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Economist

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Unit

Canback

MANAGEMENT
CONSULTING
THROUGH
SCIENCE

UNDERSTANDING MARKET EVOLUTION

Introduction to J-curves

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EIU Canback is an elite management consulting firm anchored in science, predictive analytics, and consumer market knowledge.

We serve clients through five practices: Strategy, Growth, M&A Due Diligence, Corporate Finance, and Organizational Performance.

We operate globally with the world's largest companies as clients. This has taken us to 82 countries since our founding in 2004.

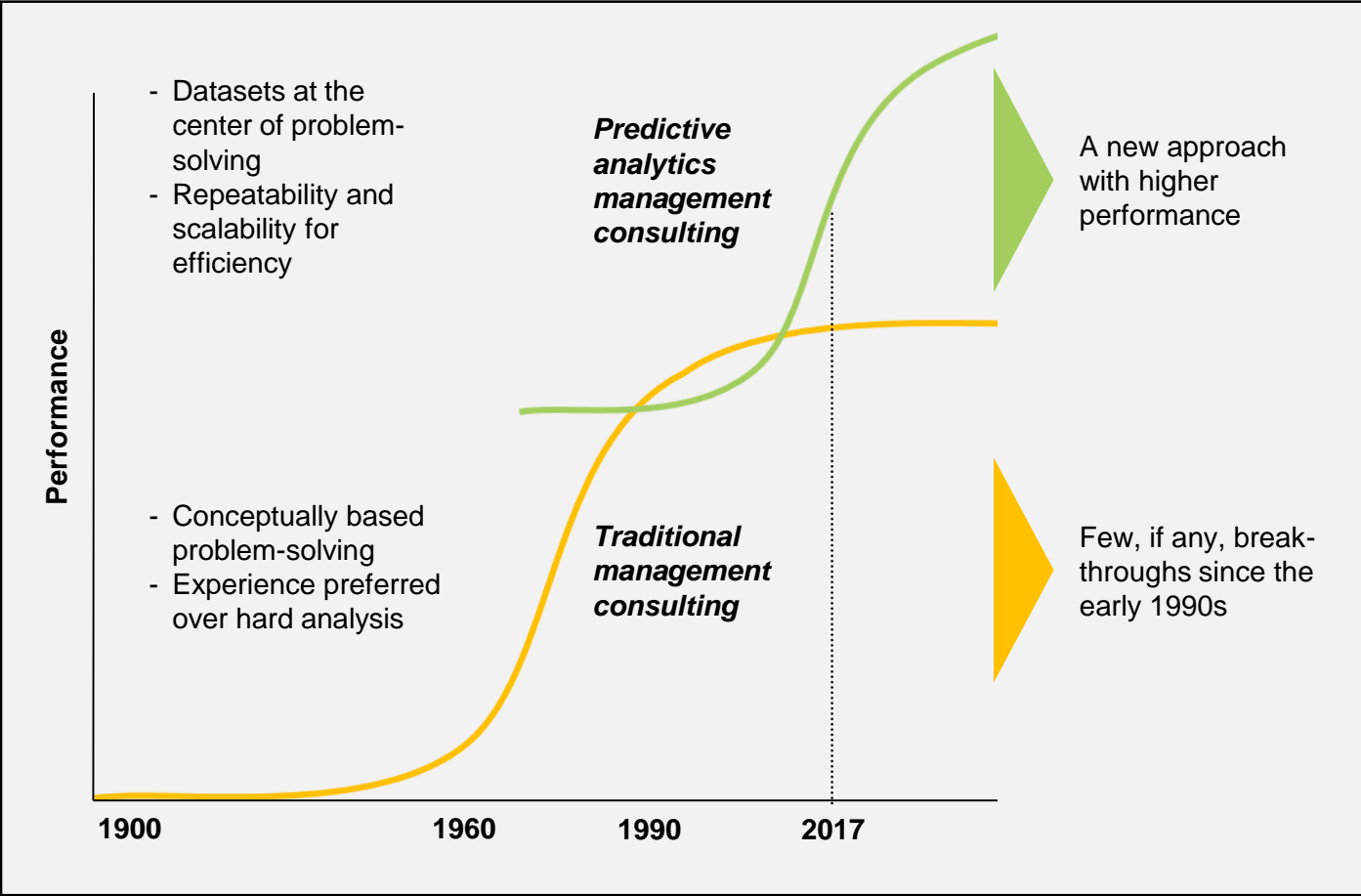
We also offer analytic services with the Canback Global Income Distribution Database (C-GIDD) as our cardinal product.

EIU Canback has been a subsidiary of The Economist Group since 2015.



Canback is the leader in management consulting based on predictive analytics, which brings better results to client organizations

