

WINE & SPIRITS CONSORTIUM

WHITE PAPER – 3 ALL SHARE IS NOT CREATED EQUAL

GBI

**“IT IS NOT POSSIBLE TO DIG A HOLE IN A
DIFFERENT PLACE BY DIGGING THE SAME HOLE
DEEPER”**

De Bono

Market Share Value

In the previous papers I introduced the concepts of Market Share and Share of Segment. In this paper we will look more closely at the three components that make up a brand's Total Market Share.

Technically speaking, not all volume that makes up the share figure for a brand is created equal. In fact, there are three types of consumers for each brand that contribute (albeit unequally) to the total share make-up of any brand.

The first of these consumer groups are those who use the product as their primary brand. The volume and subsequent share generated from these consumers is called "**Most Often Brand**" share or simply **MOB**.

The next set of consumers who contributes share and volume are those who use the brand on an "**Other Regular**" bases but do not consider the brand their primary brand. The volume and share generated from this group is called "Other Regular Band" share or **ORB**.

The last set of consumers consists of those who are trying the brand due to some external influence such as promotion, out of stock of their most often brand. The share generated from this consumer set are called "**Trial share**".

Collectively these measures combine to not only quantify the total share of the band but when viewed over time will show the health of the brand as well.

All three of these elements act dynamically. In general consumers tend to migrate from "Trial" to "Other Regular" to "Most Often" status only if the product satisfies their want or need better than the competition.

Generally, consumers do not wake up one morning and decide to switch from their current Most Often Brand to another. In fact to move a consumer from their current Most Often Brand to your brand often takes several months and almost never by accident. In order to motivate a consumer to switch from a competitive brand to your brand you must entice them to try the product first. We will get into trial/conversion tactics later, but for now let's look at the dynamics of the migration from one consumption group to another.

Strategically our marketer of the Widget product, for example, may have as their objective to garner competitive consumers, initially on a trial basis, later as an other regular user, and ultimately as a most often user to ensure long-term success of the brand.

All brands at some level have the three share components, which add together give the total brand's share. Let us define them further:

Most Often consumer – are those consumers who prefer a brand most often and all things being equal will choose their preferred brand unless some outside stimulus affects their decision. This is the level marketers strive to move their consumers into because these consumers tend to require lower maintenance marketing programs and thus cost less to encourage them to purchase your brand. They also tend to be fewer of these consumers per volume consumed meaning that almost all of the dollars these consumer devote to the industry goes to their most often brand.

Other regular consumers – This consumer group divide their purchases between two or more offerings and may have a most often brand in their consideration set.

