Brand enthusiasm: More than loyalty

How today's consumers want to engage with your brand

IBM Institute for Business Value

Executive Report
Consumer Products

Develop a consumer-centric business model to build enduring brands

For more than a century, IBM has been providing businesses with the expertise needed to help consumer goods companies win in the marketplace. Our researchers and consultants create innovative solutions that help clients become more consumer-centric to deliver compelling brand experiences, collaborate more effectively with channel partners and most profitably align demand and supply.

Is brand loyalty declining?

Reading headlines today, it is tempting to say "yes." Drastically changing consumer behavior fueled by disruptive technology, media fragmentation and increased availability of quality substitutes are just some of the forces disrupting the state of brands. Our newest IBM consumer products study shows that brand loyalty as we know it has changed. Companies need a new way of understanding consumers, taking into account the rapidly changing parameters of consumer-brand engagement. Now, brand enthusiasm is a more accurate way for brands to understand and cater to consumers.

Executive summary

The consumer products industry continues to transform due to several significant forces. First, technology has given rise to information transparency that provides consumers with more knowledge and selection than ever before. Fragmentation of media channels presents ongoing challenges for brands to break through the noise.

In addition, lowered barriers to high quality product manufacturing have fueled the increase of private label penetration and smaller, often local competitors. Finally, the surge of new and flexible digital commerce models poses big questions for fast moving consumer goods (FMCG) companies, in terms of how to compete in an increasingly omni-channel world. All of this has infused consumers with newfound power and greater expectations of the brands they buy.

To better understand the shifting consumer-brand relationship, we conducted the 2014 IBM Consumer Products Study. We found that brand loyalty is no longer a relevant measure. When comparing two seemingly contradictory questions, "Do you consider yourself brand loyal?" and "Do you like to try new brands frequently?" both scored relatively high with consumers' *strongly agree* or *agree* responses (46 percent and 39 percent, respectively). This tells us that consumer brand loyalty is fickle and no longer associated with repeat purchasing. In today's world, consumers are loyal to newness. Expectations are high, while switching costs are low.

This new research shows that consumer propensity toward brands is alive and well. A new class of "power consumers" brings a revitalized sense of passion and excitement for communicating, engaging and sharing with brands. These consumers are predominantly young, rising spenders from growth markets around the world, yet they exist in every country, age bracket and income level.

Brand enthusiasm is a new way for brands to view consumers' desired level of communication, willingness to provide input and comfort with sharing personal data

Brand Enthusiasts are a rising group of "power consumers" who are setting the pace and creating new expectations for consumer engagement

Digital channels are enabling consumer products companies to establish direct relationships with consumers

They are leapfrogging others in terms of technology adoption and embracing digital channels at an impressive rate. This group is willing to spend more and is rapidly becoming brands' most powerful advocates and market researchers. It is teaching us about a new set of rules of engagement and that brand loyalty is not dead. But this loyalty needs a new definition based on consumers' desired level of engagement with brands: Based on these findings, we call it **brand enthusiasm**.

The digital age has opened up the ability for FMCG companies to have relationships directly with consumers. This new era requires new capabilities that are more in line with knowing consumers rather than just executing activities aimed at product positioning and mass marketing. The good news is that some consumers today are already engaging in direct dialog with brands. This generation of power consumers offers a glimpse of what's to come. We call them **Brand Enthusiasts** and they are paving the path for other consumers to follow. Led by the exciting Brand Enthusiasts group, we describe four distinct consumer clusters that reveal vastly different attitudes toward brands, accompanied by different expectations and behaviors.

A more relevant approach to targeting consumers

Our research shows that companies can understand the extent to which individual consumers crave and respond to various forms of engagement. Brand enthusiasm takes into account three dimensions of consumer attributes:

- **Level of communication desired**
  Consumers' *openness to communicating* with brand owners.
- **Willingness to provide input**
  Consumers' *sense of ownership* relative to a brand's innovation and activation activities.
- **Degree of comfort with sharing personal data**
  Consumers' *level of trust* in allowing brands to utilize their personal information.