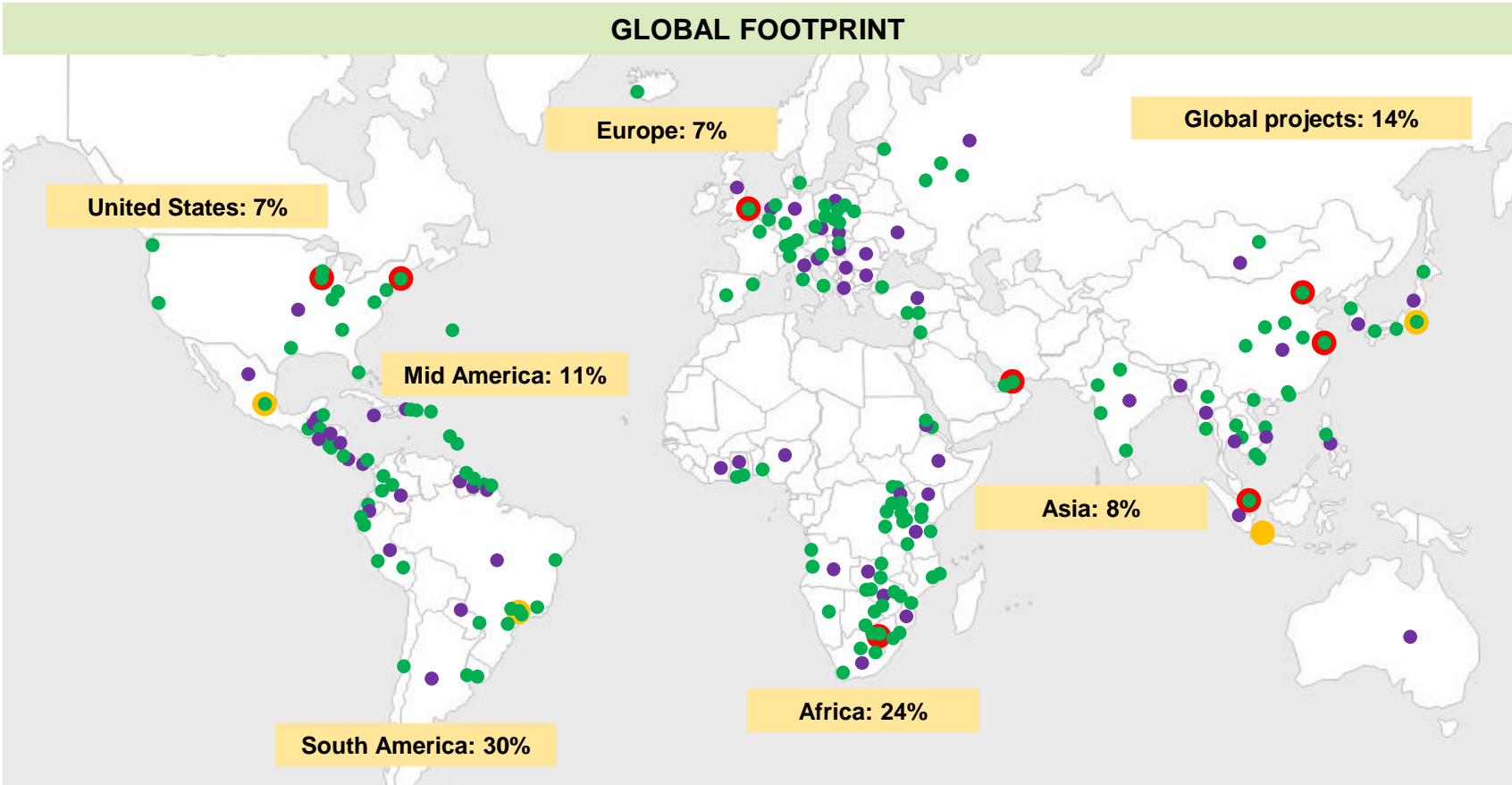
MANAGEMENT CONSULTING INDUSTRY S-CURVE



“The future is already here, it is just unevenly distributed”



Canback has worked on the ground in 82, helping clients draw reliable, fact-based conclusions through data-driven analyses



- Core office
- Satellite office
- Country projects
- Consultants' work travel



This presentation introduces the J-curve concept: How industries move from an artisan stage, to mass production, to homogeneity and finally to a premiumization stage where consumers value choice and quality over low prices

Many companies fail to see the inflection point where cost efficiency and functional benefits are transcended by emotional appeal and new consumer benefits

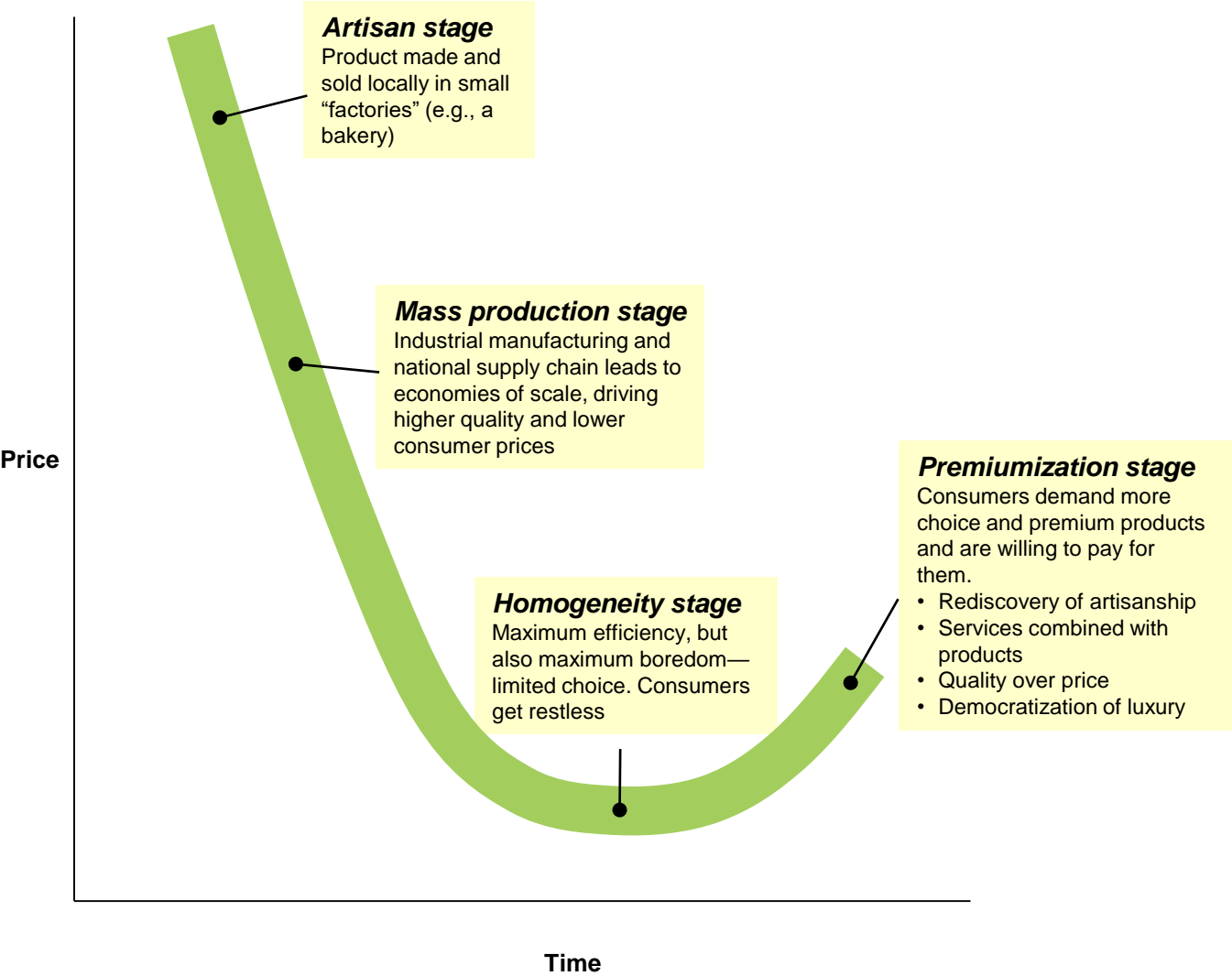
The J-curve framework is integrated with the Golder-Tellis model, which quantifies demand drivers, and the Furst framework, which provides an understanding of the consumer mindset, resulting in a complete framework for determining marketing strategy

Applying rigorous statistical techniques to this framework allows for a fact-based discussion around a concept that most would agree with, but few can measure



The J-curve is used to explain the evolution of an industry over time

J-CURVE CONCEPTUAL FRAMEWORK





The concept of the J-curve can be applied to the automobile industry's progression

J-CURVE APPLIED TO AUTOMOBILE INDUSTRY

Artisan stage

- The first gas-powered automobile was built in the mid 1880s by Karl Benz and had only three wheels



