

Meeting the demands of the smarter consumer



Overview

New technologies and socioeconomic trends are reshaping the retail marketplace in Australia. The IBM Institute for Business Value recently surveyed more than 2,500 Australian consumers – and another 30,000 consumers in the United States, Canada, United Kingdom, Brazil, India and China – to find out how they chose where to shop, what shopping methods they preferred and what they would demand from retailers in the future.

Executive summary

Australian consumers, like others around the globe, are using networked technologies to become more informed. With the development of new, sophisticated communication media, consumers have unprecedented access to information about retailers and their products, wherever and whenever they want it.

Armed with this knowledge gleaned from a multitude of sources, shoppers are spending their money on goods and services they value most and deciding how they want to engage with retailers. To put it another way, consumers are becoming more instrumented, interconnected and intelligent. As a result, they are making smarter buying decisions.

The survey findings reveal that to influence the behaviour of networked consumers, retailers must find smarter ways of addressing their needs and demands. The ideal outcome for retailers is not only to encourage them to buy certain brands, but to have them recommend those brands to their friends and social networks.

Meanwhile, major socioeconomic shifts are taking place. The global population is projected to increase by 12.4 percent over the next decade¹; more people now live in cities than in rural areas; and more than half of the emerging world's inhabitants have risen to the middle class. These changes are creating a new global pool of shoppers – the 'affluent potentials' and rural poor – with US\$5.4 trillion to spend².

In short, consumers are becoming more numerous and more prosperous. But they are also becoming more diverse, more demanding – and smarter.

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It's a buyer's market

Three aspects identify the smarter consumer. They are instrumented – that is, they are tech savvy and happily use technology to make purchases. They are interconnected – they can stand in the middle of a store and jump online to compare its prices with that of competitors. Because of these two abilities, they are also intelligent; they are wise to the retail experience – theirs and everybody else's.

Consumers are instrumented...technology has made them smarter

The average Australian shopper is comfortable with technology. Courtesy of the internet, mobile phones and networked in-store kiosks, many consumers now have instant access to a wealth of information about retailers and their products. They use this information to decide what to buy and where to buy it.

Our survey found almost three-quarters of Australian consumers want to use some technology in the shopping process. More than a third want to use two or more technologies. Younger shoppers, particularly Generation Y, are very receptive to the idea of using new and multiple technologies to enhance the shopping experience.

Consumers are interconnected...they want to connect to retailers and are eager to assist

Many Australian consumers are also willing to use these technologies to interact with retailers in new ways, but they want to use different technologies for different tasks. They want to use:

- **Websites** primarily to compare prices and print coupons;
- **In-store kiosks** to review product features and obtain product information; and
- **Mobile phones** to locate the nearest store and check whether it has what they want in stock.

Moreover, retailers are not their only sources of information. Millions of people are now interconnected through social networking sites, such as Facebook and Twitter. The opinions of other consumers influence their purchasing decisions. Moreover, a third of the consumers we polled – largely Generations Y and Z – said they were likely to follow a retailer on a social network, chiefly to trial new products, gain preferred customer status or suggest changes to products.

In fact, most consumers – whether or not they use social media – are ready to collaborate with retailers to co-create new products and services that meet their needs. Baby Boomers are slightly less interested in the idea, but those who want to become involved are prepared to devote more time to the task.

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Consumers are intelligent...they know what they want

Consumers are becoming more informed, more interconnected and increasingly intelligent; they know more clearly than ever before what they want from retailers. Using maximum difference analysis – where respondents compare different attributes, just as they do when shopping in real life – consumers identified what mattered most when they decided where to shop, and in which areas they thought retailers most needed to improve.

