



New Geo-Demographic Solutions For Effective Micro-Marketing

- *Why do some stores outperform others in certain categories?*
- *Which competitors impact my sales the most?*
- *Which locations will generate the highest sales of new products and how should we stage our inventory?*
- *Which retailers are surprisingly immune to competitive impact?*
- *Where should I put my promotion, display and retail coverage resources?*

Leading businesses are always looking for a better understanding of the variations in their performance. They know that analysis of the retail competitive environment can lead to a greater understanding of sales patterns, profitability and logistical issues. However, the standard approaches using household surveys/panels, neighborhood or zip code demographics, and store ranking/clustering are limited in what they can discern. Still missing are things like actual store-level sales data, competitive impact from all channels or store traffic from non-residential populations, so companies are not seeing the complete picture. In addition, the large amount of data needed, and disparate data sources often required for such analyses have limited the frequency and depth of investigation.

There are powerful new systems now available that enable new ways to link consumer profiles and the competitive environment with store performance, store location and in-store product placement. Geo-demographic information and systems allow for the integration of syndicated and internal company data into powerful, customized micro-marketing solutions.

For example, a U.S. retailer was aware that their sales in some key categories were significantly lower than their overall market share, but they were unsure of the root cause. DHC utilized sophisticated geo-demographic tools from SRC, a leading developer of market analysis tools and systems, to analyze the retailer's sales versus competitors in each store's marketing area. Due to the software's open design, we were able to use a number of different data sources to understand the competitive environment around each store. Since the system can also quickly analyze very large data files, we were able to run numerous "what if" scenarios.

The resulting analysis clearly showed that the "types" of competition around a store had a major influence on category sales. Further, the competitors that had the most impact were ones that the retailer had not really considered to be a threat. The main learning was that the competitors that were stealing sales were not doing any discounting in the categories being studied. It became clear that the keys to driving category sales were improved merchandising and product assortment. Based on these findings, a significant strategic shift was indicated, focusing on aggressive merchandising and improving the consumer shopping experience. Assortment and inventory levels were also analyzed based on each store's potential to generate category sales. The retailer executed different merchandising configurations based on their understanding of consumer segments and the competitive environment around each store.

New Capabilities

This is just one of many ways in which new geo-demographic tools and integrated data can be utilized to develop

actionable micro-marketing solutions. Because of project experiences like these with both retailers and manufacturers, DHC has extended our capabilities through a partnership with Demographic Consulting Inc. (DCI) and Talon Computer Associates, Inc.

DCI helps companies acquire and effectively use micro-marketing systems by offering a unique mix of in-depth knowledge of geo-demographics, advanced quantitative methods, and sophisticated analytical consulting services. DCI is also a value-added reseller of SRC products.

Talon has been developing software applications and integrating complex business intelligence solutions for over 10 years, with expertise in customization and integration of SRC products to meet specific client needs.

By focusing on location of customers, consumers and competitors, our partnership enables us to offer much more powerful capabilities for the following types of projects and services:

- Store, market and chain rankings by estimated consumer potential
- Store clustering analysis
- Competitive impact analysis

There is no longer the need to rely on simple demographics alone. By overlaying store/shopper data, companies can now identify high potential stores and execute things like:

- Targeted product distribution
- Focused retail coverage and promotion
- Store segmentation based on potential
- Tailored assortment

For more information about our capabilities in these areas, please contact Dan Graham in our Mission Viejo, California office at dgraham@dechert-hampe.com or 949.282.0035. Additional information on SRC products can be found at www.extendthereach.com

Reaching Your Consumer: A New Game of Hide & Seek?

For advertisers it is going to get harder and harder to reach consumers. In many ways, it will be similar to the old children's game of hide and seek – “you know they're out there, but connecting with them is a whole different matter.” For example, let's take a group of consumers who will represent 21% of the population in 2010 – “Generation Y.”

