



Effectiveness of store clustering by consumer life style

Jointly Presented by



August 2008



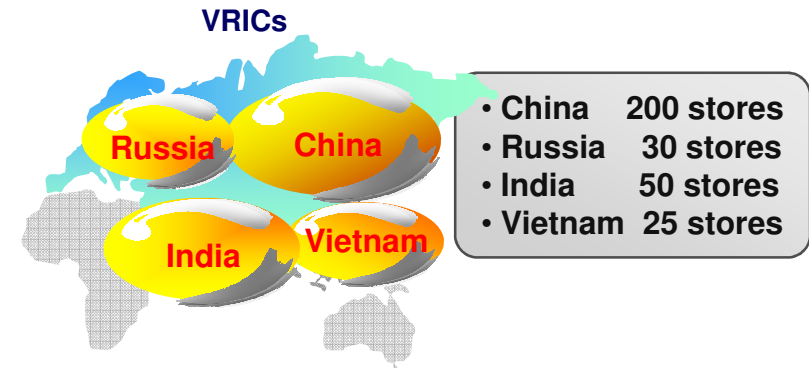
■ LOTTE GROUP

- The Affiliate Companies : 44 Companies
- LOTTE Group's Total Sales in 2007 : USD 35 Billion

■ LOTTE Shopping co., LTD

- 89th rank retailer in the world (2006) by NRF survey
- 1st rank retailer in Korea (2007) : USD 11 Billion

■ LOTTE Mart Global Biz Plan by 2018



Major Types
Sales (2007)
Miscellaneous

Hypermarket
USD 3.8 billion
• 3rd Largest in Korea
• 57Stores



Department Store
USD 5.2 billion
• 1st Largest in Korea
• 21Stores

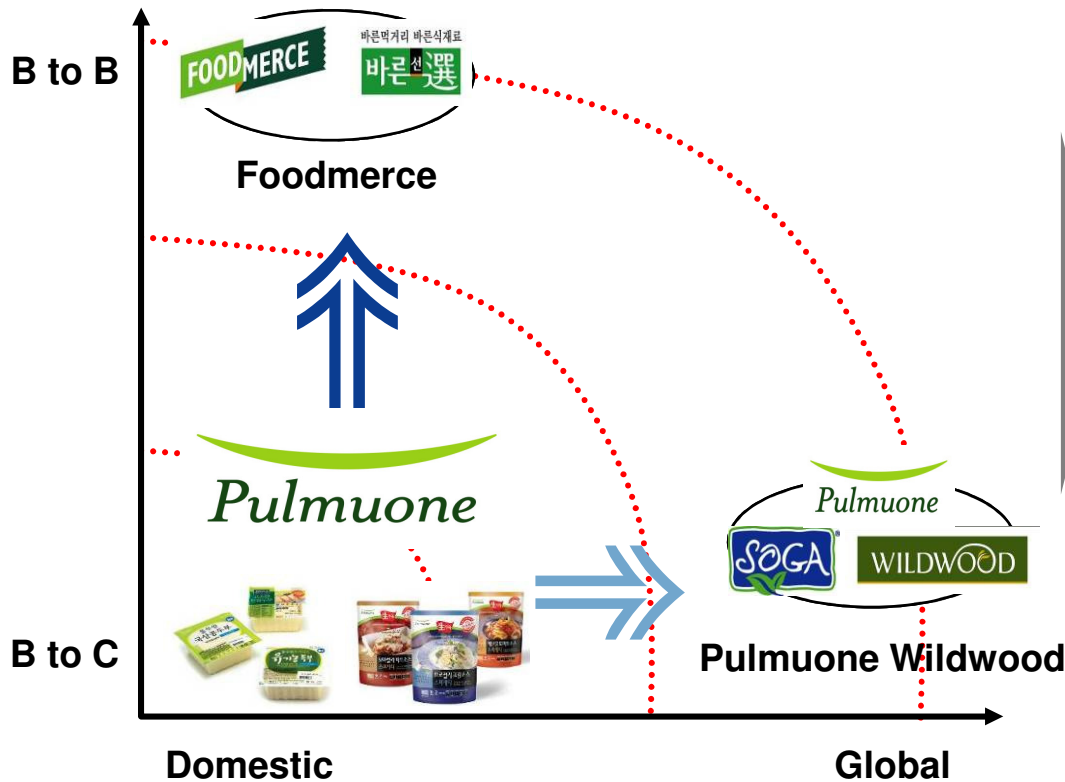


Supermarket
USD 0.8 billion
• 2nd Largest in Korea
• 79Stores



Natural Fresh Foods Company

Business Strategy



Core Business

- Market leader(M/S No.1) in Tofu, Sprout, Refrigerated Noodle in Korea
- Created synergy through core competence in sourcing, manufacturing & logistics
- Net revenue is USD 0.8 billion in 2007

Lead Pulmuone's globalization

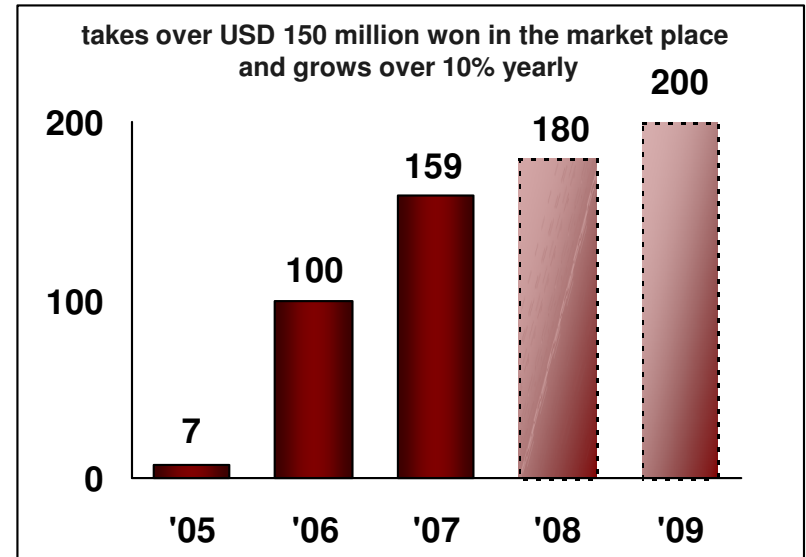
- Developed US market since 1991
- Acquired Wildwood which is American style Tofu manufacturing company in 2004
- Planning to enter into Chinese market



The main ingredients, grain and starch, are shaped and processed, than combined with sauce (meat brew) and garnish, kept and shipped by the Cold Chain system and arranged in a refrigerator

stored in a cold storage below 10°C, period of circulation within 45 days

[Market Trend]



Fresh Cold Noodle With Premium Dongchimi Broth



Fresh Cold Noodle With Spicy Seasoning Broth

1. Project Overview

- Background & Objective
- Methodology
- Schedule

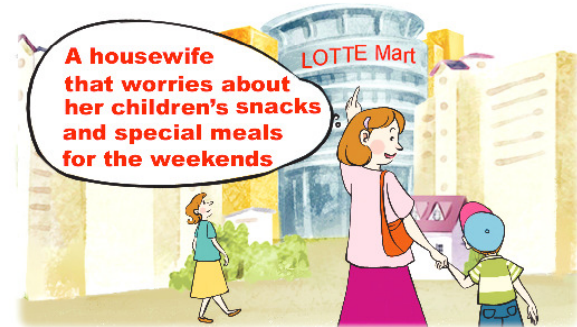
2. Achievements

- Store Clustering
- Assortment & Arrangement
- Promotion

3. Key Benefits

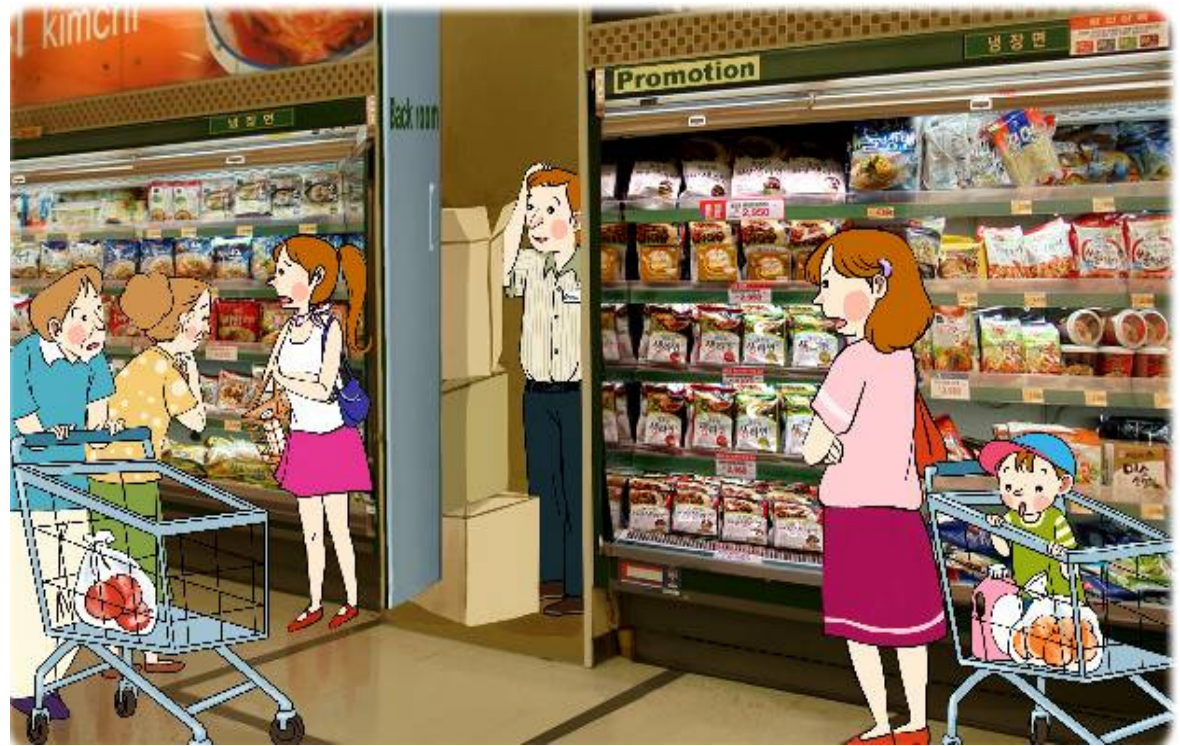
4. Next Step

Stores don't satisfy each consumer's needs

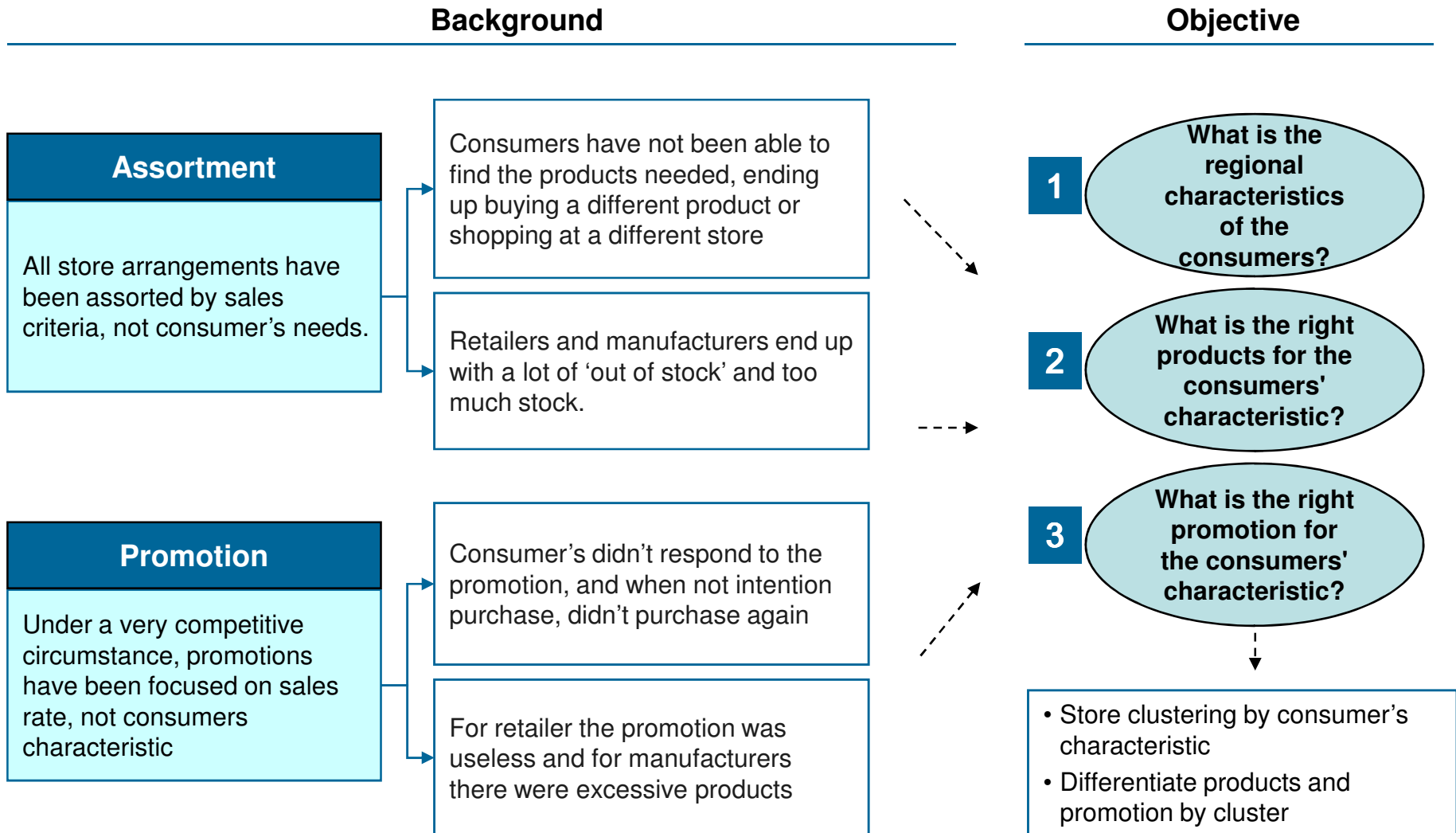


Problem is...

