



RE-ENGINEERING THE MARKETING FUNCTION ECONOMIC CHALLENGES PRESENT UNPARALLELED OPPORTUNITIES

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This new dimension of shopper insight deepens knowledge surrounding the behavior of each and every shopper as they challenge traditional retail and marketing execution.

The ship that represents the American consumer is in peril. Buffeted by rising food and energy prices, uncertain credit markets and now a weak economy, shoppers are watching the lives they have carefully built over many years be threatened, both at home and at work.

Yet, consumers will spend this holiday season. Recent IRI research notes a renewed emphasis on family, friends and institutions that provide “comfort” will translate to shoppers opening their wallets for the holidays. They are tired of bad news and have decided to enjoy themselves. Two-thirds state they will buy the same or more gifts this year than in 2007, and 63 percent will spend the same or more on those gifts (IRI Rethinking Retail: 2008 Holiday Season Insights and Recommendations, October 2008).

CPG manufacturers and retailers—facing many of the same headwinds as consumers—have to wonder: is the 2008 holiday season the passing of the storm, or the eye of the hurricane with danger swirling around them?

These companies must fundamentally re-assess, rewire and redefine how they present their companies and specific brands to the shopper. This is essential for companies and brands to survive. One goal of marketing executives is to passionately protect their base of current

shoppers—the 20 percent of people who purchase 80 percent of their products and generate 80 percent of brand income.

From our work with a cross section of CPG manufacturers and retailers worldwide—spanning the global giants and regional specialty players—IRI has identified seven critical strategies that are essential to successfully re-engineering the marketing function.

Underpinning these strategies is identification of a manufacturer’s or retailer’s most valuable shoppers and a critical understanding of their behaviors in a wide range of economic, seasonal and other circumstances. IRI has identified more than 300 distinct types of shoppers, but no manufacturer or retailer can focus marketing efforts on more than a handful of different shoppers. We will see the emergence of an entirely new dimension of shopper insights as both retailer and manufacturer organizations change the game at retail. This new dimension of shopper insight deepens knowledge surrounding the behavior of each and every shopper as they challenge traditional retail and marketing execution. We call it “putting the human in the equation,” or, in other words, “shopper insights on steroids.”



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Having identified their best shopper on a deep and continuing basis, marketers must then develop an intimate, almost forensic knowledge of these consumers' shopping influencers: what information motivates them, where do they get their information, how and when do they act on it, etc. For more information on identifying and analyzing shopper behaviors, see IRI's Point of View "Marketplaces vs. Marketspaces," published August 2008.

With shopper-critical information in hand, marketers have the core information to execute and capitalize on the strategies below. This redefinition of the CPG marketing function is essential to building and maintaining the interface with shoppers that will be a critical component in establishing loyalty not just through this economic cycle, but on a permanent basis. In the next few months, CPG strategies surrounding marketing must begin the transition from the traditional definitions and applications of market, consumer, and shopper to an entirely new dimension of capturing, analyzing and responding to the dynamics of human behaviors both in the store as well as in the home.

Because behaviors of the best shopper are continually evolving, marketers must survey critical groups on a relentless and thorough basis, utilizing shopper network panels, focus groups, in-store measurements, Web and phone-based surveys and other approaches. Marketers that win will be those who identify shopper needs even before the shopper/consumer knows about them, and those who are ready with a product and retail strategy to meet these needs.

STRATEGY #1

TAILOR TO MICRO-SEGMENTS

Consumers react in different ways to hard times. While it is generally true that upper-income shoppers are more insulated from credit and price shocks than lower-income shoppers, actions by consumers are based on much more

complex calculations than just income. It is imperative that CPG manufacturers and retailers identify and adapt to changing shopper rituals very early in the shopper's cycle. These companies must aggressively explore, define and penetrate an increasing number of micro-segments. Micro-segmentation, and all of its nuances, needs to become a new core competency of the market-making CPG organization. The time to build shopper knowledge as a strategic differentiator has arrived and will define the gap between the market winners and losers in the next decade.

For example, in the past, manufacturers and retailers have classified shoppers with labels, such as urban, suburban, upper-income, lower-income, Latino, African-American, et al. To maximize sales uplift in today's environment, marketers must understand the highly-distinct needs of the upper-income, urban Latino family that includes a husband, wife and one daughter under age 10. In addition, the marketer must know that the husband's trip mission is typically the "Saturday stock up" full basket, while his wife's is typically the "Wednesday night dinner only" small basket.

STRATEGY #2

TELL STORIES RELEVANT TO SHOPPERS

Everything about a product contributes to the story, including portions, packaging, pricing, advertising and promotions, in-store descriptors, store layouts and anything else that impacts the consumer decision making process. For example, a premium spaghetti might be part of display titled, "Make Your Family the Perfect Italian Dinner" where the display also includes spaghetti sauce, garlic, parmesan cheese, Italian bread, salad mix and dressings, expensive colanders, cheese grinders and slotted spoons,



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Italian wine and related products. The shopper believes the retailer has created a slice of Italy in that display just for them, so they can pick up everything they need for that perfect dinner from a single location within the store.

