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Ensuring Success in Home Improvement Big Box Product Line Reviews

Product line reviews (PLRs) are a consistent and often annual process of big box home improvement retailing. Given the size of the prize and the sophistication of the audience, these high-pressure sales presentations have to provide fresh and powerful insights. Successful vendors must distinguish themselves from lower-priced competitors by demonstrating in a fact-based way that they bring more value to the table.

PLRs present challenges to incumbents and new entrants. A struggling or underperforming incumbent is particularly vulnerable, but even strong players must meet the high bar of improving on past success where marginal gains may be hard to achieve. Incumbents may be engaging in a regular data-driven dialogue with the big box merchants, but at a PLR these vendors still have to bring something fresh and new in addition to a clear message of continued incremental growth.

Incumbents should clearly show why they deserve to maintain or gain additional shelf space versus the relevant competitive set. Also, they must demonstrate what a good job they have done — not just against some of the obvious metrics such as sales growth, profit margin and gross margin ROI — but in addressing major

market trends and serving the retailer's strategic customer groups, all of which will drive future performance.

New entrants are an unknown value proposition for the retailer. Persuading the retailer to make a change requires a new entrant to show that it has the product, brand and execution abilities to justify that change. Obtaining big box shelf space can deliver a compelling ROI for new entrants, and they should invest to prove their case. New entrants need to bring a powerful value proposition to the table — and not just as a set of additional or alternative “me too” products and features; instead, they have to substantiate how their offering is differentiated and fits into the evolving needs of the marketplace. The most convincing path for a new entrant is to prove that the retailer's lineup is missing a customer/product segment and that the new entrant can fill that gap by taking only a portion of the existing vendor's shelf space. Making that case requires showing a granular level of insight into customer and product segments.

Driving to actionable conclusions in four areas

During a PLR, both incumbent and new-entry vendors need to deliver a strong presentation performance supported by “killer” insights. Success requires going beyond the basics and driving to actionable conclusions in four areas.

1. Sell AND educate, requiring a multidisciplinary team
2. Tell a clear story about how to differentiate the big box channel and drive incremental sales for the retailer

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3. Focus on a long-term perspective — transformative changes may be outside the scope of the typical line review cadence
4. Adopt a hybrid approach of both leading and following in the design of trade marketing programs and other brand/product support

1. Sell AND educate, requiring a multidisciplinary team

Retail buyers must feel they are learning new things. They expect the incumbent or new-entrant vendor to do the following:

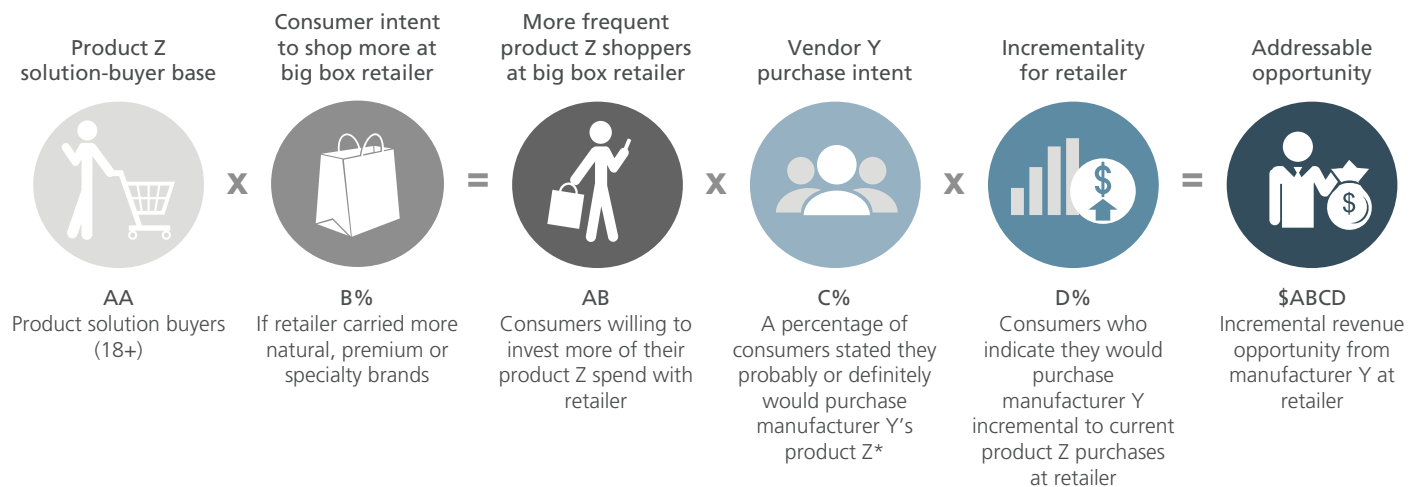
- **Pinpoint the role of big box.** Big box retailers want vendors to explain how the market is evolving and the level of local market differences. The retailer will want to know how the big box retailer channel is performing. This requires a deep understanding of and projections for the overall market and retail segment, as well as an understanding of the drivers of any differences in growth between retail and other channels (e.g., gaps in the retail service model). This analysis will frequently generate insights about how the retail channel can differentiate itself to win against other channels in a product category, actions the retailer has to take, and implications for the role of the vendor's products and brand.
- **Make the case for why they are the vendor of choice.** Vendors need to demonstrate that they bring a differentiated value proposition that serves big box retail and includes:
 - Differentiated products that are clearly aligned to the retailer's assortment gaps