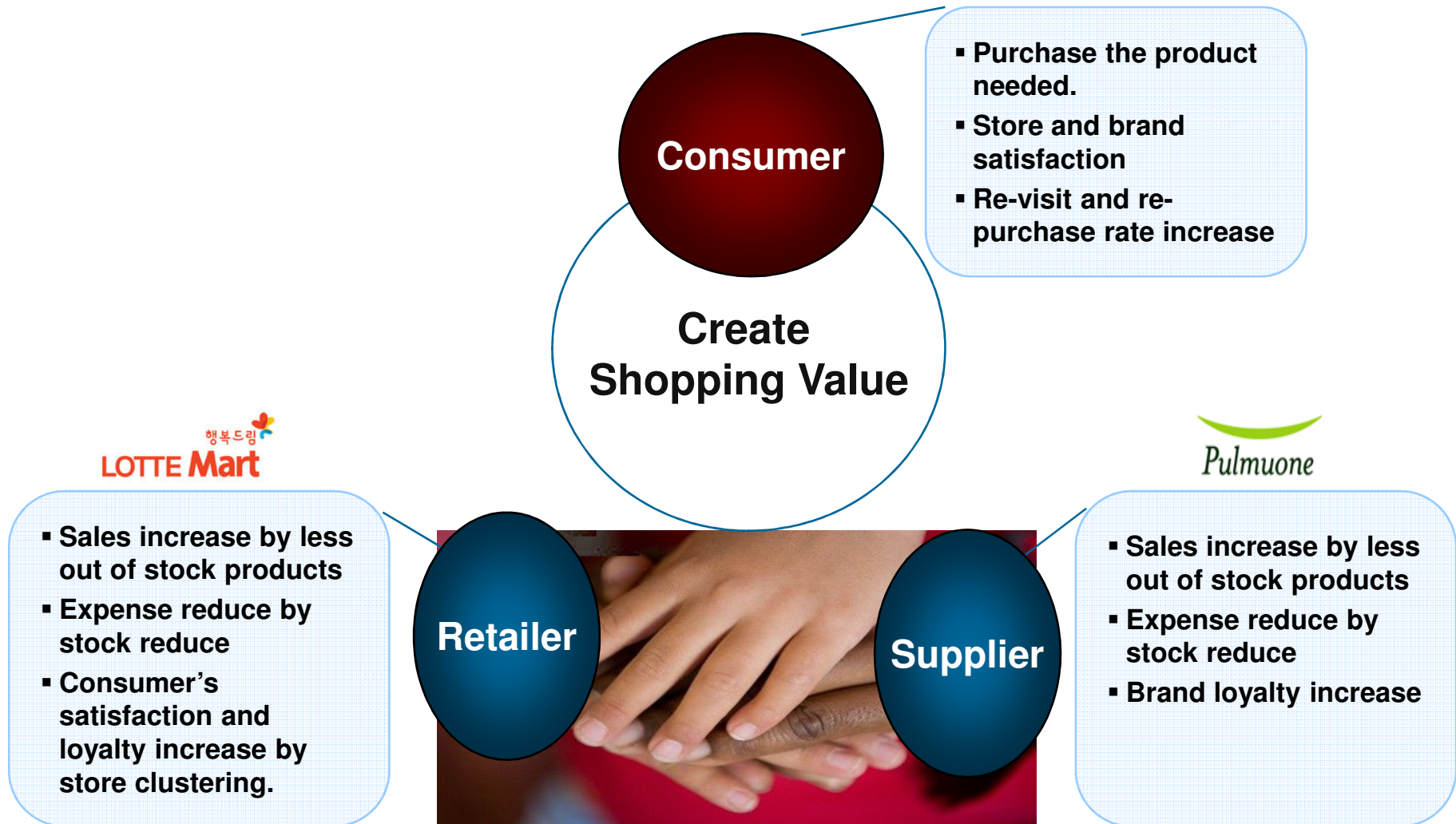
Category management is based on only sales rate, not by consumer's changing life style



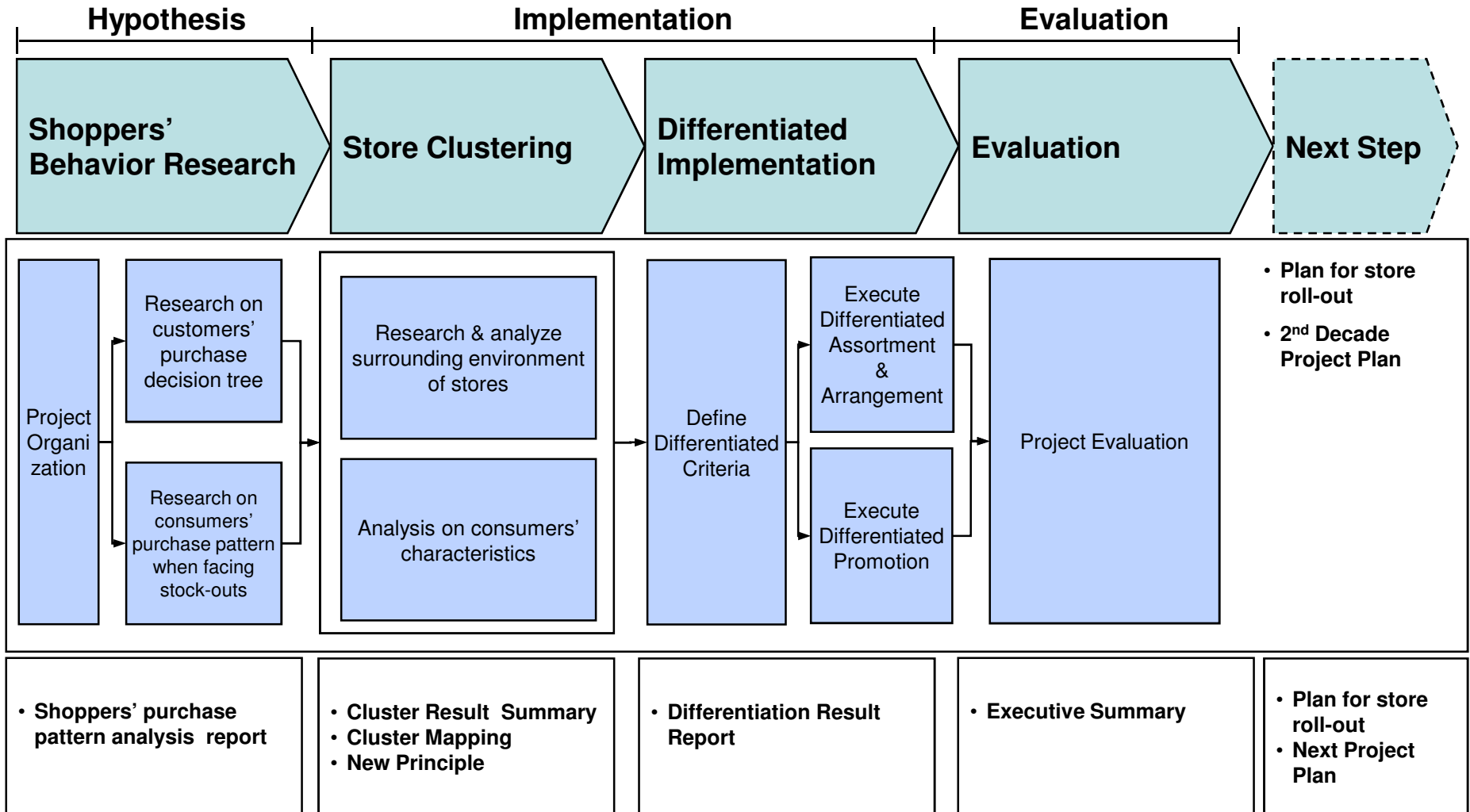
Differentiated stores should be able to satisfy consumers



Eventually consumer's satisfaction leads to increasing efficiency



What we have done....



10-month pilot test and 3-month roll-out to other stores

Tasks		Schedule												
		'07		'08										
		11	12	1	2	3	4	5	6	7	8	9	10	11
Shoppers' Behavior Research	Research on consumers' purchase pattern when facing stock-outs	→												
	Research & Analyze purchase decision tree			→										
Store Clustering	Research & Analyze Store Environment		→											
	Store Consumer Analysis		→											
Implementation	Define differentiated Criteria on Assortment & Arrangement, Promotion				→									
	Apply and evaluate differentiation on Assortment & Arrangement, Promotion					→								
Evaluation	Evaluate cluster characteristic							→						
	Measure Test effect								→					
Next Step	Planning of expansion												→	

Store expansion plan

Contents

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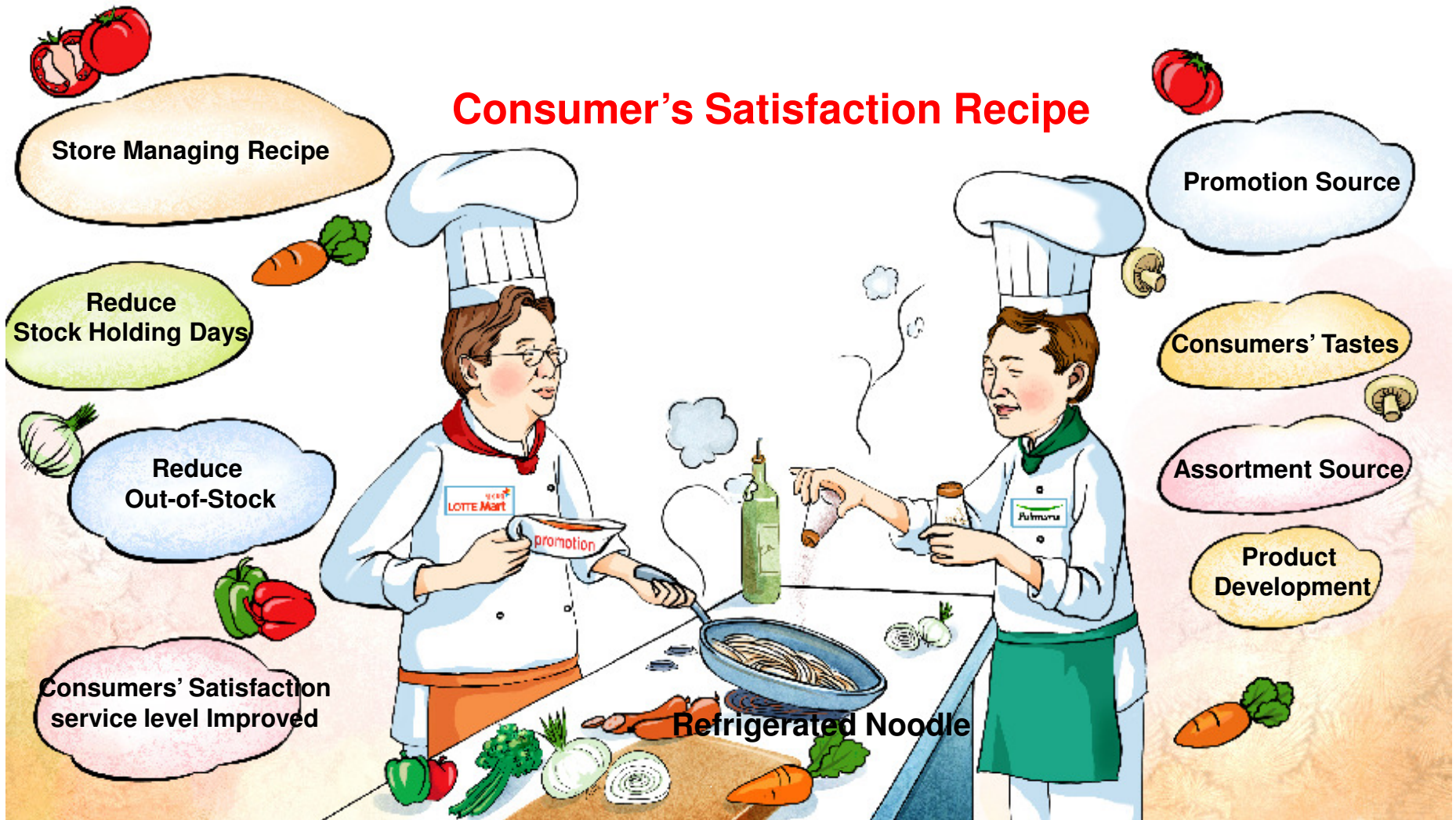
2. Achievements

