



Ready for prime time?

New lessons on building the consumer products brand experience

IBM Institute for Business Value

CP companies search for limelight

Are consumer products (CP) companies about to have their Hollywood moment? Studios traditionally have been dream factories for consumers in a linear supply chain consisting of theaters and retail. But the combination of digital technology and Millennials has radically altered the entertainment industry. To reach increasingly empowered consumers, Hollywood is now a content creator at the center of a digital ecosystem, with business models that range from retail to direct-to-consumer. Similarly, for CP companies, time, technology, changing consumer lifestyles, as well as disruptive competitors, are creating new opportunities beyond the traditional. To take advantage, they must use digital technologies and secure the broadest possible ecosystem of business partners to create compelling brand experiences, drive purchase behavior and create unbreakable bonds with consumers.

Executive summary

CP companies are going through an era of multiple upheavals, including new consumer dynamics, rapid technological advancement and the advent of economic ecosystems that enhance value.

The past decade has seen an unprecedented transformation in the actions, attitudes and ideas of the typical consumer. Fueled by an explosion of easy-to-use digital technology that grants them access to more information than at any other time in history, today's consumers have radically changed the way they interact with brand owners. Rather than wait passively for whatever companies choose to deliver, consumers now demand products, services and communications personalized according to their individual needs, values and preferences.

Fortunately, through advanced analytics and consumers' own input, consumer products companies are positioned to learn most of what they need to know. Already, a number of industries have in place processes and technology to capture, understand and respond to the diverse wants and needs of their consumers. The Octopus card, for example, is a contact-less smart card that was created to provide Hong Kong residents a way to pay public transportation fares automatically. It has expanded to include retail payments, interaction with self-service machines and can even be used in schools. As well, it can be used for access control at a growing number of commercial and residential buildings.¹

74%

of executives identify a compelling brand experience as their top priority.

Only

15%

are very effective delivering a compelling brand experience.

Only

25%

are prepared for current digital technology disruption.

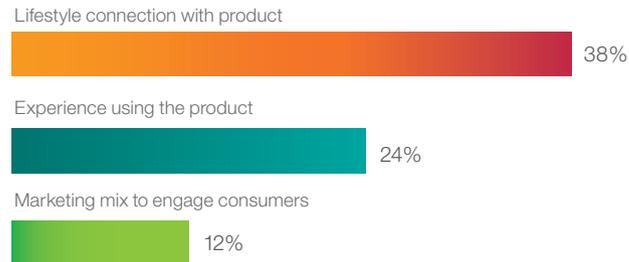
Ready for prime time?

Consumer loyalty today is built around the brand experience. Seventy-four percent of executives surveyed in the IBM Institute for Business Value 2015 Consumer Products study said that, to deliver a compelling consumer experience, brands need to engage with consumers, provide the encounter they expect and offer products and services that fit their lifestyles (see Figure 1). But only 15 percent said their companies are very effective in delivering this.

The structure of consumers' daily lives is changing, and understanding those changes will dictate winners and losers. Several industries have taken the lead in using digital technologies and cross-industry ecosystems to create extended brand experiences that engage consumers in brand communication, decision-making and even product co-creation. Few companies in the consumer products industry are among that number. And this creates a window of potential competitive advantage for the bold.

Figure 1

Creating a powerful brand experience is critical for CP companies, with connecting with consumer lifestyles the top priority



Source: 2015 IBM Consumer Products study.

Moments of serendipity

What if progressive CP companies could create brand experiences so personalized and compelling that they create moments of serendipity – experiences akin to running into a long-lost friend at just the right time? These types of brand experiences create opportunities to become an indispensable part of consumers' daily lives and, ultimately, create unbreakable bonds. Resources are already available to make these moments happen. New technology – the Internet of Things (IoT), predictive analytics, cognitive computing and robotics – can change the way products and services are experienced. To date, however, it has been organizations outside CP that have used these advances to disrupt markets and capture consumer mind and wallet share. CP companies must now step up to the plate and emulate leading practices that enable collaboration with new and different partners to create value and competitive advantage.

Based on this latest IBM research, CP companies must do three things to leverage the experiences of others and create moments of serendipity:

- Re-address consumer expectations against a background of changing lifestyles and preferences
- Turn technology disruptions into opportunities for growth
- Capitalize on the power of ecosystems to reinvent the business.