Mass production stage

- Henry Ford makes cars accessible to the American public
- Used assembly line production technique and simplified offerings



"If I had asked people what they wanted, they would have said faster horses."
—Attributed to Henry Ford

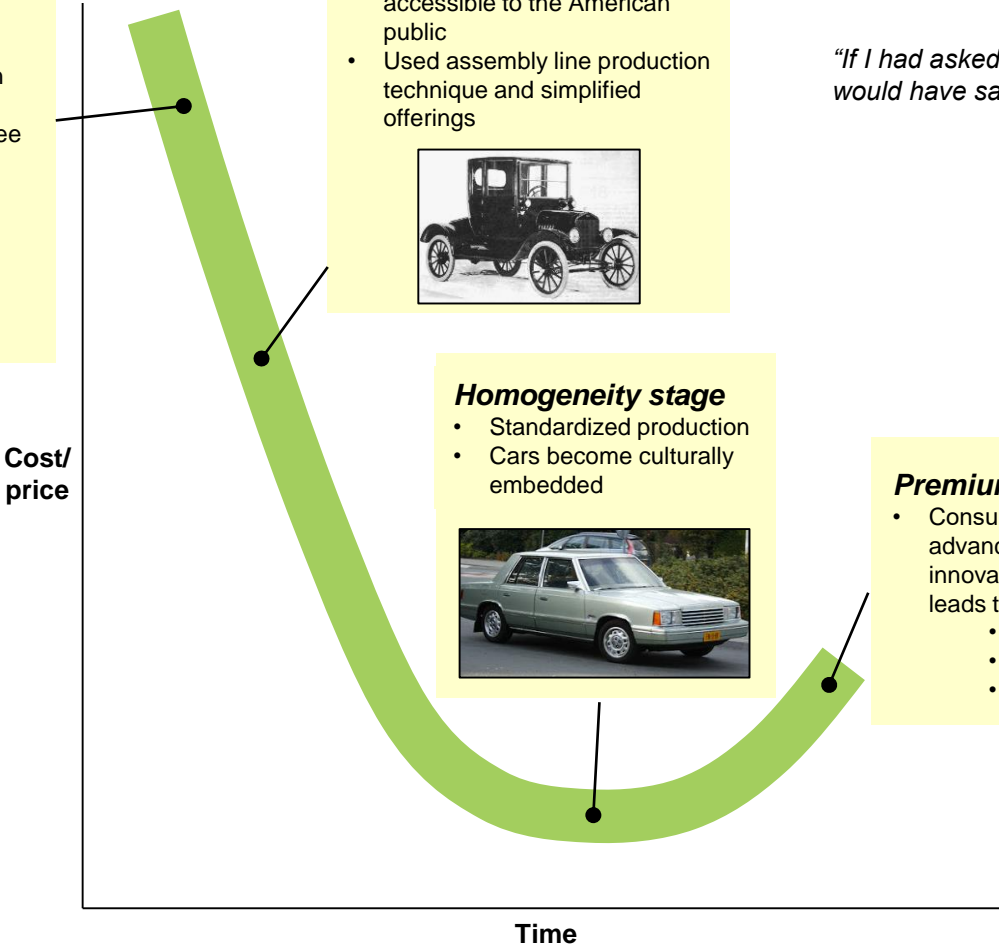
Homogeneity stage

- Standardized production
- Cars become culturally embedded



Premiumization stage

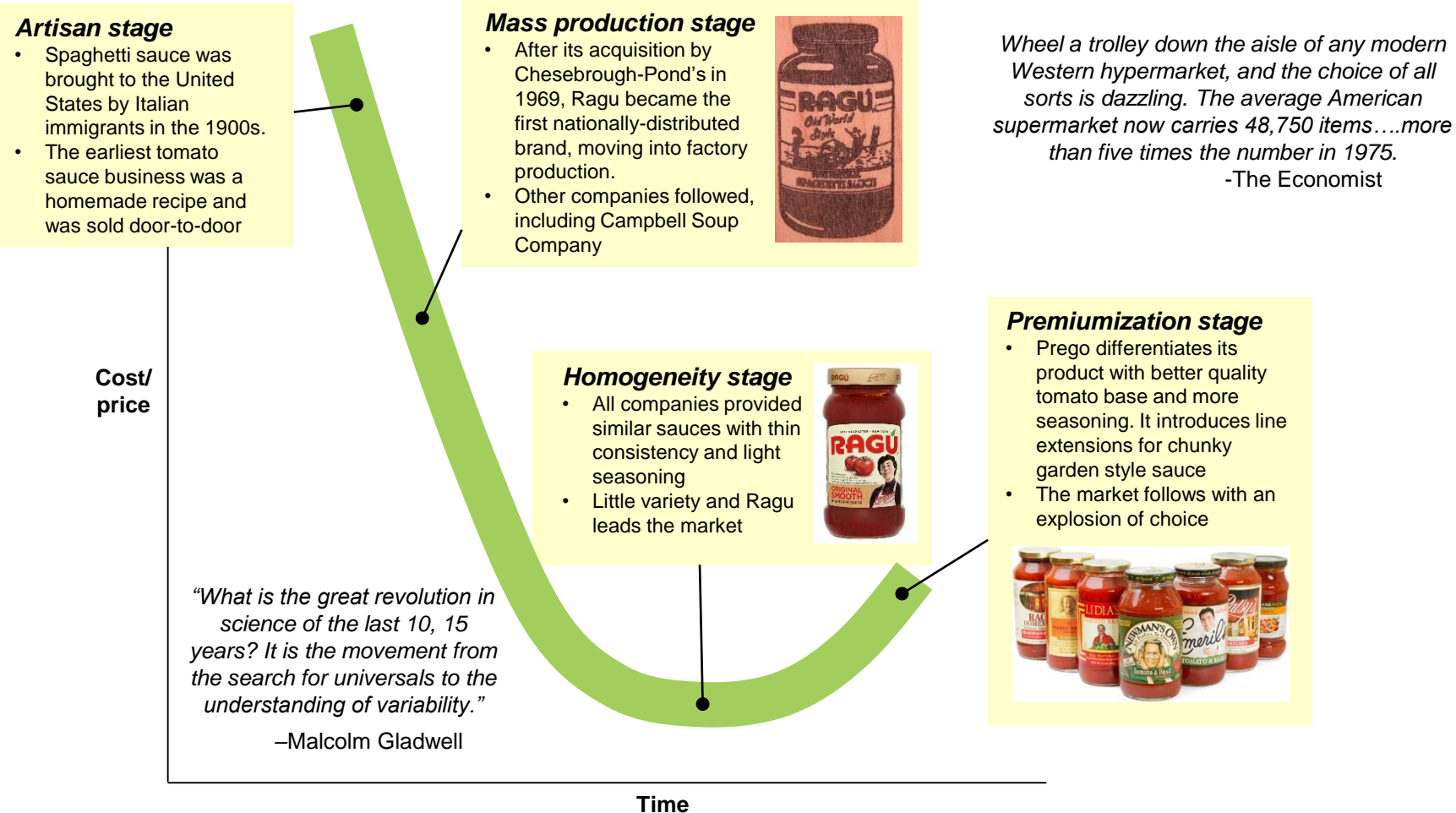
- Consumers' demand for advanced offering and innovations in technology leads to new trends:
 - Premiumization
 - Individualism
 - Authenticity





