March/April 2006

Research Conference Report

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Information Resources, Inc. **2006 Reinventing CPG & Retail Summit** **San Francisco, CA** **Feb. 27 - March 1, 2006**

Consumer, Package Goods & Retail Innovation Needs Reinventing

Main Point: For manufacturers and retailers, innovation has an entirely new set of rules. Low innovation success rates have made CPG players hesitant to act fast; they want 100% certainty about a trend. Yet, innovation in response to trends must occur in real time to enhance prospects for success.

"This industry's approach to innovation has got to change. Our industry is not growing. Total CPG sales for food, drug and mass merchandising–including Wal-Mart–increased only 1.6% in 2005. We've reached a critical juncture where reacting to events and trends is not good enough," stated Scott Klein.

RCR impressions	**Freshness:**	**B+**
of content:	**Relevance:**	**A**
	Practicality:	**B+**

Scott Klein, President & CEO, Information Resources, Inc. (Chicago, IL), began with an alarming statistic: only 20% of CPG products achieve $7.5 million in revenue in their first year. "Real-time innovation is based on forward-looking consumer understanding, implemented with fast, agile new product management, executed with compelling and ongoing store-level retail performance management," he stated.

Underscoring his point, Klein mentioned Smith Corona, whose engineers invented pocket calculators, but whose Board decided that wasn't their business and sold the rights to their innovation to Texas Instruments. On the positive side, Klein noted Kodak's late start in digital photography, but ascension to the category market share leader because of continuing innovation. He highlighted Southwest Airlines' 33 consecutive years of profitability and 48% improvement in net profit in 2004 in light of the struggle of the Big Five domestic airline carriers to get into the black.

Klein presented an incredible fact: 2005 was the first time in many years that traditional retailers did not lose market share to other competitors. He credited innovations such as Safeway's new upscale lifestyle format, Albertson's Limited Assortment Supersmart format, Publix's *Greenwise* and SuperValu's *Sunflower* outlets, plus in-store health clinics at CVS, Wal-Mart, Target and Kroger locations. "And Walgreens has become a pioneer in neighborhood merchandising," he said.

"Sadly, these wins are few and far between. Less than 1% of new consumer packaged goods reach $100 million in year-one sales. Traditional retailers are doing a little better, but response time generally has been pretty slow. The first Wal-Mart Supercenter opened in 1988. Traditional grocers lost 20 full share points over just the past decade. We need to change that dynamic, and there's no question in my mind that we can."

Klein stressed IRI's commitment "to help you see things you haven't seen before, so you can act with confidence and win." He noted important drill downs within demographics. "There are 75 million echo boomers maturing into primary shoppers," he said. "Supercenters hold a 20% share of echo boomer spending, versus just 12% among total households. Have you evaluated how you're going to respond to reach these new consumers coming into their best spending years? The 25% of baby boomer households still with kids will be empty-nesters within 10 years and will shift their spending. What is your competitive strategy to deal with this?" He questioned the readiness of supercenters and drug stores to deal with the millions of seniors under new Medicare Part D.


IRI President & CEO Scott Klein

Addressing changes in chains, he said, "Some are subtle, but can spell big differences in gains and losses. Things like moving from weight control to total health management, from time savings to time optimizations, from traditional flavors/scents to exotic combinations, and moving from bargain value to premium value," he commented.

At this point, Klein suggested innovation will become real-time in the CPG and retail industries. He pointed to available IRI daily, POS, third-party data, demos, ERP system financial data, panels, loyalty, etc., but recommended "a paradigm shift to consumer segments from product portfolios and to consumer management, from category management. When it comes to loyalty, aligning product assortment in mixed- to most-loyal consumers is critical. In lifestyle, it's aligning the media message with lifestyle preferences among your target consumer groups. And when it comes to lifestage, what's important is identifying new product development and marketing opportunities resulting from lifestage transitions."

IRI's President emphasized the value of micro-marketing, but

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cautioned it "requires seeing high-potential segments, and meeting and acting upon unmeet needs. A number of CPG and retail companies are doing this today," he noted, citing Sara Lee, L'Oreal, Walgreens and CVS.

Klein underlined the need to understand "why consumers are shopping–not only where and what they purchase. 'Trip missions' impact channel and store choice, time spent in the store, basket size and category purchasing behavior. Seeing how your store and brands fit into consumers' trip missions highlights marketing, merchandising and messaging opportunities. You need to see where consumers will be receptive with your message; in partnership with TiVO, IRI has pioneered the first service to measure effectiveness among households with digital video recorders."

Regarding new product management, he stated, "real-time innovation requires that companies are empowered to enter and exit markets with speed and agility," referencing Kellogg's and Post cereals, plus Hershey and MasterFoods' candies. "Getting new products to market faster will be a critical strategic differentiator," he continued, documenting Gillette's rollout of its new *Fusion* brand in 2006 (from 32% to 70% ACV in one week and 80% ACV a week later). "Return-on-investment on a new product launch or promotion is dependent on immediate feedback of results to see required modifications in real time. Finding out two weeks after the close of the period just won't cut it. We have the capability to provide this information today with daily data and a new concept product–Event Insights–which empowers you to track product and promotion performance by day and store level across major retailers."

Turning to retail performance management, Klein remarked, "Our information shows huge gaps in individual markets; there's always one best-performing store in a chain and one absolutely worst performer. Figuring out best practices in the best performing stores–and migrating those to all the others–is a great way to boost your business." IRI did an extensive store-level analysis across brands for one chain, which led to $10 million revenue improvement and $5 million better margins. IRI helped a food manufacturer do store-level data analysis of key performance drivers during major promotions in 9,000 stores. The client armed sales reps with hand-held devices to retrieve reports on demand, which opened the way to $16.7 million in increased sales. For another manufacturer, a store-level distribution report to identify out-of-stocks–also supported by hand-held devices–closed 1.1 million voids and "gained $62 million in year-one reclaimed sales."

Klein suggested innovation will move into real time in the CPG and retail industries. "Return-on-investment on new product launch or promotion is dependent on immediate feedback of results to see required modifications in real time," he said.

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