

IBM Institute for Business Value

# Winning over the empowered consumer:

Why trust matters



By Melissa Schaefer

**A new** IBM Institute for Business Value survey of more than 28,000 consumers from around the world confirms that while consumers actively discuss, critique, promote, and even dismiss your brand, they will give their loyalty only to a few select retailers. How well retailers and product brands identify the arbiters that determine what's hot and what's not and build trust with both individuals and communities of like-minded consumers will determine whether they benefit from a base of loyal advocates or are left with transient and fickle customers.

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### IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realise business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information. Additional studies from the IBM Institute for Business Value can be found at [ibm.com/iibv](http://ibm.com/iibv)

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The proliferation of digital communications and the speed of technological innovation today have ramifications in virtually every arena and few have felt the impact more than the retail industry. Through a lens of connectivity and collaboration – powered by mobile devices that keep them connected wherever they may be – consumers have acquired the capability to know almost everything about every product and brand. They bring attitudes and expectations about shopping, shaped by their experiences across a broad array of industries. Going forward, given the expanded depth and breadth of shopper knowledge and expectations, retailers will need to focus on building trust if they hope to gain the loyalty of these newly empowered consumers. As companies enter this new way of serving the empowered consumer they now must ask themselves not “how loyal are my customers to me,” but “how do I demonstrate my loyalty to my customers?”

From our survey, we discovered the following:

- The empowered consumer controls your brand. Consumers use technology to take control. This isn't a new finding in itself, but the willingness to use technology has increased; 25 percent of the consumers we surveyed said they are willing to use three or more technologies in the shopping process

- The store still rules. Many consumers are transitioning to digital shopping, but 83 percent still prefer to purchase in the store
- Trust matters. Trust can be measured. Not only can it be measured, but there is also a direct correlation between how much a consumer “trusts” you and their willingness to recommend you, stay with you when your competition begins to offer similar services and, more important, how much they will spend
- Social media channels provide a rich source of information. When listening to social dialogue, companies can not only measure how much they are trusted, but also understand for what they and their competition are known. Trends can be predicted even before they emerge.

IBM first reported on the emergence of this “smarter consumer” in a 2009 IBM Institute for Business Value Retail study in which we discovered that consumers were more connected, vocal and demanding than ever before.<sup>1</sup> The implications for retail became evident in a 2010 follow-up study where we saw the emergence of distinctly different shopping patterns and a clear power shift. Enabled by technology to seize command of the shopping process, the smarter consumer began demanding a more personalised experience. Consumers made it clear to retailers that

personalisation was just not about promotions. It also covered tailored shopping services, such as retention of preferred payment methods at checkout, receipt types, exclusive access to new products and reminders for birthdays, anniversaries or other significant dates. For example, consumers want their retailers to emulate the practices of the most forward-thinking industries with which they interact – such as some banks, which use ATMs to capture and save preferred types of customer transactions, default languages, receipt delivery preferences and more.

Ultimately, what our 2009 and 2010 studies told us was that smarter consumers want to be served, not sold to. They have already solicited advice from their family and friends – they even listen to strangers – and they know what they want when they enter the store. These consumers expect service and experiences tailored to their specific, individual needs.

Following up on our two previous studies, in late 2011 we surveyed 28,526 consumers in 15 countries, from both growth and mature markets. Not only did we listen to what they told us, we also used our own social listening tools to understand what they were telling each other. Through our analysis, we discovered that consumers have evolved from being “smarter” to being “empowered.” Not only are they still using technology to shop, they are adopting a broader range of technology and embracing new technology-enabled ways to become aware of, research and buy products. The consumer mindset is transforming from a “market of me” to “communities of we,” which share common interests and tastes. In this transformation, they have wrested control away from brands and retailers. These consumers share and compare their shopping experiences with family, friends and social networks. And in doing so they are ultimately deciding – and influencing others – on which retailers have earned their trust and will be rewarded with their patronage.

### Why trust matters

Consumers can be broadly divided into three categories: Advocates, Apathetics and Antagonists:<sup>2</sup>

- Advocates recommend their retailer from that retailer when given the opportunity to recommend that retailer when new competitor enters the market.
- Apathetics, even though they may be loyal, are indifferent to their primary retailer.
- Antagonists actively dislike their primary retailer.

