DATA DRIVEN GROWTH STRATEGY FOR COMPLEX MARKETS –

USING DEMAND MODELLING AS THE FOUNDATION FOR CITY-LEVEL DISTRIBUTION STRATEGY

GAME CHANGERS

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DO THESE DISTRIBUTION CHALLENGES FOR GROWTH SOUND FAMILIAR?

‘Our business intelligence validates that the market is big and that there’s an opportunity for us. We have a tiny market share today, **we could probably sell thousands of units in any province** – but with dozens of cities that could be relevant, **where should we start?’**

‘My **budget for investment in distributors is limited**. I don’t have enough sales reps to manage them. What kind of **distribution structure and KPIs** can I use?’

‘Over the years we followed an **opportunistic approach to distribution** and today our **network lacks structure.** Some distributors we have to share with other BU’s and some simply do not fit our product portfolio.’

‘Is there a **niche in this market** where my portfolio and set-up can help me to **exploit a competitive advantage?’**

‘We have worked out a thorough value proposition – but **whom should we communicate** it with?’

IN OUR ENGAGEMENTS WE OFTEN ENCOUNTER BIASED VIEWS TO DISTRIBUTION STRATEGIES

‘We need flagship stores in Tier 1 cities.
This is where premium brands thrive.’

‘There are only tier 2 cities in this province, let’s not go in there

Let’s put down 2019 actual +10% as sales target,
how could we come up with distributor specific targets anyway?

My distributor says we have to be present at this chain of national appliance stores to be recognised as a serious player but the upfront investment is significant. What will be the return on this investment?’

‘We’ll recruit 5 new distributors in this province. With our brand, heritage and reputation it should take us a few months and we can expect break even very soon’

WHAT MAKES MARKETS SO COMPLEX?

China as blueprint for complex markets

- 280+ cities with >1m, 20 cities with > 10m
- 800 million urban residents
- Household income spread (50,000 – 180,000 ¥ p.a. ~ 6,000 – 23,000 €)
- Leapfrogged development
- Complex retail structure
  - 4,000 Suning & Gome
  - 20+ national & regional appliance / construction stores
  - Online!

- **Large number of relevant cities**
- **Heterogeneous population**
- **Rapid development in recent decades**
- **Dynamic channels**
- **Emerging Online channel**

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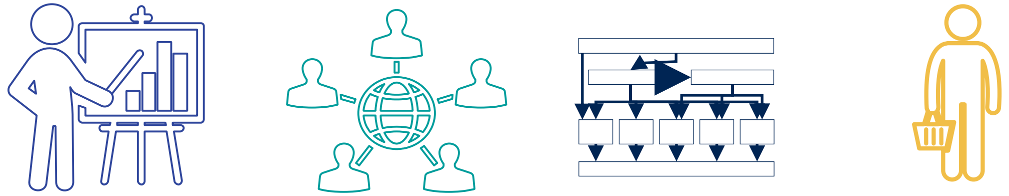
OUR BIG DATA APPROACH TO PROVIDE ACTIONABLE OUTPUTS THAT ADDRESS THESE CHALLENGES

Based on insights from 4 pillars …

I	II	III	IV
Demand modelling on a city level	Client CRM data & portfolio	Competitive insights, channel dynamics and retail landscape	Customer insights and purchasing journey



… together with you, we develop a structured framework to drive a targeted 5 year growth strategy:

- ❑ Go or no-go decisions for each city
- ❑ Individual distributor KPIs
- ❑ Internal resource requirements
- ❑ Investments across channels

BOTTOM-UP DEMAND MODELLING ON A CITY LEVEL WITH 5Y FORECAST TO ASSESS MINIMUM DEMAND

1. Where is demand coming from?

- 5-year demand modelling at the city level
  - National, provincial & municipal data sets; project experience; expert interviews; paid-for reports
- Macroeconomic data points to *qualify* demand (price segment etc.)

