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Blunt Force Trauma: When Average Execution is Just That

A Prescription for Resuscitating Growth for CPG Companies

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Point of View

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Despite advances in marketing analytics as well as the speed and precision that new technology affords in driving granular strategy and execution, many CPG companies today continue to adopt a "one-size-fits-all" approach when developing portfolio, marketing, merchandising, pricing and promotion plans for their products. A suboptimal approach in the best of times, these companies risk leaving significant opportunities on the table as well as imperiling their survival during an economic period fraught with dramatic change.

While avoiding the complexity associated with segmented execution has been the mantra for many companies eager to manage costs, today's performance leaders are embracing complexity and managing it better, faster, and with more agility than their competitors. Winners de-average the market to deliver their strategy with surgical skill and are resuscitating their growth agenda. The trauma inflicted by blunt force go-to-market strategies and execution must be replaced with the grace and precision of a surgeon's hands to achieve optimal performance and stem the loss of share.

Challenges in Today's Market

The dramatic economic shifts in the past 24 months have made the growth challenge for CPG manufacturers even more daunting:

- **Shoppers continue to evolve their behaviors:** The rapid onset of recession caused shoppers to quickly redefine value, with a heavy skew toward low price. Today, as the economy improves, shoppers continue to redefine value, with some continuing the heavy emphasis on price, while others are returning to a more balanced value equation that also includes quality, convenience and feature set.
- **Retailers are demanding aggressive custom segmentation:** Retailers are clamoring for new innovation and shopper-centric programming, with precision down to clusters. Five years ago, these retailers were satisfied with national or regional programs.
- **Private label continues to grow:** Private label expansion has stymied mainstream brand growth by enhancing the value proposition beyond price to also focus on innovative packaging, multiple price points and expanded feature sets.
- **Trade promotion dollars continue to grow with little lift:** Manufacturers continue to invest trade promotion dollars to generate sales only to see a decreasing return on their investment.
- **Collaboration lags:** While often discussed among CPG manufacturers and retailers, during the last recession, collaboration has given way to "every man for himself" to grasp at scarce shopper dollars.

Manufacturers Leave Money on the Table

If a CPG manufacturer is trying to cater to everyone, they are in fact catering to no one. Yet, many manufacturers still pursue this approach. Many continue to build market-based assortment, pricing, and promotion plans to appeal to the average of the market, and these plans typically reflect the desires of the brand and not the shopper. In doing so, only a very narrow band of shoppers actually receive the value proposition that will entice them to buy the brand and deselect from other competing offers.

Other manufacturers have recognized the potential sales and share uplift potential of segmentation, but have failed to carry through targeting and segmentation strategies to the city, neighborhood and even household level, or they have not extended these strategies to all areas of the business, which creates, for example, promotion and merchandising strategies that are localized, but assortment plans that remain national in scope.

Marketing to a Segment of One

The past four years has seen a refocus on the store as fertile ground for brand marketers with the advent of shopper marketing and the ability to leverage new insights and develop much more customized programs for customers. While clear economic benefits of increased

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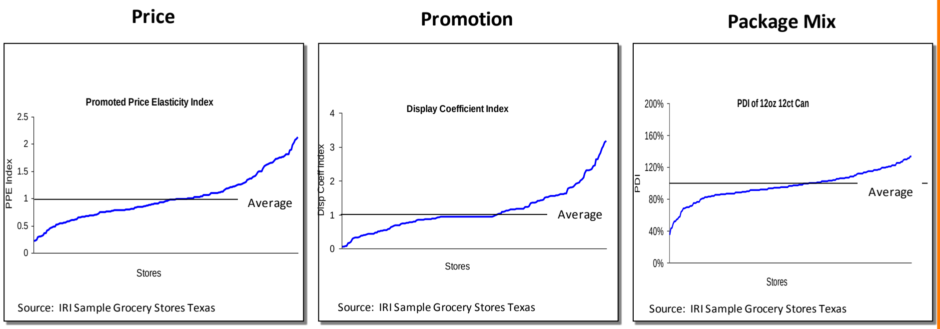

Price elasticity varies across Texas…one pricing architecture model doesn't work

Display elasticity varies across Texas…one merchandising model doesn't work

Package mix varies across Texas…one model doesn't work

Poor Price Realization

Inefficient Investment in Promotion

Inefficient Investment in Space/OOS

In this illustrative example, one CPG manufacturer's average execution model for its pricing, retail promotion, and assortment are clearly missing the mark for a significant portion of their shoppers.

investment in shopper marketing are elusive for many in the CPG industry, leveraging shopper marketing as a catalyst to a new shopper-centric execution strategy yields the greatest promise. The value from shopper marketing is less from the novel marketing or the new merchandising racks, but rather the ability to target a tailored offer with a higher degree of precision to create the higher likelihood of purchase and loyalty.

This tailored approach is the equivalent of micro-surgery over the use of blunt force. The short-term costs may be higher, but the patient survives. While the intent has been to improve operational effectiveness and reduce costs, advances in data, insights and technology have made the shopper centric "surgery" versus the "blunt force" market average model approach significantly more attractive to gain competitive advantage.

