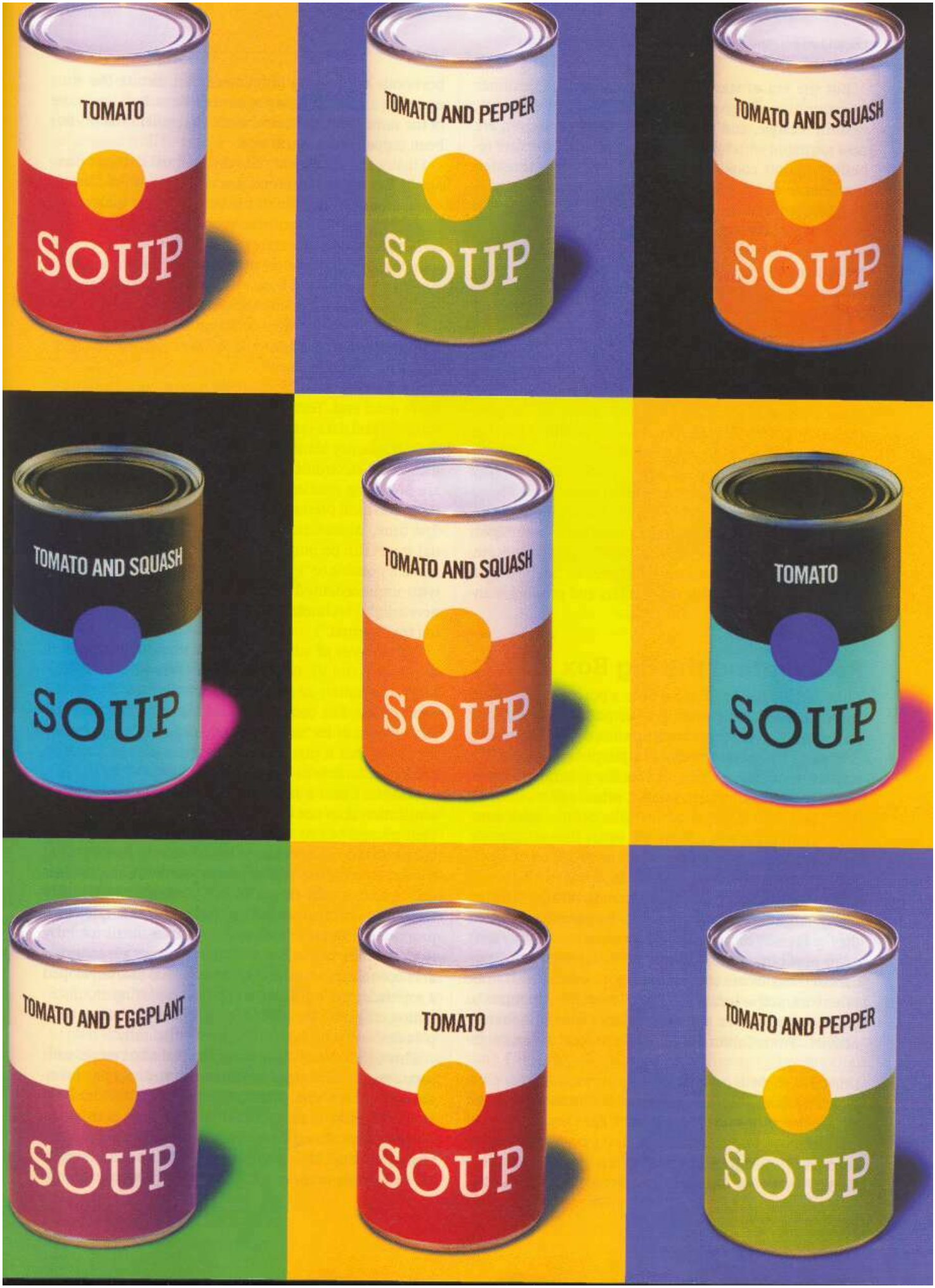
For a quarter century, the big winners in consumer markets have pursued strategies of standardization. But success for retailers and product manufacturers now hinges on their ability to cater to local differences-while maintaining scale efficiencies.

by Darrell K. Rigby and Vijay Vishwanath

LOCALIZATION

THE REVOLUTION IN CONSUMER MARKETS

We're in the early stages of a quiet revolution in consumer markets. For decades, the chains that have dominated the landscape - titans like Wal-Mart, Best Buy, and McDonald's - have pursued single-minded strategies of standardization. They've fine-tuned their store formats, merchandise mixes, and operating and marketing processes, and they've rolled out their winning formulas internationally. They've demanded equally rigorous consistency from suppliers, pushing the standardization ethic deep into consumer product companies and across the entire consumer supply chain.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But the era of standardization is ending. Consumer communities are growing more diverse - in ethnicity, wealth, lifestyle, and values. Many areas, moreover, are now saturated with big-box outlets, and customers are rebelling against cookie-cutter chain stores that threaten the unique characteristics, such as architectural styles and favored brands, of their neighborhoods. When it comes to consumer markets, one size no longer fits all. In response, smart retailers and consumer goods companies are starting to customize their offerings to local markets, rolling out different types of stores, product lines, and alternative approaches to pricing, marketing, staffing, and customer service. They're moving from standardization to localization.

