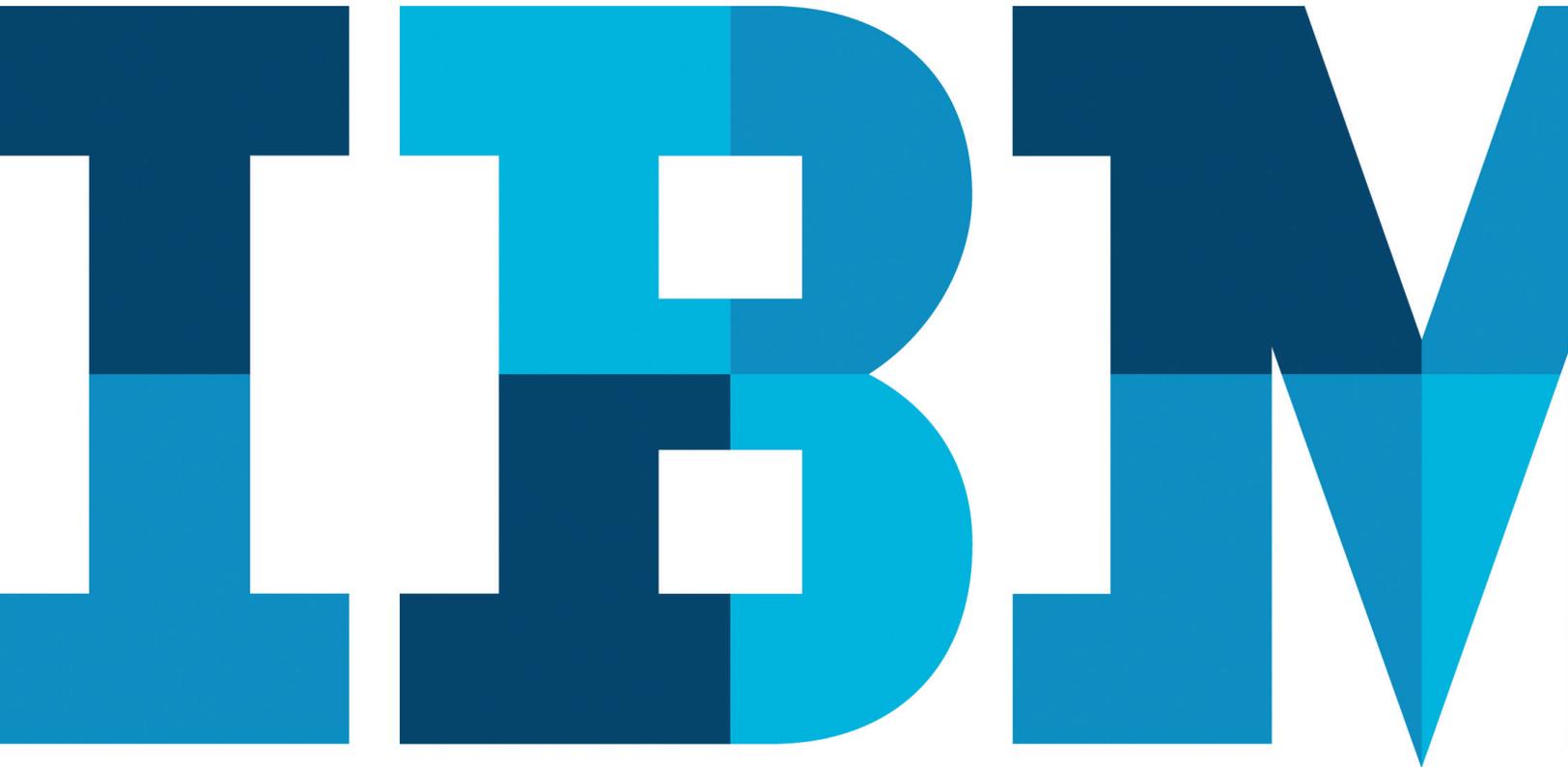


# Smarter consumer products marketing: Understanding consumers, building brands



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### Executive summary

The principle of understanding consumers has long been the central nervous system, so to speak, of the consumer products industry. Today however, understanding consumers and delivering outstanding value propositions by consumer segment and micro segment is a complex undertaking. In addition, learning how to manage and leverage the rapid escalation of data available about the consumer is a significant challenge.