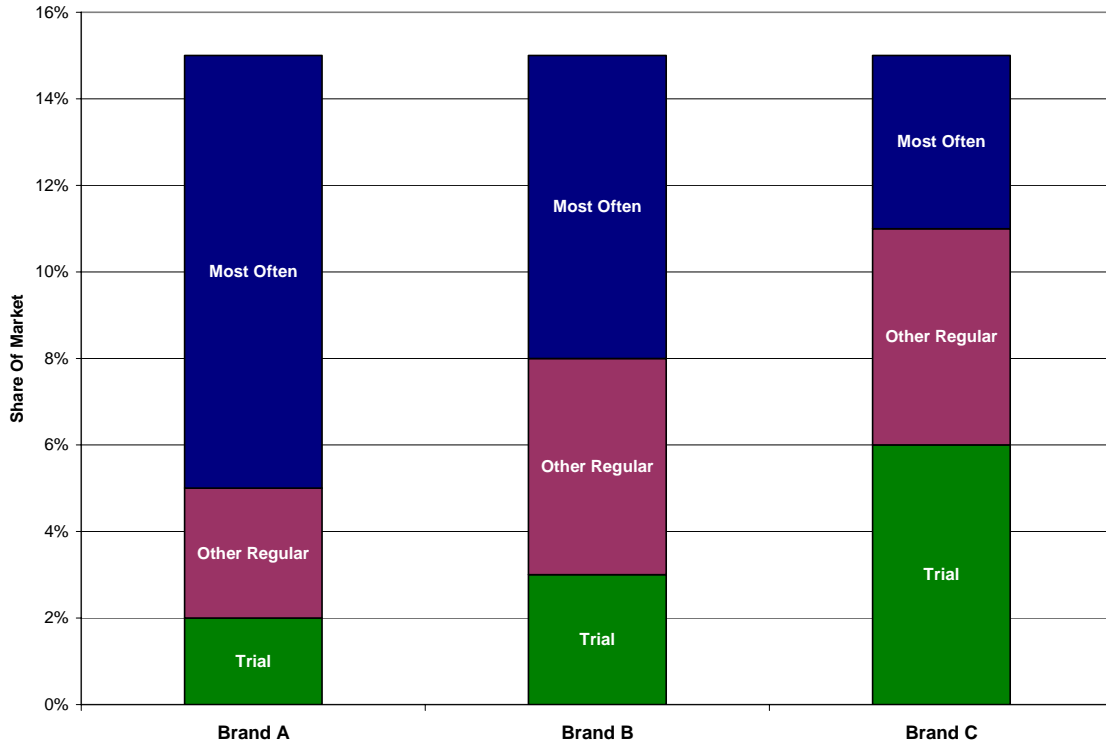
These consumers who have an “other regular” offering in their consideration set are either in the process of switching in or out of one of the brands they consider their “other regular” brand. Since this is a vulnerable group in terms of switching, it is important to determine if your brand is the “donor brand” or the “destination brand”. This distinction is important because the programs marketers implement must have clear objectives with reasonable expectations. If the marketer’s programs are concentrate on gaining “switchers in”, when in fact the vulnerability of the brand is that they are losing consumers “switching out” to a competitor, they are wasting valuable marketing resources treating the wrong problem.

Trial consumers tend to fall into two distinct groups. The first are called bottom feeders/deal seekers (discussed further in chapter 6). This group, as the name suggests, have low brand loyalty to any specific brand and are more likely to purchase items on deal or simply the lowest price product on the shelf.

The second (more marketable group), are those who are either starters in the industry, or consumers looking to switch brands due to an issue with their current brand. In either case, the marketer’s objective is to build brand loyalty and move these consumers up the hierarchy through the “other regular” segment and into the (higher margin) “most often” segment. These consumers are the most costly of the three groups because their purchase per consumer ratio is much lower than the other two groups and marketers must spend more resources on them to generate trial and subsequently conversion.

If you will remember in the previous chapter we talked about a brand’s share starting at zero at the beginning of the day and subsequently having some value

at the end of the day. Let's take an example where three products have exactly the same market share at the end of the day.



In the graph above we see the market share for three brands. Each brand has 15% of the market (or a 15 share).

On the surface it may appear that the “health” of each brand is the same.

However, as we break down the share of each brand in terms of why consumers purchased the brand we find that each brand can vary widely in terms of the source of its sales.

Brand A has a disproportional amount of its volume from MOB with less ORB and Trial consumption. This indicates that the brand is in a mature stage of its life cycle where there are fewer and fewer consumers willing to “try” the brand or use it on an “other regular” basis. Depending on other factors, this brand is ripe

