



HOW IRI'S UNIQUE LIQUID MODELLING[®] ENABLES YOU TO MAKE DECISIONS IN TODAY'S ECONOMY

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BACKGROUND

Times have changed. The CPG landscape has transformed dramatically in the last 12 months. Retailers and manufacturers are still battling with the challenges of reducing costs, maximising profitability and meeting heightened customer expectations. But the economic slump has placed more pressure than ever before on all firms to respond more quickly and more effectively to market changes, and customers' rapidly evolving needs in order to gain and retain market share.

The days when manufacturers and retailers could wait a few weeks or months to gain insight into consumer shopping behaviour are gone; they need actionable insight in real-time and across as broad a range of brands, categories and potentially store types and geographies as possible. This document explores how Liquid Modelling® IRI's new price and promotion modelling service can help CPG manufacturers and retailers to reap immediate returns on investment through staying in tune with customer needs and one ahead of the competition.

“Some brands have been on promotion for so long that clients have lost sight of the base price. Other firms are desperately looking for ways to accurately monitor the behavior of private label brands to achieve the most profitable outcomes.”

Nigel Howlett, IRI



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KEY FINDINGS

There's nothing like a recession to concentrate the mind. Consumers are reacting dynamically and radically to changes in price and promotions, and their shopping habits are subjecting the market to more flux and volatility than ever before. CPG companies realise that they can no longer wait weeks for data from point of sale systems to be collected and analysed. If they do, their customers' buying patterns will have changed long before any insight can be gleaned.

They need actionable insight not only quicker than ever before, but also across a broader range of brands and categories than ever before. For example, if consumers are making a trade-off between brands in order to manage their money more tightly - perhaps by moving from branded Coke to a private label equivalent, or even across categories from chocolate to more affordable chocolate biscuits – manufacturers and retailers need to have a holistic picture of the market to make a decision about how best to manage pricing and promotion.

Yet current modelling tools are woefully slow and labour and time intensive, so that it's not economically feasible to invest in the large-scale modelling projects they need to gain a holistic view of the market. Clients are so bound by the limitations of these current tools that they have to reduce the scope of the models to a select few categories and among only a small handful of brands. With these constraints at work, it's almost impossible to institute a best practice approach to managing price and promotions.

These challenges then, driven by the scope and speed limitations of current

analytics and modelling tools, are slowing down the decision-making process, rendering meaningful, actionable insight the exception rather than the rule. Customer habits are fluid and ever-changing but CPG firms can't keep up with relevant pricing and promotion strategies to meet their expectations.

The answer lies in IRI's new Liquid Modelling®. Thanks to new innovations around the data collection algorithms and a restructuring of the underlying architecture, data now flows in seconds from EPOS devices in-store to IRI databases to IRI's analytics systems. Where once it would take up to six weeks for that vital EPOS data to be manually extracted from the databases to the analytics systems, the newly automated process completes the task in 24 to 36 hours. By reducing the availability of the very same, quality data, IRI customers gain an immediate edge when time is a critical factor to decision making.

The result – a price and promotion modelling service which allows modelling on entire categories and brands, on an ad hoc basis or in regular updates, in one or several countries, in real time, and with IRI consultant support if needed. **This is modelling at tremendous speed – 24 to 36 hours after the data comes in – with a breadth of analysis never seen before**, and will include all the information CPG firms need to make the right decisions. If requested, IRI can also offer clients a quarterly media analysis to complement insight into price and promotion to complete the picture.

With all of this data being generated at such speed also



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comes greater pressure to turn it into actionable insight. Clients traditionally may have struggled not only with the quality of the data itself but with finding the best people to analyse and interpret this kind of data in-house. Which is why IRI Liquid Modelling comes as a managed service, so the client will have access to all the information they need plus an IRI expert who will be installed part or full time on their premises. These experts are able to answer questions based on the analysis and ensure the client is not overwhelmed by information overload.

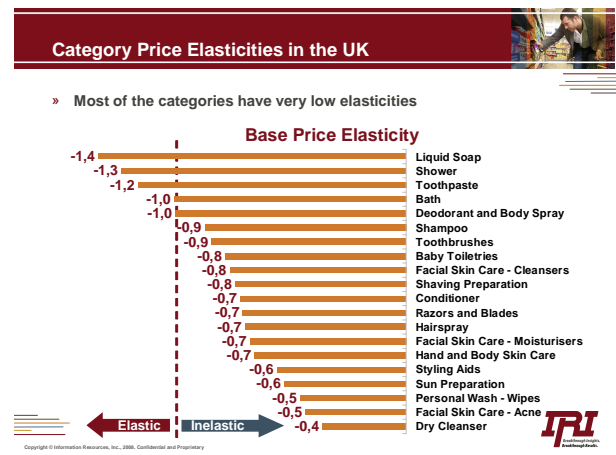
So rather than try to interpret 100,000 price elasticities themselves, manufacturers can ask the IRI consultant to, for example, tell them what the impact of private label is in a certain category. That consultant will then be able to open the IRI database, run a quick view on the category dynamics and have the results back in hours.

