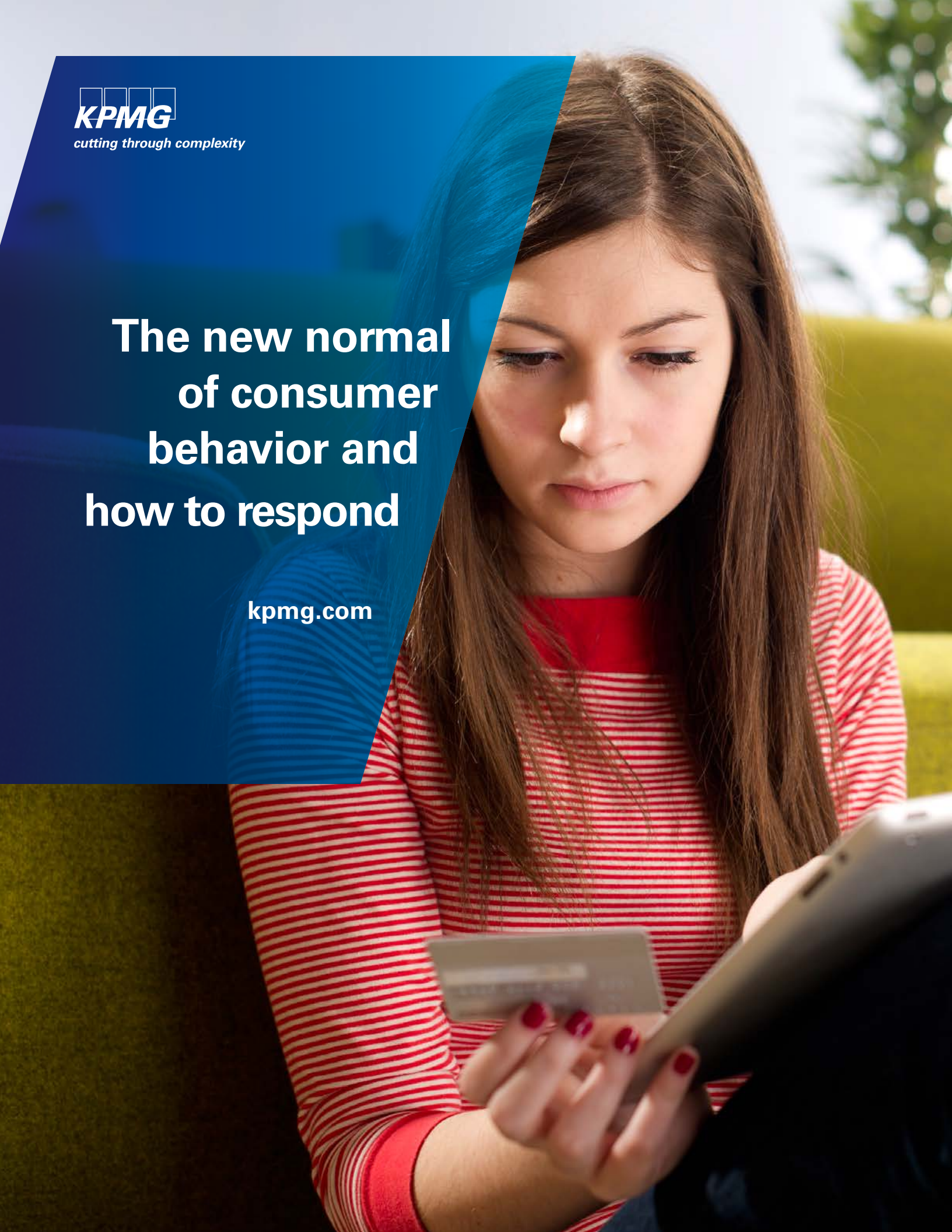




cutting through complexity

The new normal of consumer behavior and how to respond

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After years of focusing on cost management, companies have pivoted with a renewed focus on growing the business. And they face a new landscape of consumer attitudes and behaviors—one that is vastly different from before the Great Recession.