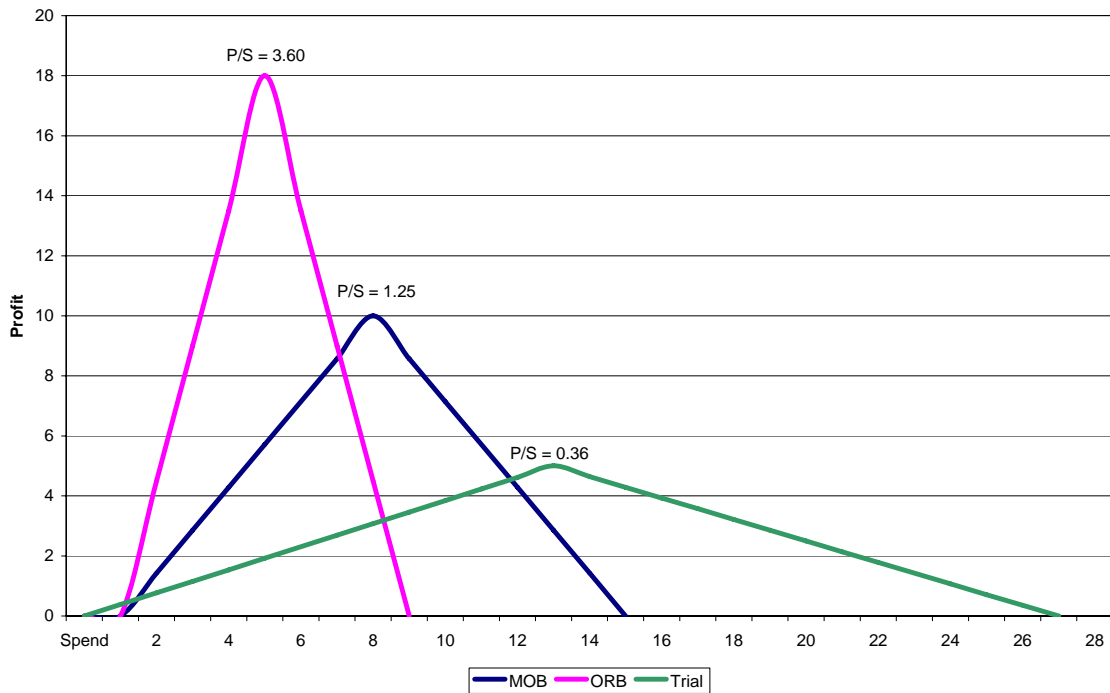
for a repositioning strategy or perhaps relegated to a cash cow to fund other propositions in the company's portfolio of brands.

Brand B is in a transitional stage where there is a "healthy" amount of MOB consumption backed up with a nice proportion of both ORB and Trial consumption. With all brands the marketer is looking for a balance between these three consumption measures. The reasoning is that the revenue generated from the MOB consumers help fund programs to ensure an inflow of Trial and ORB consumption to keep the brand growing. As more users move to MOB status and the ORB and Trial consumption maintains their proportion to the MOB consumption the brand has no choice but to grow.

Brand C is in the early stages of growth. Its MOB consumption is a small portion of its overall share but does enjoy a fair bit of Trial and ORB consumption. The brand manager of Brand C is in an "invest spend" mode since it cost more to create trial/conversion than maintain MOB consumption.

Graphically it may be helpful to look at the share groups in terms of profit vs. spend or more to the point look at each group's profit/spend ratio. This is the ratio of profit dollars divided by the marketing spend associated with each group. The chart below looks at one brand and demonstrates the level of marketing spend required to generate a certain level of performance by share group.

Product Profit/Spend Ratio



The MOB group has a relatively narrow curve given that the consumers in this group have already made their mind up as to which brand they will choose before the purchase. Therefore, the necessary marketing spend (mostly franchise reward) for this group is low. Inherent in this chart is that any additional spend past the point of diminishing returns reduces this group's profitability relatively quickly.

As you would expect the ORB group has a lower profit share ratio than the MOB consumers, but is still greater than one indicating that this group is still profitable relative to its marketing spend.