Developing consumer advocates is important because they spend more and are more likely to spend more time with preferred retailers.<sup>3</sup> In our 2011 survey data, we noticed a direct correlation between consumers who “trust” their primary retailer and their advocacy. To further test the hypothesis that trust in advocacy and repeat spend, we partnered with Bocconi School of Management to understand how to build that trust and how to build consumer trust and how to build loyalty (see sidebar, page 3).

The overarching conclusion is trust is important. Retailers are asking, in essence, for the retailer to provide a better shopping experience and personal touch of the retailer. Retailers want to be known, they want to be valued. They are open-minded about information to retailers to assist in their shopping. Retailers want to know how retailers use this information and how trust is gained or lost. In this age when consumers are demanding brands new ways to connect with customers, retailers need to become even more important that building a two-way dialogue with consumers to build trust and loyalty.

### Research methodology

In 2011, the IBM Institute for Business Value conducted an online survey of 28,526 consumers living in eight mature economies (Australia, Canada, France, Italy, Japan, Spain, the

#### SDA Bocconi School of Management - Professor Sandro Castaldo

SDA Bocconi School of Management is one of Europe’s top 20 business schools. The school recently launched an international Channel & Retail Academy (CRA). The mission of CRA is “to become a benchmark and an incubator of excellence for executive education and research on both channel marketing and retail management topics.”

Sandro Castaldo is SDA’s Professor of Marketing and the Scientific Director of CRA. His research with Monica Grosso and Katia Premazzi focused on the idea of trust being recognised as a strategic, relational asset for retailers. Professor Castaldo and colleagues developed a store-trust centered model to research two purposes. First to test a comprehensive framework linking trust to customer satisfaction, perceived value, store loyalty intentions and behaviours. Second, they also estimated how the store’s human resources, communications and sales promotions, environment and assortment (including private label products) influence trust, loyalty, intentions and store patronage.

IBM partnered with SDA Bocconi to test and utilise this model in the 15 countries in which we conducted research, as well as across multiple product categories. The purpose was to understand if the model held true and to understand the similarities and differences among the building blocks of trust within each country.

Income brackets	Ages surveyed	Product categories
Upper	Generations (15-30)	Adult apparel
Upper middle	Generations (30-40)	Youth apparel
Lower middle	Generations (40-50)	Leisure footwear
Lower	Generations (40-50)	Personal care
	Generations (50-60)	Beauty
	Generations (60+)	Electronics
		Home furnishings

Source: IBM Institute for Business Value 2011 Global study.

Figure 1: Survey results were analyzed across income, generations and product categories.

Who is today's empowered consumer?

