Shopper Marketing: Change or die

Paper delivered at Shopper Brain Conference, Amsterdam, 5th – 6th October 2017:
Summary of key points

The Technological Revolution and consumer spending

The Oxford Martin Institute in collaboration with Citi, McKinsey & Co, the World Bank and other credible parties has undertaken a detailed, in-depth assessment of today's jobs, evaluating to what extent technologies that are already being deployed today or are in advanced stages of development are likely to make jobs redundant.

The result is a prediction that, on average, some 47% of today's jobs will disappear due to the application of technologies such as artificial intelligence, blockchain, robotics, autonomous cars, drones and 3D printing. At the same time it is expected that few new jobs will be created.

Here is an example: VOEST, the Austrian steelworks, recently commissioned a new plant that will produce 500,000 tons of steel a year. A traditional plant with this capacity would provide up to 1,000 jobs, but new technology will allow this plant to be operated by some 14 employees. And what would happen even if the demand for their steel doubles? It might mean another 14 jobs.

An important difference to past industrial revolutions is that we are now looking at the replacement of thinking jobs, not just manual labour. The formidable Susskind & Susskind father & son team have analysed eight professions in great depth and concluded "*We expect an 'incremental transformation' in the way that we produce and distribute expertise in society. This will lead eventually to a dismantling of the traditional professions*." (Richard Susskind & Daniel Susskind, *The Future of the Professions*, Oxford University Press, 2015)

The main point here is that technological disruption will eliminate a large number of jobs while creating relatively few new jobs. It is therefore no wonder that the focus is shifting to the question of how to deal with a very large number of people who can't find work.

Politicians like easy solutions, and technocrats like to see the problem addressed without much discussion as they do not want to see the progress of their mega-businesses impeded. No wonder then that the Universal Basic Income (UBI) seems a favoured solution, with a number of countries conducting pilot programs. Let me use the current Finnish pilot to explore the UBI's implications.

In Finland 2,000 long-term unemployed people were taken off unemployment benefits and put onto the Universal Basic Income. We know little about the impact of the UBI as the identity of these people is rightly being protected. Anecdotal evidence suggests that participants are happy. There is not the same feeling of despair and inferiority that is associated with applying for and collecting unemployment benefits, nor is there any requirement to keep looking for a job.

With unemployment benefits they lose the benefits when they take on any job, even a short-term casual one. Apparently it then takes some four weeks before the benefits kick in again, making it unattractive if not impossible to take on any short-term casual employment to supplement their income. With the UBI this restriction does not apply. Additional income can be earned without impacting in any way on the UBI. I would expect the UBI pilot to deliver positive results because it offers *unemployed* people a more dignified and less bureaucratic way to get support.

However, is this pilot relevant and useful?

The UBI is being piloted with unemployed people for whom it offers advantages compared to unemployment benefits. But in the future world we are planning to offer the UBI to people who have lost a much higher income. To put this in perspective, the average monthly income in Finland is $3,392 compared to the UBI of $587. How will people only recently displaced from the workforce react to such a dramatic and presumably long-term drop in income?

The tech sector loves the UBI as technocrats do not want to delve into the intricacies of how the technological revolution is likely to impact on society and the economy. So it may not be surprising to find that Y Combinator is conducting a pilot in Oakland, California, providing 100 families with $1,500 a month or $18,000 p.a.. Note that the US median household income in 2016 was $58,655! There are rumours that this is in fact a pre-pilot and a much bigger project with a budget of $50 million is being planned.

Governments and the tech industry may well see the UBI as a quick fix. But think about it. Imagine a large percentage of the population living on the UBI with little prospect of ever gaining long-term, meaningful employment. They won't be able to plan for a better future, keep aspirations alive, or save up for exciting holidays or major purchases. They are basically stuck with a subsistence income that doesn't allow for much quality of life.

But let's forget these unfortunate people and think about the economy: what would happen to consumer spending if 20%, 30% or an even higher percentage of people rely on a UBI to live? They would obviously cut back significantly on their purchases, sending businesses bankrupt and leading to further job losses – resulting in an even larger percentage of the population relying on the UBI.

The concept of the UBI is appealing from an administrative and political perspective because it does not require a change in how we deal with work today and, in fact, eliminates a massive bureaucratic structure that manages unemployment benefits today (leading to further unemployment in the process). Given the prominence of the UBI we have to prepare for a future where a significant percentage of the population receives the UBI or unemployment benefits.