Chief Marketing Officers for consumer products companies need to have a smarter marketing approach and develop new consumer insights by combining consumer, store and third-party data with sophisticated analytics that will enable them to differentiate their brands, deliver relevant innovation, engage in dialogue with consumers and deliver profitable volume growth.

This paper examines five recent studies and how they apply to the consumer products industry:

- IBM Institute for Business Value, “Capitalizing on the Smarter Consumer”, 2011
- IBM Institute for Business Value, “Winning over the Empowered Consumer”, 2012

- IBM Institute for Business Value, “From Social Media to Social CRM”, 2011
- The IBM 2011 Global CMO Study
- The IBM 2010 Global CEO Study

This paper discusses insights gained from these studies within the critical areas of the smarter consumer and the Big Data explosion.

### The smarter consumer

The foundation for IBM’s point of view on this new consumer is two pivotal global studies conducted by the IBM Institute for Business Value: “Capitalizing on the Smarter Consumer” in 2011 (sample size over 30,000 consumers) and “Winning over the Empowered Consumer” in 2012 (sample size over 28,000 consumers).

There has been a seismic shift in the way consumers think, act and expect to be treated.

Smarter consumers are harder to “read” than their predecessors. They are also more cautious about spending their money and more resistant to marketing because they have alternate ways to get the information they require. Smarter consumers are different. They are typically more comfortable with technology and more powerful than ever before; they sometimes make the purchasing decisions for their extended families and share their shopping experiences online. They want to be served—not sold to.

What the IBM research found is that there is more going on with this consumer besides the use of technology. Their use of technology is a given. So what has changed? Their attitudes have changed, and their expectations are formed by a myriad of factors. They want to be served and they expect brands and

retailers to be loyal to them. Their attitudes reflect an era of open mindedness. They effortlessly contribute to and benefit from crowd intelligence. They influence and are influenced by “communities of we”—consumers who have similar interests and passions.

Who do they trust? In mature markets only 17 percent of consumers trust manufacturers to provide honest feedback on product information, and in growth markets this trust ranking is only slightly higher at 20 percent.<sup>1</sup> Family and friends rule. This network holds much more credibility and trust than the manufacturer and retailer. Improving consumer trust in brands is a strategic priority for Chief Marketing Officers.

The 2012 IBM “Winning over the Empowered Consumer” study revealed that consumers have different levels of engagement:

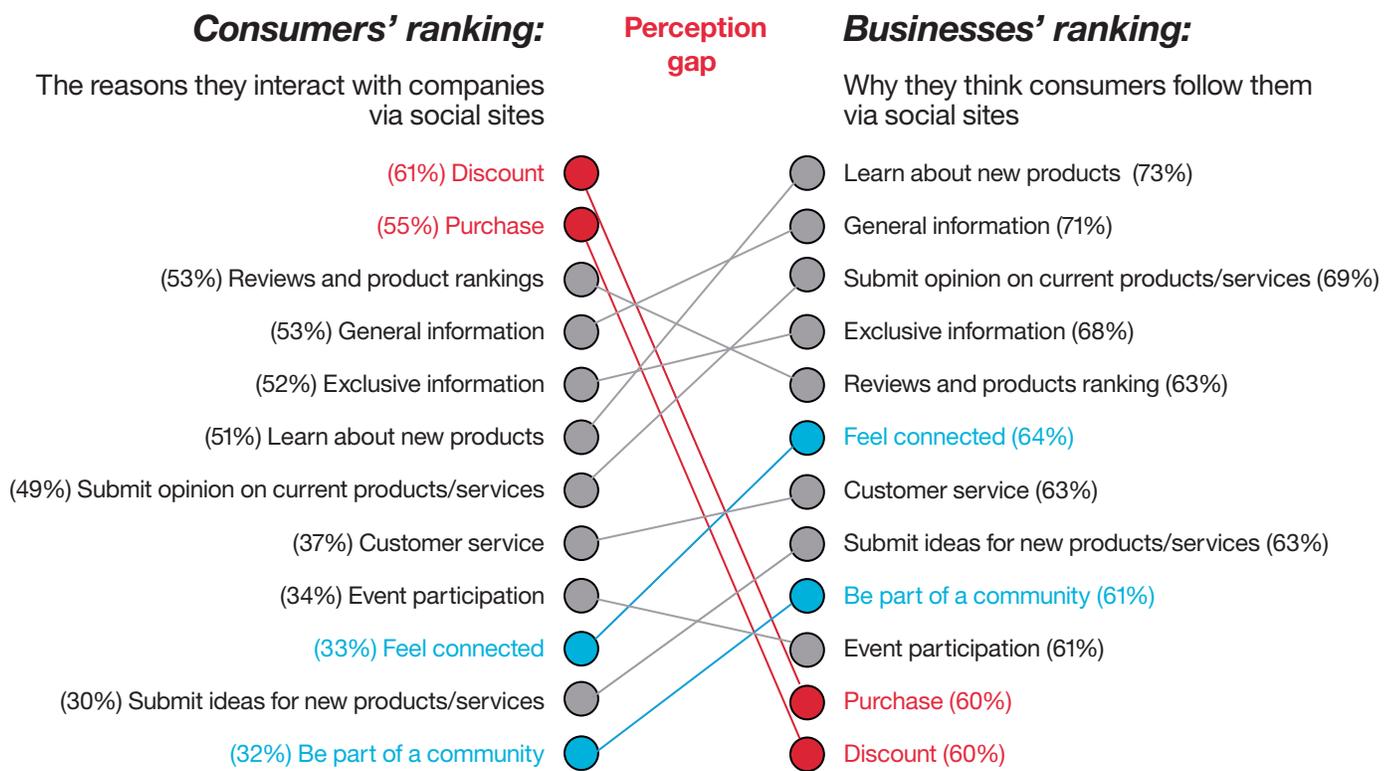
- Transaction: “Does the brand or retailer provide what I need for a good price?”
- Service: “How easy is it to do business with the brand or retailer?”
- Relationship: “Does the brand or retailer value my business and give me a reason to come back?”
- Lifestyle: “Does the brand or retailer align with my lifestyle, emotional needs and values?”

It starts with putting the consumer at the center of the organization—which is itself is not a new idea—however, truly operationalizing this in today’s world of mobile and social ‘instant business’ means manufacturers must leverage and act on insights generated through social networks and mobile platforms. Past experience shows that consumers are more engaged with companies they trust. They also tell their families and friends about such companies and spread the word on the digital grapevine. With two-thirds of consumers influenced by this consumer-generated content, it is critical that consumer products companies master the challenges of listening, learning and gaining the trust of today’s smarter and empowered consumer.

#### **The importance of understanding social media**

Consumers of all ages and in all parts of the world are swarming to social media. Understanding social media is no longer optional; it is an imperative. Our study, “From Social Media to Social CRM,” Parts 1 and 2 (1. What customers want, and 2. Reinventing the customer relationship) provides landmark insights into the importance of understanding consumer wants and needs and how to engage them in social media. The study is based on interviews with 1,000 consumers worldwide on their use of social media or networking and 350 executives on why they think consumers are engaging with them in the social space.<sup>2</sup>

As shown in Figure 1, IBM learned that there is a clear disconnect between what consumers say their motivation is in the social space is and how business executives perceive it.