Note: Base unit differs for product categories:

- # of SMEs if you’re selling insurance to SMEs
- # of registered vehicles if you’re selling car parts
- # of hospital beds for healthcare
- # of households or new-built apartments for larger white goods, appliances or construction material

Shortcoming:

Demand as a **singular metric** will tell you to sell where everyone else is – but that’s **not new and neither actionable**

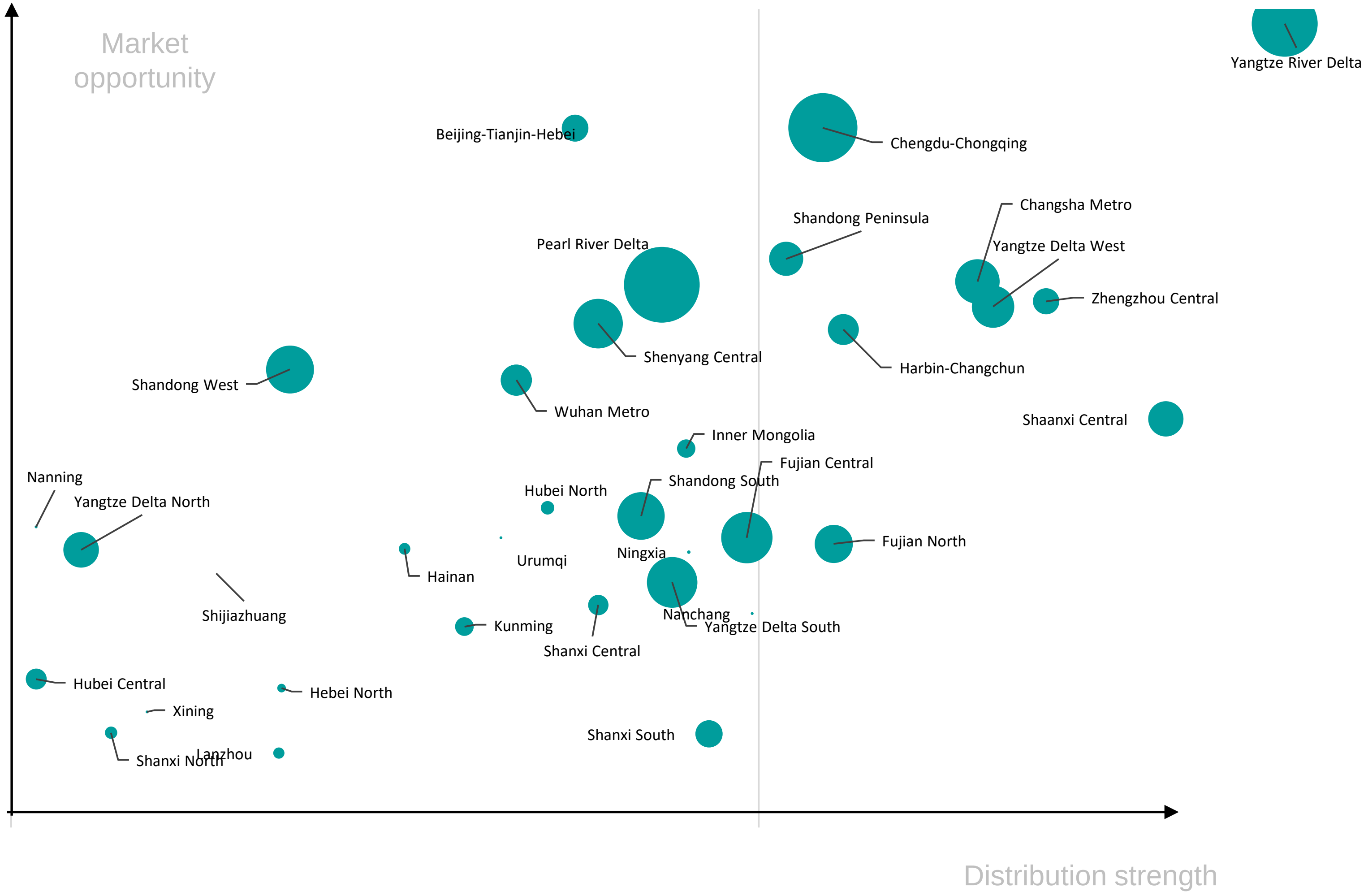
CRM DATA TO UNDERSTAND YOUR ABILITY AND STRENGTH TO SERVE DEMAND ON A CITY LEVEL

1. Where is demand coming from?

2. How are you positioned to meet the demand?

a) Benchmark distribution strength (CRM data) against demand on city level to assess ability to serve

b) Benchmark client's portfolio to regional demand characters
   - Car brands
   - Housing structure or layouts
   - Prevalence of substitute products
   - Climate