Empowered consumers are defined by three prevailing

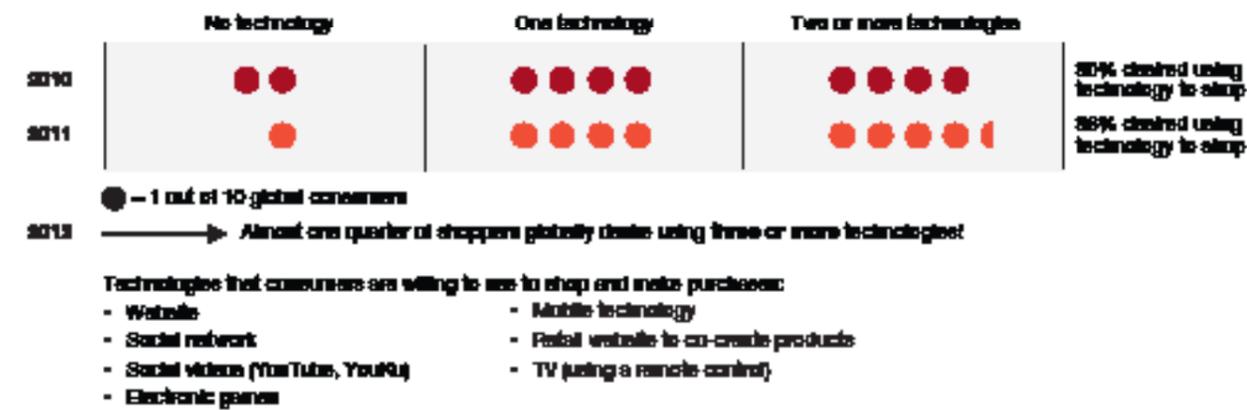
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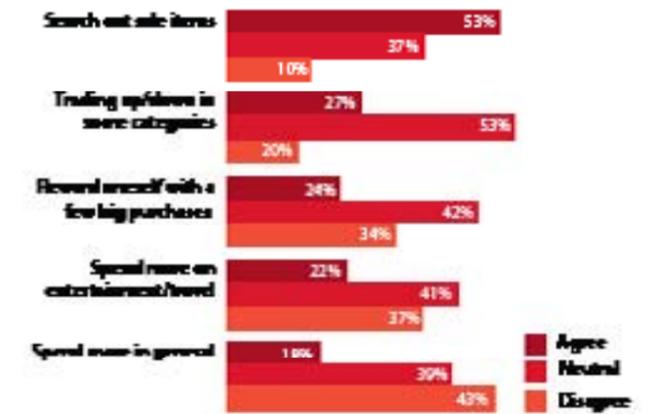
Willingness of consumers to use technology



Source: IBM Institute for Business Value 2011 Global study

Figure 2: Retail grows even more digital as the vast majority of consumers desire to shop and browse with an expanding number of technologies.

Attitude toward shopping



Attitude toward income

- 80% of consumers are optimistic about the future of their income
- 81% believe income will stay the same
- 85% believe income will increase by 20% in the next 5 years

Optimism is driven by China (86%), Brazil (81%), and Mexico's (80%) belief that income will increase

Source: IBM Institute for Business Value 2011 Global study

Figure 3: Consumers feel positive about income, but need to be wiser over in order to increase their discretionary spend.

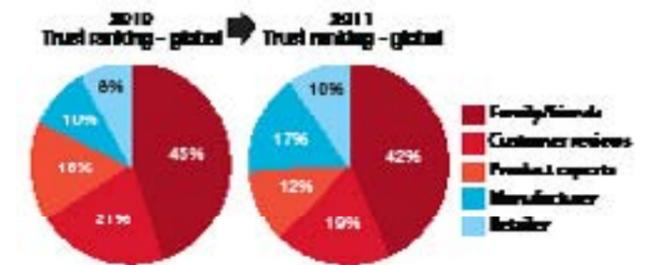
In contrast, Europeans are much more protective of their financial and medical information. The point is consumers will provide a considerable amount of private information in exchange for something of value to them. This evolution in consumer attitudes is a critical one, as it presents retailers with the opportunity to gain broader and deeper knowledge about consumer habits and preferences, particularly in shopping and communications preferences.

### Retail rejoins the conversation

Consumers seek and accept shopping advice from peers, family, friends and even strangers. In our 2010 study, we noticed that the voices of retailers and manufacturers carried relatively little weight with consumers.<sup>5</sup> This year, those voices are a little louder, due in large part to the progress leading retailers and manufacturers are making to incorporate the consumer's technology preferences into their marketing and brand building activities (see Figure 5). They are using data to provide more relevant communications, including personalised welcome messages on website landing pages, to make consumers feel like they are known and appreciated. Additionally, some retailers are creating forums that enable them to be actively engaged with their communities, facilitating discussion, troubleshooting, promotions and other communications. For example, Wal-Mart launched 3,500 local Facebook pages during the 2011 holiday season to allow store managers to monitor local discussions, address concerns and inform customers about local rollback pricing.<sup>6</sup>

While consumers still trust each other the most – particularly their families and friends – manufacturers and retailers are at least now making their way back into the conversation.

### Who do you trust to provide honest feedback/suggestions?



Source: IBM Institute for Business Value 2011 Global study.

Figure 5: Consumers are empowered by a variety of sources throughout the shopping process – of which many are out of the retailer's control.

