1:1 Consumer

Get the goods: Insights on topical issues affecting the food and grocery industry in Australia
Introduction: what does the manufacturer and consumer relationship of the future look like?

We have entered a new era of consumer relationships. Across the globe, consumers are communicating, interacting and making purchases in ways that were unimaginable only a short time ago.

Sometime in August 2010, the 5 billionth device was plugged into the Internet. Research firms predict that in 10 years there will be around six billion mobile phones in the world, nearly all of them connected to the Internet. Some 2.5 billion televisions that exist today will gradually be replaced by TV sets that are capable of accessing the Internet, not to mention around one billion automobiles which will likely be replaced by newer models featuring online connectivity.1 New interfaces like these mean countless new ways for people to make purchases, ushering in a new world of customer interactions – and of customer information.

At the same time, consumers themselves are also becoming more complex. They are connecting online and sharing opinions on products and brands, forever altering the relationships that have traditionally existed between consumers and the companies that serve them.

Connecting with these complex consumers will be vital as conventional approaches to marketing increasingly become ineffective.

Only 14% of People Trust Advertisements
78% Trust the Recommendations of Other Customers2

Success in this new world will be defined by a company’s ability to embrace the concept of “one-to-one” marketing, a customer relationship strategy that emphasises personalised interactions with consumers.

The goal is the formation of a 1:1 consumer relationship and the continuation of this relationship over the course of the consumer lifecycle.

In this relationship of the future:

- Manufacturers will be able to understand and synthesise consumer insights (pre-shopping and post-shopping behaviours) and shoppers’ insights (behaviours at the point of sale) to build a comprehensive view of consumers.
- They will identify, acquire, cross-sell and retain the best customers based on an understanding of customer segmentation or 1:1 priorities.
- Data collection capabilities will span all consumer touchpoints across time, from pre-shopping research, through buying behaviour in store, to post purchase consumer needs fulfilment.
- Processes and technologies will enable 1:1 communications and highly tailored messages and interactions will create awareness of the brand, monitor reaction to products and differentiate against competitors in the “always-on” consumer environment.
- Manufacturers will be able to monitor and react to consumer-initiated communications in real-time.
- Manufacturers will be able to interact with and stimulate consumer demand at the point of sale and convert consumer research and customer inquiries into purchases.

What is the goal of 1:1 consumer?

The goal of building a 1:1 consumer relationship is to:

- Leverage consumer data intelligently to gain superior insight into existing customers and potential “target” customers.
- Use consumer insights to create and distribute distinctive and differentiated products made available to customers at the point of sale.
- Ensure relevance to the consumer by providing personalised communications targeted to those customer segments or individual consumers who are critical to the success of the brand.
- Address product, promotion, distribution and communication activities across the lifetime of the consumer relationship.
Why is a 1:1 consumer relationship important?

The Smarter Consumer

Consumer products companies and retailers face new challenges in today’s world. Technology is changing the way consumers interact with companies, obtain information, and purchase goods and services.

As a result, consumers are becoming smarter – increasingly informed, enabled and demanding. It is becoming a shopper’s market, with smarter consumers who are:

- **Instrumented**: they use two or more technologies to browse and purchase.
- **Interconnected**: they embrace co-creation to influence merchandise design and service offerings.
- **Intelligent**: they know what they want and are increasingly demanding.

Consumer Products CEOs are very aware of this, citing “better understanding of needs” as the key area where customers’ expectations will change over the next 5 years (see Figure 1).

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**Figure 1: IBM Global CEO Study - customer expectations**

**CEO's view of where customer expectations will change to a large extent**

<table>
<thead>
<tr>
<th>Category</th>
<th>Full Sample</th>
<th>CP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better understanding of needs</td>
<td>82%</td>
<td>85%</td>
</tr>
<tr>
<td>New or different services</td>
<td>70%</td>
<td>63%</td>
</tr>
<tr>
<td>More collaboration, info sharing</td>
<td>69%</td>
<td>64%</td>
</tr>
<tr>
<td>New or different products</td>
<td>61%</td>
<td>74%</td>
</tr>
<tr>
<td>New or different channels</td>
<td>51%</td>
<td>46%</td>
</tr>
<tr>
<td>Increased focus on social responsibility</td>
<td>46%</td>
<td>58%</td>
</tr>
<tr>
<td>Stronger focus on price-value equation</td>
<td>45%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: IBM Global CEO Study 2010, n=1518; Consumer Products n=120
“Information can’t be from the company to the consumer; it has to be a level playing field where consumers feel that they are opting in and that there is a sharing of information.”