Combining sophisticated data analysis with innovative organizational structures, they're gaining the efficiencies of centralized management without losing the responsiveness of local authority. The greatest benefit of moving from standardization to localization is strategic. Standardized offerings discourage experimentation and are easy for competitors to copy. (Sam Walton openly referred to Kmart as the "laboratory" he copied while growing Wal-Mart.) Customization encourages local experimentation and is difficult for competitors to track, let alone replicate. When well executed, localization strategies can provide a durable competitive edge for retailers and product manufacturers alike.

Reinventing the Big Box

Although standardization has been a powerful strategy in consumer markets, it's reached the point of diminishing returns. Customers are becoming more diverse, according to studies by geodemographers, people who study the population characteristics of specific geographic areas. Measuring ethnicity, age, wealth, urbanization, housing styles, and even family structures, the demographic company Claritas determined in the 1970s that 40 lifestyle segments were sufficient to define the U.S. populace. Today, that number has grown to 66, a 65% increase.

Diversity is not the only nail in standardization's coffin. Many large chains have erected so many stores that they're literally running out of room to expand. They can't open new outlets without cannibalizing old ones. Standardized chains are also meeting with other constraints: Where attractive locations are still available, attempts to build stores often face fierce resistance from community activists. From California to Florida to New Jersey, neighborhoods are passing ordinances that dictate the sizes and even architectural styles of new shops. Building more of the same-long the cornerstone of retailer growth-has been tapped out as a strategy.

Finally, standardization can do the most strategic damage by forcing products and practices into molds. The resulting homogenization of business tends to undermine innovation, all the way up the supply chain. Managers become so focused on meeting tight operational targets-and stamping out exceptions-that they begin to consciously avoid the experimentation that leads to attractive new products, services, and processes. In the end, standardization erodes strategic differentiation and leads inexorably toward commoditization-and the lower growth and profitability that accompany it.

The good news is that there's a way out of standardization's dead end. Technological advances, from checkout scanners and data-mining software to Internet stores and radio frequency identification (a wireless technology that uses small electronic tags to identify and track objects), are providing retailers and their suppliers with deep insight into local preferences and buying behaviors. For the first time, mismatches in supply and demand at individual stores can be pinpointed immediately. The new data make it possible to "localize" stores, products, and services with unprecedented precision. (For an example of the new insights technology can deliver, see the sidebar "Mining the Internet.")

Our analysis of 30 localization leaders, including Best Buy, Tesco, and VF, documents these benefits. Even Wal-Mart, the sultan of standardization, is moving toward localization. The company has made customization the cornerstone of its "store of the community" strategy, announcing that it plans to tailor formats and products to the local clientele in every store in its chain.

Wal-Mart uses a rigorous process to ensure that customization does not undermine its traditional efficiency. That process begins when a store is still on the drawing board. Company real-estate teams deeply research the local customer base when scouting for locations. Designers then create the store's format by combining suitable templates - stores near office parks, for example, with prominent islands featuring ready-made meals for busy workers. Templates allow Wal-Mart to maintain considerable economies of scale. The company has also developed a sophisticated logistics system, encompassing no distribution centers in the United States alone, to manage complex delivery schedules quickly and efficiently.

Through its Retail Link program, Wal-Mart works with suppliers to tailor store merchandise with similar precision. Built on a vast database, Retail Link provides both local Wal-Mart managers and vendors with a two-year history of every item's daily sales in every Wal-Mart store. Using the Retail Link Web portal, Wal-Mart and its suppliers can create maps of local customer demand, indicat-

Darrell K. Rigby is a Boston-based partner of Bain & Company and leads the firm's global retail practice. A frequent contributor to HER, he coauthored "CRM Done Right" (November 2004). Vijay Vishwanath, also a partner in Boston, leads Bain's global consumer products practice. He coauthored "Expanding in China" (March 2005).

ing which merchandise should be stocked when and where. For example, Wal-Mart stocks about 60 types of canned chili but carries only three nationwide. The rest are allocated according to local tastes. Five years ago, Wal-Mart used just five planograms (diagrams showing how and where products should be placed on retail shelves) to adapt its soup selection to local preferences. Today, with the help of Retail Link, Wal-Mart and its suppliers use more than 200 finely tuned planograms to match soup assortments to each store's demand patterns - raising soup's growth rate by several points in the process. Product companies also use the system to track their sales and inventory levels in Wal-Mart's stores and distribution centers and to develop pricing and marketing programs to boost sales.

Thinking in Clusters

As Wal-Mart and other leaders have discovered, successful localization hinges on getting the balance right. Too much localization can corrupt the brand and lead to ballooning costs. Too much standardization can bring stagnation, dooming a company to dwindling market share and shrinking profit.