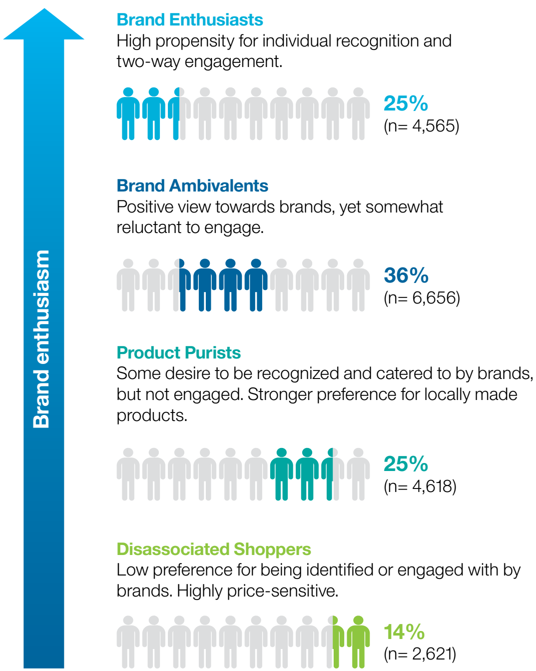
By segmenting consumers based on the level of brand engagement desired, brand enthusiasm more accurately classifies consumers in today's modern, digital and multi-dimensional landscape. It indicates *who* wants and who doesn't want to communicate with companies, *what* marketing methods should be most effective and *how* consumers want to be engaged.

Brand enthusiasm more accurately classifies consumers in today's modern, digital and multi-dimensional landscape.

Four consumer clusters based on brand enthusiasm

Figure 1

Four consumer clusters reveal distinct levels of brand enthusiasm and preferences for being engaged

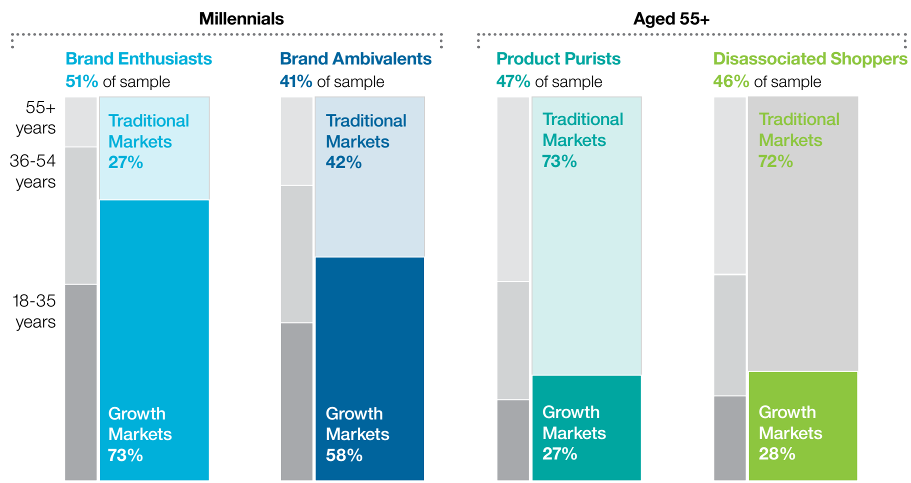


Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462.

A cluster analysis of our survey results reveals four primary consumer groups with varying degrees of brand enthusiasm (see Figure 1). While each cluster has representatives in every country, income level and age bracket, the primary demographic makeup of each suggests interesting cultural and generational implications on brand attitudes in 2014 (see Figure 2).

Figure 2

Brand Enthusiasts and Brand Ambivalents represent the next generation of young, growth market spenders, while Product Purists and Disassociated Shoppers denote traditional market Boomers



Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462. Growth Markets include China, India, Brazil, Mexico, Russia and South Africa. Traditional Markets include USA, UK, Germany, France, Australia and Japan. Millennials = Aged 18-35, Baby Boomers = Aged 55+.

Brand Enthusiasts

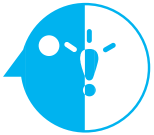
The next generation of growth market spenders. With very high propensity for individual recognition and two-way engagement, Brand Enthusiasts have a high emotional connection with brands and a higher willingness to pay for products with premium features (for example, greater health and wellness benefits). Nearly three-quarters of Brand Enthusiasts are from growth markets and represent 47 percent of the high and affluent income population in those countries. More than half are millennials aged 18 to 35.

Brand Ambivalents

The battlefield for growth. Brand Ambivalents are consumers with overall positive views toward brands, but they are somewhat reluctant to engage. Nearly half answered “neutral” to questions about whether they had an emotional connection to brands, suggesting this group may be open to influence and establishing a deeper bond. By far the largest cluster at 36 percent of the sample size, Brand Ambivalents represent roughly equal parts of both growth and traditional markets (58 and 42 percent, respectively). Collectively, they represent the bulk of purchasing power with 34 percent of total disposable income.

