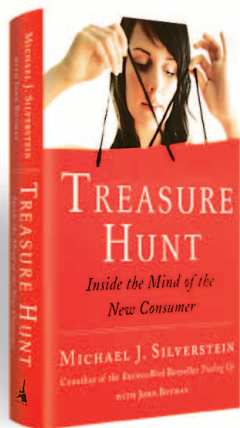


SOUNDVIEW Executive Book Summaries®

FILE: MARKETING



By Michael J. Silverstein with
John Butman

Inside the Mind of the New Consumer

TREASURE HUNT

THE SUMMARY IN BRIEF

In his previous book, Trading Up: Why Consumers Want New Luxury Goods — and the Companies that Create Them, Michael J. Silverstein defined an emerging “new luxury” category of goods and services. That segment’s growth subsequently exploded from \$400 billion in 2003 to \$605 billion in 2005. Now, in Treasure Hunt: Inside the Mind of the New Consumer, Silverstein explains why there is even more volume and momentum in the fast-growing “treasure” segment.

Through detailed, individual spending portraits of middle-class consumers, Silverstein explores the story of how people around the world are reshaping the consumer-goods market by trading down to low-price products and services, trading up to premium ones and avoiding the boredom and low value that increasingly characterize the middle.

The process resembles a treasure hunt for goods and services that may be cheap or dear, technically sophisticated or whimsical, basic or feature-laden but always functionally and emotionally significant. The consumers driving this change are mostly women, who have a sense of purpose and power when they buy and use goods and services.

This summary reveals how treasure hunting, and the trading up it enables, are causing the entire \$3.7 trillion consumer-spending marketplace in the U.S. to bifurcate. It also provides capsule analyses of companies who are successfully leveraging this transformation for profit and those caught in the middle-market death squeeze.

In addition, you will also learn:

- ✓ *How companies can obtain a more profound understanding of who middle-market customers really are.*
- ✓ *How trading up and trading down are battling it out in every category.*
- ✓ *How companies such as LG, Dollar General and Best Value Inn understand the middle-market consumer mentality.*
- ✓ *How to target consumers’ value calculus.*
- ✓ *How to avoid the biggest traps in attempting to escape the middle.*
- ✓ *How to recut market research data to create a model of success.*

CONTENTS

The Bifurcating Market

Page 2

The New Middle-Class Consumer

Page 3

Cheap is Good

Pages 3, 4

Spanning the Poles

Page 4

All Treasure, All the Time

Page 5

When the Value Calculus Shifts

Pages 5, 6

Nickels and Dimes

Page 6

Left in the Dust

Page 7

Taking Action

Pages 7, 8

TREASURE HUNT

by Michael J. Silverstein, with John Butman

— THE COMPLETE SUMMARY

The Bifurcating Market

The Nelson family's decision to purchase four Daewoo TVs for Christmas is a parable for the shift taking place in the consumer goods market. Ben Nelson holds two jobs. His wife Alice is a part-time nurse. As Christmas approached, Alice and the children wanted a vacation for a gift. But Ben was sick of their old 27-inch TV. He worked a seventy-five hour week, and watching sports programs was one of his few luxuries. He persuaded his family that, instead of a short vacation, a flat screen TV would provide years of pleasure for everyone .

After shopping at Best Buy, Sears and Circuit City, the couple reached an unexpected conclusion: They would buy four TV sets — a 32-inch, wide-screen flat panel TV priced at \$1999 for the family, and a 13-inch Daewoo for \$57 so each child could have their own set. To afford the \$2000 expenditure, however, the family had to limit discretionary spending for three months. By April the sets were paid for, and the family breathed easier.

The Dynamic Market Meets the Unpredictable Consumer

In the United States and around the world, consumer markets are bifurcating into two rapidly growing pools of spending. At the high end, consumers are trading up, willing to pay a premium for top quality, emotionally rich, high margin products and services. At the low end, consumers are relentlessly trading down to spend the least amount possible on basic, low-cost goods that still deliver quality, reliability and, increasingly, an element of style. In between these spending poles lies a vast expanse of mediocre, often low-margin goods that lack distinctive emotional appeal or better value than their cheaper competitors.

Companies that have profited for years by selling mid-priced products to middle-class consumers suddenly find themselves facing “death in the middle.” Companies that succeed in this bifurcated market are those who understand the attitudes, behaviors and values of middle-market consumers who are driving this metamorphosis and constantly alter and reinvent their product to satisfy the ever changing “value calculus” of the consumer.