Or, another retailer might tell the story of displayed fruits and vegetables in terms of the geography where they were grown, highlighting that the produce is fair trade and only grown on small family farms, where no child labor was involved and no pesticides were used.

STRATEGY #3

FOCUS ON AFFORDABILITY

Across all income groups, shoppers are focusing on affordability. This is mandatory for the 60 percent of shoppers who earn \$55,000 or less per year. For higher-income shoppers, this focus is more a matter of mindset than necessity. Based on an intimate understanding of shopper needs and attitudes, manufacturers and retailers should tell their brand stories through the lens of affordability. Returning to the pasta example, another store that serves the needs of lower-income shoppers might demonstrate their understanding and promote their eagerness to help shoppers by creating a display titled, "Feed Your Family of Four for \$10." This display would include pasta, private label spaghetti sauce, salad mix and many of the same types of items as the other display, but including more private label and less expensive brands.

STRATEGY #4

BENCHMARK MARKETING AND MERCHANDISING: MOTIVATE VS. MANIPULATE

As the transforming economy causes shoppers to change behaviors, the manufacturer's and retailer's marketing and merchandising strategies must evolve in real time to address these ever-changing shopper needs. Both manufacturers and retailers must generate a stream of continuous shopper feedback and apply learnings across

the complete swath of outreach activities. And, like never before, marketers must tease out dozens or hundreds of minute trends from this data stream and continuously fine tune marketing programs as shoppers continue to shape shift their shopping habits.

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turn to the brands
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Executives should identify the optimal balance between brand and trade promotional spending with the goal of reinforcing trust and confidence among the core 20 percent of shoppers, while seeking to expand this 20 percent when possible. Outreach must support an existing brand's value proposition to motivate the shopper to buy as opposed to relying on trade promotions that are simply fleeting campaigns to generate sales uplift. In hard times, people turn to the brands they trust. Manufacturers and retailers must never communicate any new messages that might undermine that trust. Manufacturers and retailers should also examine and benchmark each marketing dollar spent, continuously seeking the best marketing and merchandising mix with which to touch the shopper.

For example, in one product category, merchandising six months ago might have focused primarily on in-store promotions given shopper behavioral information available at that time. However, the marketer that is surveying shoppers regularly will know that use of newspaper coupons has increased significantly in the last month, as part of many shoppers'



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holiday plans to ensure the Thanksgiving, Christmas and Chanukah dinner table is as full and beautiful as ever, but filling that need with coupon-purchased products.

STRATEGY #5

LEVERAGE TODAY'S VIRTUAL COMMUNITIES

Internet, social media and wireless technologies have spawned an ever-expanding web of virtual communities holding ongoing conversations about everything from aluminum foil to zinc tablets. These communities are passionate and vocal. Marketers must realize that their products, marketing strategies and promotions are under 24 x 7 scrutiny. These networks provide an unprecedented opportunity for marketers to listen to their customers and understand the various ways they are learning about, buying and using products.

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Today's technologies amplify marketers' actions. A promotion that resonates with a shopper group will be passed among hundreds or thousands of targeted shoppers, often with the recommendations of one or more shoppers within the group, which of course, are

invaluable. Conversely, a promotion that fails to resonate or is poorly executed will also be passed among the group, with the potential for significantly harmful results.

STRATEGY #6

MAKE MARKETING HOLISTIC

To optimally communicate a brand's value proposition, marketers must clearly articulate every element of this proposition, from how best to learn about the product, how to buy it, use it, store it and dispose of it. Shoppers bombarded with messages from an increasing number of information sources won't think through all these elements themselves. If the value proposition is unclear or incompletely defined, the shopper will simply go elsewhere to satisfy his or her need.

STRATEGY #7

BUILD EMOTION AND PASSION FOR THE BRAND

In difficult times, people turn to the people and institutions they trust. IRI's Rethinking Retailing survey notes that more than 90 percent of those polled consider spending time with friends and family more important this holiday season over last, and 80 percent believe holiday meals and entertaining are as important or more important this year versus 2007.

Similarly, in hard times, people turn to the brands they trust. Marketers should aim to create and build this interdependence between the shopper and the brand. They should leverage shopper's nostalgic connections to brands; capturing the sentiment of "I use it in hard times just like I use it in good times. It makes me feel good." Where possible, marketers should extend this interdependence throughout the family.



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Aggressive, savvy marketers recognize that today's economic challenges present unparalleled opportunity. In stable times, people maintain similar, if not identical, shopping behaviors, making it extremely difficult to gain market share and increase profitability. In challenging times, shoppers actively seek out new solutions that help them meet their needs in new ways. This provides an outstanding opening for marketers that intimately understand their best shopper and their behaviors and are prepared to tenaciously work to build their brands.



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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