Market Map: Finding pockets of growth in mature markets

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A new approach helps consumer companies determine where to compete, how to win, and what winning is worth.

In recent years, the European consumer-packaged-goods (CPG) market has experienced single-digit growth at best. The environment has been particularly difficult for branded-goods manufacturers, as consumers have traded down to private-label goods and discount channels. Introducing new brands or line extensions hasn't been a surefire move: the soft-drink market in the Netherlands, for example, boasted more than 125 new products or range extensions in 2013, but the total category grew by only 2 percent that year. And CPG companies are steadily shifting more of their marketing spending and other resources away from Europe and toward faster-growing emerging markets.

Against this backdrop, companies are under immense pressure to find pockets of growth and place smart bets in Europe and other mature markets. They must figure out what consumers in these markets will pay for so that they can put the right products on the right shelves. We've found, however, that many CPG companies still rely on assumptions or intuition—not data—about what consumers want and need, and about how consumers decide which products to buy.

When companies do use data to make decisions about category strategy, they tend to use only the most basic data, yielding poor decisions. For instance, as they seek to optimize their assortment, many companies simply "cut the tail," or eliminate the SKUs with the lowest sales volume. But this can be a dangerous move, as some slower-moving items have a fiercely loyal following and play a strategic role in the portfolio. Take organic soup: it may not be a top seller in the category, but if it isn't in stock, the shopper will leave the store without making a soup purchase. Absent a more data-driven and thoughtful approach to category strategy, CPG companies end up with a suboptimal portfolio that causes shopper frustration at the shelf and results in missed opportunities and lost sales.

To take a more analytical tack, companies can use Market Map, a McKinsey approach that involves crunching data on consumer's needs, attitudes, usage, and purchasing behaviors and—crucially—connecting these pieces of information to present a unified consumer view of the category. (Other approaches focus exclusively on either usage or purchase behavior, not both.) And unlike traditional market-research approaches that rely on consumers to recall past behavior, Market Map uses data on actual consumer behavior captured in real time through consumer-diary surveys and panels. The use of Market Map and the insights it generates has boosted sales growth by as much as 30 percent at a broad range of CPG companies, from manufacturers of fast-moving consumer goods to makers of consumer durables, food, and health products.

The power of data and predictive analytics

The Market Map approach has been validated in hundreds of real-life situations. The first step of the approach is the construction of a "consumer map" for a broad category, such as nonalcoholic beverages, by analyzing data on consumer usage. The consumer map shows, at a macro level, how consumers make choices in that category: What situational factors affect their choices? What needs are they trying to meet and on what occasions? The next step is the creation of a "shopper map" for a specific subcategory (such as juice or coffee), using an analysis of household-level purchase data, to show the products that households purchased over time. Integrating the consumer and shopper maps creates a visual model that explains the choices that consumers and shoppers make within a category. Specifically, it depicts the relative importance of the product benefits and attributes that consumers take into consideration when buying a product in that category.

To illustrate: when US consumers buy coffee, what is the first thing they typically look for? Is it caffeine content (that is, regular versus decaffeinated)? Is it a particular brand, type, or price tier? Is it some other attribute—perhaps flavor or package size? Exhibit 1 shows two conceivable maps for the coffee category in the United States and the implications of each on category strategy. Both of these maps are plausible, but—according to actual consumer data—only one accurately shows how US consumers make choices when buying coffee.

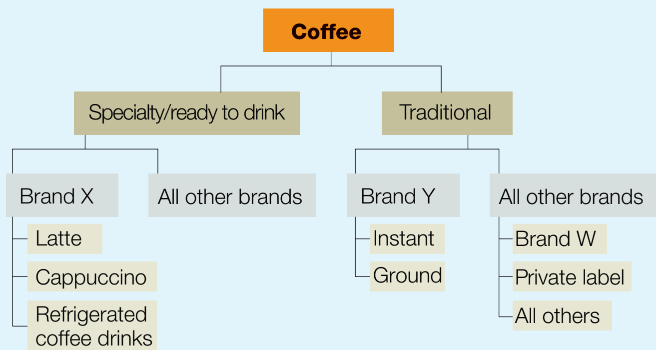
Mapping the market

With the help of Market Map, CPG companies can define the role of each brand in a portfolio based on the brand's position, relative strength in the marketplace, and

Exhibit 1

Two maps illustrate possible drivers of consumer choices in the coffee category.

