

## Understanding a local market's sales potential and performance

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*The LOMEX Sales Advisor, a customizable geomarketing tool, helps companies make better decisions about their retail footprint and local sales coverage.*

With the advent of big data and advanced analytics, a growing number of manufacturers and retailers are looking to develop a deeper, data-driven understanding of the particularities of local markets. In theory, micromarket analysis—especially in combination with the powerful data-visualization techniques of geographic marketing (or “geomarketing”)—can help companies vastly improve sales: companies can zero in on the local markets with the greatest sales potential and develop their retail network accordingly. But many retailers and consumer-goods manufacturers have found that the promise of geomarketing is often far from the reality: they’ve found most geographic information systems (GIS) solutions to be limited in functionality, not easily customizable to users’ needs, or impossible to integrate with existing business systems and processes.

A European manufacturer offers a case in point. The company has a complex distribution network, comprising various types of retail stores to which it sells directly or through a distributor. It knew that its products sold better at certain retail locations than others, even within the same or adjacent postal codes, but it didn’t know why. The company historically had very little insight into what factors influence sales in each of its local markets, how its retail outlets and sales force were performing relative to the market’s overall sales potential, and how much competition it had in each market. The executive team based its decisions about sales targets, sales-

force coverage, and retail footprint primarily on instinct and anecdotal information from the local sales staff.

The company used off-the-shelf GIS tools in a few countries, with spotty success: although the outputs were visually appealing and contained some insights, they left too many of the company’s strategic questions unanswered. For example, although one of the outputs was a map showing competitors’ retail locations, the map didn’t distinguish one competitor from another and contained no information as to what types of products were sold at which locations. Furthermore, the tool offered poor options for exporting data, which meant executives couldn’t easily use the outputs for management presentations or deeper analyses.

The manufacturer decided to embark on a sales-improvement effort in seven of its major markets in Europe. The executive team agreed on a set of questions to ask about each market: How big is the local market for our products? What factors drive sales in this market? How does sales potential differ among products and categories? Given the potential, what are realistic sales targets? Do we have sufficient sales coverage? How does our local presence compare with our competitors’? Do areas with poor sales indicate insufficient coverage or low productivity?

In search of fact-based answers to these questions, the manufacturer turned to an approach underpinned by the Local Marketing Excellence (LOMEX) Sales Advisor, a customizable geomarketing tool from McKinsey. Part of the suite of proprietary LOMEX tools, Sales Advisor allows companies to do three things they can’t do with standard GIS solutions:

manage comprehensive data sets, perform sophisticated analyses that directly address their strategic objectives, and integrate these analyses into their decision-making processes. Here, we recount the European manufacturer’s experience with the tool.

### Managing different types—and massive amounts—of data

LOMEX Sales Advisor is designed to store and manage vast amounts of both internal and external data, and to perform statistical analyses at different levels of granularity (such as by region, postal code, street section, and retail store). The tool also allows for the addition of new data fields and easy uploading of new data.