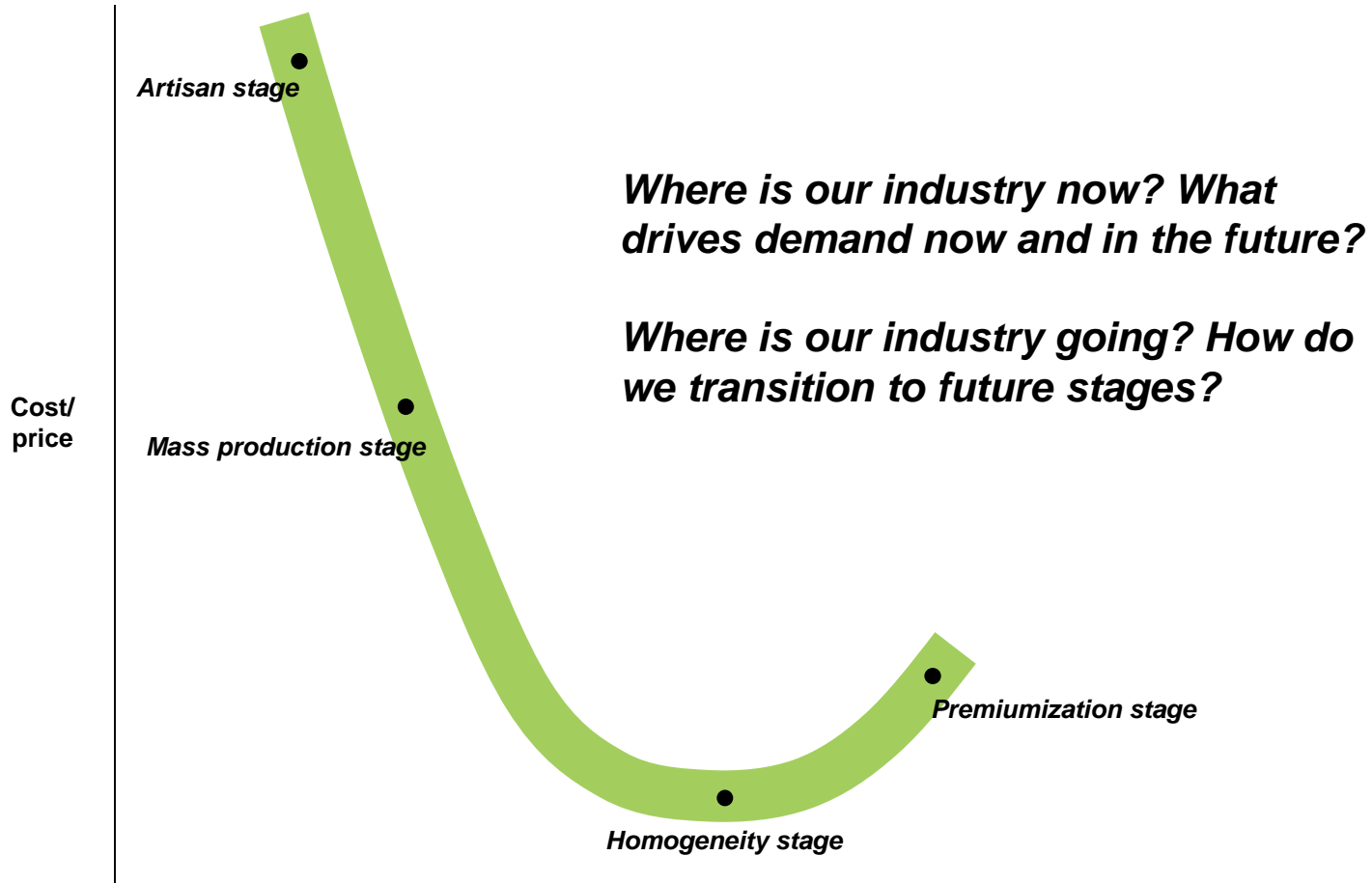
The progression of the spaghetti sauce market can also be explained by the J-curve

J-CURVE APPLIED TO US SPAGHETTI SAUCE MARKET





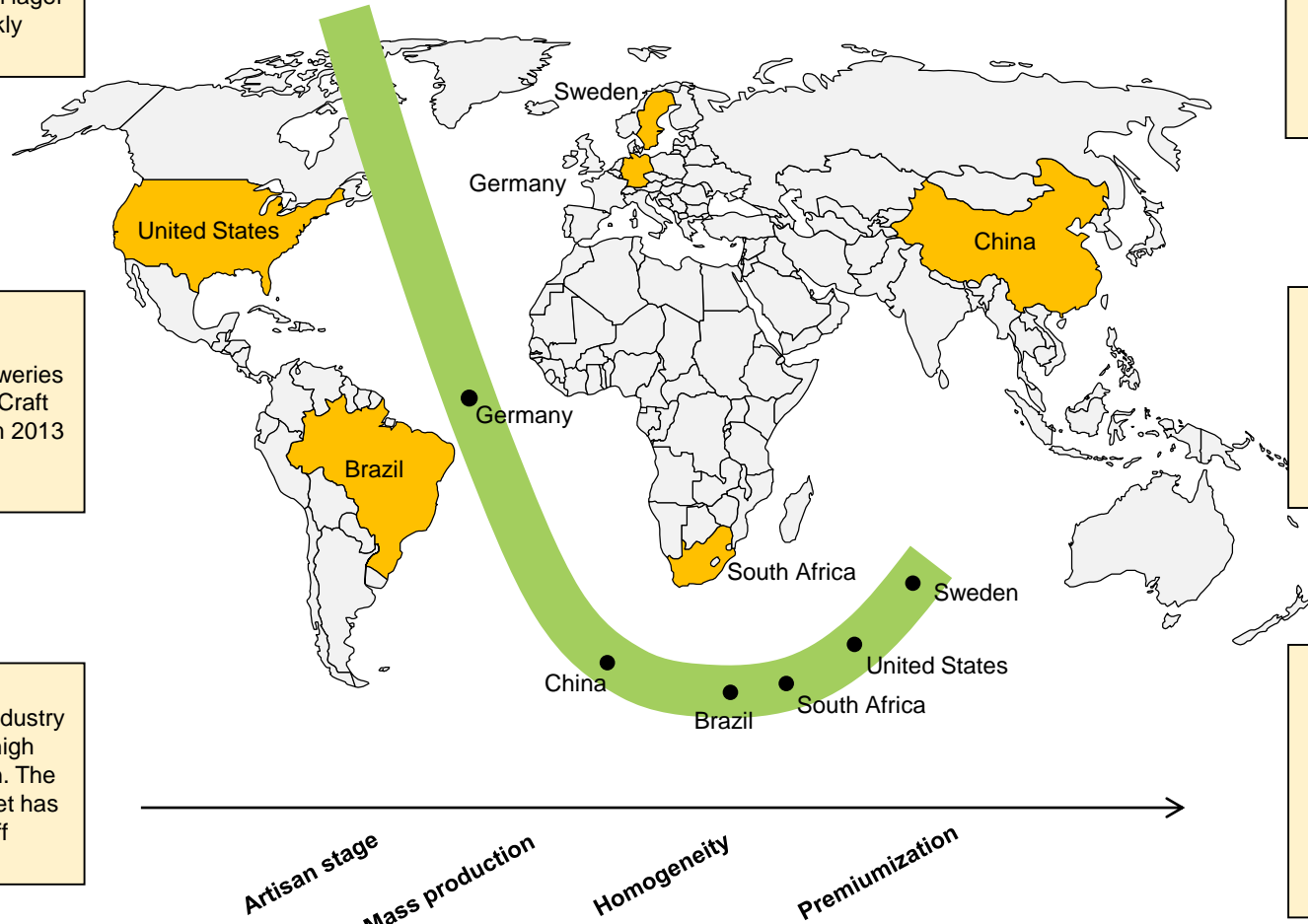
WHAT DOES THE J-CURVE MEAN FOR OUR BUSINESS?





