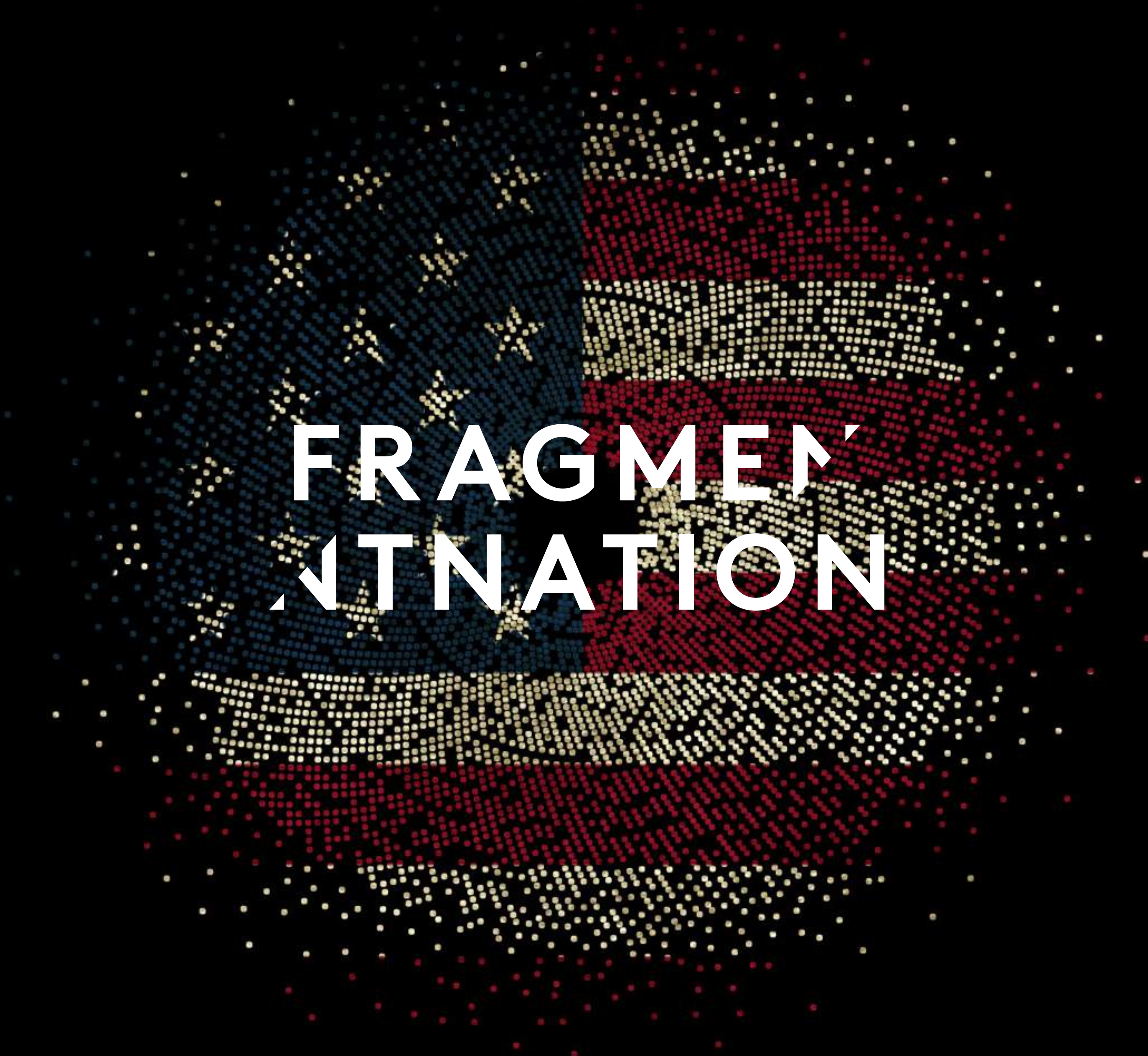
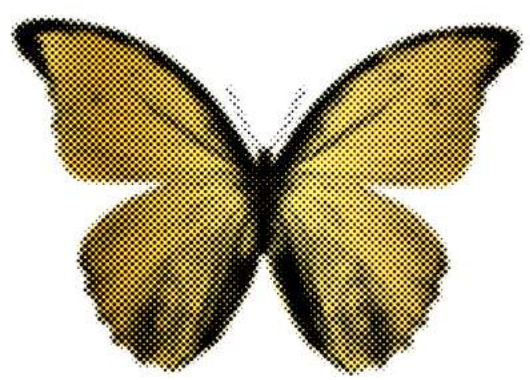
KANTAR



