Winning over the empowered consumer: why trust matters
Overview

In previous studies, the IBM Institute for Business Value identified the ‘smarter consumer’ as someone who is ‘interconnected’, with information available in multiple places and at every point in the shopping process. These consumers are ‘instrumented’ with smartphones; tablets such as iPads; and wireless internet access. And they are made ‘intelligent’ by their easy access to endless amounts of data, in real time, upon which they can readily act to make purchasing decisions.

Smarter consumers seek and accept shopping advice from peers, family and friends – even strangers. They bring attitudes and expectations, shaped by their experiences across a broad spectrum of industries, to every interaction with retailers. The smarter consumer takes the pre-purchase learning process even further by researching products online. This enables them to know almost everything about every product and brand before they even step into a store.

Smarter consumers make their buying decisions based on which retailers have earned their trust.

Now in its third year, the 2012 IBM Smarter Consumer Study surveyed more than 28,000 consumers from 15 countries, including 1,801 from Australia. Through our analysis, we discovered that consumers have evolved from being ‘smarter’ to being ‘empowered’. They are still using technology to shop but have adopted a broader range of technology and are embracing it to become aware of, research and buy new products.

The consumer mindset is transforming from ‘a market of me’ to ‘communities of we’. Consumers that share common interests and tastes have wrested control from brands and retailers and, by doing so, have become empowered. These consumers share and compare their shopping experiences with their family, friends and online social networks. They ultimately decide which retailers have earned their trust and will be rewarded with their patronage, while influencing others around them.

In this report, we present global consumer trends with a focus on the Australian consumer, including their shopping habits, who influences them, what technologies they are willing to use and how best to reach them with your brand messages. We also examine how online peer communities or ‘communities of we’, actively discuss, critique, promote and even dismiss your brand, and the correlation between this behaviour and their loyalty.

Key insights include:

- who is the empowered consumer?
- changes in attitudes and shopping habits toward retailers and brands
- how trust and advocacy affects consumer spend
- recommendations for how Australian retailers and consumer product manufacturers can build trust and advocacy.

Survey methodology

In late 2011, the IBM Institute for Business Value surveyed more than 28,000 consumers around the world to understand how they make purchasing decisions, what influences their spending habits and how technology plays a role in their shopping experience.

The IBM Institute for Business Value then partnered with the SDA Bocconi School of Management in Milan, Italy – a university that runs a well-respected retail management program. SDA Bocconi employs a proven methodology, the Castaldo Retail Trust Model (see Figure 5), which uses 137 variables to calculate and score a retailer or brand’s ‘trust’ level from a consumer’s point of view. Variables include the retail environment; retail personnel; promotions; assortment; national brand quality and private label quality and their influence on customer satisfaction; perceived value; advocacy and spend. The retailer’s trust variables are then plotted in a diagram that reveals the effect that one trust variable has over the other.
Who is today’s empowered consumer?
The balance of power has shifted from retailer to consumer

Trust has always been important. Decades ago, our grandparents would walk to the shops down the road where they visited stand-alone stores such as the local butcher, baker, fishmonger and greengrocer. The retailer had all the power – they had the product – and our grandparents either paid the asking price or did without. Supply was limited.

Today’s world of choices – takeaway fast-food, supermarkets, large discounters and warehouse stores – put the consumer in the driver’s seat. With global economic uncertainty, an inflated Australian dollar and fluctuating consumer confidence, consumers are increasingly doing their research before they shop to ensure they get the best value, price and quality. This new ‘empowered consumer’ has many tools at their fingertips. They have access to the internet on their home computers and mobile devices, as well as multiple TV channels. This information is power. With the click of a mouse they can compare brands and prices; visit an online forum to hear what other people say about the product; and have it immediately shipped to arrive on their doorstep within hours or days. Online shopping rarely involves direct interaction with the retailer or the manufacturer.

Empowered consumers can decide where, when and how they shop. They are much more selective about choosing which retailers to do business with.

