





# LEVERAGING SHOPPER INSIGHTS, *Locating Store & Product On the Price/Value* LADDER

*HOW MUCH DO YOU KNOW ABOUT “SROI” (Shopper Return On Investment)? If you’re like most CPG manufacturers and retailers, almost certainly not enough — yet more and more, understanding how shoppers evaluate their store and product options is critical to sustaining your sales, profits and growth. So read on ...*

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*Expect to see retailers move more aggressively towards a more vertical merchandise ladder in the next year or two in key categories. Items that do not help the shopper make a more useful choice on the shelf will be removed by the smartest retailers in the marketplace.*

*The next generation of category management will be more about constructing meaningful merchandise ladders at shelf so shoppers can make better decisions, rather than simply shuffling the facings of items that are virtually interchangeable to the shopper.*

■ TODAY, FEW AREAS ARE MORE DISCUSSED BY SUPPLIERS AND RETAILERS THAN SHOPPER INSIGHTS. Everyone realizes the importance of the critical moment of truth — the moment shoppers meet the retail environment.

Yet, the state of this research remains in many cases fragmented, informal and anecdotal. The suppliers funding much of this work are finding it difficult to move the conclusions beyond the specific category / retailer being studied. Retailers are increasingly frustrated by insights suggesting solutions that fly in the face of what they know to be true, or that are impossible to execute.

WHAT’S THE PROBLEM HERE? Our philosophy is that this research is missing two key elements:

- 1) *Processes* to tie these insights into the core work that retailers and suppliers already do, in order to meet their shopper's needs
- 2) *Frameworks* to understand how to think about



Today's retailers use their emotional connection to the shopper to develop functionally different products that can establish themselves as premium brands. Costco's Kirkland Signature is a great example. Costco doesn't market Kirkland on price alone; on many products, Costco takes great pains to explain how the Kirkland-brand product is functionally superior to whatever else the shopper could buy.

these more broadly, to enable the reapplication of learnings and best practices.

This article explores the concept of "Shopper Return On Investment" — a simple framework for understanding shopper insights from the shopper forward. We'll also look at some top-line implications of that framework for pricing, promotion, assortment planning and branding.

SHOPPER INSIGHTS REMAIN A KEY PART OF ALMOST EVERY MAJOR MANUFACTURER'S STRATEGIC AGENDA. But in MVI's research and work, we often find that "shopper research" can

mean different things to different companies. Frequently it means simply repurposing existing consumer data and focusing it on in-store activities such as promotional planning or planogramming.

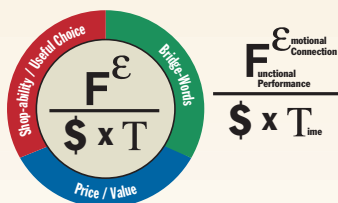
On the other hand, many companies have embarked on far more systematic research. In fact, when MVI did a survey of approximately 30 large CPG companies earlier this year, the survey revealed that shopper insights were a significant strategic imperative for two-thirds of respondents (see chart, opposite page).

The most interesting piece of this feedback, though, came when we looked at where these same 30 companies thought they were in terms of shopper insights and their use inside their organization. As the second part of the chart shows ("Actual State of Shopper Research in Companies Today"), most of the responding companies (again, two-thirds of all respondents) understand shopper insights either:

- Topically, around a few customers and / or topical areas, or
- Anecdotally, supported with just a few studies.

### The Shopper's ROI Calculation

Four Inter-Related Criteria  
Determine Value for Him/Her



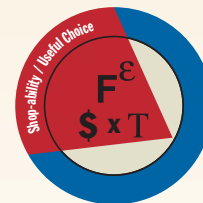
### The Shopper's Trade-Off

Money / Time, Price / Value



### The Connection:: Functionality & Price/Value

It's About Shop-ability, Useful Choice



AT SOME BASIC LEVEL, EVERY SHOPPING TRIP A CONSUMER MAKES IS AN INVESTMENT. The return a shopper gets might well be written as an equation: "F to the E," or functional to the emotional power. Shoppers clearly get a functional return out of shopping: The product was in stock, it was on the shelf, it was priced right. But today, the retailers winning in the marketplace are those who can drive an emotional connection at the same time. Today, in retailing as everywhere, the link between function and emotion is the heart of great branding.



