



Retailer and Brand Loyalty 4.0

THE EMERGENCE OF AUTO-REPLENISHMENT
IS CRITICAL FOR FUTURE GROWTH
AND PROFITABILITY



A Note from the Authors

This whitepaper was in process prior to the outbreak of COVID-19 and the massive disruption it has caused the industry. We considered holding off distribution until things turned back to normal. However, as we progress through this pandemic, nobody is exactly sure when normal will return nor what normal may look like.

As e-commerce volumes rise significantly, putting process and profitability strains on the business model, the principles of Auto-Replenishment have never been more important. Given that, we made the decision to release the paper now so retailers and manufacturers can understand how Auto-Replenishment can advance their e-commerce strategy as well as ensure methods for getting products more consistently into customers' homes.

In our sister business, Ideoclick, where we help hundreds of manufacturers manage their Amazon business, we've seen Amazon adding billions of dollars per month in incremental CPG volume during the pandemic. Within this, they are also adding about \$1B per month in new automated replenishment volume as new sales in programs such as Subscribe & Save and Alexa Reorder. This is volume that customers have locked in, committed to Amazon.

Customers in Auto-Replenishment programs see minimal disruption of their supply because their purchases are prioritized. With the future uncertain, they can be assured that their retailer will have these products ready for them when they need them. It is therefore imperative that retailers consider Auto-Replenishment as a foundational e-commerce capability going forward.

Auto-Replenishment is the basis for stable, profitable e-commerce. It is the ultimate reward for shopper loyalty. **It is Loyalty 4.0.**

Thank you for your hard work. Stay safe and healthy.

The Replenium Team

Imagine a retail landscape that is shopper-driven, where **emerging technologies** enable a much lower cost-to-serve, and where **loyalty between consumers, brands, and stores** gets deepened and personalized with every transaction...

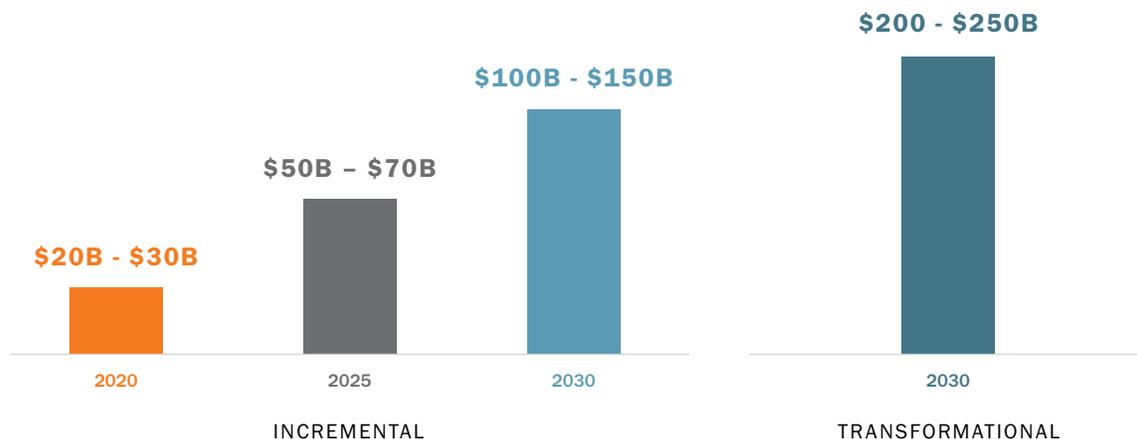
Facing an onslaught on both digital and brick-and-mortar fronts, driven by Amazon and Walmart, retailers and manufacturers are pouring resources into stores, apps, e-commerce capabilities, supply chain, AI/ML and new fulfillment channels to compete for shopper loyalty and dollars.

Even as retailers and manufacturers reconfigure operations for an omnichannel world, a new business model is emerging that will both build upon and upend those strategies, redefine customer loyalty, and **create a \$50 billion sector by 2025.**

That business model is best termed Auto-Replenishment. It leverages shopping and customer loyalty data with machine learning algorithms to predict and fulfill shopper needs in just-in-time fashion. Auto-Replenishment will bring loyalty and engagement to a new level while revolutionizing the way shoppers purchase and consume the household and personal care products they rely on every day.

The bad news is that e-commerce giants and click-and-subscribe innovators are significantly advanced in developing a game-changing capability that most retailers and manufacturers have barely considered. The good news is that retailers and manufacturers can quickly adopt this strategic tool and optimize delivery and inventory operations even as they engage shoppers in a transformative way.

