

IBM Institute for Business Value

Meeting the demands of the smarter consumer



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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 realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

By *Melissa Schaefer and Laura VanTine*

New technologies and socioeconomic trends are reshaping the retail marketplace. The IBM Institute for Business Value recently surveyed over 30,000 people in three mature and three growth markets to discover what consumers will want from retailers in the future. We now know that consumers are getting smarter...and understand how their preferences vary across generations, countries and shopping segments.

The rules of the retail marketplace are changing dramatically. With the development of new technologies for bidirectional communication, consumers can get more information about retailers and their products more easily than ever before. Mass urbanization and increasing affluence are simultaneously giving consumers in the emerging world greater economic power. In short, as research conducted by the IBM Institute for Business Value shows, consumers are getting smarter, more diverse and more demanding.

So what, more specifically, have we learned?

- *It's a shopper's market.* Consumers now have access to a huge amount of information about retailers and their products via new technologies. They are using this information to shop around more carefully; 41 percent of the people we polled have switched from one primary retailer to another or started purchasing some goods from a secondary retailer during the past year.
- *Smarter consumers have higher expectations.* The two improvements consumers would most like to see are personalized promotions and consistently available products. In addition, they want better value, quality and variety.
- *Smarter consumers use social networking.* Thirty-three percent of respondents are likely to “follow” a retailer on a social networking site. Some of these people also swap notes, so a single consumer’s shopping experience can influence the decisions many others make about what to buy and where to buy it.
- *Smarter consumers are eager to assist.* Seventy-eight percent of respondents would be happy to collaborate with retailers in designing new products and services that meet their needs.
- *New avenues for reaching consumers are emerging.* Sixty-two percent of those who want to use their mobile phones to shop and make purchases would be willing to buy products that are advertised in magazines or on billboards by sending a text. Similarly, 64 percent of those who want to use digital television (TV) to shop and make purchases would be willing to buy products that are advertised on TV by pressing a button on their remote controls.
- *Rich rewards exist for retailers that get it right.* Sixty-one percent of respondents are prepared to spend more money with retailers that implement their suggestions.
- *Generation Y is leading the charge.* Generation Y respondents (those aged 20-30) are the most willing to use multiple technologies and alternative channels. They are also the most likely to follow a retailer on a social networking site and to reward a retailer financially for improvements the retailer makes.

To sum up, smarter consumers know what they want when they go shopping and expect to be heard. But they are not only more demanding, they are also more willing to help. Smarter consumers will ultimately create smarter retailers – and smarter retailers will be able to claim a larger share of their customers' wallets.

Technology is changing the rules

New technologies are transforming the ways in which consumers behave. The number of mobile phone subscribers exceeded 4 billion in 2009, and market research firm Infonetics predicts that it will reach 5.9 billion by 2013.¹ An estimated 1.5 billion television sets and 1.1 billion personal computers are in use, and some 1.7 billion people access the Internet.² Two-thirds of these tech-savvy consumers visit social networking or blogging sites.³

Thanks to technology, consumers are becoming increasingly informed, empowered and demanding. Armed with knowledge gleaned from a multitude of sources, they are spending their money on the goods and services they value most and stipulating how they will engage with retailers. They want to interact in a way that is both relevant and timely: relevant to whatever they are shopping for, regardless of where, when and how they are shopping for it; and timely in fulfilling their needs. In short, today's consumers are getting smarter.

Armed with new methods of gathering information and interacting with retailers, consumers are becoming increasingly informed, empowered and demanding.