A technology of special interest to marketers

The technological revolution will change the world as we know it today. But for marketers there is a technology already in use today, that will have a huge impact on shopping behaviour: the digital personal assistant. It does not matter if a shopper delegates the shopping task to Amazon's Echo, Microsoft's Alexa, Apple's Siri or another digital personal assistant. The point is that this puts an intermediary between the shopper and the retailer & brand choice, respectively.

You may have wondered why I have spent so much time looking at how the technological revolution will shape the future operating environment. The reason is that we cannot understand the impact of the digital personal assistant without being cognisant of the operating environment it will be used in. Said differently, how would you expect a shopper on a UBI to make use of their digital personal assistant? There is a very good chance that they will ask their assistant to find the best price for the items or basket of goods they plan to buy.

Early experience in the US suggests that already – without a massive number of unemployed shoppers – there is a tendency not to specify the brand to be bought. I have not seen any figures that show to what extent shoppers specify which retailer to buy from, but it obviously makes a lot of sense for at least those on minimum incomes to ask their personal digital assistant to look for the lowest price available rather than insist on buying from a specific retailer.

The perfect storm

To summarize the key points we have covered so far:

- The technological revolution will lead to massive unemployment.
- The UBI is currently the option preferred by governments and the tech sector.
- The UBI (or a continuation of paying unemployment benefits) will lead to a massive decline in consumer spending and create a highly price-sensitive market.
- Price sensitive consumers will be able to delegate shopping to their digital assistant that will look for the most price-competitive offer.
- Early data from the US suggests that a significant number of shoppers delegating shopping to their digital assistant do not specify which brands to buy (nor, most likely, where to shop).

This leaves two core strategies open to retailers and brand owners:

1. Become the **price leader** – an option that is not feasible for many retailers and brand owners.
2. Develop a **strong emotional relationship** with the consumer which will lead the consumer to shop rather than delegate the shopping task or, if delegating, to specify the retailer or brand that constitutes the preferred option.

Becoming the price leader

One of the most promising strategic concepts when it comes to pursuing price leadership is the *Blue Ocean Strategy* concept.

I have come across plenty of marketers that change an element of their marketing strategy or introduce an innovative feature, claiming to have a Blue Ocean Strategy. This is clearly not the case. The foundation of a Blue Ocean Strategy is a **new business concept**, not an innovative marketing strategy. Innovative marketing may well be a key element of the new business concept but in isolation it is very unlikely to take the company and its brands into a Blue Ocean.

For this reason I will not give this option much coverage. In fact, I only mention it for two reasons:

First, because Blue Ocean Strategies have often resulted in major cost advantages which, given the future operating environment, is obviously a highly desirable outcome. Here are a few examples:

- Zara's Blue Ocean model cut the industry-standard 8+ month cycle for new collections to just 6 weeks, allowing it to align its offer with the market's response and thus selling some 80% of its products at full price compared to the competition's average of only 40%. This means that Zara can price its products profitably at approximately 25% below competitive brands.
- Enterprise developed into the largest rental car company in the US by focusing on renting replacement vehicles paid for by accident insurance, eliminating costly infrastructure (such as airport stations) and marketing expenses.
- Jet pioneered unattended petrol stations, requiring only half as much margin per liter of gas.
- Walmart pioneered cross-docking, leading to massive cost savings.