In this new normal, companies are looking for answers to important questions. For example, how can they engage most effectively with consumers? How can they create a customer experience that drives acquisition and loyalty? What core marketing capabilities do they need—today and in the future—to secure their position and take share from competitors?

It comes down to understanding the new normal of consumer behavior—and navigating it with the right brand vision, customer insights, multichannel engagement, and technological agility.

Measurable changes in consumer behavior

Consumers play a critical role in the economy, accounting for 70 percent of gross domestic product in the United States and 18 percent worldwide. And these consumers are acting differently compared with their behavior before the downturn. Here is the new normal:



- **Consumers are much more judicious in their spending.** As consumers struggle with lost home equity, fragile employment, and slowing growth in their 401(k) plans, they have downshifted from conspicuous consumption to considered purchases. In fact, the New York Federal Reserve Bank reports that consumer debt is at its lowest point since 2006, as Americans step back on their purchases. Consumers' fluctuating confidence in the economy means spare cash is often being saved, not spent.



- **Consumers are empowered and informed.** With the downturn came the growth of the social consumer, who is smarter and more aware of product options than ever before. Gone are the days of simply reacting to advertising messages. Today, whether they are buying a car, a service, or a meal, consumers throughout the world are more likely to consider user reviews—through social media, online forums, comparison Web sites, and other Internet research—as part of their decision.

For example, in a 2014 survey of nearly 2,000 Americans, 79 percent said they at least sometimes check reviews before purchasing a product or service, and more than half said they have submitted a product review on a Web site.¹ In the United Kingdom, similarly, more than 88 percent of consumers are influenced by other consumers' online comments², while in Australia, 60 percent of shoppers use the Internet to research purchases.³ Furthermore, the global 2013 Edelman Trust Barometer shows that consumer trust continues to shift from institutions to individuals, with "a person like yourself" ranking high as a credible source of information.

Power has also shifted to the consumer in terms of switching costs. Years ago, for example, consumers who wanted to sell their car typically went to their dealer, but today they have many more options. In the wireless market, similarly, customer loyalty is not as sticky as it once was, as switching costs have declined due to a saturated market with more options for customers.⁵

How can you help consumers feel more empowered?

According to research⁴ by Luc Wathieu, deputy dean at Georgetown University's McDonough School of Business, consumers may feel more empowered when they have:

- Control over the composition of their choice set, such as the number of alternatives they are considering
- The ability to frequently assess their satisfaction with the process of making a choice
- Information about other consumers, including their frequency of using the product under consideration.



- Consumers are more distrusting of large institutions.** Just as consumers increasingly trust the opinions of other consumers, they decreasingly believe the messages of large companies and government organizations. This distrust is due in part to the shock of the financial crisis and subsequent misdeeds in the marketplace, such as banks' attempts to charge ATM fees or some companies' proposed "convenience fees" for online payments.

According to the 2013 Edelman Trust Barometer, less than 20 percent of the general public trust business leaders and government officials to tell the truth, and the influence once held by these traditional authority figures is shifting to fellow employees, peers, and experts.