As Figure 1 shows, Australian respondents believe that retailers should focus first on:

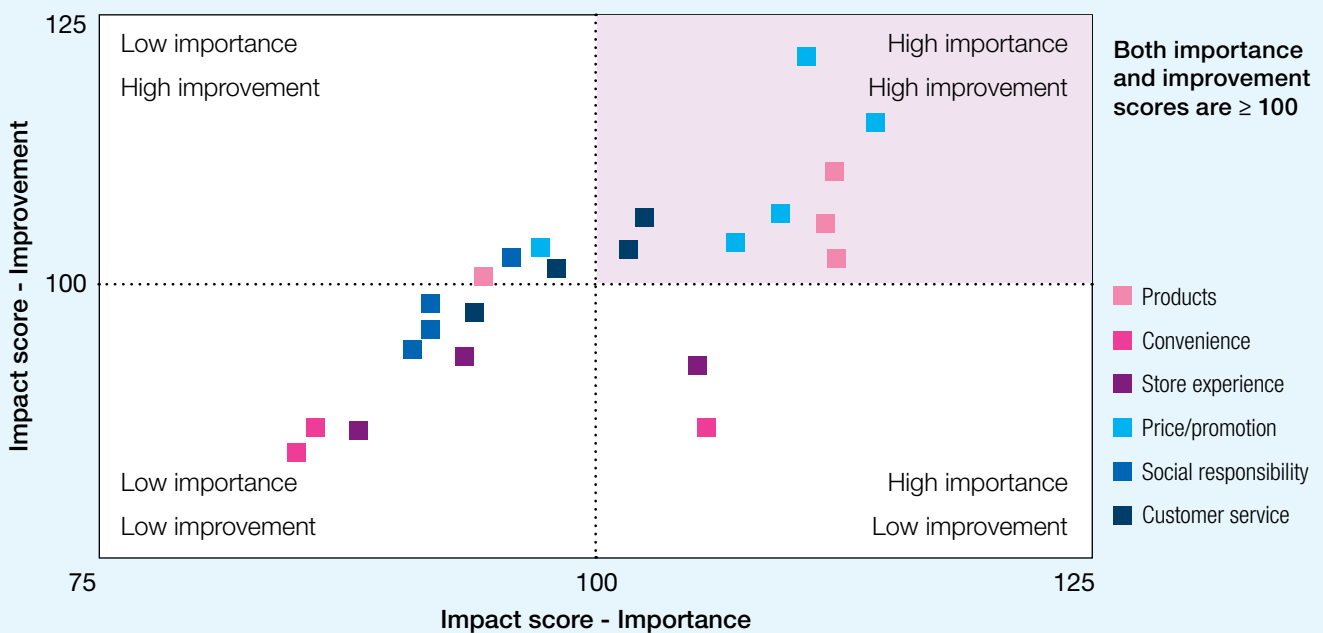
- Offering better promotions and prices;
- Making product improvements; and
- Providing better customer service.

More specifically, they want personalised discounts and knowledgeable store employees who are willing to help during the shopping process.



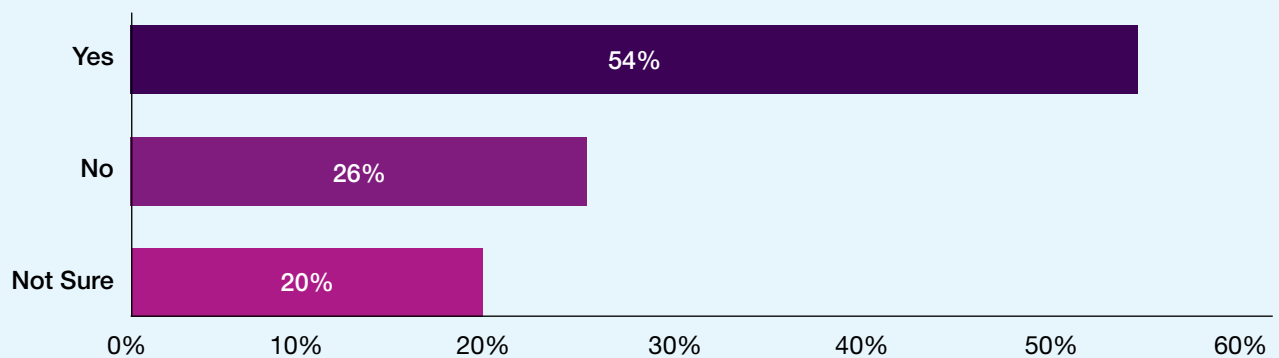
Figure 1:

Consumers believe retailers should focus first and foremost on offering personalised promotions.



Source: IBM Institute for Business Value Analysis.

Figure 2:

Likelihood to spend more with retailer if improvements are made

Source: IBM Institute for Business Value Analysis.