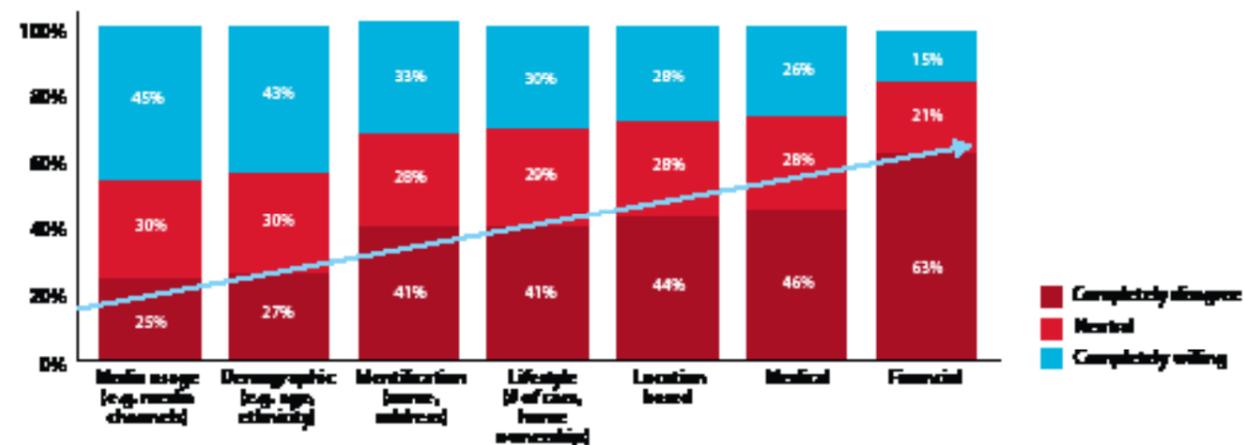
### Shopping behaviour

When consumers research products, the store is still the preferred destination and is complemented by digital technologies (see Figure 6, page 8). Two-thirds of consumers are ready to buy after researching, with the vast majority transacting in the store.

However, one-third of consumers do not have enough information after they research to move forward with a purchase because of missing product information, independent product reviews and price comparisons – all pieces of information typically within the retailer's control. Such hurdles in the digital shopping path can motivate the consumer to buy elsewhere.

### Consumer initiates control of data

What is your willingness to provide information in exchange for something relevant to you (non-monetary)?



Source: IBM Institute for Business Value 2011 Global study.

Figure 4: Consumers are open to share their personal information, with the exception of financial data, when there is perceived benefit.

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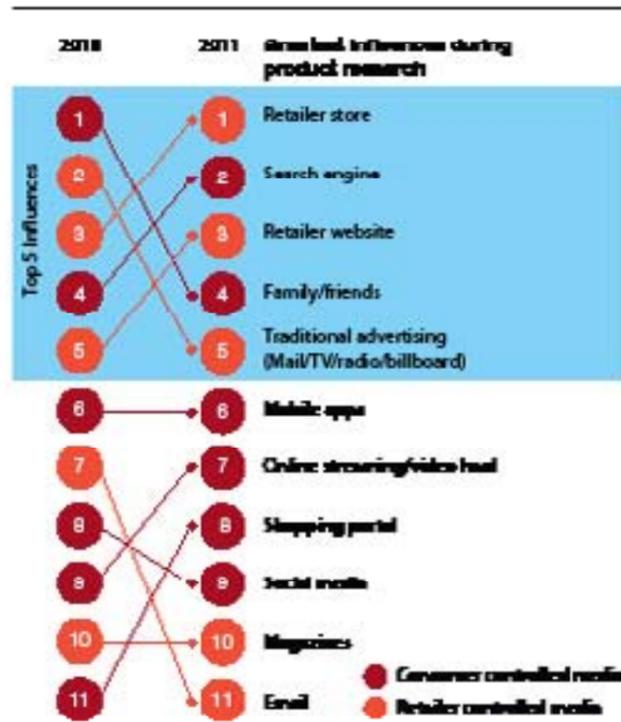
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Source: IBM Institute for Business Value 2011 Retail Study

Figure 6: When consumers research products, the store is preferred and is complemented by digital technologies.