- Sustainable and attractive margins for the retailer, and the highest return on inventory investment
- Brand recognition and loyalty from consumers or pros, which bring pull-through business
- Superb execution and partnership (e.g., plant network and logistics to supply base product or special orders if demand peaks; resources on the ground to support stores)
- Marketing capabilities to work collaboratively with the retailer to drive sales, plus a commitment to invest in marketing

Given these requirements, vendors must:

- **Lay out the true market potential.** Vendors have to break down the total addressable opportunity they can bring. For example, one vendor described the total market potential for a major retailer by breaking the opportunity into a number of components (see Figure 1).
- **Find the sweet spot that ties evolving market needs, current retailer assortment strengths and weaknesses, and vendor capabilities into a seamless story of incrementality for the retailer.** Vendors should describe how market conditions provide new opportunities for big box and how the vendor can help realize those opportunities. We recently worked with a vendor selling into big box retail that was able to describe the evolving market needs driven by millennial buyers, the ways in which other channels were not

Figure 1
Understanding the true market opportunity



*To be conservative, we converted to an adjusted purchase likelihood of C%
Source: L.E.K. research and analysis

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fully meeting these needs and the proportion of customers who were willing to switch. Based on these findings, the vendor identified several new concepts to address the unmet needs of customers who were the best prospects for conversion. All vendors can identify at least one or two sweet spot insights that integrate evolving market understanding, the big box role in the home improvement category and unique vendor capabilities (see Figure 2).

2. Tell a clear story about how to differentiate the big box channel and drive incremental sales for the retailer

Manufacturers are brought into big box when they have proven results, but a strong presence in other channels is a potential source of conflict. Incumbent vendors may be asked to justify whether their support for the retail channel is sufficient; retailers may ask for “like for like” products and services that they see in other channels. All vendors will have to address cannibalization concerns from other channels that may be anxious about the retailer potentially siphoning business from existing channels (e.g., specialty pro channels or lumber dealers).

These conflicts can be best managed by demonstrating knowledge of who is shopping for the category at the big box retailer and how specialty and other channels can coexist with