AUTO-REPLENISHMENT GROWTH PROJECTION SCENARIOS



2020 | Driven by: Dash Buttons; Subscribe and Save; Early stages of Auto-Replenishment

2025 | Driven by: Consumer Convenience Demand; Amazon Prime Plus; Fulfillment Centers; Retailer Adoption of Auto-Replenishment

2030 | Driven by: Integration into Standard Consumer Path to Purchase; Amazon Next Gen Prime; Retailer Wide-Adoption of Auto-Replenishment

2030 | Driven by: Market Redefinition of Fulfillment through Auto-Replenishment; Transformation of Auto-Replenishment infrastructure; Smart appliance/homes; Retailer acceptance of Auto-Replenishment as a baseline capability to compete

The Evolution of Loyalty Schemes

The 1950s was a golden age of consumerism. Shoppers felt intense loyalty to favored retailers and brands during an era marked by abundance, customer service and brand identification. Auto-replenishment is a return to 1950's era loyalty with the enhanced convenience and optimized efficiency of e-commerce.

The customer **Loyalty 1.0** stage began when manufacturers, retailers and service providers instituted card-based loyalty schemes to attract customers with points, promotions and discounts. Think traditional shopper programs that offer discounts for shopping at particular stores or buying specific products.

With more access to data, **Loyalty 2.0** saw retailers and manufacturers make discounts, promotions and loyalty schemes more personalized, targeting specific customer segments with offers and recommendations.

With today's **Loyalty 3.0** best practices, digital tools extend that connection with increasingly targeted and timely offers. Shoppers can receive deals, recommendations or promotions at specific times (when inventories are high, for example) or in specific locations (approaching a store in their car, walking down a store aisle). While discounts or offers are often valuable, however, they still fall short of the level of service and connection that engages consumers in a deep and sustaining way.

Subscription Commerce Sets the Stage

Subscribe-and-save programs exploded in recent years with Amazon and the emergence of product-specific monthly memberships like Dollar Shave Club, Quip and others. While not as technologically adroit as personalized digital promotion tools, these offers have a distinct advantage in terms of customer engagement and purchase repetition.

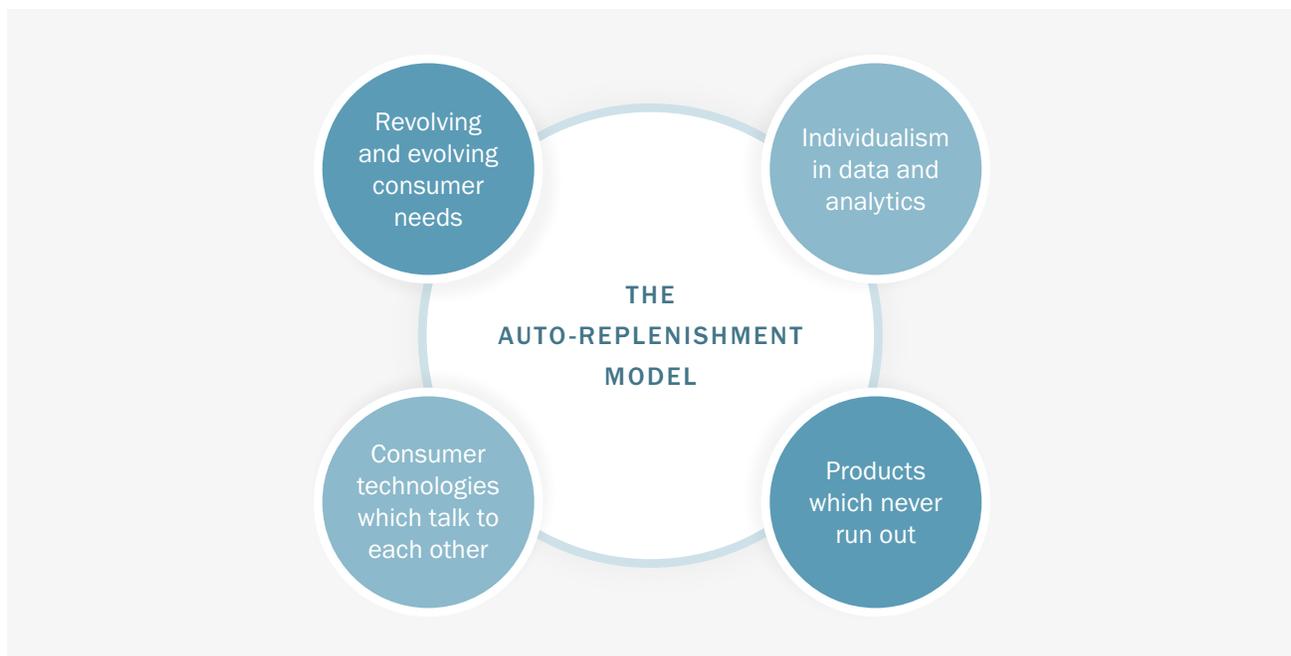
With subscription commerce, shoppers actively select products they need or want on a frequent basis in exchange for consistent delivery at established intervals. **Retailers and manufacturers benefit from consistent revenue flow, customer capture and rich customer data.**