Today's consumers are highly skilled shopping experts. For them, consuming has become a treasure hunt — a constant search through the world's vast and ever-changing store of goods and services to find the perfect value every time. Such consumers spend their money with individuality — trading up in some categories, trading down in most and mixing upscale with downscale products — to create a customized lifestyle and standard of living suited to their own taste.

Why People Trade Down

Consumers trade down for four reasons:

- “I'm a smart shopper.”
- “There's no material difference.”
- “My Mom taught me.”
- “I can go without.”

The upshot of such trading up and trading down behaviors is that middle-market consumers are unpredictable and confound traditional demographic and psychographic stereotypes. This includes a \$150,000 professional who buys \$19 jeans at Target, flies Air Tran, and pays \$100 for her dog to be groomed, as well as a \$50,000 plumber who leases a \$27,000 BMW and buys clothes at Kohls.

Trading-down companies have created 10 times plus the market value that trading up companies have created. Big winners include Target, Costco, Lowe's and Dollar General. ■

The authors: Michael J. Silverstein is a senior vice president of The Boston Consulting Group, where he served as leader of their global consumer practice.

John Butman is the author of more than a dozen books, including five on critical issues involving social and business change.

Treasure Hunt by Michael J. Silverstein with John Butman. Copyright © 2006 The Boston Consulting Group, Inc. Summarized by permission of the publisher, Portfolio. 267 pages. \$26.95. ISBN 1-59184-123-2.

Summary Copyright 2006 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495.

For additional information on Strategies for Winning in the Middle Market, go to: <http://my.summary.com>

For additional information on the authors, go to: <http://my.summary.com>

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: \$209 per year in the United States, Canada and Mexico, and \$295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2007 by Soundview Executive Book Summaries.

Available formats: Summaries are available in print, audio and electronic formats. To subscribe, call us at 1-800-SUMMARY (610-558-9495 outside the United States and Canada), or order on the Internet at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Soundview Executive Book Summaries®

NAN BAUROTH — *Contributing Editor*
DEBRA A. DEPRINZIO — *Senior Graphic Designer*
MELISSA WARD — *Managing Editor*
REBECCA S. CLEMENT — *Publisher*

The New Middle-Class Consumer

At first glance, the Montforts appear pretty average. Sarah, husband Rick, and their three daughters live in a home worth \$425,000 in Arlington Heights, Illinois, on an annual income of \$85,000. But there is a lot demographics don't reveal about how people like the Montforts really live.

Whereas those at the top of the income ladder are rarely forced to make substantial trade-offs, and people at the bottom have few options, those in the middle constantly face difficult choices. Much of Sarah's day is spent making purchasing decisions to help her family live a "good life." Even with a solid middle-class income, loving family and network of friends and neighbors, life is much more of a struggle — financially, practically, physically and emotionally — than Sarah imagined it would be.

The Power of the Middle Class

In the United States, the middle class is defined as the 48 million households that earn between \$50,000 and \$150,000 per year. These people control 75% of discretionary spending, which means they control the market. They may be financially stretched and emotionally stressed, but for the most part, people are not going into debt to trade up. Nor is debt driving people to trade down. They do both because they can and want to.

The market bifurcation not only transcends demographic and geographic boundaries, it involves people at every stage of life. Businesses must recognize that consumers are driven as much by their circumstances and life decisions as they are by income, profession or where they live.

The Value Calculus

The consumer value calculation currently involves a host of financial, practical and emotional factors. The purpose of making this calculation is not to just find the lowest price (if you are trading down) or highest quality (if you are trading up), it's to determine the right price for the right product at the right time and place. Consumers' value calculations are much less predictable today than even a decade ago, because they don't seem to line up with the consumer's income or demographics the way they used to.

Actionable Insights

Every middle-class consumer has a "want list" of things she wants to buy that is constantly revised. If you understand the want list of your consumers, you may discover that you are competing not only against other companies in your category, but also against completely different categories where consumers might spend dis-

cretionary dollars. For instance, if you make watches, your toughest competitor could be a handbag seller. If you sell flat-screen TVs, your toughest competitor might be a Caribbean cruise or a high-performance mountain bike. ■

Cheap is Good

Hilda Schmidt is a German housewife with a passion for bargains. Married with two children, Hilda struggles to make ends meet on husband Franck's 30,000 annual income. She feels it her duty, even her mission, to shop smartly. "I have to get good deals and buy things on sale — that's my job." Hilda's secret weapon is stockpiling. Whenever she finds a bargain, she buys it and tucks it away in her storage room. Like many Europeans, Hilda has taken the treasure hunt to an art form.