FRAGMENT NATION

The Challenge of Capacity and Marketing Fragmentation

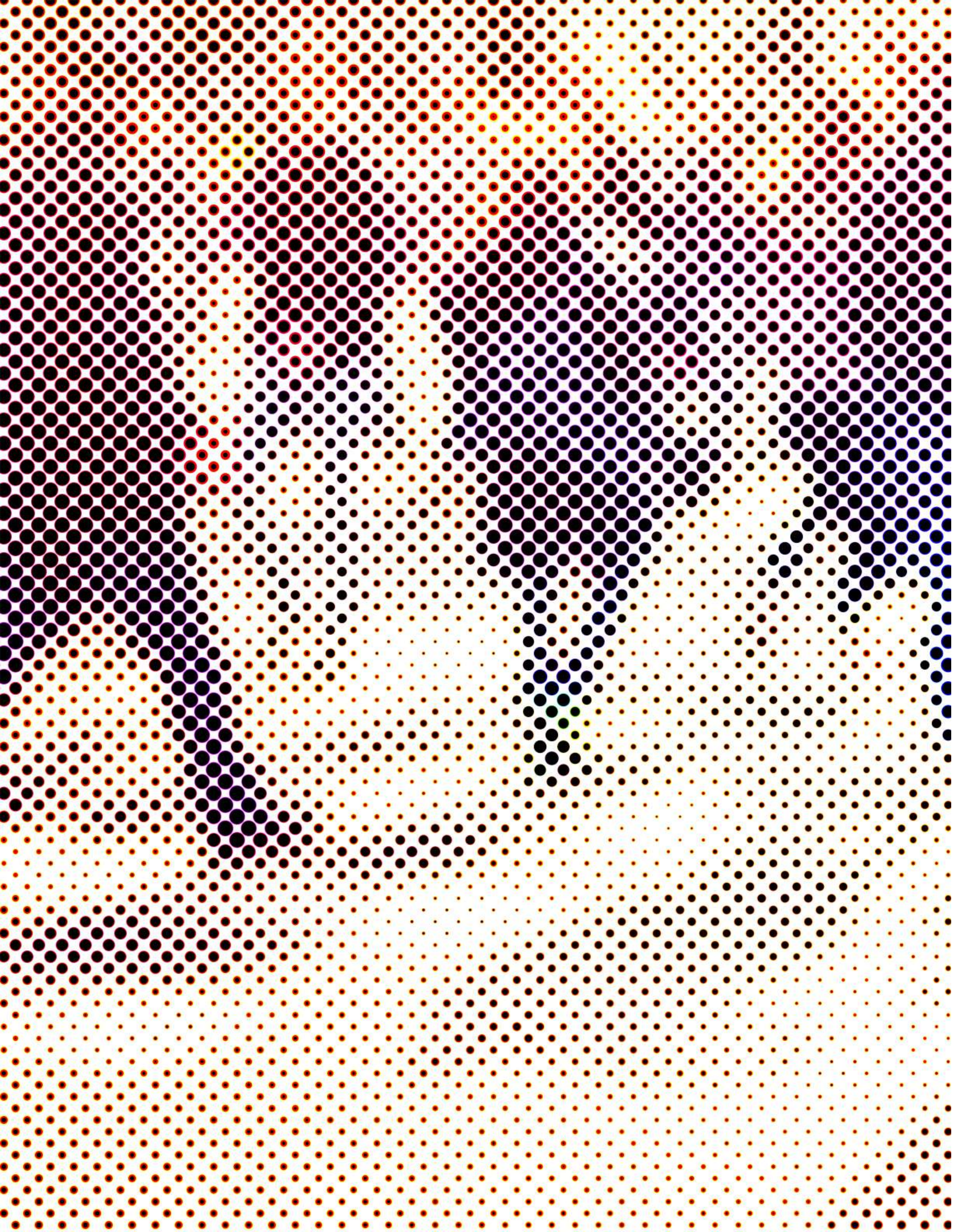
November 2016



www.kantar.com

KANTAR

Inspiration for an extraordinary world.



Marketing is coming at consumers these days like a 100 mph fastball.

At that speed, any pitch of any sort tests the limits of what people can see and react to. The pressure to push harder, to push faster and to push more is only going to grow as Big Data and the Internet of Things open up further opportunities to reach consumers in very specific moments and in very particular ways.

But marketing is not baseball. The object is not to keep consumers from making contact. So marketers need to take a little speed off the ball, an essential adjustment in game plan that begins with a better appreciation of the accelerating fragmentation that makes marketing so challenging for consumers to keep up with nowadays.

From the vantage point offered by the complement of Kantar companies and resources, an otherwise hidden yet critical insight about fragmentation stands out in plain view. Fragmentation isn't bad if consumers can cope with it, so the issue at hand is not simply the splintering of the marketplace. It's whether fragmentation has left consumers behind. It's a question of the capacity of consumers to keep up.

Kantar insights and data show unambiguously that in every element of the marketplace, the proliferation intrinsic to fragmentation is multiplying at a rate well beyond the capacity of consumers to keep up.

In short, it's not just more. It's too much.