Product Purists

Older, traditional market consumers who prefer products that are locally made. Product Purists have some desire to be recognized and catered to by brands, but not engaged. They have a preference for locally made or manufactured products. Seventy-three percent of Product Purists are from traditional markets and almost half are aged 55 and over (47 percent).

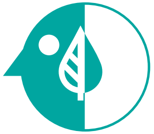


Brand Enthusiasts

25 percent of study population

Brand Ambivalents

36 percent of study population



Product Purists

25 percent of study population

Disassociated Shoppers

14 percent of study population

Disassociated Shoppers

Price sensitive, traditional market boomers who want to be left alone. Disassociated Shoppers have very low preference for being identified or engaged. They are extremely price sensitive and exhibit little to no emotional association with brands. Similar to Product Purists, nearly three-quarters of Disassociated Shoppers are traditional market consumers (72 percent) and 46 percent are aged 55 and over.

In essence, the clusters represent two important age groups: Product Purists and Disassociated Shoppers are comprised primarily of older baby boomers, while Brand Enthusiasts and Brand Ambivalents mostly represent the rising millennial generation. Although the aging population is a critical (and valuable) market, millennials are clearly setting the pace for the future. When we looked at our survey results through the lens of the millennial, we discovered some key insights about this fascinating cohort (see sidebar, “Unlocking millennials”).

Unlocking millennials

Millennials (individuals aged 18 to 35) have been a key target audience for most consumer brands in recent years due to their growing purchasing power (US$1.3 trillion in the United States alone) and drastically different behaviors. Also known as Generation Y, our study reveals that the consumers of the millennial generation are more complex than expected.

- **Millennials are mostly ambivalent.** Surprisingly, the largest block (41 percent) of millennial consumers fall into the Brand Ambivalent category, compared to 35 percent who are Brand Enthusiasts, with 15 percent Product Purists and 9 percent Disassociated Shoppers. This suggests that while their overall view of brands is positive, millennials have yet to formulate an opinion about the role they want brands to play in their lives. They crave selective engagement and are waiting for brands to make the first move.
- **Millennials care about impact.** We asked consumers about what matters to them in products and brands. More so than other age groups, millennials are willing to pay for products with greater health benefits (64 percent), socially responsible practices (54 percent) and brands that offer full transparency into how products were sourced and made (54 percent). These young consumers are prudent regarding the brand choices they make, yet are uncertain about the impact brands make on their world overall. When asked to what extent they agreed with the statement "I believe brands impact society positively," 47 percent of millennials answered strongly or somewhat agree, while 35 percent were neutral.
- **Growth market millennials have higher brand enthusiasm than those in traditional markets.** While Brand Enthusiast millennials exist in all surveyed countries, 43 percent of growth market millennials fell into the Enthusiast cluster, compared to only 23 percent of those in traditional markets. Growth market millennials are poised to engage immediately, while those in traditional markets may need a more individualized approach.

Because of its size and associated future buying power, the value of the millennial generation is indisputable to consumer products companies. Yet it is more complex and heterogeneous than anticipated, and thus cannot be approached uniformly.

Brand Enthusiasts are particularly notable for their desires to: connect directly with brands online, seek innovation and share personal data with businesses they know.

Brand Enthusiasts are reinventing the consumer-brand relationship

Brand Enthusiasts are critical to future growth because they:

- Exist in every geography and shop across all categories—but they also represent the next generation of growth market consumers,
- Have a higher willingness to pay for premium product features,
- Can deliver considerable value as your brand advocates and market researchers,
- Have the potential to "bring along" large numbers of Brand Ambivalents as digital channels pervade virtually all aspects of our lives in the coming years and
- Already approach shopping for brands in ways that most consumers are expected to act in the future.