**Retail is digital, but you can't ignore the store**

Companies often ask, "Does the store still matter?" The answer is yes. The next question many retailers ask is, "If the store is still relevant and consumers are willing to use technology to shop, do we enable the store with just mobile to assist customers in shopping and checking out?" Retailers need to consider that consumers tap digital tools to complement the physical store experience, which remains the preferred format for purchasing and collecting products.

- The store is not just any channel, it's an experience. The question is what is the right mix of technologies within or outside of the store to both empower and provide flexibility to different market segments? Which platform provides the flexibility and the functionality to switch in and out new technologies just as quickly as the consumer changes his or her mind about which technology to use?
- Identify the criteria consumers use to compare and critique your products
- As you learn the purchasing habits of your consumers, make sure you have the right mix of customer service and the right product assortment to capture the sale in the store
- Make your store differentiated and inviting so that the customer wants to shop with you.

**Trust matters**

Trust is defined as an assured reliance on the character, ability or truths of 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.

In the retail context, trust is often equated with the neighborhood market or a local boutique, where the shopping experience is typically differentiated by attentive, friendly store employees and their knowledge of individual preferences and needs. These outlets often demonstrate a connection and commitment to the local community. In today's era of chain retail, however, such familiarity-inspired

knowledge is not so easy to come by. For larger retailers and brands to cultivate this sense of connection, they must reorient their operations and become completely consumer centered. They will need to relearn how to create and measure how well they are building trust with the consumer. Those successful with this approach might even begin to "brand" their identity around being trusted.

With consumers now engaging and interacting with retailers and brands across so many devices, locations and persona, how can retailers establish or reestablish, a meaningful relationship with individual consumers? Dr. Sandro Castaldo, SDA Bocconi School of Management, who partnered with the IBM Institute for Business Value in the development of this study, maintains that focusing on just the retail or product experience is insufficient to generate trust. Instead, trust is engendered through a combination of three levers: the retail experience, comprised of the shopping environment and personnel; the product experience, which includes assortment, private label offerings, national brands, and promotions; and communications. In turn, trust fosters consumer advocacy. And, as our past studies have shown, advocacy leads to increased consumer spending. Trust creates the opportunity to create a "cognitive monopoly" – i.e., the trusted retailer or brand comes first to consumers' minds when they are ready to purchase. There is no desire to shop anywhere else.

Each of the trust levers is important. Some, however, such as retail and product experience, matter more than others. In creating a positive retail experience, it's important to pay attention to even the smallest details. Key drivers of trust are those that make the consumer comfortable and foster transparency. Are shelf labels and product tags clear? Is the store signage clear and easily visible? Are merchandise displays pleasant, comfortable and easy to navigate? Do all of these work together to signify that there is nothing to hide?

Organised stores create an environment where customers can easily navigate and enjoy the store experience. An example of a major national retailer looking to improve the retail and product experience is JCPenney. With a new chief executive officer (CEO) at the helm, fresh from the technology arena, the company is moving to organise stores to create a fresh and uncluttered look. It is the retail equivalent of a “spring cleaning.” Additionally, JCPenney is concentrating on consistency in “everyday right pricing,” as opposed to a flood of confusing discounts.<sup>8</sup>

From the consumer standpoint, few things can build trust as quickly and completely as employees who are empowered to serve them, rather than sell to them. These employees have the consumer’s interests in mind and are available to provide advice or help as necessary. They are empowered to make the customer “king.” An example of this empowerment can be found with outdoor retailer REI. This company employs service associates who are also customers. REI employees are outdoor activists and can give the consumer an assessment based on personal experience about what works and what doesn’t. They share with customers a commitment to environmental stewardship. Some employees even share with consumers their personal pictures of climbing, skiing, hiking – all while wearing REI gear.<sup>9</sup>

To deliver along the product experience lever, it is essential to align merchandise with customer lifestyles and values. Products, as well, should be available through both physical and digital formats. Assortment and selection should be curated to reflect the needs of a specific locale or tapped into local sources of product. The degree of localisation which retailers are able to achieve in the product mix serves to reinforce the personal, “neighborhood” feel of the brand. If the store does not carry all of the products, simple processes should be in place to allow the customer to both view online inventories and digitally order the products.

