Shopper Segmentation

Whose to Use: Mine? Yours? Or Ours?

April 2009
Through our client engagements, we have seen firsthand the challenge of building and aligning shopper segments, for both retailers and manufacturers. The Caprē Group initiated interviews across the retail spectrum to develop some general understandings around the practice and use of shopper segmentations and their subsequent alignments.

The results of these interviews were presented at the In Store Marketing Institute’s In Store Summit on April 2, 2009.

We have included both an abstract as well as the slides from the presentation in this document.

For more details and information, please contact:

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Introduction

Retailer and manufacturer sophistication in the shopper world is leading to tremendous opportunities. However, this sophistication is also leading to increased costs and complexities of doing business. As both retailers and manufacturers learn more about their shoppers needs, desires, and habits, there is an inherent breakdown on how to best go about connecting with the “most valuable” or “strategic” shoppers.

One area where this trend becomes very evident is in the creation and use of shopper segmentations. The Caprē Group took the task of understanding how retail players are navigating this “segmentation world” to best meet both their and their trading partners’ needs. Caprē Group interviewed both sides of the retail fence in order to get a balanced view of manufacturer and retailer behaviors, wins, and learnings.

The Segmentation Challenge

“Business as usual” is no longer the case in the shopper world, with both retailers and manufacturers trying to create better ways to identify and target the highest potential shopper groups.

Sixty four percent (64%)* of manufacturers claim to have developed their own proprietary segmentations while that same percentage of retailers report that manufacturers are aware of their segmentations, but not well versed. The state of segmentation is fueled by the following four influences:

1. Changes in shopper marketing activities and role sort

Manufacturers continue to drive marketing strategies for their brands. Many manufacturers are segmenting shoppers for consumer marketing efforts and laser targeting. The consumer v. shopper equation is becoming much more balanced as manufacturers increase their levels of shopper sophistication and a shopper language becomes pervasive across their organizations.

On the other side of the fence, retailers are becoming more pragmatic and focusing on their loyalty card programs which provide a wealth of valuable data.
This data is then getting sliced and diced by the retailer for improved shelf sets and shopper targeting. Additionally, retailers are also increasing their store brand programming which is creating a unique set of opportunities and challenges as the retailer becomes both the “manufacturer” and the retail market space.

2. Increasing volumes of available data are fueling the ability to segment shoppers

The data world is fragmented. From syndicated studies such as Nielsen and TNS to proprietary sources such as loyalty card data, both retailers and manufacturers have a broad canvas of data sources and approaches to choose from. When aligned, both the manufacturer and retailer benefit from the efficiencies of talking and activating across a common language and shopper set. However, when segments and programs are developed using different sources and methodologies, confusion sets in and so does the power struggle.

3. Segmentation profile choices are plentiful

Generally, manufacturers and retailers are choosing a methodology to segment their shoppers. It is hard enough to get everyone in an organization marching in the same direction. Confusing matters with multiple segmentations can create a level of chaos few companies choose to invite. However, since approaches are quite varied across the retail landscape, many are finding it hard to find the “one size fits all” solution.

4. Lack of efficiencies given “one-to-one” segmentations

Many retailers are requiring that manufacturers “speak in their language.” This is a tough situation for many given the multiple retailers manufacturers generally use to sell their wares. Highly capable account teams work on matching their internal segments to their customers or
just leaving their respective segments on the table in the quest for improved relationships and sales.

“So What”

From our interviews, four common themes emerged for current behavior. These themes provide a solid starting point for building to success in aligning shopper segmentation approaches (and shopper marketing overall):

1. **Persistence Can Drive Collaboration**
   We found that many manufacturers are running into a resistance in regards to gathering shopper intelligence from the retailer. There are many retailers that believe keeping their segments and data confidential will ensure competitive advantage. For manufacturers having to manage through that environment, it is difficult to get enough information to map their segments to create joint wins. However, we found that their mantra was “keep on going at it...don’t back down.” Their advice:
   - Continue to invest and share segmentations that provide deep category insights and guide innovation and activations
   - Create a POV, continue to refine it, and share it often.