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- Assortment & Arrangement
- Promotion

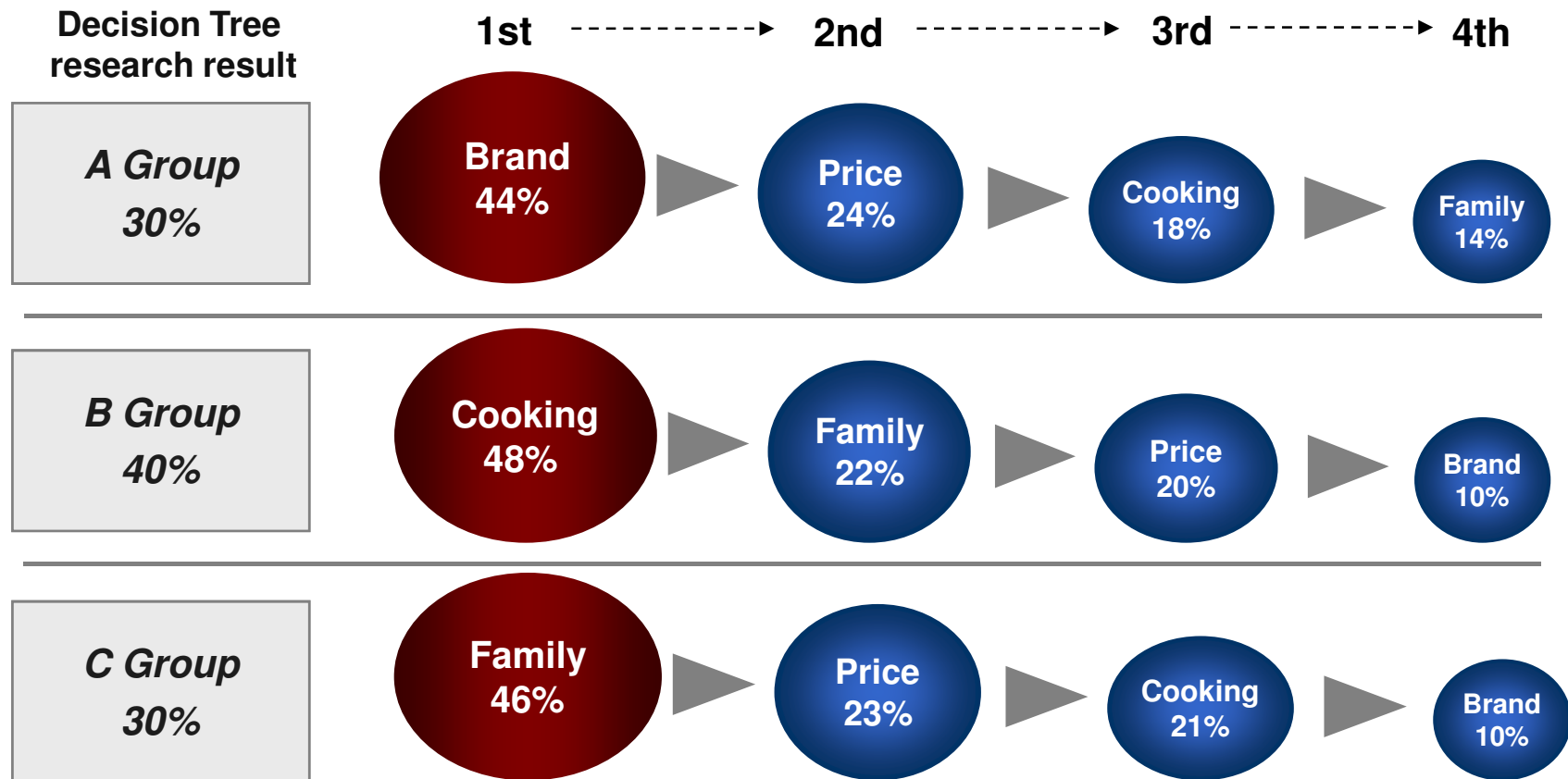
3. Key Benefits

4. Next Step

Consumers' satisfaction recipe through collaboration



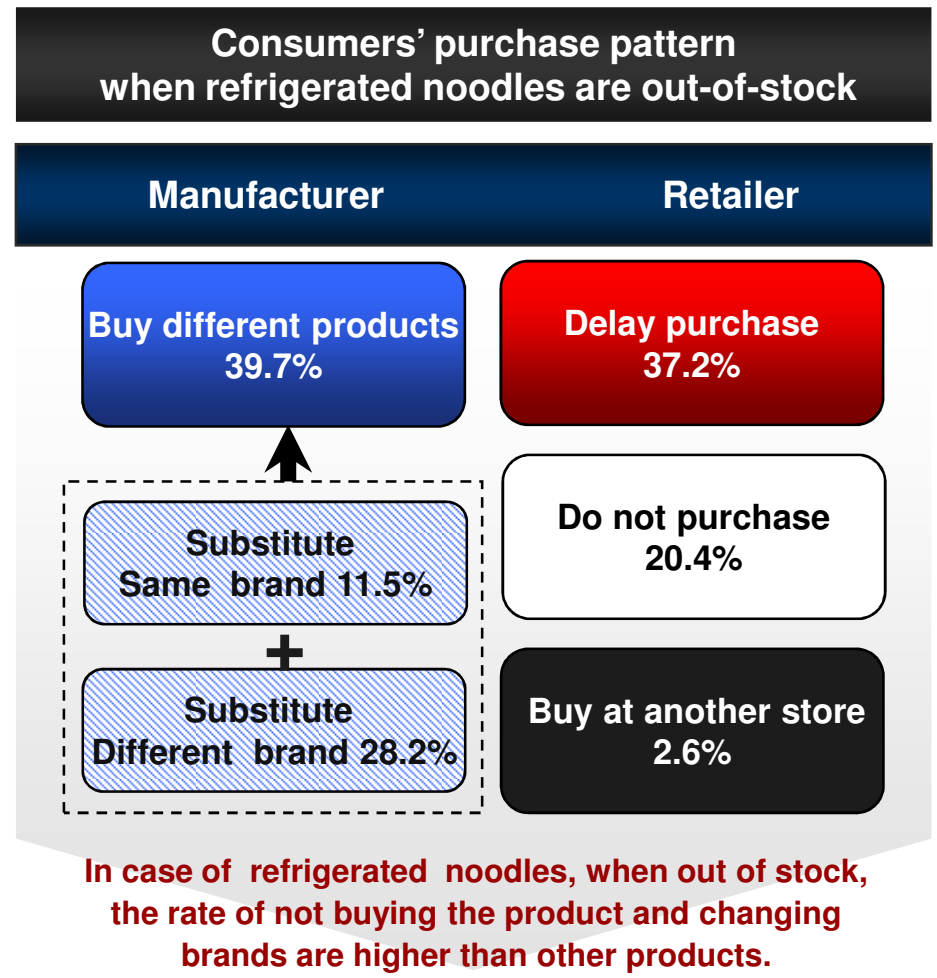
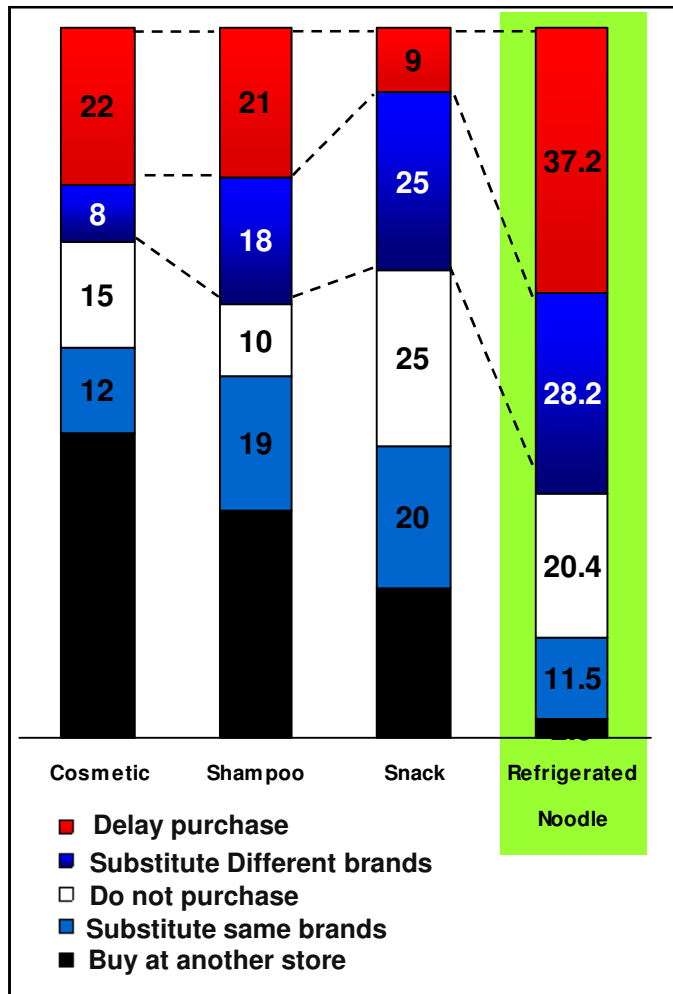
Consumers belong to 3 different groups in terms of decision buying tree



* Research Period : '07 Nov ~ Dec

* N=5,300, Lotte Mart 53 stores, for consumers having purchased refrigerated noodles

Stock-outs leads consumers' to choose different brands or not to purchase at all

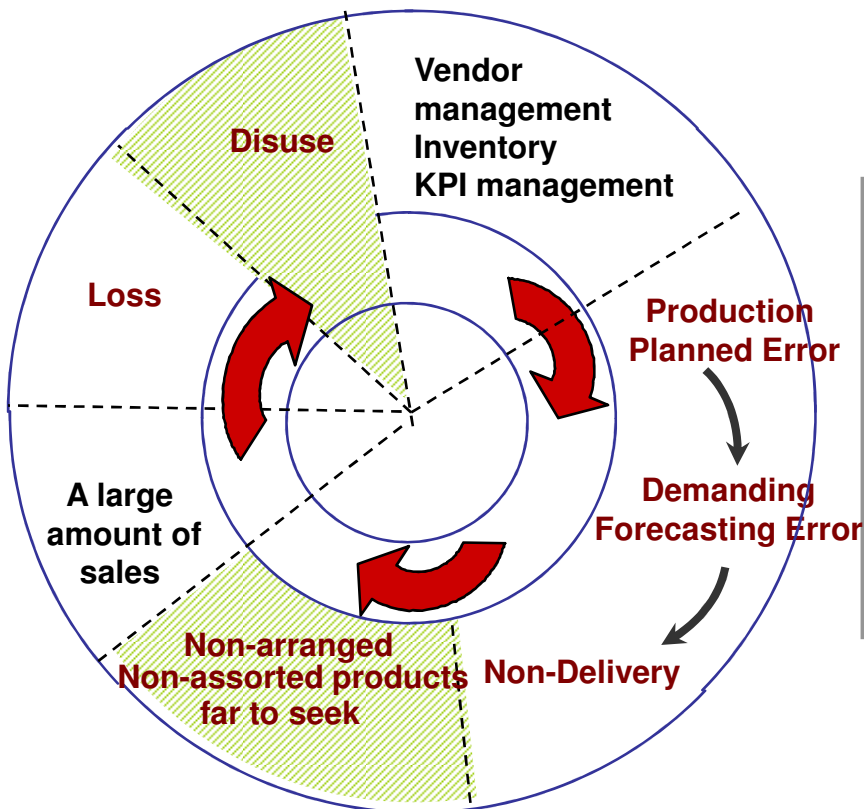


* Research Period : '08 Jan ~ Feb
 * N=1,000, consumers intending to purchase refrigerated noodles at Lotte Mart

Invisible out-of-stock should be managed

Shopper Behavior Research	Store Clustering	Differentiated Implementation
Research on customer purchase decision tree	Research & analyze surrounding environment of store	Exclude Differentiated Assortment
Research on consumers' purchase patterns when facing stock-outs	Analysis on consumer characteristics	Define Compensated Criteria
Shopper purchase pattern analysis report	Cluster Result Summary Cluster Mapping	Differentiation Result report

Supply Chain Management



Course of out-of-stock

Manageable Stock-outs

- Non-entered
- A large amount of sales loss



Unmanageable stock-outs

- Disuse
- Non-arranged
- Non-assorted products
- far to seek



Achievements

Key Finding

Store differentiation strategy increases level of consumer satisfaction



“Consumer’s purchase pattern is effected by their life style”

“Product assortment according to consumer’s life style can minimize the rate of out of stock.”