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Forming direct relationships with brands online

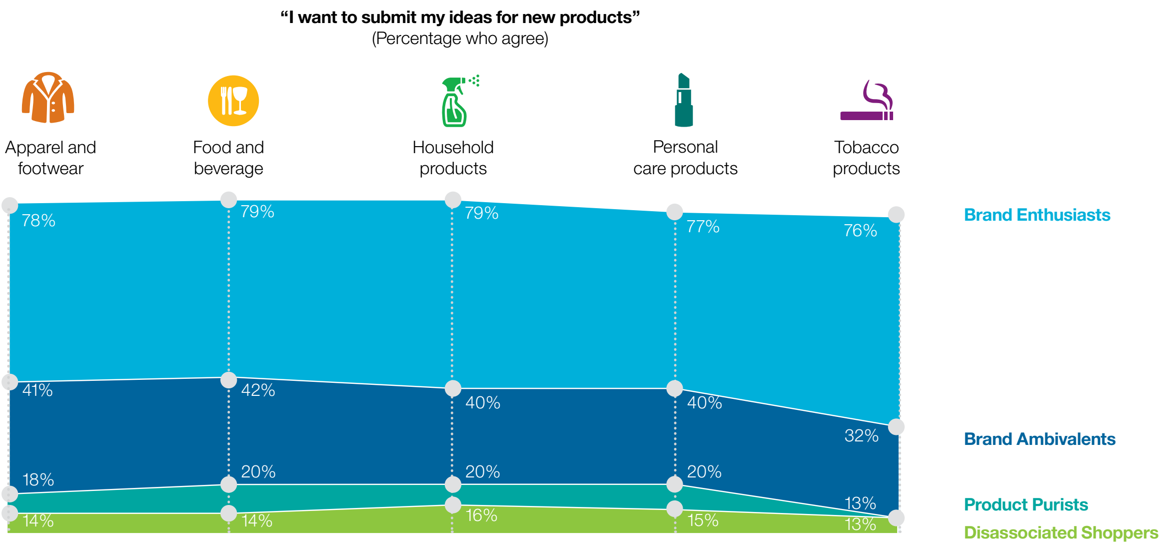
Brand Enthusiasts are mobile leaders. Seventy-two percent have Internet access via their phone, compared to Brand Ambivalents (57 percent), Product Purists (35 percent) and Disassociated Shoppers (only 28 percent). Unsurprisingly, when asked if they often look up information on their phone about products when shopping in a store, 63 percent of Brand Enthusiasts said yes—almost 10 times more than Product Purists and Disassociated Shoppers. Fifty-one percent of Brand Enthusiasts said they have posted comments on a brand's website or social media page. Brand Enthusiasts are clearly ready and willing to interact with brands online. Other groups may not be far behind as digital interaction becomes more ubiquitous in our lives. Ultimately, digital channels are allowing brands to reclaim the consumer relationship.

The demand for innovation

When asked how much they wanted to be involved in new product development, Brand Enthusiasts stood out from the pack (see Figure 3). And more than three-quarters stated they want to submit ideas and feedback to brands regarding innovation. Even more interestingly, their level of interest is consistent across product categories, suggesting an inherent passion for contributing and sharing with brands.

Figure 3

Consumer clusters' desire to participate in product innovation is consistent across most product categories



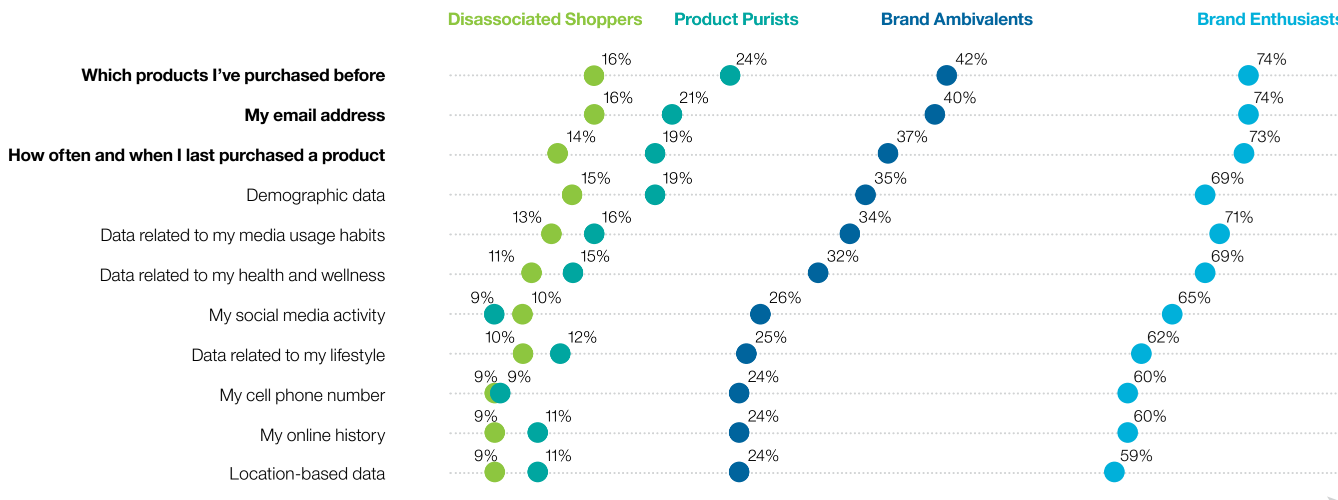
Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462. Q16: To what extent, if at all, would you like to be involved in new product innovation or creation for [PRODUCT CATEGORY] products? Q16_1: I want to submit my ideas for new products.

