

Making the Shoe Fit: Applying Rigorous Data and Modeling Processes to Ensure Apparel Manufacturer Success

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Point of View



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The apparel industry, like many others, has transformed over the last three years as shoppers suffered through a housing crisis, a financial crisis and a recession. And like other industries, apparel shoppers reacted in different ways, some obvious and others less obvious and even counterintuitive.

Clearly, every apparel brand and retailer offers a unique value to their shoppers. But, as shoppers saw their incomes decline, their confidence in the economy wane and/or the value of their home and other assets drop, even the wealthiest and most particular shoppers re-assessed what clothes, sportswear, shoes and accessories they purchased, where they bought them and how frequently they went shopping.

Prior to the last three years, the apparel industry was relatively immune to shifts in the economy. Men might buy one less suit per year in a down economy or shift from Hermes ties to the Macy's store brand, but otherwise, buying patterns remained relatively constant. Women's products are typically more sensitive to price and economic conditions versus men's and children's.

Starting in late 2007, shoppers began to dramatically change their behaviors.

Among the many changes:

- Some shoppers cut back purchases significantly at higher-end stores, opting for less expensive stores.

- Some moved to visiting outlet stores that carried their favorite brands at lower prices.
- Some continued to purchase their favorite brands at their favorite stores, but simply shopped less.
- Some postponed purchases until better times, making due with what they already owned.

Adding to the complexity is the fact that every shopper applies different strategies to different products. White collar working women may continue to opt for their favorite brands at their favorite stores for their dresses, suits and shoes for work, but postpone purchases of running shoes, and turn to Target for underwear and pajamas.

Aggravating the changes in customer behaviors were a series of industry changes:

- Retailers, also feeling the pinch of a weak economy, began demanding that brand manufacturers focus more on customers' demands versus designers' ideas for new products.
- The success of store brands and economy brands began to eat into the margins and market share of well-known brands.
- Advertising dollars spent on traditional media, such as print and TV, started to generate less uplift.

Shopping behavior is also not necessarily driven by income. Many lower-income shoppers continue to purchase higher-

end brands, for themselves and especially for their children, to ensure they continue to "fit in" to their neighborhoods, workplaces and schools, while cutting back on less visible, non-apparel items.

As a result of these changes, many apparel marketers have had to go back to the drawing board and ask fundamental questions, such as: *Who exactly is my customer? What motivates them to buy? Where are they shopping these days?*

Many then realized they both didn't know the answers and didn't even know how to get them.

Until recently, apparel marketers lacked the data tracking shopper behavior, the analytical solutions to gain new, discrete insights into shopper activity, technology platforms that could process the data in just a few minutes or hours, or the organizational structure and marketing skills to react quickly.

Challenges

As apparel brand marketers begin the process of better collecting and leveraging information, they must begin with identifying the challenges to address. The most critical of these is:

- Creating a "single point of truth" about the customers that purchase the brand and the stores where they purchase it.

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- Identifying “high-value” customers, based on both “size of wallet” and “share of wallet.”
- Determining the outcomes of specific marketing activities, especially the interplay between online and offline campaigns.

The Goal: Creating a Customer-Centric Organization

Even in the best of times, marketing programs build on “gut instinct” leave money on the table. In challenging economic environments, a “one size fits all” approach can be fatal.

Innovative apparel brand marketers are taking a much more focused approach. They are defining very specific customer segments, learning all they can about them, and then developing integrated marketing strategies customized for each segment’s needs.

To create this customer-centric approach to an apparel brand’s organization requires several steps.

Creating a Single Point of Truth

Inside many manufacturers today, each discipline purchases data from different sources and runs the data through different analytics programs. As a result, product design teams might work with different information from merchandising and promotion teams, resulting in wildly different views of targeted customer segments.



Managing by pure “gut instinct” can be dangerous, as can be acting solely based on “pure science.” The most innovative marketers will find the right balance between the two extremes.

The first step to building a customer-centric approach consists of integrating customer data from all sources within the organization, reviewing this data to ensure it will provide a comprehensive customer view, and then running a single set of analytics to obtain the critical insights necessary to develop an integrated set of strategies.

