



The Predictive Power of Digital Chatter

Retailers and consumer products companies know all too well how important it is to engage with their consumers online and to monitor digital chatter in order to keep tabs on what consumers are saying about their brands.

But for companies and the private equity firms looking to invest in them, aggregating and analyzing digital chatter—the millions of tweets, Facebook posts, blogs, reviews and comments made on everything from news stories to YouTube—offers more than just a snapshot of brand sentiment.

As two recent high-profile retail stories make clear, digital chatter can be used to determine the effects of a material event, regardless of whether it was intentional or not, and in the process, uncover any potential risks to the brand.

JC Penney

For JC Penney, there was a spike in negative digital chatter after the retailer announced and then implemented its so-called everyday low price (EDLP) strategy. The spike, and the sustained negative sentiment that followed, foreshadowed a precipitous drop in revenue.

To be sure, negative sentiment toward the retailer's pricing had already been building

when newly installed CEO Ron Johnson announced in January of 2012 that JC Penney would eliminate coupons and sales in favor of the EDLP strategy. Johnson, who had most recently overseen the wildly successful Apple Stores, changed the pricing strategy—which also included even cheaper “month-long” prices and so-called “best” prices—as part of a \$1 billion transformation aimed at returning the department store to steady earnings growth.

And some of the other initiatives Johnson unveiled alongside the EDLP strategy yielded a temporary boost in sentiment toward JC Penney. They included the addition of Ellen DeGeneres as part of its marketing campaign, a redesigned logo and a revamp of the store layout into a series of brands shops, with new labels that included Martha Stewart and Nanette Lepore.

But any boost was short-lived and ultimately outweighed by the reaction to the EDLP strategy, as a snapshot of the digital chatter between June 2011 and 2013 makes clear. (See Exhibit 1.) During that time, the conversation about pricing strategy was overwhelmingly negative, accounting for 18% of overall digital chatter vs. just 5% of digital chatter that was positive.

Aggregating and analyzing digital chatter can bring to light the potential risk to a brand.

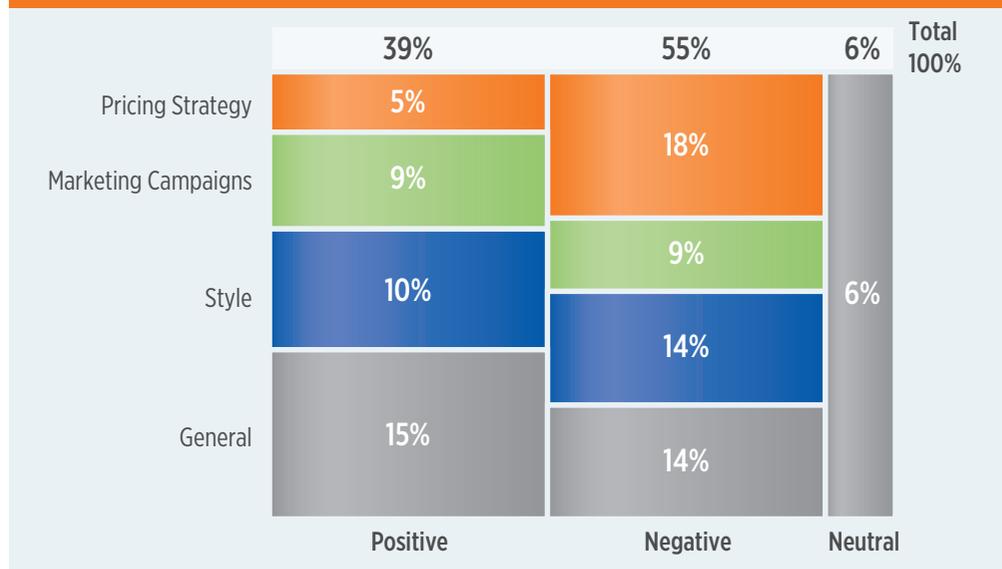
Not only did the digital chatter surface the degree to which consumers were unhappy with the pricing strategy, but it was a leading indicator for a subsequent drop in sales. As Exhibit 2 demonstrates, there was a notable negative correlation (R-squared of 64%) between negative pricing strategy sentiment and same-store sales growth.

All told, JC Penney suffered sustained same-store sales declines of greater than 20% lasting more than a year, which translated into a 25% plunge in total revenue, or \$4.3 billion,

for the 12 months ended February 2. By paying attention to the chatter taking place online, JC Penney would have been acutely aware of consumers' sustained displeasure at the prospect of having to give up sales and coupons and perhaps could have changed course more quickly.