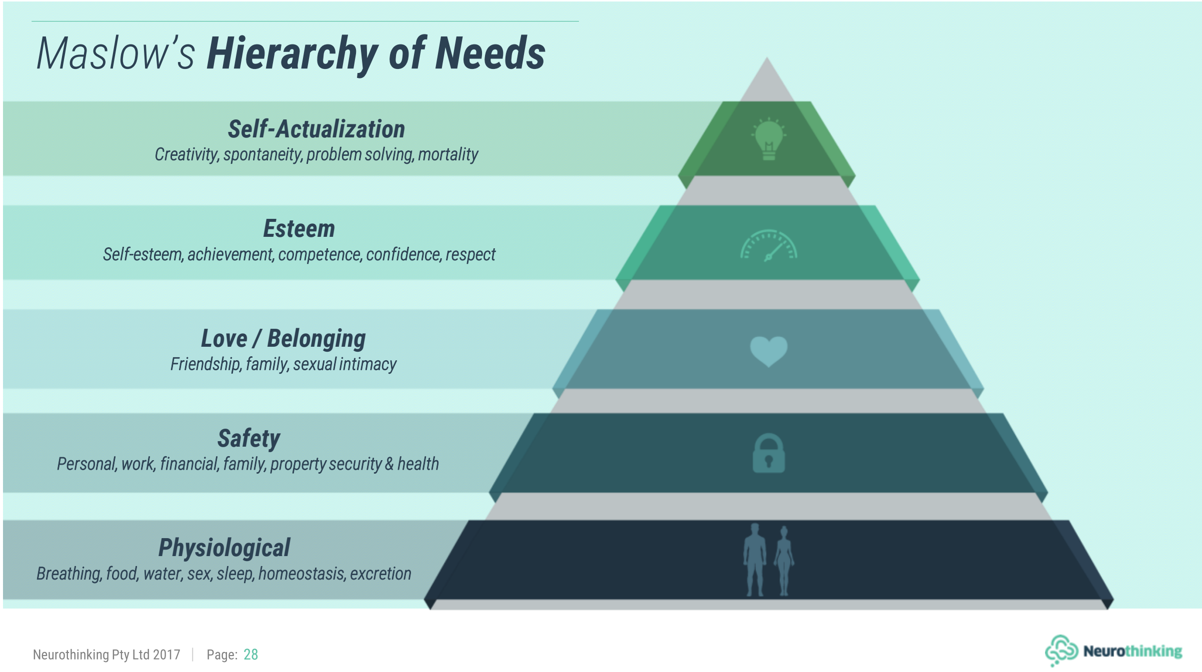
Obviously, not all Blue Ocean strategies lead to massive cost advantages, but many do and it is a methodology you should consider if you are planning to develop a new business concept that allows you to become price leader.

Second, I think it is worthwhile mentioning Blue Ocean Strategies because they recognize a very important step in any strategic planning process, namely the need to abandon elements of your current operation or strategy if you want to add new elements. Far too often marketers load feature upon feature with rapidly decreasing incremental impact, while adding enormously to complexity. But let's move on to the second option which, for many brands and retailers, will be the only viable one.

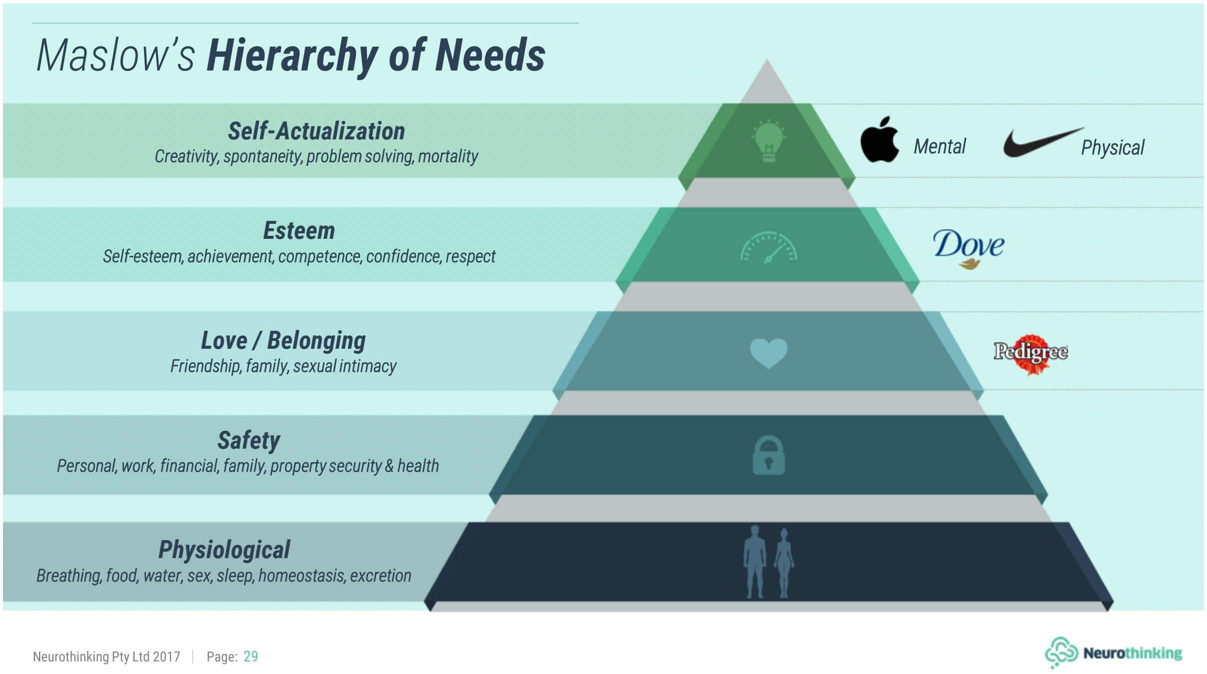
Developing a strong emotional relationship

Most brands focus on their tangible offer rather than attempting to build a relationship with the consumer at a higher emotional level. Of course, they are likely to aim at triggering some emotion with their communications and shopper marketing initiatives but, while this may help to make a sale on the day, it is unlikely to lead to the development of a lasting, strong, emotional relationship with a retailer or brand.