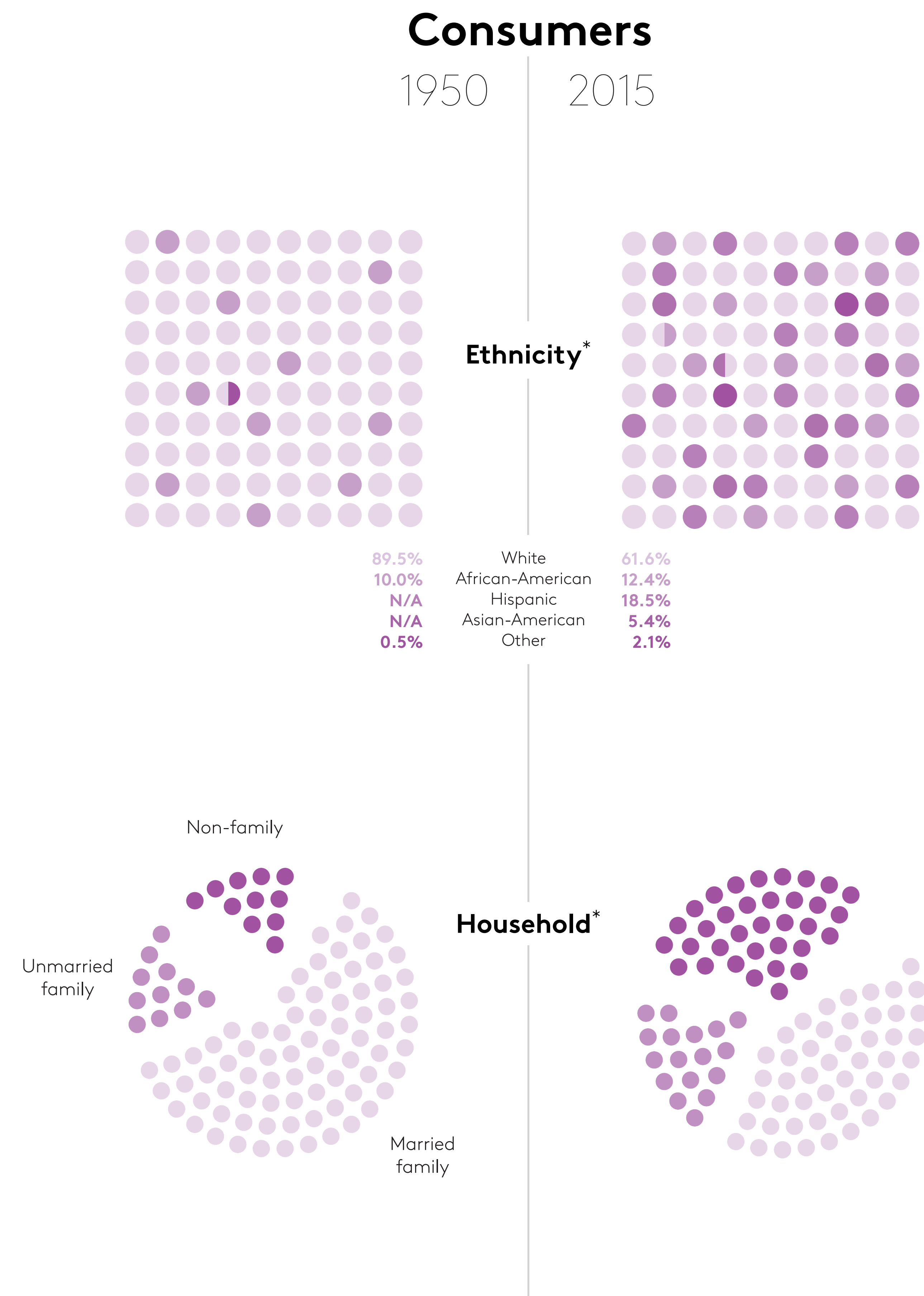
Consumers

Fragmentation begins with consumers. Diversity and difference have exploded.

Add to that the specialized tools of personalization and customization now available to marketers and the result is an ever-expanding range of variety and multiplicity.

This is a fundamental transformation in the U.S. marketplace. In the middle of the 20th century, America was, overwhelmingly, a white, married country. The middle-class defined a universal aspirational sensibility that was serviced by a mass-market economy that took shape before the two world wars. Marketers had only a few channels to reach consumers, so the lowest common denominator that appealed to everyone, though disparaged by social critics, was unavoidable.

The reality today couldn't be more dissimilar. The marketplace is speckled with considerable diversity of race, ethnicity, household types, economic fortunes, political views, social values, ambitions and status symbols. At the extremes, social media and echo chambers of content have hardened differences into dividing lines.



* Source: U.S. Census Bureau

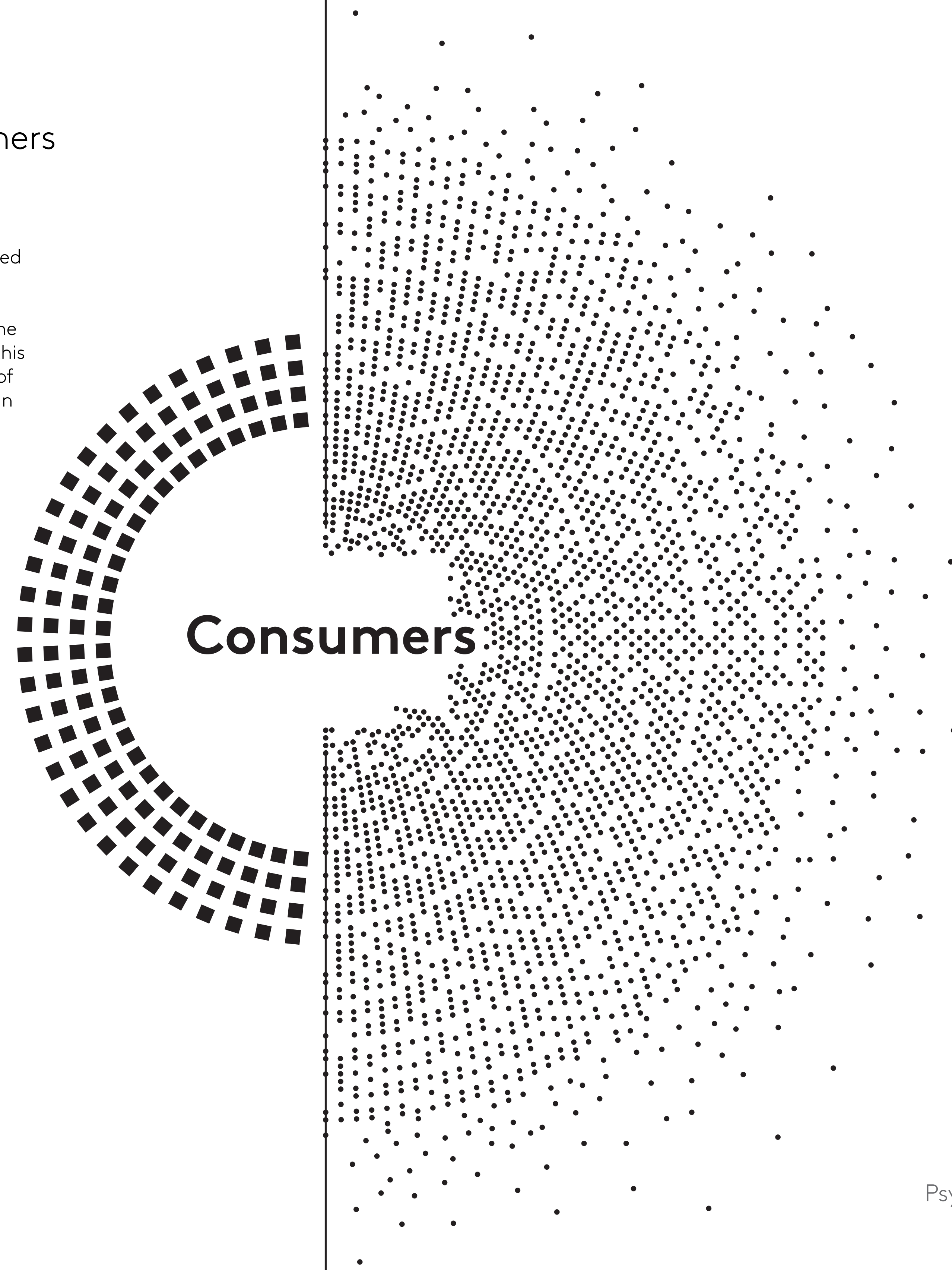
The ways that marketers look at consumers have grown at a multiplicative rate.