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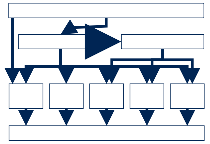
IN-DEPTH UNDERSTANDING OF RETAIL CHANNEL DYNAMICS AND COMPETITOR ACTIVITY



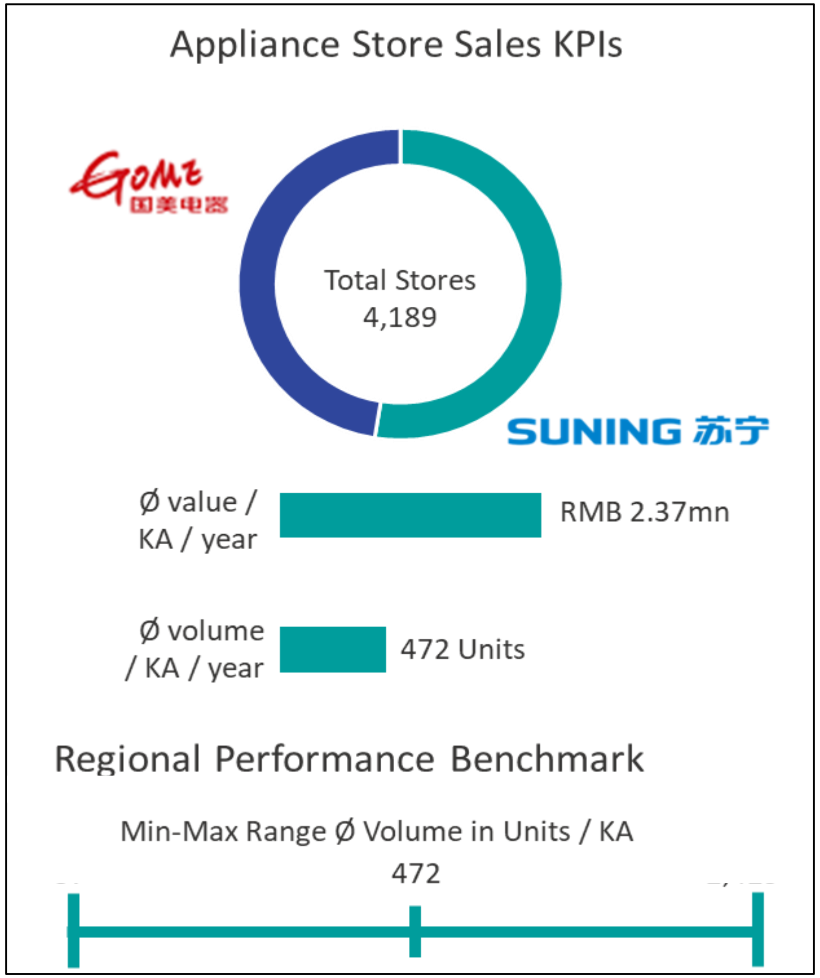
1. Where is demand coming from?

2. How are you positioned to meet the demand?

3. Which competitors are in these cities and how do retail channel dynamics look like?

Benchmark competitive intensity:

- # of POS / brand
- Competitor's relative strength across channels
- eCommerce
- Relevance of type of retail outlets