Aldi: a History of Low Price

Cheap used to mean bad. The cheap product was, by definition, of low quality. If you bought your clothes at K-Mart, it wasn't something you talked about. Today, everyone loves a bargain and they brag about the low prices they get. It's a victory to spend the smallest amount you can, no matter how wealthy you are.

Like millions of Germans, Hilda relies on Aldi, the \$35 billion chain that has become the world's leading "hard discount" retailer for low-cost food and household commodities. According to GfK, a German market research group, Aldi is Germany's third most respected brand, just behind Siemens and BMW and ahead of Chrysler-Daimler. The retailer is even on the way to becoming hip.

Founded after WWII to cater to bombed out residents, Aldi's sole management focus was the lowest price. Gradually the strategy of necessity became the strategy of choice and came to be known as "hard discount." Hard discounters are distinct from everyday-low-price retailers like Wal-Mart in the United States and European hypermarkets like Carrefour. Hard discounters offer fewer categories of goods, the shopping environment is functional and there are few services. Above all, prices are unbelievably low — as much as 60 percent below leading brand names and 40 percent lower than supermarket private labels. Although hard discount is sweeping Europe, it has not become a national obsession in the United States.

The Dollar Store

Retailers who have found a treasure hunting format that combines hard discounts with a shopping experience more familiar to Americans include "dollar stores" such as Family Dollar, Dollar General and Dollar Tree. People have a funny affection for Dollar General

(continued on page 4)

Cheap is Good

(continued from page 3)

because of low prices and less hassle. Stores are located in suburban shopping malls, so they're easy to get to. Stores are also smaller, so the whole shopping experience doesn't take as much time.

There are three types of "dollar stores":

- Stores that adhere to merchandise at the \$1 price point, such as 99 Cents Only and Dollar Tree.
- Overstock, discontinued, surplus and distressed merchandise retailers like Big Lots, Building #19 and Tuesday Morning.
- "Extreme value" stores like Dollar General and its big competitor, Family Dollar.

In 2004, 66 percent of households report having shopped at a dollar store, and higher-income households are the fastest-growing segment of customers. The success of Dollar General, and of the dollar store category in general, is having a major effect on the trillion-dollar trading down market.

Fighting Back

Grocers and big-box retailers are looking for ways to fight back. Wal-Mart has been testing concepts for its own in-store version of the dollar store. One is called the "Hey Buck" section where food and soft goods sell for an average of 98 cents per item. Target has tested a concept called "One Spot" with merchandise priced at \$1. The low-cost revolution will continue. ■

Favorite Finds at Dollar Stores

Dollar General stores carry around 4000 SKUs and offer the reassurance of many brand names. The top 10 items purchased are:

- ✓ Household cleaners
- ✓ Seasonal decorations and supplies
- ✓ Wrapping materials and gift bags
- ✓ Paper products
- ✓ Laundry supplies
- ✓ Housewares
- ✓ Storage containers
- ✓ Batteries
- ✓ Health and beauty supplies
- ✓ Dry groceries.

Hard discounters like Aldi, the dollar stores and some big-box retailers also have aspects of treasure hunting. Kmart has the Blue-Light Special and Wal-Mart is known for its DVD bin, filled with hundreds of movies. At Dollar General there are also special buys and limited-quantity goods, displayed in unexpected places or tucked away among other items to increase the surprise of finding them.

Spanning the Poles

As a result of 9/11, Jim and Anne Freedman found themselves experiencing a leap from one pole (high) to the other (low) and are finding ways to span the two. After the anthrax scare, Jim was forced to sell his direct mail business. Prior to this, Jim's and his family enjoyed a seven-figure income and a life filled with nice things, including three residences.

Now their only income is through Anne's job as a kindergarten teacher. They sold their primary home and parted with many precious possessions. For them, the value calculus has been refined. They trade down much more than they used to and trade up with more caution and deliberation. Their lives are filled with trade-offs, large and small. They play at both poles with great agility.

