

Localization: A Quiet Revolution in Consumer Markets

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Example of localization in San Diego, Wal-Mart's Super Center indexes well against the Hispanic market

For decades, sultans of standardization, like Wal-Mart and McDonald's, have ruled the consumer markets. But their formula of rigorous consistency is now reaching a point of diminishing returns. Communities have grown more diverse—in ethnicity, wealth, lifestyle and values. Many areas are saturated with big boxes, and consumers are rebelling against cookie-cutter stores that threaten the uniqueness of their neighborhoods. Attempts to build new chain stores often face fierce resistance. More of the same has been tapped out as a strategy.

In response, smart retailers and consumer goods companies are starting to customize their offerings to local markets, rolling out different types of stores, products, pricing, marketing and even customer service strategies. National chains, including Tesco and Wal-Mart, and manufacturers like apparel maker VF are replacing standardization with localization. But the shift requires companies to achieve the right balance. Too much customization drives up costs and complexity; too little leads to stagnation, dooming a company to dwindling market share and profits.

Bain & Company's analysis of 30 localization leaders identifies three factors critical to obtaining an optimal balance: These leaders understand which elements of a business should be considered for localization, how costly they are to customize, and how much impact they'll have from store to store. Combining sophisticated data analysis with innovative organizational structures, the leaders are preserving the efficiencies of centralization while increasing responsiveness to local needs.

It's all in the data. Technological advances—from Internet stores to data mining software to electronic product tags—are providing retailers with deep insights on local buying habits. Companies can now customize store content with unprecedented precision. Wal-Mart uses its Retail Link database to track each product's buying history, down to daily sales in every Wal-Mart, then creates maps of demand indicating which merchandise should be stocked where and when. For example, of the 60 brands of canned chili Wal-Mart sells, only three are available nationwide; the rest are allocated according to local tastes.



Think in clusters. A company can't customize every element of its business; the sheer complexity would be overwhelming. Pioneering retailers have made a science of analyzing data to spot clusters, communities with similar buying habits and demographics. For example, American Eagle Outfitters, a national retailer of casual wear, found its customers in Western Florida share buying patterns with shoppers in areas of Texas and California. American Eagle tailors assortments and promotions to such clusters rather than individual stores. Wal-Mart applies a similar approach to store design by creating templates that can be combined in a way that meets local needs: Stores near office parks, for instance, feature prominent islands with ready-made meals for workers. Clusters enable manageable, modular operations that capture the benefits of customization while simplifying decisions and preserving economies of scale.

Local needs vary dramatically - do different customers want exactly the same stores?



- Plano (Supercenter #2086)
- ↕
- 30 miles apart
- 45 minutes drive time
- ↕
- Duncanville (Supercenter #949)

Characteristics	Plano	Duncanville
Median age	35.3	26
Owner-occupied housing	65.2%	6%
Bachelor's degree or higher	64.3%	16.2%
Median family income	\$124,851	\$26,681
Families below poverty level	1.9%	19.4%
Median value of home	\$280,300	\$88,700

Note: Wal-Mart has 253 Supercenters in Texas

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Wal-Mart: Men's apparel department in Morrow, Georgia



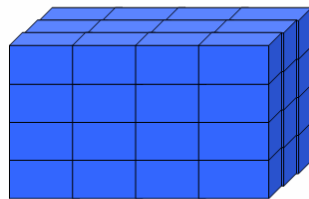
Wal-Mart: New presentation of Men's apparel department in Plano, Texas

Collaborate on diversification. As localization increases, consumer goods companies will need to introduce more variations into their lines and work closely with retailers to put the right products in the right places. One leading localizer is VF, the \$6 billion clothing maker. It integrates third-party geodemographic data with store data and extensive consumer research to identify customization opportunities and new trends—to the delight of consumers and retailers. It's not unusual for localization to improve VF's sales by 40% to 50%, while reducing store inventories and markdowns.

Localization determines what, where, and when to customize

What (offer variables)

- Banners and brands
- Store formats
- Merchandise space
- Merchandise assortment
- Pricing
- Promotions
- Marketing programs
- Service levels



Where (location variables)

- Geographic characteristics
- Store characteristics
- Consumer characteristics
- Competitor characteristics

When (timing variables)

- Season
- Month
- Day
- Hour
- Special events

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Localization does raise organizational challenges. Empowering local managers too much may backfire; most decisions still need to be coordinated centrally by managers with a broad view. That doesn't mean

that local managers become unthinking robots. They play a critical role in picking up signals computer systems can't see, testing innovative solutions to local challenges and forging strong bonds with their communities. That generates a powerful competitive advantage—one that all companies serving a diverse consumer base may soon be pursuing.

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