Technology and the shopping process

The number of technologies consumers use in the shopping process continues to rise. According to the Australian Bureau of Statistics, 79 percent of all Australian households have internet access. Aegis Media recently reported that Australia has more mobile phones than people. Telstra notes that of those mobiles, 46 percent are smartphones, which clearly surpasses the US at just 40 percent. PayPal Australia reported that throughout 2010, mobile purchase transactions increased 25 percent every month.

A few years ago, before the widespread uptake of smartphones and other mobile devices, the average consumer could only use their home or work computer for pre-purchase internet research.

Today, consumers browse websites from a variety of places – using not just smartphones and tablets but also in-store kiosks, web-enabled TVs and gaming stations. Social media sites are also an important part of the technology mix, with consumers opting to ask friends, relatives and even strangers about the viability and credibility of a product rather than taking advice from retailers and brand manufacturers.
Technologies and new sources of influence

The 2012 study revealed that in Australia, the number-one influence on shoppers researching products is the physical retail outlet or store. The store is also the second-greatest influence on how consumers become aware of a product’s existence. Traditional advertising is still the number-one influence on awareness, but search engines and other consumer-controlled media are rising steadily (see Figure 1).

Conversely, the influence of email marketing on product awareness has plunged. This could be attributed to the fact that many consumers no longer provide a primary email address to retailers.

The 2011 Smarter Consumer study revealed almost 60 percent of Australian consumers do not provide a primary email address to retailers. Another factor related to the decline in influence of email marketing on product awareness may include a lack of personalisation in the email, or the lack of a strong benefit in opening the email.

In essence, retailers must become smarter about how and where they invest their marketing spend to influence consumers’ awareness of their product during the shopping process.

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We hypothesise that in 2010–11, many consumers embraced iPads and shopping-related applications on mobile devices without much thought as to how they would use these applications during retail interactions. Now, consumers have become more empowered and determine how they choose to use these technologies in the shopping process. Increasingly, they are choosing to use these devices to conduct research into retail purchases.

Shopping-related applications on mobile devices are now rated the third-most influential source during the shopping research phase – a significant increase from last place among nominated influences in 2011.

Figure 1: Greatest influence during awareness: what are the top three ways you become aware of new products?

<table>
<thead>
<tr>
<th>Top 5 Influences</th>
<th>2011 study</th>
<th>2012 study</th>
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<tbody>
<tr>
<td>1</td>
<td>TV/Radio/Billboard</td>
<td>TV/Radio/Billboard</td>
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<td>2</td>
<td>Retailer Store</td>
<td>Retailer Store</td>
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<td>3</td>
<td>Emails</td>
<td>Friends/Family</td>
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<td>4</td>
<td>Friends/Family</td>
<td>Search Engine</td>
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<td>5</td>
<td>Mobile Apps</td>
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<td>6</td>
<td>Social Media</td>
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<td>11</td>
<td>Shopping Portal</td>
<td>Mobile Apps</td>
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Source: IBM Institute for Business Value, Retail 2012, Australian consumers (1,801 respondents).

Interestingly, the influence of mobile devices on product awareness during the shopping process has declined dramatically year on year.
The economy and discretionary spend

Nearly 70 percent of global respondents are optimistic about their income situation. In Australia consumers are ambivalent, with only 19 percent of respondents saying they expect their incomes to rise by at least 20 percent over the next five years. Globally, this figure was 35 percent, mainly driven by optimism in emerging economies such as China and Brazil.

The flipside came when we asked respondents for their current attitude to shopping and spending. It’s official: frugality still reigns. More than 45 percent of Australian respondents stated they will search for items on sale, while just 10 percent indicated they would be willing to spend more in general.

Retailers and brand manufacturers need to learn and understand the effect of the new model of discretionary spending on their brands. Interestingly, our research indicates the empowered consumer is open-minded about spending, given the right enticement. More than 30 percent of Australian respondents stated they were completely willing to share lifestyle, identification, demographic and media usage information in exchange for a relevant, non-monetary incentive.