Consumer willingness to share personal data is a rising norm

In addition to offering feedback on brands and new products, consumers in all clusters are increasingly open to sharing their personal data with a manufacturer. Brand Enthusiasts were almost five times more comfortable sharing personal information with brands than Disassociated Shoppers, including which products they have purchased before (74 percent), their location (59 percent) and even health-related data (69 percent, see Figure 4).

Figure 4

Brand Enthusiasts are far more forthcoming with sharing all forms of personal information with brands



Percent of consumers who are comfortable sharing personal information

Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462. Q08: Think about a trusted brand that you purchased recently. Indicate the extent to which you are comfortable or uncomfortable with that brand using personal information to customize a message or service to you.

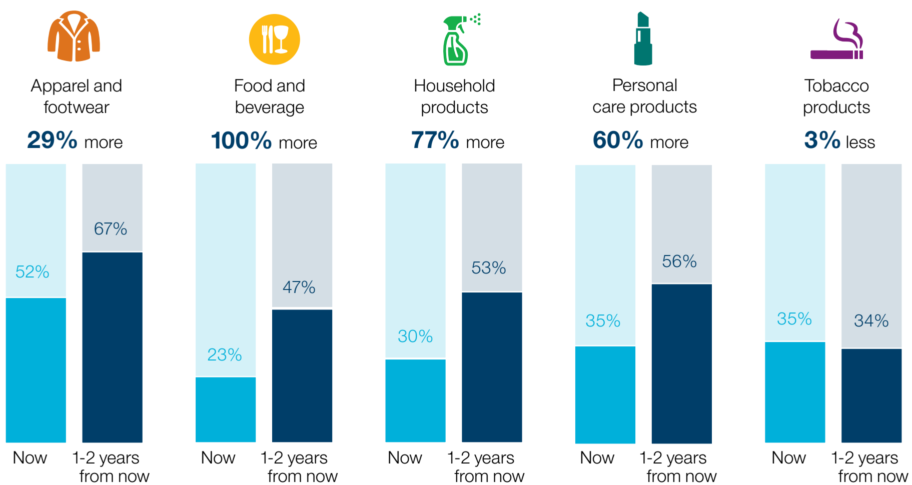
While in part representative of an ongoing societal and generational mind shift, this may signify not only trust in the companies behind at least some brands, but also an expectation that sharing such information will ultimately translate into end user value.

Digital commerce: The future is now

Mobile and e-commerce have caused key shifts in consumer attitudes and behaviors with regards to shopping for brands. Globally, all respondents reported an expectation to increase their online purchasing across almost every product category (see Figure 5).

Figure 5

Global respondents reported intent to significantly increase e-commerce use across most product categories



Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462. Q14: Which of the following ways do you currently purchase and obtain products? Q15: In the next year or two, how likely do you think you will be to purchase or obtain products online?