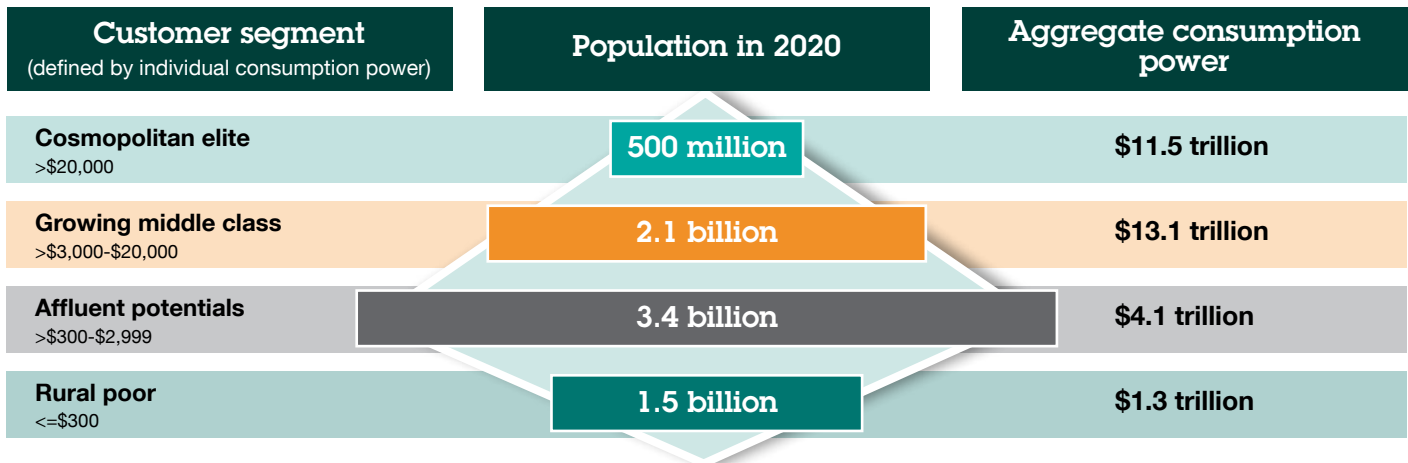
Another five billion consumers

Technology is not the only factor reshaping the marketplace; economic and global trends are also playing a part. In late 2008, 59 percent of the U.S. consumers IBM polled in its annual shopper survey reported that their discretionary budgets had fallen over the previous 12 months, and a full 91 percent said that they were spending less than before.⁴ They are not alone; the recession has affected every country and, with an estimated 39 million people worldwide losing their jobs since 2007, consumers everywhere are feeling the squeeze.⁵

Fortunately, most of the major economies have now started growing again, albeit very slowly, bringing the prospect of some relief. In the longer term, many of the changes arising from population growth and globalization should also be positive. At the end of 2009, there were just over 6.8 billion people living on the planet. By 2020, the number is forecast to reach nearly 7.7 billion – a rise of 12.4 percent. The bulk of this increase will take place in the emerging markets of Asia, Africa, Latin America and the Caribbean.⁶

The global population is simultaneously becoming more urbanized and more affluent. At the start of the decade, 53 percent of the world's inhabitants lived in rural locations. But, in 2008, the urban population outstripped the rural population for the first time in history.⁷ Mass urbanization will give more people access to education, employment, healthcare and other such essentials, as will a second major milestone that occurred at much the same moment; the majority of the emerging world's population became middle-class by the standards of the countries in which they reside.⁸

These demographic and socioeconomic changes have huge implications for retailers. Retailers have traditionally focused on the cosmopolitan elite and middle class, but population growth and greater prosperity will create a new pool of nearly five billion consumers – the “affluent potentials” (i.e., the upwardly mobile under-classes) and rural poor – with some US\$5.4 trillion to spend (see Figure 1).



Sources: World Resources Institute and International Finance Corporation, "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid" (2007); Paul Collier, The Bottom Billion (Oxford University Press, 2007); United Nations Population Division; "Somewhere over the Rainbow," The Economist (January 24, 2008).

Notes: Individual and aggregate consumption power is expressed in local currency equivalent in US dollars. It covers consumer goods excluding consumer durables and electronics. Numbers have been rounded.

Figure 1: The growing global population and greater prosperity at the lower end of the economic spectrum will create new opportunities for innovative retailers.

Peering into the future

The key question, given the unprecedented proliferation of new technologies and such significant socioeconomic shifts, is: what will tomorrow's consumers want? How will digital enfranchisement, rising incomes and metropolitan life shape the demands of shoppers in both the industrialized and emerging worlds? The IBM Institute for Business Value surveyed more than 30,000 people living in three mature and three growth economies to determine how shopping habits are changing and what consumers will expect of retailers in the future (see Figure 2).

Our research covers how consumers want to interact with retailers in the future (e.g., the sort of technologies and social networks they want to use). We have also looked at how their preferences differ, depending on age, nationality and the types of products for which they are shopping or the retail outlets where they are shopping.