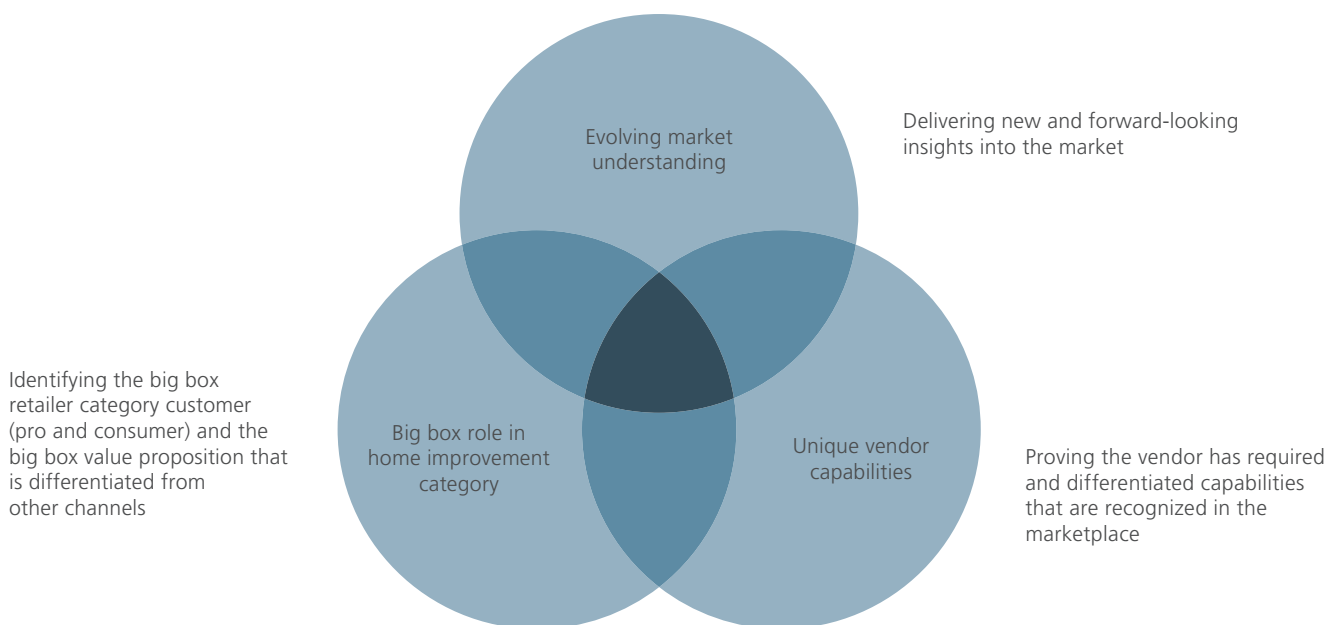
big box. For instance, one retailer was described by some of its contractor customers as the “convenience store” for pros (i.e., the retailer of last/quick resort or convenience). Most pros were buying through a pro specialty channel but were using big box for missed job site items, for weekend purchases and to serve more distant job sites (when a retailer was located nearby).

In the case of another category, the big box retailer supplied many sundries, accessories and other non-category-related job supplies that were a complementary set of products to the more focused “main product” inventory found in the specialty channel.

These specific examples illustrate that a vendor can manage channel conflict concerns by developing a granular understanding of how the customer base and shopping needs in big box can be complementary to other channels. This deeper knowledge of channel coexistence enables vendors to better articulate and “prove” how they can successfully manage channel conflict.

Both incumbent and challenger manufacturers also need to bring evidence that their new ideas will add value. Targeted case studies can inform new ideas and strategies. We supported a vendor preparing for a line review by identifying five strategies based on successful existing vendors at the target retailer that had pursued product, packaging, branding, promotional and organizational alignment strategies.

Figure 2
Finding the insight sweet spot



Source: L.E.K. research and analysis

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Vendors supporting ecommerce strategies such as BOPIS (buy online, pick up in store) have another significant opportunity. This strategy allows vendors to play active rather than passive roles, because they become valued digital and logistics partners rather than just responders to big box requests. One manufacturer proactively mapped out the days required to fulfill a special/unstocked item and identified opportunities and practical suggestions for the retailer and the vendor to collectively reduce customers' wait times. This kind of active participation can increase ROI and customer loyalty.