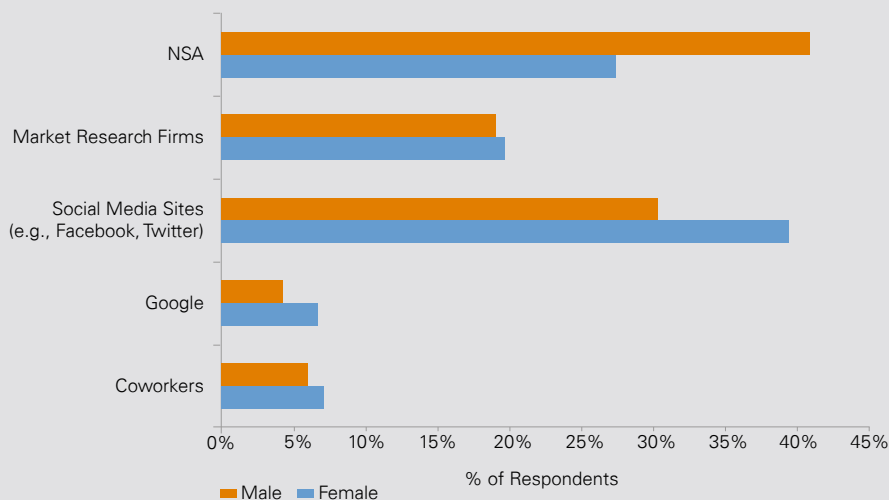
Similarly, a survey by Forrester Research found that only 15 percent of adults in the United States trust digital advertising such as social media posts, Web ads, or text messages: "Simply put, consumers are more trusting of content they can find on their own terms, rather than that which is pushed out to them by brands."⁶

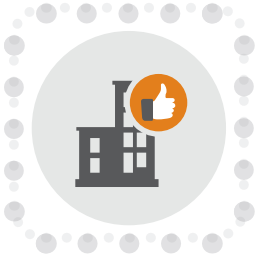
According to the Georgetown Institute for Consumer Research (GICR), consumers tend to have a fairly strong preference for underdog brands. Accordingly, when large brands are perceived as competing with small brands, consumers tend to favor the small brands. However, these tendencies can vary depending on individual consumers' personal identification as an underdog and their perception of the company's willingness to overcome external hardships.⁷

Consumer trust

Consumer distrust of large institutions can vary by gender and type of institution. In a poll by the GICR, men were much more likely than women to select the National Security Agency as their least-trusted organization. Meanwhile, women trusted social media sites less than men.

Who do you trust the LEAST with your personal information?