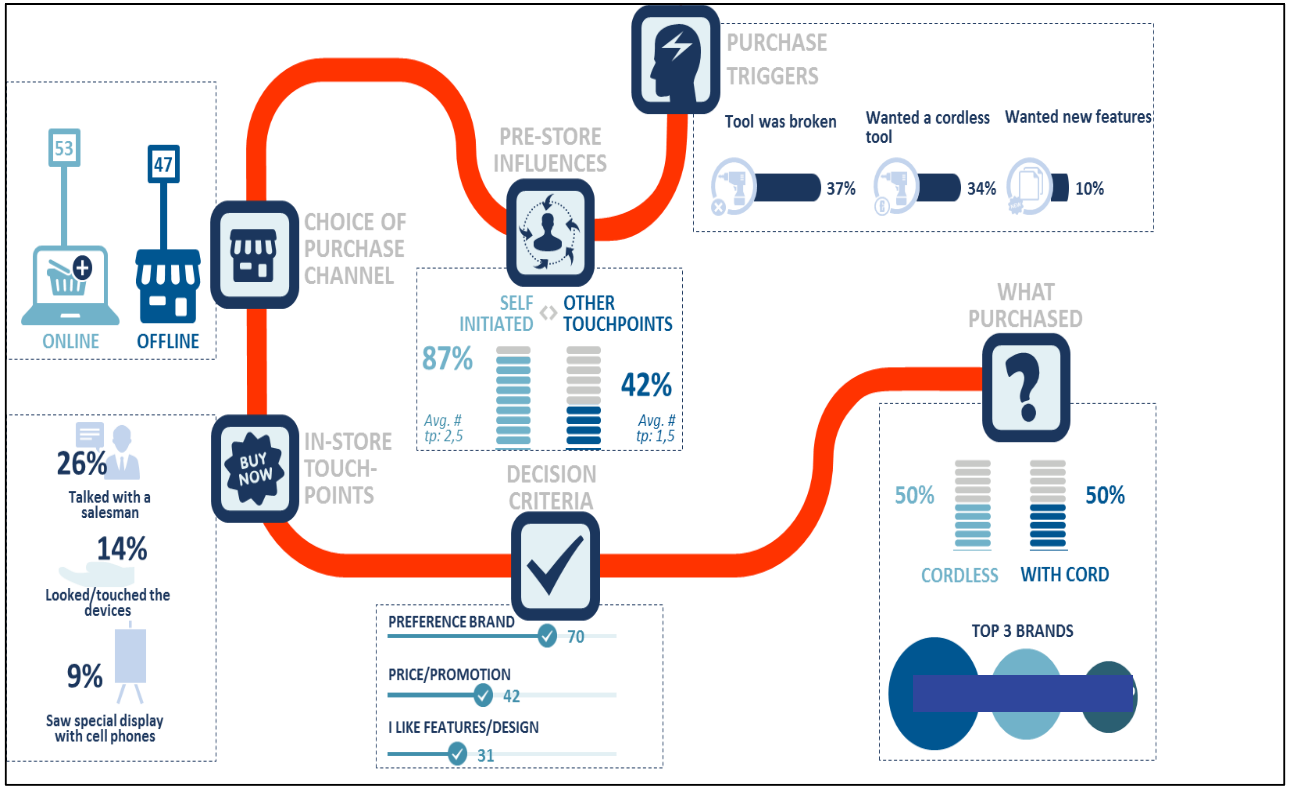
THE FINAL PIECE OF THE PUZZLE – CONSUMER INSIGHTS

1. Where is demand coming from?
2. How are you positioned to meet the demand?
3. Which competitors are in these cities and how do retail channel dynamics look like?

4. How are products selected & bought?

Customer insights and purchasing journey enable granular and differentiated analysis:

- Decision making; awareness, consideration and preference
- Loyalty & retention
- Brand decision
- Actual purchase: online vs. offline



Note: Purchasing journey for B2B business can be included in analysis as well

LEVERAGING DATA SCIENCE - WHICH COMBINATION OF INSIGHTS IDENTIFIES THE BEST OPPORTUNITIES FOR YOU?

I

Demand modelling

Demand in city 1

2

3

4

II

CRM data & portfolio

Strength / Ability in city 1

2

3

4

III

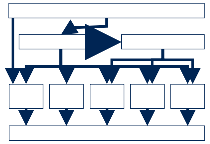
Competitors & Channels

Competitive intensity in city 1

2

3

4



IV

Customer insights & purchasing

User Insight in city 1

2

3

4

We typically collect 80-100 data points for each city and leverage data science where we **combine** all findings, insights and data points on a city level and review the opportunities that arise out of each **combination**. There are plenty of opportunities in complex markets, one could probably sell in any city, but we are looking for cities where our clients have a comparative advantage and where they are able to serve.

EXAMPLE - WHAT AN IMMEDIATE CITY-LEVEL OPPORTUNITY IN A T-3 CITY LOOKS LIKE FOR WHITE GOODS IN CHINA

I

Demand modelling

Solid replacement market of 30k replacement demand p.a.

3

4

II

CRM data & portfolio

Relatively good distributor performance with 800 sales p.a.