Like gym memberships and magazine subscriptions, however, that business model teeters precariously on a foundation of customer dissatisfaction. Variations in usage patterns and customer preferences make it likely that many customers will get less or more of the product than they actually need. Managing preferences or unsubscribing takes effort which benefits suppliers, not shoppers. Customer dissatisfaction, frustration or guilt mounts, like magazines piling up on the coffee table. Point solutions like Dollar Shave Club serve a narrow need and require the customer to shop across a number of outlets to serve the balance of their needs. All of this leaves a critical gap to solve replenishment needs more completely and efficiently.

The Loyalty 4.0 Engine

Most retailers don't realize the full value of the treasure trove of loyalty data that they either already possess or could quickly accumulate. There is an opportunity, now, to yield significant value from this data while providing unprecedented levels of customer service.

Auto-Replenishment combines the data power of personalization and purchase histories with the engagement power of subscribe-and-save to transform shopper satisfaction, experience and empowerment. It is made possible by applying machine learning to individual and aggregate purchase data to predict the usage and replenishment cycles of common household and personal care products. Product usage, analyzed across thousands of products, becomes the basis for building supportive and individualized auto-replenishment programs for customers.



For example, a busy family of four regularly uses toothpaste, shampoo, toilet paper, paper towels, deodorant, spray cleaner, dishwasher detergent, and so on. Auto-Replenishment algorithms predict the need for one product based on the consumption of others. In other words, purchases of shampoo or toilet paper also indicate usage and replenishment patterns for toothpaste, deodorant or detergent.

The result is a highly personalized and customizable shopping service. Products are queued up and dropped into orders, reflecting which products are needed and when, at the right price. The service is automated, but shoppers have great visibility and control over their orders. Smart recommendations and easy switching between varieties further bolsters a sense of control and personalization.

Because the system knows them so well and is so responsive to their needs, shoppers gain confidence in the value of the service. Over time, they add more product categories to their baskets more frequently, accept recommendations more readily, and develop stronger relationships with the retailer and assorted brands.

Auto-replenishment is Loyalty 4.0.

The Realization of the Support Economy

In 2002, business futurist Shoshana Zuboff published a prophetic book called **The Support Economy: Why Corporations are Failing Individuals and the Next Episode of Capitalism**. In Zuboff's view, corporations met the demands of mass consumption in the 20th century by focusing on operational efficiency at the expense of individualization. Customers were forced to cede their deeper, personal needs to the needs of the overall business system.

Zuboff contends that a new kind of capitalism is at hand, driven by consumers' yearning for a new approach to consumption, enabled by new technologies that can address those needs, and requiring a new enterprise logic and mindset.

The frustration people experience as consumers has led to an adversarial relationship with retailers and brands. The antidote is individualized consumption. As Zuboff observes:



People want to be treated as individuals, not as anonymous transactions in the ledgers of mass consumption. They want to be heard and they want to matter. They no longer want to be the objects of commerce.

Instead, they want corporations to bend to their needs. They want to be freed from the time-consuming stress, rage, injustice, and personal defeat that accompany so many commercial exchanges."

No retailer embodies the support economy better than Amazon, and nowhere is the essence of that more clearly articulated than in **Jeff Bezos' famous quote**:



*We are not in the business of selling things.
We are in the business of helping people buy things."*

Programs like Prime, Subscribe & Save, Alexa Reorder and the recommendations engine don't unduly push products on customers. They make it so it's effortless to buy them. That leaves shoppers happy, loyal and with their needs continually satisfied.

Beyond Amazon, retailers and brands recognize this mounting demand for individualized service, but struggle to adapt in ways that are feasible. Data, machine learning and Auto-Replenishment make this level of deep support possible. Customers are served in a way that is meaningful, personalized, on-brand and at-scale, enjoying a level of support, ease and engagement beyond anything they've experienced before.

A More Flexible, Profitable and Collaborative Approach to Shopper Engagement

Auto-Replenishment is also instrumental in optimizing retailer and manufacturer operations, practically and cost-effectively. It is designed to reset the economics of engaging and serving the shopper.