“The consumer is satisfied when stores are clustered and managed by consumer’s life style.”



Consumers purchase products based on their life styles



Is it easy and convenient?

HOW
'how will I eat ?'

WHO
'who will I eat with?'

WHEN
'when will I eat?'

Weekday? Weekend?

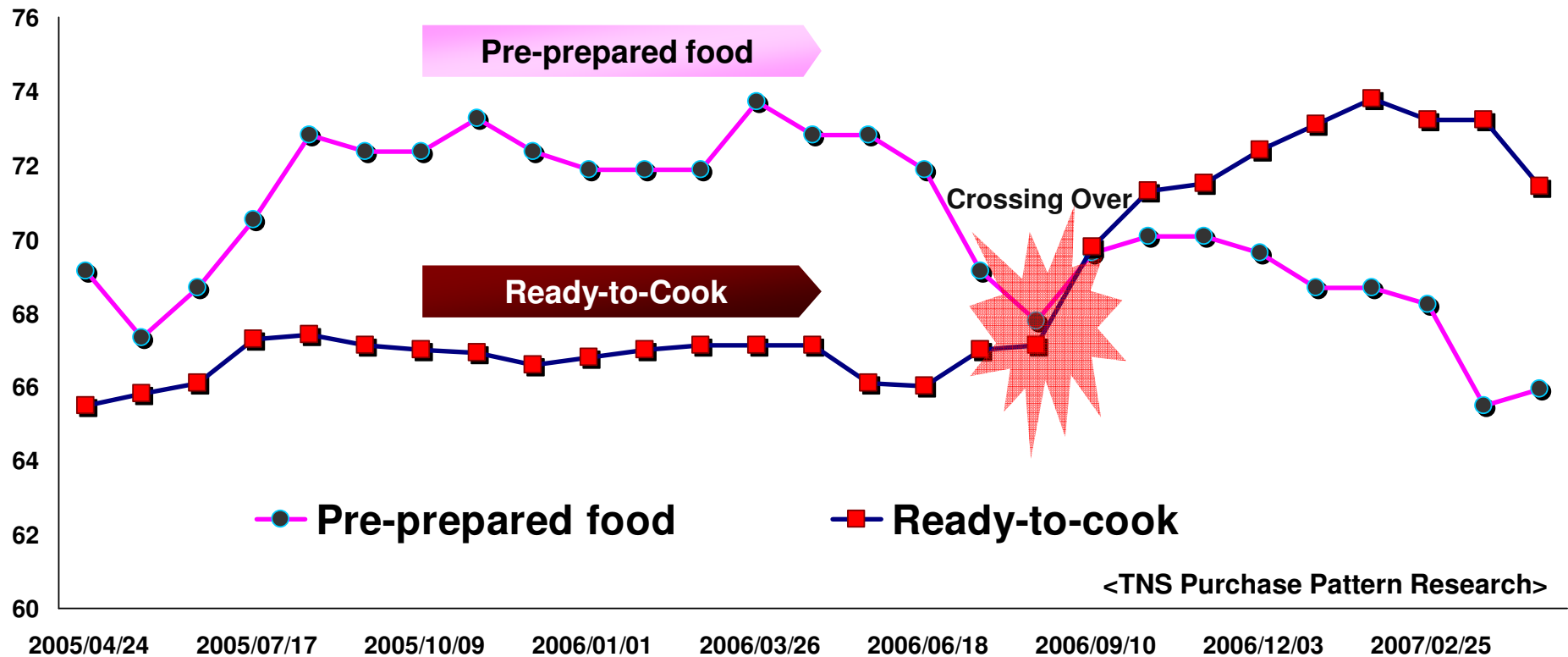
WHAT
'What will I eat?'

By myself? With my family?

How Much
'expensive? Cheap?'

buy promoted product?
buy according to brand?

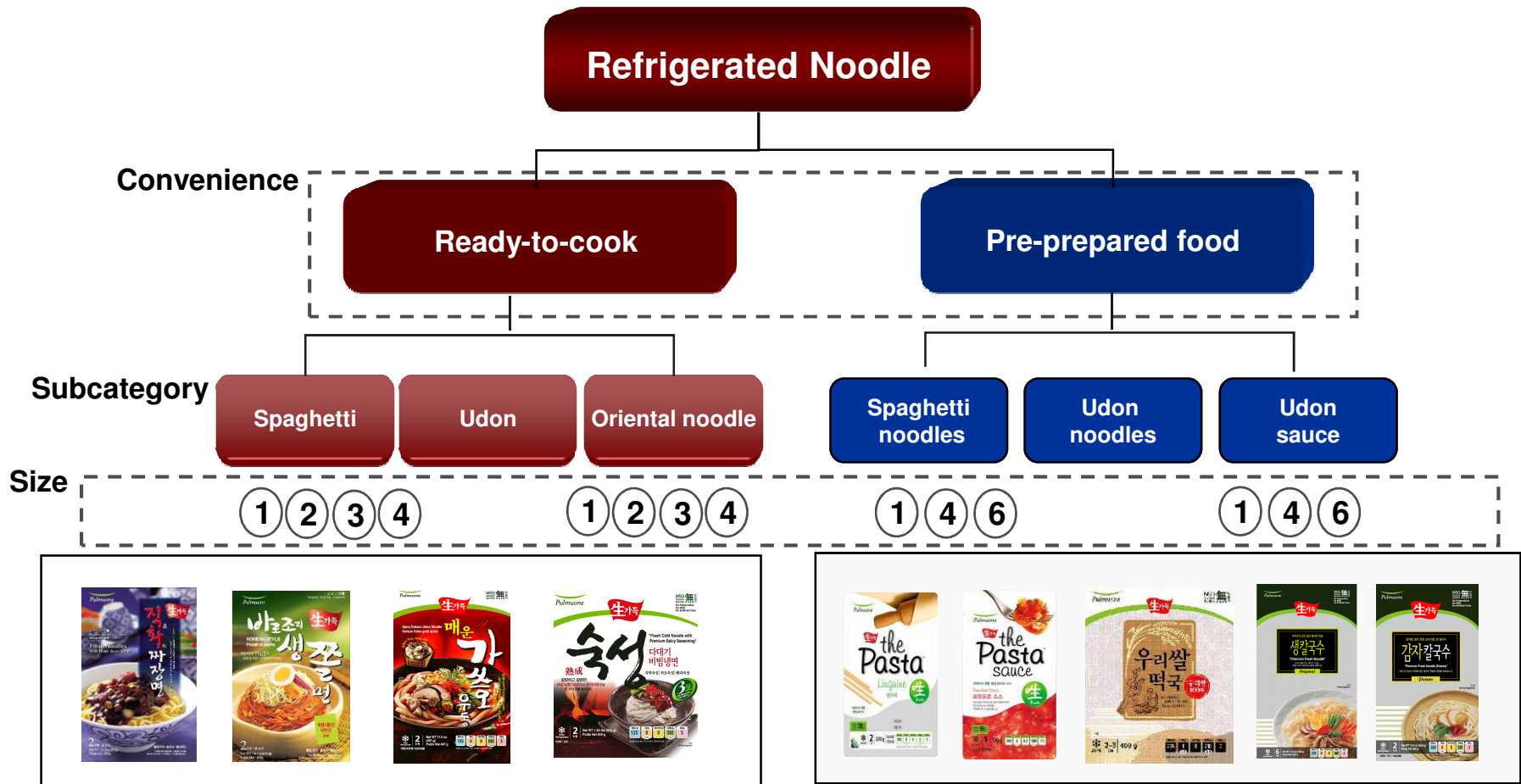
Ready-to-cook product sales have been increasing



- Pre-prepared food: Noodles and sauce are packed together. Easy to cook without additional ingredients.
- Ready-to-Cook : Noodles and sauce are separated Mix-n- match by personal taste or purchase them individually
- TNS Research : Consumer purchase pattern data, POS data analyze specialist company

Refrigerated noodles can be categorized by the type of convenience

Shopper Behavior Research	Store Clustering	Differentiated Implementation
Research on customer purchase decision tree	Research & analyze surrounding environment of store	Define Differentiated Assortment
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Noodles and sauce are packed together.
Easy to cook without additional ingredients.

Noodles and sauce are separated. Mix-n- match by
personal taste or purchase them individually

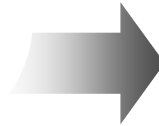
Surrounding environment of stores have an influence on consumers' purchasing type



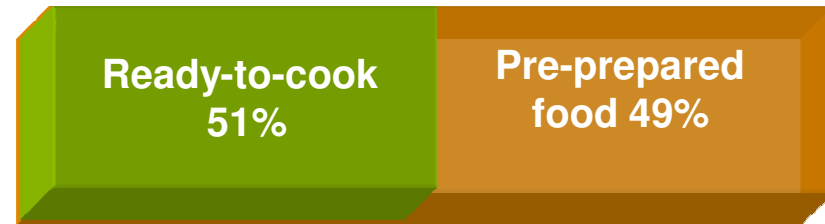
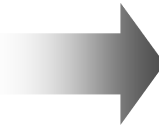
Store location

Sales rate by product convenience

Apartment complex district (over 50%)



Office, shopping district (over 50%)



Private home district (over 50%)



* Lotte-Mart Location Analysis (08' Jan ~ Mar)

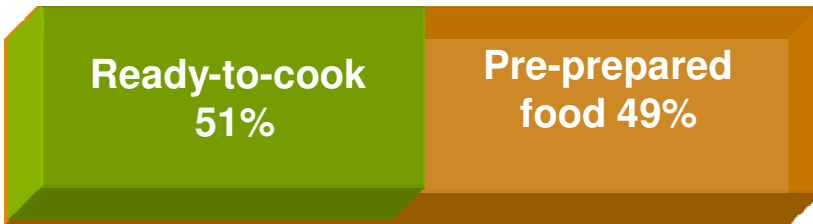
Consumers' occupations have an influence on their purchasing type



Consumer's occupation



Sales rate by product convenience



* Lotte-Mart members card customer's information Analysis (08' Jan ~ Feb)