Conversely, when we asked why they would abandon the process prior to purchase, the top five reasons were:

1. Wanted to touch, see and experience the item
2. Wanted to compare prices to determine the best price
3. Could not tell if the product was in stock
4. Product information was missing (such as quality and product attributes)
5. Wanted the ability to speak with an assistant in store before buying.

Continuing the trend in previous studies, Australian consumers still highlight the lack of customer service as an issue. This is unique to Australia when compared to the global study and to individual markets like the US and UK.

Why trust matters

The good news: retailers and brand manufacturers have improved their ‘trust’ factor

In the 2011 Smarter Consumer Study we asked, ‘Who do you trust to provide honest feedback and suggestions about products?’ The largest group of influencers by far was family and friends (51 percent), followed by customer reviews (19 percent), product experts (17 percent), manufacturers (10 percent) and retailers (just 3 percent).

The good news is that the efforts of manufacturers and retailers to improve consumer trust has paid off. In this year’s study, manufacturers moved up to 16 percent and retailers more than tripled their trust ranking percentage to 10 percent (see Figure 2).

Figure 2: Who do you trust to provide honest feedback on product information and product reviews?

2011 study: Trust ranking – Australia

- 51% Family/Friends
- 17% Product experts
- 10% Manufacturer
- 3% Retailer
- 19% Customer reviews

2012 study: Trust ranking – Australia

- 48% Family/Friends
- 14% Customer reviews
- 16% Manufacturer
- 10% Retailer
- 12% Product experts

Source: IBM Institute for Business Value, Retail 2012, Australian consumers (1,801 respondents).
Our research indicates that many retailers and brand manufacturers are more effectively using technology to analyse data. They are personalising their interactions with customers and engaging in a proactive and interactive digital dialogue. Small gestures, such as including a message that says ‘welcome back’ when a customer returns to a retail website, shows the customer that the retailer ‘knows them’ and appreciates their business.

**Brand influencers: Advocates, Apathetics and Antagonists**

We discovered that consumers can be grouped into three categories: Advocates, Apathetics (or Shifters) and Antagonists.

Advocates recommend brands and retailers to others, buy more from a particular retailer when given the opportunity, and remain loyal to that retailer even when new competitors enter the market. In Australia, Advocates spend 5 percent more than Apathetics.

Apathetics or Shifters are indifferent to their primary retailer. They often choose price or convenience over loyalty and they may or may not recommend their regular brand or store to others.

Antagonists actively dislike their primary retailer, often voicing their opinion through digital, social media channels.

Our research reveals a dramatic decrease in the percentage of Antagonists in Australia during the last year, from 46 percent down to 12 percent, and a rise in the number of Apathetics (see Figure 3).

This indicates many Australian retailers are listening to consumer feedback and making improvements that matter to their customers. Why is this important? Using the Castaldo Retail Trust Model (see Figure 4), the 2012 study reveals a direct correlation between trust, advocacy and consumer spend.
The relationship between trust, advocacy and spend
To most of us, ‘trust’ feels amorphous and intangible. As a concept related to the relationship between consumers and retail brands, ‘trust’ can be made tangible, and it can be quantified and measured using the Castaldo Retail Trust Model (see Figure 4). A consumer either trusts or does not trust a brand or retailer. This trust can be gained and lost. Once lost, it is very difficult to get back.

There are different ‘levers’ that increase trust: some are more important than others
When Australian consumers were asked if the current state of communications and promotions from their primary retailer was not frequent enough, 61 percent of them agreed. What does this mean? Perhaps that retailers need to communicate more frequently and effectively with their consumers.

Figure 5 depicts five major areas Australian retailers can improve to increase consumer trust, according to findings of the 2012 study. Of these, product assortment and retail environment ranked highest, followed by retail communications.