2. **Access Appropriate Levels**
   Influencing and understanding shopper segmentation strategies and overall shopper knowledge at appropriate levels is a “work in progress” at many companies. Bottom line is that the discussions on segmentations often lead to major decisions, and thus major impact, only offered by more senior management. Always target to have the most senior audience possible for discussions involving segmentations and go to market strategy. Otherwise, the
conversations are limited and results delayed until the more senior decision makers are involved.

3. **Focus on Desired Activation Goal**
   Developing joint goals between the manufacturer and retailer is pivotal to establish how to best view the shopper segmentation landscape. Segmentation development and application should be aligned with the desired activation (assortment, messaging, etc.) at retail. This has led to companies often developing more than one segmentation. Activations focused on most appropriate messaging may require a different segmentation than those for product placement or assortment. Different segmentation strategies should follow these goals.

4. **Connect with Key Accounts**
   Ultimately, prioritizing retailers or manufacturers in regards to strategic priority will help keep resources and dollars in check. Additionally, defining strategic value and ROI is critical to determine investment levels. Do not discount the value of ‘quick wins’; sometimes the ‘best’ partner to begin working with is not the biggest, but rather the one who is most willing to quickly create success that can be leveraged as a ‘success story’.

**Path Forward**

As costs and inefficiency increase, conflicting and/or unaligned approaches to targeting key shopper groups will generate more angst for both retailers and manufacturers. From The Caprē Group’s perspective, the burden will be placed on the manufacturer. The great news in this scenario is that there will be a “first movers” advantage. Manufacturers that are focused, innovative, and collaborate in the area of segmentation will have the upper hand and will reap similar rewards to those that were first in “category captain” roles.

We believe the key steps in getting your organization aligned and on a path to be a top performer in the world of segmentation are:
These steps will provide focus areas, clarity of outcome, and an action plan on how align and build your organization. With continued pressure on sales and profits given the challenging economic environment, being a leader (or at least in the game) will be critical to secure success today and in the future.

Through our work with major consumer goods marketers, The Caprē Group is at the forefront of crafting winning shopper-centric marketing strategies. Experts at mining and applying shopper insights, we have developed deep understandings of shoppers for 70+ US retailers. Our work has helped clients drive customer integrated brand/shopper connections.

For more information about our products and services, please contact us at:

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Shopper Segmentation

Whose to Use: Mine? Yours? Or Ours?

In Store Marketing Summit
April 2009
Segmenting Shoppers || The changing retail landscape

Today’s Application || How the industry is reacting

What’s Next? || The challenges going forward
Several definitions of Shopper Marketing. All lead to alignment and collaboration at retail.

Alignment of:

• Brand Strategy
• Retailer Strategy
• Shopper Needs
Alignment Toward Joints Wins: *Impacted by Shift of Influence*

**Manufacturer**
- Manufacturer drives marketing strategy & priorities
- Balancing consumer and shopper efforts

**Retailer**
- Implementing loyalty programs
- Increasing sophistication in use of retail data (segmentation): shelf sets, shopper targeting
- Participating in categories (private label)
Survey Says:
*There is Room for Increased Partnership*

Only 43% believe that in-store activity is currently a 50/50 collaborative activity between manufacturer & retailer.

Most are on the edges of either ‘yours’ or ‘mine’!

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**Level of Collaboration With Retailers**

Complete the statement: Generally, our in-store marketing activity is...

- ...completely driven by retailer objectives.
- ...mostly driven by retailer objectives.
- ...a 50/50 collaboration.
- ...mostly driven by our own objectives.
- ...completely driven by our own objectives.