Source: IBM Institute of Business Value, "From social media to social CRM," February 2011

Figure 1: The social media perception gap

There is an advocacy paradox. Businesses are betting on social media; 70 percent of executives believe reaching out to consumers through social media will help them increase consumer advocacy. However, 64 percent of consumers say passion for a brand is a prerequisite to engage with that company in social media and only 38 percent of consumers feel social media interactions with a business will have a favorable influence on their loyalty to that company.<sup>3</sup>

Companies can understand and take advantage of this dynamic by designing social media programs with the explicit goal of touching customers emotionally and motivating them to share their experiences with others. More importantly, the study indicates that consumers are willing to interact with businesses if they:

- Believe it is to their benefit: Consumers are open to share their personal information, with the exception of financial data, when there is a perceived benefit to them
- Feel they can trust the company
- Decide social media is the right channel to use to get the value they seek

Although social media has become mainstream, individual levels of social media engagement are not readily apparent (see Figure 2). Marketers need to learn to identify their engaged authors, collaborate with them and use their influence as brand evangelists to the communities that incite their passion.

Social media has driven a power shift between consumers, consumer products manufacturers and retailers. At the inception of the consumer products industry, brands were considered to be the growth driver and held the balance of power. During the past two plus decades, retailers have increasingly held the balance of power and applied extreme margin and private label brand pressure on consumer products companies. Today, the pendulum has swung in favor of consumers and their ability to exert significant influence through social media is evident in every facet of the industry and in our world.



Source: IBM Institute of Business Value, "From social media to social CRM", February 2011

Figure 2: Social media engagement levels

## The Big Data explosion

Managing the ever-expanding data available about the consumer is both a significant challenge and a strategic opportunity for consumer products companies.

Data is exploding in volume, variety, velocity, and veracity and both structured and unstructured data continues to grow at astronomical rates. This creates a tremendous opportunity for consumer products organizations to understand consumers, and make timely decisions to achieve business goals. However, at the same time, organizations are struggling to turn information into actionable insights. Business leaders continue to make decisions without access to the trusted information they need. CEOs understand that they need to do a better job in capturing and understanding information.

The 2011 IBM Global Chief Marketing Officer Study revealed that CMOs are overwhelmingly underprepared for the data explosion and recognize the need to invest in and integrate technology and analytics.