Simple demographic categories have given way to more complicated demographic and geographic groupings overlaid with highly differentiated psychographic, behavioral and digital segmentations.

Both in terms of people themselves and in terms of marketing targets, the landscape of consumers has become much more fragmented. In turn, this multifarious core of consumers is immersed in a mounting proliferation of brands, media and retail, all competing for more time and attention than consumers have to give.

From a traditional, limited view of consumers...

4 age categories
4 income categories
2 gender categories
4 race/ethnicity categories



To today's exponentially more fragmented view of consumers

4 region breaks
1,098 OMB metro statistical areas
43,000 ZIP codes
45,000,000 ZIP+4
211,267 Census block groups
39 blocks per Census block group
Household and individual behaviors
Media usage by device
Purchasing by store
Credit card usage
Smartphone metering
Social profiles and usage
App usage
Smart house/device sensors
Biometric monitoring
Psychographic segmentations with 6 to 70+ groups

Brands

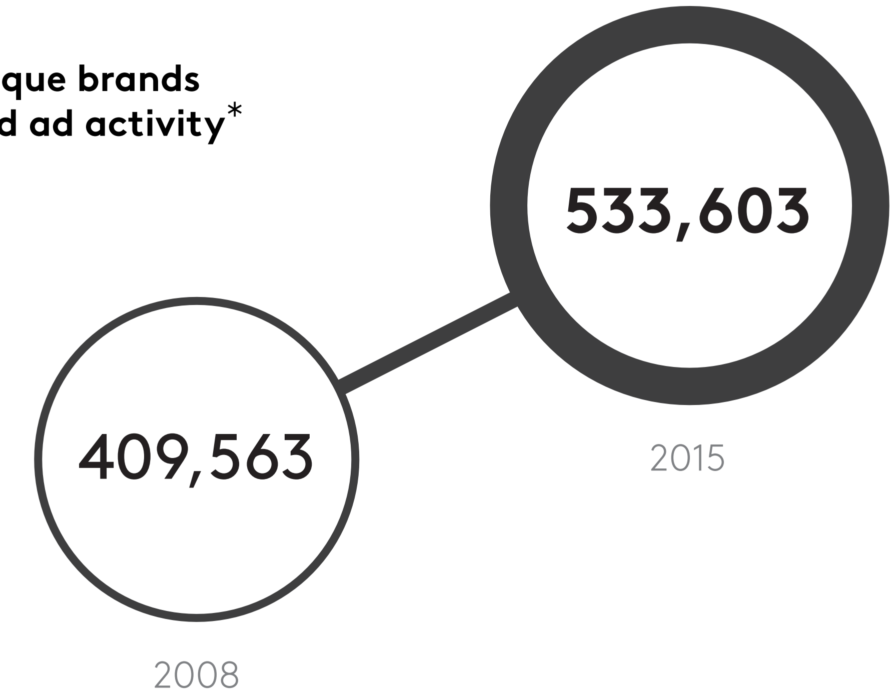
Since 2008, Kantar Media data show a 30.3% increase in the number of brands trying to reach consumers with advertising.

This is a rate of growth nearly eight times greater than the 3.9 percent increase in brands people are aware of, as tracked by the annual WPP BrandZ study conducted by Kantar Millward Brown. Consumers don't have the capacity to keep up. Consumers are aware of more brands, yet at a rate disproportionately lower than the increasing number of brands trying to create awareness.

Of course, brands are targeting specific groups, not every consumer. But even when accounting for that by looking only within particular categories, the growth in brand awareness remains far lower than the growth in the number of brands trying to reach consumers.

Exacerbating the clutter of commercial brands battling for headspace are personal brands that individuals create for themselves, mostly with social media. Nowadays, anybody can play around with personal brand management because with the wide array of free communications vehicles, there are no barriers to entry.