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Source: In-Store Marketing Institute/Shopper Marketing
Variety of Data Presents Alignment Challenges

**Follow the Data!**

- Availability & types of data expanding
- Information basis for collaboration can be disjointed
- Today: 58% of companies say they infrequently or never lever insights for merchandising

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**Top Research Method Used to Obtain Shopper Insights**

- **27.2** We still rely primarily on instinct/experience
- **21.7** Surveys/focus groups/panel data
- **28.3** Scanner/sales data
- **7.1** Frequent-shopper card data
- **8.2** Store intercepts/surveys
- **4.3** In-Store Ethnography
- **1.6** Electronic traffic data (RFID, heat mapping, etc.)
- **1.6** Virtual/computer-generated modeling

*Base: Consumer product manufacturers.*

Source: In-Store Marketing Institute/Shopper Marketing
## The State of Aligning Today: View from Each Side

### Retailers
- 64% report that manufacturers are aware of their segmentation, but not well versed
- 66% cite that manufacturer collaboration leads to enhanced profitability

### Manufacturers
- 63% feel they were well versed in retailer segmentations
- 66% *do not* consistently build programs around retailer segmentations
- 64% have developed proprietary shopper segmentation
- 31% do not have segmentation, but rely heavily on retailer

*Source: PMA Shopper Study*
Both Partners Are Leveraging Influence to Target Shoppers & Drive Strategy

Multiple Bases for Grouping

- Geography-based
- Demographically based
- Behavioral/Lifestyle
- Attitudinally based
- Product Affinity
- Spend/Value
Same Universe of Shoppers: Different Ways to Group Them

Retailer A
- Soccer Mom
- Affluent Professional
- Family Man
- Younger Male
- Small Business

Retailer B
- Value Seekers
- Variety Seekers
- Brand Seekers
- Simplicity
- Premium

Retailer C
- Empty Nester
- Young Single
- Married With Children

Manufacturer A
- Healthy Eaters
- Variety Seekers
- Price Conscious
- Family Convenience

Manufacturer B
- Cooking Lover
- Family Provider
- Health Motivated
- Experimenter

Store || Cross Category

Within Category
‘Many to Many’ Linkages Make Aligning More Challenging Across Industry

SEGMENTATION ALIGNMENT CHALLENGE

RETAILER

1 2 3 4

RETAILER

1 2 3 4

RETAILER

1 2 3 4

MANUFACTURER

1 2 3 4

MANUFACTURER

1 2 3 4


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Retailer Evolution: Different Levels of Engagement

**YOURs**
- Looks to manufacturers for category shopper strategy
- Strong retail strategy

**OURS**
- Strong shopper strategy
- Provides general segment direction

**MINE**
- Specific target shopper segments
- Limited data / insights collaboration

*Joint Win:*
- Category activations that further retailers strategy
- Activations that further shopper strategy
- Activations that impact specific targets
Segmenting Shoppers || The changing retail landscape

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Today: Who is ‘Best’?

MANUFACTURERS

P&G

Unilever

CLOROX

Nestlé

kraft foods

Coca-Cola

RETAILERS

TARGET

Walmart

BEST BUY

Kroger

LOWE’S

Source: Hub Magazine; In Store Marketing Institute
The Caprē Group held informal discussions across the industry.

Probed and developed perspectives on:

- Presence & use of shopper segmentation
- Alignment of initiatives and segmentations with trading partners
- Areas of possible improvement of partner alignment around segmentations

WHAT DID WE HEAR?
Persistence Can Drive Collaboration

Access Appropriate Levels

Focus on Desired Activation Goal

Connect (Link) with Key Accounts
Persistence Can Drive Toward Collaboration

‘Some customers are like a lockbox & won’t share’
Major Electronics Manufacturer // VP Marketing

Approach:
• Moving from consumer to shopper insights
• Created lifestyle segmentation to build shopper understandings
• Seeking to activate segmentation across all aspects of in-store
• Creating selling stories that weave their segmentation w/ retailers

