

November 2008

Why Shopper Marketing Matters More in the Current Economic Climate

Situation Overview

The economic slowdown has quickly morphed into a stall-out of epic proportions. Enormous increases in commodity prices have placed huge pressure on manufacturers. Retailers, reluctant to raise prices, are looking to vendors to absorb the cost of increased promotion, discounts and offers to keep shoppers in the stores.

In the marketing industry, nothing could be closer to a perfect storm, causing anxious discussions across the country about budget cuts, reallocation of marketing dollars and increased spending on trade promotion. Anything associated with long-term value feels at risk against the need for short-term ROI. Marketers, watching coupon usage rise and retail sales sink, are starting to buy into the notion that consumers will not open their wallets to spend without a deep discount offer.

When uncertainty and volatility seem like a more permanent condition, retail forecasting becomes highly unpredictable. Buyers skittishly try to manage down inventory, while shoppers abandon poorly stocked stores in frustration. Sales forecasts for consumer goods companies are harder to predict and even harder to allocate manufacturing resources against. Many predictive lenses are fuzzy.

It's no secret that today's marketing mix is very different and still rapidly changing. Consumers have greater control and are actively using technology to edit or even block the barrage of marketing messages they receive. Today, the mix decisions for manufacturers are much more complex, causing marketers to second guess many decisions.

Leaders Maintain Focus on What Is Working

Despite such pressures, leading CPG executive teams clearly recognize that this is a critical time to accelerate shopper marketing. They recognize how to solidly meet the needs of stressed shoppers seeking value from trusted brands. They work on merchandising differentiation and on cementing strong relationships with key retail partners. Careful consideration of the marketing mix, with a focus on shopper marketing activity that delivers solid returns on investment with strategic retail partners, should be the cornerstone in making this vision a reality.

Leaders use objective thinking, current consumer/shopper information and broader measurement criteria as the guideposts for marketing mix decisions. Avoiding the temptation to randomly increase trade discounting is vital, as companies must be careful to assess and understand the corresponding impact on reduction of revenue dictated by Sarbanes-Oxley regulations. Moreover, the erosion of pricing models is risky, as is the potential for this activity to have a negative impact on shareholder value — as well as consumer confidence about specific core brands.

Leading manufacturers understand that strategic retailers will expect them to spend more to drive purchase behavior, but they also know that eroding margins on both sides via discounting tactics is not the answer.

In this paper, we'll explore a range of topics that marketers must consider as they rethink marketing mix decisions. Effectively allocating marketing budgets will require decisions to be made based on current knowledge of where along The Shopper's JourneySM consumers are making decisions and why. Shopper emotion drives behavior, and understanding how to leverage emotional values in messaging is an art that smart marketers are applying to their shopper marketing strategic model.

Moreover, manufacturers should consider expanding measurement criteria for shopper marketing beyond short-term lift. Finally, both manufacturers and retailers must accelerate the involvement of senior marketing leadership in planning, arming the best and brightest with a clear strategy, the power to uncover current insights, and the ability to act decisively in the face of opportunity.

Shopper Marketing Pays Out

According to Deloitte's recently published industry report titled "Delivering the Promise of Shopper Marketing," companies that have embraced shopper marketing as an integral part of the marketing mix are **growing 50% faster than the categories in which they participate**. The most advanced shopper marketers are growing at almost double the rate of their respective categories. From a brand marketer perspective, this means that shopper marketing can drive BDI, not just retailer CDI. Moreover, 90% of manufacturers with more advanced shopper marketing capabilities report that the discipline helps them effectively meet retailer needs and boost top-line growth.

How does this success compare with other marketing disciplines? In the same study, 73% of participating manufacturers and 86% of retailers rated shopper marketing programs among the top four activities that deliver truly meaningful ROI.

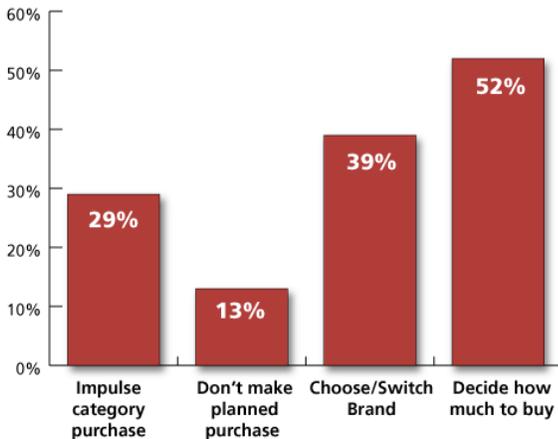
Brands ARE Built Through Shopper Marketing

Not only does it deliver ROI, but shopper marketing contributes to brand-building efforts among a targeted audience via the retail environment. In the old marketing scenario, budgeting decisions were based on sacrificing longer-term brand building for shorter-term volume gains. However, with shopper marketing, both objectives can be readily achieved simultaneously. (MARS defines the scope of shopper marketing to include all touch points with a consumer who is in “shopper mode,” inclusive but not limited to in-store activities.)