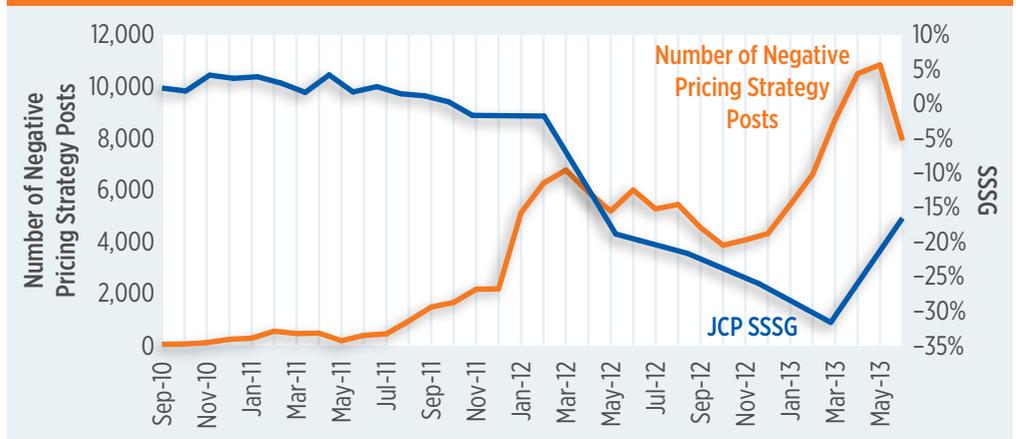
When Mike Ullman returned as CEO in June of 2013 and started reintroducing elements of a more traditional high-low pricing strategy, JC Penney's negative pricing chatter finally started to die down.

EXHIBIT 1: JCP Social Media Sentiment* by Drivers



* Percentage of posts from June 2011 to June 2013; n=813,000

EXHIBIT 2: JCP Negative Pricing Strategy Sentiment vs. SSSG



lululemon athletica

On the other hand, the digital chatter that followed lululemon's handling of its see-through yoga pants product recall in March of 2013 makes clear the impact of taking quick, deft action that reinforces a brand's core strategy.

Initially, the product recall not only caused an uproar from consumers, as illustrated in Exhibit 3, but prompted many Wall Street observers to raise concerns that the company had larger strategic and operational issues, due in particular to its dependence on a single fabric supplier.

The company's handling of the situation consisted of offering a full refund to con-

sumers who bought the affected pants and proactively pulling the remainder from stores shelves.

lululemon subsequently reported same-store sales growth of 7% for the first quarter and an 8% rise for the subsequent three-month period. Both were a reasonable degree of disparity from the company's historic double-digit growth rates, given that the recall affected the luon, its most popular line of yoga pants. And as Exhibit 4 highlights, the overall sentiment toward lululemon has since largely returned to historic levels; consumers clearly approved of its handling of the recall.

EXHIBIT 3: lululemon Social Media Posts (000s of Posts)