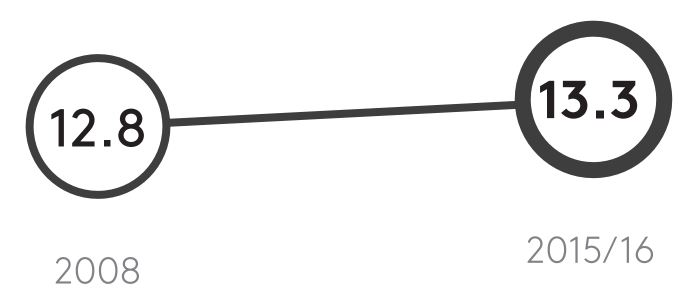
Number of unique brands with monitored ad activity*



up 30.3%

Nearly 8X Divergence

Average number of brands per category consumers aware of*

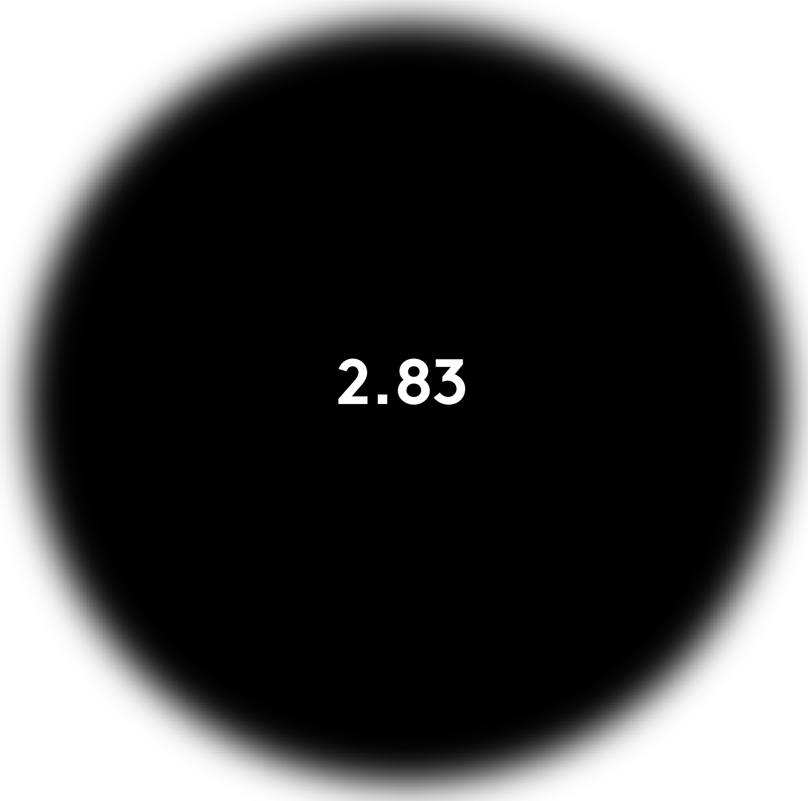


up 3.9%

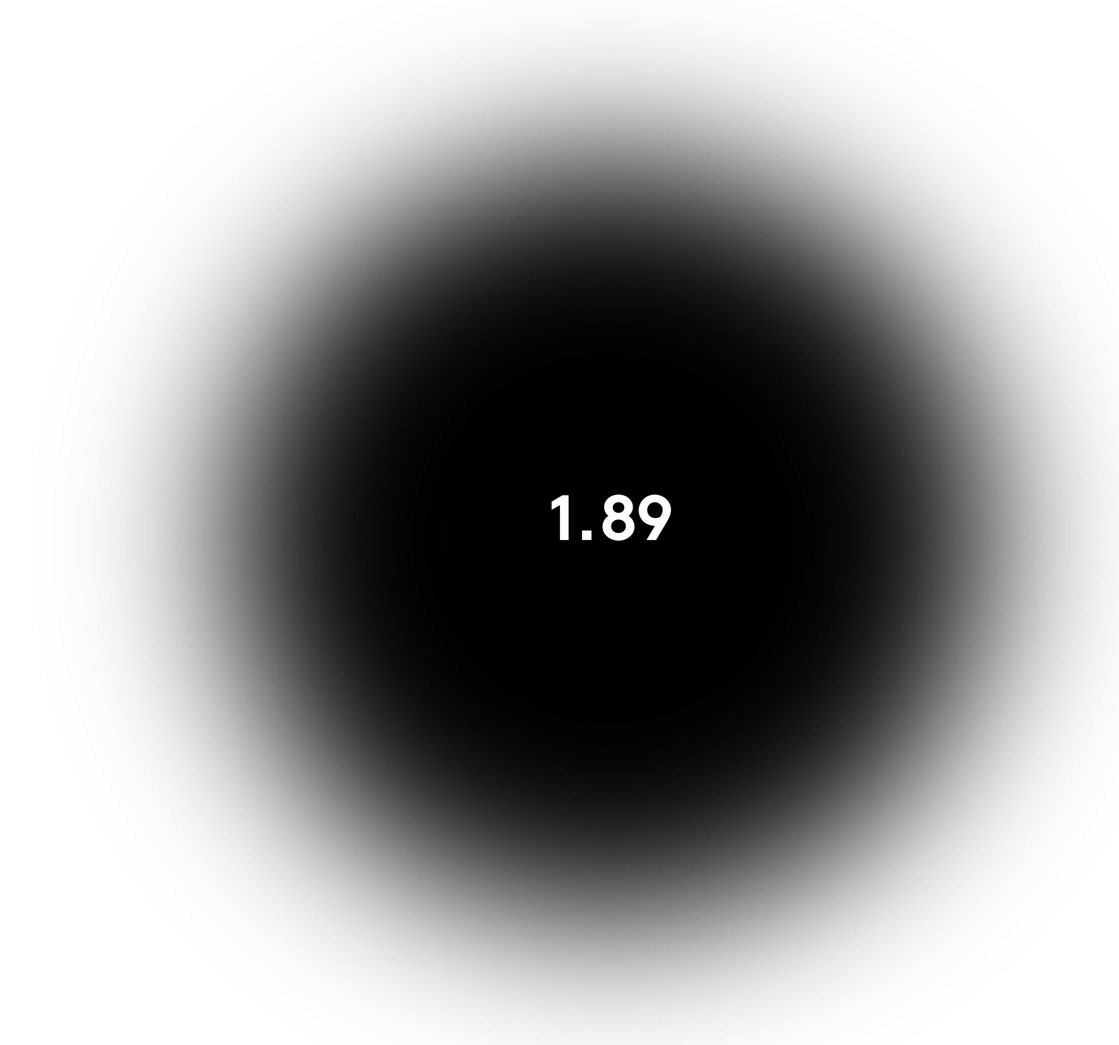
* Source: Kantar Media (U.S.)
* Source: Kantar Millward Brown, WPP BrandZ Study (U.S.)