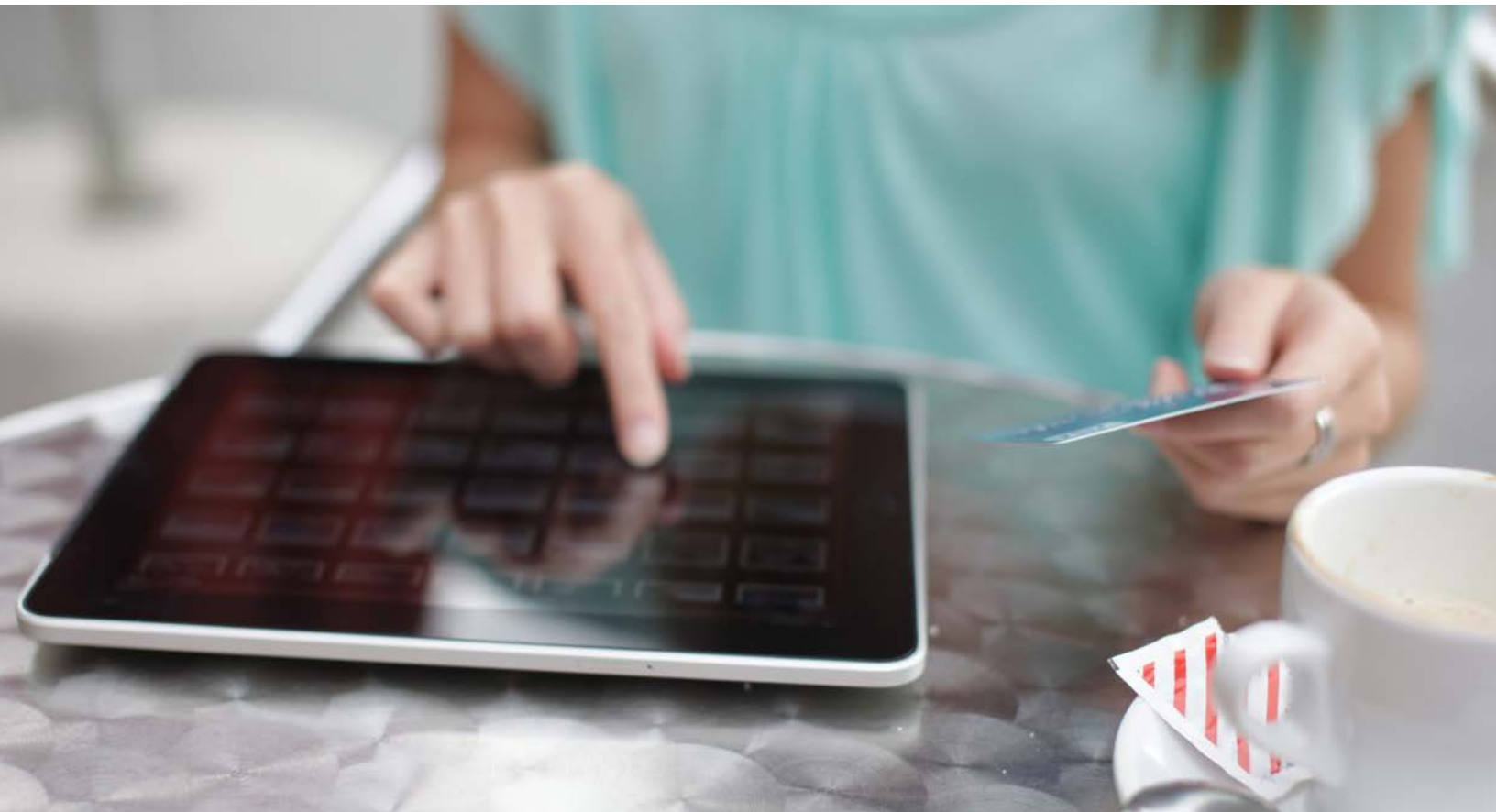


- **Consumers value corporate responsibility.** Amid widespread distrust of companies, today's consumers, especially "millennials," are increasingly sensitive to companies' focus on environmental sustainability, community support, and other forms of corporate social responsibility (CSR).

In fact, according to a global study of 10,000 citizens, more than 85 percent consider CSR when deciding where to shop, what to buy, or which products and services to recommend to others. The study also notes that as social media provides unprecedented access to information about corporate behavior, nearly two-thirds of global consumers use social media to engage with companies about CSR.⁸

Despite the increased focus on CSR, however, GICR research also indicates that consumers are willing to overlook ethical transgressions when considering a product they really want and when they can internally rationalize their purchase.⁹

Add it up, and it is a different world out there. Consumers have changed many of the ways they make decisions about products and services. They are juggling a combination of less money, more information, and more skepticism about brand messages.



How will you respond?

When it comes to navigating the new normal, successful enterprises execute several things well:



- **Clarity of purpose.** What is your brand promise, and how well are you delivering it through your brand experience and communications? In a world where consumers are inundated with brand messages, the most successful companies are relentless in understanding their customer, the value proposition, and how to deliver it.

Entrepreneur magazine, for example, notes that some brands combine “exceptional product accessibility, functionality, and customer experience” to create a strong brand that consumers trust. In some cases, these brands have such a strong brand experience that no matter what product they introduce, consumers trust that it will be smart, sleek, and life-improving—and, even more, they will enjoy the experience of making the purchase.¹⁰

Other brands, from retail to air travel, are widely cited in textbooks and industry journals for their differentiated customer experience. Some of these brands embraced customer relationship management early on, taking the time to understand their customer, articulate the value proposition, and distribute the information to the workforce that is delivering the experience.



- **Data integration.** A critical part of understanding consumers is collecting and disseminating the right data, including structured data (such as transaction records) and the massive amounts of unstructured data (such as online comments, brand sentiments, and social media likes and dislikes). How do you combine new information with what you already know in order to learn more about your customer—or, in some cases, to discount what you *think* you know?

