The DNA *of* ROI

By Chris Hoyt

Hoyt & Company

One of the potentially significant advantages of retailers defining their own shopper segmentations is that it provides manufacturers with a series of "buckets" for more precise targeting of shopper-centric marketing, merchandising and in-store detailing initiatives.

For the first time, manufacturers can surgically direct investments and resources to those retailer-defined shopper segments that align best with their brand segments. However, suppliers who fail to move quickly on this opportunity may find that retailers have run away with it, and left their brands behind.

What Safeway started could make or break your brand.

Safeway, for example, has already taken shopper segmentation to a point where it is now providing suppliers with performance indices that tell them how their categories perform versus chain averages in each of Safeway's shopper-defined segments. Based on this, Safeway is gradually paring-back SKUs in those segments where performance does not meet certain cut-off points or where brands and/or SKUs do not appear to be relevant to the shoppers who predominate in that segment.

To prevent this from happening to your brands, it is first necessary to accept that retailer segmentation is here and that it is not going to go away. If you think that this is just another CPG-like epidemic or fad — and that your company can sit back and wait for shopper segmentation to die like DPP or ECR — you would be making a huge mistake.

To understand why, let's take a brief look at how this whole business of shopper segmentation got started and why retailers have been so quick to make it central to their DNA.

Best Buy & Kroger

After its comps declined for two relatively very poor years in 2002 and 2003, Best Buy started the ball rolling in 2004 when it introduced its "Customer Centricity" business model and began reconfiguring its stores to appeal to the dominant shopper types who lived in the areas of these stores (*e.g.*, 'Jill' vs. 'Buzz' vs. 'Brad' stores, etc.).

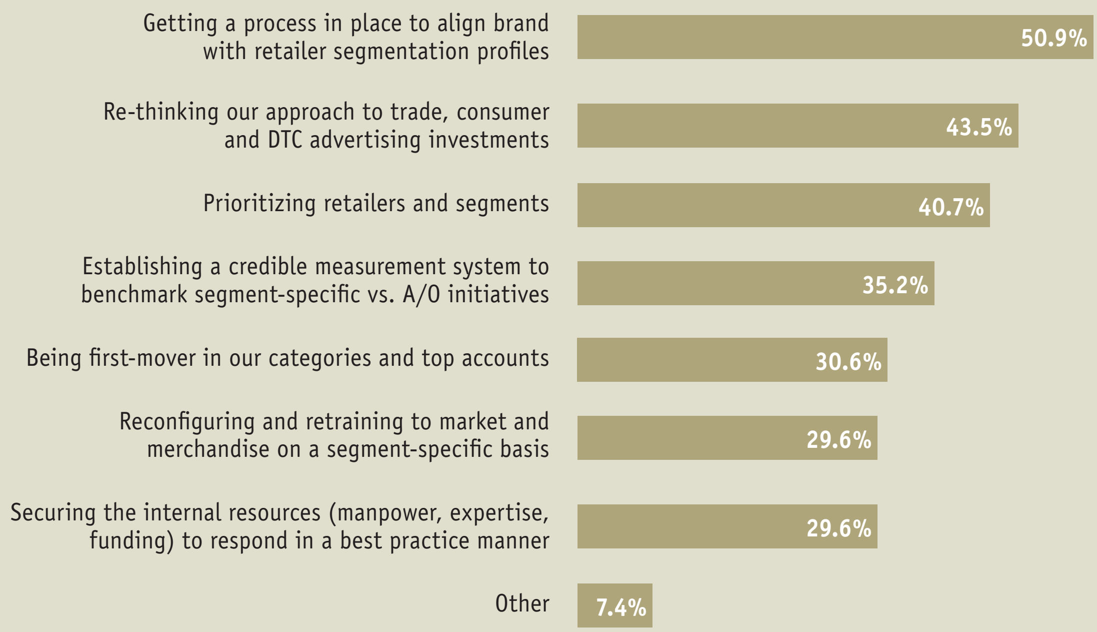
Over the next two years, comps in the converted Best Buy stores significantly outpaced the balance of the chain (9.4% vs. 3.5% in 2005 and 5.4% vs. 3.3% in 2006) — to the point where in 2007, Best Buy made the decision to convert *all* of its stores to segmented marketing. As Brad Anderson, CEO of Best Buy, put it: "We moved from being product-focused to customer-focused."

Table 1. What degree of importance does your company or client ascribe to the retailer segmentation opportunity?

Very important	44%
Important	36.7%
Moderately important	15.6%
Relatively unimportant	1.8%
Not important at all	1.8%

Source: *Reveries.com*

Table 2. What does your company or client think are the most important considerations you face in taking advantage of the retailer segmentation opportunity? ***(Check all that apply)***



Source: *Reveries.com*

While Best Buy was making tracks with its "Customer Centricity" model, Kroger was proving the value of segmented marketing to the CPG world via truly remarkable results with dunnhumby. Between Q1 2005 and Q1 2007, Kroger comps accounted for a whopping 89 percent of its sales growth — leaving little doubt in the minds of its competitors that one-to-one, personalized marketing can and does work in the U.S. grocery business.