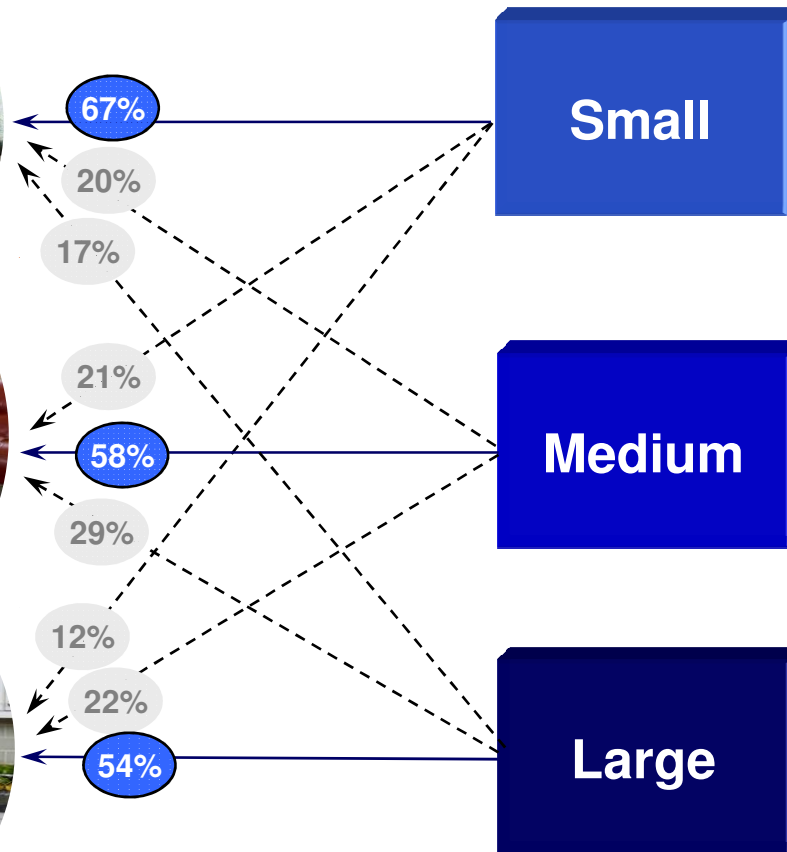
Achievements

Store Clustering (3/3)

Family size of consumers have an influence on their purchasing type

Shopper Behavior Research	Store Clustering	Differentiated Implementation
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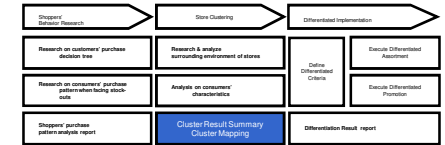
Consumer's family size



Sales rate by product size



* Lotte-Mart members card customer's information analysis (08' Jan ~ Feb)



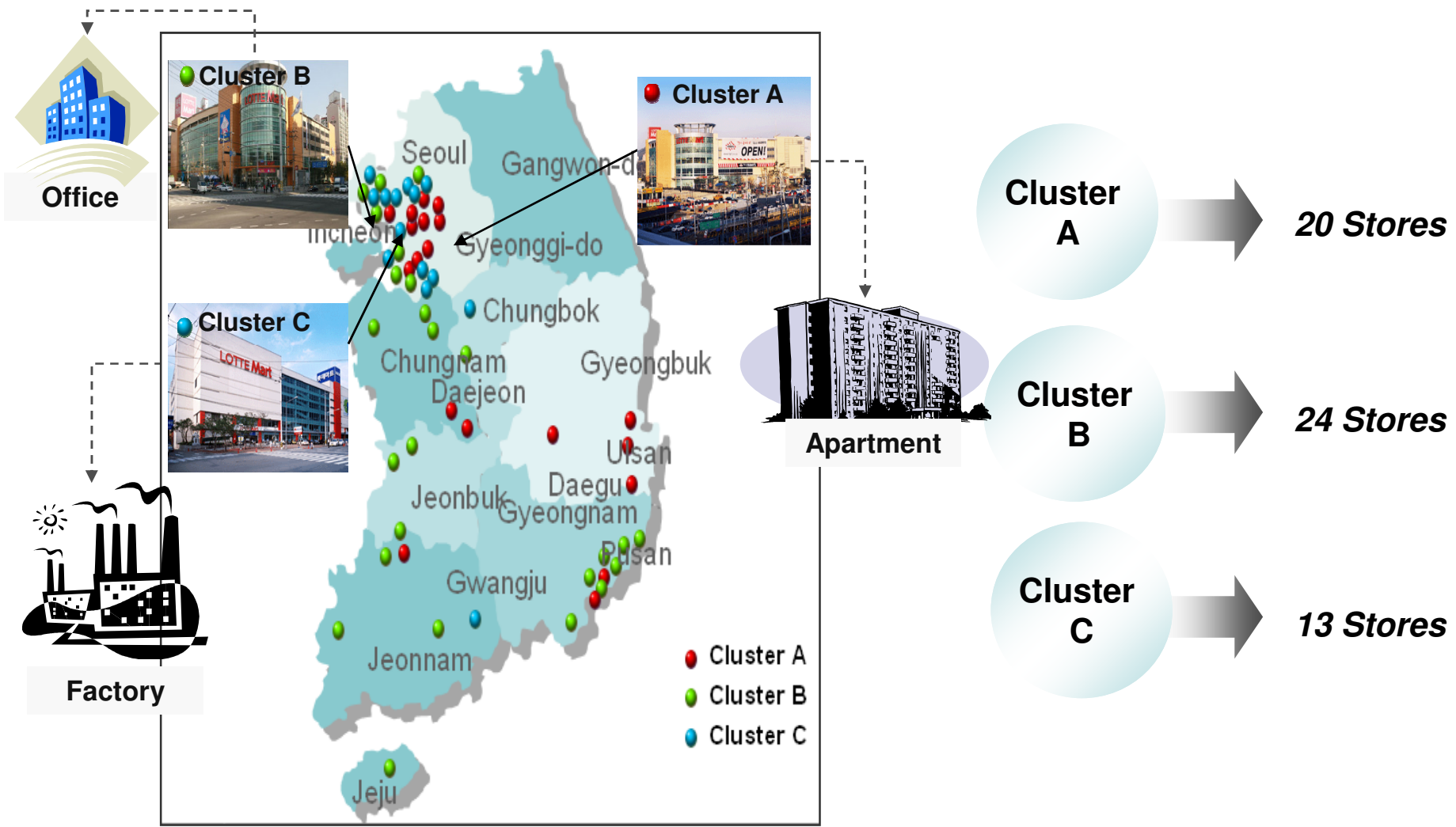
3 Clusters of consumers' life style

	Definition of Consumer's life style	Characteristic of Major Consumer	Characteristic of Purchase pattern
Cluster A	<ul style="list-style-type: none"> • Progressive person who refuses traditional values • Westernized and trendy • Not interested in realistic problems • Interested in leisure and dilettante life 	<ul style="list-style-type: none"> • Single men, women and newly-weds in their 20's • Mostly apartment residents 	High rate of purchasing convenient noodles and 1 portion meals
Cluster B	<ul style="list-style-type: none"> • Very Traditional • A family oriented person Interested in health, children, relationship • Waits for sale seasons 	<ul style="list-style-type: none"> • Consumers in their 30's~40's • Big families • Mostly house residents 	High rate of purchasing 4 portion meals and discounted products
Cluster C	<ul style="list-style-type: none"> • Technology oriented but not leading, rather following and family oriented • Interested in shopping • Interested in income and savings 	<ul style="list-style-type: none"> • Married women in their 20's~30's • Apartment, house residents 	High rate of purchasing inconvenient noodle and big portion meals

* Lotte-Mart members card customer's information analysis (08' Jan ~ Feb)

3 Types of clustered stores

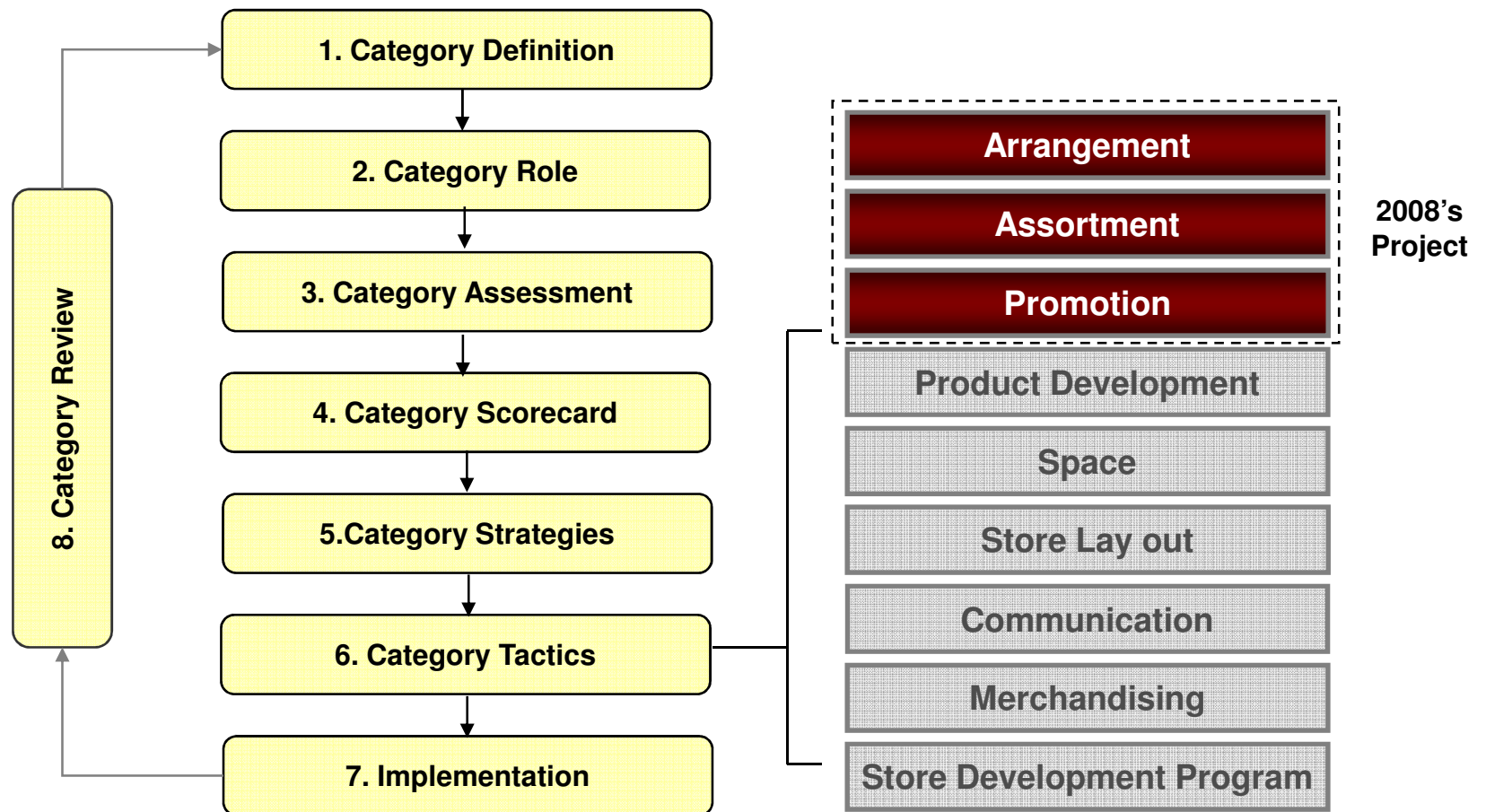
Shopping Behavior Research	Store Clustering	Differentiated Implementation
Research on customer's purchase decision time	Research & analysis surrounding environment of stores	Exclude Differentiated Assortment
Research on customer's purchase pattern when buying snacks	Analyze on consumers' characteristics	Exclude Differentiated Promotion
Shopping behavior pattern analysis report	Cluster Result Summary Cluster Mapping	Differentiation Result report