In this report, we will explore each of the factors that require a transformation within the industry: consumers, technology and ecosystems. We will discuss the implications of these and offer specific recommendations that can help CP companies secure greater consumer engagement.

Consumer

Re-address consumer expectations against a background of changing lifestyles and preferences

Consumer engagement is clearly easier today with the pervasiveness of mobile devices, social media and other collaborative communications, but it works both ways. Consumers are holding companies to be more accountable and, at the same time, demanding more responsive service. For example, 81 percent of consumers demand improved response time, 76 percent expect organizations to understand individual needs and 68 percent anticipate organizations will harmonize consumer experiences.²

As consumers' digital lifestyles expand, they are connected anytime, anywhere. A simple task, such as watching a movie, can be broken down across multiple screens at anytime, anywhere and on any device. In 2015, it is estimated that each person is connected to 3.5 devices. By 2020, that number is expected to grow to 6.7 devices.³ To continue to be successful CP brands must enhance the brand experience by delivering the right content at the right time. As Jan Van Kets, Information Systems Manager of Marketing Operations for snack producer Mondelez International, told us, "Always connected, consumers expect integrated multi-channel experiences."

For example, HBO found an unmet need – viewing anywhere, anytime.⁴ HBO NOW creates wholly different consumer experience through online streaming. By 2017, movie streaming is projected to surpass U.S. box office receipts to reach \$12 billion USD.⁵ Consumer products companies are not just competing with each other to provide the best customer experience. Instead, it is the last, best experience – regardless of industry and often digital – that is their guide. Consumers now expect the same service and attention for laundry products as they get from their banks. And the brand experience is more likely than ever to begin online. For example, 45 percent of Unilever's customers research products on Amazon before making a purchase.⁶ And 80 percent of new car customers now begin their purchasing journey online.⁷

But engaging with consumers requires an understanding of the change underway as a new generation enters the consumer market. As a result, some companies are beginning to adopt design thinking, which focuses on the consumer throughout the entire experience – from conception, to what’s on the shelf, to post-purchase experience. It can fundamentally change how a brand interacts with consumers. PepsiCo, for example, is accomplishing this by the creation of a function, Chief Design Officer, to oversee design-led innovation for all of the company’s brands.⁸ “Changes are driven by young people,” said Jeffrey Hyman, Chairman of the Food & Drink Innovation Network. These younger consumers are also demanding transparency, accountability and sustainability. IBM research shows that Millennials, in particular, will support brands aligned with their values (see Figure 2).⁹

Figure 2

As consumers become more knowledgeable about products and practices, they are becoming more selective in what they buy



Sources: IBM Institute for Business Value analysis based on information from Nielsen, Fortune and earth17.com.

Dollar Shave Club, Blue Apron disrupt traditional markets¹³

Sales of razor blades and groceries have been, traditionally, the sole domain of brick-and-mortar stores. But two upstarts, Dollar Shave Club and Blue Apron, are changing that.

Dollar Shave Club challenged a century-old business by identifying unmet consumer needs, such as the high cost of razors and the frustrating shopping experience of buying razor blades in-store, which are often locked behind a glass wall. Through a YouTube video, the company told its brand story with great humor and effectiveness, resulting in 12,000 subscribers at launch. It now has 2 million.

Blue Apron is a fresh ingredient and recipe delivery service that delivers more than 1 million meals a month to “home chefs.” By reinventing the grocery supply chain from the farm to the dinner table, Blue Apron is able to source top-quality, seasonal ingredients that are fresher and more affordable than customers can get on their own at their local supermarket. Popularity via social networks fueled its growth to the point that Blue Apron is now a \$2 billion USD company.

Consumer content is king

Consumers today create more content than the brands they follow. Every day in 2014, Snapchat averaged 400 million snaps, YouTube had 440,630 hours of videos uploaded and Instagram experienced updates to 70 million photos and videos.¹⁰ A few savvy brands have already successfully leveraged consumer-generated content. Pepsi, for example, created a campaign urging customers to share reasons they preferred Pepsi MAX to other beverages, asking customers to share pictures on Instagram and other social networks.¹¹ CP executives are beginning to understand the importance of digital content. A significant majority – 64 percent – agreed they expect a significant shift in their company’s marketing mix from analog to digital marketing. And 66 percent said growth in direct-to-consumer channels will drive changes to their companies’ operating models.¹²

The point is that consumers are now in control of the brand conversation. And the best way to join the conversation is to foster a sense of openness and collaboration.