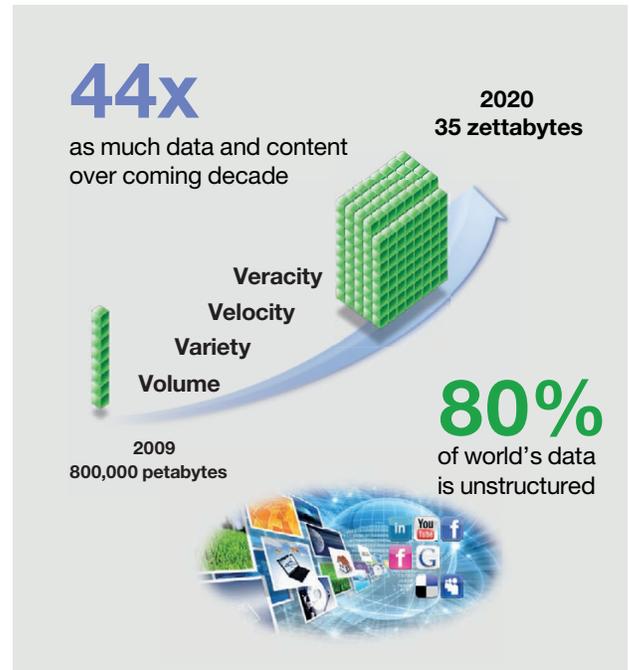
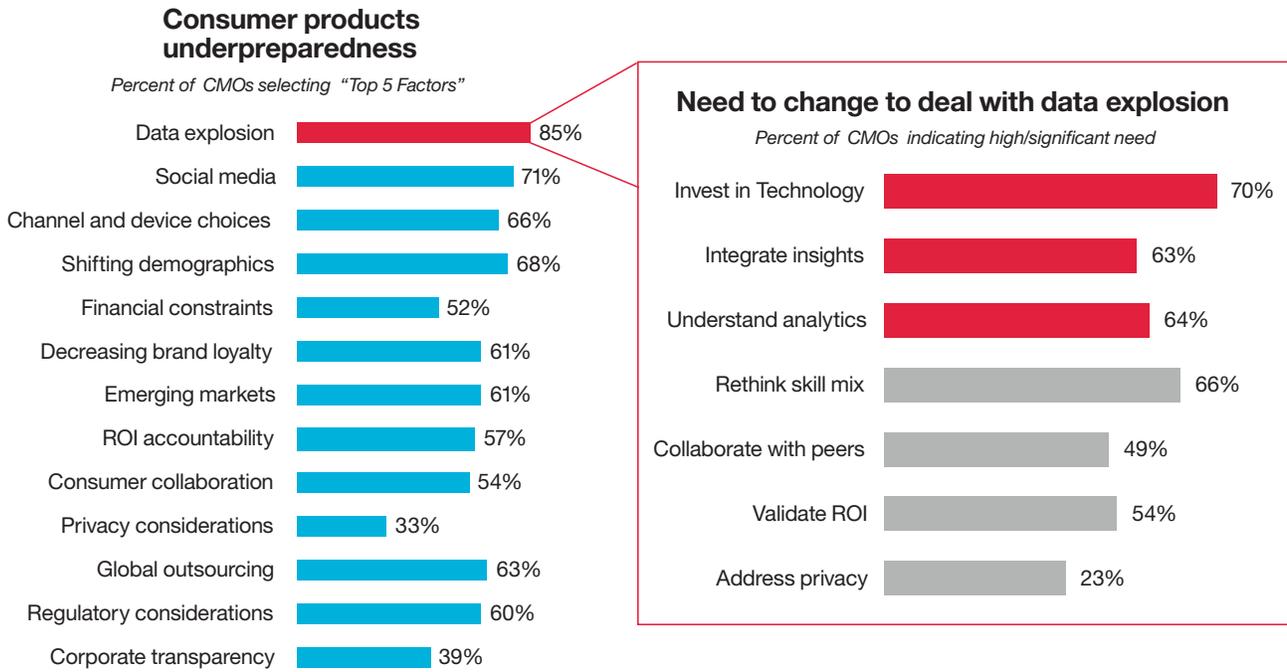