Example: brand structured



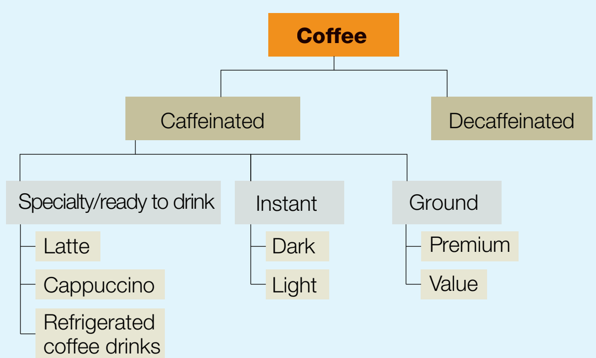
Implications

Brands carry meaningful benefits to consumers

- Consumers perceive brands X and Y as distinct; these brands have greater marketing and pricing leverage
- Other brands are perceived as more substitutable
- New types or forms of brands X and Y will add incremental volume

Retailers should organize the shelf by brand blocks within specialty and traditional categories

Example: attribute structured



Implications

Attribute (in this case, caffeine content) is the most important driver of choice

Brands are not meaningfully differentiated, suggesting several things:

- Store brands could outpace national brands in growth
- In the short term, increases in marketing spending on national brands are likely to have a poor return on investment
- National brands have limited pricing power

Retailer profitability will likely benefit from dropping redundant brands

potential for growth. They can identify "white spaces" for category growth, as well as opportunities to reposition existing brands and products. In particular, they can gain detailed insights into where to compete, how to win, and what winning is worth.

Where to compete

Most CPG companies define a product's competitive set based on where it competes today—not where it could compete. Market Map analysis gives a company a precise definition of a product's competitive set and a detailed understanding of shoppers' switching behavior (that is, which products shoppers choose as substitutes for other products and how often they do so). Through further analysis and modeling, a CPG company can quantify "transferable demand"—the sales volume that would be transferred to other SKUs if a particular SKU were discontinued. Market Map's simulation capabilities allow companies to build credible scenarios of the shape future competition could take and thus spot opportunities for innovation earlier.

A European beverage manufacturer sought to stem its falling market share in declining categories. The Market Map for beverages showed 20 subdomains, including "health-focused breakfast companion" and "refreshing and hydrating." Market Map analysis brought to light that in one of the subdomains, two of the company's brands were in direct competition with each other.

Having unsuccessfully invested in advertising and promotion over the years to grow each of these brands, the company now knew it should either consolidate the brands or reposition one of them.

One of the most important insights generated by the Market Map analysis was that the company was absent in subdomains that represented almost two-thirds of the volume in the marketplace. In response, the company launched R&D initiatives to develop products in those subdomains, which had previously not even been on the company's radar. All told, the company identified more than a dozen revenue-growth opportunities that put it on track to boost revenues by 8 to 14 percent in three to five years.

