What does it take for consumer products companies to grow in the UK market? A recent Bain & Company survey shows the shopper insights that winners use to fuel growth

UK shoppers and the choices they make

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What does it take for consumer products companies to grow in the UK market? A recent Bain & Company survey shows the shopper insights that winners use to fuel growth.

Consumer products companies in the UK face a tough challenge. Rising costs and taxes whittle away at shoppers' spending power, while the continuing negative economic news erodes their confidence. Demanding UK retailers, rising supply costs and increasing regulations are depressing margins. And UK operating companies feel pressure to provide capital and talent to fuel growth in emerging markets.

Despite this headwind, some companies are growing profitably. What are these growth winners doing differently? We see two major differentiators. First, they all have a clear and compelling vision of the critical battles they need to win. Second, they have a repeatable model to win these battles at the lowest possible cost. Most important, winning consumer products companies keep shoppers and consumers at the heart of everything they do. For example, they spend at least as much effort developing and acting on insights into what drives shoppers' decisions as they do positioning their brands. For both of these differentiators, we've identified the key steps that lead to success (see Figure 1).

To illustrate some of the insights that help companies choose and win the right battles, Bain & Company, in partnership with *The Times*, recently surveyed 6,000 UK shoppers who are representative of the UK population.[1] The survey covered shoppers' behaviour across mass, premium and luxury price points in 17 product and services categories. These categories account for almost two-thirds of all UK discretionary spending and include fashion, beauty, food, alcohol, personal technology, restaurants and cars.

Figure 1: Growth winners in the UK

Have a compelling **vision** of critical **battles** they need to win...	...and **a repeatable model** to win these battles at **lowest** possible **cost**
• Target the **most valuable consumers and shoppers,** such as big category spenders vs. light repertoire buyers... • ...with **distinctive brands** relevant to their needs and occasions... • ... driven by insights into **how they research and buy**	• Invest just enough **communicating to consumers and shoppers outside and inside the stores** • Ensure attractive **range** in stock that provides just enough **choice** as well as compelling **reasons to spend more** • Manage **promotions** (and pricing/terms) based on profit pool • **Activate perfectly "in store"** through productive retailer partnerships

Source: Bain & Company

Creating a compelling vision of the critical battles companies need to win

Target the most valuable consumers and shoppers

Growth winners' insights into the rules of a category enable them to hone in on the consumers and shoppers they need to win and what they need to do to win them. They understand who they are really competing against and how shoppers make decisions between brands.

Many companies, however, fail to recognise who their competitors really are. For instance, some luxury fashion companies act as if they are only competing against other luxury brands. However, in the past year, premium and luxury shoppers in the UK were just as likely to buy mass brands in most categories, according to our survey. In clothing, for example, 95 per cent of high-end shoppers also purchased mass brands.

Such insights should have profound implications for how a company approaches its customers. Consider Gucci, for example. Several years ago, the luxury brand recognised that it was in competition with mass fashion companies such as Zara. Zara changed out 75 per cent of its fast-fashion merchandise every three to four weeks, leading to repeat store visits by customers—an average of 17 visits per year. In contrast, like most luxury brands, Gucci replaced the bulk of its core collections only five times a year, and customers averaged just four trips to Gucci annually. Gucci made a radical shift, stocking new merchandise every six weeks, contributing to significantly improved revenue and profitability.

Insights into how shoppers make decisions among brands also help managers resolve the big debate over whether to focus on earning loyalty among big spenders or to try instead to appeal to everyone for their next purchase.

Big spenders—the 20 per cent of shoppers who make up about 60 per cent of all sales in every category—are, on the surface, an attractive group. They, on average, spend six times more than the rest of the category's shoppers. In categories such as jewellery and watches, they can account for up to 70 per cent of all UK sales and spend up to 12 times as much as everyone else. It can be very tempting to spend all your time trying to attract them to your brand and make them loyal. However, in many UK categories, focusing too much time and effort on big spenders could be a waste of money. It would be far better to try to get more people to buy, use and repurchase your brand.