Striking the right balance means understanding which elements of a business should be considered for localization, how costly they are to customize, and how much impact they will have from one store to another. Far from being an all-or-nothing game, localization can take place in myriad ways (see the exhibit "What, Where, and When Should We Localize?"). For one retailer, it might make sense to have a highly localized staffing approach but a standardized product mix, while another retailer may warrant the opposite. Similarly, a manufacturer might localize product features in one area and retailer incentives in another. While it may be prohibitively expensive to customize a product to many locations, it may be possible to gain similar benefits by tailoring the product's packaging or promotions at a far lower cost. Wal-Mart found that while ant and roach killer sells well in the southern United States, consumers in the northern states are turned off by the word "roach." After labeling the pesticide as "ant killer" in northern states, the company has seen sales increase dramatically, according to John Westling, senior vice president.

Of course, customization has its limits. Even with rich data, a company can't customize every element of its business in every location. The sheer complexity would be overwhelming, leading to spiraling costs, if not paralysis. That's why leading localizers have begun using clustering techniques to simplify and smooth decision making, focusing their efforts on the relatively small number of variables that usually drive the bulk of consumer purchases.

Rather than letting local managers' decentralized decisions fragment economies of scale, the pioneering companies have developed a science of analyzing data on local buying patterns to identify communities that exhibit similarities in demand. For example, American Eagle Outfitters, a retailer of fashionable casual wear with 740 U.S. stores, found that customers in western Florida exhibited seasonal purchasing patterns and price elasticities that closely matched those of certain communities in Texas and California. By tailoring assortments and promotions to such clusters of locations rather than to individual stores, companies like American Eagle can benefit from customization while holding on to most of the efficiencies of standardization.

The customization-by-clusters strategy, which Bain first applied to grocery stores in 1995, has proven effective in

drugstores, department stores, mass merchants, big-box retailers, restaurants, apparel companies, and a variety of consumer goods manufacturers. Clustering sorts things into groups, or clusters, so that the associations are strong between members of the same cluster and weak between members of different clusters. Clusters enable manageable, modular operations-think again of Wal-Mart's store templates-that capture most of the benefits of customization while also simplifying decisions and protecting economies of scale. Consider a merchandise manager who has to decide how to stock 100,000 items in 1,500 stores for 365 days each year. If she wanted to customize the mix, she would have to make about 54.8 billion decisions (100,000 x 1,500 x 365), many of which would be based on such small sample sizes that the predictions of even sophisticated models would be meaningless. If, however, the merchandise could be clustered into 2,500 classifications, the stores could be clustered into 20 similar types (for example, Latino border locations or upscale suburban places), and the timing (back to school, winter holidays) could be broken into 52 weeks, the number of decisions would be reduced to 2.6 million, which a modern computer model can optimize fairly easily. (For a discussion of a particularly powerful statistical technique used in sorting through many variables, see the sidebar "CHAID: Clustering by the Numbers.")

Best Buy is using clustering to move away from a standardized big-box strategy. It has revamped close to 300 of its 700 U.S. stores, introducing "customer-centric" formats to appeal to local shoppers. The company identified five representative types of customers. First, there's "Jill," a busy mother who is the chief buyer for her household and wants quick, personalized help navigating the world of technology. In Eden Prairie, Minnesota, the company designed a store that caters to the needs of this busy suburban moms segment. The company found that this group of previously untapped consumers offered the best opportunity for expansion in the region. To attract this group, the store has an uncluttered layout with wider aisles and warmer lighting, and technology-related toys for children. Personal shopping assistants educate technology neophytes about products, and there's more floor space allocated to household appliances. Although the store still serves other, more traditional electronics shoppers, the company hopes the store can boost its sales by attracting a set of local customers that have felt overwhelmed inside a Best Buy store.

Other stores are being designed around the remaining four types of customers and are based on local demand patterns. For example, there's "Buzz," a technology junkie who wants the latest gear for entertainment and gaming. Stores catering to Buzz have lots of interactive displays that allow shoppers to try out new equipment and media. Then there is "Barry," an affluent, time-pressed professional is looking for high-end equipment and personalized service. Stores tailored to his needs feature a store-within-a-store for pricey home-theater setups. Stores made with "Ray" in mind emphasize moderately priced merchandise with attractive financing plans and loyalty programs for the family man on a budget who wants technology that can enhance his home life. Finally, for small-business customers, there's a set of stores with specially trained staffs, extensive displays of office equipment, and mobile "Geek Squads" of service technicians.

While the chain plans to phase out these individual names beneath its banner, the terminology helped Best Buy crystallize the vision of each target customer for each cluster of stores.

By customizing stores in clusters, rather than individually, Best Buy has been able to maintain many of the scale economies that have long underpinned its success. So far, the new strategy is delivering strong results. The 85 Best Buy stores that had been localized as of early 2005 posted sales gains two times the company's average. Encouraged, the company is accelerating the conversion, with plans to change over all its U.S. stores in three years and localize outlets in other countries as well.

So how do you get started with clustering? Begin by collecting as many data as possible on key elements of your business for each store. (Use the exhibit "What, Where, and When Should We Localize?") If some information is missing or hard to get, don't wait for it to be collected. Use what's readily available to launch the analysis, recognizing that clustering always gets better over time. Use the data to develop clusters and identify customization opportunities. Then estimate the economics (including both sales and costs) of localizing the most promising elements of the customer offering-using as few clusters as possible. A clothing retailer, for example, might find that localized markdown policies offer attractive returns and that climate is the key variable influencing markdown decisions. Further analysis may determine that a small number of store clusters-three, say-will be sufficient to gain the optimum economic benefit. For merchandise mix, by contrast, the key variable might be customer lifestyle, which may require a dozen clusters to get the maximum payoff.

