# MARKETPLACES VS. MARKETSPACES

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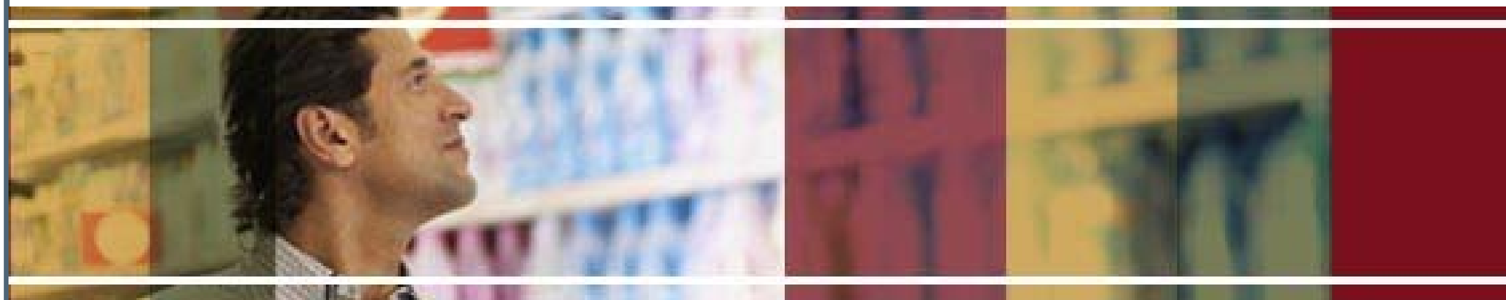

**Rising petroleum costs are generating tectonic changes in how Americans live, work and shop.**

The typical trip to the local grocery store is a staple of American society.  The ritual is nearly identical to consumers throughout the country.  Shoppers steer carts through the automatic doors into the semi-frigid interior and laid out before them is a brightly lit, gridded landscape teeming with an apparently infinite assortment of fruits, breads, meats, cheeses, foils, cleansers, and the complete cornucopia of products American consumers have come to demand.

Yet, as with much of America's economy today, the grocery shopping experience is changing, driven by three macro-trends: an increasingly diverse consumer base, new technology advances and the rising cost of petroleum.

An aging population, rising number of two-income households, more ethnic diversity, an increased number of trip missions and evolving tastes characterize today's American consumer.  The "one size fits all" mentality of the original big box grocery store that used to fit everyone, no longer fits.

Technology advances touch every aspect of the shopping experience, from the way companies identify product needs and develop new solutions, to how retailers advertise, promote and display them as well as how consumers learn about and purchase them.

Rising petroleum costs are generating tectonic changes in how Americans live, work and shop.  These increases affect everything from how far Americans are willing to drive each week to buy their favorite brands, to the cost for basics, such as bread, milk and meat, and the popularity of organic products.

Embedded in these macro-trends are the seeds of future success for consumer packaged goods companies and retailers, or the seeds of their ultimate failure. Manufacturers and retailers are responding to these trends, but in many situations, these responses address the symptoms of these trends, not the underlying drivers. Such actions can at best result in incremental improvements.

Manufacturers and retailers must rethink strategies for developing and marketing products to successfully address these trends.  They need to evolve away from creating products sold in a marketplace, and replace that strategy with one that focuses on inventing experiences that create new market*spaces*. Marketspaces will include products specifically designed to motivate a highly-targeted group of consumers and marketed in an environment created to meet the consumer's comprehensive need.  Inculcating

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consumers with an unbreakable level of loyalty to their preferred products and retailers is the final objective of creating these new marketspaces.

## TODAY'S SHOPPING ENVIRONMENT IS EVOLVING RAPIDLY

The face of the American consumer is changing, literally. Today's fastest-growing market segments are ones retailers of a generation ago didn't even acknowledge existed. Lower-income shoppers represent a $149 billion market segment, Hispanics a $52 billion segment, Baby Boomers a $46 billion segment and Healthy Kids a $20 billion segment (based on IRI's Consumer Network, Census Bureau and U.S. Bureau of Labor Statistics Data). And, of course, within each segment are an almost infinite number of sub-segments; e.g., upper-income Hispanic shoppers interested in healthier foods for their children.

> **Today's fastest-growing market segments are ones retailers of a generation ago didn't even acknowledge existed.**

Technology is dramatically changing how both manufacturers and retailers communicate with shoppers, as well as how shoppers obtain and share information. Nearly every retailer maintains a Web site today that includes information on online shopping, recipes, promotions and related topics. Similarly, nearly all manufacturers have Web sites that provide useful information on their products. Several innovative manufacturers have utilized Facebook and MySpace to communicate specific promotions and take the pulse of younger shoppers, but these remain mostly one-to-many strategies. None have taken advantage of high-growth opportunities, such as mobile advertising, currently projected to grow from a $33 million industry in 2007 to a $1.4 billion market in 2012, a CAGR of 112 percent, notes analyst firm Kelsey Group.

