CONSUMERS INTERNATIONAL

COMING TOGETHER FOR CHANGE

# HOW CAN CONSUMERS INTERNATIONAL CREATE POSITIVE CHANGE FOR CONSUMERS IN THE DIGITAL WORLD?

## GLOBAL HEAD OF BEHAVIOURAL SCIENCE IPSOS MORI

## COLIN STRONG

**Ipsos MORI is a market research organisation. Its Social Research Institute looks at public attitudes to key public services, and informs social policy.**

**Colin Strong** is Head of Behavioural Science at Ipsos. In his role he works with a wide range of brands and public sector organisations to combine market research with behavioural science, creating new and innovative solutions to long-standing strategy and policy challenges. His career has been spent largely in market research, with much of it at GfK (Society for Consumer Research) where he was Managing Director of the UK Technology division.

As such, he has a focus on consulting on the way in which technology disrupts markets, creating new challenges and opportunities but also how customer data can be used to develop new techniques for consumer insights. Colin is the author of Humanizing Big Data which sets out a new agenda for the way in which more value can be leveraged from the rapidly emerging data economy. Colin is a regular speaker and writer on the philosophy and practice of consumer insight.

To understand the answer to this question, Consumers International can start by asking itself; will brands ever be good data citizens?

Brands have ever more personal data at their disposal, driven by technology fundamentally disrupting the nature of their relationship with consumers. We are starting to see the way that data offers brands unprecedented insights not only into consumer behaviour but also their minds. Whilst the temptation to leverage this for short term gain is understandable, there is a compelling case for brands to remember that trust is what sustains their relationship. And as such, being a good data citizen will become a core part of a successful brand strategy.

**TECHNOLOGY IS CREATING A NEW MECHANISM FOR BRANDS TO CREATE RELATIONSHIPS WITH CONSUMERS**

## THE CHANGING CONSUMER ENVIRONMENT

We are now in an environment where the valuation of companies is increasingly based on intangible (non-physical) assets. Much of this is because of the way technology has transformed the modern company, which led Erik Brynjolfsson, Director of the Massachusetts Institute of Technology Initiative on the Digital Economy to point out that "more and more important assets in the economy are composed of bits instead of atoms".  Indeed, it is now estimated that some 70% of the value of a modern company is now derived from intangible assets.

The fact that technology is influencing company valuations reflects how technology is increasingly a platform for consumer interaction. Of course we know this – an increasing amount of our lives are played out via technology, whether this is through social media, engaging with a company's customer service team, buying goods and services and so on.

This is a break from the past, where we would rely on brands as shortcuts to guide us through the complexity of our everyday choices. Many of our purchases are pretty functional and, frankly, we either don't have the time to evaluate the pros and cons of different toilet cleaners or we don't have the necessary access to information to really gauge whether the claims made by one are really better than the competition.

Brand therefore became a shortcut for us, signalling a promise of quality and consistency. We did not have to do the leg-work, we could simply rely on the brand. From the marketer's perspective, the idea was to create an emotional connection so that consumers built a lasting affinity with the brand. Many is the time that I have heard companies saying they want to be the 'best loved' brand in their category.

However, technology has now fundamentally changed the landscape. Consumers no longer need to rely on brand signalling to act as a shortcut for quality. Instead, there are huge swathes of information available online to support us when making decisions. This will not necessarily apply to very low cost / low involvement goods, but in many categories this is fundamentally changing the way we shop.

When we book a holiday, buy clothes or higher value foods, for example, we don't plunder the depths of our memories for past positive experiences or indeed rely on brand associations to determine where to go. Instead we turn to Google to access other users' experiences and expert reviews. That's not to say that all consumers do this but when my mum is keenly using Google to establish which brand of electric heater she should buy rather than relying on John Lewis, I know things have changed.

So what does this mean for brands? Surely, there are two significant implications.  First, the traditional brand funnel is in need of rethinking. Simple awareness is not in itself sufficient because technology means that brands can quickly leapfrog into consideration through the use of digital marketing. Indeed, we are starting to see that best-selling brands in an online environment are often quite different to the best sellers in bricks and mortar.[1]

Brands will therefore increasingly seek to differentiate themselves by building relationships through delivery of engaging digitally experiences that deliver genuine value; smart toothbrushes are a great example. In the past the selection of a toothbrush was a simple process of going to the supermarket shelf and selecting based on the quirks of product features, pricing, brand, pack etc.  And the toothbrush manufacturer would not know anything about you.

1 Profitero website, http://insights.profitero.com/amazon-fastmovers-reports.html

Smart toothbrushes use a number of sensors in the handle to track in real time how you're brushing your teeth. The device is synced to a mobile phone app. As the teeth are brushed, the user is given guidance about where to brush and tells you if you're brushing too much or too little. Often it's possible to programme in guidance for particular outcomes such as whiter teeth or fresher breath.