Diversity in the Product Line

As big retailers shift away from standardization, the ripple effects will reshape the entire consumer supply chain. Consumer goods companies will need to introduce more variations into their lines, collaborating closely with retailers to put the right products in the right places at the right times with the right pricing and promotion programs. Manufacturers in general have been slow to make this change. Although they conduct extensive consumer research to develop specialized products for unique segments, they have little confidence that rigid retailers will

What, Where, and When Should We Localize?

Many different elements of a company's business can be customized, separately or in combination. In consumer markets, a useful way to think about the elements is to arrange them into three categories: what's being sold ("offer"), where it's being sold ("location"), and when it's being sold ("time"). The table provides a generic overview of this organization.

WHAT: Offer Variables

- ❑ **Branding**
  - Store (banner names)
  - Product labels
    - Vendor brands
    - Proprietary (private brands)
- ❑ **Store formats**
  - Size and layout
  - Store design type
- ❑ **Merchandise space and assortment**
  - Division
  - Category
  - Department
  - Classification
  - Attributes
    - Style and flavor
    - Color
    - Size
  - Good/better/best range
  - Pack counts
  - Packaging design
- ❑ **Pricing**
  - Everyday low vs. high-low policies
  - Ranges
  - Points
  - Matching policies
- ❑ **Promotions**
  - Types
  - Temporary price reduction levels
  - In-store displays
  - Markdown policies
    - Frequency
    - Depth
- ❑ **Vendor policies**
  - Information sharing
  - Expense sharing
  - Product collaboration
- ❑ **Marketing programs**
  - Spending levels
  - Media mix
  - Major messages
- ❑ **Store service levels**
  - Store hours
  - Labor quality and schedules
  - Delivery policies
  - Checkout stations
  - Special services (e.g., delivery, repair)
- ❑ **Vendor services**
  - Direct store delivery
  - Replenishment and stocking
  - Customer education
- ❑ **Operating policies**
  - Inventory levels
  - Sourcing strategies
  - Shrink controls
  - Information Sharing

WHERE: Location Variables

- ❑ **Consumer characteristics**
  - Demand patterns
    - Store purchase
    - Area purchase
  - Geodemographics and attitudes
    - Population density
    - Age
    - Income
    - Marital Status
    - Ethnicity
    - Religion
    - Lifestyle segment
    - Psychographic
- ❑ **Special Demand Drivers**
  - School seasons
  - Hunting and fishing seasons
  - Activities and sights
    - Ski resorts
    - Beach towns
    - Athletic teams
    - Tourist attractions
    - Military bases
  - Special events
    - Cinco de Mayo
    - Pioneer Day
    - Religious holidays
  - Climate zone
    - Temperature
    - Precipitation
    - Potential weather events
- ❑ **Competitor Characteristics**
  - Store saturation levels
  - Market share
  - Store locations
  - Store formats
  - Pricing levels
  - Promotion policies
  - Marketing programs
- ❑ **Our Own Store Characteristics**
  - Our market share
  - Our store locations
    - Location characteristics
    - Site quality ratings
  - Our store formats
    - Sizes
    - Design types (models)
    - Condition
    - Square footage allocation
    - Special fixtures and displays
    - Merchandise placement zones
  - Stores of our sister divisions
    - Locations
    - Merchandise mix

WHEN: Time Variables

- ❑ Hour
- ❑ Day
- ❑ Week
- ❑ Month
- ❑ Season
- ❑ Year

CHAID: Clustering by the Numbers

One of many clustering techniques is called CHAID, short for chi-squared automatic interaction detection. A statistical classification method proposed by G.V. Kass in 1980, CHAID sorts items into groups that are statistically different with respect to criterion or outcome. For example, if we want to know what groupings are associated with store profitability, CHAID might show us that money-losing stores are in high-income neighborhoods with multiple competitors, while the most profitable stores are in rural areas and have the capacity to carry the full product assortment.

A significant benefit of CHAID is that it enables us to analyze the effects of characteristics in combination rather than independent from one another. For example, adding playgrounds to Burger King restaurants may have no impact on average but could be very profitable in suburban restaurants near high populations of young children and very unprofitable in downtown locations with expensive real estate and few children.

Let's demonstrate the process with a department store chain we'll call SuperStuff:

CHAID begins with a list of every store in the SuperStuff system and as much information as possible about each-including sales data by location, time, and item. There is no need to worry about entering too much information, since CHAID will highlight only the variables that create statistically significant differences.

We can then use CHAID to find the combinations of characteristics that best explain any variable we choose to explore. In the example "Assessing Store Profitability," we used CHAID to understand what drives EBIT margins (earnings before interest and taxes) among SuperStuff's 508 department stores.

CHAID begins, at the top, by showing us that the average EBIT margin is 4.2% for SuperStuff's entire population of stores.

