

## Part 1: How Can You Be Demand Driven If You Don't Know Your Shopper?

by Lora Cecere and Robert Bois

Consumer products (CP) companies cannot know their shoppers well enough.

*Shopper insights*—the term given to the concept of data-driven understanding of the shopper—is quickly emerging as a must for demand-driven organizations. These insights are at the core of the transition from a marketing-driven company to a market-driven leader (see “The Handbook for Becoming Demand Driven”).

In this first part of our two-part series, we show how CP companies can use demand insights to become market driven. Next time we'll investigate how to use customer and shopper insights to redefine innovation and build products that spur demand. The series is based on research gathered from recent conferences held by **Accenture**, **CAS**, **Information Resources, Inc. (IRI)**, **Consumer Goods Technology (CGT)**, and **SAS**. (For insights into the retailer's perspective of the IRI conference, see “Understanding Your Customers, The Game is Changing”).

### Background

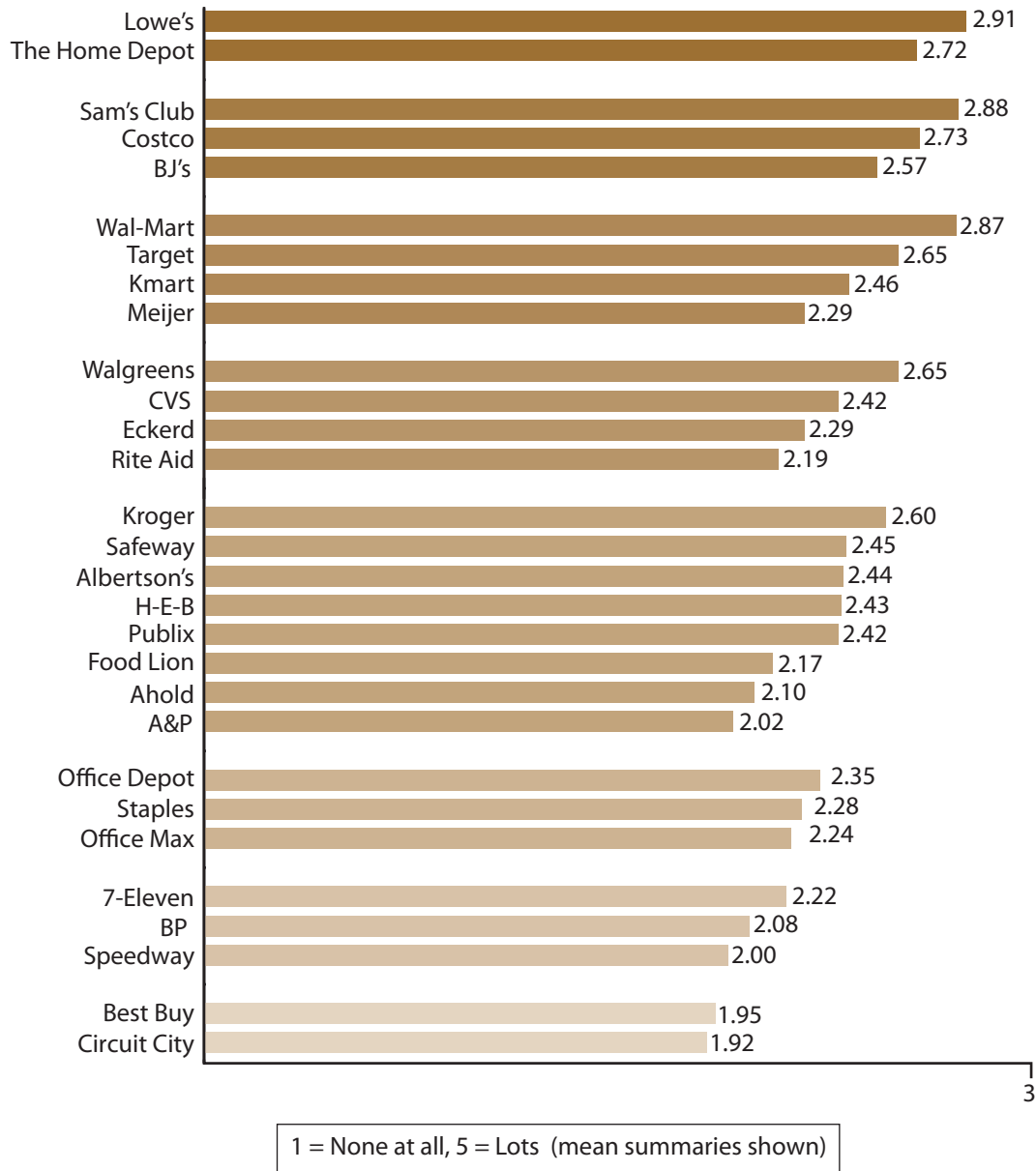
Shopper insights is a new concept. Don't confuse it with consumer insights, which is information about the person that uses your product, or retailer insights, which is information about the retailer that sells your product to a consumer. It is the third and very important leg of the demand insight foundation of a demand-driven strategy.