Shopping carts as full as this one of unplanned purchases are motivated not by a pennies-per-ounce savings, but by Costco's understanding of shopper ROI — in this case, the thrill of the (treasure) hunt.

NOWHERE IN THE CONSUMER PRODUCTS LANDSCAPE IS THE GAP between strategic importance and capability larger than shopper insights. Mission-critical to everybody, the irony is that few companies (only seven percent of survey respondents) feel that they understand shoppers systematically and well enough to make strategic decisions based on their insights.

This presents an enormous opportunity, especially for manufacturers who want to get to best in class, but trail a significant competitor in capabilities.

That's one reason we think shopper insights and shopper research will be one of the most exciting areas of work for manufacturers over the next one to three years.

WHY THE DISCONNECT BETWEEN STRATEGIC IMPORTANCE AND CAPABILITY? Again, the processes and frameworks are lacking.

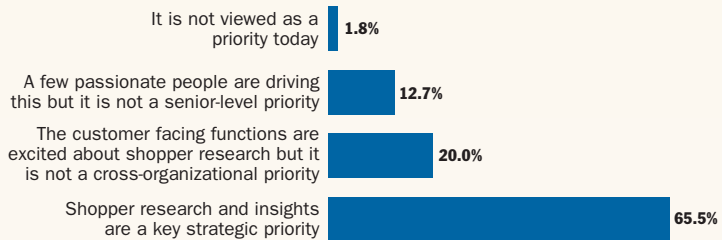
■ **PROCESS.** There are at least four key areas where shopper insights need to find their way into a CPG company's core work:

■ **Category management.** If planograms were designed from a shopper's perspective, would they look like they do today?

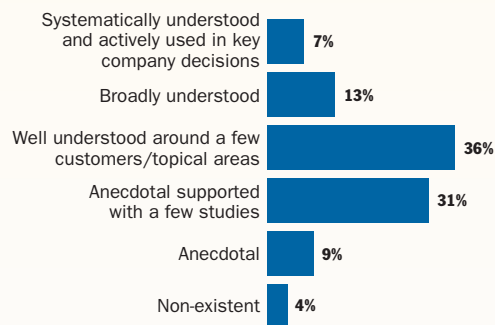


### Importance of Shopper Research: To Companies Today

Q: How Interested in Shopper Research is Your Company?



### Actual State of Shopper Research In Companies Today



**For all the importance CPG and retailing companies place on shopper research, most say it falls short of their needs in their own organizations.**



■ *Promotional planning.* Promotions today are built largely around business results that *have little to do with the shopping experience.* Manufacturers deploy them to revive brands or inspire trial. Retailers use them to drive traffic.

A good question: How would promotions change if their focus was to *enhance the shopping experience?*

■ *Pricing.* Again, business results and margin enhancement tend to drive most retailer-manufacturer

pricing discussions. Little thought is given to *how shoppers use price to make decisions.*

■ *Shopping experience.* How do we design a truly shopper-friendly shopping experience?

■ **FRAMEWORKS.** Though frameworks can sometimes be mechanical — and a company that employs a lot of consultants may have more frameworks than it can reasonably use! — frameworks are *enablers.* They allow companies to reapply what they know broadly across their organization.

Currently, shopper insights is a field that lacks these reapplication frameworks. As a result, shopper-centric ideas get trapped inside organizations.

So, let's start with a simple shopper-centric framework, and try to understand its

implications across the CPG company's core work areas.