One large hotel company, for example, creates personalized experiences—such as preferred beverages in the room or special offers upon check-in—based on the integration of social data and clickstream data from customers and like-minded travelers. According to *The New York Times*, the company also integrates social-media behavior with promotions: When one customer used a mobile app to “check in” at a hotel, she received 250 points for her loyalty account. When she used the app again at the bar and hotel spa, she got a second drink free and a spa discount.¹²

Some amusement parks, similarly, are introducing new technology to monitor park visitors’ behavior and collect information on personal preferences, so the parks can refine their offerings, customize marketing messages, and increase sales.¹³

The “rule of three”

According to the GICR, consumers define clarity of purpose as “simple marketing messages that don’t make too many claims.”

In fact, the research goes on to say that consumers evaluate a brand most positively when it makes exactly three claims. Any more or fewer than that, and clarity goes down.¹¹

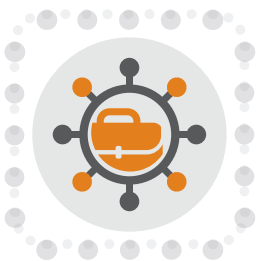




- **Analytics.** In addition to collecting the right data, it is important to convert it into actionable insights—and then distribute those insights to anyone who is touching the customer. Using regression analysis, artificial intelligence tools, and even basic indicators like moving averages, leading companies continually refine their results and feed them back to different levels of the customer-service organization. It comes down to learning who your customers are, how to serve them, and how to keep them.

The collection and analysis of consumer data are about understanding your customers' behavioral, attitudinal, demographic, and financial information. That is, how do your customers interact with your company? How do they feel about your company? How old are they and where do they live? Are they profitable? Based on this kind of analysis, you can create a customer profile, segment your customers, and develop the right marketing strategies.

When it comes to segmentation, GICR research suggests that there are two different types of consumers: frequent buyers, who tend to buy a particular brand out of habit or convenience, and fiercely loyal buyers, who buy a particular brand because they have a strong allegiance. Unlike frequent buyers, fiercely loyal buyers tend to have negative emotions toward competing brands, and they are far more willing to defend, forgive, and recommend their favored brand. With the right use of analytics, you can identify these fiercely loyal consumers and turn them into brand champions.¹⁴



- **Multichannel mastery.** The average consumer is exposed to thousands of marketing messages each day, which is why it is critical to understand how, when, and where your customers want to be engaged. As consumers increasingly expect an efficient experience, are you managing your customer experience across all channels? For example, are you integrating digital communications with telephone, print, and brick-and-mortar stores?

Some companies are using location-based mobile marketing as a key channel. For example, based on your customer data, you may know that if a customer is within 10 miles of a store, you can get him in by sending a 10 percent discount to his mobile phone. If he is within 5 miles, likewise, you can attract him with a 5 percent discount. Multichannel mastery comes down to delivering the right message to the right customer at the right time and in the right way.