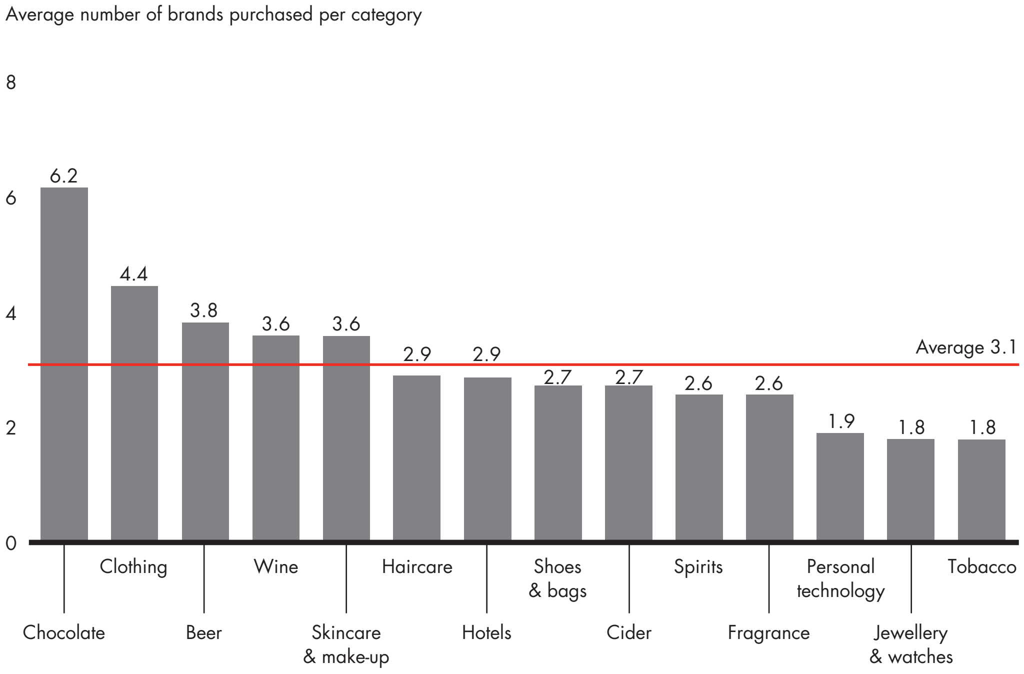
Two big factors determine whether you should focus on big spenders or on everyone: a shopper's repertoire (the number of brands he or she buys in your category) and whether there is anything significantly different about the big spenders in your category—who they are and how they act.

If a category is a loyalist category, where most shoppers buy the same brand repeatedly—cigarettes are a good example—it makes sense to focus on the big spenders. Once you're in their repertoire, you have a greater chance of staying there. The ideal is to get into a consumer's or shopper's repertoire early. Colgate achieves this, for example, through its ongoing collaboration with dentists, encouraging them to recommend Colgate products to their patients.

However, our research shows that the UK is home to very few loyalist categories—tobacco, jewellery and watches, and personal technology are the most loyal categories, with shoppers buying fewer than two brands last year (see Figure 2).

Most UK categories are repertoire categories, with shoppers regularly picking from three to six acceptable brands. If there are major differences in big spenders' needs or occasions, or in the way they research or make purchases, it can still make sense to target big spenders. For example, in clothing, 35- to 44-year-old shoppers are the biggest spenders. They have different clothing needs because of changing body shapes and sizes and different shopping preferences, including a desire for privacy when changing. They are also significantly influenced

Figure 2: In the UK, most categories are repertoire categories



Source: UK Shopper Survey June 2011

by different sources such as online media—around 25 per cent rate Internet reviews and blogs, company and multibrand websites, and social media outlets as a critical influence, compared with just 9 per cent for everyone else. In such situations, it makes a lot of sense to have an offer that big spenders would find particularly attractive and market directly to them.

However, most brands in the UK compete in repertoire categories where there is little difference between big spenders' behaviour and everyone else's. In situations like these, it's far better to try to activate *all* shoppers and focus on winning over each shopper at every possible point of purchase.