### Shopper ROI: What Does It Mean?

AT SOME BASIC LEVEL, EVERY SHOPPING TRIP A CONSUMER MAKES IS AN *INVESTMENT.* It is not an extreme leap to assume that a shopper will be looking for a return on that investment. The key questions (as in any ROI calculation) are:

■ **What is invested?** The obvious investment a shopper makes is money; price/value has been a big part of shopper communication since the first retail store was opened in ancient times.

But the fact is, *shoppers invest more than money* in a shopping trip. They invest *time* — and time (even for relatively low-income shoppers) is as important, if not *more* important than, money.

The ability to maximize this tradeoff, to understand it and leverage it well, will be key to how retailers succeed in the marketplace. Understanding how to lever-

### Emerging Today: Three Layers of Price Elasticity



**Caption**

Left, when a Costco member goes in and spends several hundred dollars on an unexpected "find" such as Oriental furniture, or, right, an Omega or Breitling watch or diamond ring, there is clearly an emotional connection to the shopping environment, merchandise or value proposition.

age the right connection between money and time at a shopper level will separate the leaders from the also-rans.

■ **What is the return?** The return a shopper gets might well be written as an equation: "*F to the E,*" or *functional to the emotional power* (see page 00). Shoppers clearly get a *functional* return out of shopping: If all goes well (as far as it goes), they get what they're looking for. The product was in stock, it was on the shelf, it was priced right. They checked out without incident.

BUT WHEN A COSTCO MEMBER GOES IN AND SPENDS SEVERAL HUNDRED DOLLARS, it is not just a pennies-per-ounce savings on mayonnaise or toothpaste to which the shopper is responding — it is clearly *an emotional connection* to the shopping environment, the merchandise or the value proposition. Today, the retailers winning in the marketplace are those who can drive that emotional connection at the same time.

That is why we see **emotion** as having *exponential power* in terms of how retailers and, in the end, CPG companies connect with their shoppers. It's the link between functional and emotion that is at the heart of great branding.

### Shopper Investment: Linking Time & Money

IN A WORLD WHERE FOOD SHOP-



PING HAS FUNDAMENTALLY CHANGED, both retailers and suppliers need to come to terms with the trade-offs shoppers make between their two investments in a shopping trip — again, *time and money*.

How fundamental is the food shopping change? Consider a simple issue — the time average Americans now spend preparing dinner. Last year's Unilever Trip Management Shopper Study concludes that four of five American households still make dinner at home, but their average dinner now takes *just 12 minutes* to prepare!

This fact has a related impact on shopping trips: The same survey revealed that 62 percent of all trips for groceries are "quick" — shoppers are buying fewer than five items.

The implication of the latter trend on shopping formats and store layouts has been well-explored. But it's worth pondering how the trend to quick trips impacts a retailer's value proposition as well — which is to say, the core connection between *time* and *money* as integral to a retailer's brand.

The chart "Shopper's Trade-Off" (page 00) establishes the denominator of our "SROI" (Shopper Return on Investment) equation — the connection between time and money.

AT AN OVERALL VALUE PROPOSITION LEVEL, NOTHING IS MORE SIGNIFICANT in this regard than the number of retailers now moving to EDLP. Many commentators have oversimplified this strategy, citing it as a simple response to Wal-Mart and



**Trader Joe's does a brilliant job of managing the shopping basket. A shopper might buy 20 things and spend \$40. Trader Joe's creates value with its own non-comparable brands, with low unit costs, and with relatively small pack size, to make shoppers feel they are getting a lot for a little.**



an attempt to lower prices

AS IN MANY ASPECTS OF THE SUPERMARKET INDUSTRY, WEGMANS HAS BEEN THE FLAGSHIP EXAMPLE of this. The simple Wegmans message of "Buy what you want when you want it" acknowledges the fundamental connection between money and time. Wegmans, perhaps in some ways better than Wal-Mart, understands the value it creates for its shoppers by *simplifying the promotional messaging*.

But other supermarket chains have either moved to EDLP or dramatically recast their promotional planning.