Where are we now? The J-curve shows that the stage of development for markets varies globally. Innovation should be aligned with each country's stage of development

BEER INDUSTRY STAGE BY COUNTRY



60% of Sweden's beer market is premium and highly fragmented, while demand for industrial lager is declining quickly

Germany's family businesses are struggling due to high costs relative to the industry

"You can't grow here unless you lower prices..."
-Josef Schraedler, Weihenstephaner

Over 3,000 craft breweries operate in the US. Craft sales grew 17% from 2013

"The boom in China's beer market is thanks to a number of macroeconomic and demographic factors"
-Euromonitor analyst

The Brazilian beer industry is booming, with high overall consumption. The premium beer market has not yet taken off

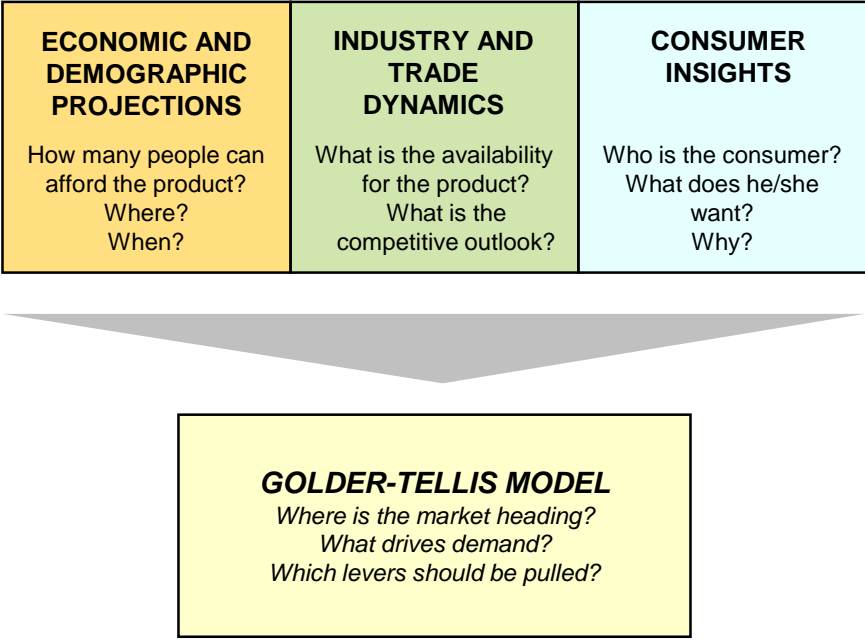
"South Africa is lager country"
-Adam Wakefield, BD Live

South Africa's beer market is experiencing high growth. The microbrewery movement is just starting to emerge



How do we quantify strategies within the J-Curve framework?

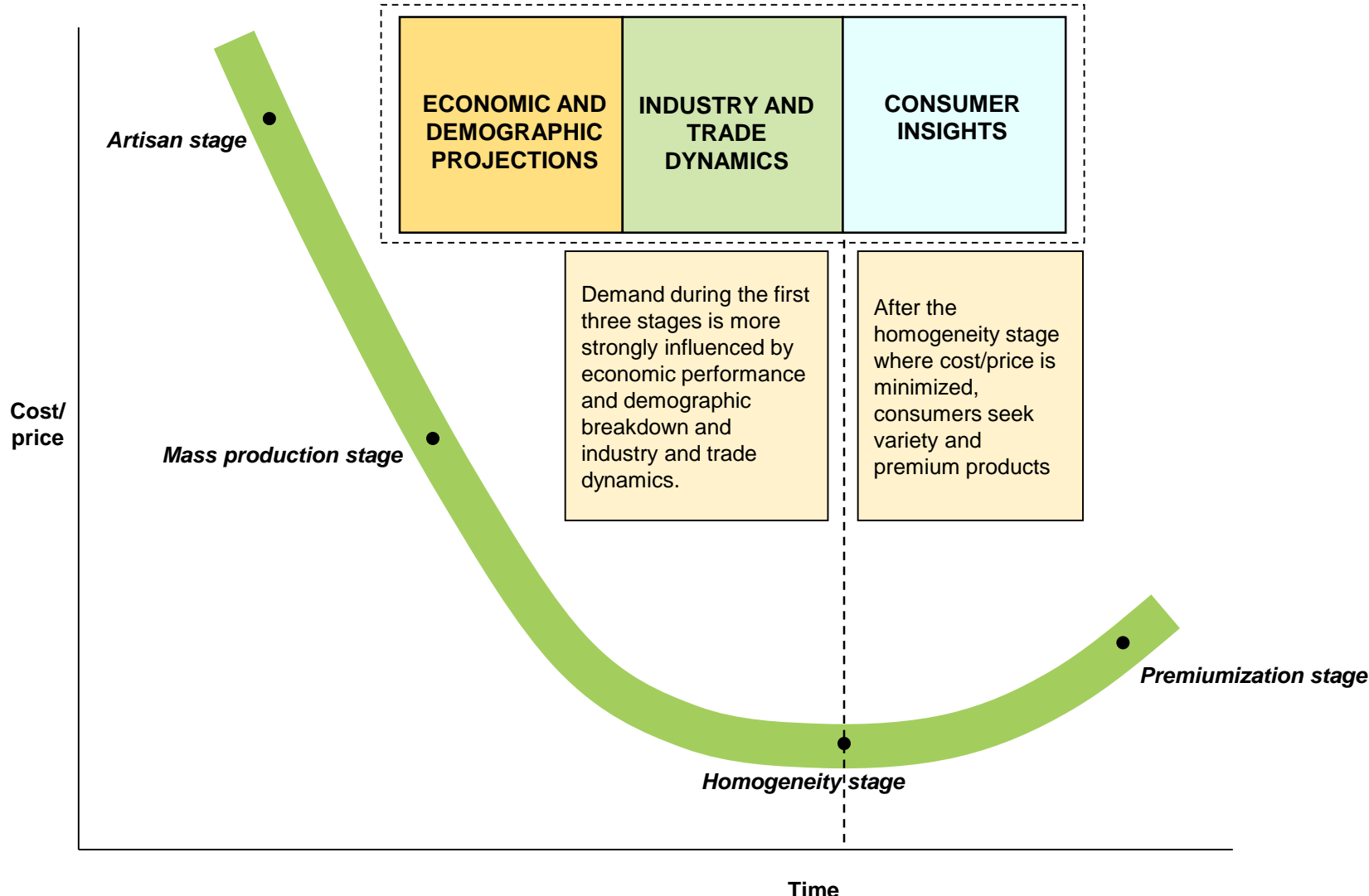
EIU Canback’s approach integrates the three knowledge domains—economic and demographic projections, industry and trade dynamics, and consumer insights—into the Golder-Tellis model to understand category, brand, and product behavior