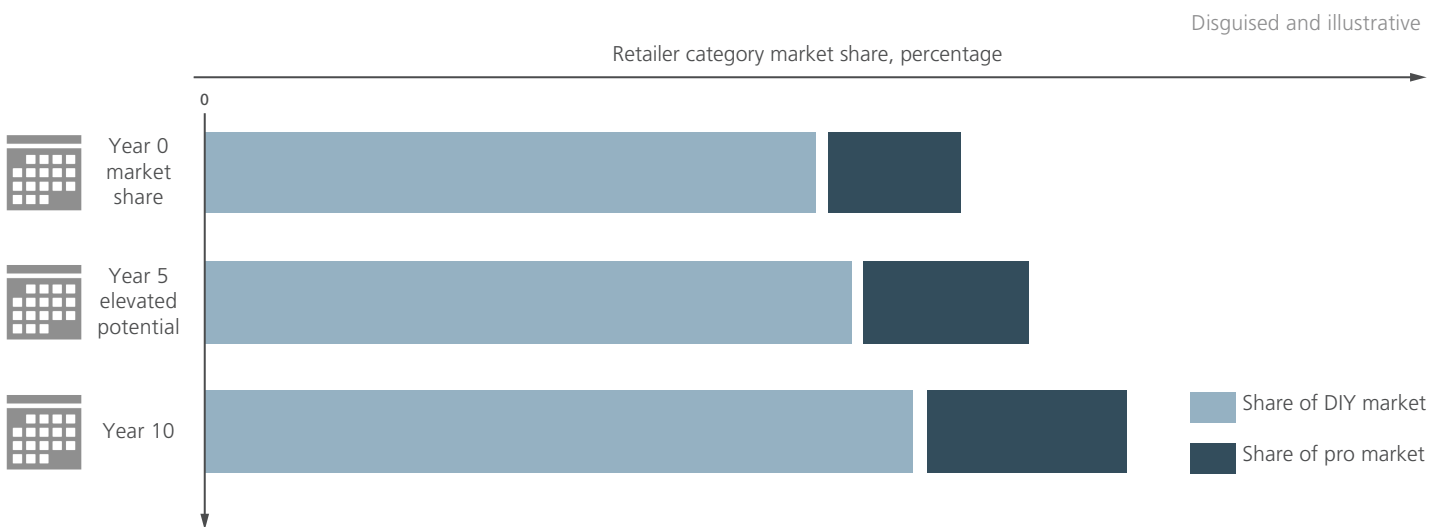
These case studies and learnings can be developed with or without the target retailer's cooperation, although a joint effort with the retailer will yield more access, insight and collaboration. Vendors that can draw on other vendors' successes and translate them into their own category do more than generate new ideas; they also establish their commitment to understanding the big box retailer's needs, using examples familiar to the retailer.

3. Focus on a long-term perspective — transformative changes may be outside the scope of the typical line review cadence

Many PLRs occur every two to three years, so some vendors consider only shorter-term investments such as pricing and promotional activity for those reviews. Unfortunately, it may be challenging to "move the needle" of the big box retailer's category share within just two years. Investments in store experience, service and product line take time to develop and gain retailer approval. The retail customer, especially the pro, may be slow to change purchase behaviors, even when there is a compelling offering. Vendors may want to consider approaching big box with a long-term business case of investments that need to be made.

We recently worked with a vendor to lay out the five-year impact of a set of improvement initiatives to a home improvement retailer's share. Further, we identified a scenario for a 10-year share improvement. We helped isolate the increases in share between in-store conversion from customers purchasing other

Figure 3
Approaching a product line review from a long-term perspective



Relative impact of DIY and pro market share drivers

	Converting big box traffic from other categories in store	Converting other big box customers	Converting customers from other channels
Pro	x.x%	x.x%	x.x%
DIY	x.x%	x.x%	x.x%

Relatively higher share gain
 Average share gain
 Relatively lower share gain

Source: L.E.K. research and analysis

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categories, customer conversions from big box and conversions from other channels — for consumers and pros (see Figure 3).

In this instance, the vendor was able to determine where best to target conversions. An analysis showed how loyalty to the retailer (lower customers' willingness to switch) varied by customer segment (see Figure 4).

Big box retailer 1 is positioned to focus on initiatives most likely to appeal to and convert retailer 2's segment B, a large segment with a relatively high willingness to switch. Conversely, retailer 2 is best placed to target retailer 1's segment C, a relatively large segment with a relatively high willingness to switch.

A long-term approach, supported by annual targets and metrics, can enable vendor and retailer to build a longer-term and committed relationship.

4. Adopt a hybrid approach of both leading and following in the design of trade marketing programs and other brand/product support

Big box vendors must both follow and lead the retailer in designing trade marketing programs and other brand/product support.