Make brands distinctive and relevant to shoppers' needs and occasions

Consumers and shoppers make associations between a need or an occasion and a distinctive brand at a relatively deep subconscious level. For instance, a shopper might suddenly realise that it will be hours until her next meal, that she is peckish, and she may immediately think of a Kit-Kat. Creating such salience in consumers' and shoppers' minds—the mental link between a need or an occasion and the brand—is especially critical in repertoire categories, such as alcohol and chocolate, where shoppers choose between multiple brands on the shelf. Winners create associations between the need or occasion and the brand, not the other way around. All sales and marketing activities in and out of the store reinforce this link.

For instance, when you ask UK consumers what drink they think of for summer garden parties, they would probably say Pimm's. Diageo reinforces Pimm's distinctiveness with an integrated Pimm's Summer Party campaign, which includes summer recipes, sponsored summer party events and a heat-activated radio campaign that plays when it is 22 degrees or higher. This is consistent across the company's website, advertising and in-store activities. Diageo primes the supply chain to ensure wide availability during the summer, and in-store promotions and merchandising are closely linked to the garden party occasion.

Understand how shoppers research and buy

Winners go after consumers and shoppers in the channels that they research and buy.

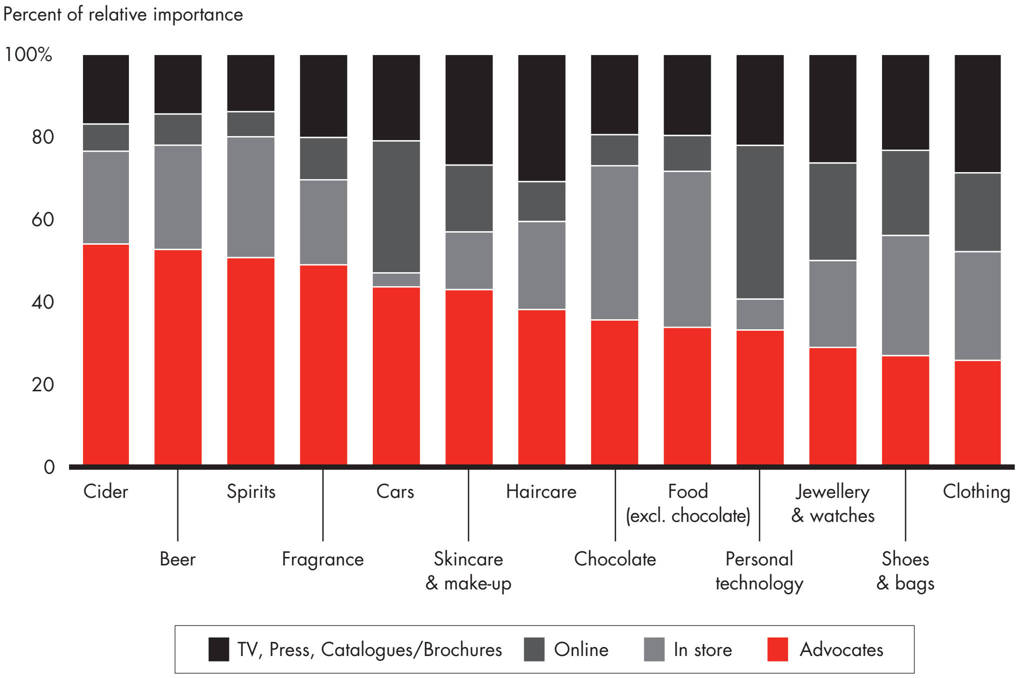
Our analysis shows that one important—but often overlooked—influence on brand choice is the role of advocates: family, partners, friends and experts who recommend brands. Shoppers will try a new brand based on an advocate's advice or, when shopping for the advocate, buy a specific brand that he or she prefers. In categories such as alcohol, fragrance, skincare and make-up, advocates are the single most important influence on the brand a shopper buys. In categories like personal technology, chocolate and fashion, advocates are the second most important influence (see Figure 3).

We measure advocacy using the Net Promoter® score (NPS®), asking shoppers: On a scale of zero to 10, how likely are you to recommend this brand to a friend? Top scorers are advocates; low scorers are detractors.