So how can Liquid Modelling® help in practice?

Price elasticity is the basis for measuring how sensitive a consumer is to price or promotion changes. CPG firms know that the accuracy of this information is vital to fine-tuning price and promotions and therefore meeting customer needs and maximising profits. However, current modelling techniques have not changed in years; they lack the speed and the ability to accurately discern the interactions between categories and competitive brands. Recessionary pressures mean this is no longer acceptable.

As an example of its capabilities, IRI has already used its unique next generation price and promotion analytics technology

to model thousands of leading UK brands across 20 Health and Beauty Care categories, providing brand, portfolio and category price and promotion elasticities.



The unprecedented breadth of brands and categories that IRI's Liquid Modelling service is able to assess means it can take account of important factors such as substitutions and competitive brand pricing, producing much greater accuracy and insight to maximise profitability. The speed at which the information is made available means that **clients can act instantly to alter pricing and promotions when relevant changes in elasticity, business conditions or the competitive environment require it.**

In this case, if among the top twenty categories shown, the client is able to see that acne cream is a particularly price insensitive category, and therefore highly price inelastic, it may be appropriate for retailer and manufacturer to have a dialogue about how to maximise the income for products within that category. They could thus work together to raise the price slowly and therefore optimise the



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value of the products to both parties. A good relationship between retailer and manufacturer is tantamount to success for both, driving customer loyalty by meeting and surpassing their expectations on price and experience. But it rarely ends in a win-win situation because customer insight is slow and incomplete. While manufacturers may want to lower prices to sell more goods, this wouldn't necessarily benefit the retailer because any changes could cannibalise other brands in the same category.

However, with the more holistic picture of entire categories that Liquid Modelling® provides, manufacturers can approach their retail partner and share with them strategic and tactical insight which could maximise profitability for them both. By knowing the category and individual brand elasticities both manufacturer and retailer can achieve optimisation of economic value.

Put simply, this is a massive step forward for both retailers and manufacturers. And modelling of this kind can be used to institute ongoing processes using key performance indicators and alerts that are based on the near-real time data being generated. If for example a manufacturer is launching a new brand, they can set up alerts to notify them if they're losing market share because of rival private label brands in the same category, almost as it is happening; by retail account, store and region.

This kind of insight will also be welcomed by many CPG firms who typically spend massive sums on trade promotions but have little idea of their profitability. After a long period of stable growth, some clients may have lost sight of where the real price ends and the promotion begins. Liquid

Modelling® can help to reinstate the correct price and promotions balance that has been lost.

It's also crucially important for manufacturers to get the optimal mix of different kinds of promotions and calculate the most efficient level of spend. Liquid Modelling® offers manufacturers insight to achieve this by allowing them to compare promotional uplift between brands and categories.

Others are watching with interest the general trends in private label goods, seeing how these products are given unprecedented attention by retailers. These private label brands are being accepted in some cases as brands in their own right by consumers. IRI's Liquid Modelling® can monitor the behaviour of private label brands across a huge range and with greater speed and accuracy than ever before to help tweak pricing, promotions and advertising and identify the optimal price gap between private label and branded goods.

But in today's ultra competitive global economy, CPG firms also need all of these modelling capabilities to manage growth and profitability across all of their key countries. Where making a pan-European strategy decision once took over four months, now actionable insight cuts that time to just 36 hours, allowing firms to make their global decisions (based on a universal framework) swiftly and accurately. For example, CPG firms can monitor the launch of a new product in a particular country while gauging the effectiveness of various promotions there, to use as a test



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case before rolling out in other regions.

And crucially Liquid Modelling® also allows clients to overlay macro economic indicators, so that they can see the relationship between trends in gas prices, consumer confidence or commodity staples and price elasticity. It can be done with such speed that firms can dynamically track if consumer price sensitivity alters as the unemployment rate rises, for example, and then forecast that forward to be more agile with price and promotion strategies.

These next generation modelling capabilities can be used to analyse price and promotion behaviour according to supermarket format in different countries – another key consideration for many European CPG clients. This will allow firms to study the different price sensitivities for different customer segments across different formats in order to arrive at the optimal pricing for different formats.

Also available is 'what if' scenario planning which allows CPG firms to run through different situations to choose the most profitable – replacing what were once emotional decisions with hard core scientific insight.

Hans Jessen



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SUMMARY

Times are tougher than they've been for a long time. Not just because of the unprecedented pressure on CPG firms to maximise profitability in an economic downturn, but also because shopping behavior is more volatile and complex than ever before. CPG companies still require accurate analysis of market nuances but now they need it delivered in a timelier, more usable way. They need the tools to hand that will enable them to institute consistent, agile price and promotion strategies across geographies.

IRI's new Liquid Modelling® solutions enables CPG firms to move towards that Holy Grail by providing speedy, accurate and actionable insight, allowing manufacturers and retailers to partner decisively, meet customer expectations and maximise profits for both.

About IRI

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit www.infores.co.uk.

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