The Hotel Industry: Moving in Both Directions

When hotels experienced a precipitous drop in business after 9/11, a truth about the industry was revealed: Despite the glamour of high-end hotels and destinations, riches are also found at the bottom of the market. Although some hotel companies abandoned expansion or improvement plans or unloaded properties after 2001, others followed a trading-up or trading-down strategy, adding rooms and building brands that would appeal to specific segments of the market. Some went high. Some went low. A few found success at both ends of the market.

Best Value Inns (BVI), the fastest growing hotel company in the U.S. during 2003 and 2004, operates exclusively at the low end of the market. BVI has become the preferred choice for business and leisure travelers who are seeking a clean room, free cable TV, swimming pool, minifridge and free morning coffee, and can only afford around \$65 a night. A stay at a BVI is a smart use of money. The attraction for franchisees is that BVI charges only 25 percent or 30 percent of the fees of other national chains.

Marriott: Masters of Bifurcation

Marriott seems to have mastered the difficult trick of succeeding at both of poles of the market. Long known as a middle-market hotelier, they purchased the premium Ritz-Carlton hotels. They have also aggressively expanded in the trading-down market with Courtyard by Marriott properties for business travelers and low-price Fairfield Inns for leisure travelers. Marriott's biggest growth in rooms and revenue has come from its trading-down brands.

All hotel owners are looking for ways to differentiate and respond to the bifurcation of the market. The worst place to be is in the middle where average returns are below the cost of capital. The best place to be is at the bottom of the market. ■

(continued on page 5)

LG's Transformation

LG, the \$50 billion South Korean worldwide manufacturer of electronics, chemicals and industrial products, has accomplished what few companies in the world have done: transformed itself from a supplier of low-cost, poor-quality goods to a leading producer of home electronics and appliances that serve both trading-down and trading-up consumers.

Twenty years ago, LG (then known as Goldstar) was the world leader in cable-ready 13-inch low-quality TV sets at rock-bottom prices. Today, their appliance division is possibly the fastest-growing and most profitable in the industry. They offer a \$550 top-freezer refrigerator that competes with Frigidaire and Kenmore on the low end and a \$3,100 model that competes with Sub-Zero at the high end. For LG, spanning the poles is about participating across the whole range of price segments in its market.

All Treasure, All the Time

Backpacking through Europe during college, Stephanie Granby developed a thing for scarves. At the annual Hermes sale in Paris, she bought a silk scarf for \$120. During her twenties, she couldn't afford to pay full retail for more scarves and even though she's now 30 and earns \$100,000, her value calculus still does not allow for profligate spending on fashion. But her lack of money in her early years hasn't prevented her from adding to her collection by waiting for sales, searching vintage clothing shops and attending yard sales.

Then along came eBay, which changed her life. Since 1999 she has bought fifteen scarves on the site, ranging from \$50 to \$400. "I always get a deal on eBay." Every night after work, Stephanie checks eBay to see what's new. If something strikes her fancy, she bids on it. Every morning at 5:30 a.m. she goes online to see where the bidding stands. eBay has become her major spending outlet.

eBay: The World's Biggest Treasure Hunt

The ancient allure of the bazaar and visceral excitement of shopping are the basis for success of all kinds of retail formats around the world. People are drawn to Trader Joe's, the specialty grocery market, because they're never sure exactly what they're going to find. The excitement of going on the prowl is also what's behind every yard sale and flea market, including the biggest and most extravagantly profitable embodiment of the concept, eBay. As more than 135 million registered users in 32 markets have learned, eBay offers the thrill of discovery every day.

After just seven years of operation, eBay had created a market value of \$42 billion — greater than the entire value of the department store industry of the United States which has been operating for a century. What eBay offers is a fantastic business model: an online community that brings 336,000 registered stores worldwide, many small or geographically isolated, into one global marketplace.

For sellers, eBay satisfies the desire to be entrepreneurial and make money. For buyers, eBay enables them to put their hands on the steering wheel of their own consumption. The great majority of items sold on eBay are inexpensive — excluding autos and real estate. The estimated average selling price is \$36, so the population for buyers represents all income levels. Most users come from middle-income households who shop there for treasure.

The One and Only Tchibo

No retailer, including Wal-Mart, K-Mart and Dollar General, can hold a candle to Europe's best-loved and most unique treasure-hunt retailer. Originally a mail order purveyor of high-quality coffee, Tchibo now offers a variety of home related non-food items.