Retail partners today have access to more insights on shopper behavior than their suppliers. An AMR Research survey last year of 30 CP clients found more than 80% had access to **Kroger** and **Safeway** shopper insight data, but none said they knew how to use it.

Six months later, many of these very same companies are retooling their processes to not only mine the data, but to use it to develop joint value creation programs. Why? Retailers are demanding it. A recent study by **In-store Marketing Institute** clearly illustrates the disparities in how shopper insight data is employed in the development and sell-in of display promotions (see Figure 1). Expect this trend to accelerate.

**Figure 1:** Retailers requiring shopper research

How strongly does each retailer require shopper research from you to support their decision to accept your displays?



Source: In-Store Marketing Institute/P-O-P Times

Despite a wealth of downstream data signals, gaining these shopper insights is a struggle even for the savviest of CP companies. Change requires companies to throw away obsolete paradigms of brand management, IT, and account management for the following reasons:

*Brand management*

Event-driven activities measured and rewarded by short-sighted programs characterize marketing in most CP companies. As tenures for marketing executives continue to shrink, reward systems become short term.

To become a market-driven leader, customer insight data must be the basis of systemic processes for demand shaping and platform innovation. The goals should be aligned to long-term brand positioning, with a focus on outside-in data built on demand insights.

This fact-based, long-term focus on brand building reduces noise in the demand signal for not only improving growth, but also reducing waste and inefficiencies in supply processes.

#### *IT investments*

CP company IT strategies are primarily about improving efficiency and control. But being demand driven means rethinking processes, data, and technologies.

Not only are the incumbent ERP, customer management, and advanced planning applications not designed to gather, mine, and harvest demand insight data, they also don't support the underlying processes of market sensing and shaping. For many companies, it still comes as a surprise that ERP cannot effectively be used as the foundational architecture for demand-driven supply networks (DDSNs).

#### *Account management*

The relationship between CP companies and retailers has gradually changed. As a result, the roles of the sales team are moving from strict account management to more of a general management role that is focused on cross-functional alignment to create joint value with key partners.

New technologies and processes are evolving to identify joint value creation market opportunities and to drive a fact-based dialog on customer-centric marketing with retail partners.

### **Navigating tricky waters**

The three above changes are significant. Here is some guidance for companies managing through this change:

#### *The tables have turned—think of retailers not as merchandisers, but as marketers*

Grocery retailers have consolidated, become more powerful, and have more information about the shopper than the CP manufacturer. To illustrate, let's look more closely at the dynamics in this value chain.

For the average CP company, the grocery channel is 56.7% of sales in North America, with the top-five retailers in the United States representing more than 50.0% of the grocery channel. Contrast this picture with the year 2000, when the top-five grocery retailers made up 40.0% of the channel, or with 1980, when the top five were only 26.5% of the grocery channel. The bottom line is retail partners are now fewer, but more powerful.

