Implementing Customer-Centric Merchandising and Marketing in Retail Primer for 2018

Published: 16 January 2018   ID: G00344021

Analyst(s): Robert Hetu, Kelsie Marian

Retail CIOs must position the business to leverage algorithms for unified retail commerce supported by a foundation of high-quality customer data. This will enable intelligent automation services across merchandising and marketing activities, and drive effective, compelling customer experiences.

Scope

Customer-centric merchandising and marketing helps retailers navigate the challenges along the path from product centricity to customer centricity to enable unified retail commerce success.

This initiative covers:

- **Merchandising** — Core applications, store-level and cluster-level merchandise financial planning, assortment planning and category management, and advanced micro and macro space management, as well as pricing and promotions, and optimization technologies

- **Algorithmic retailing for merchandising and marketing** — Multichannel customer analytics, advanced analytic providers, the impact of intelligent automation services (IAS) and artificial intelligence (AI), algorithmic approaches, and use cases for merchandising and marketing in and across multiple channels

- **Marketing** — Multichannel customer behavior and loyalty strategies and tactics, social media analytics and use cases, CRM and clienteling, and real-time offer engines for customer engagement
Merchandising and marketing are core retail processes where technology must be deployed to leverage advanced analytics, algorithms, intelligent automation services and artificial intelligence to enable unified retail commerce. Retailers of all types must facilitate a unified retail commerce experience by engaging in digital business transformation built on a foundational view of customer shopping processes (see “Transforming From Multichannel to Unified Retail Commerce Primer for 2018”). Regardless of the methods of retail fulfillment, to meet customer expectations of consistent and flexible shopping between and across channels, all of the retailer’s customer-facing processes must be unified.

Retailers will achieve future success if they procure, source, develop and market products and services as demanded by the customer, and deliver them through a unified retail commerce ecosystem. Using an ecosystem approach means that retailers will leverage expanded partnerships with product suppliers, service providers and previously unidentified cohorts to deliver the customer-centric experience. Just as unified retail commerce is defined in basic customer process terms, customer-centric merchandising and marketing should focus not on the fulfillment process but on the five W's:
Who are the targeted customers and what are their lifestyles?

What product assortments, services and offers are required to enable customers' lifestyles?

Where will the assortments, services and experiences be offered for customer engagement and acquisition?

When will customers browse and transact?

Why will the customer take each action and what behaviors will they exhibit?

Top Challenges and How Gartner Can Help

Tomorrow's retailers will look and act very differently as new experiences driven by customer expectations will defy the old merchandising and marketing models presently relied on to sustain the business. The old saying "product is king" is no longer true for retail. Experience is king, and product is a critical component of experience; but consumers increasingly determine the value provided based on the experience associated with the purchase. This is seen in the transition toward click and collect, home delivery, auto replenishment, and in-store entertainment, and the growing use of subscription services.

Consequently, retailers must allocate budget for technology and resources to fund the most critical investments needed to ensure they remain a valued part of the customer's shopping process in the era of digital business. Gartner's 2018 customer-centric merchandising and marketing in retail research targets technologies that will increase conversion, reinforce customer loyalty and grow market share through unified retail commerce. Retail CIOs and IT leaders can use this initiative to plan and prioritize the correct technology investments that support their business strategies.

How can we create merchandising and marketing strategies that are ready for unified retail commerce?