Trust is important because it is ‘earned’ currency. Once a retailer or brand has built trust with a consumer, they have a ‘cognitive monopoly’ over their competitors. The more a consumer trusts a brand or retailer, the less they shop around.

Think about the level of trust you have with your dentist or family doctor. This is the level of trust many people have with their brand of toothpaste, clothing, hairdresser, supermarket or local café.

In the 2012 study, the Castaldo Retail Trust Model (see Figure 4) indicates that to increase trust, it is not enough to focus only on the retail experience, or only on the product. Brands and retailers must do both.

Figure 4: Trust matters: The SDA Bocconi School of Management’s Castaldo Retail Trust Model shows a direct correlation between trust, advocacy and spend.

Source: Bocconi University, Dr Sandro Castaldo et. al., Model of Trust.

Figure 5: Greatest influencers of trust.

| Retail environment | • Has shelf labels / product tags which are clear | • Is pleasant |
| • Signage is clear | • Is comfortable |
| • Display of merchandise is excellent | • Easy to navigate |
| Retail personnel | • Has my interest in mind | • Keeps his/her promises |
| • Available to provide advice or help, if necessary | • Is an expert or competent |
| • Can be trusted | • Is friendly |
| Retail communications | • Makes you want to shop | • Is honest |
| • Comprehensive | | |
| • Clear | | |
| • Frequency to the consumers liking | • Credible |
| • Credible | | |
| Assortment | • Saves me money | • Right number of choices |
| • Affordable prices | • Saves me time |
| • Excellent value for money | • High quality |
| • Meet all of their needs | • Meet all of their needs |
| Private label | • Are similar quality as national brand products | • Are lower quality than national brand products |
| • Are high quality | • Are lower quality than national brand products |
| Promotions | • Interesting | • Frequency to my liking |
| • Clear | • Good deals |
| • Makes me want to shop | • Personalised for me |
| National brands | • Are lower quality than retailer brand products | • The brand products are of high quality |
| • Are similar quality as retailer brand products | | |

Source: IBM Institute for Business Value, Retail 2012, Australian consumers (1,801 respondents).
How do retailers and brands build trust with consumers?

The IBM Institute for Business Value defines ‘trust’ as an assured reliance on the character, ability or truths presented by someone or something; one in which confidence is placed. Trust comes in varying degrees and is something that can take years to earn, but only seconds to lose.

Here are our recommendations for how to develop a trusting relationship with customers.

**Be authentic**
You can become consumers’ trusted source by being present and actively engaged in their communities and preferred social channels, both online and offline. Actively solicit input and suggestions from your customers about how to improve your product, service and store experience. Understand and respond to customer sentiment.

**Demonstrate you know them**
Provide the right balance and assortment of products and tailor your offerings to fit local markets. Train and enable store staff so that they can educate and assist shoppers. Identify customers’ preferences, and then personalise offers and product promotions to suit them.

**Listen**
Understand the affinity and relationship your brand has with other brands. Learn which brands and consumers are leading conversations and the level of affinity they have with your brand and others. Discover ‘hot words’ and trends related to your brand. Measure and plot customer sentiment about your brand in segments that align to customers’ lifestyles, emotional needs and values. You should continuously monitor these sentiments as they change over time. Continuous monitoring also allows brand manufacturers and retailers to respond to comments in real time.

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Consider the four ways in which consumers engage:

1. **Lifestyle**: does the brand align with my lifestyle, emotional needs and values?
2. **Relationship**: does the brand value my business and give me a reason to come back?
3. **Service**: how easy was it to do business with the retailer?
4. **Transaction**: does the retailer provide what I need for a good price?

The value comes from understanding how your brand or store is perceived, what else your customers are interested in, where you are doing well and where you can improve. You can also learn a lot about your competitors through this analysis.

**Recommended next steps for retailers and brand manufacturers**

**Use analytics to listen and learn**
Technology empowers consumers. It instantly gratifies them by giving them an unprecedented level of convenience.