- CEO, Starbucks

The smarter consumer is looking for a two-way relationship. IBM’s Smarter Consumer Study found that while 76% of consumers are willing to co-create/collaborate on product and concept ideas and 22% are willing to follow a retailer/CP company on social networks, there is a value exchange required. In return, consumers want to:

- Trial new products (free samples)
- Receive preferred customer status
- Receive personalised promotions
- Influence product development/changes.

Consumer products CEOs understand the importance of getting closer to consumers. A high 97% rated “getting closer to the consumer” as the most important focus area for them (see Figure 2).

For consumer products companies, "getting closer" increasingly means staying relevant to these instrumented, interconnected and intelligent consumers, and leveraging technology to connect, inform and gather insights from them – and about them.

For example, Absolut’s free iPhone application, "Drinkspiration", provides:

- "Instant" drink recommendations based on mood, location, time of day, taste, colour, loudness of music or shape of glass
- The ability to allow users to immediately share drink preferences with friends on Facebook and Twitter
- Live updates of global preferences leveraging GPS, social media and users’ collective behaviour.

“In the future, we will transform ourselves from a product-out company to a market-in through further understanding of customer needs.”

- Chairman, CP Industry, Japan

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**Figure 2: IBM CEO Study - Consumer Products CEOs’ focus**

<table>
<thead>
<tr>
<th>Dimension to focus on over the next 5 years - consumer products</th>
<th>Full Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting closer to customer</td>
<td>97% &gt; 88%</td>
</tr>
<tr>
<td>People skills</td>
<td>84% &gt; 81%</td>
</tr>
<tr>
<td>Insight and intelligence</td>
<td>79% &gt; 76%</td>
</tr>
<tr>
<td>Enterprise model changes</td>
<td>58%</td>
</tr>
<tr>
<td>Risk management</td>
<td>45% &lt; 55%</td>
</tr>
<tr>
<td>Industry model changes</td>
<td>42% &lt; 54%</td>
</tr>
<tr>
<td>Revenue model changes</td>
<td>40% &lt; 51%</td>
</tr>
</tbody>
</table>

Source: IBM Global CEO Study 2010, n=1518; Consumer Products n=120
"Getting closer" can also mean personalised communication. Bigoven.com provides a hyper-personalised user experience based on detailed information such as members’ food preferences, cooking behaviours, family status, geographic location and shopping patterns.7 Consumers are also looking for trusted information that simplifies their complex purchasing decisions. In today’s market, product is just one of many drivers influencing purchase. Health benefits, environmental impact, allergen information and country of origin have now started to influence decisions. For example, Otarian, a vegetarian fast food restaurant in New York and London, is addressing customers’ developing view on sustainability, publishing the carbon footprint of every item on the menu and awarding customers corresponding carbon credits as their form of loyalty program.8

Food and grocery retailers and manufacturers are also addressing this growing desire, with initiatives such as extended labelling with GS1net gaining momentum in the Australian marketplace.9 Kraft’s iFood Assistant iPhone application aims to provide a smarter and easier food shopping experience by providing “on the go” access to shopping lists, recipes, videos, product search, nutritional information and community generated content. Nestle have recently announced the creation of Nestle Health Science S.A. and the Nestle Institute of Health Sciences to pioneer a new industry that will sit between food and pharma. The aim of these two organisations is to provide personalised “health science nutrition” to prevent and treat health conditions such as diabetes, obesity and cardiovascular disease.10
### Figure 3: Private label share of market

<table>
<thead>
<tr>
<th>Country</th>
<th>2007e</th>
<th>2012e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>UK</td>
<td>38%</td>
<td>41%</td>
</tr>
<tr>
<td>Belgium</td>
<td>33%</td>
<td>36%</td>
</tr>
<tr>
<td>Germany</td>
<td>29%</td>
<td>32%</td>
</tr>
<tr>
<td>Spain</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>France</td>
<td>26%</td>
<td>29%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Canada</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>Australia</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>World Average</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>USA</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>Hungary</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Italy</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>India</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>South Africa</td>
<td>8%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: IBM Institute for Business Value analysis, "Private Label Worldwide", Planet Retail, September 2008
The changing role of manufacturers and retailers

Growth in private label in the Australian market is placing pressure on brands, as brand presence is diluted on the retail shelf. Australian consumers are becoming increasingly enamoured with private label brands, particularly with staples such as milk, flour and sugar. Sales of private label milk grew from 25% of Australian supermarket sales in 1999 to 52% in 2010. As shown in Figure 3, retailers are becoming formidable competitors as they focus on growing their private label portfolio.

Retailers are leveraging deeper insights to refine product and service offerings, develop new formats and grow their pool of consumer "advocates". However, just as retailers are becoming manufacturers, the reverse is also true.