Depending on the company and the category, it may be more critical to attempt to influence detractors than to increase the number of passionate promoters. For example, it's important to minimise the number of detractors among "gatekeepers", such as mothers who buy snacks for their young children. In that category, trying to build the base of promoters among children may only serve to create detractors among mothers if they feel the snack is unhealthy for their children. In such cases, to avoid creating detractors or to neutralise existing detractors, it's important to reassure mothers that the snack is okay.

Some companies excel at creating and reinforcing advocacy. For example, haircare as a category has a low average NPS, but hair styling tools maker ghd has a strong following of passionate advocates that it actively cultivates. The company's vision is to be the most used and recommended hair styling brand by professional stylists. As such, ghd selectively distributes through channels where the product can best be demonstrated and recommended,

Figure 3: Among UK shoppers, advocates are the primary or secondary influence for shopping decisions across all categories



Source: UK Shopper Survey June 2011

and it provides tailored point-of-sale materials and in-store activation activities for each different type of salon. It invests heavily in training salon stylists and actively measures their advocacy, rewarding salespeople and trainers on this basis. Stylists help develop products and point-of-sale materials, all with the express purpose of making these stylists more likely to recommend ghd. This professional recommendation, combined with high-quality professional products, drives strong consumer advocacy, allowing ghd to command a 400 per cent price premium and to expand its market share in a challenging UK retail market.

Growth winners plan their distribution based on how and where their target shoppers research and shop. They ensure broad distribution in repertoire categories so shoppers can encounter the brand at the moment they are deciding which product to buy. In loyalist categories they distribute selectively to relevant outlets.

Control can create results. Brands with more control over distribution, pricing and customer relationships are able to deliver a better, more engaging experience. We have observed that brands that have their own stores create some of the most compelling value propositions, often generating higher advocacy and sales. For example, Hotel Chocolat's boutique store design encourages shoppers to feel like—and become—chocolate connoisseurs, with artisan products displayed in a high-quality manner. The stores offer tastings and advice. For its efforts, the store earned a positive NPS of 59. In luxury fashion, owned stores, such as Gucci, Mulberry and Burberry, are similarly adept at controlling the customer experience, and they also score high, with a positive NPS of between 24 and 30.

When it comes to dealing with third-party retail, winners choose to differentially invest with retailers that can add value to the category through such measures as displaying merchandise in a way that engages shoppers, leading to them buying more or trading up. These companies also focus investments on the retailers that are advocated by target shoppers. Online-only retailers, such as Amazon, Asos (fashion) and Ocado (grocery), emerged as some of the most advocated retailers in our survey. Amazon ranked as the most highly advocated retailer, just ahead of the traditional front-runner, John Lewis, which also has a strong online presence (a positive NPS of 49 versus 44 in our survey).

Growth winners tailor their online investments to their target shoppers' online research and purchasing behaviour. Online retail sales now account for nearly 10 per cent of retail sales in the UK, based on Bain's survey. Our survey shows online is particularly important in personal technology, clothing, shoes and bags. Contrary to conventional wisdom, online shopping is important in premium categories, especially fashion and beauty, where premium and luxury brands are more likely than mass brands to be bought online. Our survey also found that online content influences the average shopper's brand choices in categories such as personal technology, jewellery and watches, cars and fashion, but is not yet a big influence in other categories.

While younger shoppers (aged 18 to 34) rely heavily on online research, browsing blogs, reviews and company or multibrand websites, that does not yet translate into spending; it's those in the 35-to-44 age group who are the major online shoppers. The younger generation might be truly "omnichannel", transitioning seamlessly between online or mobile research and physical purchases in the store.

Despite the buzz, mobile shopping—the act of buying from a smart phone or a tablet—is still in its infancy. Today, less than 1 per cent of UK shoppers buy products on mobile devices, and even in high-penetration categories like personal technology, fragrance, shoes and bags, it represents only 3 per cent of sales. Here, too, shoppers aged 35 to 44 buy the most, with mobile spending at 2 per cent—double the average. We expect this to be a fast-growing channel in the next few years, particularly for research, and, therefore, become a core component of consumer products companies' omnichannel strategies. (To learn more, go to www.bain.com/omnichannel).

