

# Beyond the Numbers

## THE POWER OF QUALITATIVE CONSUMER RESEARCH AS A DILIGENCE TOOL

While quantitative and seemingly definitive, the picture of brand health painted by consumer surveys can often be enhanced by gaining a deeper understanding of consumer attitudes and behaviors.

Qualitative research in the form of focus groups and ethnographies (e.g., consumer shop-alongs or in-home visits) offers a holistic complement to a consumer survey. That's because qualitative research can help identify critical nuances in brand positioning and performance, paint a deeper understanding of whether brand strengths are sustainable and weaknesses are fixable, and identify any major issues not specifically asked in a consumer survey.

Focus groups and ethnographies allow consumers to express how they feel and why they act the way they do. Plus, focus groups and ethnographies are good for answering very specific investment questions.

As such, using all three will provide the most complete view of consumer behavior and brand strength, as illustrated in Exhibit 1.

The following cases demonstrate the power of qualitative consumer research.

### **Specialty Apparel Retailer**

A private equity sponsor was considering investing in ApparelCo, a leading specialty apparel retailer playing in a part of the market that had been struggling. In the past few years, ApparelCo's same-store sales declined faster than those of its competitors, indicating that internal factors were playing a part in poor performance in addition to market headwinds.

Using focus groups to get a deeper understanding of the trendiness of the brand's products and brand image, the private equity sponsor learned that:

- » While ApparelCo's brand equity is still perceived as relatively strong, the brand is not as relevant or top of mind as it once was for most target consumers.

- » ApparelCo focuses on basics and its merchandise is too logo heavy, both mismatches with the preferences of its target consumers, who prefer unique, non-branded merchandise.

The private equity sponsor also used ethnographies to understand how consumers reacted to product style and value as well as the store environment:

- » Consumers thought that much of the merchandise was off-trend, as illustrated in Exhibit 2. In fact, women would consider buying only roughly a third of the items in the store, while men would consider buying only 10% of the items.
- » Consumers thought ApparelCo's prices were higher than many competitors' prices, but they also recognized that the products were of higher quality and were willing to pay a premium if the style was right.
- » Despite their lack of enthusiasm for the merchandise, consumers enjoyed the shopping experience at ApparelCo more than at some of its closest competitors.

While this research allowed the private equity sponsor to remain optimistic about the foundation of the investment, it also underscored that a same-store sales turn-

**EXHIBIT 1: Combined, quantitative and qualitative research creates a more complete view.**

	CONSUMER SURVEYS	FOCUS GROUPS	ETHNOGRAPHIES
POSITIONING	<ul style="list-style-type: none"> <li>Understand brand equity and positioning through word association and attribute strength</li> </ul>	<ul style="list-style-type: none"> <li>Understand rationale behind perceived brand equity/positioning</li> </ul>	<ul style="list-style-type: none"> <li>Identify specific products and in-store features that drive positioning perceptions</li> </ul>
BRAND STRENGTH	<ul style="list-style-type: none"> <li>Quantify brand strength relative to competitors</li> </ul>	<ul style="list-style-type: none"> <li>Understand specific anecdotes and examples that drive perspectives</li> <li>Understand whether weaknesses are fixable and strengths are sustainable</li> </ul>	<ul style="list-style-type: none"> <li>Observe consumers' emotional reactions and thought process while interacting with brand or retailer vs. competitors</li> </ul>
SHOPPING BEHAVIOR	<ul style="list-style-type: none"> <li>Determine key shopping behavior metrics</li> </ul>	<ul style="list-style-type: none"> <li>Understand reasons for interacting differently with various retailers and channels</li> <li>Understand category and channel evolution and key triggers and barriers</li> </ul>	<ul style="list-style-type: none"> <li>Develop deeper insight into channel preferences and purchase conversion triggers and barriers</li> </ul>
RECENT SALES TREND DRIVERS	<ul style="list-style-type: none"> <li>Quantify conversion rates and drivers for consumers who have recently started or stopped shopping at a given retailer</li> <li>Understand general reasons for purchasing more or less</li> </ul>	<ul style="list-style-type: none"> <li>Uncover further details about changes in shopping behavior</li> <li>Assess likelihood of getting lost customers back and the risk of losing current customers</li> </ul>	<ul style="list-style-type: none"> <li>Observe consumers' emotional reactions as they experience different elements that drive their shopping behavior</li> </ul>
GROWTH OPPORTUNITIES	<ul style="list-style-type: none"> <li>Understand at a high level what would get a consumer to spend more</li> <li>Generate insights on what channels/categories brand has "permission to play" in</li> </ul>	<ul style="list-style-type: none"> <li>Understand more specific details around potential growth drivers and their expected impact on increasing consumer spending</li> </ul>	<ul style="list-style-type: none"> <li>Discover specific categories, product attributes and in-store elements that can be improved to drive visits and conversion</li> </ul>

around would take longer than originally anticipated given the need to revamp the merchandising strategy.

**Big-Box Food and Supplies Retailer**

Another private equity sponsor was interested in MassCo, a leading big-box food and

supplies retailer experiencing declining same-store sales in a growing market.