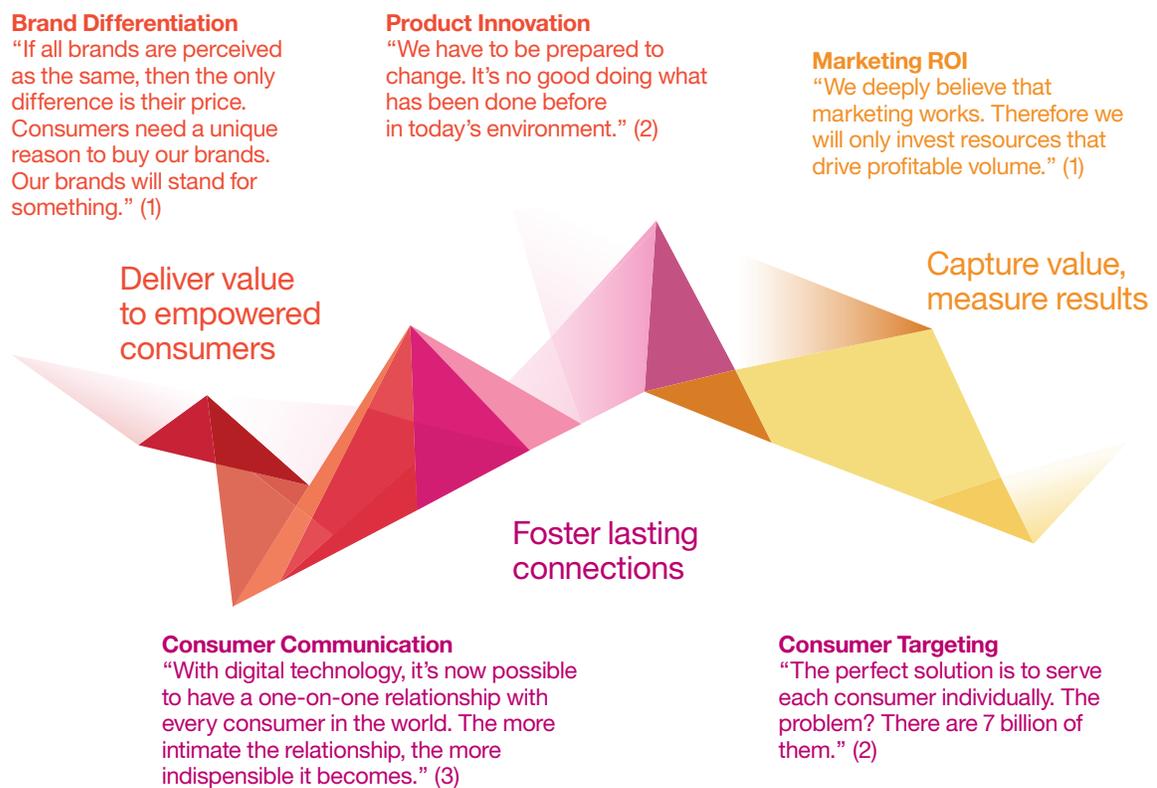
Figure 3: The Big Data explosion<sup>5</sup>



Source: IBM 2011 Global CMO Study Q8 How prepared are you to manage the impact of the top 5 market factors that will have the most impact on your marketing organization over the next 3 to 5 years ?  
 n-6 to 136; Q20 To what extent will the opportunity collect unprecedented amount of data require you to change ? N-171 to 180

Figure 4: Consumer products CMOs under preparedness<sup>6</sup>

In order to deal with the broad level of under preparedness across all factors (including data explosion), CMOs signaled three key domains of improvement. These improvement domains map to their responsibilities (see Figure 5).



Sources: 1) Leading global CP, 2) IBM 2011 global CMO study, 3) Inside P&G’s digital revolution, McKinsey Quarterly November 2011

Figure 5: CMO improvement domains map to their responsibilities

## The smarter consumer products marketing approach

The future of marketing is complex and requires a transformational change in how you do business. Truly understanding consumers requires a fundamentally new approach to managing data to support new analytics, insights and actions. The IBM approach is to apply Watson-like business intelligence to answer critical strategic questions across the entire consumer

products value chain in: marketing, sales, supply chain and executive management. IBM Smarter Consumer Products brings together an enterprise platform to deliver integrated, consistent information and analytics that utilizes a broad range of data sources including: consumer, social, retail/downstream, and internal/ERP.

Figure 6 shows examples of how smarter consumer products Chief Marketing Officers can address consumer insight gaps.

	Current	Smarter consumer products marketing
Brand differentiation	Smart consumers no longer trust advertising and value private Label brands...which makes it very difficult to give consumers a unique reason to buy brands	Build brand equity and drive profitable volume: understand brand's ability to meet the needs of consumers and what programs are driving profitable volume
Product innovation	Insight-constrained innovation leads to high costs of failed product introduction and lifecycle management	Early insights into consumer response to new products in near-real time
Consumer communication	Mass, one-way communication is irritating, not engaging	Understand and engage consumers. Deliver personalized consumer dialogue at the speed of conversation
Consumer targeting	Rudimentary segmentation and targeting	Automate 1:1 consumer dialogue to develop granular segmentation and achieve significant productivity gains
Marketing ROI	Limited linkage between advertising and promotional spend and volume or profit impact	Accuracy at a granular consumer segment level of which marketing programs are working to grow revenue and profitability