Our findings show that consumers are getting smarter, as they incorporate new technologies into their daily lives and information becomes more readily available. To put it another way, they are becoming increasingly:

- **Instrumented** – Able to call on a plethora of new technologies to get instantaneous access to a wealth of information about retailers, their products and the shopping experiences of other consumers
- **Interconnected** – Ready to use these new technologies to interact with retailers and other consumers
- **Intelligent** – More certain about what they want from retailers, both now and in the future.

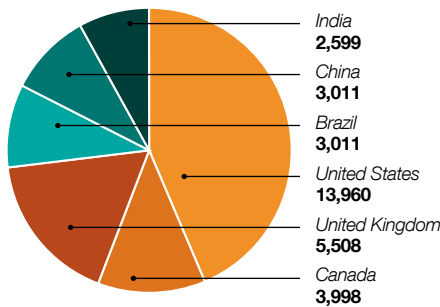
These trends are changing the balance of power in favor of consumers, while simultaneously providing tremendous new opportunities for innovative retailers.

Survey methodology

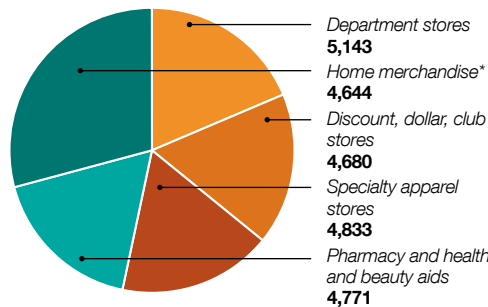
In October 2009, we conducted an online survey of 32,087 retail consumers living in the United States, Canada, United Kingdom, Brazil, China and India. They represent every income group and every age group from Baby Boomers to Generation Z. Respondents answered the survey according to the segments in which they frequently shopped.

We analyzed the results using various statistical techniques, including maximum difference (Max Diff) scaling – where respondents are asked to compare different items and pick the best and worst, or most and least important, item in each set. This method mimics the way consumers shop for goods in real life.

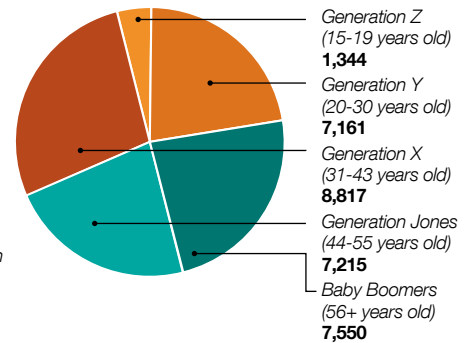
Respondents by country



Respondents by segment



Respondents by age



Source: IBM Institute for Business Value analysis.

* Home merchandise refers to stores in which consumers shop for TVs, games, appliances, hardware, home décor or home furnishings.

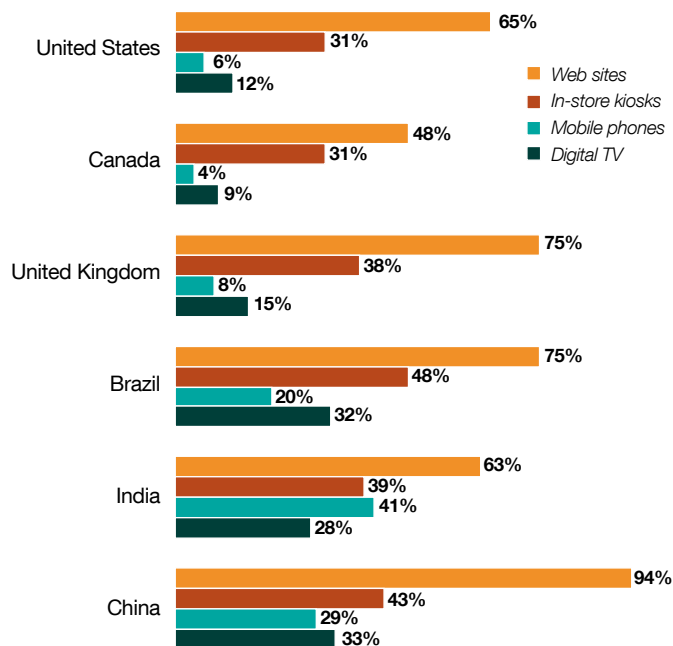
Figure 2: The composition of the total survey sample by nationality, retail segment and generation.