3

4

III

Competitors & Channels

Midea & Haier as leading brands with 55% of all product category retail outlets

3

4

IV

Customer insights & purchasing

Low loyalty for Haier and Midea users

3

4

In this combination, these insights provide an excellent opportunity: The client already has a relatively strong distributor, we forecast a strong replacement market with people that are willing to try out new brands because of low loyalty. This opportunity comes at low investment!

ROADMAP FOR SUSTAINABLE GROWTH

Deliverables for an actionable growth strategy for include ….

- **Go no-go decisions** for each city / cluster
- **Distributor targets and KPIs** based on city-level demand modelling
- **Qualification of expected demand:** new vs. replacement; portfolio focus (price; product specs; etc.)
- **Channel focus** with allocation of investments for specific outlet type
- **Marketing** activities and **brand communication** focus

… and after an **internal assessment** with you, these are structured into a **roadmap to support your 5 year growth strategy**

Year 1

ACT:
Short term goals to collect low hanging fruit

Year 2

INVEST:
Preparation and adjustment for coming growth opportunities

Year 3-5

PREPARE:
Substantial preparation, investment and restructuring for long-term initiatives

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BUILD • GROW • COMPETE

An Introduction

A brief introduction to Ipsos Strategy3, a business and growth advisory firm powered by the research and data capabilities of Ipsos

We are Strategy3, Ipsos' business and growth advisory firm

We believe that in order for any business strategy, marketing plan, brand positioning, or new innovation to be successful, it must do **three** things: be rooted in the organization's strategy, be informed and inspired by customer research, and it must drive through to actual in-market activation. While there are many firms that advise on growth, very few deliver on all **three**: traditional management consultancies rarely delve deep enough into the world of the customer; creative firms don't truly leverage the power of data; research agencies can sometimes lose the big picture in the midst of analysis. That's why we are Strategy**3**.

We approach every challenge through **three** lenses

What We Do

Drawing from our global network of consultants across four practice areas, we work with clients to
Build • Grow • Compete

Corporate/Business Strategy

Determining the right markets in which to play, and how to win
Market Sizing • Go-to-Market Strategy • Distribution/Channel Strategy • Competitive Benchmarking • Due Diligence

Brand Strategy

Developing strategies to help your brand and products stand out
Brand Stretch • Brand Architecture/Portfolio Optimization • Brand Positioning • Brand Purpose

Customer/Consumer Strategy

Understanding and reaching the right customers
Strategic Segmentation • Customer Prioritization • Consumer Journey • Omnichannel Strategy • Value Proposition Development

Innovation Strategy

Planning for and conceptualizing new products and offers
Trends/Futures Scenario Development • Early Stage Innovation Development • Innovation Scouting • Innovation Strategy and Process Development

Project blueprint

PROJECT SCHEDULE **Weeks from start-up**	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Kick-off & planning – *1 day on site*														
Stage 1: Business health check & internal assessment - *3 weeks on site*														
Stage 2: Market diagnostics														
Stage 3: Consumer insights														
Stage 4: Analysis and validation – *2 weeks on site*														
Workshop – Insights & validation competitive advantage assessment – *1 week on site*														
Stage 5: Decision, Workshop and Review of Final Report – 1 *week on site*														

1 INTERNAL ASSESSMENT

To recommend a **robust growth strategy for you**, it is essential to gain a true understanding on **your current business performance** and **issues**, your **capabilities** and how you see your **competitors** and **high-level opportunities**.

2 MARKET DIAGNOSTICS

To fully evaluate **your market opportunity**, we assess **market size** and **forecast** and map the **demand landscape**, then we carry out a detailed assessment of market conditions, covering the **competitive landscape**, the **distribution channel** and the **regulatory environment**.

3 CONSUMER INSIGHTS

We then carry out **in-depth** qualitative and quantitative **consumer research** to reveal **your design targets' needs, expectations** and **perceptions** and we do a full review of their **path-to-purchase** to ensure optimal engagement across multiple touchpoints.

4 ANALYSIS AND VALIDATION

In this stage we **assess** the robustness of **your competitive advantage** and **identify gaps and opportunities** in the market which can be leveraged to **enhance your business model** and sustain the advantage in the future.

5 STRATEGY DESIGN

The final result is a **clear strategic direction for you to grow itop and bottom line** as well as understand the capabilities required for **long-term sustainable business**. Growth scenarios with potential **financial outcomes are also evaluated**.

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