Another aspect of product experience is an appealing range of private-label products. To help build trust, consumers expect these goods should be of the same quality or better than national brands. Overall, the balance of products should provide an excellent value and be affordable.

Consumers are not looking exclusively for a good financial deal. They also want clear and interesting communications. They should be personalised and can be more frequent – as long as they contain relevant and timely information, delivered in the media channels that each individual consumer prefers. Interestingly, 73 percent of the consumers we surveyed said retailers do not communicate with them frequently enough. While it may seem counterintuitive that consumers would invite more communications from a retailer, in actuality, frequency cannot be considered independently of media channel. Each consumer has his or her preferred channels for interacting with a given brand or retailer. Though they may be bombarded in one channel, communications are not frequent enough in their preferred channels – the one they actually read.

Finally, consider how communications drive trust: Are store communications comprehensive and clear? Do they make consumers want to shop? Are they credible and disseminated at a frequency that matches consumer desires? Once again, retailer and manufacturer communications are at high risk of landing in the spam and trash files if the consumer’s preferred channels are not understood or acknowledged. As one young consumer stated, “Email is the easiest form of communication to ignore, I don’t even have to open it like a magazine or the mail, I just hit delete.”

## Trust recommendations

### Give the consumer quality, variety and value

Assortment and price are still the foundation of the relationship between the retailer and consumer.

- Make sure you know and have the right balance of national brands and private-label products that deliver the value consumers expect
- Be aware of local market product preferences and tailor your assortment accordingly. Design store-level processes to assist customers in purchasing products not provided in their local market. Make sure communications are clear and provide compelling reasons to shop. Avoid fine print that consumers need to scour to discover promotion limitations.

### Associates are brand ambassadors

Turn sales associates into knowledgeable, trustworthy advisors that complement the product experience.

- Provide associates with the necessary information to understand customer needs and preferences – both at the individual and household levels
- Make sure associates have access to tools and information to provide helpful advice and service. If you have tools that allow the consumer to research products online, make sure this same data is transferred automatically to your service associates when the customer comes into the store
- Create a pleasant, engaging shopping environment for your customers.

### Market to consumers on their terms

Personalise promotions to consumers.

- Learn, by market segment, the right communication frequency and the preferred media channels customers prefer
- Understand the processes that create customer trust, as well as those that detract from a trusted relationship
- Measure your trust value, your trust leverage and if possible, brand your trust.

## Listen and engage

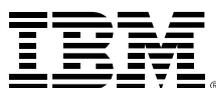
To determine how retailers can begin building the foundation to create consumer trust, we not only listened to what consumers told us, but we also listened to what they told each other. We reviewed more than 1.2 million documents over a six-month period, which included North America’s 2011 Back-To-School, Black Friday and Cyber Monday peak shopping periods. We examined select sports apparel manufacturers and sporting goods retailers. We aggregated commentary from videos, Twitter, Facebook, discussion boards, product reviews, blogs and newsgroups. We then filtered categories of social conversations identified by select word concepts. We analysed volume, sentiment, hot words and identified the top influencers involved in the digital discussions. We discovered affinity relationships between the retailers and sports apparel manufacturers with content authors, as well as the frequently occurring key words.

In listening to and analysing this consumer-generated content, we found that consumers segment retailers and brands based on different levels of engagement: transaction, service, relationship and lifestyle. They are self-selecting into these segments based on their sentiment about how brands align with their lifestyles and emotional needs. In the relationship segment, consumers discuss whether a brand values their business and provides them a reason to come back. For service, consumers talk about how easy it was to do business with the retailer. And from a transaction standpoint, the chatter centred on whether the retailer provides a good price and availability of products.

The range of sentiment provides a benchmark for how well a particular retailer is perceived by the consumer.

Sentiment is something that needs to be continuously monitored to assess how consumer attitudes and perceptions change over time (see Figure 7, page 12). For retailers and manufacturers, when they seek to understand what





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