

SMALL SEGMENTS, BIG PAYOFF

Meaningful impact on market share, revenue and earnings requires attention to detail at the micro level

By STEVE HUGHES

I've always been surprised by the large role small and focused segments play in product success. Even billion-dollar brands invariably derive the majority of revenue and profitability from a very small set of stores and consumer segments. As exec VP-general manager of the ConAgra unit Healthy Choice, I saw that a mere 7% of our customers drove 60% of our revenue. We had retail stores that indexed at 600 and at zero—meaning some stores, in more affluent neighborhoods, sold six times the average store on Healthy Choice, while some lower-income stores sold no Healthy Choice. While at Tropicana, I discovered that 3% of our consumers accounted for 63% of revenue and 68% of profitability, while we had stores that indexed at 1,400 and at zero. For Celestial Seasonings, it was an even smaller group of 1.5% of buyers who drove more than 60% of revenue.

The key to securing big gains from these small segments is having the best, most dynamic and action-oriented consumer data—detailed information about the impact of your strategy on your core customers as it evolves over time and changes concerning their attitudes and behaviors.

POWERFUL INSIGHTS

Tropicana certainly enjoyed big benefits from such crucial insights. In 1992, the company was in a rut. It had reported flat revenue and earnings for three years and failed to introduce a successful product in that time. Yet a renewed focus based on a clear understanding of consumer insights and careful attention to the small matters had a tremendous financial impact. From 1992 to 1997, revenue grew from \$1 billion to \$2 billion and earnings grew from \$60 million to \$240 million. We based our strategy on three powerful insights about the tremendous untapped demand that existed in our most loyal users: First, we were tapping only 67% of their demand for orange juice, which had evolved into a more diverse product opportunity than Tropicana—a company bound in tradition—realized. For example, we were losing these customers to competitive brands that offered calcium-fortified items we did not.

Second, we were satisfying a mere 32% of our core customers' thirst for juice in any formulation. In other words, we were more than an orange-juice com-

pany. Loyal Tropicana buyers were willing and even eager to buy grapefruit and apple juice from us as well.

Finally, consumers willing to pay premium prices considered "fresh-squeezed taste" to be the most important benefit. Up until then we had offered Pure Premium to this group. Once we realized they really wanted the taste of fresh-squeezed, we developed Grovestand, which was close enough to meet this expectation while enjoying a longer shelf life.

These pockets of untapped demand were so close to the surface we were able to go from insight to product to launch within 120 days on Pure Premium grapefruit, Grovestand and calcium-fortified juice. We even stuck to our core packaging: 64-oz. cartons. In the first 12 months, these products added \$375 million in top-line growth and \$60 million in earnings, doubling our overall EBITDA, and boosting the market value of the brand by \$1 billion. During the next three years, we built on these small victories, boosting our earnings to \$240 million and our market value to \$3.3 billion (from \$800 million), leading to a 1997 sale to PepsiCo.

NEW ROLLOUTS

In the case of Celestial Seasonings, we also enjoyed immediate results from small, focused, strategic initiatives. We were able to boost our earnings from \$10 million to \$25 million on a \$55 million increase in revenue over the first year. This involved simple tactics such as changing the tea-bag count in boxes from 24 to 20, boosting margins and accelerating customer purchases. Yet it also involved actions based on fresh consumer insights.

In particular, we learned that the narrow but extremely profitable segment of Celestial Seasonings customers was interested in a full range of specialty teas from us, which challenged the assumptions of veteran managers that the company was limited to herbal tea. This opened up opportunities in the emerging segments of green, medicinal and organic tea. Indeed, rollouts in these markets created all but \$20 million of our revenue jump. Finally, we discovered that our consumers were not elitist shoppers limited to natural-food stores and high-end grocery stores. In fact, they expected a full range of our products at Wal-Mart. We responded by persuading Wal-Mart to carry our full range of products and keep them in stock—

Hidden treasures

Fresh consumer insights revealed to **Celestial Seasonings** that customers were interested in a range of specialty teas, challenging veteran managers' assumptions that the company was limited to herbal tea.



A clear understanding of consumer demand and attention to changing preferences helped **Tropicana** squeeze an additional \$1 billion in revenue out of its orange juice business between 1992 and 1997.



which transformed a \$500,000 account into a \$10 million account in less than three years.

In both cases, our high-quality consumer insights quite literally set management free. We could take bold yet low-risk actions that would rejuvenate dynamic brands by leveraging our current assets and competencies with new insights. These insights were so clear and compelling that we were able to realize huge gains within 120 days by focusing on these small but crucial matters.

STEVE HUGHES ...



Steve Hughes is a Director with The Cambridge Group as well as Chairman & CEO of Boulder Specialty Brands, Inc. In 1988 he was hired as VP-new products of the ConAgra frozen-food division, where he was responsible for launching the Healthy Choice line. He was promoted to exec VP-general manager of Healthy Choice, and held that position until being hired as exec VP-general manager of Tropicana North America in 1992.

Reprinted with permission from the January 15, 2007 issue of Advertising Age, ©2007 by Crain Communications Inc.

AA-DMK9175 • Reprinted by FosteReprints • (866) 879-9144 • AdAgeReprints@fostereprints.com.