

## **Aisle Mastery: “What You Don’t Know Can Hurt You” How Leading Companies Compete for Space**

By Kurt Jetta and Jeffery Joyner, TABS Group

Much has been written and said in our industry about what are the common elements of success for winning at retail? Obviously, in an industry as vast and differentiated as consumer packaged goods (CPG) there are no fast and simple answers that guarantee success. We are endowed, however, with the most complete and accurate databases of category dynamics in the world. Surely between the syndicated and household panel data from IRI and ACNielsen, the dozens of consumer research companies, the store-specific demographic information from SPECTRA and a host of powerful analytical tools to digest this data, there should be some consensus as to what factors will improve the chances for success. Unfortunately, due to a number of factors too numerous to mention, there is no real consensus as to what are some of the key drivers of success for CPG brand. After closely analyzing dozens of food and non-food categories, there are, in fact, several factors that will greatly improve your chances of success at retail.

First of all, the question must be asked is “Who’s Winning at Retail?” Can we characterize these types of brands or companies? The answer is a definitive yes. We know that, in general, smaller brands are outgrowing larger brands and private label (PL) is outgrowing branded products. TABS Group recently conducted a major study of retail sales trends for 12 CPG categories across a representative list of food and non-food categories. Such categories as carbonated beverages, salty snacks, hair care, cosmetics, shaving, oral care and cereal were included in this analysis. Within each category, brands were placed into three buckets: mega brands – at least 10% category share and annual company revenue of at least \$1 billion, secondary brands – all non-PL items that didn’t fit the mega brand definition, and private label. In rare instances, secondary brands were from mega companies, but the vast majority of sales from the secondary brands came from smaller companies, less than \$500 million in annual revenue and usually less than \$100 million. The data sources were a combination of IRI and ACNielsen for the food/drug/mass less universe for the period ending November 2005.

For each category, year-over-year sales trends were calculated for each brandgroup: mega vendor, secondary brand aggregated and PL. The median and average results for both the latest 12 weeks and 52 weeks across the 12 categories were calculated and the results are provided in Figure 1. As can be seen, private label clearly outperforms branded in all time periods. It should be noted, though, that in the categories reviewed, PL rarely had a share of 5% or above. More importantly to those in the branded world, secondary brands consistently outperformed mega vendors (8 of 12 categories), although the differential was not dramatic. Furthermore, mega vendors rarely had results that significantly outperformed the category. Across all branded observations (80 combined for mega and secondary), only 12% of the time were sales 5% better than the category average. As far as weak results for the mega vendors go, these conclusions corroborate information provided by the public companies in their quarterly earnings reports. Some major companies have discussed sluggish revenue trends as reasons for disappointing earnings over the past year.

## Why Are They Winning?

Do these results surprise you? After all, given the resources of the mega vendors and the constant undercurrent of vendor consolidation whispers from retailers, most people would have expected a clear win for the big guys. The opposite, however, is true; secondary vendors are hanging in there and are discovering ways to hold and grow share and shelf space. Regardless of the size of the vendor that's winning, there are a few common elements in the way the winners achieve these results.

1. **FORCE Approach:** This is a topic that has been addressed in this magazine before. FORCE is a Selling Process that is Fact-Based, Objective, Reliable, Credible and Easy (ECRM Focus, Marketing Services October 2005). Almost all manufacturers use data and information in their selling process. I don't intend to rehash the points made in that article, but I would like to focus on one element of the FORCE process, *Credibility*. *Credibility* is established by following all of the other steps of the FORCE process. It is also established by industry-accepted standards of information. E.g. industry sales estimates provided by industry advocacy groups are generally not credible since they are developed with an agenda in mind. Using their information only undermines your own credibility.

Credibility is ultra important in understanding the elements of winning at retail. Many buyers argue and the facts support that many mega vendors don't sell from a fact-based selling platform. Time and time again we here numerous retailers complaining of long-winded sales presentations in top-to-top meetings where the content of the presentation was to rip the competition. These types of presentations often mask certain manufacturers' own mediocre results. They are often designed to grow one's own business and not designed to grow the retailer's business necessarily or the category as a whole. What buyers really need is for the seller to help them understand how much money the buyer would make if they followed the presenting vendor's recommendation. This would force seller and buyers to correct conclusions using the rich data that is available to move tactically and strategically to excellent decisions. Mega vendors clearly have the opportunity to perform in this manner but sadly many do not at present. Given their lack of impact using data, the only tactic that seems to work at gaining incremental distribution is to commit to a multimillion dollar advertising campaign that compels the retailer to accept the new items.