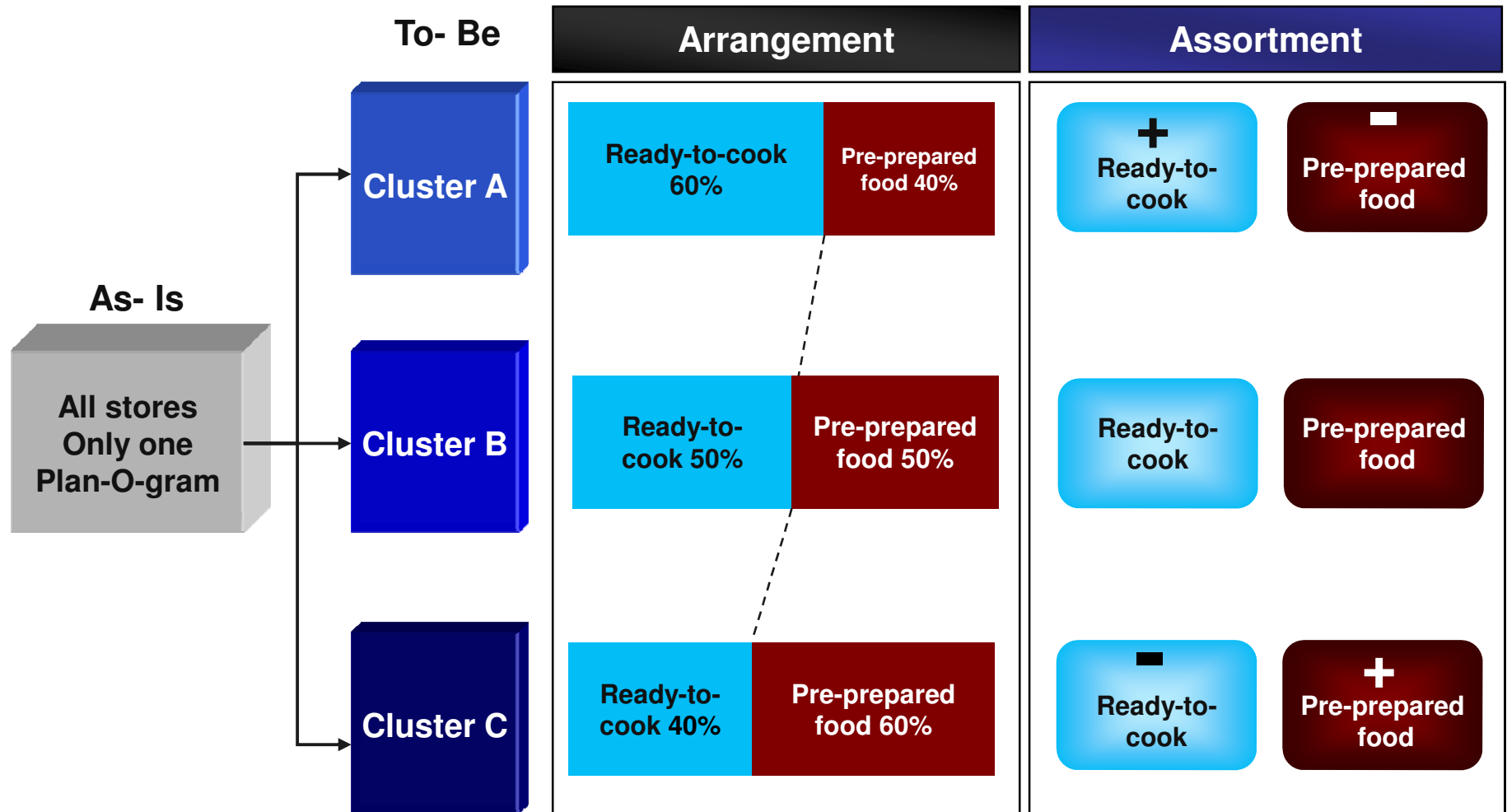
We have focused on ...



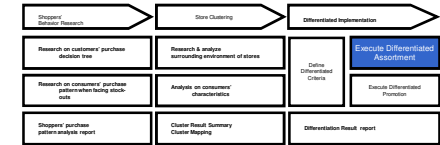
- Category Management Process -



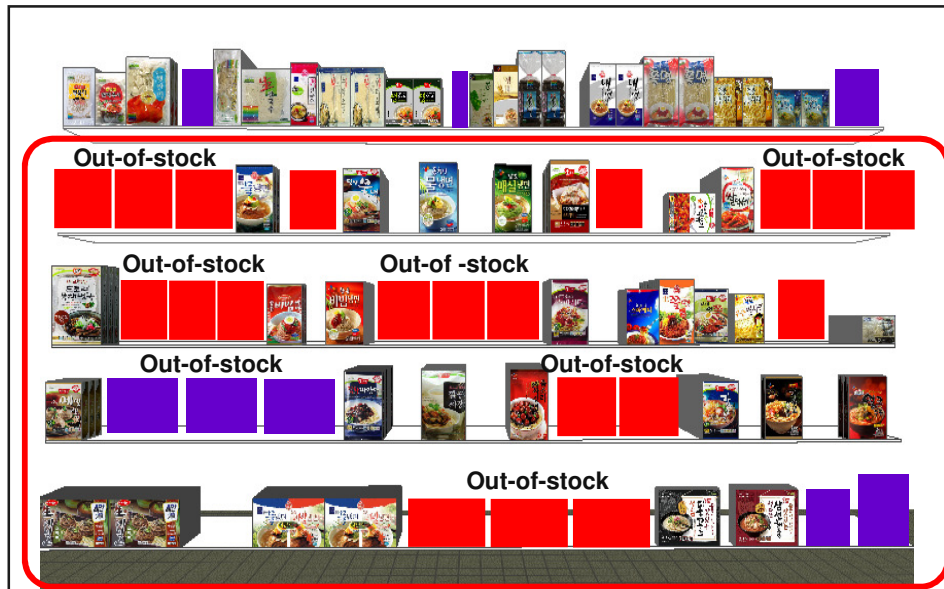
Differentiation by convenience level of cooking