Identifying High-Value Customer Segments

With integrated data and analytics, brand marketers can define the high-value customer, often based on RFM (recency, frequency, monetary) analyses. Marketers can then overlay any commercial constraints that would preclude a customer segment from being high value; e.g., the segment is outside of the distribution area of the manufacturer’s products.

When defining segments, it is important to remember:

- There must be clear differentiation between segments, or any analysis is meaningless.
- Developing products for the segment must fit with the brand positioning or the brand becomes confused.
- The segment will provide a long-term benefit to the manufacturer as measured by revenue, income, pricing power and/or competitive advantage.

Understanding Motivations

For a brand that has multiple customer segments, marketers must understand the motivating factors that encourage customers in each segment to buy the brand. Is it price? Is it the retailer where the apparel is stocked? Is it merchandising and promotions? It is highly likely the motivators are different for each segment.

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Economic Validation

In addition to determining if the brand is right for the customer, marketers have to determine if the customer is right for the brand. Economic modeling can determine how the manufacturer will earn the income, margin and market share to make each segment attractive.

Planning to Scale

When implementing shopper-centric strategies, marketers should think big. It's important to run simulations to ensure all the pieces of the strategies work together, but it's also important to scale fast to take advantage of the market opportunities identified by analytics.

Collaboration with Retailers

Brand marketers can gain valuable insights by collaborating with retailers. This cooperation can help create a seamless shopping experience for the consumer by aligning the manufacturer and retailer's information and taking advantage of any new insights learned.

The Changing Look of Apparel Marketing

Just as a dramatic new fashion design can roil the apparel market, digital media has transformed apparel marketing. Digital media includes activities such as online couponing and social media campaigns on Facebook, YouTube and Twitter.

Considered experimental just a few years ago, digital media spending has grown exponentially within some companies

topping the spend on traditional print and TV media. Digital media hit the runway at just the right time, emerging just as the recession began, and marketers sought less expensive ways to reach consumers.

As digital media spending increased, many marketers realized that methods for quantifying the value of these campaigns lagged. In addition, marketers realized they had to evaluate the offline effect of online media, as well as the online affect of TV, print and radio advertising and promotions. Counting page clicks and views were essentially meaningless, offering a rudimentary quantitative measure of success, but no qualitative information and no information on the impact of offline activity.

As digital media spending has moved from an experiment into a prime marketing tool, managers must think strategically about how to integrate it into the comprehensive marketing mix. They must also evaluate each marketing activity's impact on the consumer independently as well as understand how each activity affects other activities; e.g., how do messages in a TV or print campaign impact online consumer behavior. As digital media spends increase, senior management teams will want to know the return on investment (ROI) of digital programs and the uplift they bring to the entire marketing program.



Conducting online and offline activity concurrently increases the impact on consumers, but also adds complexity to the evaluation process.

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Today, the successful marketing program includes quantitative and qualitative approaches to measure each activity within the marketing program as well as the affect and cross-benefit of how activities interrelate.

Defining Clear Objectives

For each marketing activity and the marketing program as a whole, it is critical to begin by identifying clear objectives, based on an intimate understanding of each apparel consumer segment, including their preferences and biases. Marketers can then apply new, powerful modeling and analytic programs that isolate a single or group of variables, simulate media buys and determine ROI.

Discovering New Opportunities

Given the economic turmoil of the last three years and the profound impact it has had on consumer attitudes and behaviors, it is important to include econometric information in these models and analytics. In addition to measuring the effectiveness of online, offline and integrated campaigns, today's new econometric models also include macroeconomic data. As a result, marketers can determine market saturation by testing the impact of increased spending in either single or multiple key markets through a modeling approach that is much more indicative of actual consumer behaviors than if the models focused on campaign results alone. This delivers a true "apples to apples" comparison.

Adding Predictiveness to the Marketing "Collection"

Today's new marketing models provide quantitative and qualitative backward visibility into the ROI for each marketing tactic and the marketing program as a whole. In addition, these models can diagnose reasons behind changes in business performance over time based on a broad set of internal and external factors.