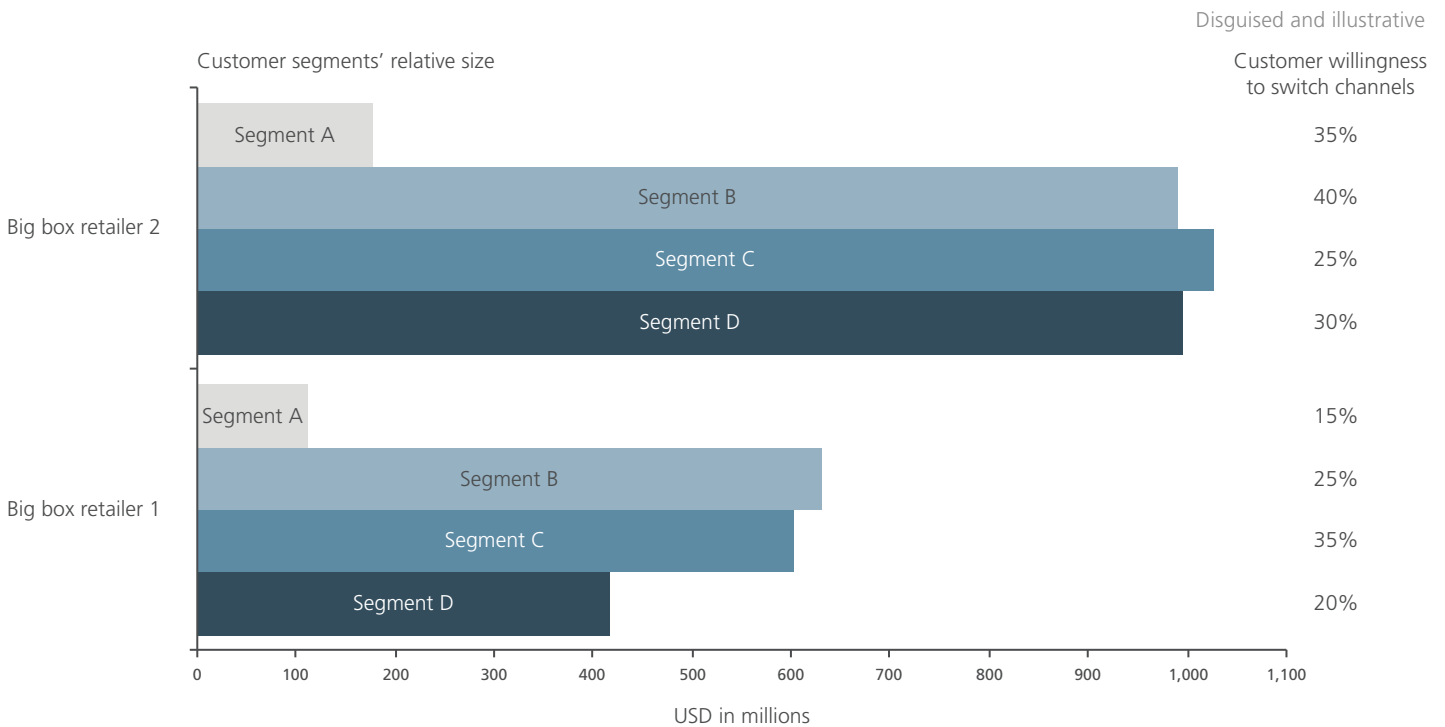
Leading

Vendors need to lead by coming up with ideas and programs that build loyalty and support seasonal promotions. This is particularly true when targeting pro needs, where learnings may be drawn from other channels beyond big box. At the same time, vendors have to avoid "going it alone" and developing marketing support and campaigns that are not integrated and aligned with the retailer. Without deep involvement, the retailer will question whether the campaign is really benefiting big box versus other channel sales. Also, promotion and campaign conversion metrics will be negatively impacted if store personnel and other employees are not clear on the mechanics of the campaign.

Following

Vendors should follow big box retailers that possess deep marketing expertise and knowledge of the big box consumer and have insight into the pro customer across — as opposed to within — product categories. It makes sense for the vendor to follow the guidance of the retailer in terms of how the consumer is best targeted and through which marketing channels, unless the vendor is a major consumer marketer. Under this scenario, the vendor is primarily contributing financially. At the same

Figure 4
Understanding sources of conversion at the segment level



Source: L.E.K. research and analysis

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time, vendors need to bring more to the table than a financial commitment in order to keep marketing support from becoming simply a financial negotiation. It's imperative for vendors to engage in the joint, collaborative work of targeting the customer and determining how to maximize the ROI on marketing spend.

The PLR is an opportunity to set the table for a collaborative approach; the vendor will lead with ideas but also follow by showing process and financial commitment to involve and support the retailer.

Conclusion

A home improvement big box product line review requires a full team effort focused on generating insights that tie market, retailer needs and vendor capabilities into a seamless story pointing to new concepts and initiatives that the vendor can bring to the table. Vendors substantially increase their chances of success by approaching the PLR as a strategic presentation supported by independent data that articulates where and how the vendor will add incremental value.

About the Authors



Gavin McGrath is a Managing Director and Partner in L.E.K. Consulting's Boston office and a leader in the firm's Industrials Digital practice in the Americas region. Gavin's expertise spans the breadth of industrial digital issues, including digital products and business models, digital customer experience and ecommerce, IIoT/Industry 4.0 and digital readiness. He has

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