$$\text{demand} = \text{income}^{\beta_1} \cdot \text{price}^{\beta_2} \cdot \text{market presence}^{\beta_3} \cdot \text{marketing spending}^{\beta_4} \cdot \text{consumer insight}^{\beta_5} \cdot e^{\tau}$$

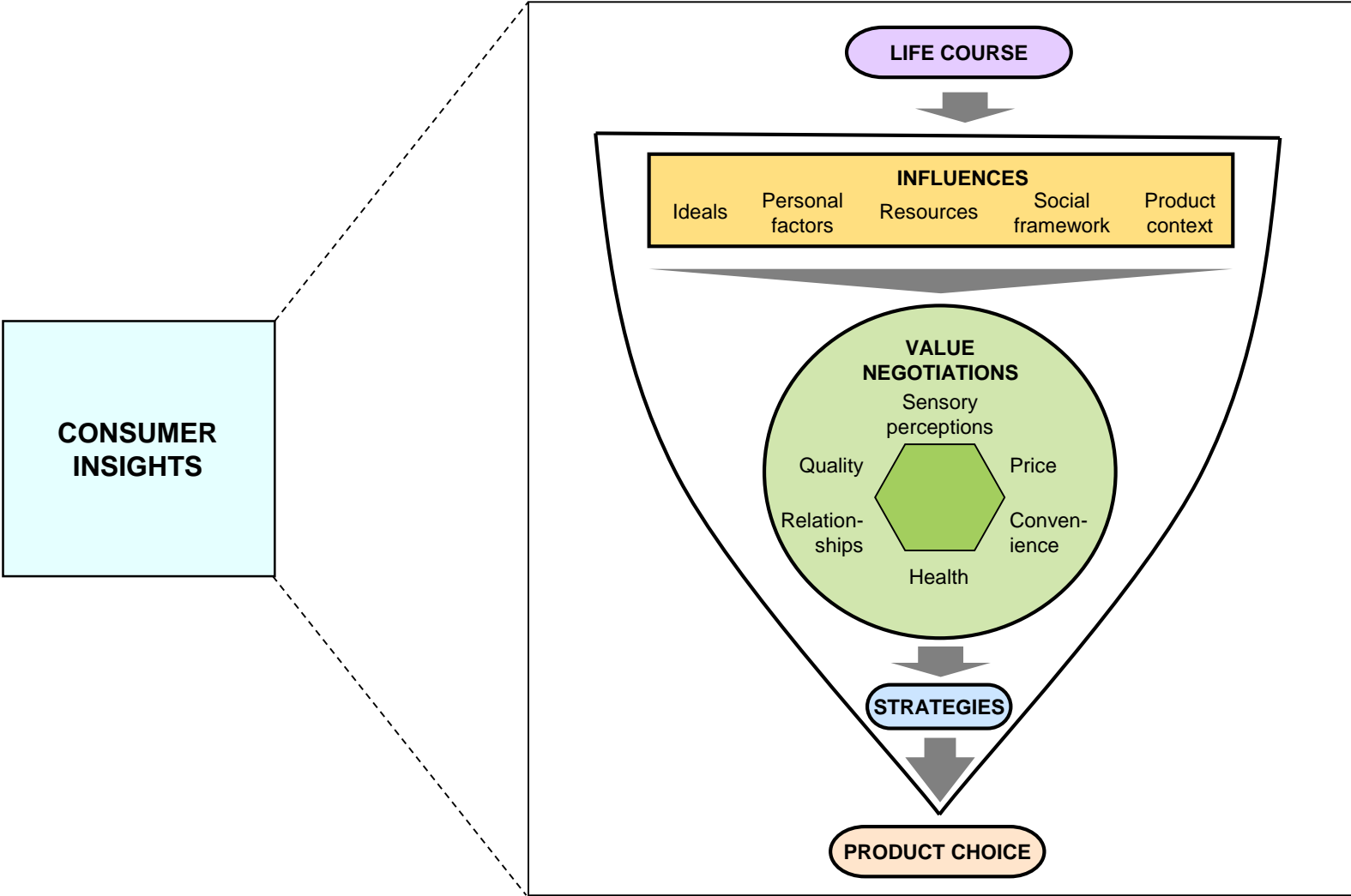


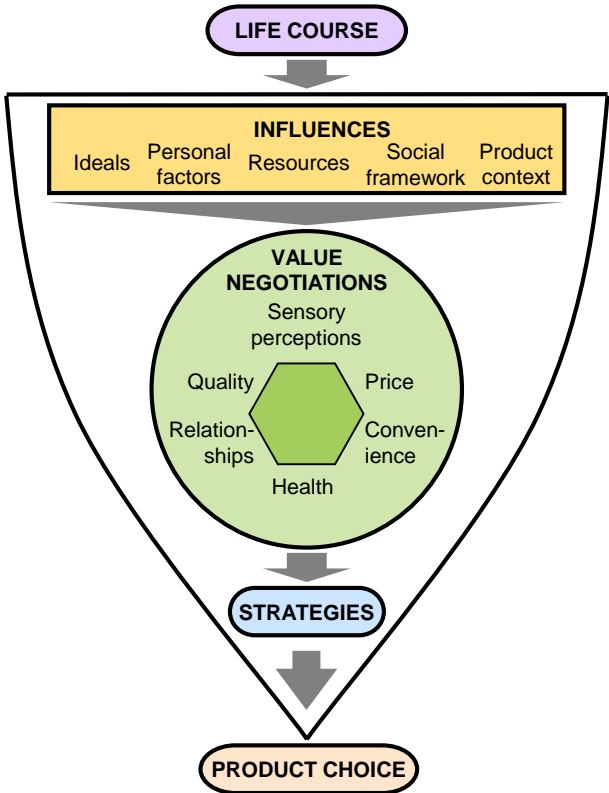
Where are we going in the future? Applying the Golder-Tellis model to the J-curve illustrates the main drivers for each industry stage