Consumers are instrumented

At one time, the main sources of information about retailers and their products were the retailers themselves: their store associates, catalogs, advertisements and signage. Today, however, consumers have access to a vast array of information from

numerous sources, including the Internet, digital television, in-store kiosks, mobile applications and social networking sites. More than just providing information, these new channels are transforming the ways in which consumers shop.

We asked respondents what they do when an item they want is not available in the stores they visit. More than half said that they buy a similar item in the same store or go to a different store, but nearly one-third now turn to technology. The Internet is by far the most popular option; 68 percent of those respondents who use new technologies are willing to shop and make purchases on a retailer's Web site. However, 36 percent are prepared to use in-store kiosks, 17 percent to use digital TV and 13 percent to use mobile phones. Respondents in the growth markets are especially interested in using alternative shopping channels (see Figure 3).



Source: IBM Institute for Business Value analysis.

Note: Base is percentage of respondents who selected each channel

Figure 3: Consumers in the emerging economies are particularly interested in using alternative shopping channels.

In fact, 80 percent of global consumers want to use technology to shop and purchase, and a significant number of consumers (36 percent) are willing to use *two or more technologies* to browse for, and buy, the goods they want. Predictably, perhaps, many of these “instrumented” consumers, as we have called them, are quite young; 48 percent of Generation Y and 41 percent of Generation X respondents would be happy to use two or more technologies, compared with just 32 percent of Generation Jones and 22 percent of Baby Boomers.

But there are substantial regional and segmental differences, too. Consumers living in the growth markets are almost twice as willing to use multiple technologies for shopping and making purchases as those living in the mature markets. This is primarily because the adoption of new technologies is often faster in emerging countries with a relatively weak infrastructure, where such technologies can be used to ameliorate or overcome limitations. Consumers shopping for specialty apparel and home merchandise are also much more amenable to the idea of using two or more technologies than those shopping for groceries (44 and 45 percent, respectively, versus 26 percent).

Consumers are interconnected

Today's consumers are much more instrumented than their predecessors, and they are increasingly ready to use these technologies to interact both with retailers and with other consumers. But how do they want to connect? Our research suggests that they would like to use different technologies for different activities.

They want to use:

- Web sites primarily to compare prices (92 percent), access and print coupons (79 percent) and access information about their personal accounts (75 percent)
- In-store kiosks to review product features (78 percent), pay for goods (73 percent) and get product information or instructions (72 percent)
- Mobile phones to find out where the nearest store is located (75 percent), compare prices (71 percent) and check that the goods they want are in stock before going to the store (66 percent).

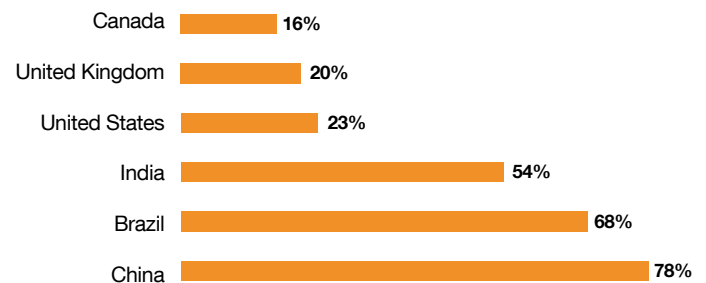
However, 62 percent of those respondents who are prepared to use mobile phones to shop and make purchases said that they also would be happy to purchase products that are advertised in magazines or other media by sending a text, suggesting that content and commerce are continuing to merge. Similarly, 64 percent of those who are prepared to use their TVs to shop and make purchases would be willing to buy products that are advertised on television by pressing a button on their remote controls. Again, younger consumers and those living in the growth economies are particularly enthusiastic about shopping via these emerging channels.

A remarkably high percentage of respondents (78 percent) would likewise be somewhat or very willing to collaborate with retailers to develop products and services they desire. Instrumented consumers are especially eager to co-create new products and services, but consumers of all nationalities and ages are ready to influence the design process.

That said, there are considerable differences in the amount of time they are prepared to devote to the task. Only 16 percent of Chinese respondents and 22 percent of Indian respondents are willing to spend more than 20 minutes per week co-creating new products and services, compared with at least 50 percent of those living in the United States, Canada, United Kingdom and Brazil. Surprisingly, younger respondents are less generous with their time than Baby Boomers and Generation Jones consumers.