Clearly, the manufacturer now knows an awful lot about their customers including what you are hoping for, as well as, then tracking exactly when and how they brush their teeth.

The key point to note is that technology is creating a new mechanism for brands to create relationships with consumers. Which, in turn, is creating huge amounts of data that offer an unprecedented insight into very intimate consumer behaviours on an ongoing basis. The importance of this has clearly not passed by some of the largest FMCG companies as the quotes below illustrate:

**"As a business, we need more data, better insight into our customers and their needs and behaviours, to serve them with better products and better messaging."**
**Alexandre Ricard, Chief Executive Pernod Ricard**

**"The next level of competition in the universe of FMCG is the relationships we have with consumers. Relevance, trust and on-going value add to their lives beyond the product itself."**
**Shawn O'Neal, VP global data and marketing analytics, Unilever**

## LEVERAGING DATA FOR INSIGHTS

It is clear that technology is creating fundamentally new business models for brands – and whilst the majority of sales is still via bricks and mortar the direction of travel for pretty much every category is becoming pretty clear.

So, just what are brands doing with all the data they collect? There is clear huge variability in the degree of sophistication that brands are able to bring to the way they us and interpret data. At one end there are digitally native brands such as Graze, which started out as a subscription box service for snacking. Their whole business model was predicated on leveraging customer insights from data, as illustrated here by an interview with the CEO:

**"We receive over 15,000 product ratings an hour from our customers and use these to develop a new product in 24 hours. This allows us to enhance our customer experience by taking risks and surprising our customers with a product selection that they might like but not necessarily choose. This ability to respond quickly and engage with customers is one of the crucial benefits of having an online channel. However, even with technological advances and access to a sea of data, not all FMCG companies are able to develop a product so rapidly. In fact, few FMCG companies are embracing technology to enhance their customer engagement."**
**Anthony Fletcher, CEO, Graze**

However, there are also many companies that struggle to obtain insights from data despite the huge investment that is made in infrastructure. So, whilst AT Kearney estimate that by 2018 the big data tech market will be USD114 billion, research by The Economist found that 65% of CEOs think their organisation is able to interpret only a small proportion of the information to which they have access.

An important impediment much of the time is the presence of legacy systems on which much personal data is held. It is not always easy for brands to access and manipulate the data they hold – so whilst much is possible, making it happen can be a challenge.

In addition, the skill sets are not always necessarily attuned to leveraging valuable insights about consumers. Many data analysts are computer scientists, mathematicians and statisticians – perhaps necessary but not sufficient for understanding consumers. There is still quite a long way to go before brands start to see the value of including social scientists – psychologists, sociologists, geographers - to generate insights of real value. The lack of consumer insights from data led one frustrated head of analytics to comment:

**"I have lost count of the times I have been presented with some amazing fact that data has told us through the use of some incredible new technology, to be left thinking 'so what?' or 'isn't that obvious'?"**

But this is all set to fundamentally change.

## WHAT TO EXPECT

There is a huge wave of new activity involving personal data, based around the opportunities presented by deriving psychological insights from data trails. Whist it is relatively early days, there is a huge amount of interest from brands.

One example of this capability was work undertaken by Cambridge University and the Microsoft Research Centre, which found that Facebook 'likes' can be used to predict a variety of personal attributes including religion, politics, race and sexual orientation. Their research involved 58,000 Facebook users in the US who completed a psychometric questionnaire through an app called 'myPersonality'. Those taking the test were asked to provide the researchers with access to their Facebook data. The team were able to create some highly predictive models using these 'likes'. For example, they were able to identify male sexuality and sort African-Americans from Caucasian Americans, Christians from Muslims and Republicans from Democrats. There were also some pretty impressive figures for predicting relationship status and substance abuse.


Another example is a study by researchers at Cornell University, who analysed over 1.5 million geotagged tweets from almost 10,000 people in the US. They wanted to understand if the content of the tweets themselves could be used to predict the location of the user, as identified from the geotagging. So they divided the data set in two, using 90% of the tweets to train their algorithm and the remaining 10% to test it against. What they found was that tweets contained an awful lot of information about the likely location of the user.

Some of it was obvious, such as tweets that were generated by the location-based social networking site Foursquare, thus giving exact location. Other tweets contained references to the city they were in. And others made reference to events that were taking place in their location. As a result of all this information, they were able to create an algorithm that correctly predicted people's home cities 68% of the time, their home state 70% of the time and their time zone 80% of the time.

It is highly likely that these sorts of studies represent merely the tip of the iceberg of activity that is underway in this area. It is usually only academic researchers that place their findings in the public domain and make them available for peer review. And academics often struggle to get access to big data assets. So we can assume that this sort of activity is being widely undertaken by many data-intensive industries including, of course, database marketing organisations.

We are, therefore, on the cusp of psychological based marketing – but importantly, where the insights about consumers are derived from their data trails. Of course, as noted earlier, as brands use technology to create data mediated relationships with consumers then this becomes an activity which has huge potential.