As a benchmark for current marketing trends, 2008 is the proper starting point. In effect, a new marketplace has sprung up since then. The year 2008 is the year after the introduction of the iPhone, and thus the beginning of the mobile and digital era. It is also the year of the global financial crisis, which upended prior structures and assumptions about growth, credit, trade, value, household budgeting, and globalization. And demographically, 2008 was just two years removed from the oldest Baby Boomers turning 60 and one year ahead of the oldest Millennials turning 30.

Average Brand Clarity rating*



2008



2015

down 33.2%

As the flood of activity due to fragmentation exceeds the capacity of consumers to keep up, the ability of consumers to recognize differences among brands diminishes.

Tracking of 'brand clarity' in the WPP BrandZ study shows that from 2008 to 2015, perceptions of brand differentiation are down one-third.

* Source: Kantar Millward Brown, WPP BrandZ study (U.S.)

Media

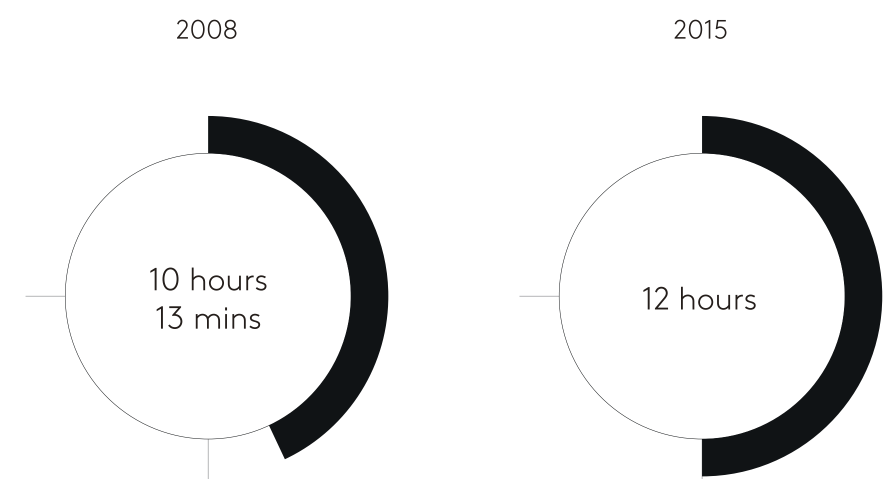
Consumers are spending more time than ever with media, but the 120% growth in ads since 2008 is nearly seven times the 17.5% growth in time spent with media each day.

As with brands, Kantar Media data show a huge step-up in the number of ads each year. Not every ad is intended for every consumer, but the growth in total ads is indicative of a parallel growth in targeted ads. The capacity that consumers have to engage with media is increasing, but not fast enough to stay even with the faster-growing glut of ads.

Much of the spike in both ads and media usage comes from the rapid growth of mobile and digital channels. The new world of digital is amplifying the mismatch, thereby putting an even bigger strain on consumers' capacity to engage.

As the number of ads in media outruns the capacity of consumers to engage, consumers find ads to be less engaging and of lower quality. Results for the U.S. from the global Link copy testing database of Kantar Millward Brown show a 15 percent drop from 2006/07 to 2015/16 in median ratings of the general perception about advertising that "commercials are much better than they used to be." Ratings are down by similar margins for perceptions that ads are clever or memorable.