Retailers are by no means the only entities with whom consumers interact, though. As social media guru Clay Shirky recently noted: “The moment we’re living through is the largest increase in expressive capability in human history.”⁹ Millions of people are now connected via social networking sites like Facebook and Twitter.¹⁰ They can air their own views and listen to the opinions of others, many of whom they don’t even know – which, in turn, influences the decisions they make about what to buy and where to shop. In short, what happens in the store no longer stays in the store.

Thirty-three percent of respondents say that they are somewhat or very likely to “follow” a retailer on a social network, and the percentage is even higher in the emerging markets. Indeed, consumers in Brazil, China and India are three times more likely to follow a retailer on a social network than those in the United States, Canada and United Kingdom (see Figure 4). The younger generations and instrumented consumers are also much more likely to do so than those who are older and less comfortable with technology.



Source: IBM Institute for Business Value analysis.

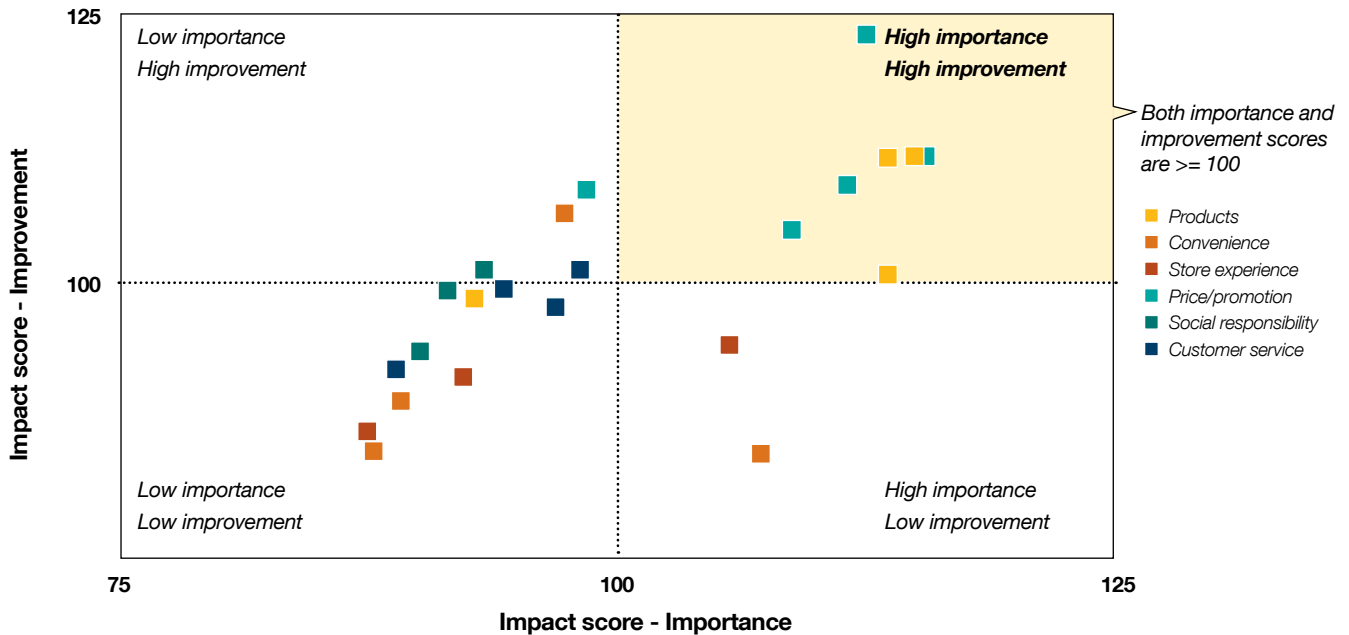
Figure 4: Consumers in Brazil, China and India are three times more likely to follow a retailer on a social network than those in the United States, Canada and the United Kingdom.

The vast majority of these consumers are attracted by the prospect of special treatment and better opportunities to shape the retail experience. The four most important reasons respondents give for following a retailer on a social network are:

- Being able to test new products
- Getting preferred customer status (e.g., access to special promotions or advance sales notices)
- Influencing the development of new products
- Providing feedback on customer service or store experiences.