Unified retail commerce success will require retailers to start with a view of the customer shopping process in their terms and then re-engineer their organization to optimally deliver on customer-centric expectations. Most retailers today remain product- and channel-centric. Silos prevent the types of collaboration required to provide customers with a unified experience. To measure the customer centricity of the organization, the first test is to ask this question. Are merchandising or marketing associates as concerned about how the best customer segments perform across the organization as they are about the particular product category, channel or business process area they work in? For a majority of retailers, the answer to this question is "no" as people are tasked with managing in silos, and no one is responsible for the overall success across customer segments. In a customer-centric retailer, every associate is tasked with understanding the performance of key customer segments and employing effective strategies that maximize this performance, even if this may not be the best action for their individual area of responsibility. For a merchandising associate, this may require changes to an assortment that may not be the most advantageous for their category, but that meet the needs of the retailer's best customers, therefore driving the overall value of the segment.
Overcoming the challenges associated with becoming customer-centric will enable retailers to engage customers more effectively, achieving higher levels of sales and profitability, greater customer retention and loyalty, and stronger brands by building stronger customer relationships. Customer centricity is enhanced when merchandising and marketing organizations are aligned with algorithmic approaches and intelligent automation services that deliver a complete view of customer information for targeted segments.

Merchandisers that use customer information to create customer-centric assortments, pricing and promotions for each touchpoint will maximize potential sales. Marketers use customer information to target specific customers and ensure that strategies are effectively personalized and communicated. Additionally, data housed in numerous internal systems or from external sources is used to track customer interactions and supply critical insights for a larger, enterprisewide CRM and for customer strategy development initiatives. Merchandising and marketing staff must optimize every decision point while performing daily processes rather than waiting for a future opportunity. This is a key building block in preparation for future digitalization of retail strategies by applying emerging technologies such as the Internet of Things (IoT), artificial intelligence, blockchain, and augmented and virtual reality.

**Planned Research**

- Retail Merchandising and Marketing Trends and Strategies for 2018 and Beyond
- Merchandising Applications Landscape for 2018
- New Merchandising KPIs That Drive Digital Business Success
- 10 Best Practices for Using Customer Data to Drive Retail Loyalty for Unified Retail Commerce

**What merchandising and marketing application providers should we consider as we prepare for unified retail commerce?**

As the technology leaders, CIOs must be at the forefront of transformation from multichannel to unified retail commerce. Gartner research will explore the key trends in merchandising, marketing, loyalty and CRM; identify critical capabilities for applications; and track the technology providers that can best meet the challenges of customer centricity. Each of these applications requires the use of algorithmic retailing that enables optimal customer experiences by using big data to predict who, what, where, when and why customers will browse, transact and acquire. Gartner will provide CIOs with the in-depth expert knowledge to lead in the digital business future.

Our research will provide CIOs with recommendations to support the critical capabilities of advanced merchandising and marketing enablement applications and identify the appropriate application providers.

**Planned Research**

- Cool Vendors in Retail Merchandising and Marketing, 2018
- Market Guide for Unified Price, Promotion and Markdown Optimization, 2018
How can we use algorithmic retailing, including intelligent automation services and AI, to improve performance of merchandising and marketing processes?

Algorithmic retailing is the application of big data through advanced analytics across an increasingly complex and detailed retail structure to anticipate and deliver an efficient and flexible, yet unified, customer experience. Complex algorithms were once the domain of scientists and academics, but with the advent of the IoT, robotics and artificial intelligence, retailers will be able to use algorithms to automate tasks and improve business results. Algorithmic retailing supports the evolution of unified retail commerce through smart data discovery that paves the way toward analytically driving every decision, leveraging intelligent automation services (IAS) for productivity, and using AI for inspiring human creativity. Algorithms are required for execution of opportunities identified from big data.

Retail headquarters staff will be disruptively impacted. In November 2015, Gartner published a prediction that, by 2020, merchant leaders will become algorithms, prompting the top 10 retailers to cut up to one-third of their headquarters merchandising staff. With large numbers of relatively highly paid associates who are responsible for making big-dollar decisions that affect every aspect of the business, headquarters staff are also prime targets for reduction and elimination through IAS. This is long overdue, as many of the existing activities are not optimized, with some surviving as leftovers from historically necessary processes that simply are now irrelevant. Others are the result of management turnover, failed technology implementations or previous job cuts done without a thoughtful organization realignment.