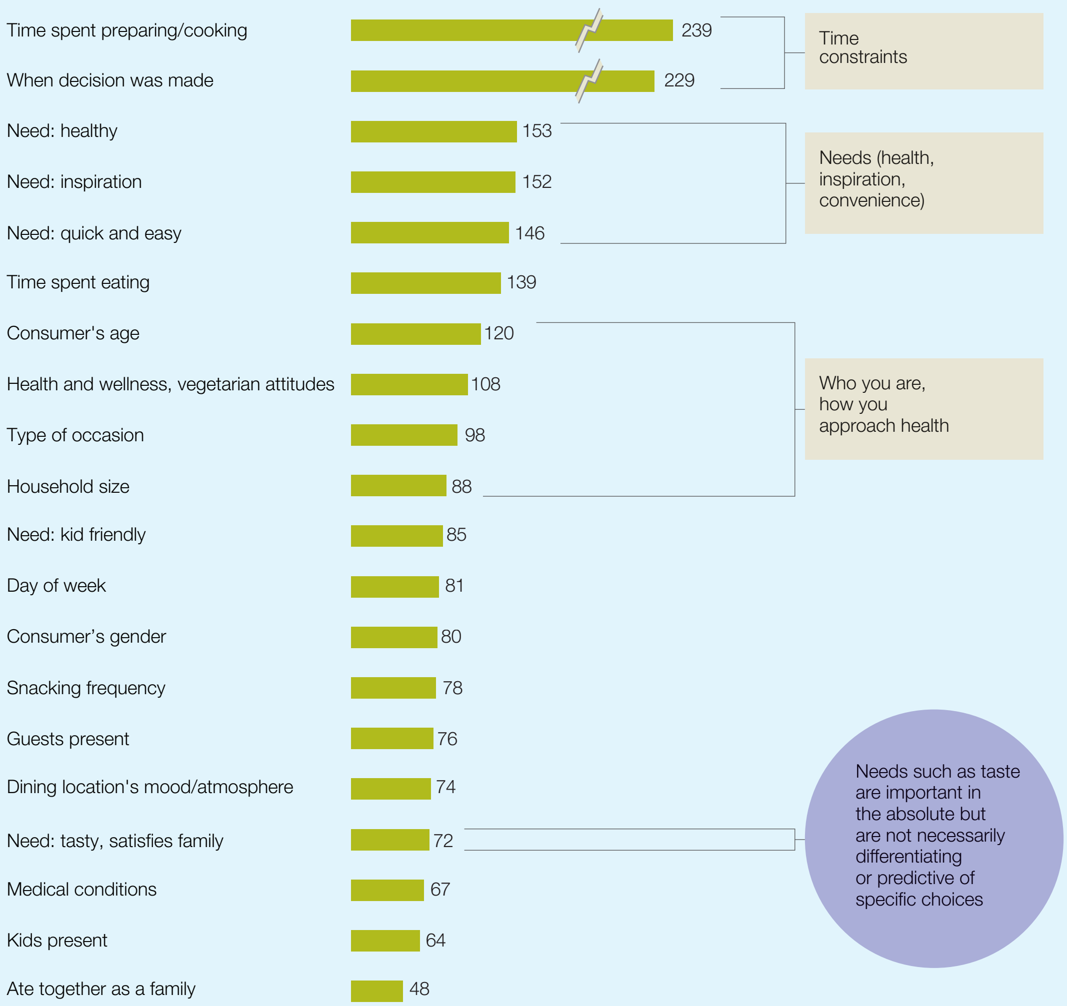
How to win

Armed with a precise definition of its competitive set, the next logical step for a company is to determine how to win in these spaces. Through Market Map analysis, companies can isolate the most important "situational drivers" behind consumption decisions (Exhibit 2).

Exhibit 2

Analysis can pinpoint the 'situational drivers' that exert the greatest influence on consumption decisions.

Hypothetical example: drivers of dinner choice, index (100 = base level)[1]



[1]The index is derived through CHAID (or Chi-squared Automatic Interaction Detection) analysis, hierarchical partitioning, and other analytic techniques applied to data from a consumer usage diary.

Understanding these behavioral dynamics provides insights across the value chain, including in R&D, supply chain, marketing, and sales. Examples include the following:

Innovation or new-brand launches. Through Market Map analysis, the aforementioned beverage company learned that brand and flavor—attributes the company had long assumed were the primary drivers of consumer choice—were much less important to consumers than portability: that is, a consumer would choose a smaller, easier-to-carry bottle of her second-favorite brand or flavor over a 1.5-liter bottle of her favorite brand or flavor. Following this insight, the company shifted its focus away from new-flavor R&D and toward introducing more portable pack sizes for existing products instead.

SKU reduction. A consumer-healthcare company discovered that consumers were generally indifferent to the various easier-to-swallow forms of common medicines (capsules, caplets, and liquid gels). The company significantly reduced the number of SKUs in its portfolio, reducing costs and freeing up shelf space for products with greater incremental volume.

Portfolio strategy or tailored advertising. A mattress company repositioned its brand to focus on comfort and restfulness after discovering that technological claims carry little weight among consumers. In the six months that followed, sales rose by 57 percent over the same period in the previous year.

Merchandising strategy. A pharmaceutical company was accustomed to retailers displaying adult analgesics on the shelf based on the products' active ingredients: all ibuprofen products together, all aspirin products together, and so on. But Market Map analysis revealed that consumers shop for a pain reliever based on their symptoms (head pain, body pain). The company worked with two of its retail customers to pilot a different shelving arrangement and introduce signage clearly distinguishing, for example, headache products from arthritis and muscle-pain products. These changes contributed to double-digit sales growth in the adult-analgesics category at the pilot stores, spurring more of the company's customers to implement the changes at their stores as well.

What winning is worth

Finally, companies can use Market Map insights as a foundation for strategic planning. Because the tool helps quantify consumer loyalties to specific products, companies can model a variety of scenarios for improving sales volume and profit and understand the potential financial impact of each action. For example, before committing a sizable investment, a company can validate the economics of introducing a new product to capture identified white spaces.

Companies can thus sequence their portfolio initiatives—whether they are investments in existing brands, new products, or potential acquisitions—based on factors such as strategic relevance, estimated impact, and time to impact, yielding a prioritized list of both quick wins and longer-term strategic investments. Quick wins typically center on brand repositioning and the introduction of close-in line extensions, whereas strategic investments are more often innovations that revolutionize the category by addressing previously unmet consumer needs.

A maker of breakfast products, for instance, used Market Map to identify a number of core-brand and innovation opportunities, prioritized by revenue potential. For quick wins, the company doubled ad spending on the core brand, introduced new snack-size options, and replicated the core brand's key advantage—its positioning as a complete meal for people on the go—across its other products. Together, these moves resulted in an 8 percent sales increase in one year, which provided funding for additional new-product launches.

Using the Market Map approach is powerful in itself, but it can also serve as a starting point for a broader transformation of marketing and sales performance. The insights that a CPG company generates through Market Map can be applied to optimize a wide range of marketing and sales levers including pricing, promotions, and marketing-spending effectiveness. By using data and advanced analytics to formulate and refine category strategy, companies can satisfy shopper needs, maximize returns, and capture growth—even in mature markets. ■

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