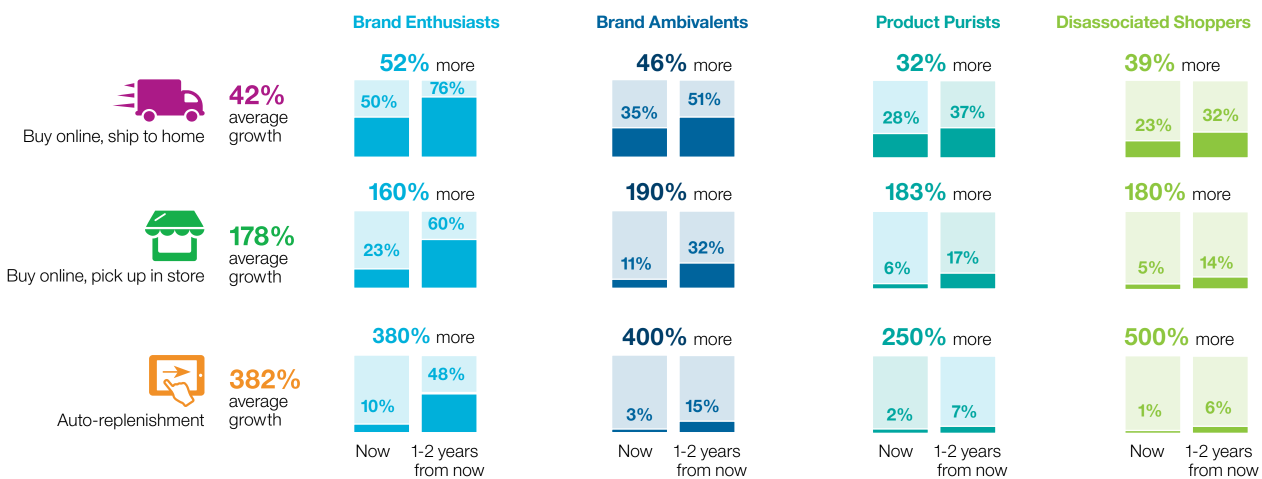
All respondents reported an expectation to increase their online purchasing — with the highest increase at 100 percent more in the food and beverage category.

With Brand Enthusiasts setting the pace, in the next two years alone, all consumer clusters plan to dramatically increase the use of alternative distribution models (see Figure 6). These include buying online and picking up in store and auto-replenishment (subscription services that deliver products to consumers automatically on a regularly recurring basis).

Omni-channel capabilities are now table stakes for consumer-facing organizations: for example, a “mobile first” mindset is quickly becoming today’s standard. What’s more, predictive and even automated demand via wearable devices and the Internet of Things will soon become the new normal.

Figure 6

With alternative forms of online purchasing poised to dramatically increase, going direct to consumer is a significant opportunity



Source: IBM Institute for Business Value Consumer Survey 2014, n= 18,462. Q14: Which of the following ways do you currently purchase and obtain products? Q15: In the next year or two, how likely do you think you will be to purchase or obtain products online?

Recommendations: Understand consumers and be ready to support their goals for engagement

To nurture brand enthusiasm, you'll need to meet consumers where they are. So your operating model must be prepared for the increasing speed of the digital commerce revolution and the countless new distribution models to come. Key actions include:

- Looking to growth markets to test new strategies and systems of engagement,
- Reformulating advertising and trade promotion investment,
- Taking full advantage of sources of market data to optimize media buying and distribution channels and identify category trends and opportunities and
- Adopting a "mobile first" approach today with "auto-demand" via the Internet of Things tomorrow.

So, how can brands best fight for Brand Enthusiasts, capture Brand Ambivalents and cater to Product Purists and Disassociated Shoppers?

Capitalize on Brand Enthusiasts

The winners in the marketplace will embrace the Brand Enthusiasts faster than the competition. Companies need to continuously stimulate this population through a strong combination of both reach and engagement strategies. Take advantage of their openness and willingness to share data by experimenting with new systems of engagement. Involve them directly in discovery and development activities. And with the future growth expected in digital channels, gain "mind share" by adopting two-way dialog with consumers.

Brand Enthusiasts represent the next generation of power consumers growing up in a digital, omni-channel world and they have new expectations. Leverage the insights they are willing to share—otherwise, these innovation-craving consumers will go elsewhere. Still, traditional communication strategies will not likely work on this new consumer base. They are writing new rules of engagement.

The winners in the marketplace will embrace the Brand Enthusiasts faster than the competition.

Test both reach and engagement strategies to delight Brand Ambivalents with how responsive a brand can be.

Seize the Ambivalents

Brand Ambivalents represent the battleground for growth. These consumers represent the largest opportunity, yet are the most volatile when it comes to expectations, motivations and needs. Because they are selective in how and when they want to engage, companies need to adopt smart strategies to tackle this group.

Invest in learning about and understanding Brand Ambivalents to approach and cater to them in contextually relevant ways, including event-driven communications (related to a holiday or vacation, for example) or need-based exchanges (such as when they have complaints). Test both reach and engagement strategies to delight this group with how responsive a brand can be. Because many are millennials, capture their attention with bold and brave statements (for example, supporting environmental issues or taking a stand for social impact)—yet be prepared to back them up with authenticity and action.