Creating a repeatable model to win the critical battles at the lowest possible cost

Invest just enough to communicate with consumers and shoppers in and out of the store

Given intense margin pressures, UK consumer products companies need to ensure they don't overspend as they strive to win the critical battles.

Winners spend their marketing pounds where they can most influence their target shoppers. They get the balance right between spending their funds in store, for example, or on Internet or mass media advertising.

The best guide to the level and balance of spending is the category repertoire. In loyalist categories, it's a company's scale relative to its competitors that counts. In repertoire categories, you should invest the minimum required to ensure that shoppers consider your product and then focus the rest of your funds on winning the war in the store: placement, point-of-sale materials and promotions needed to reconvince every shopper at the point of purchase. It is vital to have the product and the communications highly visible and available in the channels where it is purchased.

In a repertoire category you must continuously support the brand. You can't invest in a big promotion and then stop it—people will change back to the other brands in their repertoire. The effort must be constant and only spike around specific occasions, if relevant—Coke at Christmas is a good example. But for more loyalist categories, it may make sense to engage in a major thematic advertising or a PR campaign to help make your brand the preferred brand among loyal shoppers.

Reallocating funds can have a big impact quickly. When a leading juice player discovered that most of its customers weren't loyalists, it shifted the bulk of its resources from advertising to perceived loyalists to in-store activities. The company designed incentives to generate collaboration between sales and marketing to increase shelf visibility and coverage and to catch up with competitors. It invested in broader but shallower and more effective promotional activities. The result: The beverage company halted plummeting sales and achieved a 2 per cent to 5 per cent growth rate in each subsequent quarter.

Provide enough choice, and motivate shoppers to spend more

Leading brands offer the right *range* of products (or SKUs) in each type of outlet—providing just enough choice for target shoppers and appropriate opportunities and cues to trade up to higher price points. Their assortments create visual impact and enable the shopper to navigate the category.

They gauge the right level of choice based on their shoppers' needs and occasions. When it makes financial sense, they tailor that choice to the requirements of the channels and retailers. Consumer products companies need to be careful not to offer too much choice. That can lead to complexity, which creates unnecessary costs. And while shoppers may initially be attracted to increased variety, too much choice may actually reduce the likelihood that shoppers will buy anything at all. One jam company found that 33 per cent more shoppers stopped to browse a display with 24 flavours than a display with six flavours. But when it came to buying, the situation was reversed. Ten times more shoppers actually bought jam from the six-flavour display than from the 24-flavour display.

Growth winners design their assortments to give shoppers strong reasons to spend more and get something better. The fact is, in the UK's current economic climate, shoppers will trade up if they believe they are getting higher quality for their money, particularly on low-ticket items.

Our survey found that half of *all* shoppers bought products at premium or luxury price points at least once over the past year, and these shoppers intend to spend more in 10 of the 17 categories we surveyed. Some categories do a better job than others in motivating shoppers to trade up. More than 80 per cent of all cider shoppers purchased products at premium or luxury price points, compared with only 44 per cent of spirits buyers. And it's not just high-income shoppers who are willing to trade up—more than 20 per cent of premium and luxury spending is from households earning £25,000 a year or less. Winners in these categories are playing across a range of price points, giving shoppers clear reasons to trade up. They don't stick to a niche strategy.

What growth winners do is give shoppers clear functional and emotional cues about product quality to encourage them to trade up. It's something that often is easier to control in an own-store environment. And category dynamics play a major role. One of the main reasons people trade up is gifting. Categories such as fragrances, jewellery and watches, chocolates and personal technology are the main gifting categories. In those categories, winners convince shoppers to trade up by creating compelling gift packages, tailored to target price points and gifting occasions.

A leading global beverage company reversed its eroding market position by optimising its SKU assortment. A joint sales, marketing and supply chain team identified core SKUs, ensured wide availability of the most valuable products and introduced new formats and price points for gaps in its portfolio. They reduced complexity by eliminating the lowest-volume items or those that caused the greatest amount of pain in the supply chain. The result: SKU productivity leaped by more than 20 per cent.