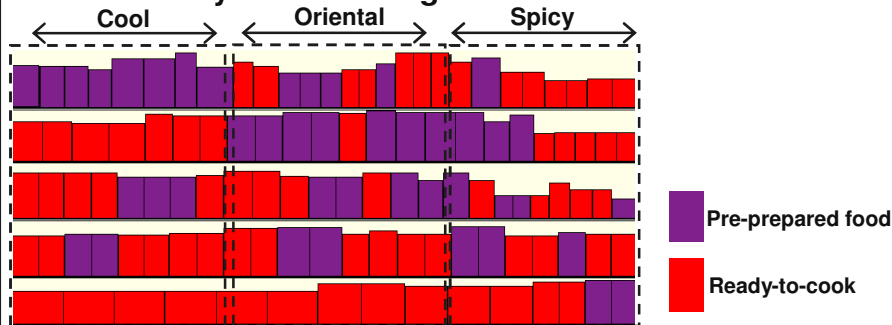
Cluster A Group



Before



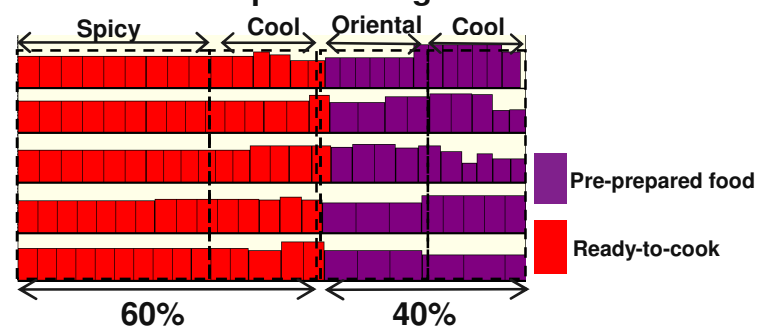
All stores only one Plan-O-gram



After



Cluster A Group Plan- O-gram



* Lotte-Mart Suji store

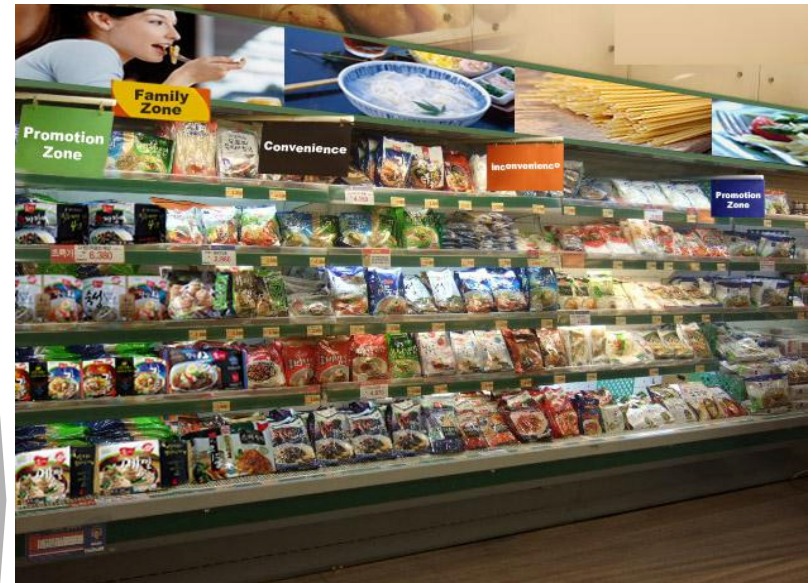
Cluster B Group



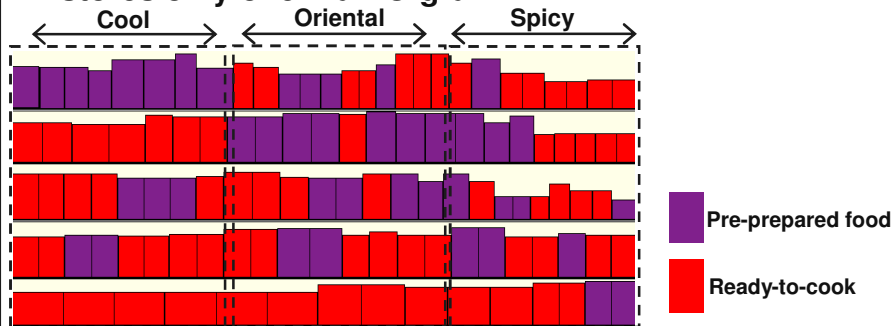
Before



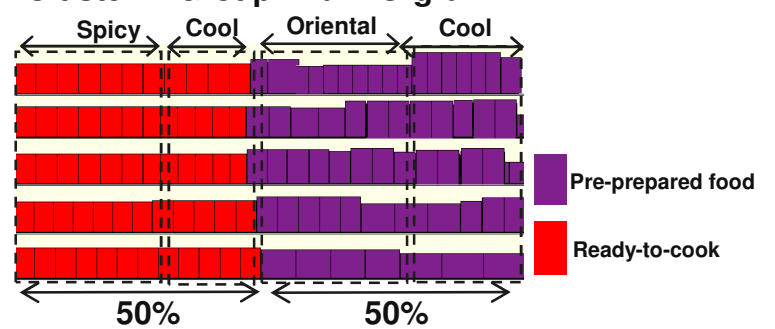
After



All stores only one Plan-O-gram



Cluster B Group Plan- O-gram

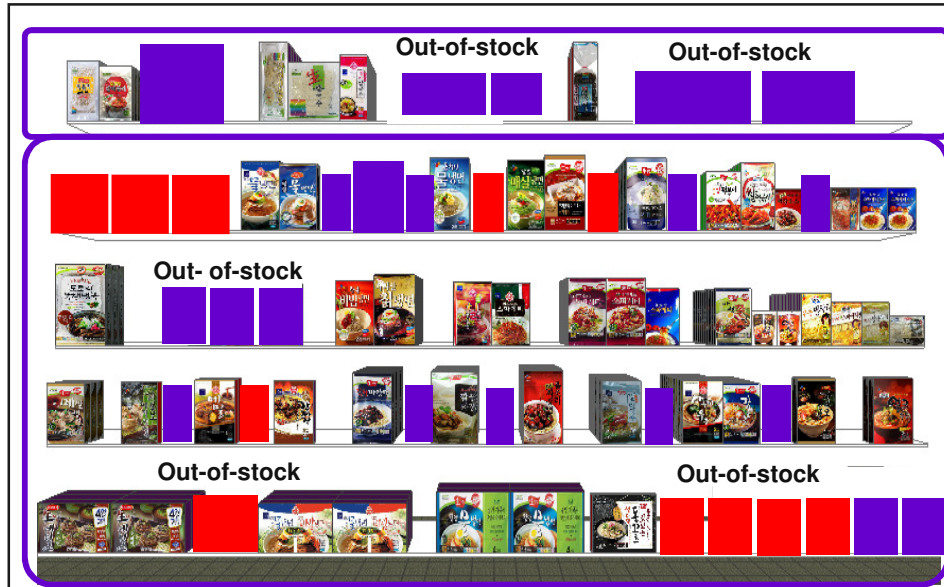


* Lotte-Mart Bupyong store

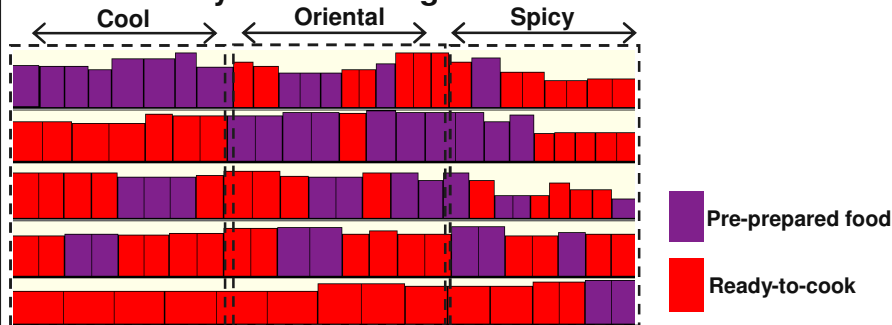
Cluster C Group



Before



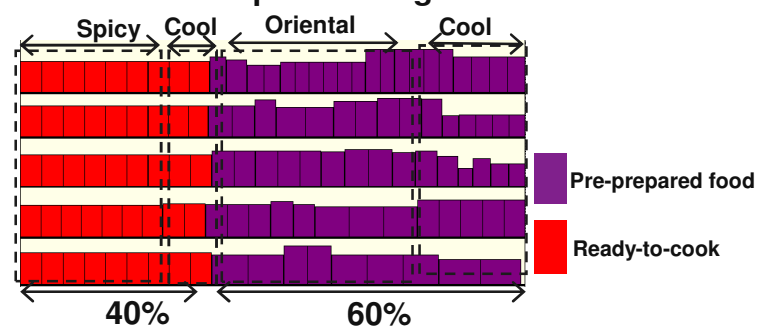
All stores only one Plan-O-gram



After



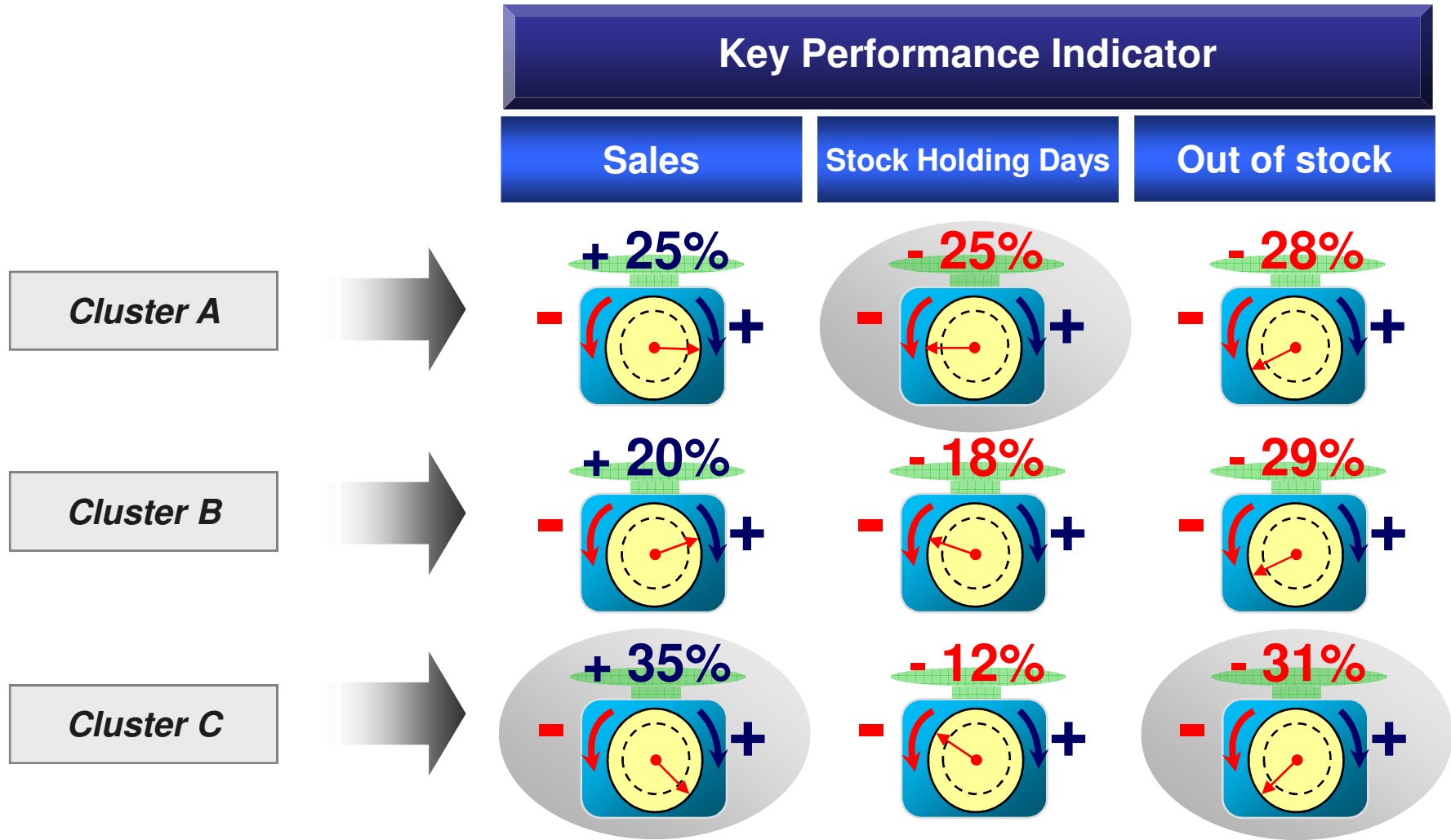
Cluster C Group Plan- O-gram



* Lotte-Mart Geumcheon store

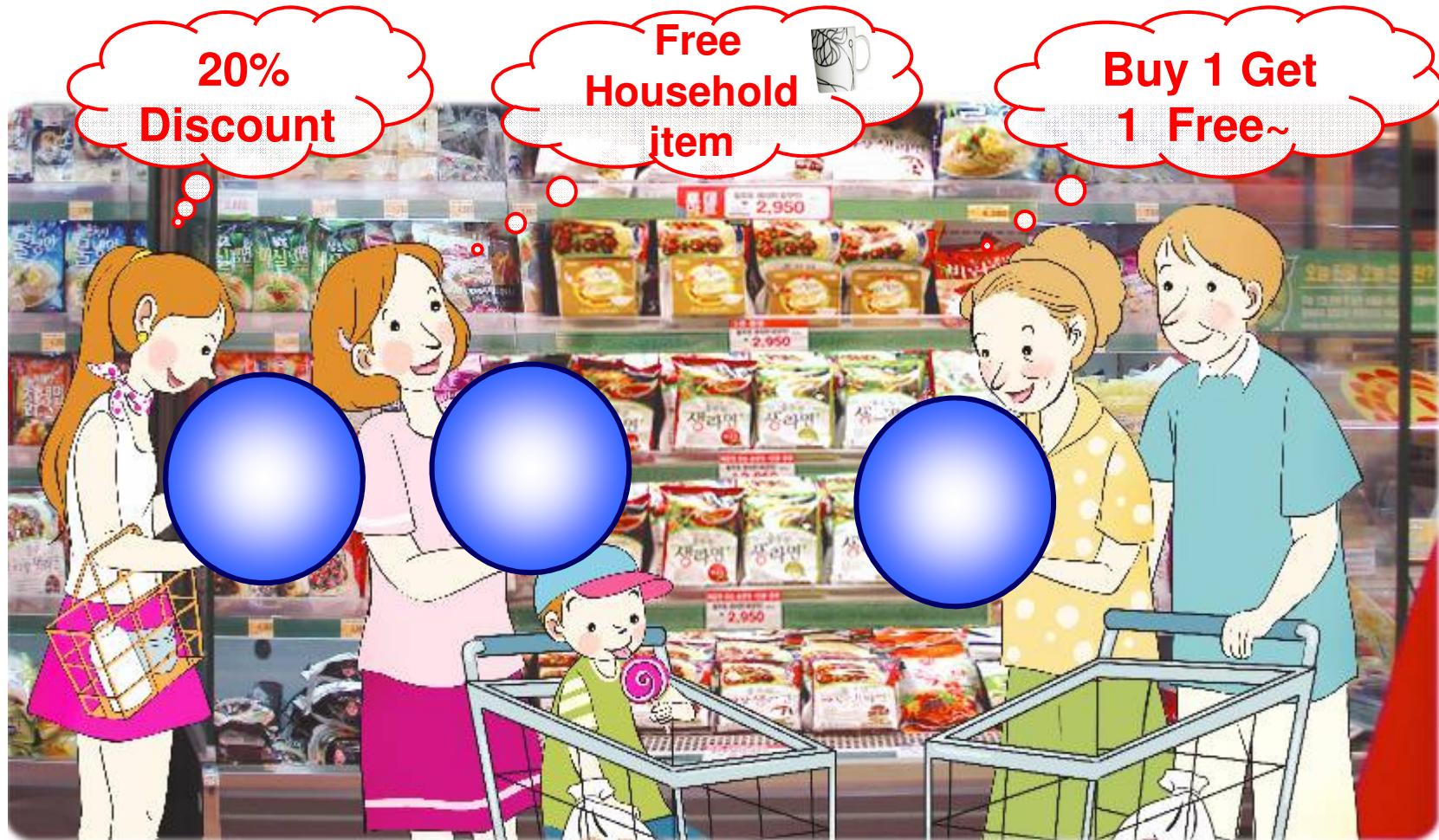


Differentiated assortment has a positive effect



*POS data by Cluster, compared to previous year

Preferred types of promotion differ by consumers' life style

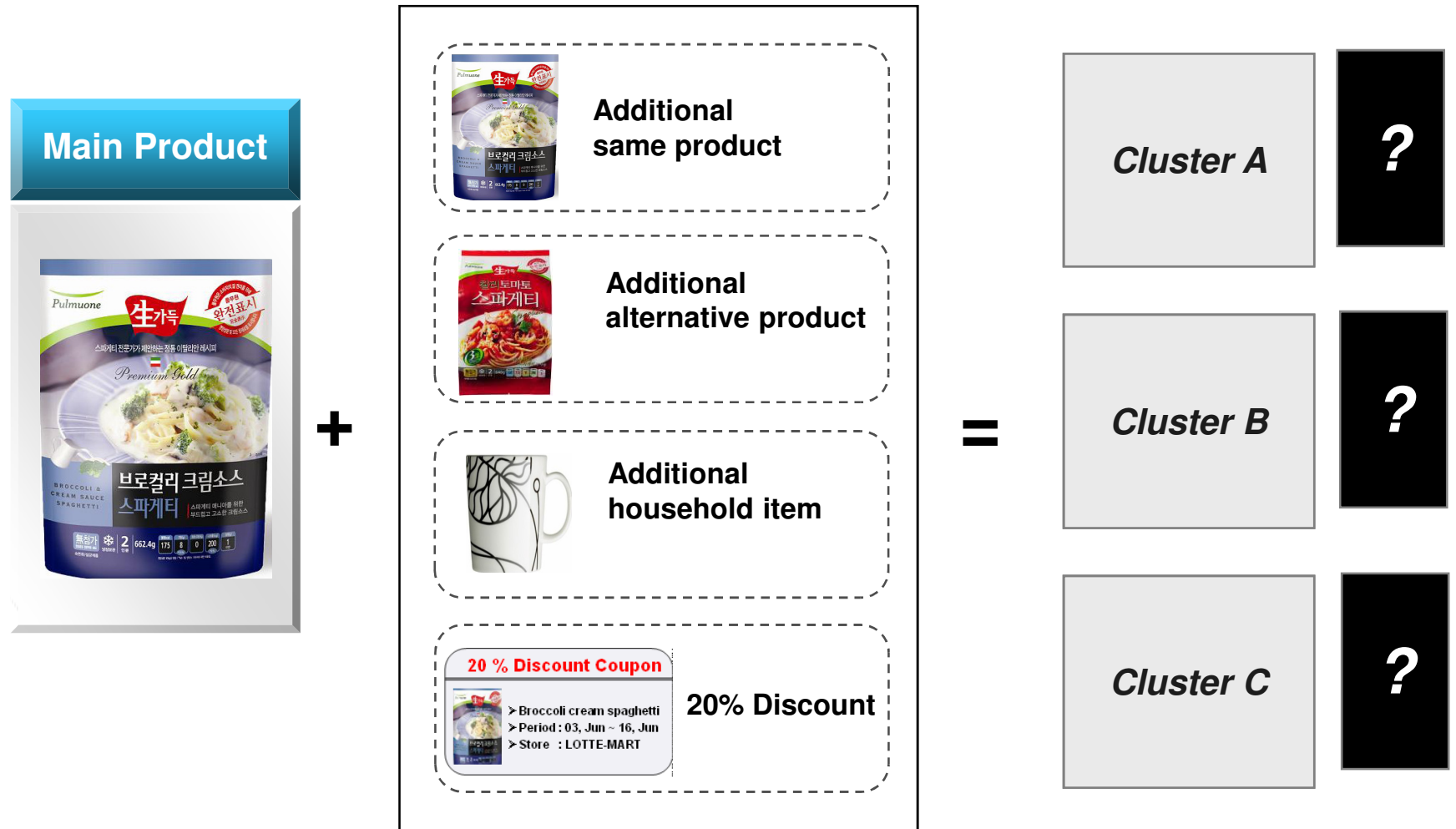


Achievements

Differentiated Criteria

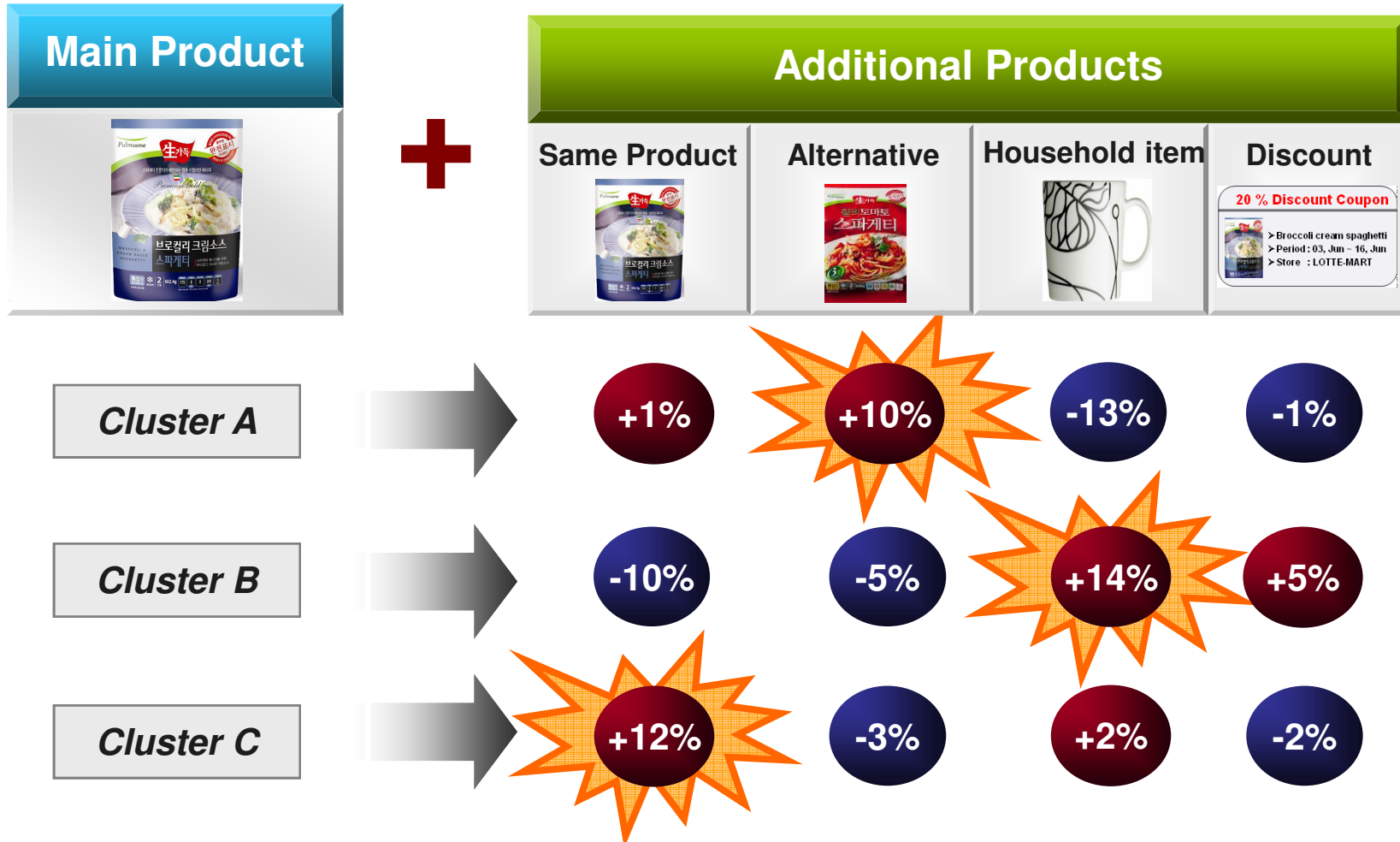
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Differentiated promotions make different results?



* Implementation Period (08' Jun ~ Jul)