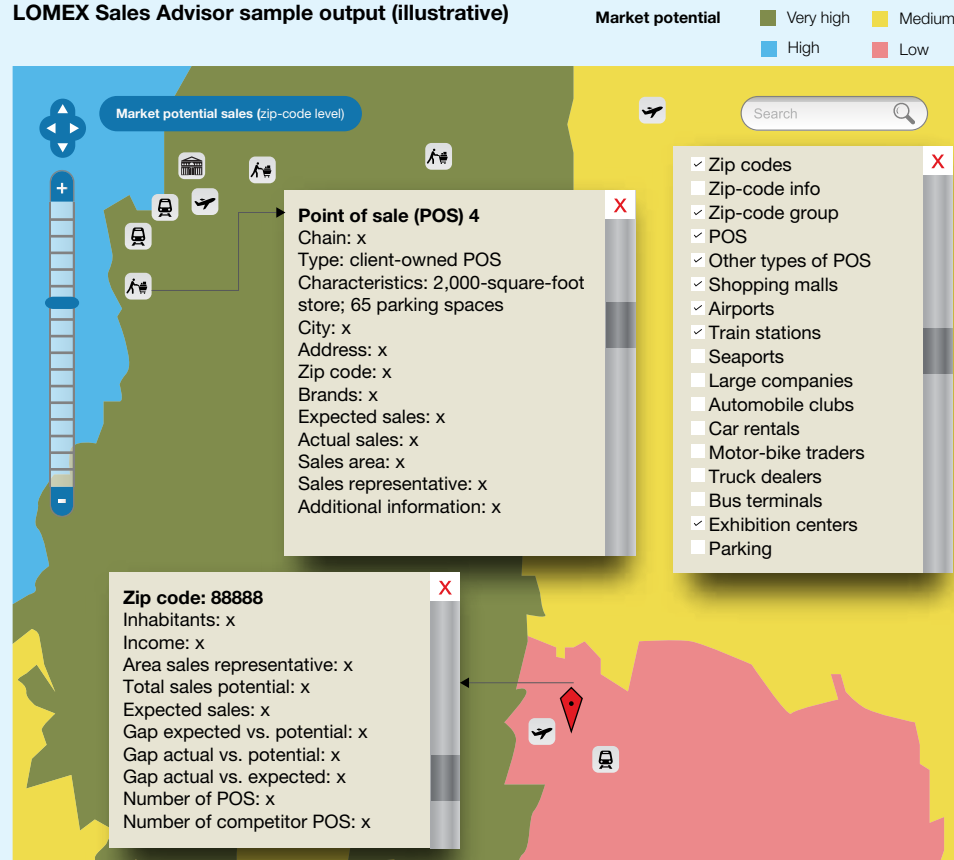
In the case of the European manufacturer, detailed information—including data on product-level sales, retail format, and number of employees—on each of its 17,000 points of sale (POS) was available internally. But the company identified several other types of externally sourced data that would be critical to answering its strategic questions. The company purchased, for example, social and demographic data including household characteristics, as well as data on commercial entities (such as shopping malls and large companies) and “traffic attractors” (such as train stations, bus terminals, and parking lots). It also used “web scraping” technologies to gather information on competitors’ retail locations and estimated sales, as well as on the extent to which products penetrate local markets (for example, which products are sold at which retail locations).

By the end of the data-gathering phase, inputs into the LOMEX Sales Advisor included more

## Exhibit

## A heat map can inform the sales team's growth plans and priorities.

### LOMEX Sales Advisor sample output (illustrative)



than 60 million unique records of product sales; 2 million social and demographic data points; and data on 150,000 competitor POS, 1.9 million traffic attractors, and 28,000 commercial entities covering 44,000 postal codes.

#### Using advanced analytics to answer specific strategic questions

With LOMEX, a company can design the analytical approach best suited to its strategic objectives. The European manufacturer had constant input into the design and testing of the calculation algorithm used in LOMEX Sales Advisor. Through multiple-regression analysis, the tool was able to isolate the factors that have the greatest influence on sales potential. It then generated outputs that helped the company answer its strategic questions.

One such output was a series of color-coded maps showing the sales potential in a local market, with clearly labeled icons representing the company's POS, competitors' POS, important traffic attractors and commercial activities, and "white spaces," or areas where the market potential was high and current

coverage was low (exhibit). This heat map informed the sales team's growth plans and priorities. For example, the company revised sales targets and budgets based on new growth assumptions, reshaped sales territories to ensure adequate coverage, and began implementing a series of tactical actions to boost the productivity of low-performing retail stores.

#### Customizing business processes, functionalities, and reports

Many GIS systems suffer from the "black box" problem—users don't understand how they work and can't integrate them into their existing IT systems. Because LOMEX is a custom solution, its interfaces, functionalities, and reporting features are tailored specifically to the users' needs. The manufacturer was able to integrate LOMEX Sales Advisor into its decision-making processes, both at headquarters and at the local-market level. For example, the executive team used the heat maps for its third-quarter planning meeting, at which it examined the company's retail footprint, whereas regional managers used sales

matrixes (showing potential and actual sales in each market) every quarter for sales-coverage analysis and performance management.

With the help of LOMEX Sales Advisor, this manufacturer identified nearly 20 percent in untapped sales potential—due primarily to poor coverage in high-potential areas—and it continues to use LOMEX to guide its broader strategy. The company is now expanding use of the tool to regions outside Europe. Furthermore, it is building capabilities and creating an internal center of competence, so that the impact that the tool helps achieve can be sustained over the long term. ■

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