THE BASIC CONSTRUCT OF AUTO-REPLENISHMENT:

- creates a lower cost-to-serve.
- improves category and assortment management.
- optimizes inventories based on the fulfillment of anticipated demand.
- lowers and more effectively directs promotional costs.
- improves organizational and operational resources already dedicated to fulfillment.

AUTO-REPLENISHMENT ECONOMICS:



5% – 10%
Increased Sales



5% – 15%
Improved Pricing



20% – 30%
Improved Loyalty



15% – 30%
Reduced Inventory



3% – 8%
Increased Annual Acquisition



15% – 20%
Improved Cost to Serve



6% – 20%
Improved Marketing

Over the past five years, retailers and manufacturers have engaged in an arms race to compete with Amazon, Walmart, Alibaba, and other e-commerce rivals for purchasing dollars that are migrating away from traditional retail channels. To do so, they've invested heavily in digital and in-store services, store pick-up, omnichannel delivery capabilities, apps, and costly fulfillment centers.

These services have been expensive, putting extreme stress on profitability and operations while even impairing in-store customer experience. The innate complexity of warehousing, stocking, and on-shelf-availability are exacerbated by these new models.



Auto-Replenishment eases those burdens. Every product has a replenishment cycle. Given their own time demands and their increasing ease with digital services, shoppers want to shift an ever-greater portion of the products they rely on regularly into Auto-Replenishment mode.

Retailers embrace Auto-Replenishment because it enables them to understand and engage shoppers more individually and meet their needs more efficiently and cost-effectively. As more purchases move toward this mode, retailers are afforded greater visibility into forward demand, enabling them to tune their supply chain, stocking, picking and fulfillment operations for better efficiency.

Brands enthusiastically support and are willing to pay for Auto-Replenishment programs because they promote loyalty, repeat purchases, and rapid adoption of new products. Both sides can adopt Auto-Replenishment programs quickly, without heavy investment in new stores, warehouses and services.

The future of convenience and loyalty is a win-win-win for retailers, manufacturers and consumers alike.

A Current Imperative, with Straightforward Implementation

Through Auto-Replenishment retailers have the unique opportunity to both design and implement “best practices” in shopper engagement through the lens of understanding, interpreting, and fulfilling ongoing shopper behaviors as they evolve. The power of fulfilling the next shopper need before it occurs can completely reset the economics of customer service and convenience.

The strategic decision to implement Auto-Replenishment as a distinctive go-to-market capability is not an option. As the Amazon and Walmart digital juggernauts engage, Auto-Replenishment will become a standard element in the overall customer service model. And because of the nature of these “locked in” purchases, early adopters will disproportionately win, and late adopters will struggle to retain and regain volume.

The Loyalty 4.0 market winners will be organizations that decisively implement transformational strategies and capabilities. Long product roadmaps based on incremental thinking will not cut it in the new digital landscape. Traditional “make-buy” decisions need to evolve to “assemble” decisions, piecing together solutions to create the desired outcome quickly, securely and scalably.

For Auto-Replenishment, the implementation decision is easy. Under development for over five years from the team that invented Amazon Grocery, Replenium is the first and only end-to-end Auto-Replenishment platform for retailers and manufacturers. It delivers all the benefits of Auto-Replenishment out of the box. The system is designed so that implementation is low cost, straightforward and can be completed in less than 90 days.

AUTO-REPLENISHMENT AS A STRATEGIC AND PROFITABLE GROWTH DRIVER

1

Understand individual shopper purchase behaviors at a granular level.

Deep mine and leverage current shopper data to develop shopper specific purchase pattern profiles. Model individual shoppers against Replenium Auto-Replenishment benchmarks to establish shopper specific replenishment engagement strategies.

2

Integrate proven shopper Auto-Replenishment capabilities with current IT infrastructure.

Replenium's auto-replenishment data infusion analytics and benchmarking, demand algorithms and triggering events, and core replenishment application suite are drop in features to current IT digital infrastructure resulting in seamless implementation.

3

Create ongoing Auto-Replenishment data and analytics infrastructure.

Partner with Replenium to apply the data and analytics architecture to drive best in class Auto-Replenishment. The resulting joint asset is a hybrid capability to deliver Auto-Replenishment at lowest cost to serve while maximizing loyalty.

4

Implement a value driven retailer/manufacturer/supplier collaboration model.

The value generated for both the retail and manufacturer partners is above normal baseline and promotional growth rates of 1% - 3% per year. Replenium experience projects 5%+ incremental growth annually.



Reach out to [Replenium](#) today and join them in becoming a Loyalty 4.0 leader.

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