Be proactive and thoughtful with promotions

One of the biggest differences between winners and losers is their ability to have an equal and value-added promotions dialogue with the retailers that sell their products. In our experience, few consumer products companies in the UK do this well today. They're often working with ineffective planning and evaluation tools, and their sales teams fail to execute as well as they could. Promotions are a major issue in the alcohol category. In some subsegments, more than 60 per cent of volume is sold on deal—and sometimes at deep discounts. And the level of promotions is ramping up in other categories, too. These promotions are a huge risk to category value, reducing it by training customers to become "promo junkies", stocking up when brands are on sale and widening brand repertoires. It's almost impossible to win back what was given away in promotions. Instead, it becomes the starting point for next year's negotiations with retailers.

Winners align promotions with brand strategy, pricing and trade terms, and maintain a clear understanding of the profit pool (the total amount of profit earned throughout the value chain and by whom). They co-create a promotions plan with their retail partners, sharing insights into shoppers and their visions of how to grow the category profit pool. They know which promotional discounts and mechanisms get the best shopper response, which changes over time and depends on who else is offering a promotion at the same time. And these leading companies are experts in the trade-offs between promotions and other in-store activation tools. They *teach* the retailer. They also track retailer sales data during and after the promotional period, ensuring an appropriate level of stock and avoiding retailer overbuying.

Activate perfectly in the store

In-store execution is particularly critical in repertoire categories, where in-store activities play a major role in influencing shopper spending. Successful companies ensure that the appropriate assortment of products is available in each type of outlet, in the right place and supported by appropriate point-of-sales materials and sales support.

One major consumer products company deployed a scientific approach we refer to as "perfect sales execution". It segmented stores and made sure each type of store had exactly the right shelf display and point-of-sale execution. A major reason the process worked so effectively: the company created simple rules and incentives for the salesforce and retailers. The disciplined approach to supporting sales execution led to market share growth of 1 per cent to 3 per cent over two years in 10 countries where it launched the program. (To learn more, see the article "Perfecting Sales Execution" on www.bain.com.)

Despite the tough UK environment, some consumer products companies are winning. They are growing profitably through a ruthless focus on the critical battles they need to win—the shoppers they need to target, with distinctive brands, through channels they use to research and shop. And they deliver it profitably through a repeatable model that enables them to deliver at the lowest possible cost—from how they allocate marketing and sales resources, through to their assortment, their promotions and in-store execution capability. Actionable shopper insights are at the core of everything they do.

[1] Research was conducted in June 2011 via an online panel of 6,000 UK shoppers over the age of 18. Results are weighted to be representative of the UK by gender, life stage, region and income.

Top growth mistakes made by marketers and general managers

In our experience, companies that fall short of reaching full potential take predictable missteps.

1. **Assuming their shoppers are loyal when they routinely buy a wide range of other brands.** In such situations, there's little point in trying to cultivate loyalty with big spenders; it's hard to persuade them to change their repertoire behaviour.

2. **Overfocusing on brand positioning at the expense of salience—and failing to follow through with in-store execution.** They don't spend enough time on activities that will make shoppers consider their brand at the point of sale, particularly for repertoire categories. It's less about what they think *about* you and more about making them think *of* you in the first place.

3. **Treating every shopper the same.** In loyalist categories, the most successful companies strive to build loyalty primarily with big spenders.

4. **Misunderstanding what motivates shopper decisions.** Too often, companies don't invest the time to understand or act on the specific influences on shoppers' brand choices and how they respond to in-store promotions, signage, assortment layout, point-of-sale merchandising and advice from shop assistants.

5. **Failing to help brand advocates spread the word about their brands.** In every category we researched, friends, partners, family and experts are the primary or secondary influence on the brands in a shopper's repertoire.

6. **Putting too much emphasis on online and mobile channels.** It's good to invest ahead of demand and shape leading-edge purchasing behaviour, but not at the expense of where target shoppers are researching and buying today.

7. **Offering an overly complicated range of products that fails to offer shoppers relevant choices or reasons to trade up.** Complexity is not only annoying, it's killing you softly.

8. **Failing to be thoughtful and proactive with retailers on promotions.** Recognise that negotiations will only go in one direction if you're not; it's up to you to help them grow the category.

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