Smarter retailers are listening to their customers

Australian consumers are more empowered than ever before. Networked communication technologies – such as the internet and mobile phones – are keeping consumers more informed about retailers and their products, and more up-to-date with latest retail trends and prices. They are also in closer touch with retailers and more demanding of them. Social networks help consumers stay more in touch with one another and with retailers – they are prepared to share both positive and negative information.

The collective shopping experiences of these instrumented, interconnected and intelligent consumers are increasingly defining and shaping consumer attitudes. They affect how consumers buy and which retailers and brands they choose. Surveys have found, for instance, that half of shoppers won't go into a store if they have heard about someone else's bad experience. On the other hand, eight in 10 customers show greater commitment to a brand after they've had a satisfying experience.

While consumers can gain an upper hand by using the most up-to-date product and pricing information to drive ever-harder bargains, Australian retailers can still glean rewards and opportunities from this buyer behaviour.

Make improvements based on customer feedback

Our survey results show that consumers around the world are highly willing to reward retailers that listen to them. More than half of those surveyed in Australia indicated that they would outlay more with an existing retailer if it made improvements they suggested (see figure 2).

Regardless, the lesson for retailers is clear: to improve your bottom line, listen to what your customers want and take action.

In particular, 63 percent of Generation X shoppers and 64 percent of Generation Y said they would increase their spending with an existing retailer if it did the right thing by them. This was also the case for specialty apparel and home merchandise shoppers, with 66 and 62 percent respectively saying they would respond well to customer-friendly actions.

And while consumers around the world were more willing to loosen their purse strings for responsive retailers, the proportion was greatest in growth markets.

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Consumer advocates reward retailers that get it right...by increasing purchases, loyalty and advocacy

For retailers, it has become crucially important to get consumers onside – to transform them from shoppers into consumer advocates. Not only are advocates prepared to spend more on the retailers they appreciate, they also spread the word through online social channels.

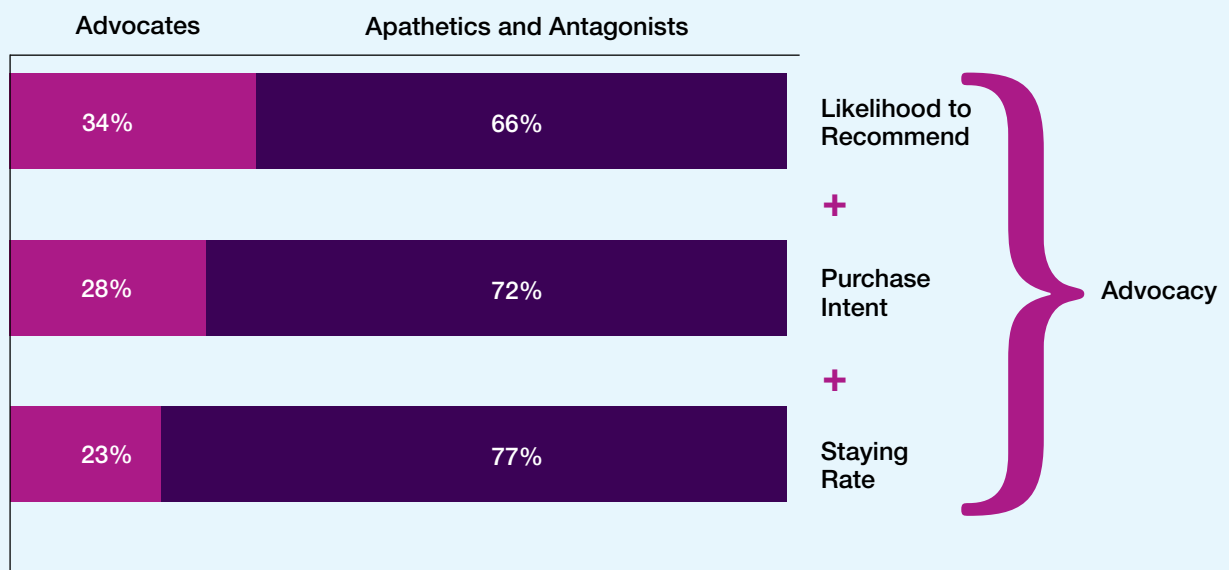
In Australia, 23 percent of consumers see themselves as advocates (see figure 3). This is less than the United States and Brazil (with an advocacy rate of 39 percent) and the United Kingdom (32 percent), but more than India (22 percent) and China (10 percent)³.