Understanding where to allocate money requires that marketers update shopper insights to understand how and where purchase decisions are made, not only for their brand but for the category. Knowing how this varies across key retail accounts so that customized solutions can be delivered to each retail customer is essential, not optional.

Effective “point of decision” programming is a best practice in shopper marketing. Both old and new data (including Nielsen’s P.R.I.S.M.) prove the correlation in many core CPG categories between aisle traffic and purchase. The idea that “retail environments are an effective brand-building medium” is not a dream, but a reality.

Decisions Shoppers Make In-Store



n = Approximately 6,800 total shoppers Source: OgilvyAction

Brands That Focus on Merchandising Thrive in Recessions

History is a great teacher. Stephen Hoch, Professor of Marketing at the Wharton School of Business, says it best: "Brands that thrive in recessions tend to be very focused on better merchandising at retail. When budgets are tight, we have to focus on what we know actually sells."

Professor Hoch, internationally known for research on retail merchandising, is keeping a close eye on economic conditions and their impact on in-store marketing. "When economic times get tough, *the tough go in-store*," he adds. "The vague proposition of building brand equity through media advertising doesn't hold a candle to actually selling more through better merchandising."

Manufacturers Must Protect Key Relationships

Any manufacturer that has accrued incremental ROI benefits by focusing on key strategic accounts should carefully consider the upside potential of accelerating shopper marketing activity. These critical relationships with evermore powerful retailers should be cemented through expanded contact with a broader, more senior-driven team of resources. Today's climate calls for more frequent collaborative planning with retailers to create shopper-centric programming that specifically addresses each of their unique business challenges.

Leading Retailers Meeting the Challenge Have Agility, Talent and Tools

Retailers are feeling the pain today, and traditionally are late in rebounding from an economic slowdown, causing smart retail operators to plan for the long term. Deloitte Consulting, in a recent report titled "Preparing for an Economic Storm," encouraged retailers to adopt the discipline of "rolling" vs. static annual planning. The projected length of decline in retail sales requires that agility be imbedded into the planning process, and the focus be placed on understanding which economic indicators truly impact the behavior of important shopper segments. MARS believes that retailers who adopt rolling plans will need to rely more heavily on agile manufacturers that can provide timely shopper insights, more frequent top-to-top collaboration, and nimble planning and execution of shopper-centric programming. Speed to the table and speed to market are new must-haves to maintain a strong position as a leading, trusted vendor partner.

Aggressive retailers will also take advantage of the soft job market to acquire top talent, continuing to add executives groomed in core CPG environments. Additionally, consulting partners will help them build the infrastructure, technology and advanced business tools needed for the long view. Those with secure balance sheets will find the credit needed to fund the re-tooling, resulting in another cycle marked by fewer retail players with more power. The strong will get stronger, and the trusted brand partners they rely on will too. Retailers of the future will have even more control over the destiny of the brands with which they choose to partner.

The following excerpt from Deloitte's "Delivering the Promise of Shopper Marketing" report makes this abundantly clear.

A Widening Sophistication Gap

"There's a distinction between the manufacturers who 'get it' and those who do not. Working with the ones who do not is like squeezing water from a rock. Every meeting is like the movie 'Groundhog Day' – it's the same thing over and over again." – Retailer

Shifting Consumer Values Inform Program Strategy

Anyone thinking that consumers will revert to old shopping behaviors after the current slowdown subsides must reconsider. This is not a short-term slowdown, but the onset of a dramatically, permanently changed world. Cultural shopping patterns and values are in the midst of distinct shifts that are vital to understand. Today, for some shoppers, the only definition of value is lower prices. Correspondingly, they purchase private label products and shop at retailers that support an EDLP or deep-discount pricing strategy. Walmart's announcement of September same-store sales gains amidst a sea of competitive declines illustrates this point. (Note that Walmart's television campaign is now showcasing trusted national food brands and explaining the value proposition of eating in vs. eating out.)

But value does not have to be defined solely by price, and smart marketers will help shoppers find ways to save money without cutting prices. A timely example of such a value strategy is the recent pairing of Campbell Soup Company and Kraft Foods to promote meal solutions using basic soup and grilled cheese sandwiches. Kraft's website soon will feature inexpensive sandwich recipes paired with Campbell's soup suggestions. Instead of promoting their premium lines, these companies are choosing to enhance sales by focusing on their value products, which have good margin opportunities because they cost less to produce. And they're not necessarily reducing prices to make their case.

These trusted food giants are choosing to help shoppers intelligently navigate the store to provide their families with good, nutritious and inexpensive meals. Campbell and Kraft may still choose to offer occasional coupons, but the day-to-day, full-price volume of these products will surely grow through a focused strategy that addresses the underlying needs of the value shopper segment. Coupled with messages that underscore the brands' previously earned, longstanding reputation for quality, this effort will make consumers feel safe and well nourished as they reduce their food budgets.