The attraction of disruptive new entrants

“What keeps me up at night is the competition from disruptive business models that come from non-traditional industries,” said Jaime Guthrie, Vice President, Consumer Insights and Business Analytics, SC Johnson. Upstarts have been able to turn whole industries upside down. Established CP companies can learn from new entrants innovative ways to engage with consumers to generate revenue growth, as well as improve marketing effectiveness and brand enthusiasm.

Consumer implications for CP companies

Consumers are forming new habits and expectations

Consumers are constantly assessing content anytime, anywhere and on any device and are in direct control of their shopping experience. The last, best digital experience a consumer has anywhere becomes the minimum expectation everywhere.

Channel fragmentation creates both challenges and opportunities

Changes in consumer media consumption and shopping habits have created a much more complex path to purchase between online and offline activities. The continuous growth of non-traditional communication channels provides opportunities for new entrants. Established brands need to deliver the right experience at the right time and through the right channels.

Brands with authenticity and purpose will continue to stride forward

CP companies need to identify, target and engage consumers to support their mission and purpose. Communicating mission and purpose alone, however, is not enough to prove authenticity; brands need to report results to demonstrate their corporate social responsibilities.

Recommendations

Understand changes in consumers' lifestyle living patterns and habits

- Augment social media monitoring capabilities and integrate advanced analytics to identify the opportunities to create moments of serendipity for consumers
- Investigate non-traditional partnerships to deliver new and differentiated product and service experiences to consumers
- Learn from other industries and explore similar models to create new brand experiences (for example, HBO NOW).

Engage consumers with new and flexible approaches that connect with their way of life

- Re-examine the role of design beyond packaging for the brand; focus on consumers' wants and dreams to re-invent products, services and experiences from concept to post-purchase
- Build your own interactive platforms to interact and collaborate with consumers
- Embrace design thinking as an enterprise strategic function that insists on consumer experience and empathy, which can lead to richer insights to help brands connect to what consumers find compelling.

Build trust in consumer relationships at every touch point

- Search rigorously across social networks to identify, target and engage consumers aligned with your mission and purpose
- Interlock with your brand advocates and use their help to champion the brand at every interaction
- Articulate your brand's corporate responsibility mission and purpose, then prove authenticity by publicly reporting the results of your contributions.

Technology

Turn technology disruptions into opportunities for growth

Technology promises to change the way people experience CP companies' products and services. However, CP companies tend to lag other industries in technology investment. But CP executives understand that disruptive technologies create opportunities to deliver compelling brand experiences (see Figure 3). While 70 percent of respondents said disruption is significant, only 25 percent say they are well-prepared for it.

IoT and mobile

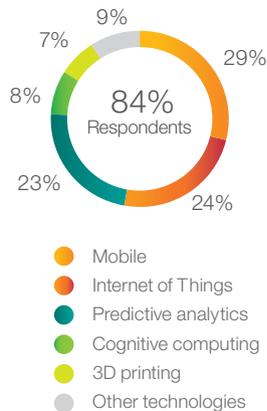
IoT and mobile technology will have the most profound impact on the experiences of consumers and shoppers. By 2020, it is projected there will be 6.1 billion smartphone users globally, with 99 percent of them connected to the Internet.¹⁴

CP companies are already using IoT to predict maintenance, increase efficiency and, in some limited cases, to extend the brand experience through location-specific events, connected packaging and other devices. For example, one U.S. beverage company leverages sensor data, predictive modeling and text analytics to identify and predict unexpected equipment failures in vending machines.¹⁵ And Blizzard Sport GmbH uses sensors to capture in-process product data to pinpoint manufacturing flaws as they happen.¹⁶ Analytics reveal production insights, such as which ski models are prone to certain product defects, and allow issues to be corrected in near real-time.