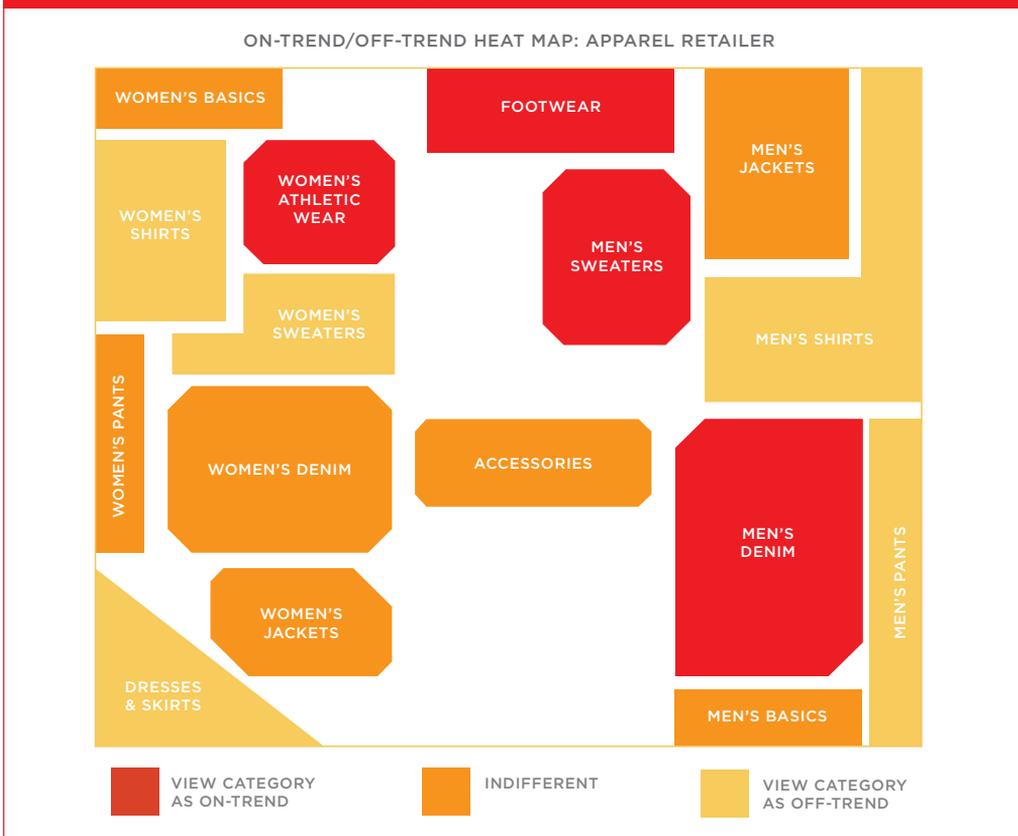
Using focus groups, the potential buyer unearthed several key findings:

- » While consumers believe MassCo has a larger selection than most competitors,

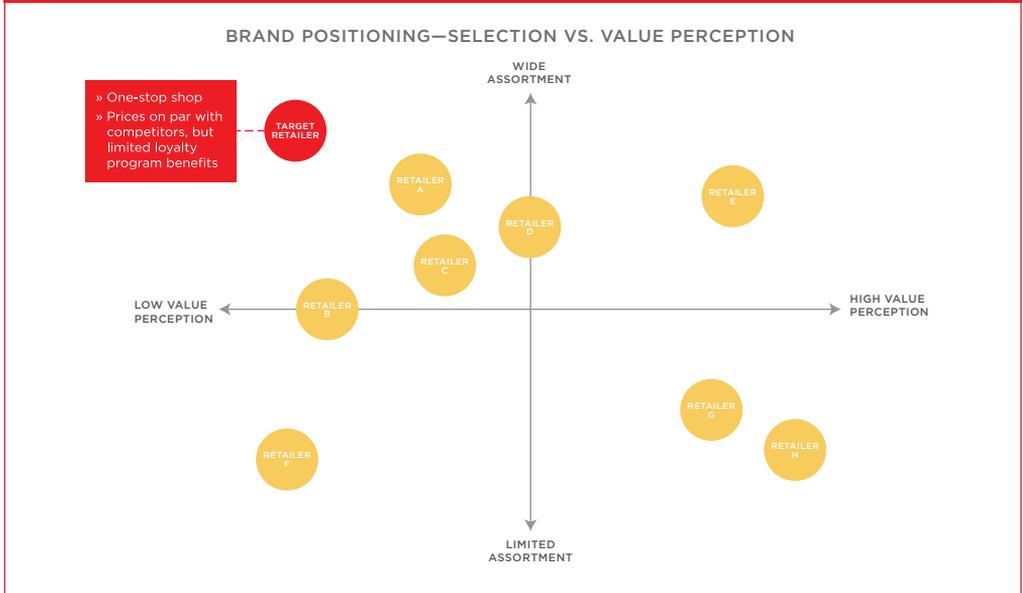
they perceive MassCo as having higher prices and hence lower value—although price audits actually showed the opposite—because MassCo’s loyalty program offered less tangible benefits. (See Exhibit 3.)

- » Consumers who shop occasionally at MassCo would be inclined to shop more frequently if the retailer carried a wider assortment of high-end products.

**EXHIBIT 2: Consumers find most of ApparelCo’s merchandise unstylish.**



**EXHIBIT 3: Consumers think MassCo has a lot of products, not a lot of value.**



» Consumers blame their declining visits and spending at MassCo on recent executional issues, such as unpleasant service experiences and frequent out-of-stocks.

These qualitative research findings helped alleviate the client’s concerns that an inherent brand issue was behind declining comp sales. In addition, the research showed sales declines were driven by fixable executional issues, leading the private equity sponsor to take a more bullish perspective on MassCo.

As these cases show, using qualitative consumer research tools can help private equity sponsors assemble a more complete snapshot of a potential purchase—setting the stage for a rosier picture down the road. ❖

**AUTHORS**

**Dan Goldman**, Senior Manager  
[daniel.goldman@kurtsalmon.com](mailto:daniel.goldman@kurtsalmon.com)

**Kate Flynn**, Senior Consultant