Consumers are intelligent

Consumers are not only becoming more informed and more willing to interact with retailers in totally new ways; they are also becoming more demanding and have clearly defined expectations of what they want from their retailer now and in the future. We asked respondents to compare the importance of various attributes covering six different areas ranging from pricing and promotions to customer service. We also asked them to tell us which attributes they think retailers need to improve. As Figure 5 shows, they believe that retailers should focus first and foremost on offering better promotions and prices and making product improvements.



Source: IBM Institute for Business Value analysis.

Figure 5: Consumers think that retailers should focus first and foremost on offering better promotions and prices, and making product improvements.

More specifically, respondents report that the two enhancements they would most like to see are discounts specifically for the goods they buy and consistent product availability. Thereafter, they want better value, quality and variety (see Figure 6). A retailer that meets these key demands can then distinguish itself by providing loyalty schemes with easily obtainable rewards, shopping aids (e.g., price-comparison, product information and product locator tools) and knowledgeable store employees; and by showing that it values its associates (e.g., by giving them health insurance).

1	Offers me discounts specifically for the things that I buy
2	Consistently has products available
3	Offers me various options to provide me with greater value
4	Offers better-quality products
5	Has everyday low prices
6	Has great sales
7	Offers a variety of products

Source: IBM Institute for Business Value analysis.

Figure 6: Consumers have seven key priorities.

In fact, there is a remarkable degree of consensus about what consumers think retailers should concentrate on first. Respondents in every generation and almost every country want personalized discounts for the items they buy, and they want such discounts regardless of the particular segment in which they are shopping. Thereafter, opinions are slightly more divided (see Figure 7). Overall, they want a more plentiful selection of high-quality items; well-informed employees to advise them; tools that will make the shopping experience easier and better value for money. In effect, they want retailers to treat them as individuals – catering to their personal needs and preferences.

First priority	
Personalized discounts	U.S., Canadian, British and Brazilian consumers; consumers of every age; consumers shopping in every retail segment
Tools that make shopping easier	Chinese consumers
Frequent shopper programs with easily obtainable rewards	Indian consumers
Second priority	
Knowledgeable store employees	U.S. and Canadian consumers; Baby Boomers; consumers shopping for pharmaceuticals and health and beauty aids
Consistently available products	British consumers; Generation Jones and Generation X consumers; consumers shopping for home merchandise
Information on the origins or composition of products	Chinese consumers
Tools that make shopping easier	Generation Y consumers
Great sales	Brazilian consumers
Better value	Generation Z consumers; consumers shopping in department stores; consumers shopping for specialty apparel
Better quality	Consumers shopping at discount stores, dollar stores and clubs
Frequent shopper programs with easily obtainable rewards	Consumers shopping for groceries

Source: IBM Institute for Business Value

Figure 7: Consumers around the globe agree on the core features they would like retailers to improve.

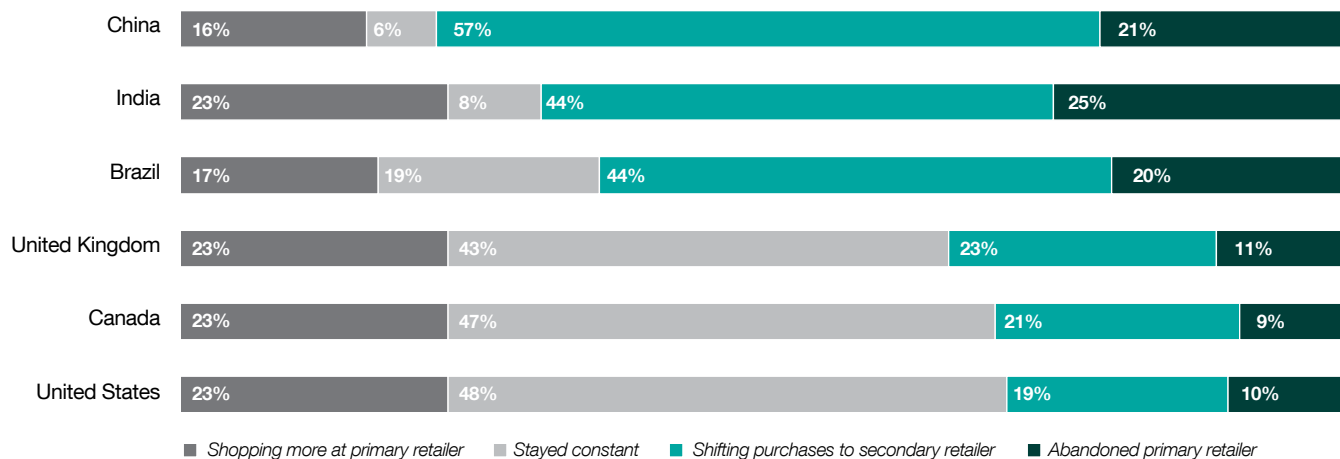
Moreover, many consumers are prepared to reward those retailers that get it right. Sixty-one percent of respondents told us that they would spend more money with their current retailer if it made the improvements they suggested. Consumers in Generations X and Y would be particularly willing to do so, as would consumers shopping for specialty apparel and home merchandise.