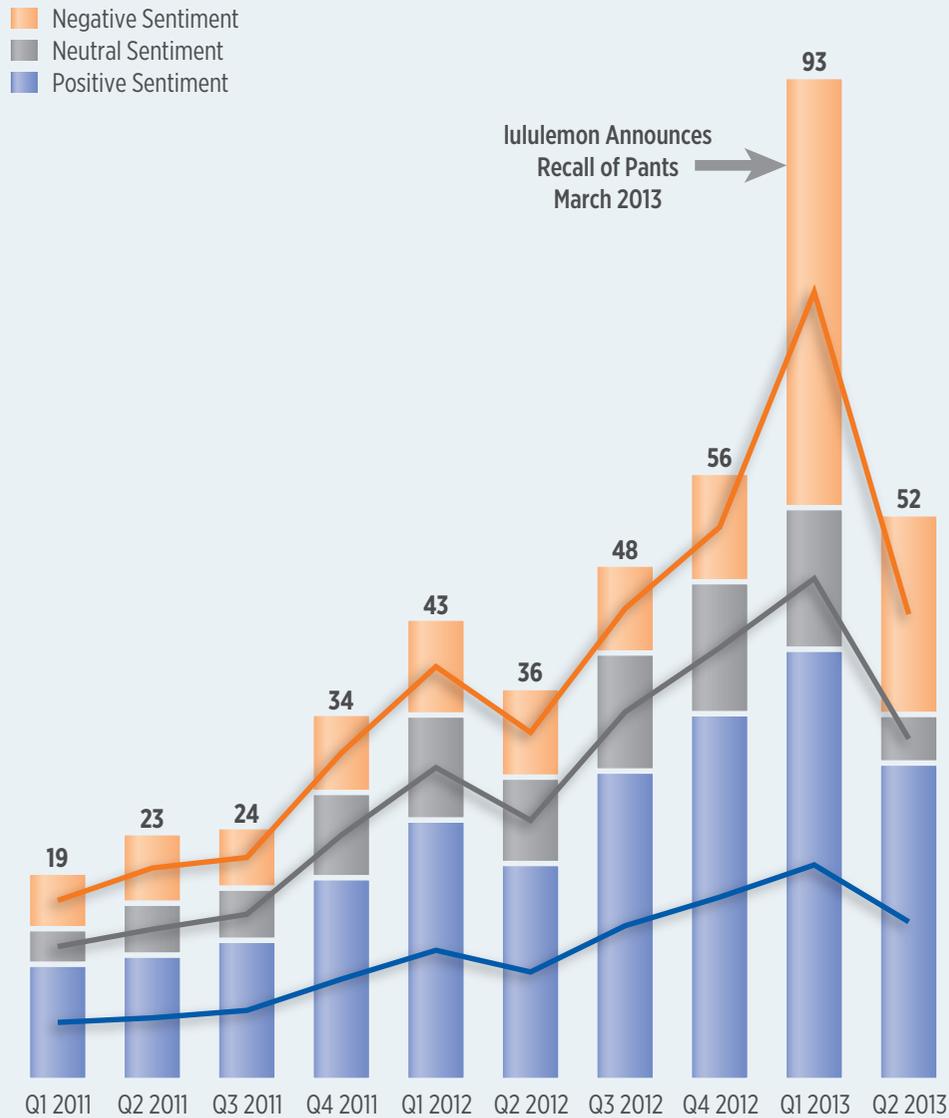
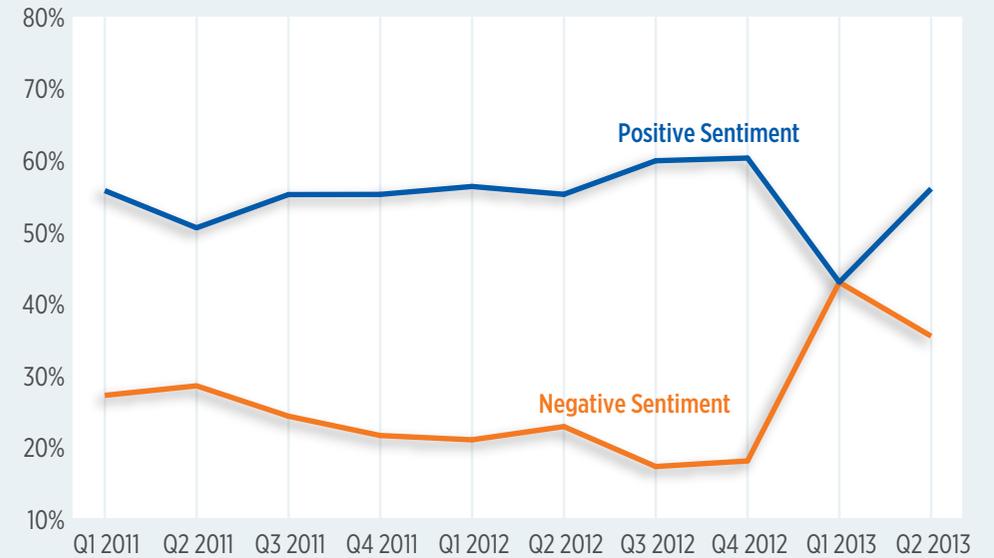


EXHIBIT 4: lululemon Social Media Sentiment (% of Posts)



Investors weren't so forgiving. The company's shares plunged after lululemon, citing recall-related delays in deliveries of its fall line, cut its full-year per-share earnings outlook to \$1.94 to \$1.97 from its initial adjusted outlook of \$1.95 to \$1.99. However, the digital chatter suggests that the consumer franchise remains strong.

As the experience of both JC Penney and lululemon demonstrates, aggregating and analyzing digital chatter can bring to light the potential risk to a brand, be it the result of a purposeful strategy change, such as new pricing, or an unexpected event, such as a

product recall. Digital chatter can also provide invaluable insight into what, if any, corrective action should be taken and can make clear whether or not that action is working.

It's data we cannot afford to ignore. ❖

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