CHAID then identifies the first differentiator of EBIT margins as the presence of at least one KillerMart in each SuperStuff store's trade area. The 198 SuperStuff stores with no nearby KillerMarts have an EBIT margin of 6.4%. The 310 SuperStuff stores near KillerMarts have an average EBIT margin of only 2.8%. Sensible, but not terribly surprising so far. The next steps are where CHAID proves most valuable.

For the 310 stores near a KillerMart, CHAID finds that household income levels drive significant profit differences. The 188 stores in neighborhoods with household incomes of more than $50,000 have average EBIT margins of 3.9%. The remaining 122 stores have margins of only 1.1%.

The data also enables CHAID to generate remodeling ideas. Of the 188 stores in higher-income neighborhoods near KillerMarts, the 113 that have allocated more than 50% of their square footage to apparel have EBIT margins of 5.3%. The 75 stores with less than 50% allocated to apparel have EBIT margins of only 1.8%. Apparently, plentiful apparel assortments in high-income areas can help SuperStuff to profitably compete against KillerMart's offering.

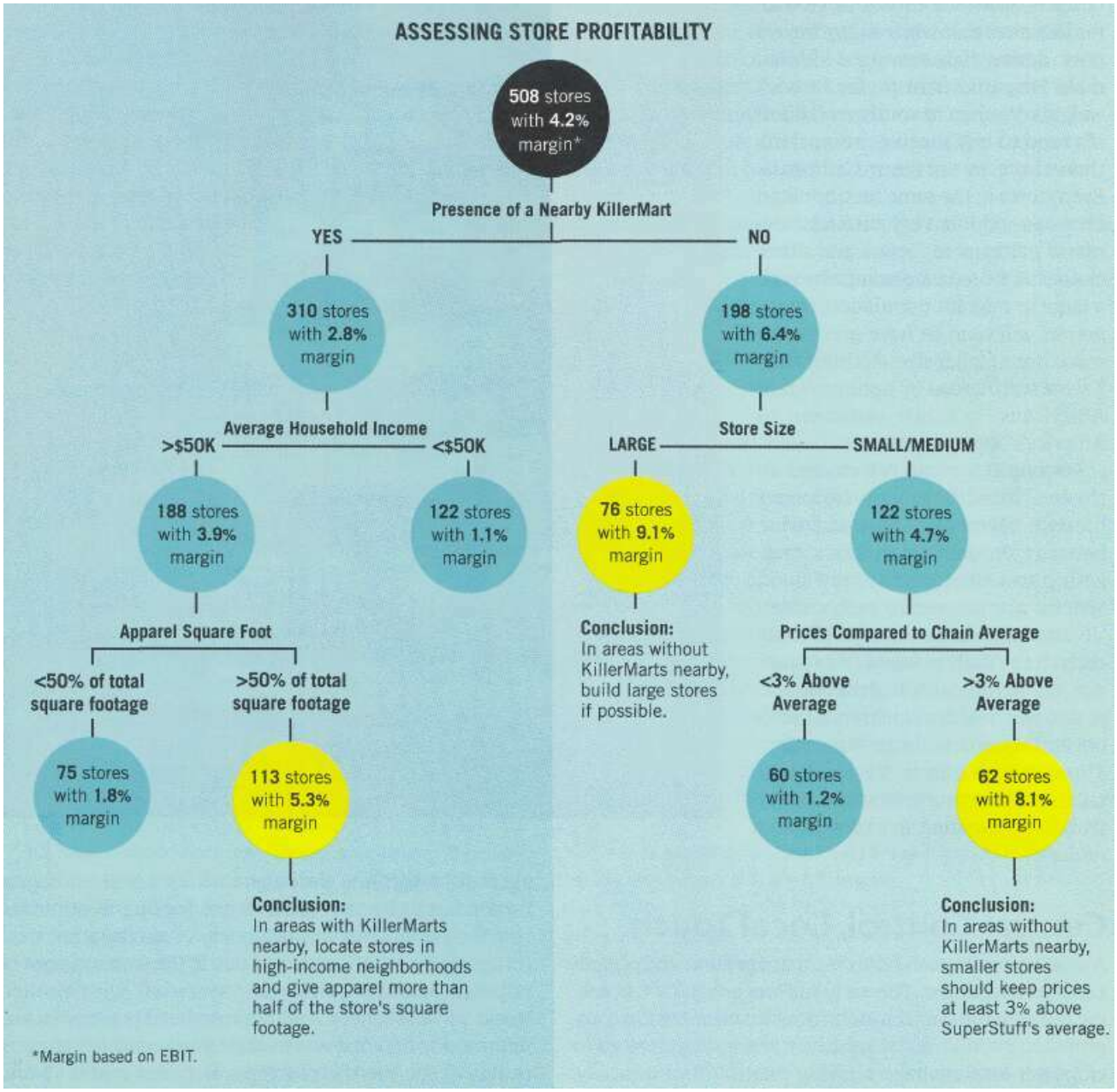
Jumping to the right-hand side of the CHAID tree, we learn about stores that don't face KillerMarts. In those areas, the 76 large-format stores have an average EBIT margin of 9.1%, almost twice as much as the 122 small or midsize stores, which have a margin of only 4.7%. Furthermore, the 60 small or midsize stores that priced an average market basket of groceries less than 3% above SuperStuff's overall average had an EBIT margin of only 1.2%. However, the 62 small or midsize stores with prices more than 3% above SuperStuff's average have a margin of 8.1%-almost seven times more than the 60 stores pricing less than 3% above the average. It seems that small or midsize stores may do better by raising prices in less competitive markets.