New Values That Matter

Most consumers don't equate value with price alone. Many consider deeper value that includes concepts such as "I'm making a difference," "I trust this company," "simplicity," "conscious consumption", "best quality," and even "deserved

indulgences.” As they shop, these new values act as filters, guiding purchase decisions across many categories.

One example of this filtering is cited in research conducted in August 2008 by The Hartman Group, one of the nation’s leading cultural research firms. Hartman recently concluded that:

A purchase is not just a purchase when consumers believe they are voting with their dollars. Consumers describe personal power in every purchase, even in more mundane categories such as coffee, toilet paper and clothing, as well as bigger ticket items such as vehicles and home remodeling materials. With this in mind, consumers are becoming increasingly aware of who (and what) they are empowering with each swipe of the debit card.

In fact, almost 40% of consumers now feel that purchase decisions have a greater impact on society than voting decisions or local community involvement. Shopping behavior is clearly changing to reflect this shift in values.

Opportunities to turn such insight into action require timely understanding of how shoppers are using these new filters to select where to shop and what to buy, and whether or not your company and its brands are “on or off” their new radar. This will require a sustained investment in shopper insights that can be planned in conjunction with key accounts and commercialized quickly.

The Future of Shopper Marketing Measurement

The topic of measurement is a slippery slope for many CPG marketers. Using specific short-term ROI is a common strategy to determine marketing mix models, but should not be the only measurement method. Many companies that have implemented or are scaling up shopper marketing have expanded their lens as part of a master plan for measuring the overall effectiveness of the organization’s total efforts.

Many models now include tracking brand share growth within a category for each key retail customer, to help drive increased collaboration opportunities. Continued funding of all activity that drives positive movement in this area should be considered carefully when mix models are under review.

To paraphrase recommendations made by Robert Holston, Deloitte’s Shopper Marketing Practice Leader, new measurement models must include the commercialization of insights, which dictates that they be mapped to specific activities at each key retail customer.

MARS concurs with this viewpoint, and focuses its planning process to map both behavioral and emotional insights to specific phases of The Shopper’s Journey.SM This helps us clarify when and where to deploy strategic shopper marketing

activity for our clients. Application of insights into the “path to purchase” within specific categories and by shopper segment also reduces the subjectivity often associated with evaluation of activities in the marketing mix.

Deloitte encourages manufacturers to better integrate their brand and corporate planning with the business planning cycles of key accounts, and to measure their progress in doing so. It also advises manufacturers to assess the shopper marketing competencies of everyone in the organization with touch points to strategic retail teams. Specific skill gaps should be addressed immediately, especially if they affect key retail relationships. Senior-level staffing on shopper marketing teams can be a key component to achieving successful, measurable growth.

Additionally, MARS recommends that manufacturers track not only sales, but category performance, shopper marketing activity, and outcome of top-to-top collaborative sessions with key accounts, placing a particular focus on documenting progress toward accomplishing agreed-upon objectives, goals and actions. Managing and — more importantly — diligently completing activities on the “to do” list is a vital service of partner agencies that can enhance retailer execution, satisfaction and, ultimately, results.

Summary:

Managing shopper marketing investments will continue to be an important element in determining how to maximize growth opportunities in a sub-optimal business environment. Whether you are responsible for overall budgeting at the corporate level, determining a revision strategy for a brand, or evaluating existing marketing mix models, a level head and objective scrutiny of all options are vital skills.

Radical shifts in action are not always prudent in radical times. A major shift toward increased funding of trade discounts can have both an immediate and long-term impact on how shoppers perceive your brands. (At the other end of the spectrum, making sweeping decisions to move more money only into direct-to-consumer communication vehicles is just as risky.) Creating the wrong buzz may lead consumers to cross your whole company off their consideration list. Marketers don’t have control of this dynamic anymore.

Comparing the disciplines in question provides additional clarity.

Trade promotion, an old methodology that drives volume (and is easy for the sales organization) but also:

- Erodes brand value
- Reduces top-line revenue (thanks to Sarbanes-Oxley)
- Is brand equity-neutral at best
- Sets unwanted precedents

- Often shifts volume rather than building it
- Gives retailers little opportunity to grow CDI or BDI
- Has no real marketing benefit

Shopper Marketing, a new discipline that builds business results by:

- Delivering proven ROI (more so than trade deals or advertising)
- Directly tying expenditures to performance
- Requiring no reduction in revenue (as a legitimate marketing expense)
- Building not only brands, but categories
- Focusing on shoppers
- Motivating smarter retailers
- Leading to more focused, integrated marketing activity
- Adding value to the sales organization

Shopper marketing is a safe, stable place to invest marketing dollars in both the short term and when taking the longer view. It's also an imperative, because manufacturers must protect and enhance their collaborative planning with key retailers. Marketers with a unified vision for staying active along the points of decision with programs and messages that meaningfully speak to today's shoppers will win at the shelf and in the minds of shoppers.