Using technology to understand and listen to customers will help retailers and brand manufacturers better understand how to keep them happy. What keeps them coming back? Is it your product assortment, your store environment, or your easy online purchase and return policies? Who are your product advocates and how frequently do they like to receive communications from you? Gather and use customer-generated content to help you tailor your products to meet their needs.
**Case study**

**Zozotown uses customer analytics to increase sales**

Zozotown, Japan’s largest online fashion store, wanted to harness its sales and online data to deliver targeted offers to its 3.8 million customers. However, due to the scale and variety of this data, the store struggled to decipher and make use of it.

Zozotown chose IBM’s Netezza Advanced Analytics platform and IBM’s Unica e-marketing platform management software to gain customer insights and provide personalised sales offers. After implementing this platform management software as a key component of their new strategy, sales at the online store increased by 54.2 percent. Opening rates for its direct offer emails increased five-fold and the sales conversion rate increased 1,000 percent.

**Create a flexible business model that lets you anticipate and adapt to change**

You may understand the history of your business, customers’ past shopping patterns and impacts on your inventory cycles. But do you understand what consumers will expect from you in the future?

Retailers now have the technology to scan the social media landscape in real time and adjust their offers and promotions to suit consumer affinities and relationships. Retailers and brand manufacturers can proactively promote and, when necessary, defend their company and its product offerings. Social media channels including Twitter, LinkedIn, Facebook and blogs can make or break a brand in an instant.

**Use your physical presence to excel at sales**

The retail shopping experience doesn’t begin and end online. According to our research, consumers still view the retail store as their first preference for shopping. Empowered consumers still want to experience the merchandise, connect with peers and take advantage of knowledgeable experts who can advise on product selection, educate them about products, and provide service for returns and exchanges.

To that end, the right store environment, mix of products, service and technologies are retailers’ strategic weapons to beat competition from overseas retailers and online stores.

Online retail websites can’t offer consumers the physical, tangible presence Australian retailers can provide. Use this need for physical contact and connections to differentiate your brand. Leverage your tangible presence to create a community of advocates who will share positive comments about your store, your products and your brand. Remember, the more channels you provide, the more orders you can take, and the more profitable you may become.

**Empowered consumers openly discuss your brand, whether you know it or not. They are willing to share information with their online peers.**
Empowered consumers are one click away

There's no doubting who's in control when it comes to shopping. Consumers are enabled by technology, influenced by online communities of many – sometimes millions – and have the power to use online channels to voice their opinions. This power can instantly make or break a brand, a company or a store.

Retailers and brand manufacturers can stand out from competitors by listening to and collaborating with customers online. To ignore these opportunities would be to risk becoming irrelevant, missing new market opportunities, and incurring ridicule or brand damage.

Empowered consumers openly discuss your brand, whether you know it or not. They are willing to share information with their online peers. To stay ahead of the competition and remain relevant, retailers and brands need to learn how to collect, use and act on that information. Building trust is an achievable goal, one with a tangible pay off. The question is – how ready is your organisation for today's empowered consumer?

How can IBM help?

IBM Cognos Customer Insight is the industry's most robust enterprise-class social media application. This software helps retailers and brand manufacturers listen to customers, identify trends and content authors, and identify and act on issues before they escalate.

IBM's Global Business Services consultants can help you design a flexible business model and architecture, benchmarking where your organisation currently sits and planning strategies for future growth.

IBM's Smarter Commerce and Retail Store systems, including point-of-sale and kiosk systems, can help retailers improve their merchandising, sourcing, marketing, sales and service processes, ensuring the customer remains the centre of focus throughout the retail process.

IBM's Retail Centre of Competency helps retailers make the best use of technology to assist them to streamline costs, reduce inefficiencies, aid product development and expedite go-to-market activities. It also helps retailers build new capabilities to better understand, track and respond to consumer preferences, drawing on its team of highly skilled experts from around the world.