While CHAID certainly doesn't provide all the answers, it can help to surface testable hypotheses such as the following:

- When opening new stores, avoid locations near KillerMarts.
- If there is a KillerMart in the area (or one coming soon), position stores in the highest-income neighborhoods.
- When remodeling stores, especially those near KillerMarts, consider allocating more than 50% of the floor space to apparel.
- Smaller stores in areas without KillerMarts should test price increases.

sort, merchandise, and market custom products to the right customer clusters. Products developed for senior citizens will pile up in college communities-slowing inventory turns, forcing costly markdowns, and often leading retailers to drop potentially profitable niche products.

Nevertheless, as growing numbers of retailers are rolling out their own versions of Wal-Mart's Retail Link-including Lowe's (LowesLink) and Target (Partners Online) - a handful of consumer product companies are seizing the advantage by learning to localize. When one food company introduced low-calorie versions of some of its snack foods, it shipped additional cases to stores near Weight Watchers clinics. Cadbury added kiwi-filled chocolate Cadbury Kiwi Royale in New Zealand. Kraft developed Post's Fiesta Fruity Pebbles ready-to-eat cereal especially for Hispanics. Coca-Cola has developed four canned, ready-to-drink coffees for Japan, each formulated for a specific region. Procter & Gamble introduced Curry Prin-



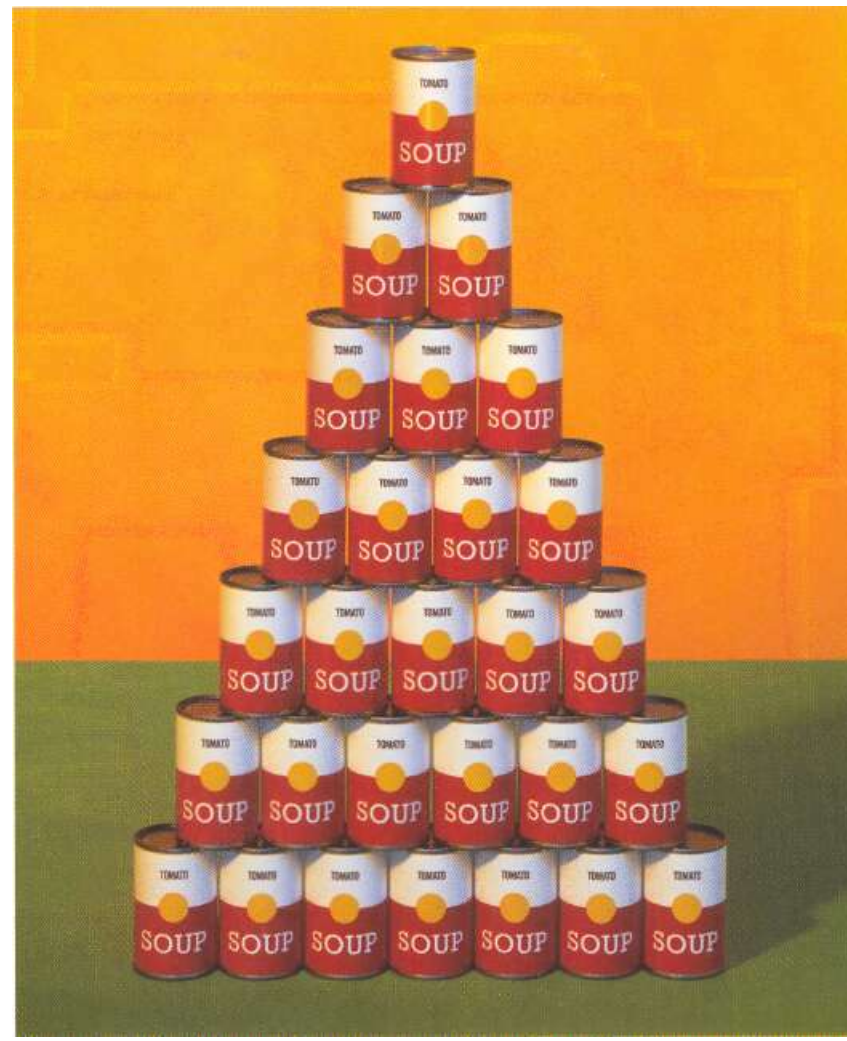
gles in England and, later, Spanish Salsa flavor in England and other parts of Europe and Funky Soy Sauce Pringles in Asia. Frito-Lay developed Nori Seaweed Lay's potato chips for Thailand and A la Turca corn chips with poppy seeds and a dried tomato flavor for Turkey.