Win Product Purists and Disassociated Shoppers at the point of sale

FMCG companies must interact with consumers who are truly open to engagement, but can't forget about the rest. Although investments to engage them directly through social or digital channels are likely to be unsuccessful, consider Product Purists and Disassociated Shoppers your impulse shoppers since they are more likely to be swayed closer to the "moment of truth," or the point of sale.

Experiment with automating some interactions to conserve resources and improve ROI and instead focus on understanding their unique needs and delivering as much value as possible. For example, employ mobile promotion tactics to enable your brands to compete with private labels. And as price wars in traditional markets continue, invest in dynamic, omni-channel pricing and trade promotion management. Or develop a mobile app to offer targeted, in-store promotions and time-saving price comparison features to cater to their price-sensitive, utility-focused preferences.

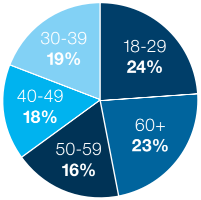
Ready or not? Ask yourself these questions

- How well do you know your consumers? Is your consumer mix and segmentation approach enabling you to target and engage consumers efficiently and effectively?
- Does your millennial strategy consider that these shoppers are highly heterogeneous and ambivalent toward brands?
- Does your route-to-consumer strategy encompass new and emerging digital channels, tools and processes? Are you leveraging the data consumers are willing to share?

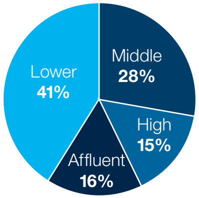
The Brand Enthusiasts are ready to engage. Are you?

How we conducted our research
In the spring of 2014, the IBM Institute for Business Value surveyed 18,462 consumers in 12 countries on six continents. Respondents represented a wide range of age groups, from millennials (18-35) to baby boomers (ages 55+). They represented four income brackets* (lower, middle, high and affluent), adjusted for country-specific ranges. Consumers were also segmented into two of five different product categories (apparel and footwear, food and beverage, household, personal care and tobacco), based on recency of purchase.

Age groups



Income brackets (US$)



Product categories
(Respondents were segmented into 2 product categories each)

Apparel and footwear	**42%**
Food and beverage	**42%**
Household products	**42%**
Personal care	**42%**
Tobacco products	**31%**

* Income brackets were grouped based on actual income ranges for each country and then mapped to their equivalents on a global level

For more information

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. Follow @IBMIBV on Twitter and for a full catalog of our research or to subscribe to our monthly newsletter, visit: ibm.com/iibv

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About the authors

Julia Chen Davidson is the Global Consumer Products Leader for the IBM Institute for Business Value, responsible for the development of thought leadership content and strategic business insights for IBM’s global consumer products industry practice. She has extensive experience working with consumer products clients, as well as Fortune 500 companies within the retail, travel and transportation, telecom and life sciences industries. Her areas of expertise include business model innovation, omni-channel strategy and customer experience strategy. She can be reached at jdavids@us.ibm.com.

Trevor Davis is an IBM Distinguished Engineer, consumer products industry futurist and expert on good practices for developing and launching sustainable consumer brands successfully. As a member of the IBM Industry Academy, Trevor has a leading role in bringing the IBM Smarter Planet vision to life. He can be reached at trevor.davis@uk.ibm.com.

Anthony Bigornia is the global leader of the IBM Consumer Products Industry solution portfolio. He has over 17 years of experience serving consumer products clients and is responsible for setting IBM’s cross-brand industry strategy and defining the cross-brand portfolio of IBM solutions tailored specifically to the needs of consumer products clients. Anthony is a frequent speaker at industry events regarding the changing dynamics of the consumer products industry driven by the new, empowered consumer. He can be reached at anthony.bigornia@us.ibm.com.

Contributors

Stephen M. Brown, Global General Manager, Consumer Products Industry
Michael T. Dobbs, Associate Partner, IBM Global Business Services
Jill Puleri, Global Industry Leader, Consumer Products & Retail Industries
David Spear, Associate Partner, IBM Global Business Services
Lukas Staniszewski, Strategy & Analytics Consultant, IBM Global Business Services

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Notes and sources

1 Hartman Group. "Millennial Consumers: Exerting their Influence. Extending their Purchasing Power. Taking over the World." http://www.hartman-group.com/upcoming-studies/millennial-consumers-exerting-their-purchasing-power-taking-over-the-world. Accessed on October 16, 2014.

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