Moreover, what Kroger has done with this model is demonstrate to the CPG retailing industry that one no longer has to rely primarily on new store openings to meet year-ago revenue targets. This is a crucial point these days to most CPG retailers because, as Retail Forward points out, the opportunity for continued growth via the expansion of traditional formats is already rapidly declining and will be almost gone by 2015.

Because of the publicity generated by these successes, the balance of the CPG retailing community wasted no time in jumping on the segmentation bandwagon. Safeway began researching the subject over two years ago and Wal-Mart followed in May-June, 2006. As of this writing, we estimate that retailers comprising more than 60 percent of the ACV have, in one form or another, already researched, defined and advised suppliers of their intent to market on a segmented basis.

The key point for suppliers to understand about shopper segmentation versus all of the other initiatives that have popped up and down in the CPG industry over the past 25 years is that — for the first time we can recall — retailers are actually investing their own monies in doing this. Not only that, many of these retailers are beefing up their marketing and analytical capabilities to determine for themselves what will and will not work in each of their segments.

Unlike Category Management — where retailers foolishly abrogated the responsibility for assortment and shelf space and position management to inherently biased suppliers — retailers have finally figured out that if they are truly going to be relevant and different, they have to do this themselves.

The implications of this for the supplier community are simply vast. While the degree of sophistication applied to these initiatives varies widely among and between different retailers, the fact is that retailer segmentation protocols present an entirely new plateau of complexity and opportunity with which manufacturers *must* prepare themselves to deal — and quickly.

Are You Prepared?

To assess the manufacturing community's state of preparedness with respect to this opportunity, *Reveries.com* surveyed this subject in early November.

There is no question that among those who responded to this survey, the subject of aligning brand with retailer segments is a top priority. Eighty-one percent said their companies view this subject as either “Important” or “Very Important” — while only two respondents said their companies view this as “Not important at all” — one because his/her brands would not justify the investment and the other because, “I work for an advertising agency that is totally clueless, etc.” (*table 1*)

The most important consideration cited by respondents is, “Getting a process in place to align brand with retailer segmentation profiles,” followed by, “Rethinking our approach to trade, consumer and DTC advertising investments”— the latter, no doubt signaling the magnitude of this change in the minds of those who are confronting it. (*table 2*)

Perhaps because of these considerations, only 32 percent rate their company’s current state of preparedness to respond to the segmentation opportunity as either “Good” or “Excellent,” while the majority rate it as only “Fair” or “Not so good.” Of this latter group, 48 percent note that they have the vision but have yet to work out many of the details. (*table 3*)

Following on this, execution against specific alignment opportunities appears to be relatively inconsistent. While, not unexpectedly, the majority (58 percent) is already aligning consumer promotion development and allocation, surprisingly only 26 percent have yet to extend this to trade promotion allocation and execution.

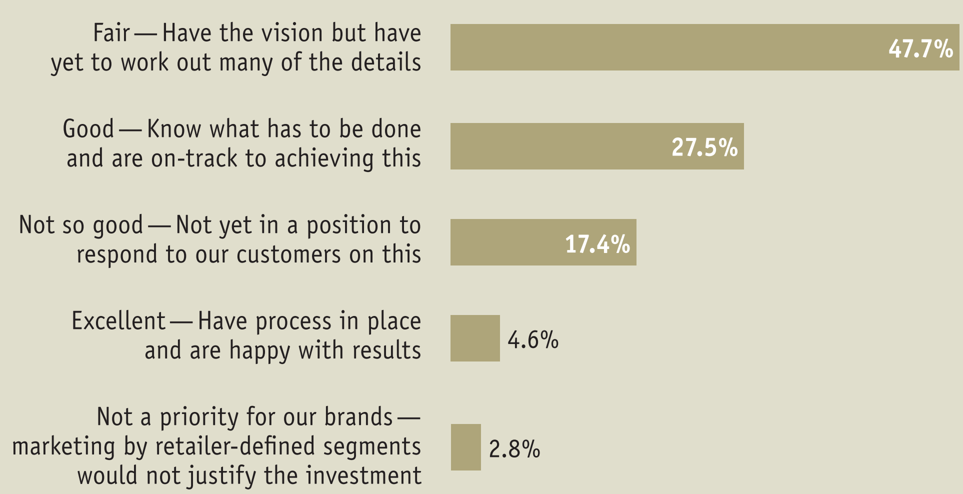
We would have thought that aligning trade promotion allocation and execution would have been one of the first priorities, given the amount of waste involved with trade promotion (virtually none pays out)and its lack of utility in helping either retailers or manufacturers achieve differentation objectives. (*table 4*)

The good news for those just getting started is that everyone else is just getting started, too. Only 11 percent of respondents note that their companies are aligning on a segment-specific basis with 15 or more retailers while the overwhelming majority (73 percent) has managed thus far to extend segmentation to only six or fewer retailers. Apparently, most are still working their way through.