For example, Nestle interact directly with consumers with Nespresso. Online stores, a premium club and boutiques that are designed to allow Nestle to interact directly with consumers through the Nespresso brand. The Nespresso boutiques are designed to attract coffee lovers worldwide to "an environment dedicated to the art of the espresso".12

New channels are developing, which allow consumer products companies to go direct to the consumer. For example, Procter and Gamble has developed an online channel, allowing them to sell online and gain insight to consumers via membership and online communities. Procter and Gamble uses its online store to experiment with tactics such as e-coupons, cross-selling and various shipping options, and closely monitors the results. This allows them to change tactics quickly, in real time, and to compare results across different campaigns.13

Hindustan Unilever (HUL) has invested in new ways of engaging with consumers in rural India. Project Shakti is a direct-to-consumer retail operation via a network of entrepreneurs selling its products door-to-door. This direct selling initiative reaches 75 million people in 60,000 villages.14

In Australia, Sanitarium has extended their health and wellbeing focus by offering a range of services that are designed to complement their brand and company vision, and gives them direct access to consumers. These services include:

- **Sanctuary Health and Wellbeing Village**: Sanctuary is a specialised destination for consumers interested in health and wellbeing issues, which brings together conventional medicine and complementary therapies. Seminars, fitness classes, practitioner services and cooking classes are just some of the services on offer. In many ways, Sanctuary is a return to where Sanitarium began in 1898. With its emphasis on individual wellbeing, Sanctuary brings to life the principle of genuine care for whole person health on which our company was founded.15

- **Cultivate**: Cultivate is a health and wellbeing service for the work environment, including health and well-being coaching and assessment, workshops and an online health assessment portal.
How are leading edge consumer products companies and retailers reinventing customer relationships?

1. Honour customers above all else
   It is vital to make it easy for customers to connect to the brand. For example, US electronic retailer Best Buy does this by empowering staff. More than 2,500 Best Buy employees have signed up for Twelpforce, which is designed to enable them to see Best Buy-related problems that customers have aired on Twitter and respond to them. Rather than lock down technology, Best Buy have opened up their Twitter system, helping to connect to "all of those empowered consumers" in a timely fashion.16

2. Use two-way collaboration to sync with customers
   Leading edge companies make customers part of their team, finding new ways to communicate, evaluate their feedback and respond to their ideas. They directly involve customers in defining emerging needs. Retailers and consumer products companies such as Kraft, Starbucks and Sara Lee are all opening up access to the innovation process by allowing consumers to post ideas via their websites.

   My Starbucks Idea, Innovate with Kraft and Sara Lee Open Innovation all provide channels for consumers to submit ideas for product or service introduction or improvement.17 Successful companies maintain a running dialogue with consumers that includes face-to-face and social networking interaction.

3. Profit from the information explosion
   "We need a visceral understanding of customers in addition to analytics, and we plan to integrate more of the customer experience into our measurement systems."
   - Chief Administration Officer, CP Industry18

   Leading edge companies also have clear processes to measure the customer experience. They know how to tap into the value of the vast amount of data that exists about their customers and use analytics to translate that information into insight and action that creates business results. For example, a major US consumer electronics retailer uses advanced customer analytics to better target marketing spend and support cross-enterprise decision making, which is grounded in enriched customer understanding. The retailer found that the flow on benefits from this insight included:
   - Enhancement of their loyalty program based on customer motivation, engagement and behaviour analysis
   - Optimisation of store refurbishment program based on consumer insight

   These companies also share information freely to build trust and improve customer relationships. A good example of this is Procter and Gamble's Connect and Develop website. Procter and Gamble's open innovation strategy involves publishing their R&D needs, allowing external parties to share their ideas on these concepts.
“The model works. Today, more than 35% of our new products in market have elements that originated from outside P&G, up from about 15% in 2000. And 45% of the initiatives in our product development portfolio have key elements that were discovered externally. Through connect and develop – along with improvements in other aspects of innovation related to product cost, design, and marketing – our R&D productivity has increased by nearly 60%. Our innovation success rate has more than doubled, while the cost of innovation has fallen.”

- Vice President Innovation and Knowledge, Procter & Gamble, US
Conclusion

It is vital to focus on the 1:1 consumer relationship to ensure success in today’s complex market. More informed and demanding consumers, coupled with a more competitive retail environment, are driving these new rules of engagement. Leading companies are embracing the 1:1 consumer relationship, using the ever-increasing availability of information, new channels and social media to interact with consumers.

“The rules of engagement in traditional marketing are over. Whether you are creating a brand, building one, or running a big one, you’d better understand social media, because there is a seismic shift in how people are gaining access to information and, as a result, how they are behaving.”

- CEO, Starbucks