Generation Y has the highest level of advocacy with 25 percent, and Baby Boomers the lowest, with 21 percent.



Figure 3:

Advocacy defined: The three requirements for advocacy



Source: IBM Institute for Business Value Analysis.

In return for their loyalty, the consumer advocate wants more personalised discounts from retailers and more knowledgeable floor staff. But it's worth it – Australian consumer advocates tend to spend 12 percent more, on average, than non-advocates.



Why advocates matter

Consumer advocates are more than just loyal customers who recommend their preferred brands to others – they are critically important to retailers.

Australian advocates will buy more if their favourite retailer expands its offering or introduces products previously only available from other retailers. For example, if Jessica, a 24-year-old consumer advocate can't buy gluten-free cereal from her favourite supermarket, she will shop elsewhere out of necessity. But if her favourite supermarket starts to stock gluten-free cereal, she will revert and buy it from her favourite store.

In addition, advocates will stick with their favourite retailers, even if others start offering products or services that compete on quality, price and convenience.

However, failing to deliver on consumers' expectations can turn them into 'apathetics' – shoppers who have no real opinion or are indifferent to a company. Or worse, they become 'antagonists' – those who feel negatively towards a company and are prepared to tell the world.

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Consumer shifters punish retailers that don't get it right...by switching loyalty and shopping elsewhere

Interconnected, instrumented and intelligent consumers can become loyal advocates. Unfortunately, they can also be tremendously fickle.

As their range of choices increases, Australian shoppers become less willing to act as advocates.

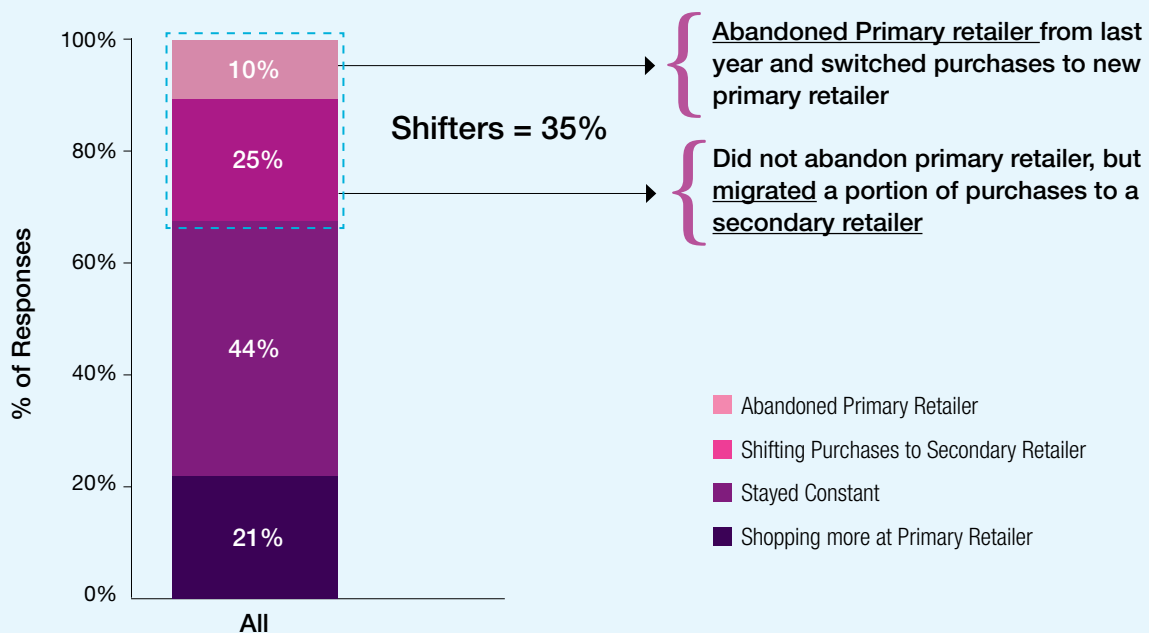
- If the only measure of an advocate is that he or she is likely to recommend a retailer, 34 percent of Australians fall into this category.
- However, if to be an advocate, a consumer has to recommend a retailer and spend more there than previously, the figure drops to 28 percent.
- If being an advocate means recommending a company, buying more and remaining loyal when there are competitive offers, the figure slips to 23 percent.