Average time spent per day with all major media*

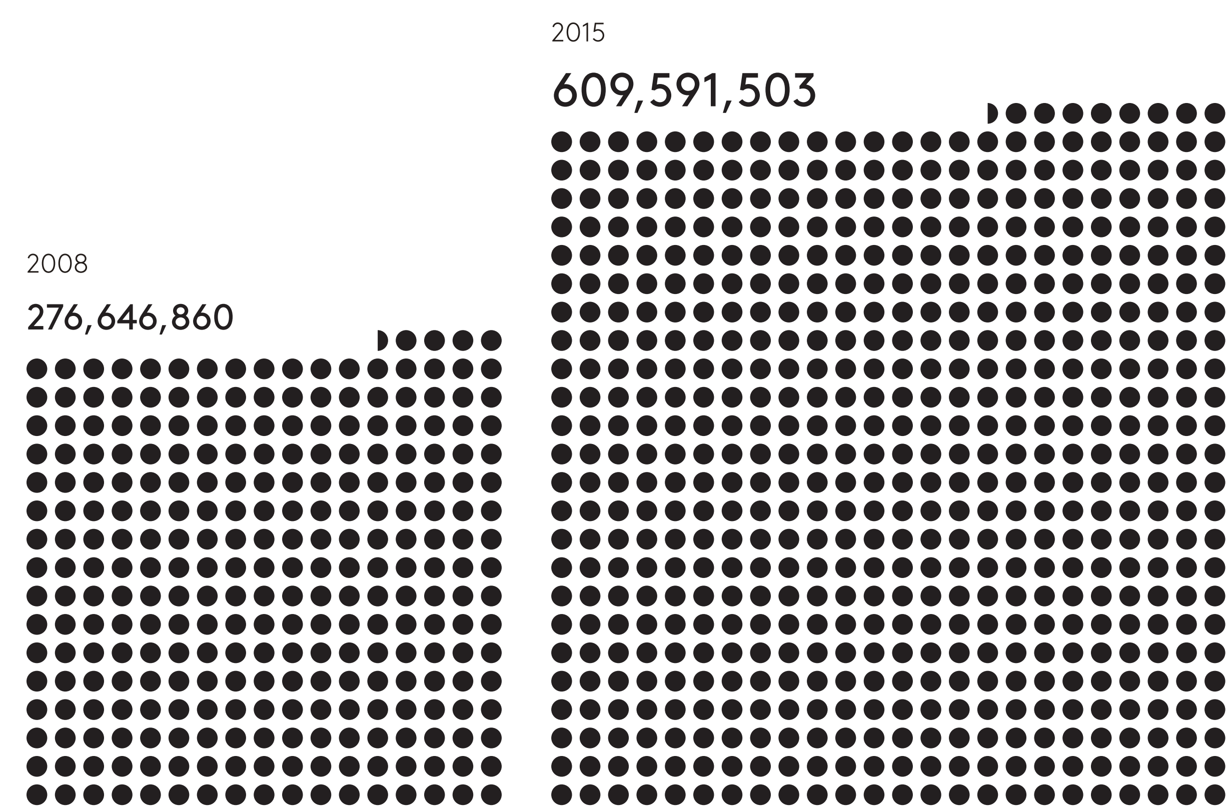


up 17.5%

Nearly 7X divergence

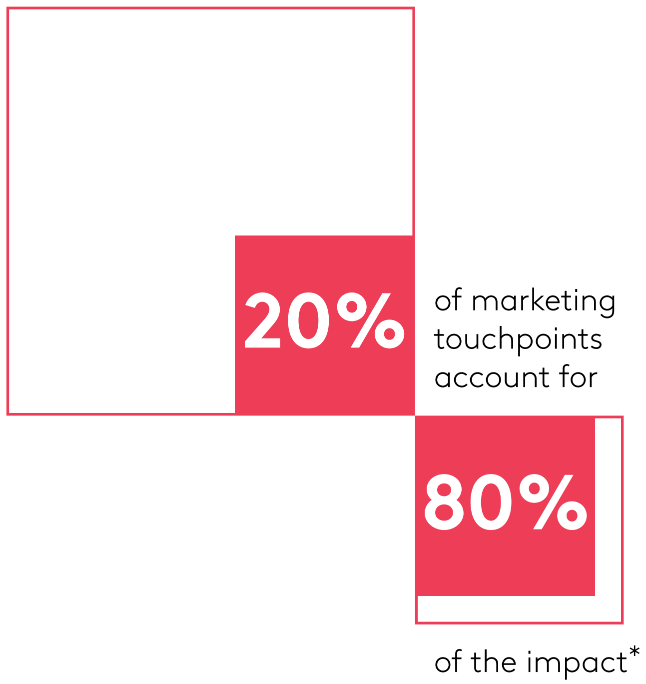
Total number of ad occurrences✽

● = 1 million Ads



up 120%

* Source: eMarketer (U.S.) - Not netted out for multi-screening.
✽ Source: Kantar Media (U.S.) - Not including out-of-home.



* Source: Kantar TNS (Global)

Fragmentation Fault Lines

The overabundance of marketing is too much for marketers as well. It raises the costs of doing business.

Thales Teixeira of the Harvard business school has tracked a steady decline in the percentage of TV ads viewed completely, from nearly 100 percent in the late 1980's to less than 20 percent today. Normative results from the global eye-tracking research database of Kantar Millward Brown show that only around four in ten consumers notice an ad on a Web page, and even when noticed, the typical display ad gets a mere three seconds of attention. This has meant steadily rising costs to secure the undistracted attention of increasingly overwhelmed consumers.

Proliferation in the digital age has exacerbated the perennial difficulty of making every marketing dollar count. Research conducted by Kantar TNS across many categories in many markets around the world finds that 80 percent of marketing impact is accounted for by just 20 percent of the touchpoints at which marketers make contact with consumers.

Less equals more, yet the 2016 Kantar TNS Connected Life global study finds that one-third of U.S. consumers report that they "feel constantly followed by brand advertising online." Blanketing consumers in this way seems to work at cross-purposes with executing the kind of marketing that consumers welcome and like.

Resistance to marketing has become the norm. It's not that consumers dislike marketing. It's simply that consumers are getting too much of it. So consumers are turning to whatever is at hand to fine-tune their situations. In the 2016 U.S. MONITOR research by Kantar Futures, roughly half of consumers claim they use ad-blocking software. Perhaps most worrisome is that 70 percent want "more options" to make "avoiding marketing and advertising easier."

Retail

The well-known paradox of choice – too many choices leads to fewer choices, not more – is particularly evident in retail.

From 2008 to 2015, Kantar Retail tracked a 5.1 percent increase in both number of brick-and-mortar stores and total selling space. In contrast, Kantar Retail finds that consumers are significantly narrowing their shopping, both retail brands and product categories. Consumers today shop 24.2 percent fewer retailers per month than they did in 2008, and 19.1 percent fewer categories.

The capacity or availability of consumers to engage with retail is moving in the opposite direction of the amount of retail. This doesn't mean less spending, but it does mean that faced with ever more choices, consumers are doing less in order to cope with more. Retailers are finding that it takes more investment to break through with disinclined consumers.