Intuitively it makes sense that since this is a vulnerable group of consumers either moving from your brand or perhaps considering moving to your brand, the

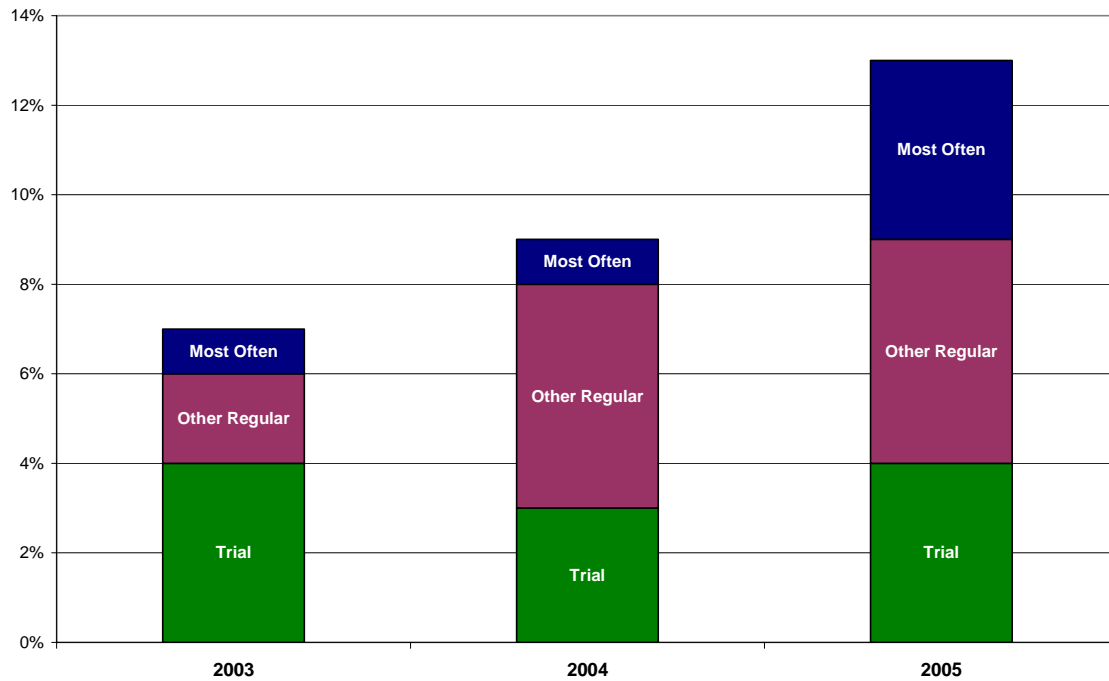
marketing spend to keep/garner these consumers would be higher than the MOB group.

The fact that the profit/spend ratio for the Trial group is less than one indicates that the brand managers are in an “invest spend” mode to hopefully create trial/conversion. This is the battleground group where marketers are vying for conversion among these consumers. Clearly the marketer is trying to entice these consumers by sacrificing profit, and the hope is that these transitional consumers will choose to move up the hierarchy to ORB and eventually MOB status of your offering.

Let’s look at a couple of examples that will help interpret what various ratios between MOB, ORB and Trial share tells us over time.

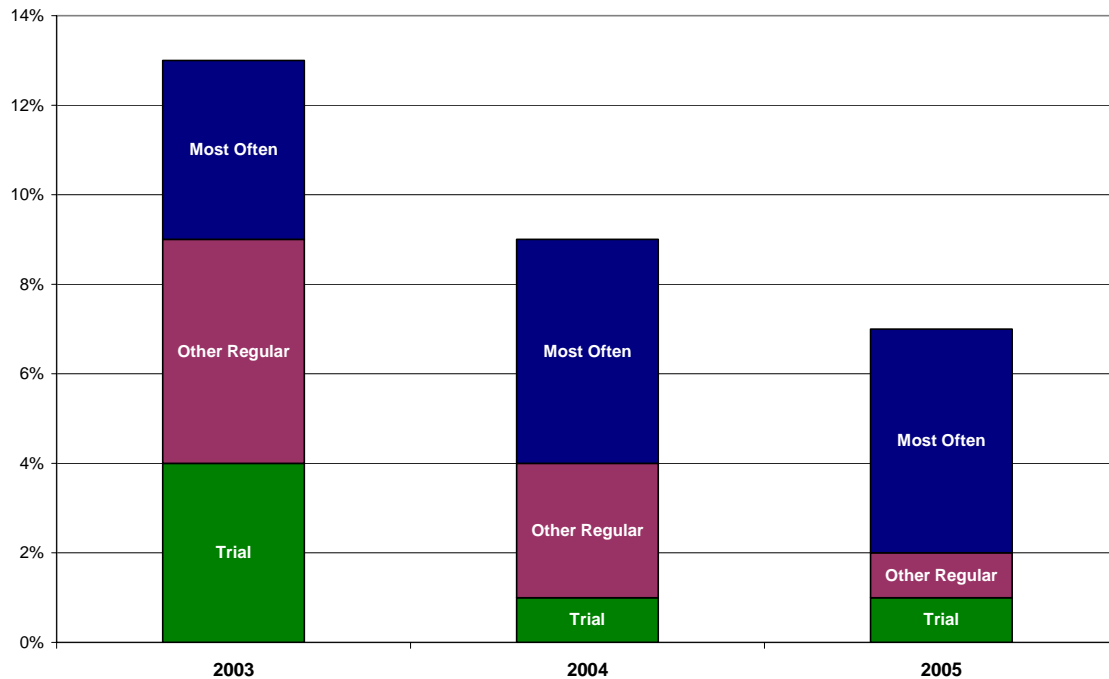
The graph below gives a brand’s share over time broken by the three consumer purchase motives.