The distinction is that these items are not offered in categories or departments, but in themes, which change every week — such as Italian cuisine, beautiful garden, enjoy nature and surprise your partner. All are branded with Tchibo's label, while none are available in exactly the same form at another retailer. Many people visit Tchibo because they need coffee but, while there, can't help peek at what's new. The theme of the week is always displayed in the window.

Tchibo and eBay appeal to the treasure hunter in markedly different ways. Tchibo consistently anticipates and creates themes that strike a chord with consumers, and is able to create an atmosphere that puts the shopper in a treasure-hunting state of mind. It's a unique combination of trading-up, trading-down, and treasure hunting.

eBay is a more outlandish concept, built on the assumption that everybody in the world is a buyer and seller of something and that almost everybody is willing to purchase goods over the Internet, mostly sight unseen. ■

When the Value Calculus Shifts

The dominant factor in the value calculus of Lauren James, a thirty-two year old single woman living alone, is fear of the future. A charming, attractive, seemingly confident person who seems like a classic trading-up consumer, she earns \$80,000 per year and contributes

(continued on page 6)

When the Value Calculus Shifts

(continued from page 5)

the maximum to her 401(K) and Roth IRA. Yet, she worries she will grow old alone, lose her earning ability and end up on the street. She has “the bag lady fear.”

Lauren is a rocketeer in terms of her personal care spending but is not out of control. She spends much of her money on goods and services to improve her appearance.

Rocketers like Lauren distort spending, buying much more in one area, and scrimping and saving in others. For Lauren, shopping and spending to make herself and her life with friends as rich and distinctive as possible is an art form. You’ll never find her in Aldi or Dollar General. “They remove the thrill and joy.”

Masako Tanaka, a single “office lady” in Tokyo, has a brighter version of Lauren’s value calculus. Although she does have worries, Masako and her peers are optimistic about finding husbands, and are not haunted by gloomy views of the future. Since office ladies earn good salaries and live at home with their parents, they are amazing traders-up.

They will distort their incomes with great ferocity toward high-fashion items such as designer handbags, sunglasses, watches and other personal adornments, ignoring categories like electronics or cars. For them, the physical and emotional experience of shopping is as important a factor in the value calculus as the product itself.

A New Value Calculus at Bath & Body Works

The ability to understand value factors such as fear or hope that cannot be quantified or plugged into a spreadsheet is driving the success of Neil Fiske, CEO of Bath & Body Works (BBW). For over a decade, BBW has been successful selling mid-price body and personal care products for women who want bright colors and intense fragrances.

BBW is positioned as a masstige brand, based on products that are a step above the drug store and a step below the department store. For millions of women, BBW products fit neatly into their personal value calculus, delivering a combination of wholesomeness, effectiveness and personal indulgence at a price high enough to be exciting yet low enough to be affordable. ■

Nickels and Dimes

Arnold and Molly Pisco, twenty-somethings in Chicago, are tight with a dollar. Arnold doesn’t feel he needs a cell phone because he doesn’t make many calls. Nor does he drink soda. If he’s thirsty, there’s usually a water-cooler

nearby. Since the couple live in an apartment and can take mass transit, they don’t need a car, which saves \$6,000 a year on payments, insurance and gas.

It’s not that the Pisos are poor. He earns \$50,000 and has investments worth \$200,000. She earns \$25,000. They have no debt. The Pisos are proof that not all Americans are dizzy with consumption and brand names or plunging themselves into debt. Yet, Arnold will splurge on a great deal or wise investment, such as a leather sectional couch or a trip to Europe. He believes their strict budgeting system allows for more freedom.

The Beauty of Retail Banking

A secret of the financial services world is that retail banking is a hugely profitable business. The danger for financial services companies, however, is that retail banking is located squarely in the middle of the market. Since wealth consumers often manage their money through private bankers and low income families may not want to deal with banks at all, retail banks get their customers primarily from the middle class.

The Fleet Juggernaut

In 2002, Fleet Financial underwent a change in management to revitalize a business grown stale. After Fleet merged with Bank Boston in 1999, it became more involved with non-retail activities. When their corporate loans went sour, Fleet looked to its retail network to fill the earnings gap by holding down interest payments, jacking up fees and trimming services. Customer satisfaction plummeted.