Learning:
• Every customer is important (‘last 3 feet of our product sales’)
• ‘Customers like us talking about segmentations’
• ‘Even if they don’t collaborate, at least they know what is in our head’
• ‘Collaboration still has a long way to go’; we have ‘barely scratched the surface’
'Our merchants (buyers) are hearing this, but it is not getting to the right internal levels'

Office Supply Retailer // CMO

**Approach:**
- Has older shopper segmentation, which is largely going unused
- Wants to engage leading manufacturers in key categories to help develop thinking
- Created a symposium of vendors to talk ‘shoppers’

**Learning:**
- Need to create ability to *engage in higher level discussions*
- Manufacturers who are ‘*ready to play*’ can get greater influence
- *Joint shopper view* will drive success … together!
Focus on Desired Activation Goal

‘Map shopper segmentation approach to the business opportunity & activation goal’

CPG Manufacturer || VP, Shopper Insights

Approach:
• Dug deep into understanding category shopping behavior
• Leveraged scanner data to create product purchase based segments
• Applied segment profiles at the store level to cluster like stores

Learning:
• In-store business goals / opportunities drove segmentation strategy
• Strategic insights led to collaboration with retailers on store level assortment strategies
• Changes in mix (based on store segments) drove business results: fewer out of stocks, better brand / package connections with store shoppers
‘Link internal insights with syndicated / standard data to create key account wins’

CPG Company || Director, Market Research

**Approach:**
- Created a custom, consumer based segmentation for their category
- Tied segment profiles directly to Nielsen household segments
- ‘Tagged’ attitudinal consumer segments with behavioral characteristics
- ‘Crossed’ these segments via syndicated source to individual key retailers

**Learning:**
- Syndicated data provides basis for shopper linkage
- Collaboration drove synchronized strategy against shopper needs
- New product rollouts & in-store design recommendations informed by internal & external shopper views
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Joint Goal Alignment: Remains a Critical Component

Agreement on ‘right segmentation’ for ‘right activation’ approach can help alignment

**Attitude / Lifestyle Groupings**
- Drive messaging
- Influence package design
- Inform new products
- Impact shelf merchandising / design

**Trip Mission Groupings**
- Drive in-store placement / points of interruption
- Inform cross category bundling options
- Impact impulse vs. planned purchases

**Purchase Behavior Groupings**
- Target ‘most valuable shopper’
- Influence in-store assortment
- Drive effectiveness of direct mail
Across Industry: ‘Many to Many’ Linkages in Relationships

SEGMENTATION ALIGNMENT CHALLENGE

MANUFACTURER

MANUFACTURER


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Supplier X:

- Goes to market through hundreds of customers. (Top 10 key focus)
- Has created brand and category segmentation to ensure the best shopper solutions and effective communications.
- Of the top ten customers, 8 have their own segmentation: and expect the supplier to pay for access to data.

Potential Result:

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Segmentation Approach</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer A</td>
<td>Loyalty Card data access</td>
<td>$1 - 2 million</td>
</tr>
<tr>
<td>Retailer B</td>
<td>Direct Mail programs</td>
<td>$1 - 2 million</td>
</tr>
<tr>
<td>Retailer C</td>
<td>Loyalty Card data access</td>
<td>$250 – 500K</td>
</tr>
<tr>
<td>Retailer D</td>
<td>Loyalty Card data access</td>
<td>$250 – 500K</td>
</tr>
<tr>
<td>Remaining top 10</td>
<td>No access/detail</td>
<td>n/a</td>
</tr>
<tr>
<td>Syndicated retail data</td>
<td>Scanner data access</td>
<td>$10 - 20 million</td>
</tr>
</tbody>
</table>
Going Forward: 
Factors for Success For Companies

- Prioritize your customer base
- Define ROI for alignment investment
- Combine ‘art’ and ‘science’
- Invest in capability development
Industry protocol standards for aligning segments

3rd party solution providers create industry methods

‘No Go’ decision: complexity and cost too much to generate return