Raley's CEO Bill Coyne articulated the issue well, in the announcement he / the chain made last May 4, on deciding to move to EDLP on 5,000 key items:

"We constantly listen to and respond to our customers. They've told us they love our stores, especially our high-quality meats and produce. But they've also told us that our traditional pricing structure — with fluctuating prices — made it difficult for them to simplify their shopping."

An excellent example of a retailer that understands this money / time

tradeoff at a core level is Amazon.com. Its strategy has always involved allowing customers to pay more to get a product more quickly, or pay less for shipping if the product can take its time arriving.

Even retailers who choose not to move in the EDLP direction will need to find ways to simplify and /or demystify their promotional strategy, because today's shoppers just do not have time to spend trying to figure out what's on sale where. That is too much investment.

AGAIN, TIME IS WHAT'S IMPORTANT. An illustrative example is Target. Target gets a lot of attention for its funky, chic "expect more" advertising. But an under-rated element of its brand iconography is Spot: The little dog with the bulls-eye appears liberally in Target's ads for its "pay less" for everyday "need" products. This icon reinforced in the store in ways allowing Target shoppers to quickly find items that are on sale.

The key long-term transition is from using promotions purely as a volume driver to really understanding the phrase "promotional strategy" — quite simply, fewer promotions, more strategy.

Fewer promotions mean *better* promotions (or should), and better promotions mean promotions aimed at *fixing shopper-related business challenges*. Long term, we expect that suppliers will have a tool-box of strategies they can use to use against shopper-related business challenges.

IN OUR VIEW, THE REAL WORK OVER THE NEXT 12-24 MONTHS will not be determining the answer, but *defining the questions*. CPG manufacturers will need to work through all of their shopper research to focus in on the questions being asked. Only by so doing will they be able to reapply answers in the most effective places.

For example, if we are going to be right on price — on which items?

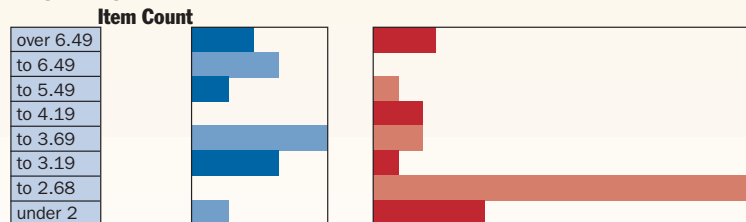
Price elasticity is another interesting area in which much work remains to be done. Historically, manufacturers and retailers have had two completely different perspectives on this issue.

Manufacturers look at pricing differences between their core items and other items in the category; retailers have a part functional, part emotional attachment to not being beaten on price by the store down the street.

The key to seeing the shelf from the shopper's perspective is to recognize that the items and the prices on the shelf are having a conversation with each other, and with the shopper. In essence, 30 different people are all talking at the same time, with 30 different points of view.

## What Choice Do You Want Consumers to Make?

Stop & Shop vs. Whole Foods Merchandise Ladder



- Retailers will need to focus on the desired outcome—the core of differentiation will be around guiding the consumer to make the preferred choice.
- Our job will be to help them decide how to communicate this to the consumer—and to position our own products for success within that space.

This gap is occasionally bridged by good work done mostly in one-to-one partnerships between suppliers and retailers, facilitated by consulting / software companies.

Even with that good work, though, we continue to see price elasticity playing out with shoppers at three interlocking and fairly complex levels (see chart, page 00):

■ **Item-level price elasticity and the market basket:** Suppliers have contended for many years that their items should be promoted or displayed because of the size of the market basket associated with that item.

This discussion will certainly get sharper and more sophisticated. At the item level, Kroger continues to do interesting work in conjunction with its data mining partner, Dunhumby. In addition to the item-level price sensitivity work (does the shopper know and remember the price of that item, etc.), what Kroger appears to be trying to do, in terms of understanding item-level pricing, is **getting item-level pricing right on items that drive market baskets of less-price-sensitive items.**

These, of course, are the things that the retailer really wants to get right — item and price — because doing so can enable the retail company to unlock the potential of that market basket.