Earlier research conducted by IBM shows that this is not just rhetoric; consumers who feel positively about a retailer really do generate more economic value. These consumers, whom we call “Advocates,” are distinguished by three traits: they recommend their primary retailer to their family and friends; they remain loyal even when rivals start offering comparable products or services; and they spend more with that retailer when it expands its assortment.¹¹

Converting smarter consumers into Advocates

Many retailers have made great progress in converting apathetic or even antagonistic consumers into Advocates. Globally, 34 percent of the people we surveyed this year are Advocates, although the percentage varies from 41 percent in the United States to 10 percent in China.

But while advocacy is strong in many countries, there is still much to be done. Forty-one percent of all respondents are “Shifters” – by which we mean that they either switched from one primary retailer to another or transferred some of their purchases to secondary retailers during the previous 12 months. The exodus was particularly pronounced in the growth markets, where at least two-thirds of all respondents migrated to other retailers, mainly because they were frustrated by the limited range of goods on offer (see Figure 8).



Source: IBM Institute for Business Value analysis.

Figure 8: There are substantial national differences in the number of Shifters, particularly those who transferred some of their purchases to a secondary retailer.

The good news is that some of these Shifters can be turned into Advocates. Nearly one-third of the consumers who completely abandoned their primary retailers – as distinct from purchasing some products elsewhere – became loyal to their new primary retailers. And such consumers are well worth winning over. Shifters typically have higher household incomes than non-shifters. They are also more inclined to spend more money with retailers that implement their recommendations (72 percent versus 61 percent of the overall sample). Capturing the attention of these consumers would thus enable retailers to win a bigger share of the deepest pockets. It might also help them deter some Shifters from migrating to other stores.

Conclusion

In short, it's a shopper's market. Smarter consumers know what they want when they go shopping and expect to be listened to – as evidenced both by their desire to get personalized promotions and by their willingness to co-create. So any retailer that hopes to succeed in the future must keep pace with them.

It will have to consolidate its infrastructure to help ensure that the information it provides is accurate and pervasive, and that the products it sells are consistently available. It will also have to embrace the shopping channels smarter consumers prefer, provide the features and functions they would like, and use analytics to develop personalized offerings and experiences. U.S., Canadian and British consumers are no longer content to be treated as an undifferentiated mass. Brazilian, Chinese and Indian consumers – especially those who are most receptive to the idea of using new technologies for shopping and making purchases – will soon catch up.

Moreover, the needs and preferences of different customer segments are likely to vary substantially. The affluent potentials and rural poor – wherever they live – will want products, services and shopping experiences that are tailored to their specific circumstances. And, with trillions of dollars in their pockets, these consumers cannot be ignored.

Younger consumers have different requirements from those of older consumers, too, and Generation Y consumers will be particularly influential over the next few years. They are tomorrow's big spenders: the people poised to buy first homes, marry, have children and earn larger incomes as they move up the career ladder.¹² They are also more willing to embrace alternative shopping channels, more inclined to follow a retailer on a social networking site and more likely to reward the retailers that make the improvements they want than consumers in any other generation.

Ultimately, however, all consumers – whatever their nationalities, ages or socioeconomic backgrounds – will expect ubiquitous access to the information, products and services they want. And those retailers that deliver what they demand will thrive. Smarter consumers will thus produce smarter retailers, retailers that are better equipped to win a bigger share of the minds, hearts and wallets of the consumers they delight.

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