In late February, for example, North Face, the sports equipment and clothing manufacturer and retailer, rolled out a program through which customers that opt in will receive text messages on their mobile phones announcing promotions when the shopper is within one mile of a store in the suburbs and one half mile in urban areas. In the near future, North Face will expand on this program by texting consumers with weather conditions when they arrive at a hiking trail or mountain. The potential of this program to understand the motivations each of the shoppers and target an offer to them are significant. One customer may receive $10 off the latest hiking pack, while another will receive a $5 donation to the Sierra Club in their name during the next purchase.

Whether this program will result in increased loyalty and revenues for North Face remains to be seen, but the integration of GPS, smart phone and analytics technologies is impressive. If trials such as this prove successful, shoppers will expect similar levels of personalization from their CPG companies and retailers not just in advance of their store visits, but during their shopping experience within the store.

Achieving the Perfect Store

If every shopper walks in and feels like the shopping experience was created just for him or her, then manufacturers and retailer have created "the perfect store." That store contains the right brands, in the right packaging, at the right price, supported by the right promotions, and presented the right way. Achieving the perfect store through shopper-centric segmented execution requires well-developed, well-executed strategies that include multiple elements.

<u>Creating a Shopper-Centric Segmentation Model</u>

Developing a shopper-centric segmentation strategy begins with leveraging the power of store-level data

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to drive socio-economic and shopper/buyer segmentation.

In addition, marketers should at first create an unconstrained view of the optimal segmentation strategy and then layer in any commercial constraints, such as route-to-market limitations. As CPG managers identify segments, it is important to remember a few criteria for what constitutes a "segment:"

- There must be marketable differences between segments, or the analysis is meaningless.
- Serving a segment must align to the stated corporate strategy to avoid brand confusion
- A long-term economic benefit in terms of revenue, income, pricing power and/or competitive advantage exists to serve the segment.

<u>Marry both Consumer and Shopper Understanding</u>

To add more clarity to the segments, marketers must go beyond socio-economic clusters to understand the shopper's mission and the consumer's actual buying behaviors, as well as the brand and package dynamics for each segment. Manufacturers and retailers must collaborate to integrate consumer and shopper information and insights. Their mutual interests converge at the shopper.

<u>Model the Drivers of Performance</u>

In a model with 6-8-10 segments, it's critical to understand the most important model components that are driving performance: Is the portfolio inadequate? Is it pricing? Merchandising? Assortment? In one segment, pricing may be the driving factor and the manufacturer should consider continuously offering price-based promotions. In another segment, attractive displays may outweigh a focus on price.

<u>Economic Validation</u>

In conjunction with modeling the performance drivers for each segment, managers must also conduct economic modeling to determine in advance how the manufacturer will earn the income and margins required to make each segment attractive. Modeling should also identify the value brought to the retailer. Conducting a round of simulation in advance is the "exploratory surgery" to test assumptions prior to full scale roll out.

<u>Plan for Scale Implementation</u>

When planning the introduction of these new shopper-centric strategies, managers must think big, start small and then scale fast. Simulations are important, but so too is creating the strategy to scale these strategies across the market. Many strategies have "died" as a result of implementing models that passed simulations flawlessly, only to reveal that the investments in people, research, and analysis could not be scaled effectively.

Important solutions to assist in the scale plan development are modeling platforms, such as SymphonyIRI's Liquid Data and Liquid Modeling platform, and analytical applications, including SymphonyIRI's Advantage Suite and Shopper Insights Panel, which efficiently provide critical insights from massive amounts of multi-sourced data in a matter of minutes.

<u>Collaborative Planning</u>

Collaboration with retailers enable both the manufacturer and retailer to gain better insights into the entire shopping experience, from the time the "consumer" researches products, to his evolution into a "shopper" as he enters the store, and finally to the time he reaches out and pays for a product he has selected.

With improved shopper-centric segmentation, both manufacturers and retailers know where trade promotion dollars should go, what behaviors these dollars will motivate and what it takes to convince a person to move from Coke to Pepsi, or to keep them from moving from Safeway to Lucky.

<u>Post-Op: Monitoring and Evaluation</u>

Today's new technology and analytic platforms enable managers to effectively monitor and analyze the success of new shopper-centric strategies, almost in real time. The ability to look at segment performance from multiple perspectives, from the brand manufacturer to the retailer and the shopper, is all possible through dynamic technology. The ability to quickly take a pulse of segment performance and

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take corrective actions is now not only possible but a requirement to deal with uncertainty and volatility in the market.

As today's economy emerges from recession, many questions about shopper behaviors remain. Some shoppers are reverting to their more free spending, pre-recession habits, others are clinging to their aggressively frugal strategies, and others still are practicing elements of both approaches. Investing in aggressive, but carefully planned shopper-centric segmentation strategy now and enabling it with scale technology and analytics capabilities while shoppers are re-evaluating their attitudes has the potential to significantly increase shopper loyalty and result in long-term sales uplift and improvements in business health.

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