Each cluster has a different result



• Implementation Period (08' Jun ~ Jul)

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- **Background & Objective**
- **Methodology**
- **Schedule**

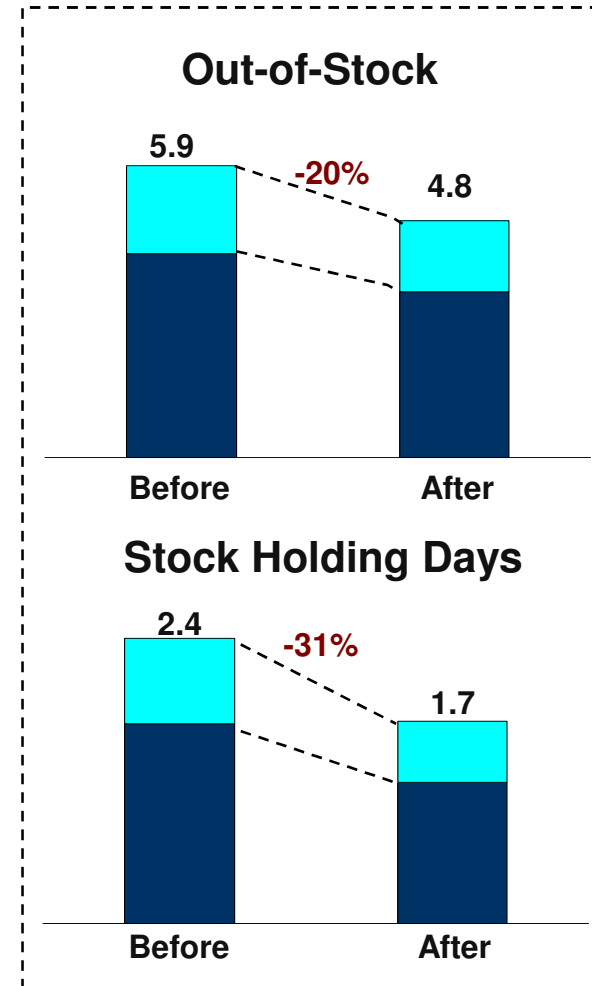
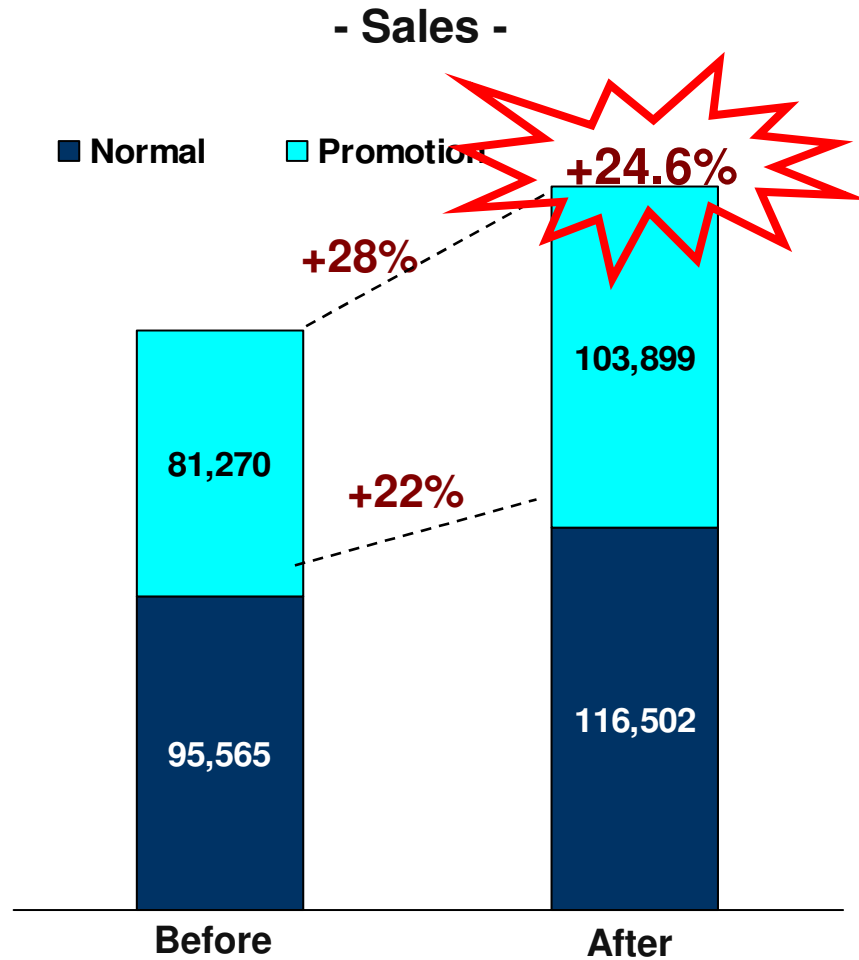
2. Achievements

- **Store Clustering**
- **Assortment & Arrangement**
- **Promotion**

3. Key Benefits

4. Next Step

After differentiating clustering, sales increased, out-of-stock and stock holding days decreased



• Period : Before (07' May ~ Jul), After (08' May ~ Jul)

The brilliant recipe is to satisfy the consumer's appetite

1. Consumer's loyalty toward brands, on both manufacturers' and retailers' side, increased
2. Consumer satisfaction rose
3. Preferable visit to stores increased



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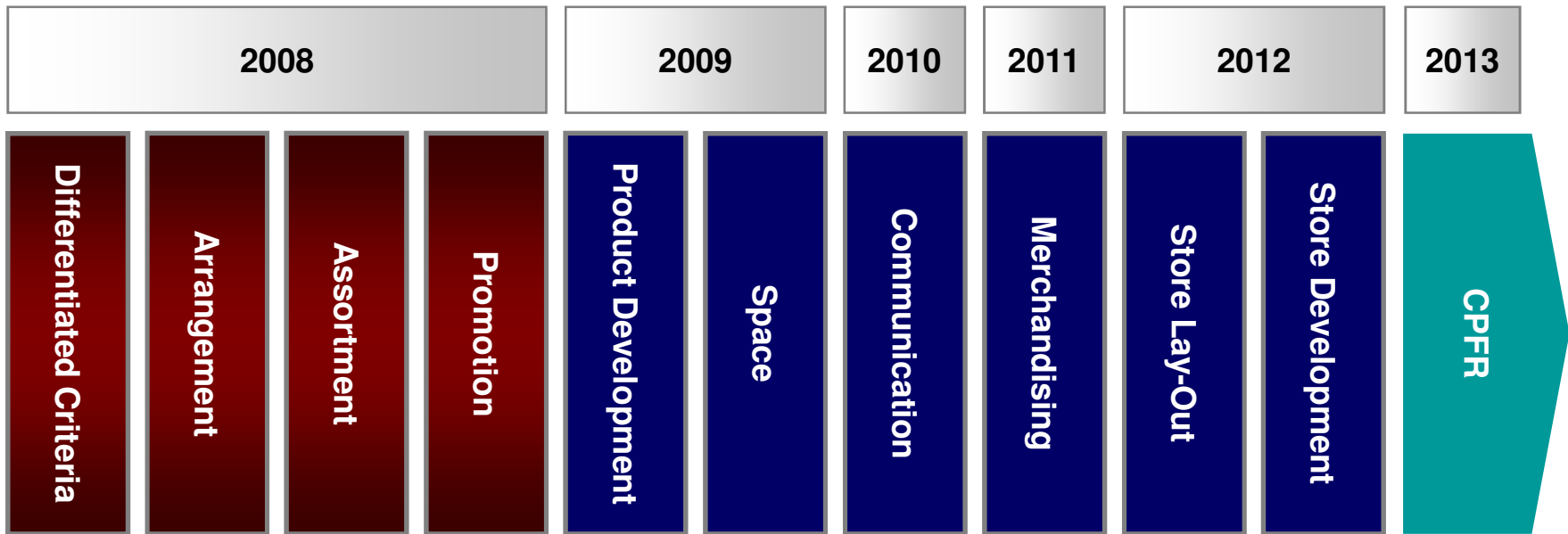
- **Store Clustering**
- **Assortment & Arrangement**
- **Promotion**

3. Key Benefits

4. Next Step

Next Step

Efficient consumer response project should be continued



Store clustering based on consumer of life style

Thank you

Happy 2nd decade of ECR

Happy 11th ECR anniversary!
Congratulations!

This will truly
happen 10 years later