One of the leading localizers is consumer products giant VF, a $6 billion apparel maker that owns such popular jeans brands as Lee and Wrangler as well as upscale labels including Nautica and North Face. VF integrates many data sources to identify customization opportunities - to the delight of retailers and consumers. "It is not unusual for localization to improve sales by 40% to 50% while simultaneously reducing store inventories and markdowns," says Boyd Rogers, VF's president for supply chain. "We consider our localization capabilities to be one of our most powerful competitive advantages."

VF combines third-party geodemographic and lifestyle data with daily store-level sales data, extensive consumer

research, and competitor analysis to develop localization strategies with retailers, such as Kohl's. VF has found, for instance, that while many buyers now desire lighter-weight denim, male Hispanics still prefer heavier weights. Women in southern California tend to buy shorter denim skirts than those in northern California. Even stores in the same metropolitan area can exhibit very different demand patterns for jeans and other clothes. A store in a community with a large immigrant population, for example, will tend to have greater demand for smaller-size clothing than a store surrounded by nonimmigrant Americans - a subtle testament to America's obesity problem.

For one U.S. chain, VF created 40 clusters, based largely on consumer lifestyle segments and purchasing patterns. Product assortments, marketing strategies, and supply chain systems are tailored to each cluster. VF uses rapid data exchanges to study each store's daily point-of-sales data- not just to replenish shelves but also to discover new demand trends in colors and styles and foster innovation. Through such efforts, VF and its retailers are boosting sales substantially while also avoiding markdowns and returns.



Central Control, Local Touch

A shift to localization raises big management and organizational challenges. The early movers are, in fact, breaking through the old "centralization/decentralization compromise."But it's tricky. Executives'first instinct is often to empower local managers, giving them control over, say, the selection of products on store shelves or major promotional programs.

Such decentralization often backfires, for two simple reasons. First, local managers lack the depth of data, and often the skill, to make consistently smart decisions about buying, merchandising, and operations. Second, giving local managers too much leeway can introduce costly complexity and inconsistency into a business. Indeed, our research found that large manufacturers are less willing to collaborate with, or offer their best terms to, highly decentralized retailers.

J.C. Penney discovered this the hard way in the late 1990s, when it ran into problems by allowing store managers to determine order quantities. Local managers turned out to be too conservative. Seeking to minimize risk, they would buy a wide variety of goods rather than concentrate on hot items. As a result, the stores ran out of popular products quickly and were left with swollen stocks of slow sellers. And because headquarters lacked information on what was in each store, central managers couldn't even see the problems. Between mid-1998 and the end of 2000, Penney's stock price plummeted from $54 to $8.

Then, in 2000, Penney's embarked on a successful turnaround program under the direction of its then-new CEO, Allen Questrom. Penney's went from a decentralized company whose buying and markdown decisions were made at the stores to a centralized, data-driven organization. The management team classified stores into seven clusters on the basis of size and customer demand patterns, developed merchandise and fixture modules, and consolidated purchase orders. It also developed demand-based optimization techniques - allowing product and price ranges, replenishment policies, as well as the timing

and depth of markdowns to be tailored to store clusters. Over the next five years, Penney's stock price more than tripled. Comparable department store sales (sales of stores open for 12 consecutive months), having eroded 2.3% in 2000, rose 3.4% in 2001 and 5% in 2004.

As Penney's discovered, efficient localization requires that most decisions be coordinated centrally, by managers with a broad view of demand patterns and sufficient store-level data to distinguish real insights from random noise. To support headquarters decision makers, leading retailers are building sophisticated information systems that draw from many sources - census and other demographic research; data from store scanners and loyalty cards; consumer surveys and unsolicited comments; Internet sales data; data from third-party syndicators like AC-Nielsen; and intelligence on competitors. Local managers and personnel are also critical sources of information - often picking up signals that computerized systems can't see. When Wal-Mart, for example, introduced kosher food to its store in Berryville, Arkansas, it was acting on a recommendation from the store manager. The company's other data sources had not uncovered the nearby Jewish community.

Central coordination is also essential to forging close relationships between retailers and product suppliers. Product manufacturers have deep knowledge about how

Extreme Localization

While localizers typically customize 5%-25% of a standardized format, extreme localizers are developing a range of new-but closely related-shopping formats to give targeted customers more convenient purchasing options. This is not conventional segment-based expansion, where retailers build portfolios of brands to serve different sets of customers (think Talbots for women, Talbots for men, and Talbots for kids). Rather, this is sophisticated localization based on insights into three emerging trends in consumer markets:

>> TREND: **Consumer purchasing patterns vary not just by segment but also by purchase occasion.**
Cross shopping is increasing. The same consumers who buy their computers at a big-box electronics store are heading to a neighborhood electronics shop to pick up one-off peripherals (accessories such as mice, printer cartridges, and cables). By way of response, Best Buy is turning insights from its customer-centric stores into new store formats that draw targeted segments of customers who don't always want to slog through the big box. They are testing out smaller, more convenient stand-alone formats with the launch of Geek Squad stores; Escape, a store that provides 25-to 29-year-old technology buffs a place to hang out; and Studio D, a cozy, neighborhood technology store for the suburban mom who stocks up for the family at Best Buy's large formats but fills her personal technology needs closer to home.