Meantime, Commerce Bank, a local competitor, had risen rapidly. Their branches, which sit in landscaped plots in easily accessible, high-traffic locations and feature a large lighted sign reading “OPEN SEVEN DAYS,” resemble a McDonald’s more than a typical New England Main Street Fleet branch.

Commerce branches also feature public restrooms and a novelty: free change-sorting service. There are no monthly fees or per check fees, and ATM transactions are free. All employees must graduate from Commerce University, modeled after “Disney University and McDonald’s “Hamburger University.” Commerce’s fast-food approach to banking has produced strong results.

Fleet finally noticed something was amiss in its retail banking operations and started listening to middle-market customers. Fleet’s strategy included free financial checkups, improved product offerings and enhanced online banking. The program worked. Operating profits doubled and Fleet’s retail operation had the power of a growth trajectory. ■

Left in the Dust

Peter Kim, a 32-year-old waiter, who emigrated from Korea as a child, feels he has been left behind. Although he has a degree in Asian studies and economics, Peter enjoys being a waiter. He earns \$50,000 a year, but he has not saved, preferring to spend on traveling and eating out.

As distorted as his value calculus may seem, Peter didn't question it until he approached 30. He began shopping at Costco and has become careful about spending on clothes. He shops at trendy trading-up stores such as Diesel, Club Monaco and Banana Republic, but only during a sale or closeout. He is considering a career change into graphics design. Peter's solution is to move and gain new skills — to reinvent himself.

Retailers Who Wait Can Also Get Left in the Dust

As Wal-Mart and other winners have led a retailing revolution — achieving 20 to 40 percent annual growth and shareholder return two to four times the market average — the traditional grocery chain has lost 30 share points and the traditional department store as many as 50 share points. Zayre, Ames, Bradlees, Caldor and Venture Stores have all been left in the dust.

Turmoil in the Grocery Industry

The conventional grocery industry has been most transformed. Wal-Mart is responsible for much of this shift. Their super center delivers higher store traffic, drives merchandise sales and increases per-customer visits. Earning gross margins 50 percent higher per square foot than competitors can translate into four times the profits per store.

The cash can be taken to the bank or reinvested in the business, which ultimately brings still greater profit.

H.E. Butt: Prospering Where Others Don't

A few smaller chains like H.E. Butt (H-E-B), a 100 year old San Antonio-based chain with 300 stores in Texas and northern Mexico, have found a way to compete and prosper. One of its boldest moves was introducing the Central Market brand, a trading-up grocery. These pavilions celebrating food offer innovations such as:

- An executive chef
- Online recipes
- Cooking schools
- A \$13.99 take-out dinner for two.

H-E-B stores understand the middle-market consumer well, including working women. Since many H-E-B consumers are also Spanish-speaking Mexican-Americans, the chain recognizes their differing desires by offering a wide variety of items, including 100 dif-

ferent kind of potatoes.

Avoiding the Seemingly Unavoidable

The single most important early-warning signal that you may be in danger of getting left behind as a retailer is a drop in share of “primary shop.”

When a consumer ranks you as their first choice for purchasing goods in a particular category, you enjoy the bulk of sales and margin that customer has to offer.

This is critical because retail is a very leveraged business — space occupancy, staffing and inventory are essentially fixed costs — and a loss of as little as 10 percent of volume can cut profitability in half.

The following are characteristics of dinosaurs that can be found in any industry:

- An inability to see shifts in the market, including trading up/trading down and death in the middle.
- An unwillingness to confront competitive initiatives that have “germs” of ideas that can be adopted, brought front and center and executed by the established competitor.
- A desire to protect today's market definition and market share and not attack boundaries that provide expansion.
- Increasing complexity costs, resulting in inflexibility and slow decision making.
- A tendency toward internal conflict and organizational stratification.
- A leadership that emphasizes capital investments as a solution to all problems.
- Centralized control with limited coordination among divisions and a weakened sense of market trends and consumer needs.

The Consumer, as Always, Is Key

Understanding how consumer needs are changing is an art form, not a science. It requires conducting research at the store level and developing expertise in listening to consumers and interpreting what they have to say. To avoid being left behind, retailers need to do a major renewal effort regularly.