## THE TEMPTATION FOR BRANDS

Clearly, a picture is being painted of brands potentially wielding huge amount of power. There are many ways in which this could be used not least personalised pricing. So instead of standard prices and products offered to everyone, companies can instantly set prices specifically for any one individual. In the right circumstances, a company that not only knows how much you need something and how much you can manage to pay but also what your psychological profile indicates in terms of your propensity to pay.

A study by Benjamin Reed Shiller, an economist at Brandeis University examined what happened to Netflix's profits when collecting varying degrees of data about their customers and charging different prices for the same product. Simply having basic demographic information to

**IN 'INTERACTIVE TRUST' WE MAKE OURSELVES AND OUR NEEDS KNOWN TO THE BRAND AND, IN DOING SO, MAKE OURSELVES VULNERABLE**

charge different prices increased profits 0.14%. However, adding data from web browsing history increased profits by 1.4%. Indeed, some customers paid twice as much as others for the exact same product.

So what is to stop a brand wielding this information in a way that is not in the consumer's interest? In a sense the answer is simple – trust.

## WHY TRUST IS CRITICAL FOR BRANDS

Trust is a term that is often used but frequently misunderstood. Part of the reason for this is that trust has a number of different meanings which we deal with in turn below.

First, for trust to succeed, we need to be able to rely on others to act in certain ways. So for there to be trust we need to be able to rely on others to do what they say they will do. This is **basic trust**.

Most brands are able to operate reasonably well in terms of 'basic reliance'. We know our shopping will arrive, it will be in line with our expectations and if anything has gone wrong then it will be fixed. Of course, this is far from the case for all brands in all geographies but it is widely understood that doing what you will say you do and fixing it if it goes wrong is the starting point for any brand. Brands such as Amazon, Walmart and MacDonald's have made a virtue of demonstrating this form of trust – you can be sure that the products and service experience is consistently reliable.

Second, is the trust that the brand will treat me well and that it has my well-being in mind in the way it conducts its affairs. This form of trust is called '**active trust'**. This is often associated with consumers being a little more vulnerable. So a retailer may hold a lot of data on consumers via their loyalty card scheme. We 'actively' rely on the brand to use that data in a way that will not harm us by, for example selling it to a third party without our consent.

The third level of trust is '**interactive trust'**. In this instance we are making ourselves and our needs known to the brand and, in doing so, making ourselves vulnerable. Essentially, we are asking the brand for something that may not be strictly part of the rules and regulations. But in the process of making the brand aware of our needs, we are giving them some power over ourselves. So we might want to take an item of clothing back but have taken the tags off.

Certain brands have achieved remarkable success by creating a sense of trust between themselves and the customer. Nordstrom, the US retailer, for example has huge reputation for customer service that directly translates into trust. This is exemplified by their 'rulebook' to new employees:

**Nordstrom Rules: Rule #1: Use best judgment in all situations. There will be no additional rules.**

The challenge that many brands have, of course, is that trust costs money. If the basis of your trusted relationship with your customers is quality of customer service, then that costs money. If it is the quality of your ingredients in the food you make, then the company accountants will always be quick to point out how you can save money by sourcing poorer cheaper cuts. It can be hard to locate the evidence that this relates to sales but work by Ipsos has found a relationship between 'Attitudinal Equity' (AE) and share of wallet:

**Across all sectors brands with an AE of 40 plus give more of their share of wallet to the brand, more in service industries which really benefit from strong brand relationships**

| | FMCG | Alcoholic Beverages | Retail | Financial | Automotive | Restaurant | Services |
|---|---|---|---|---|---|---|---|
| | Share of wallet | | | | | | |
| **AE 0-20** | 4 | 3 | 4 | 4 | 4 | 4 | 4 |
| **AE 20-40** | 28 | 30 | 31 | 29 | 29 | 29 | 30 |
| **AE 40+** | 57 | 58 | 54 | 57 | 53 | 62 | 70 |

*Source: BVC Database 2017

So to return to the issue of personal data, it would seem that brands face a dilemma. There will inevitably be ways in which they can enhance their share price by leveraging the insights about their customers from personal data. And if this is used to facilitate the relationship (for example helping consumers brush their teeth more effectively) then trust grows. But if it is used in ways that transgresses the nature of the trusted relationship, then they are likely to see, in the longer term, a decline.

## CONCLUSION

As companies increasingly adopt data driven decision making, it can be ever harder to recognise the importance of the human side of brand relationships which, by their nature, are hard to quantify.[2] We discussed at the outset the way in which intangible assets are accounting for a high proportion of brands' valuations – it makes sense that this is driven by technology. But let's not lose sight of what the technology is facilitating – a relationship. And as everyone knows, if trust is abused in a relationship then it is not long before the relationship falters. Brands need to understand how to use data to develop and enhance their relationship with the consumer – not abuse it.

2 'The rise of data-driven decision making is real but uneven', Harvard Business Review, 03/02/2016