These are the children of the “Baby Boomers” who will be between the ages of 15 and 29 in 2010. This is the ethnically diverse segment of the population that in less than 5 years will be going away to school, graduating, “starting out on their own,” getting jobs and starting families. “Generation Y” is a huge group and their numbers will grow 7%, from 62.6 million today to about 67 million. It's a prime group of consumers for advertisers to connect with, but reaching them is only going to get more difficult.

“Generation Y” is the first generation to grow up on line. They're comfortable with new technologies and they respond best to brands that connect with their lifestyles. Today, 86% of their

homes have computers versus 73% just 5 years ago and 74% of those homes have internet access versus 47% just 5 years ago. As a result they are spending over an hour per day on the computer – excluding homework – versus less than 30 minutes per day just 5 years ago. And 73% still read for pleasure, but they do have over 6,000 magazines to choose from.

Based on research recently completed by the Kaiser Family Foundation and Stanford University, kids who are now between the ages of 8 and 18 are multi-tasking more than ever which increases their total media consumption to about 8.5 hours per day – that's 59.5 hours per week or over 3,000 hours of media exposure per year. It's no surprise, then, that experts estimate that Children are being exposed to as many as 40,000 commercials per year.

Here's the really concerning part, though. We've probably all read recently about new digital technologies. Things like the rapid growth of Digital Video Recorders (DVRs) – devices like TiVo® and others projected to be in use in 20% of American homes by 2008. But for that large growing segment of the population we've been talking about, 34% of their homes already have DVRs according to the Kaiser Study. And, if you consider the estimates that 65% to 75% of DVR users typically fast forward through the commercials,... that means the impact of perhaps as much as 6 billion dollars¹ of advertising is already probably being minimized. DVRs and other digital technologies like Podcasting appeal to the consumers desire for media on demand, whenever and wherever they want it. So for marketers, the issue of reaching these consumers isn't one to be thinking about for 2010, or even 2008, it is here, now today!

As the consumer marketplace splinters into smaller and more disparate segments and as lifestyles, values, attitudes, and ethnicity become more diverse, consumer buying behavior will become more complex, as will our means of communicating with them. This will have a profound impact on marketers and also on retailers.

For years, we've all been reading about these trends. And, perhaps, we have become conditioned to thinking about these trends as something that is still a long way off, or something that “my successor” will have to worry about. In fact, the new multidimensional consumer is here now, and they are rapidly customizing their media consumption to their own personal needs.

This article was adapted from a speech given by Lee Nichols, President, Dechert-Hampe & Company, at the JDA FOCUS 2005 Global Conference at Disney World in Orlando, Florida. With more than 4,700 retail, wholesale and manufacturing customers in 60 countries, the JDA Software Group is a global leader for integrated demand chain software.

MEDIA CONSUMPTION: 8-18 Year Olds

| | 1999 | 2004 |
|-------------------------|------|-------------|
| Media Time Per Day | 6:21 | 6:19 |
| Media Multi-Tasking | 16% | 26% |
| Total Media Consumption | 7:29 | 8:33 |
| Home Computer | 73% | 86% |
| Home Internet Access | 47% | 74% |
| Time on Computer | 0:27 | 1:02 |
| Homes with DVR | N.A. | 34% |

Sources: The Kaiser Family Foundation, 2005 *American Demographics*, 2004; IDC 2004-2008 DVR Forecasts; U.S. Bureau of Census; The Yankee Group; *Business Week*, 2004

Shift in spending expected to result from more consumer control

Over 89% of respondents to an exclusive survey conducted jointly by Advertising Age and the American Marketing Association said they have changed their media mix to respond to new technologies and an environment where the consumer is more in control. A three year forecast shows significant spending reductions expected for mass-media vehicles – 69% and 29% of respondents projected reduced spending for network TV and print advertising, respectively. Conversely, 61% of respondents are expected to *increase* spending at point of sale, and 66% of respondents expect *increased* spending on event marketing.

Source: 3/4/05 *Advertising Age*

⁽¹⁾ DHC estimate