In the future, IoT will transform living spaces as devices become more embedded in the fabric of daily lives, allowing CP companies to engage in new ways. From improving health and wellness, to safety and security in homes, to intelligent and connected vehicles, networked devices will profoundly change the way people live.

Figure 3

Study respondents identified Mobile, IoT, Predictive Analytics and Cognitive Computing as the technologies that have the greatest impact on their ability to deliver a compelling experience



Source: 2015 IBM Consumer Products study.

Case study: Consumer drink company Diageo uses IoT to extend its brand experience in innovative ways.¹⁷

Diageo uses a sensor in what it calls its “Smart Bottle” that allows the tracking of bottle movements across the supply chain, in-store and, ultimately, to the point of consumption. While in-store, for example, the sensor can upload promotional opportunities to a smart device. And when the sensor shows the bottle has been opened, cocktail recipes can be provided to the consumer.

“Mobile technology is changing the way we live, and as a consumer-brands company, we want to embrace its power to deliver amazing new consumer experiences in the future,” said Helen Michels, the company’s Global Innovation Director.

Predictive analytics

Predictive analytics, applied against a wide variety of structured and unstructured data, can enable CP companies to transition from insights based on stated consumer preferences to those created by actual consumer behavior. Forward-thinking companies are adopting predictive and action-oriented analytics across the CP value chain. For example, to meet continuously changing consumer demands, yogurt company Dannon must precisely anticipate demand while keeping in mind the limited shelf life of its products.¹⁸ Using cloud-based predictive analytics, Dannon has improved its demand forecast to deliver the right product mix at the right time to satisfy consumers. Hair-care product maker Pantene uses meteorological data to predict “bad-hair” days and provides consumers with coupons and directions to the nearest store. Pantene, as a result, showed a 28 percent increase in sales and created 600,000 social impressions.¹⁹

Cognitive computing

Many of the challenges of consumer engagement, such as how to enable communication with billions of consumers, may be solved by cognitive computing. Cognitive computing is a new field that is augmenting and scaling human expertise through advanced machine-learning algorithms. For example, a “cognitive chef” exists that can discover unexpected flavor combinations from ingredients that few, if any, have ever thought to put together.²⁰ Further, cognitive computing can create personality insights from social media, interpret human emotions based on facial expressions, posture, gestures, speech, the force or rhythm of key strokes, the temperature changes of the hand on a mouse, and more. Cognitive computing is also being used to create interactive robots, further expanding capabilities to engage in a human-centric fashion and enhance the brand experience.

Technology implications for CP companies

Ready or not, IoT will impact how brands are built and managed

Connected devices will provide a platform to deliver entirely new brand experiences. As they proliferate throughout the value chain, these devices will provide access to new insights, experiences and services and will significantly impact the way brands are built and managed.

Analytics are becoming more predictive and action-oriented

In addition to familiar areas such as preventative maintenance, predictive analytics are becoming more essential to creating and maintaining rich, scalable brand experiences – the type of “moments of serendipity” previously discussed. Prescriptive analytics will enable CP companies to anticipate and prepare for a wider range of business scenarios that impact critical processes. In the near-term, this can have a powerful impact on how CP companies operate at a hyper-local level. The availability of many and varied sources of local data will make it possible to derive insights at a district or street level, such as managing demand for hyper-local advertising.

Cognitive computing will create new sources of value

Cognitive computing will be central to analyzing the increasing wealth and complexity of content due to increased use of sensors and easier access to voice, videos and image data. Cognitive computing and robotics will converge to offer machine-driven personalized brand and shopping experiences. CP companies are well-placed to drive value from cognitive computing in consumer communications.

Case study: Robots and consumers

Other industries are currently outpacing CP companies in providing cutting-edge technology to enhance the consumer experience. Robotics provides just one example of how industries, such as banking and retail, are innovating to delight their audiences.

Nao is an autonomous, programmable humanoid robot developed by Aldebaran Robotics. Nao, which serves consumers in a Japanese bank, speaks 19 languages, can greet consumers and ask which services they need.²¹ Pepper, another Aldebaran creation – one designed to actually live with humans – can identify consumers, approach them, strike up a conversation and answer their questions about products with the objective of closing a sale.²² Lowe’s OSHbot is now working as a store associate. It greets and talks to customers and can speak multiple languages.²³

Recommendations

Adopt a new mindset when evaluating and deploying disruptive technologies

- Scout for technologies that can extend and re-invent brand experiences as well as operational processes
- Explore ways to “test and learn” with disruptive technologies
- Be experimental; deploy a marginal improvement approach to transformation.