■ **Category-level pricing and**

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**price complexity:** One of the great appeals of the discounters (Dollar General and Family Dollar in particular) is *simplicity of pricing*, which is to say, ensuring that shoppers can *easily and quickly understand the value proposition.*

An assessment of almost any supermarket category can quickly reveal the challenges the conventional retailer has in this regard.

The toothpaste category is an oft-cited example: A conventional discounter or supercenter can have over 200 SKUs in toothpaste; Wal-Mart in particular can have over 30 different price points.

Now, Wal-Mart loves to do this, because its basic strategy is to put all

different prices on its items in order to look like it is passing the product on through to consumers at cost plus markup, saving them money.

The challenge for shoppers is that if they are not sure what toothpaste SKU they want to buy at the shelf, it can be difficult to understand Wal-Mart's value proposition.

The key to seeing this from the shopper's perspective is to recognize that the items and the prices on the shelf are *having a conversation*. They're having a conversation with each other, and with the shopper. In essence, 30 different people are all talking at the same time, with 30 different points of view. Not surprisingly, it gets very hard to figure out exactly what is being communicated.

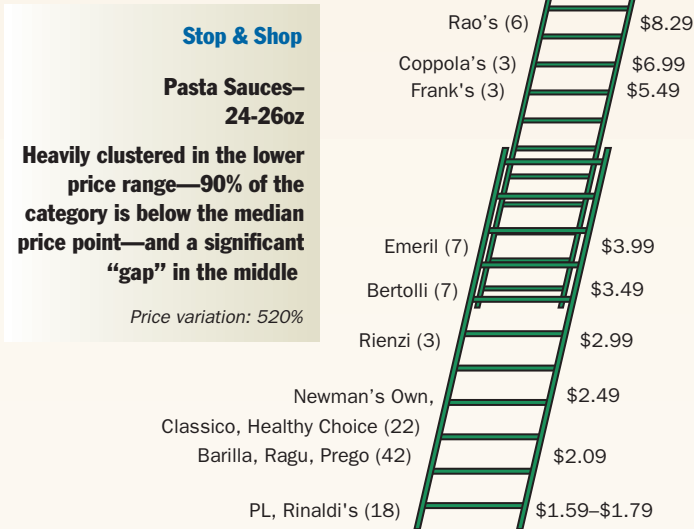
GETTING CLARITY AROUND THAT CONVERSATION WILL BE THE CORE OF MUCH OF THE WORK manufacturers and retailers will engage in regarding shopper insights over the next 12-24 months: *How much complexity and choice can a shopper manage? How complex is that conversation? How does the conversation at the shelf get more coherent and clear?*

■ **Basket-level pricing and managing the total ring:** The retailer's challenge with price elasticity is that a significant part of the price impression that shoppers form about a retailer is made *when they pay* for something. So when they



**“Useful choice” assortment in action can be seen in pasta sauce, by comparing Whole Foods, a food retailer growing faster than almost any other in the US, with Stop & Shop, a good but relatively moderate-growth food retailer (this comparison would be valid with almost any other mainstream US grocer). The Whole Foods section (left) has 60 percent of the SKUs (67 vs. 111) that Stop & Shop offers, simplifying the choice for shoppers.**

### The Price Ladder STOP & SHOP EXAMPLE



actually hand over money at the register, *that's* when the shopper decides whether that retailer is expensive to shop or not.

One retailer doing a brilliant job of managing this is Trader Joe's. When a shopper walks out of there, they have an almost “anti-Costco” experience: Shoppers can have 20 things in their basket and spend \$40. Trader Joe's creates value through low unit costs, and also with relatively small pack size, which makes shoppers feel they are getting a lot for a little.