Unfortunately, the hitches to beating a retailer at marketing are that not all retailers share shopper insight data and the consumption of shopper insights is still not a scalable process. CP companies typically have to pull the retailers' data manually from a portal. However, new developments in shopper insight technologies are overcoming these hurdles. Here are some examples:

- **A trip is not a trip.** Based on data from IRI, the average shopper makes 13 shopping trips a month and now shops at eight stores versus just three a mere year ago. In answer to the question of how a CP company can drive the most value from each trip type, IRI launched **Shopper Insights Explorer** in February 2007 and

showcased the new product at the recent **IRI Conference** in Las Vegas. This software-as-a-service (SaaS) product is designed to collect weekly insights from retail-specific chain behavior by analyzing the combination of trip missions, customer life-stage segmentation, and product-purchasing patterns.

- **You don't have to love your customer— just know them.** **Acxiom**, a partner with **IRI**, provides a product called Personix MarketScape-X, which collects household-level segmentation for the U.S. market. With this technology, a CP company can identify area-level dominant clusters that meet the CP marketing targets without direct access to retail-provided shopper insight systems. These insights can then be used to tailor assortments and promotions for customized neighborhood retail programs.
- **When they buy the product, do they use it?** The **IRI Inventory and Consumption Panel** product uses panel data to glean insight into the relationships between customer purchases, pantry loading, and usage. Since not all products have the same pantry characteristics, with some being more elastic than others (can potato chips sit on your shelf?), this analysis helps refine promotions and events to not only improve purchase, but also give insights to actual consumption.

### *Move from dysfunctional to functional collaboration*

Manufacturers and retailers have different market perspectives and goals, ones that were never reconciled in continuous planning, forecasting, and replenishment (CPFR) pilots or in vendor-managed inventory (VMI) implementations.

In dysfunctional collaboration, while the parties may agree on a joint process, the goals are different. There is no win-win value proposition. Functional collaboration happens only with two-way partnering to profitably improve the customer experience. Data is shared and joint value creation programs are outward-facing, fact-based discussions about the common goal of improving the customer experience.

Here are five steps for success:

- **Step 1**—Use shopper insight technologies, like those from **IRI**, to develop potential programs to present to a retailer.
- **Step 2**—Test the assumptions of these programs using response-curve modeling technologies like **CAS**, **DemandTec**, **Oracle's Demantra**, and **SAP's Khimetrics** products. These technologies statistically model the link between marketing tactics, lift, and cannibalization. This test ensures the plan is realistic and forms the basis for the fact-based dialog with retailers.
- **Step 3**—After completing the feasibility analysis in Step 2, evaluate the effect of the program on account profitability and cost to serve. Evaluate what plans and policies are needed to meet the business strategy and improve profitability. Communicate these requirements through sales and operations planning (S&OP) processes, and gain internal approval. Technologies to help this profitability analysis include **Acorn Systems**, **Equazion**, and **SAS**.
- **Step 4**—Present the program and gain approval on its parameters from the retailer.

- **Step 5**—Use downstream demand data, such as point-of-sale and warehouse withdrawal data (see “A Handbook for Consumer Product Companies Using Downstream Data”), to sense if the product was available in store at the start of the period and to evaluate actual results through the sell-in period. If the program is not meeting expectations, work with the retail partner to make midcourse corrections. The key to success is sensing the actual results of the joint value creation program to make midcourse corrections when possible.

“Part 2: How Can You Be Demand-Driven If You Don’t Know Your Shopper?” discusses how to use shopper insights to improve product innovation processes.

## **Future and current research**

In the next two months, we will be writing more on the transition from marketing-driven to market-driven strategies. Look for an upcoming series that defines the DDSN concepts of demand sensing, demand shaping, and performance analytics for demand processes. As we frame this research, we welcome your questions and insights on this changing landscape of technologies and processes—[lcecere@amrresearch.com](mailto:lcecere@amrresearch.com) and [rbois@amrresearch.com](mailto:rbois@amrresearch.com).

Besides the research linked above, see the following for more on these topics:

- “What Is a Demand Signal Repository?”
- “Own the Shelf Replenishment Problem”
- “Trade Promotions Management, Take Two”