Product in Growth Mode



In 2003 the vast majority of the brand's share was attributed to consumers trying the brand. In 2004 the majority of the share has moved to the "other regular" motive suggesting that consumers are moving from Trial to ORB. The last data point shows that those ORB users have made the ultimate evolutionary step to Most Often status while the ORB and Trial segments have remained strong. Ideally the brand's share growth over time is a result of moving consumers' purchase motives from "trial" to "other regular" status and ultimately to "most often" status given the much higher margins an MOB consumer offers the company. Conversely, the chart below gives a different story:

Product in Decline Mode



A brand in decline will see its Trial and ORB share diminish while its MOB share grows in proportion to the other two segments. You can infer that there is another competing product that better satisfies the wants and needs of the consumers entering the industry or is more compelling as a destination brand. Therefore, the brand is left with only its hardcore most often user base.

Both of these graphs can help direct the marketer in terms of what “levers” to pull in order to change the behavior of the consumers. For example, the product in decline mode tells us (assuming the product is not flawed) that one element of the remaining 3 P’s is out of whack with other players in the market such as overpriced, poor distribution and merchandising or there is a lack of promotional activity. Your job is to find out what element in the marketing mix is flawed and

fix it. To do this we will look at the source of the research where MOB, ORB and Trial figures are found.

Your first question after reading the above discussion is, “Where the hell do I get this type of data?” A good question and the answer is surprisingly simple. There are a number of market research companies that conduct what is called a Market Monitor. This type of consumer research is generally conducted monthly and is typically a phone survey not more than 10 – 15 minutes in duration.

Market Monitors are designed to give the marketers the ability diagnose their brands and implement activities to correct or maintain certain consumer behavior. The ultimate objective of this research method is to determine consumers’ usage (MOB, ORB or Trial), Consumption (amount of product) and awareness (top of mind) measures. The data from the market monitor is often converted into volumetric measures to give relative share numbers for the MOB, ORB and Trial figures we discussed in this chapter. These volumetric measures are based on the respondent’s qualifying questions which include consumption and frequency questions.

To show the value of the market monitor research as a diagnostic tool, let’s look at an example where you are interested in the usage dynamics of consumers who consider Willy’s Chardonnay as their MOB.

The following table gives a set of metrics derived from responses of a typical Market Monitor survey. The data presented is from two distinct points in time, one for the current month and one from six months ago.