Ask the right questions, be open to new answers and new ways of operating

- Identify the top three “wicked” questions and test how predictive and prescriptive analytics can be used to improve performance in these areas
- Tap into wider range of datasets, such as consumer sentiment, weather and local event data, to drive more meaningful insight into behavioral patterns. Be open-minded to counter-intuitive answers
- Extend the use of analytics to enable automated processes like “next best action” at scale, not simply as a better decision support vehicle.

Lay the foundation today for transformational technologies such as cognitive and robotics

- Explore and evaluate how cognitive computing and robotics fit into your business vision and mission
- Involve employees, trading partners and consumers in creating use cases for cognitive computing, for example to improve brand experience and reduce costs in areas such as care lines or internal help desk operations
- Prepare business platforms for a cognitive future (cloud, dynamic infrastructures, data lakes, etc.).

Ecosystem

Capitalize on the power of ecosystems to reinvent the business

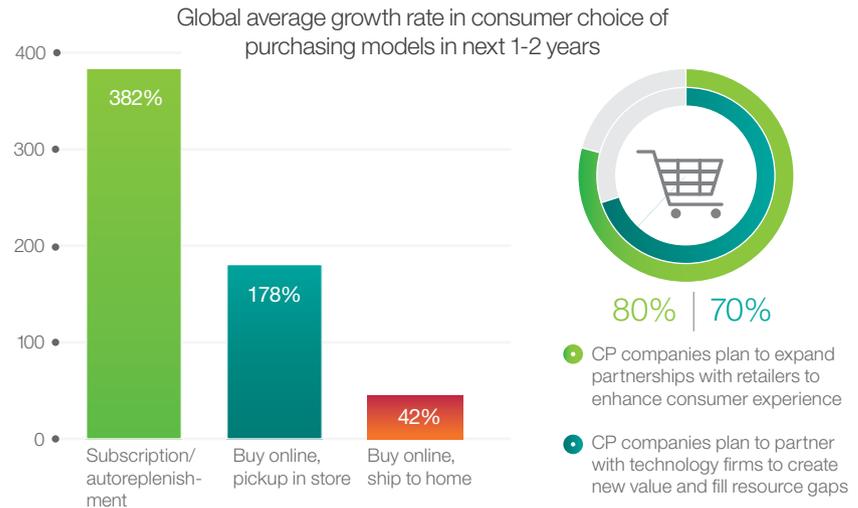
An ecosystem is a complex web of interdependent enterprises and relationships designed to create and allocate business value. Ecosystems are broad by nature, potentially spanning multiple geographies and industries, including public and private institutions and consumers. Some CP companies already have looked for value opportunities through collaboration with adjacent industries (for example, laundry detergent brands aligning with washing machine manufacturers). However, by exploiting ecosystems of technology and distribution partners from other, more advanced industrial sectors, such as automotive and electronics, CP companies can create new, richer consumer experiences and business models.

Creating more complete and compelling brand experiences for changing consumer demographics means working with unfamiliar collaborators. For example, 58 percent and 53 percent of our survey participants considered service providers and automotive manufacturers, respectively, as key partners. Partnership requires an understanding of the ramifications of collaboration across industry verticals and new product-service systems and business models. In our study, 71 percent of executives say they believe consumers will demand more complete experiences that mix products and services, and 64 percent believe new business models will profoundly impact their industries.

Ecosystems are essential for compelling direct-to-consumer business models and experiences. This is corroborated by a recent IBM study in which consumers indicated they plan to significantly increase alternative forms of purchasing in the next one-to-two years (see Figure 4).²⁴ In our study, 80 percent of CP companies indicated they plan to expand partnerships with retailers to enhance consumer experience, and 70 percent plan to partner with technology firms to create new value and fill resource gaps.

Figure 4

CP companies can leverage their ecosystems to fulfill growing direct-to-consumer demands



Source: 2015 IBM Consumer Products study.