No trend is as pervasive in reshaping the shopping experience, from vantage point of the consumer, manufacturer and retailer, than the increase in petroleum prices. In a petroleum-based U.S. economy, where few current alternatives exist today, this long-term rise will continue to have a profound impact on how shoppers make purchase decisions, what products manufacturers develop and how retailers display and sell these products. Just a few examples of how petroleum prices affect many areas of the economy include:

>>> **Rising fertilizer prices have resulted in higher food commodity prices, affecting everything from bread, to pasta to beer**

>>> **Higher gas and diesel prices have driven up the cost for farmers to drive the tractors that help produce food and the cost of truckers to bring food to market**

>>> **Diversion of corn production to distilling ethanol has driven up prices for every product that includes corn syrup, corn starch and other corn-derived ingredients**

>>> **Increased gas prices are causing shoppers to rethink how far they are willing to drive and reconsider the number of stores at which they shop**

>>> **Higher food prices are resulting in consumers switching away from preferred brands to less expensive products**

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**>>> Store planners are reconsidering store sizes as a result of higher costs to heat and cool retail areas, as well as refrigeration and freezer costs.**

As a result of skyrocketing gas prices, consumers have changed where and how they shop. During the past few quarters, for instance, pantry stocking trips are up at supercenters, while fill-in trips have increased at close-to-home dollar stores and drug stores. While half of consumers report shopping around more than they did six months ago to get the best deals, only 10 percent are willing to travel further to do so.

Consumers have also changed how they eat and what they buy as gas prices have escalated. A majority of consumers are eating out less often, and 53 percent report cooking more from scratch. As a result, demand has risen for meal ingredients and components.

## A CHANGING ECONOMY DEMANDS CREATION OF A NEW RETAIL EXPERIENCE

Manufacturers and retailers that together create today's marketplace need to create the next generation of retail experience. These experiences will aggressively address the three macro-trends of diverse shoppers, the omnipresence of information and opinions enabled by new technologies and long-term higher energy costs.

The goal of creating new experiences is much broader than simply wresting 1-2 points in market share from competitors. It is a comprehensive redefinition of the shopping experience from selling products to selling **vertically-integrated consumption-based solutions.** This redefinition should occur among the products manufacturers develop, the assortment strategies retailers create to sell products, and how both retailers and manufacturers communicate with shoppers.

The objective of this new retail experience is the creation of a new generation of hyper-loyal shoppers, who consider the products they buy and the stores in which they buy them their own. These consumers will know manufacturers and retailers considered their tastes, habits and preferences when creating new products, displaying them in a way that maximizes their convenience, and establishing a two-way dialogue with them through the channels these consumers use most frequently. This sense of ownership and involvement will translate to creating a much higher level of loyalty vs. one based on weekly sales and promotions.

**Manufacturers are combining multiple brands into a single product in new ways.**

Product innovation should concentrate on creating or redefining an experience, and today that is taking three distinct forms. Some companies are creating quantum improvements to existing product categories. Gillette® Fusion™ is more than a razor with a battery, for example; it is a re-creation of the incredibly close and comfortable barbershop shave. Others are introducing entirely new categories. Proctor & Gamble's Swiffer® Wet Jet is a revolutionary new approach to sweeping, dusting and mopping. Swiffer collects more dirt than a broom, but is much less messy and time consuming than a wet-mop. Moreover, manufacturers are combining multiple brands into a single product in new ways. Johnson & Johnson's® Take Along Packs provide everything a parent needs to care for their baby while traveling, in packaging of 3 oz. or less to pass

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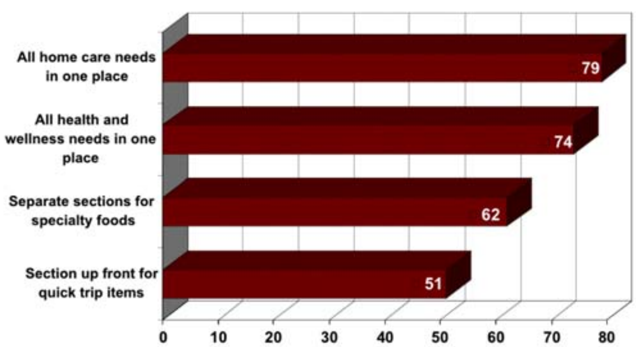
airport inspections. Take Along Packs include Johnson's® Baby Shampoo, Johnson's® Head-to-Toe® Baby Wash, Desitin® ointment and related products.