Basket-level pricing is a big piece of how retailers will think about creating value; it has tremendous implications for how retailers manage everyday price.

### The Price Ladder WHOLE FOODS EXAMPLE



THIS HELPS EXPLAIN WHY TARGET CONTINUES TO TRY TO MATCH WAL-MART on like items: It's not because Target is trying to beat Wal-Mart on price perception, but because Target is trying to keep the *market basket* of its trip more comparable to the *market basket* on a Wal-Mart trip.

Target's challenge Target is that much of what it sells is at higher price points than Wal-Mart (due to product quality and taste level). The problem is that if Target does not match Wal-Mart on like items, its perceived market basket will be too high.

This is why Target shoppers invariably say Target is more expensive than Wal-Mart, even if they

**One retailer outside the food industry that is extremely good at helping consumers navigate the shelf is Lowe's, the DIY chain. Lowe's is a great benchmark for understanding how to manage highly SKU-complex categories at the shelf.**



have paid the same price for comparable items. To shoppers, Target *seems* more expensive because their market basket is higher than it would have been at Wal-Mart!

For retailers, understanding how shoppers react to their *total market basket* will be a critical piece of shopper understanding. In fact, it may be in some retailers' interest to manage the total market basket *down*, in order to keep the "sticker shock" at the register less ... well, shocking.

### Shop-ability and Useful Choice: Adding Functional Return

The third chart on page 00 highlights one element of shopper return: The shopper invests time and money and gets a *functional* return out of the shopping trip. The key concept here is **shop-ability**: *Can the shopper make a faster, easier, better decision at this store than he or she could make anywhere else?*

The implications of trying to help a shopper do this reach well beyond the work that retailers and suppliers do together.

Most work done to improve the shop-ability of the category has been in two key areas:

- **Point of purchase**, *e.g.*, educational signage or simple shelf navigation signage;
- **Brand-block** or **variety-block**

*The key to understanding today's crowded categories — toothpaste, say — from the shopper's perspective is to recognize that the items and the prices on the shelf are having a conversation, with each other, and with the shopper. In essence, 30 different people are all talking at the same time, with 30 different points of view. Not surprisingly, it gets very hard to figure out exactly what is being communicated.*

**planograms**, *e.g.*, helping the shopper navigate the shelf

One retailer outside the grocery industry that is extremely good at this is Lowe's (*the DIY chain, not the North Carolina food retailer, though the latter is good, too*). Lowe's is a great benchmark for understanding how to manage a highly SKU-complex category at the shelf.

MANAGING A TRULY SHOPPER-FRIENDLY SHELF IS HARD WORK. It requires managing the shopper navigation through *useful choice at a product level*.

An interesting example of this can be seen in a fairly normal category, pasta sauce, by comparing Whole Foods, growing faster than

almost any other food retailer in the US, with Stop & Shop, a good, but relatively moderate-growth food retailer (this comparison would be valid with almost any other mainstream grocer in the US). The samples in the charts on the opposite page were taken from each retailer's Framingham, MA locations.

The top graphic lays out Stop & Shop's assortment "ladder" (which we'll call the merchandise ladder from here). As you can see, this merchandise ladder features a variety of well-known brands, concentrated at a variety of relatively low comparable price points.

Stop & Shop has done a good job for a mainstream retailer of expanding the top end of its assortment (it still faces stiff competition from upscale grocers in many retail markets). Even so, of the 111 SKUs Stop & Shop sells, 82 of them (or 74 percent) are in one concentrated price range, from \$1.59 to \$2.49. Over half range from \$2.09 to \$2.49.

The bottom graphic is the Whole Foods merchandise ladder in the same (pasta sauce) category. Some key differences:

- **Number of SKUs**: Whole Foods has just 60 percent of the SKUs (67 vs. 111) that Stop & Shop offers, thus simplifying the basic choice dynamic.