Equally as important, today's models can enable marketers to forecast the future and predict the results of shifts in the mix of marketing tactics as part of response planning. This capability allows marketers to optimize their spending across the mix of media they employ as well as deliver causal and predictive forecasts.

Organizations have enjoyed improvements in marketing ROI of up to 40 percent within 12 months by adopting new modeling techniques. However, it's important to note that modeling is just one suit in the marketer's closet, and models will never be able to predict 100 percent of sales activity.

In addition to time-proven techniques, such as Marketing Mix Modeling (MMM), there are several newer or complementary techniques that together will contribute to providing marketers a holistic view of consumer attitudes and behaviors. Three approaches especially relevant to the apparel industry include:

- In-Market Tests – When models are first applied to an apparel company's data, there are typically a significant number of "big insights." Acting on these insights would entail a large amount of risk that marketers may want to mitigate. Market-level testing of new marketing approaches, especially digital media activity can validate the opportunities they create.
- Consumer Funnel Analysis – By applying modeling techniques to each point of the consumer "funnel," marketers are able to understand the impact of marketing efforts at each step of the consumer's decision making process and then link changes in funnel metrics to financial metrics. This allows marketers to create a balance between achieving short-term sales and long-term brand building.
- Agent-Based Modeling – This approach simulates activities and interaction among a series of agents, such as customers and competitors, with the goal of evaluating their impact on a market segment in its entirety. Marketers then combine these models to simulate the impact of concurrent change in "agents" and complex interactions across these "agents."

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Selecting the Optimal Partner

Many apparel marketers are applying the rigorous practices of lower margin industries, such as CPG, where wringing every insight out of shopper information is mandatory to be successful. Often this requires bringing in an outside partner, experienced in projects such as integrating databases, implementing new technology platforms and analytic solutions, developing methodologies for establishing clear, measurable objectives, and assisting with the creation of integrating marketing campaigns that communicate specific messages designed to elicit very specific consumer actions.

As marketers review potential partners, they should consider a series of questions that will help them determine the best fit for their needs. Among these:

- What is the partner's methodology, what disciplines does it include (e.g., State Space, Bayesian) and is it flexible enough to meet the specific needs of my company?
- What experience does the partner have with ensuring companies have all the data necessary to create sound models and can the partner provide panel data to supplement point of sale data, as well as integrate data from multiple sources?
- Can the partner scale its capabilities to meet my needs both nationally and internationally?

- What additional partnerships does the partner have in place to augment expertise it may not possess internally?
- Who from the partner will work on my project and what experience do they have with related projects in the apparel industry?

Summary

The economic challenges of the last three years have provided a wake-up call to apparel marketers. While implementing the more aggressive approaches for securing and integrating data, applying analytics, adding predictiveness and creating more effective measurement approaches to the marketing mix will require significant effort, the benefits will be well worth the initial investment.

This is an outstanding time for marketers to be applying analytics more aggressively to their plans. Robust data exists for periods of strong, weak and stable economic conditions. This allows marketers the ability to analyze people's behaviors and attitudes in each type of environment. In addition, marketers that study this data now will be best prepared to anticipate behavioral shifts the next time economic conditions evolve.

Marketers will gain a much better understanding of who their customers are, their shopping attitudes and behaviors regarding different types of apparel, enjoy more productive and efficient marketing spends based on data versus gut, and gain the ability to predict the future direction of apparel market segments.

An important component of this new "collection" of marketing capabilities is selecting the right partner. These subject experts can apply key learnings from similar projects, helping to ensure successful, cost effective and rapid implementation.

About SymphonyIRI Group

SymphonyIRI group, formerly named Information Resources, Inc. ("IRI"), is the global leader in innovative solutions and services for driving revenue and profit growth in CPG, retail and healthcare companies. SymphonyIRI offers two families of solutions: core IRI solutions for market measurement and symphony advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management. SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organization. For more information, visit www.SymphonyIRI.com.

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The logo for SymphonyIRI Group features a red curved line above the text "SymphonyIRI Group", where "IRI" is in a larger, bold font.