Innovative retailers are changing assortment strategies to help consumers address a specific need in one area of the store, redefining the "one stop shop." For example, in a kiosk labeled, "I Have a Cold," retailers are combining products one would expect – aspirin and decongestants, tissues and rubs; with products one would not expect – vitamins, teas, juices and other wellness products. To illustrate this point, IRI's recent Re-imagineering the Grocery Store Online Survey revealed several consumer assortment preferences:
Retailers are also bringing back the neighborhood shop concept, complete with the in-store expert eager to help shoppers make the right choice for that special meal.



All numbers in percent

The display in the next column might make shoppers forget they are in their local supermarket and not in the local cheese shop. Hundreds of cheeses are attractively displayed and available for tasting, with a professional guide to help consumers make a selection. The experience is convenient, professional and personal.

Retailers and manufacturers are also beginning to evolve how they communicate with shoppers, focusing on mediums that enable two-way dialogue vs. the traditional approach of blasting ads and promotions to wide audiences.

New analytical tools enable manufacturers and retailers to understand who is participating in blog and social networking chatter. These tools analyze the word choices, phraseology, opinions and other facets of postings and can determine whether the author is a 30-year old middle-income mother or a 45-year old single male.

Mobile advertising continues to grow as a communications medium, today focused primarily on consumers downloading videos and mobile games. Interest in mobile advertising is increasing as more consumers realize that the opt-in models mobile operators currently favor provide money-saving benefits, such as a reduced priced mobile data plan in exchange for viewing a limited number of mobile ads per day. In addition, savvy advertisers are creating ads that are often part of the entertainment they accompany; e.g., the ad for a car company is embedded in a car racing game, where "drivers" speed by a billboard that contains the ad. While mobile advertising is in its infancy, it clearly represents an outstanding opportunity to provide highly-targeted, relevant information to consumers who choose to view the content.

In addition, marketers will watch the growth of a new generation of location based services, that, combined with mobile advertising technology, will allow manufacturers and retailers

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to deliver highly-targeted messages to consumers when they are at a specific location, at a specific time. For example, as an executive exits his train and begins the walk through town to his car, an ad would appear on his phone as he approaches the local grocery store announcing that his favorite wine is on sale this week.

## EVALUATING THE SUCCESS OF NEW MARKETSPACES

Today, both manufacturers and retailers face continuous pressure for more – more revenue, more margin and more market share. Retailers recognize that focusing on the traditional solution of executing chain-wide campaigns developed at headquarters that do not consider local factors, such as product preferences, tastes, affluence, education levels and ethnic composition is a failed strategy. Manufacturers understand that a new product strategy concentrated largely on infinite line extensions will cost market share over the long term, rather than increase it. More than 80 percent of new products introduced in 2007 were line extensions, and of these 85 percent earned less than $7.5 million in revenues. Fewer than one percent earned $100 million or more.

While manufacturers and retailers are experimenting like never before with new products, new formats and new assortments, creating the marketspace that is relevant to consumers is based on six critical success factors.

## FACTOR #1

## IDENTIFY THE MOST VALUABLE SHOPPER

No manufacturer or retailer can create a marketspace for every shopper or every need. IRI has identified more than 300 distinct types of shoppers, but no retailer or manufacturer can focus on more than three to five at any one time. Managers must identify the most valuable current and potential shoppers, based on their behaviors and trip missions, defining most valuable on a recency, frequency, monetary value (RFM) basis as well as current and potential share of wallet basis.

Retailers and manufacturers must have an intimate, almost forensic understanding of “What’s in these shoppers’ baskets?” as well as “What’s on these shoppers’ minds?” Several of the questions retailers and manufacturers need to answer in order to successfully identify their most valuable shoppers are below:

>>> **Who are my best customers?**
>>> **What are their churn rates?**
>>> **What do my customers spend?**
>>> **What’s my share of their wallet?**
>>> **What days and times do they shop?**
>>> **How price sensitive are they?**
>>> **What sections do they shop?**
>>> **Which items drive price sensitivity?**
>>> **Will they substitute when out of stock?**
>>> **How responsive are they to promotions?**
>>> **What other items do they buy?**
>>> **Which promotions do they respond to?**
>>> **What brands do they prefer?**

## FACTOR #2

## DEVELOP AN INTIMATE UNDERSTANDING OF THE SHOPPERS’ PURCHASE INFLUENCERS

Shoppers receive information about products and stores from more sources than ever before. They are responding to this information tsunami first by ignoring information that’s even slightly irrelevant to their needs and honing in on sources that provide the most relevant information in the format best suited to how they live.