>> TREND: **Technological advances allow for more meaningful sharing of customer knowledge and supply costs when chain stores are selling the same items through multiple formats.**
By capitalizing on common information systems, supply chain logistics, and purchasing processes, Tesco has embarked on extreme localization in the grocery sector-and is increasing margins and service levels in the process. Through its loyalty cards, Tesco sees what, where, and when customers buy across the full range of store formats. On the basis of that knowledge, Tesco has built five specialized food formats in the UK: Tesco Superstore, a traditional grocery store for weekly suburban shopping; Tesco Extra, a one-stop hypermarket for large shopping trips; Tesco Metro, a smaller supermarket for customers in high-density urban areas; Tesco Express, a tiny convenience store tailored to quick trips in local neighborhoods; and Tesco.com for Web shoppers. Each of these formats is, of course, clustered and localized to meet specific needs. Metro stores, for example, often provide sandwiches at lunchtime, then create prepared meals for customers to pick up on their way home for dinner.

>> TREND: **Multiformat customers are generating higher profits and deeper behavioral insights.**
Bain's research shows that multiformat customers-those, for example, that buy from a chain's superstore, catalog, Web site, and neighborhood store-typically spend two to six times as much with a retailer as single-format customers do. Each positive experience builds scale and loyalty, making customers more profitable to the retailer and less likely to be seduced by competitors at vulnerable decision points. Additional sales generate additional insights into consumer behaviors under a wide variety of shopping conditions. They provide greater opportunities to test innovative approaches.

Small-scale retailers used to count on local knowledge and scarce real estate to protect them from the big boys. But those barriers are crumbling as sophisticated chains stretch information technology and creative formats. Extreme localization pioneers are building powerful platforms for innovation. Better yet, they are finding space for new growth in crowded landscapes and improving their economics and customer loyalty in the process.

The era of STANDARDIZATION is ending. Consumer communities are growing more DIVERSE-in ethnicity, wealth, lifestyle, and values.

goods sell across all stores in a region. Retailers have equally deep knowledge about how products sell across their networks of stores. Combining those two troves of information allows for a much more comprehensive understanding of both local demand patterns and the way they may cluster across regions.

Leading from the center does not mean that local managers become unthinking robots. In fact, by centralizing data-intensive and scale-sensitive functions such as store design, merchandise assorting, buying, and supply chain management, localization liberates store personnel to do what they do best: Test innovative solutions to local challenges, engage with store guests, and forge strong bonds with their communities. Wal-Mart's store managers are legendary for highlighting hot items and responding to local pricing challenges. Best Buy encourages store employees to create and test hypotheses and share what they have learned throughout the chain. One Best Buy employee recently hypothesized that she could raise store sales by making iPods easier to find. She moved a display to the front of the store, created a shirt that said, "iPods here," and raised the store's sales ranking from 24Oth to 69th. 7-Eleven knows that corporate headquarters could never predict a busload of football players arriving on a Friday night, but the store manager can. Combining the efficiencies of a national chain with the entrepreneurial touches of a mom-and-pop convenience store, 7-Eleven has created a system that it calls "centrally decentralized."

Mining the Internet

Many retailers have opened online stores to complement their traditional outlets. But the Web is not just a sales channel; it's also a powerful means of collecting data on variations in local demand. Because online stores can offer extensive ranges of products to national, or even global, customer bases, they can track consumer demand patterns much more broadly and precisely than physical stores can. In a traditional store, after all, you never know what the demand might have been for a product you don't have on the shelves. Online stores use centralized merchandise pools to avoid local stockouts, and excess demand can often be back-ordered for future delivery. By carefully tracking the home addresses of online buyers as well as the products they're buying (or avoiding), chains that maintain Internet stores can use online sales data to inform decisions about what merchandise to stock in which store. And because the online data can be collected in real time, shifts in physical stores' merchandise mixes can be made quickly to respond to spikes in local demand.

A World of Difference

Localization isn't free. The shift requires greater investment in data collection and analysis. And however sophisticated the clustering effort, some economies of scale will need to be sacrificed-in purchasing, marketing, manufacturing, and store construction. Most companies will want to focus their initial efforts on areas offering the greatest and quickest return. For example, the investment is typically lower and the payback faster on localizing markdowns (typically less than one year) than localizing base prices (often two years or more). But as localization skills grow, so do localization opportunities. The systems, data, and organizational processes that first enable a company's leap to localized markdown strategies greatly ease subsequent steps to the localization of pricing, promotion, and marketing programs. (For examples of retailers pushing the frontiers of localization, see the sidebar "Extreme Localization.")

Ultimately, all companies serving consumers will face the challenge of local customization. It's often been assumed that globalization implies ever-greater homogenization of businesses and their products and services. The world, in this view, will be packed with indistinguishable big boxes selling the same goods and services to everyone. But a look at the emerging localization strategies of the leading companies in consumer markets-companies that once shunned customization but now embrace it-reveals how mistaken this assumption is. We are advancing to a world where the strategies of the most successful businesses will be as diverse as the communities they serve.

Fonte: Harvard Business Review, v. 84, n. 4, p. 82-92, Apr. 2006.