Figure 6: Addressing consumer gaps with smarter consumer products marketing

Traditional marketing		Smarter consumer products marketing
Offline	➔	Online and offline
Single channel	➔	Multi-channel; 24/7
Siloed	➔	Coordinated and deliberate
Mass media blasts	➔	Personalized 1:1 dialogue
Company brand	➔	Customers contribute to brand
Selling	➔	Anticipating and servicing
Intuition driven	➔	Data driven
Static	➔	Agile, dynamic
Product-centric	➔	Customer experience-centric
Reactive	➔	Predictive
One-way	➔	Interactive

Figure 7: Comparing marketing approaches

CMOs need to put consumers in the center of all that they do: listen to them, know them and empower them. Gaining consumer and brand trust and moving from traditional marketing to smarter marketing involves extensive change management and new enabling technology.

The smarter marketing focus is on building relationships with consumers. Consumers are demanding a personalized relationship and not just to be sold to. Simply put, good marketing will be so relevant that consumers will perceive it as a service.

Getting closer to the consumer is also the top priority for CEOs. In the IBM 2010 Global CEO Study, 88 percent of over 1,500 CEOs said “getting closer to consumers/customers” was the top priority for their business over the next five years.<sup>4</sup> They understand that managing consumer-centric data is the key to building profitable consumer relationships. For consumer products companies, “getting closer” means staying relevant to the consumer, connecting, informing and gather insights from them. As discussed, engaging in social networking is part of that goal.

Smarter marketers will leverage consumer and shopper insights, including social insights, to create differentiation with and influence their retailers. This will be a new revolutionary sales era where customer management includes consumer marketing and they work as a team from the “same page.”

## Conclusion

A deep understanding of today's rapidly changing consumers is key to creating success for consumer products companies. Truly understanding these smarter consumers requires a fundamentally new approach to managing data to support new analytics, insights and actions. Chief Marketing Officers for smarter consumer products companies can develop new consumer insights by combining consumer, store and third-party data with sophisticated analytics that will enable them to differentiate their brands, deliver relevant innovation, engage in dialogue with consumers and deliver profitable volume growth.

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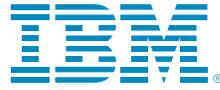
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## How can IBM help?

- **Business Consulting Services** - IBM helps consumer products companies formulate, implement and operationalize programs to respond to changing consumer buying behaviors, align organizational structure and metrics, and transform consumer-centric processes.
  - **Consumer Products Industry Solutions** - IBM offers a comprehensive portfolio of consumer products solutions comprising 1:1 Consumer, Smarter Customer Collaboration, Smarter Supply Networks and Manufacturing, and Enterprise Information Management.
  - **Consumer Products Center of Competency** - IBM helps consumer products companies make the best use of technology to streamline costs, reduce inefficiencies, aid product development and speed go-to-market activities. It also helps consumer products companies build new capabilities to better understand, track and respond to consumer preferences, drawing on its team of highly skilled experts from around the world.
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<sup>1</sup>Source: IBM Institute of Business Value, “Winning over the Empowered Consumer,” January 2012

<sup>2</sup>Source: IBM Institute of Business Value, “From Social Media to Social CRM,” February 2011

<sup>3</sup>Source: IBM Institute of Business Value, “From Social Media to Social CRM,” February 2011

<sup>4</sup>Source: The IBM 2010 Global CEO Study, May 2010

<sup>5</sup>Source: 2011 IDC Digital Universe Study, June 2011: <http://www.emc.com/collateral/analyst-reports/idc-extracting-value-from-chaos-ar.pdf> and Merrill Lynch report Enterprise Information Portals, November 1998: [http://ikt.hia.no/perrep/eip\\_ind.pdf](http://ikt.hia.no/perrep/eip_ind.pdf)

<sup>6</sup>Source: The IBM 2011 Global Chief Marketing Officer Study, October 2011



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