People today can simply “Google” a store name, product name or product type and receive a vast amount of information from the

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retailer or manufacturer's Web site, articles, blogs and social networking commentary. In particular, blogs and social networking sites are an increasingly important source of information – since this information is candid and current. It is also pandemic. Commentary, positive or negative, on a blog can reach thousands in a matter of hours. While the old rule of thumb stated that every happy consumer told three of her friends and each unhappy consumer 10 of her friends, a recent Facebook search of leading food, drug and convenience store retailers uncovered that:

- >>> **60 percent of participants focused on negative aspects of the retailer**
- >>> **30 percent shared ambivalent experiences**
- >>> **10 percent shared positive experiences**

The new rule of thumb states that an opinion shared on a MySpace or Facebook site reaches 100 new people each hour.

## FACTOR #3
## DESIGN SPECIFIC PROGRAMS WHERE UNIQUE PRODUCT AND EXPERIENCE DIFFERENTIATION CAN OCCUR

With a firm identification of the most valuable shopper groups, manufacturers and retailers can collaborate to create new, unique experiences. For example, if a shopper group is identified as "Over 65 and On the Go," manufacturers might design packaging with larger print labels to help those with weak vision and with pop tops that open more easily for potentially arthritic fingers. Retailers might create in-store experiences that group senior age vitamins, health drinks, energy bars, as well as pain relievers, hot/cold ointments and related products. When seniors walk into the store and peruse the product assortment and layout, they should feel like the whole experience was created just for them.

## FACTOR #4
## INNOVATIVE NEW PRODUCTS, CATEGORIES AND ASSORTMENTS WILL FOCUS ON FUNCTIONALITY, WITH SIMPLICITY AND EASE-OF-USE AS A PRIORITY.

Given current market dynamics, high petroleum prices are a permanent fixture of the U.S. economy, and prices for commodities and products that include petroleum-derived ingredients will remain high for the foreseeable future. In addition, as food prices rise, many people are working longer hours to make ends meet, and/or cutting back on their spending.

As a result, new products should concentrate on attributes such as improving basic product performance and saving time. For example, a retailer might develop a marketspace focused on "Keep My House Clean." Today, cleansers, paper towels, sponges, and brooms and dusters are all in different parts of the store. This new marketspace might combine everything people need to keep their houses clean. This approach lets the shopper know the manufacturer and retailer have thought through their needs as well as potentially remind the shopper about additional products they need to purchase.

## FACTOR #5
## ENSURE MANUFACTURER AND RETAIL ORGANIZATIONS FOCUS ON CUSTOMER DEVELOPMENT VS. CONSUMER MARKETING

Despite the abundance of shopper data and analytical tools, most manufacturers and retailers remain sales and marketing

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focused. Managers leverage data to develop new products that retailers can sell and ideally gain significant market share.

This is just a superficial goal. Manufacturers and retailers that embrace the marketspaces concept will measure success based on long-term customer loyalty generation, not short-term revenue enhancement. Achieving long-term customer loyalty will also result in the revenue, margin, market share increases manufacturers and retailers require.

## FACTOR #6

### RECOGNIZE THE ONLY CONSTANT IS CHANGE

Retailers and manufacturers must continually reinvent themselves, basing that reinvention on evolving customer needs. Maintaining a continuous and ongoing understanding of current and emerging shopper needs will provide the compass by which manufacturers and retailers should organize their companies.

The concept of continuous reinvention is difficult to adopt and involve risks. But the reward of inculcating long-term customer loyalty in the targeted shopper base will far outweigh the potential risks.

The macro-trends of an increasingly diverse shopper base, technology advances that result in an information tsunami to consumers and the shock of rapidly rising petroleum challenges are causing aggressive companies to reinvent entire operations to evolve from a product sales focus to a customer loyalty focus. While this evolution is disruptive, success will result in a win-win for manufacturers and retailers as well as shoppers – an improved shopping experience that generates increased revenue, margin and market share.

Thom Blischok is President of Consulting and Innovation for IRI. A seasoned executive possessing more than 25 years of industry expertise, Thom leads the company's strategic consulting, thought leadership, innovation and marketing practices. A recognized futurist and thought leader, Blischok is known around the globe for his innovative thinking and strategies to help retailers and manufacturers fundamentally transform their go-to-market economic models using innovative approaches to understanding the consumer with new forms of marketplace information.

**About IRI**

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit http://us.infores.com.

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