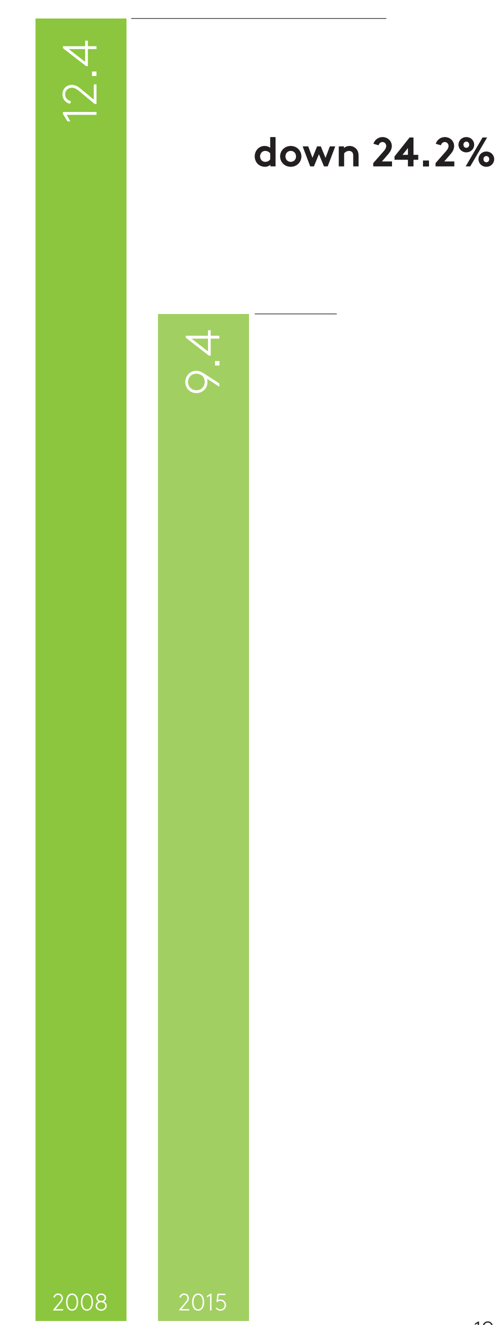
Fragmentation in retail can be seen most clearly in the sources of sales growth. In 2003, Walmart accounted for 40 percent of total retail sales growth in the U.S. From 2016 to 2021, Kantar Retail forecasts that no retailer, whether brick-and-mortar or e-commerce, will account for more than 5 percent of total growth.

Contrary to popular narrative, brick-and-mortar retail expansion has not been reversed by the explosive growth of online and mobile shopping. Brick-and-mortar retailers reflect the fragmented marketplace. Mass appeal has given way to stores targeting specific consumer segments like Apple or Costco or specific need states like CVS or Home Depot. Kroger grows as a 'generalist' by using granular loyalty data to treat its shoppers as individuals.

Kantar Retail predicts double-digit sales growth of e-commerce through 2021. Amazon will be larger than the number two through number fourteen e-commerce retailers combined. Online shopping presents consumers with almost unlimited options, which portends an unprecedented degree of fragmentation in the future.

Number of stores*

Average number of retailers shopped in past month*



* Source: Kantar Retail (U.S.)

Making the Most of More

Marketing is bumping up against the limits of capacity.

Consumers are more diverse and more fragmented than ever. Media and brands have exploded as consumers have fallen behind. The scale of retail has grown even as consumers have moved in the other direction.

Solutions to the challenge of capacity and the difficulties inherent to fragmentation require a fresh approach to the marketplace. In particular, three critical steps are required, for which Kantar has unique resources and proven experience to help clients master a marketplace of fragmentation and proliferation.

First, improve a brand's mastery of niches, which is to say, optimize performance against the proliferation of the marketplace. Indeed, this is a minimum requirement. Failure to get this right typically sends brands off into a willy-nilly hustle of trying a little bit of everything without doing anything well.

Second, make a human connection, or put humanization into the mix. In today's era of data and digital, the temptation is to go all-in with technology and algorithms. But consumers don't want to be forgotten as people, so culture and soul matter more than ever. Brands that embrace universal human truths as the focal point of their offers will better connect with the cultural zeitgeist that moves people emotionally.

Finally, find common ground, or offer a rallying point for unification. In the polarized, combative atmosphere of contemporary politics and ideology it is easy to overlook shared values and collective beliefs. Everything is not a point of division. The things that people share in common are often the most powerful ways for brands to cut through the surfeit of selling messages to make a connection that matters.

Fragmentation is a challenging situation for both consumers and marketers. But it is also an opportunity for marketers to renew and strengthen the ties that bind brands and consumers together. As proliferation continues to grow, this will be the imperative for success.

KANTAR ADDEDVALUE

KANTAR FUTURES

KANTAR HEALTH

KANTAR IMRB

KANTAR MEDIA

KANTAR MILLWARDBROWN

KANTAR PUBLIC=

KANTAR RETAIL

KANTAR TNS

KANTAR VERMEER

KANTAR WORLDPANEL

LIGHTSPEED

About Kantar

Kantar is one of the world's leading data, insight and consultancy companies. Working together across the whole spectrum of research and consulting disciplines, its specialist brands, employing 30,000 people, provide inspirational insights and business strategies for clients in 100 countries. Kantar is part of WPP and its services are employed by over half of the Fortune Top 500 companies.

For more information visit www.kantar.com

Grateful thanks to the Kantar team that contributed to FragmentNation, especially Wayne Levings, Global President of Kantar. Design, data visualizations and production by Ryan Boyd. Concept and authorshiop by the North America thought-leadership group of J. Walker Smith, Mitch Eggers, Bryan Gildenberg, Ann Green, Tom Haskell, Nigel Hollis, Kristopher Hull, Joline McGoldrick, Christopher Murphy, George Pappachen and Leslie Pascaud. Analytic and data support from Dede Fitch, Leon Nicholas, Rachel McGuire, Jon Swallen, Peter Walshe, Jonathan Sinton and Duncan Stark. Event management by Zuzana Novak, Elaine Chen, Sophie Graves and Susan Hickey. Other event participants of Valeria Piaggio, Whitney Dunlap-Fowler, Kerry Corke, David Shanker, Lynnette Cooke, Marc de Swaan Arons, Joanna Franchini, George Carens and Eric Salama.

KANTAR

Inspiration for an extraordinary world.

KANTAR