The last key finding has to do with changing behavior. Whereas, in the past, most suppliers’ primary contacts were with their retailers’ buying and/or merchandising departments, 54 percent of respondents note that as far as aligning segments is concerned, the primary contact is now with the retailer’s marketing department — another facet that calls for significant new learning.

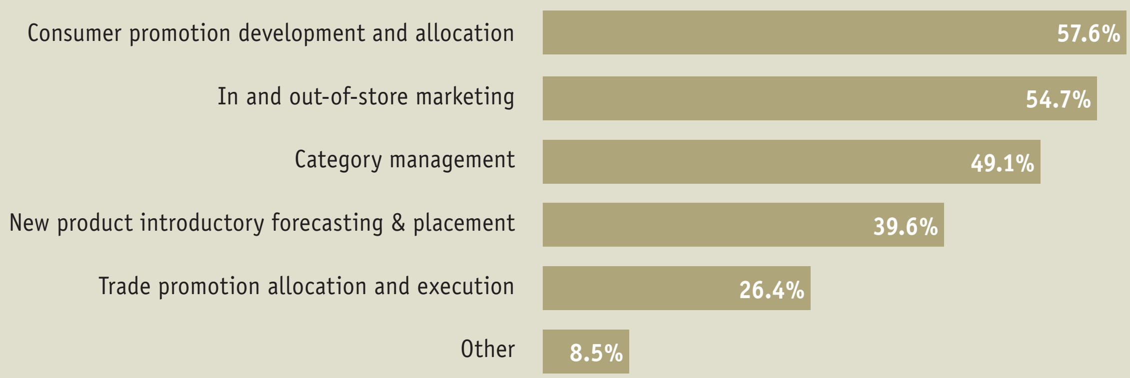
We can readily understand why this survey suggests that manufacturers might be unusually challenged by this opportunity. Basically, aligning

TABLE 3. Given these challenges, how well do you think your company or client is currently prepared to respond to retailer requests for segmented marketing and merchandising initiatives?



SOURCE: Reveries.com

Table 4. In what areas is your company or client currently executing by retailer-defined segments? ***(Check all that apply)***



Source: Reveries.com

brand with retailer segmentations puts many in uncharted waters for which there are no benchmarks and no models for proceeding.

Consider the Issues

To align brand with retailer segmentations is not simply a matter of pulling together a process and some templates and assigning the task to an analyst. Best practitioners who have worked their way through this process already know that to do this right requires new learning, new skill sets and, perhaps, even a realignment of responsibilities between and among certain customer and non-customer-facing functions.

The key issue is to align not just demographics (a traditional category management function) but also psychographics (a traditional brand management function) — and to use combination of both to determine *on judgment* the key drivers for each segment as the basis for matching alignments.

The question here is, who within one's present organization knows enough about one's brand segmentations (for all brands!) and the segmentations of one's key retailers to align these accurately on both demographic and psychographic lines? Who has enough experience on both sides of the fence to do this? Brands? Sales? Category Management? If not any of these, who?

Beyond this is the question of determining potential ROI. Let's say, for example, that your company markets a brand that appears to align well with Food Lion's "Babies & Bills" segment, which, although important to your brand, does only four percent of Food Lion's business.

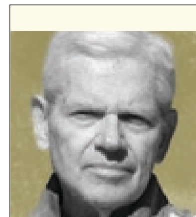
Question: What percent of your brand's business with Food Lion has to align with "Babies & Bills" before it becomes profitable for you to market to "Babies & Bills" on a segment-specific basis? And, again, who within your organization is presently trained to make this determination?

As one survey respondent put it: "There needs to be a balance between mass efficiencies and shopper/store-level targeting. We're early on in discovering where the balance will be and no doubt it will vary by category. The caveat here is ROI and being ruthless on what sells more versus what sounds like the next cool thing."

While we are confident that most will eventually work their way through these issues, the one thing we know for sure about this challenge is that *no brand* can afford a "wait and see" attitude.

Even if you don't think your brands have the share or resources to market based on shopper segmentations, you owe it to yourself to at least do the drill to determine this with fresh eyes.

Another potentially big advantage of shopper segmentations is the opportunity they offer small and niche brands for new life through highly targeted marketing. Don't wait for your competitors to find this out before you do! ■



CHRIS HOYT is president of **Hoyt & Company,** a Scottsdale, Arizona-based marketing/sales consulting and training organization that specializes in shopper marketing. Chris may be reached at (480) 513-0547 or at chrishoyt@hoytnet.com.