:

- Investment in technology infrastructure that supports data exchange between stores, brands, and service providers.
- Investment in workforce management solutions that support employees, prioritizing the front line workforce and scaling digital workplace investments.

If you want to win in the age of customer experience, you must position your organization as a leader to the retailers you partner with and prepare your organization and team with the proper systems and processes.

When you connect all the links in the process, you empower your team to create a powerful experience, which compels your customers to own the experience.

Movista is a global, cloud-based retail execution and workforce management solution provider that is transforming the future of work in retail. Movista stands as the world's first and only platform to enable collaboration between retailers, brands, service providers, and distributors, cutting costs and lifting revenue for all retail stakeholders. Now, in-store and embedded teams can streamline work and improve on-shelf availability. The Movista platform integrates with many critical business systems such as Salesforce, SAP/S4HANA, Kronos, and Infor.

For more information, visit www.movista.com.

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SCHEDULE A DEMO

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