Like Peter Kim, they must recognize the importance of learning new skills, trying out different concepts and periodically reinvent themselves. ■

Taking Action

Leslie Wexner, founder of Limited Brands, has an extraordinary ability to understand the consumer and consumer-goods market, and put his understanding into action. His record of retail success includes The Limited, Express, Limited Too, Victoria's Secret and the

(continued on page 8)

Taking Action

(continued from page 6)

reinvented version of Abercrombie and Bath & Body Works. “People are looking for emotional highs,” Wexner claims. “Winning companies invent new products that capture the consumer’s imagination.”

Whatever you observe that strikes you as interesting, different or unusual or appealing may contain the germ of a new business idea.

- Pierre Omidyar, founder of the eBay auction site, was intrigued by how people form communities on the Web.
- Howard Schultz, founder of Starbucks, was fascinated by the way people drink coffee in Italy.
- The Albrecht brothers, founders of Aldi, understood that customers take pride in pinching a penny so hard it hurts.

Many Ways to Act

A legion of companies has yet to acknowledge the reality of the bifurcating market and continue slogging along in the middle. Companies that succeed in this restless consumer market are those who face the reality of the bifurcation and look for opportunity within it.

To succeed, they develop a new business model, as LG did. They invent a new way of going to market, as eBay has. They reduce the cost of operations, as Aldi does relentlessly. They accept the fact that their futures hang on their ability to do one of two things: deliver basic, trading-down goods at unbeatable prices or create trading-up goods with genuine differences that can command a premium.

Many Models of Success

The bifurcation strategy can be executed, and companies and categories can be transformed. In banking, the middle-market is rich, needy and seriously underserved by other financial services providers.

How about that most basic of consumer commodities, toilet paper? Georgia Pacific (GP), the world’s leading maker of toilet tissue, decided it was not a commodity and need not be stuck in the middle. By segmenting its product line, GP has been able to span the poles.

Small private companies are also building their businesses based on observations of consumers and interpretations of the treasure hunt idea. For example, Baltica, a Lithuanian maker of hand-cut architectural and custom hardware, appeals to the treasure hunter looking for a special, unexpected piece that fits her unique value calculus.

Recut the Data

Data is only as good as the analysis of it, and we know that companies tend to fall into analysis ruts —

they keep looking at the same data, in the same way, making the same analysis, and responding to it in the same ways they always have.

Every data analysis is vulnerable and subject to reanalysis and reinterpretation through different lenses and with different models. The trick is to know when to recut the data. The trading-up/trading-down phenomenon demands that the data be recut frequently.

How Home Depot Recut Its Data

When Bob Nardelli became CEO of Home Depot in 2000, he saw that the company’s understanding of the home consumer was dated and superficial. He set out to recut the data and redefine the customer’s value calculus.

For example, data showed that a growing percentage of Home Depot’s customers were aging and time-pressed, therefore not interested in “do-it-yourself” home repair or improvement. So Nardelli developed an installation services business, a “do-it-for-me” operation now growing at a double-digit rate.

Nardelli’s efforts from recutting the data are visible in the numbers. Sales increased from \$45.7 billion in 2000 to \$73.1 billion in 2004, while earnings increased by 64 percent.

Three things to look for when recutting the data:

- The threat you face from competitors at the low end.
- Data about your own company and its products that reveal your weaknesses.
- White space — potential usage or occasions where consumers are not using your product.

Don’t Wait

Taking action means innovating, not just more of the same, or considering acquisitions or increasing your advertising spending. Think about innovation as a series of waves of reinvention and change, each lasting three to five years and no longer. ■

If you liked *Treasure Hunt*, you’ll also like:

1. ***Marketing to Women* by Martha Barletta.** Barletta explains how women make buying decisions and how to create a targeted marketing plan.
2. ***Trading Up* by Michael Silverstein and Neil Fiske.** Consultants Silverstein and Fiske explore the upscale consumer habits of the middle class and how to find opportunities in this phenomenon.
3. ***Let Them Eat Cake* by Pamela N. Danziger.** Consumer marketing expert Danziger presents a guide to understanding the emotional component of marketing luxuries to the middle class.
4. ***EVEvolution: The Eight Truths of Marketing to Women* by Faith Popcorn and Lys Marigold.** This tool shows why and how you should sell to women, who make 80 percent of all purchasing decisions.
5. ***Mass Affluence* by Brian Johnson and Paul Nunes.** Nunes and Johnson explore the effects of increasing consumer affluence on marketing and present seven rules of marketing to the “mon-eyed masses.”

For additional information on the Traps Facing Companies Stuck in the Middle, go to: <http://my.summary.com>