If they don't get what they want, Australian shoppers are prepared to immediately switch retailers. This group, known as 'consumer shifters', will either take all their business to a new retailer, or reduce their spending at their existing primary retailer and move a significant amount of their purchases to a new one.

Like advocates, consumer shifters place a high value on personalised discounts and knowledgeable staff. They can sway the views and opinions of others through social networking sites and consumer forums. So when one consumer shifts, it can have a ripple effect, encouraging others to move with them.

Figure 4:

Consumers shifting retailers since last year demonstrated two types of behaviour



Source: IBM Institute for Business Value Analysis.

Shifters know what they want... and will find it, no matter what

The survey revealed that 35 percent of Australian consumers shifted retailers in the past year. Of these, 10 percent switched their primary retailer completely, while the remainder migrated a significant portion of their purchases. Almost a quarter of shifters, buoyed by their experiences with their new retailer, became brand or company advocates (see figure 4).

Primarily, Australians shift from one retailer to another because of lower regular – or sale – prices. More than seven in every 10 shoppers we surveyed only shifted some of their purchases. In the same survey, 44 percent of shoppers maintained the status quo – buying the same amount from the same retailer – while 21 percent chose to spend more with their existing favourite retailers.

Shifters are an important economic group because they tend to have a higher disposable income and are more likely to financially reward retailers than non-shifters (67 percent compared to 47 percent), spending on average 6 percent more per month.

Generation Y has the most shifters (49 percent), while the Baby Boomers has the least (28 percent).

On the world stage, Australians don't switch their buying as much as Brazilians (where 66 percent moved all or some of their business), Indians (69 percent) or Chinese (78 percent). However, Australians are more willing to shift than consumers from the United Kingdom (34 percent), Canada (30 percent) and the United States (29 percent)⁴.

Australia ranks in the middle when it comes to advocacy and switching. This suggests we are not strongly vocal supporters of companies as shoppers in other countries, but at the same time, we aren't quick to abandon the places where we like to shop.

Nonetheless, if shoppers shift their business to a new retailer, the new retailer must act quickly to transform them from shifters into advocates. Already 23 percent of Australians say they are happy to let themselves be turned from a shifter into an advocate, but there's plenty of room to improve.

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Conclusion: a shopper's market is a retailer's opportunity

How should retailers react to this smarter, more demanding consumer? Overwhelmingly, it's a shopper's market. Smarter consumers know what they want, and they expect to be heard. And if retailers don't listen, other shoppers certainly will.

To succeed, Australian retailers must keep pace with their customers. Businesses must lay a foundation that ensures they give customers what they want, when they want it. They must consolidate their infrastructure to provide customers with accurate information and consistent product availability.

To stand out from their competitors, Australian retailers should embrace the shopping channels and instruments preferred by smarter consumers, particularly Generations X and Y. They should develop strategies to convert consumer buying intentions – expressed in online forums and chat sites – into in-store and online sales. Online analytics tools can help them uncover consumer desires and develop personalised offerings and experiences.

Australian consumers are more demanding, but they're also more disposed to help both retailers and their fellow shoppers. They are ready to collaborate in the development of new products and services. Crucially, they are ready to reward the retailers that listen to them, buy more, and convey their positive shopping experiences to family, friends and the world.

Embrace this buyer's market by partnering with today's smarter consumers, to capture value and increase loyalty.

How can IBM help?

Business Consulting and Delivery Services – IBM helps retailers formulate, implement and operationalise programs that respond to changing customer buying behaviours, align organisational structure and metrics, and transform customer-centric processes.

Retail Industry Solutions – IBM offers a comprehensive portfolio of retail solutions comprising merchandising and supply chain management, multi-channel retailing, retail performance analytics and TotalStore solutions, to help retailers deliver the fastest time-to-value at the lowest risk.

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

For more information

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 2. 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.
3. "Meeting the demands of the smarter consumer" IBM Institute for Business Value, January 2010.
 4. "Meeting the demands of the smarter consumer" IBM Institute for Business Value, January 2010.



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