

## Supplier News

# Foot care is a microcosm of overall H&BA market

By Kurt Jetta

In the overall scheme of health and beauty care it's hard to get worked up over the foot care wall. After all, the category has delivered results over the past 18 months that can only be termed resoundingly mediocre. Of 56 HBC categories tracked by Information Resources Inc., it ranks right in the middle at No. 28, with just a shade over \$700 million in annual mass market retail sales. Its growth rate of 2.8% is just barely above the median HBC category growth rate of 2%.

But hold on, there is a reason for retailers to look deeper into foot care, particularly the device wall, which accounts for 50% to 55% of the sales. Consider that on the foot care wall there has been a huge increase in the amount of consumer spending, there have been big increases in the number of ultrapremium items from huge HBC companies, there have been significant consolidation pressures from the large retailers and vendors, and there have been several meaningful product innovations. Despite all this, the foot care wall continues at its sluggish 0% to 3% dollar growth rate and an actual decline in unit sales in the 1% to 3% range.

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Quite simply, foot care takes on added importance because it is a microcosm of the issues that merchandisers face in every category. At our company, TABS Group, we have analyzed hundreds of planograms at dozens of retailers across most of the HBC categories. Based on all of this analysis, we can confidently conclude that an understanding of what's working and not working in foot care translates into an understanding of the majority of other HBC categories. Here are our findings:

- In the vast majority of cases vendor consolidation and SKU reductions don't work.

We have seen several national retailers in both the United States and Canada post double-digit gains in foot care. The common denominator at all of these retailers is that they offer a broad brand selection, and their growth has been driven by the smaller brands, not the megavendors.

Conversely, the weakest retailers and channels, particularly in food, have concentrated their assortment almost entirely on the huge vendors.

- Conversely, increased SKU count and consumer selection by brand, price point and product features translate into incremental sales.

Foot care is one of the few HBC categories where we have consistently seen the drug channel outpace the overall

market and even Wal-Mart Stores Inc. It is doing this despite having prices that are usually 20% higher than those at discounters.

It's not just foot care where we see gains driven by broader selection. In over 90% of the instances studied increased SKU count translated into meaningfully higher sales. Typically, we see about 50% of the sales on the incremental items being incremental to category sales.

- Heavy advertising rarely translates into a meaningful sales increase.

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There have been huge increases in the ad spending levels of Schering-Plough Healthcare Products, maker of the Dr. Scholl's brand, as it has invested marketing dollars in high-profile placements, like the sponsorship of the *Survivor* television series. During this time its unit sales actually went down, and its dollar sales were only marginally higher than pre-advertised levels. Novartis (Lamisil Strideguard) and Johnson & Johnson have also invested significant marketing funds in foot care devices. Neither have very impressive results to show for the investment.

These results are consistent with an increasingly robust body of evidence that consumer advertising in Year 1 has little or no effect. According to a study done by John Philip Jones, it is rare for an ad campaign to generate even a 10% increase in sales. Despite these results, vendors and retailers continue to justify SKU expansion behind big brands because they are "spending behind the consumer."

- True innovation is the primary driver of category growth.

Foot care offers plenty of examples over the last several years of true product innovation driving growth. Lamisil AF Anti-Fungal was a blockbuster item that drove big gains in the foot care medications segment because of its improved efficacy. For a few years Dr. Scholl's was driving solid gains on the device wall with ultrapremium launches like the Advantage and the Dynastep.

The most recent innovation has come from a relatively small player in the category, Profoot. Its Triad orthotic inserts have

the product.

- Some types of duplication product assortment are better than others.

"Duplication" is among the most overused terms in category management. What retailers and self-serving vendors regard derisively as duplication consumers positively regard as choice. Even two identical products with the exact same features at the exact same price offer consumers a distinct choice, because consumer experiences with and perceptions of various brands can differ.

It is axiomatic, however, that a greater amount of choice delivers more incremental sales than a lesser amount of choice. Retailers, then, can ensure a meaningful level of choice between two otherwise identical products by differing the price.

Foot care is no different than other categories in that manufacturers will try to "knock off" products that are successful. That is not necessarily bad; if a product segment is popular, consumers will want more choices.

Retailers can maximize their profits on the knock-offs by ensuring a sufficient amount of pricing differentiation between these similar products. They can either go lower and bring in the more price-sensitive consumers, or they can go higher and trade up the consumer to a higher penny profit item. By pricing the knock-off item at parity to existing items a retailer relies solely on the strength of the brand — and no other factors — to expand the size of the segment.

Lessons learned from foot care can hopefully be expanded into almost every other HBC category. Basic blocking and tackling principles — things like offering consumers real choice, supporting vendors that provide true innovation, and balancing the assortment between both large and small vendors — can give retailers a competitive advantage.

helped drive 50% increases in the company's business. As noted above, these gains have translated into category growth at the retailers that have taken these items.

- There are many different ways to innovate other than just different product features.

In addition to product and technology innovations, manufacturers can innovate in other areas to drive sales. In some of the megacategories, such as soft drinks, packaging has been one of the most vibrant areas of innovation. On a much smaller scale Pedifix has provided meaningful packaging innovations to help communicate difficult-to-understand product features for toe pads or other specialty inserts.

Procter & Gamble Co. has always been an innovator with product ingredients that deliver certain benefits. Many people can identify T25 as the key ingredient in Scope mouthwash. Similarly, Profoot has distinguished the Triad insert with the unique designator of "Orthotic" to communicate a professional or medical imagery to