Other industries and their ecosystems are competing for your consumers.

Ecosystems can help CP companies expand, and broader ecosystems can accelerate commercialization of new business models. Other industries are already doing so. Electronics and automotive companies, in particular, are linking up to provide access to consumers as they travel – providing such things as retail promotions based on GPS location. According to a new IBM study, 73 percent of all automotive executives rated collaboration with other industries as the best opportunity for industry growth over the next ten years.²⁵

Ecosystem implications for CP companies

CP companies can learn from how other industries have built their ecosystems

Other industries are using their ecosystems to compete for consumer mindshare through compelling, novel consumer journeys and imagining new living spaces. CP companies need to expand the scale and diversity of potential partnerships to explore new ways to engage and add value to consumers outside of the traditional CP/Retail context. This can mean disrupting their ecosystems through new business models and revenue streams.

The emergence of new ecosystems intensifies competition

Traditional barriers to entry such as scale of capital expenditure for manufacturing, sales and distribution capabilities are less relevant today, thus increasing the threats of new entrants. CP companies can benefit from start-ups and other new entrants by including them in their ecosystems and offering them access to their resources and expertise.

Ecosystems can make CP companies sustainability champions

Ecosystems that cross the boundaries among commercial, governmental and NGO partners can effectively integrate sustainability into a company's business. Sustainability is a core component of the brand experience. Its practice can help companies grow, improve cost efficiency and build future resilience. CP companies can access ready-made ecosystems to achieve sustainability goals faster and at lower investment costs.

Electronics and automotive companies leverage ecosystems to provide value²⁶

The relationship between electronics and automotive companies provides an excellent example of how ecosystems create new sources of consumer value through cross-industry partnerships. To sustain growth, leaders in these industries are forming partnerships with different industries to build dynamic value chains that provide innovative consumer experiences. Electronics companies collaborate with cities and institutions to create state-of-the-art connected public spaces for citizens and audiences, making it possible to engage with consumers in real-time and at known locations through social media and content marketing. The tie-in with automotive companies means that any experience can be seamless, from first inquiry through booking for an event, to leaving the parking lot and driving home.

Automotive companies have collaborated with electronics companies to provide smart navigation, real-time traffic alerts and power apps that locate parking spaces in crowded cities. These innovations have, in turn, created a platform for new revenue streams, such as personalized insurance coverage calculations. As vehicles are increasingly connected to personal devices, a proliferation of additional apps and services are likely to be offered in healthcare, entertainment and event planning. Why not CP?

Recommendations

Understand the current state of your ecosystem

- Assess who you are working with today and where you need to build new relationships to differentiate the brand experience
- Identify opportunities to disrupt your/others' value-chains
- Appraise the potential for value creation with non-traditional partners.

Use ecosystems to simultaneously change the brand experience and business model

- Expand your ecosystem by leveraging the “network of networks” that cross traditional industry boundaries
- Use your capabilities and investments to help the ecosystem innovate and grow
- Find the partners who can bring disruptive technology to your brand experiences.

Be nimble, measure your success and act on next step

- Develop metrics together with ecosystem partners; align where it makes sense for the ecosystem as a whole
- Use advanced analytics and IoT techniques to anticipate what is happening in the ecosystem and to determine actions
- Learn to quickly prototype and experiment across the ecosystem to create even more compelling brand experiences.

Are you ready?

Are CP companies ready for their “Hollywood moment?” As CP companies adjust to changing consumer expectations and the power of digital technologies and ecosystems to disrupt, their role in the value chain can be challenged to allow new business models to emerge. Just as with Hollywood, it is likely that brands will start to craft more immersive consumer journeys that involve a plethora of touch points and revenue-sharing partners. New capabilities will be needed to succeed.

Key questions

- How will changes to consumer demographics and behavior shape the consumer journey for your brands?
- How can technology help you capture your consumers’ attention across the different media channels and bond with them?
- How do you plan to leverage transformational technologies such as IoT, predictive analytics and cognitive computing to differentiate your brand experience?
- Who are the strategic partners with ready-made ecosystems that will help you create new value for you and your consumers?
- What skills and capabilities do you require to manage in a time of significant transformation?

For more information

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