Tanis Furst's method for quantifying consumer choice identifies key influences in a structure that can be applied to all consumer products after the homogeneity stage



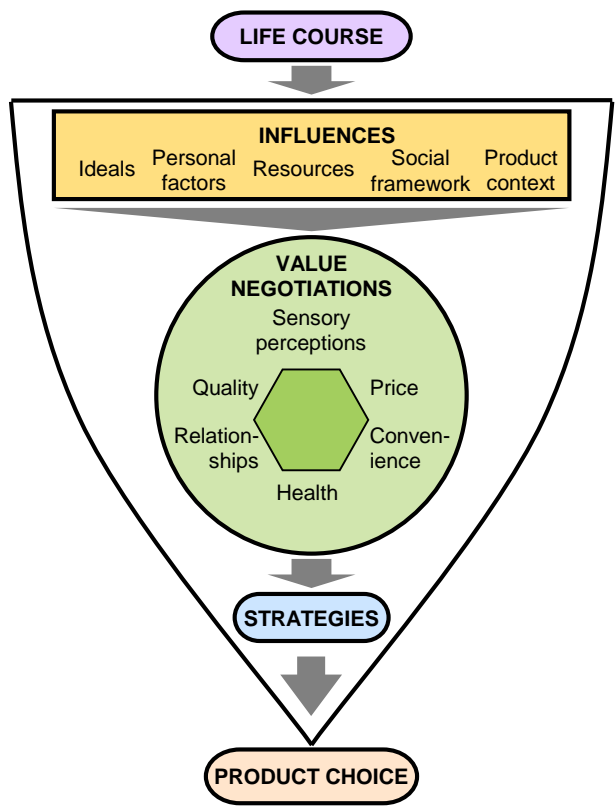


CHOOSING BETWEEN PROCESS AND NATURAL CHEESE

	PROCESS CHEESE	NATURAL CHEESE
Life course	I grew up with it	I grew up with natural cheese
Ideals	Just perfect for a cheese burger	Looks like real cheese
Social framework	Traditional food, not much changed over the past generation	Signal of modern person
Product context (store layout)	Lower shelves, 40% of space	Eye-level, 60% of space (although <1/3 of market)
Sensory perceptions	Predominantly American, mild cheese	Many flavors
Price	Inexpensive	Not expensive, and worth the money
Convenience	Lasts longer in individual wrapping	Large volume consumers don't need longevity
Health	It is not real cheese, Plenty of calcium	Real cheese, not all that healthy, but high in calcium
Quality (traceability)	Untraceable	Wisconsin, Vermont



The Furst model can be applied with consumer respondent surveys to model choice and gain quantitative insight on consumer preferences



9 – What were your reasons for consumption during this occasion?
 (Max 3 answers allowed) (Enter the code from section 9)

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100513	.946648	1.363469	The curi	Withdraw	Rural ve	Rural		No

	RS3 - Respondent's gender	
	Male	Female
Out of habit	867	249
To relax	640	222
To reward myself	149	101
To forget my day	36	19
To have a break	180	39
To keep energy up	57	21
To start on an evenin	55	34
To finish off the eve	87	26
Just as a pastime	98	27
To match with the cro	45	32
To feel me fashionabl	21	5
To stand out from the	10	5
To have fun	129	46
To stay with other pe	518	220
To celebrate	72	37
To accompany a meal	1,833	767
To quench my thirst	401	117
To get refreshed	117	24
To digest	59	31

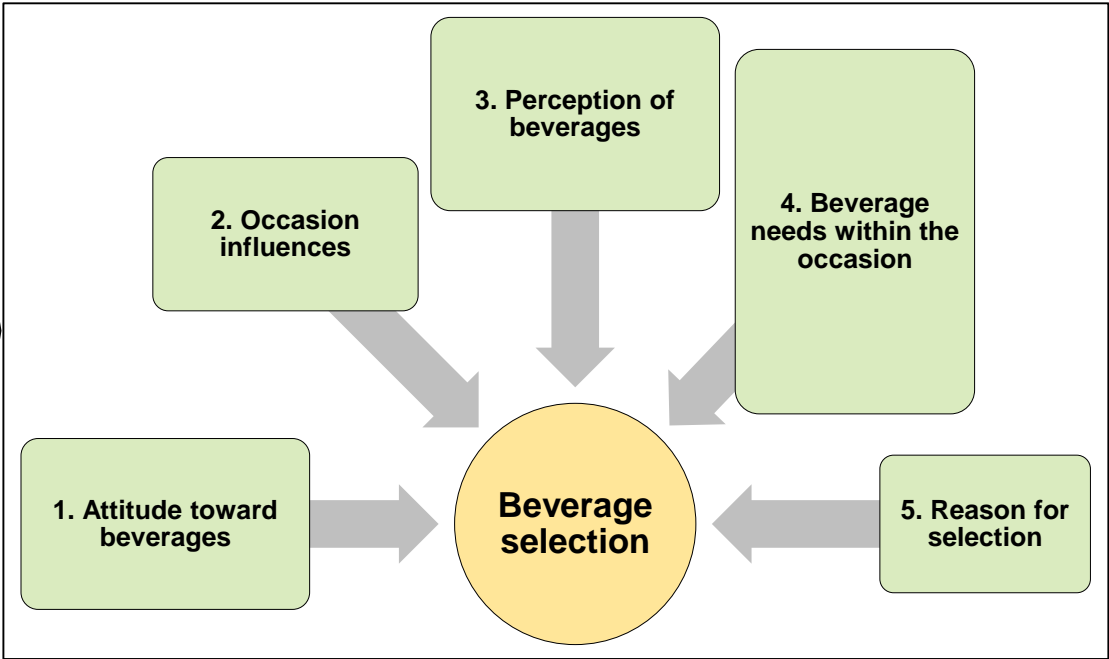
Survey data is collected using a standard questionnaire. The results can be analyzed using statistical software such as STATA®. This survey collected data on beverage use and preferences of 8,480 Italian consumers. The questionnaire was composed of around 300 questions