Willy's Chardonnay MOB Consumer Usage

	<u>6 Mo. Ago Share</u>	<u>Current Share</u>	<u>6 Mo. Ago Bottles/Mo</u>	<u>Current Bottles/Mo</u>
MOB Share	3.40%	3.00%	2.55	2.40
ORB Share	0.40%	0.60%	0.30	0.48
<u>Trial Share</u>	<u>0.20%</u>	<u>0.40%</u>	<u>0.15</u>	<u>0.32</u>
Total Share	4.00%	4.00%	3.00	3.20

The table above indicates that the MOB Willy's Chardonnay consumer makes up 4% of the total market. Six months ago 85% (3.4%/4.0%) of these consumers' usage came from Willy's Chardonnay with ORB comprising 10% and Trial Consumption at 5%. The "Bottles/Mo" metric gives the average number of individual bottles Willy's Chardonnay MOB consumer consumes each Month. This metric has increased from 3.0 to 3.2 Bottles per month.

Looking at the current MOB/ORB/Trial mix from six months ago we see that Willy's Chardonnay MOB consumption among this group is down to 75% (3.0%/4.0%) of the total. Both ORB and Trial usage is up by 50% over the period.

This information, in and of itself, is distressing but it does not tell us what the problem is. To diagnose the issue we look at the ORB and Trial figures for the same time periods broken by the brands that make up these two groups.

MOB Willy's Chardonnay Consumer Usage

ORB Usage

	<u>6 Mo. Ago Share</u>	<u>Current Share</u>	<u>6 Mo. Ago Bottles/Mo</u>	<u>Current Bottles/Mo</u>
Tom's Chard	0.40%	0.40%	0.30	0.32
<u>Frank's Chard</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.00</u>	<u>0.16</u>
ORB Share	0.40%	0.60%	0.30	0.48

Trial Usage

	<u>6 Mo. Ago Share</u>	<u>Current Share</u>	<u>6 Mo. Ago Bottles/Mo</u>	<u>Current Bottles/Mo</u>
Tom's Chard	0.24%	0.16%	0.09	0.12
Frank's Chard	0.16%	0.12%	0.06	0.10
<u>Billy's Chard</u>	<u>0.00%</u>	<u>0.12%</u>	<u>0.00</u>	<u>0.10</u>
Trial Share	0.20%	0.40%	0.15	0.32

Six months ago Tom's Chardonnay was the only ORB brand for MOB Willy's Chardonnay group, while Trial comprised of Tom's Chardonnay and two lower priced brands Frank's Discount Chardonnay and Billy's Super Discount Chardonnay. Moving to the current data we see that Tom's Chardonnay is still receiving the same share but suddenly Frank's Discount Chardonnay has moved from Trial to one third of all ORB share. Further, the Trial consumption for both Frank's and Tom's has increased and a new lower priced player has entered the consideration set Billy's Super Discount Chardonnay.

This analysis tells us that the Willy's Chardonnay MOB consumers are becoming more price sensitive and are finding other alternatives in the market (at least on an Other Regular and Trial basis) that threaten the brand's MOB users. Add this analysis with the fact that a new federal excise tax was introduced in the market

three months ago gives you the necessary information to draw the conclusion that the net price increase to consumers has influenced their behavior.

The excise tax effectively raised the per bottle net price of wine to the consumer and for the Willy's Chardonnay MOB group, rather than drinking less, have opted to spread more of their consumption around to lower priced wines.

The brand manager now knows that the "P" (of the "4 P's") that is affecting Willy's Chardonnay performance is Price and not one of the other three. Armed with this knowledge the brand manager can concentrate his or her tactical effort on managing the consumers' indifference curve as it relates to the higher price of Willy's Chardonnay and not some other issue. The brand is losing its sales due to a lower frequency issue and not necessarily a switching issue (at least not yet). Before the problem can become any bigger the brand manager must think in terms of franchise reward programs or even larger pack sizes to garner the lost sales to these lower priced alternatives.

Summary

Determining the health of a brand can get tricky when looking at its total share number. Only by breaking the share down by its components can marketers get a sense of the true direction the brand is headed. By looking at the ratio of each component over time marketers can determine, not only how the brand is doing by consumer share segment, but more importantly, what programs to implement to manipulate the consumers' behavior toward a more favorable outcome for the brand in the future.