Planned Research

How intelligent and robotic process automation will transform merchandising

AI is the gateway to marketing success for unified retail commerce

How can retailers use customer data effectively during merchandising and marketing processes to increase customer loyalty, retention and lifetime value?

A good retail experience requires more than a consistent view of the customer across the organization; it also requires the retailer to understand the customer through various external sources, such as mobile apps, social media and IoT, to provide consistent interactions and differentiated experiences to the customer.

Doing this well involves leveraging a deep understanding of customer behaviors and providing a collection of consistent, targeted experiences that flow from retailer to customer over time, establishing trust and, ultimately, repeat spending and loyalty.
For most retailers, the marketing organization is closest to the customer data, and it may be the owner of record. Some organizations have added a chief customer officer to expand their view of and impact on the broader customer experience. Marketing takes on the role of segmenting and targeting customers as a central responsibility. However, customer data and, increasingly, real-time information from within the retailer’s structure or from external business partners, as well as from IoT devices, must also be operationalized to improve all retailing operations, communications and initiatives. It is the combination of analyses, when provided collectively, that gives a more complete view into customer loyalty and the specific factors across channels that require improvement to grow sustainable loyalty with customers. This is why using a more granular approach can make an impact on everyday customer experiences and, ultimately, increase loyalty.

Developing deeper levels of behavioral segmentation requires retailers to move along the analytics maturity spectrum from descriptive and diagnostic analytics to predictive and, ultimately, prescriptive analytics. Recognition of their current maturity of analytics capabilities, along with a plan for desired aspirational maturity, is an integral part of the retailer’s ongoing and relevant CRM strategy.

As a result, successful enterprisewide CRM strategies continue to be at the center of leading retailers’ customer experience management initiatives, and continue to evolve to be at the heart of retailers’ digital business initiatives. Therefore, retail CIOs must provide the technology infrastructures that enable retailers to analyze, communicate and grow relationships with customers — regardless of the channel shopped or the business unit collecting the data.

**Planned Research**

- Conversational AI Platforms Will Be the New Strategic Gateway for Retail Customer Loyalty in Digital Business
- What’s Hot in Retail Loyalty Applications, 2018
- Market Guide for CRM in Tier 1 Retail, 2018

**Related Priorities**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transforming from Multichannel to Unified Retail Commerce</td>
<td>Transforming from multichannel to unified retail commerce helps retailers navigate from a traditional, multichannel retailer, past omnichannel, into a digitally enabled provider of unified retail commerce.</td>
</tr>
</tbody>
</table>

Source: Gartner

**Suggested First Steps**

- "Prioritize 14 Best Practices for Successful Price Optimization Implementations"
"Hype Cycle for Retail Technologies, 2017"

"Predicts 2018: Retail Unified Commerce Will Require Even Greater Collaboration and Alternative Models for Success"

"Cool Vendors in Retail Merchandising and Marketing"

Essential Reading

"Using Algorithmic Retailing to Drive Competitive Advantage"

"Algorithmic Retailing: Merchandising Leads the Way"

"Cool Vendors in Retail Merchandising and Marketing"

"Market Guide for Unified Price, Promotion and Markdown Optimization Applications"

"Market Guide for CRM in Tier 1 Retail"

"Retail Loyalty Programs Do Not Foster Customer Loyalty"

"Magic Quadrant for Merchandise Assortment Management Applications"

"Critical Capabilities for Merchandise Assortment Management Applications"

"Algorithmic Retailing: Using AI to Drive Smart Automation"

"Market Guide for Advanced Retail Space Management Applications"
GARTNER HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Regional Headquarters
AUSTRALIA
BRAZIL
JAPAN
UNITED KINGDOM

For a complete list of worldwide locations,
visit http://www.gartner.com/technology/about.jsp

© 2018 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner’s prior written permission. It consists of the opinions of Gartner’s research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by Gartner Usage Policy. Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see “Guiding Principles on Independence and Objectivity.”