One example of the application of the Furst framework with surveys is the consumer response model, a simplified form of the Furst framework applied to beverage demand. It quantifies the factors that are related to category or brand selection



CONSUMER RESPONSE MODEL

- METHODOLOGY**
- 1) Beverage selection is the independent variable
 - 2) Analyze only the entries in which beverage was available
 - 3) Control for sex, SEL and age
 - 4) Use logistic regression to determine survey question significance by segment
 - 5) Each of these significant questions is scored based on its contribution to the consumer selecting beverage



- Attitude toward beverages (in general, in life)
- Occasion influences (surroundings)
- Perception of beverage (in general, in life)
- Beverage needs within the occasion (individual's needs)
- Reason for selection (stated reason for selection)



The odds ratio represents one method of conveying the quantification expressed by the consumer response model

BEVERAGE CONSUMPTION

ODDS RATIOS
 (Odds of selecting beverage if others are consuming)
 ÷
 (Odds of selecting beverage if others are not consuming)
 Ex. (84%) / (3.5%) = 24.2 (Odds ratio)

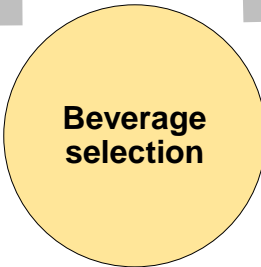
- Occasion influences**
- Others are consuming (24.2)
 - Effusive occasion (1.7)
 - **Others not consuming (0.1)**

- Perception of beverages**
- Function: quenching (1.6)
 - Imagery: proud regional brand (1.6)
 - Function: good with meals (1.6)
 - Imagery: feminine beverage (1.5)

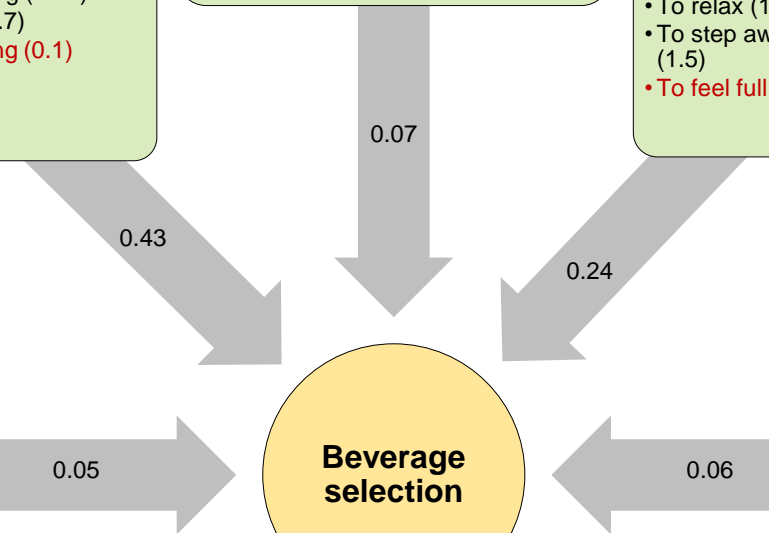
- Beverage needs within the occasion**
- To relax (1.4)
 - To step away from routine (1.5)
 - **To feel full (0.8)**

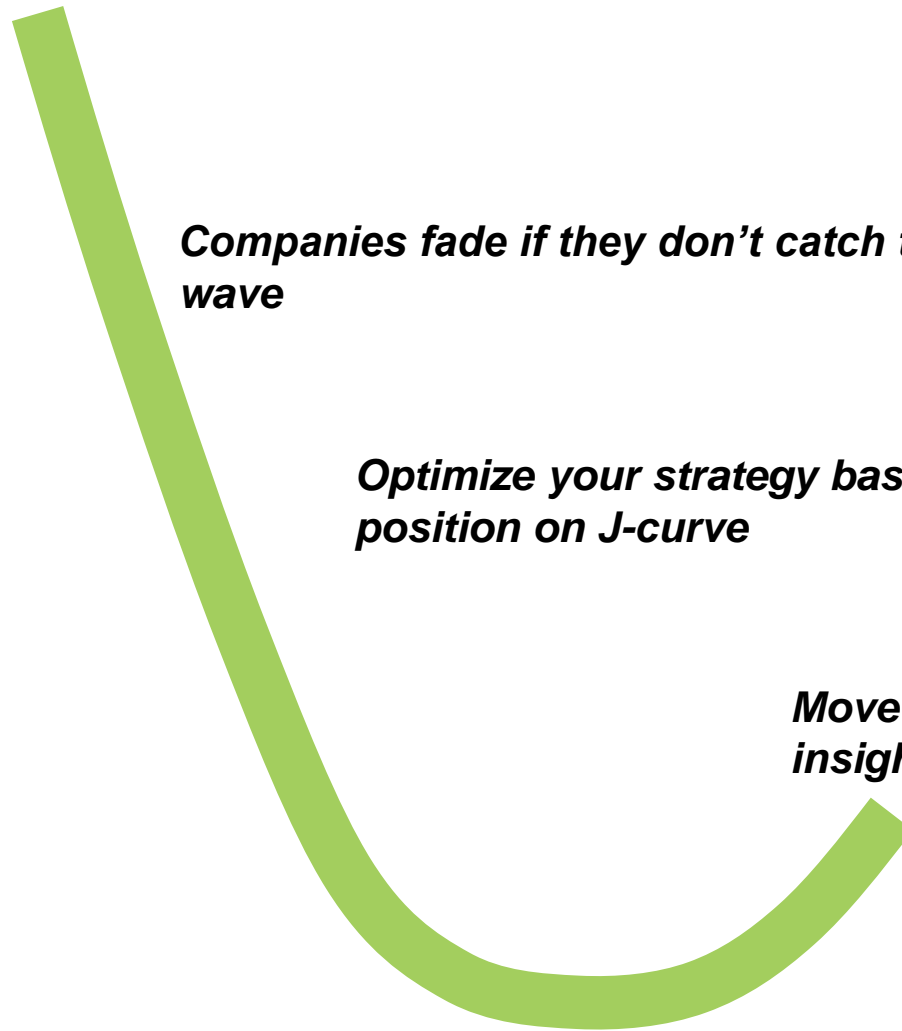
• Black text means positive influence on selection
 • **Red text means negative influence on selection**

- Attitude toward beverages**
- Will drink with meals (1.7)
 - **I calculate price per volume (0.8)**



- Reason for selection**
- It is what my friends were drinking (3.0)
 - It's what I always drink (1.4)





Companies fade if they don't catch the next wave

Optimize your strategy based on industry position on J-curve

Move from functional benefits to consumer insights to win in the premiumization stage



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