**Time is of the essence to consumers today. Target gets a lot of attention for its funky advertising and chic, stylish merchandise. Often underrated is Spot: The little dog with the bulls-eye icon (far right) shows up in the store to highlight great buys, allowing Target shoppers to quickly find items on sale.**



■ **Range of SKUs:** Whole Foods sells the *basic* brands that Stop & Shop sells in much the same way Stop & Shop sells *premium* — a limited assortment sold as a convenience offering at significantly higher price points than Stop & Shop would sell them.

■ **Opening price point:** Even as a premium operator, Whole Foods offers its shoppers a private label trade-down option (less than 10 percent of the category SKUs). This is a critical part of any premium operator's quest to become a more national presence: If shoppers can trade down in categories they care less about, they can fill a much larger market basket without stretching the basket elasticity beyond their comfort level.

■ **Destination SKUs:** Key here is how Whole Foods manages its destination range as compared to Stop & Shop. Rather than concentrating most SKUs around one positioning, Whole Foods constructs a more "vertical" merchandise ladder: It spreads the assortment range across a variety of price points to create distinct positioning and choices for its shoppers.

When you compare the two assortments, you can see that the Whole Foods ladder is indeed more vertical, whereas the Stop & Shop merchandise ladder has a

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very extended mid-section.

INDEED, WHAT WE SEE IS AKIN TO THOSE THE "BEFORE" AND "AFTER" PICTURES in a late-night weight-loss infomercial! Not *more* choice — again, Whole Foods is running 60 percent of the SKUs offered by Stop & Shop — but *useful* choice, choice with *distinctly different positioning*.

WE EXPECT TO SEE RETAILERS MOVE MORE AGGRESSIVELY TOWARDS A MORE VERTICAL MERCHANDISE LADDER in the next year or two in key categories: **Items that do not help the shopper make a more useful choice on the shelf will be removed by the smartest retailers in the marketplace.**

The next generation of category management will be more about constructing meaningful merchan-

dise ladders at shelf so shoppers can make better decisions, rather than simply shuffling the facings of items virtually interchangeable to the shopper.

Wal-Mart's much publicized "move to premium" will probably end up being a move towards a slimmer, more vertical merchandise ladder in key categories, adding some higher-quality, more-premium items at the top end, keeping an OPP presence, and paring redundant items in the middle of the ladder.

Merchandise laddering will not be the only impact of the need to improve the shopper's decision on CPG manufacturers. The effort will be seen beyond the shelf, most notably in two key areas:

■ **Packaging.** Designing packaging to allow shoppers to make better decisions at the shelf will be a key to making brands more shopper-friendly. Many manufactures already engage in this; more will need to do so.

■ **Brand marketing/positioning.** We expect manufacturers will need to think more significantly about *where they bring brands to market*. More and more, brand innovation will need to come at the top and bottom of the merchandise ladder, with fewer innovations coming in the typical mid-section of the category.



## Emotional Connection to Exponential SROI Growth

The last piece of the shopper ROI puzzle, addressed here only briefly, is the **emotional component**.

FIVE POINTS ABOUT EMOTION are most relevant to our discussion:

- The connection between function and emotion is absolutely critical. Marketers of premium brands will need to address both of these. Their challenge gets to the heart of premium branding: Most marketers would say that a premium brand needs to do exactly what we have laid out.

However, "premium branding" today tends mean:

- A brand at functional parity to which the shopper has a strong emotional connection; *or*
- A brand that spends more on advertising than its competitive set.

But today, simply spending more than my competitors do is not going to work. Premium brands need *both* an emotional connection to the shopper *and* some sort of functional superiority in the marketplace, in order to succeed well.

- Once a shopping experience (or a brand) has functional superiority, emotion plays a huge role as a point of difference. The expo-



**As in human relationships, someone you can have fun with isn't necessarily someone one you're emotionally attached to. Costco's ability to execute on having the right brands in its merchandise ladder is the foundation of consumer attachment; it's from there that emotion kicks in for an exponential performance advantage.**

mental impact can be significant here. A good example is the difference between Costco and SAM'S in perception and performance.