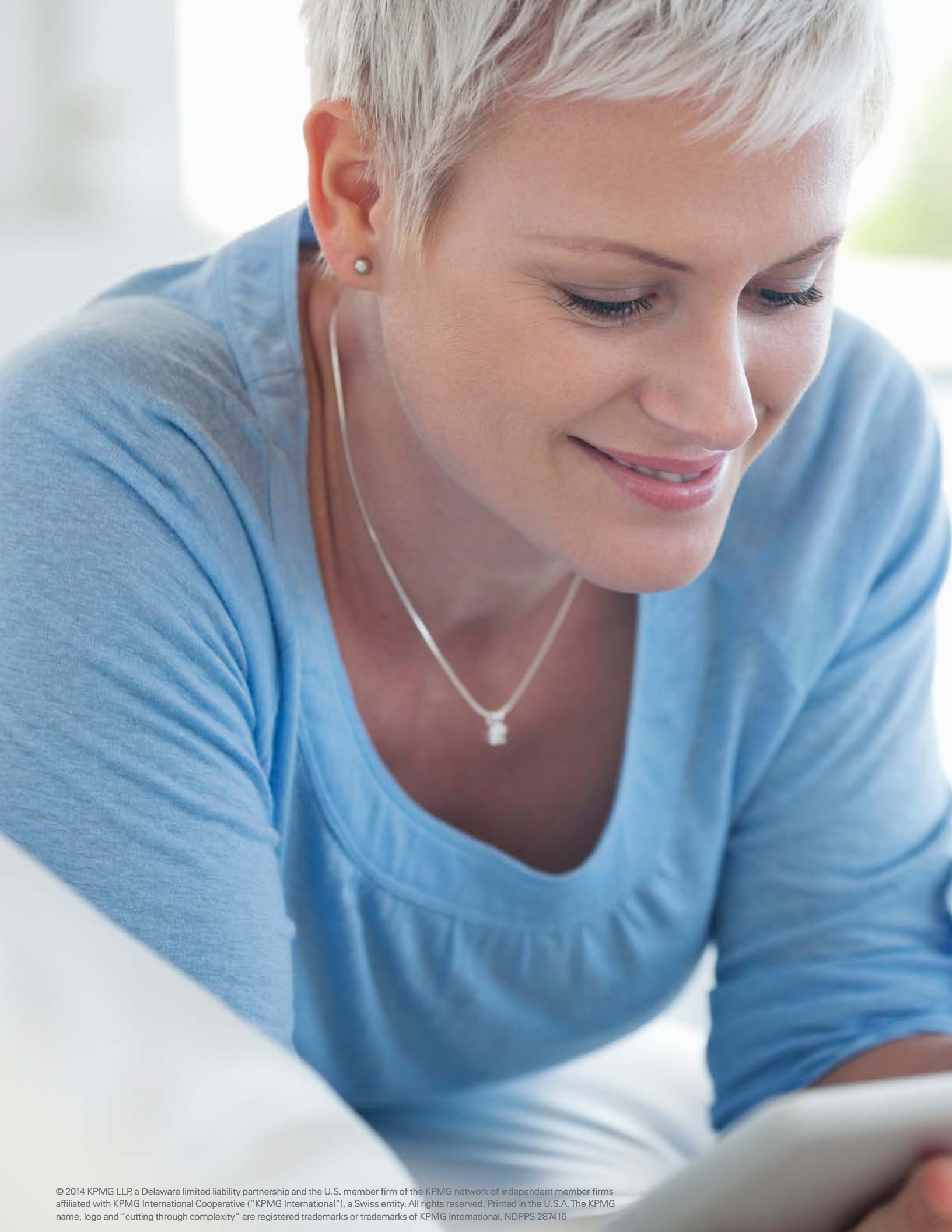
- **Technological agility.** Finally, a key consideration for managing the new normal is technology. Leading companies have a flexible architecture that enables them to quickly respond to the changing consumer landscape. With an eye toward cost of ownership, these companies are exploring nimble, cloud-based technologies for customer relationship management, leaving behind the days of on-premise CRM systems with long implementations.

In addition, it is important for all of your tools to fit together in a cohesive strategy. For example, how do you integrate your attitudinal analytics tool with your software-as-a-service modeling tool? How do you interface those with your cloud-based CRM application so you can share insights with your sales force? Ultimately, technology is the great enabler: If you do not get it right, you may struggle to execute everything else.



Final thoughts

In the past half-decade, consumer behavior has changed profoundly, creating customers that have higher expectations — and lower tolerance when those expectations are not met. And when it comes to acquiring and retaining these customers, the implications are significant and evolving. The companies that succeed will establish the appropriate insights and engagement capabilities to stay in tune with the new normal.





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