Contrast this approach with that of smaller vendors that lack the luxury of spending tens of millions of dollars on advertising. Large brands often win at retail by intelligent use of fact-based information that withstands the scrutiny of the retailers and their larger competitors.

2. **Promotional Commitment:** While this still remains to be formally proven, it is our experience that smaller vendors spend a higher percentage of their sales on trade promotion than larger vendors. While larger vendors prefer to “invest in the consumer,” smaller vendors, that lack the big dollars for advertising, default to using their marketing dollars on trade spending. According to the last Cannondale’s *Trade Practices Benchmarking Study* (’05), the vast majority of large vendors are dissatisfied with trade promotion: half said that it was “a cost of doing business,” and only one-third claimed their spending was “under control.”

Our studies show, however, that trade spending has huge incremental sales impact at retail (see *Chain Drug Review*, Oct. 27, 2003), and is more effective than consumer advertising at increasing sales within a two year period. Therefore, it follows that companies that spend a higher percentage of their sales on trade (smaller vendors) will outperform those that do not (larger vendors), all other things remaining equal. That is not to say, however, that the high trade spend companies are doing it profitably. What can be said is that given a very predictable retail sales effect from retailer promotions, there is an attainable path to profitability with this spending. The only way to get there, though, is to make a significant commitment to the spend percentage (15% of sales or more).

3. **Expanded and Flexible View of the Retail Environment:** Manufacturers that make fact-based recommendations in the context of an expanded view of the section are more likely to win at retail because they’ve considered a greater degree of competitive options prior to making the recommendation. If you are a supplier of acne medication only, your probability of success is greatly increased if you project results in the context of all skin care and not just other acne recommendation. Maybe acne doesn’t warrant the time and attention of the buyer if face cream has greater potential. Conversely, you may find that acne is far more productive than all the facial moisturizers and deserves more space. Without the data of an expanded aisle view, you’ll never know

Having a custom and flexible view is especially important in specialty bath where each retailer has their own merchandising scheme for the category. Some integrate it with the mainstream products. Others have a special part of the store carved out for the indulgent bath and cosmetic products that you might expect to find in specialty stores. Winning companies have tools that enable them to align their view of the data with the retailer to whom they are presenting.

4. **Line Extension Strategy:** Any retailer will tell you that the level of line extension activity by vendors, particularly large ones, has gotten completely out of control. As we've already seen, the sales aren't increasing (only 1% growth) but the number of SKUs and new subbrands continues to grow. Most of these extensions are cynically designed to hold shelf space when other of their items are cut or to slice market share from a successful competitor.

Smaller vendors, by contrast, typically lack the marketing infrastructure to keep the new product pipeline cranking. There is no bureaucracy of new product managers whose sole job is to develop new products. Therefore, it is more common to see these smaller vendors save their new products for truly unique or innovative products. Clearly larger vendors are capable of breakthrough or at least meaningful new products. It's just that too much of their new product activity is based on quantity vs. quality.

So we have four basic strategies that greatly enhance the probability of retail success and aisle mastery: 1) a FORCE approach to Fact-Based selling, 2) a significant commitment to profitable trade promotion, 3) an expanded view of the retailer environment – (aisles vs. categories), 4) and an innovation-based line extension strategy. What's notably missing is a significant investment in consumer communication. Most research – including our own – shows no or low impact for most advertising of established brands. It is almost certain that the large vendors spent a much higher percentage of sales on consumer spending than smaller vendors during our analytical window, but they had nothing to show for it I could probably do another article on those strategies that don't enhance probability of success. Among these would be aesthetic package changes, huge category management infrastructures, certain sales organization structures and many other low-impact strategies. Suffice it to say that any company wishing to deliver superior results at retail should focus on those strategies with proven success and lower your sales and marketing investment behind anything not on that list.

Now that you know about the key elements to retail success what do you do about it? If it is true that a paradigm shift is possible and that the person with the most knowledge can win, then why not seek more knowledge?

Good Selling!

*Kurt Jetta is president and founder of TABS Group, a company with expertise in consumer analytics. TABS Group consults for dozens of companies across a variety of categories. He is currently a Ph.D. candidate at Fordham University specializing in consumer demand theory and its effect on dynamic equilibrium processes at retail.*

*Jeffery Joyner is an executive advisor to TABS Group and is president and founder of J. Joyner Group, LLC, a company engaged in developing business-to-business partnerships and strategic marketing relationships. Mr. Joyner is the former president and COO of ECRM. He currently provides guidance to a number CPG retailers and manufacturers on many of topics.*