Costco sells almost twice per building what SAM'S does, for a variety of reasons (including simple geography). That performance is often attributed to Costco's emotional bond with its members.

However, as the chart above reveals, SAM'S members are fairly attached to SAM'S as well; 20 percent of SAM'S shoppers find SAM'S the most fun store in which they shop — lower than, but roughly

comparable to, Costco's 30 percent.

HOW TO EXPLAIN THIS? Quite simply, Costco's ability to execute on having the right brands in its merchandise ladder is the foundation of the difference; it's *from there that emotion kicks in* for an exponential performance advantage.

- Functional PARITY gets you nowhere. If as a CPG manufacturer, you have the same product as your competitors, or if as a retailer you have the same offer as my competitors, emotion doesn't get you anywhere. In this ROI equation, the functionality score is par-



*For retailers, understanding how shoppers react to their total market basket will be a critical to understand. In fact, it may be in some retailers' interest to manage the total market basket not up but DOWN, in order to keep "sticker shock" at the register less ... well, shocking.*

ity (one) — and remember, one to the 30th power is no greater than one to the third: It's still just *one*.

Without functional *superiority*, retailers end up in the "big middle," without a point of difference. Similarly, manufacturer brands end up in mid-pack — the part that gets pared when the merchandise ladder becomes more vertical.

■ **Retailers will use their emotional connection to the shopper to develop functionally different products.** This represents a significant challenge to manufacturer brands: Retailers are using and will use functional superiority combined with their own brands to create premium private label.

Costco's *Kirkland Signature* is a great example of this: It's a brand that leverages the emotional connection the member has to the retailer. Thus, Costco doesn't just market it on price. Additional emotional connection is made through the packaging; In many products, Costco goes through great pains to explain how that product is functionally superior to whatever else the shopper could buy.

■ **On the merchandise ladder, a lot more space will be dedicated to items at the top end, i.e., the top rung, which, increasingly, will be covered with products that not only have a strong (premium) emotional connection with consumers, but also have a strong *functional* or *performance* advantage.**

We will see this in almost every category, from organic food to therapeutic toothpaste.

HOW WILL RETAILERS AND MANUFACTURERS LEVERAGE THIS ESSENTIAL CONNECTION between function and emotion? A simple way to think about this might be "bridge" words — words with both an emotional connection and a functional/performance root — a term borrowed from Tim Dorgan, CEO of J. Brown.

A great example of a word like that is *organic*. "Organic" is a technical term, but it also conjures up an emotional image: "Organic" today is almost as much *a way of life* as it is a technical description of a type of farming.

Other words that may operate this way:

- Luxury
- Therapeutic
- Personalized
- Connected
- Portable
- Escape

The iPod is an example of a great brand that combines function and emotion better than anything else. Consider what the iPod *actually does* as well as the *emotion it creates*, and one can readily see the bridge between a product that *does something consumers need or desire* really well and *creates an image* — **at the same time.**

This connection between func-

tion and emotion will be mission-critical for manufacturers trying to understand what is happening to their shelf. Why? Because *competitors and customers are going to get better and better at this.*

Today, building a premium brand no longer require just millions of dollars in marketing (though it may require that, too). It also requires — to repeat ourselves, because the point cannot be overstated — **a better product and an emotional connection.**

Bridge-word brands — those combining both of these need states — have the highest probability of yielding exponential returns in the marketplace, for retailers and CPG manufacturers alike.

## Conclusion

Going forward, understanding *what shoppers want* from a shopping experience, what they put into the shopping experience and what they get in return, will be critical.

The key concepts that form the basic equations are **price/value**, **shop-ability/useful choice** and **bridge words**.

These must, we think, determine CPG brand, packaging, promotion, pricing and shelving strategy in 2006 and 2007 as manufacturers continue to work with retailers toward stores and products that offer each player a sustainable competitive advantage. ■