To achieve the latter the retailer or brand has to move the relationship above the actual offer by standing for something that is seen as more valuable by the shopper. I will use Maslow's Hierarchy of Needs to illustrate this approach, but I need to stress that I am not suggesting that the consumer's brain is neatly organized into a hierarchy of needs; it just happens to be a great concept to illustrate the point:



Let's take Dove as an example you are most likely familiar with. Here the relationship has been elevated from the physical product to self-esteem. Or consider Apple or Nike – both brands moved the relationship to the level of self-actualization, one brand focusing on mental and the other on physical self-actualization. Or Pedigree during its early disruptive years, moving the relationship from the product offer to 'love of dogs'.



These strategies share a common element: they elevate the relationship between the brand and consumer to a higher emotional level, creating a much deeper and long-lasting connection than a short-term campaign, product innovation or shopper marketing initiative could develop.

Aligning your strategy with Deep Rooted Drivers of Behaviour

An understanding of Deep Rooted Drivers of Behaviour will give you a head-start when you are attempting to develop a relationship with the shopper at a higher emotional level. Deep Rooted Drivers of Behaviour are hard-wired brain circuits that drive behaviour over longer periods of time – sometimes a whole lifetime - and are widely shared. For example, motherhood leads the brain to lay down some circuits that are unique to mothers. Similarly there are specific brain circuits that can only be found in males, and others that are common to females.

I am sure this comes as no surprise, but we need to consider a wider range of Deep Rooted Drivers of Behaviour (DRDs) that may allow us to develop long-lasting, strong, emotional relationships between a retailer or brand and the shopper. To do this we only have to consider what might have helped humankind to survive in a natural hostile environment: these traits were typically hard-wired into the brain over some 4 to 5 million years as humans with those traits were more likely to survive and pass their traits on to the next generation.

The first and obvious DRD is the **BelongingDRD**. We are hardwired to belong because anyone who lived in isolation in a hostile natural environment had a very short life expectancy. It is worth noting that Belonging is a stronger driver with women than with men. This is because women had to build informal networks with other women to fight off the physically stronger men who would have happily killed the infants who had other fathers, seeking to ensure their genes would be carried forward into the next generation instead.

Another important driver is the **CompetitionDRD**, which is a stronger driver with men. This means that men often become part of a group because it may help their own status or allow them to compete for status in the group, rather than to just simply belong. But the CompetitionDRD can also be activated by creating an opposition or enemy. For example, setting up Apple as being the opposite or enemy of PCs activates the 'us and them' feeling that is driven by the CompetitionDRD.

Common to all humans and of critical importance when it comes to shopper marketing is the **ShortcutDRD** that drives us to, well, seek shortcuts. In all likelihood we are driven to seek shortcuts because our nonconscious, intuitive mind is much faster and more powerful than our conscious, rational mind. This means that the nonconscious mind can make an intuitive decision quickly using associations, familiarity or other shortcuts, leaving it to the conscious mind to rationalize the choice. The ShortcutDRD is the foundation of priming, which is an essential element of the majority of successful shopper marketing initiatives.

We also all share mirror neurons that represent the **EmpathyDRD**, and by feeling strong emotions others feel we are likely to connect with others. This DRD will boost the feelings we share with a group – say barracking for our team during a sporting match is much more emotionally involving when we do it together with like-minded people, as we can feel their emotions which lifts the intensity of our own.

Consider the **ExplorationDRD**. We are all hardwired to explore, although this is typically a stronger driver with males than females. This means that we need to offer our shoppers new challenges, new news, perspectives and content. We need to open the door to some new insights or achievements, allow them to break through barriers and generally to feel that progress is being made – in whatever form is appropriate.

Dopamine ensures that we all seek rewards. The **RewardDRD** is probably the most obvious but there are of course many different ways of rewarding shoppers. The essential point is that we need to trigger a dopamine release that makes the shopper feel good – and to seek more and even stronger rewards once their dopamine levels decline.

Why shopper marketing is core to future marketing efforts

While you may agree with the points made so far you may wonder why I see shopper marketing as central to future marketing efforts.

The most compelling reason for my proposition is the need to focus on the **decisive point**. Von Clausewitz, a leading military strategist of his time, argued that in the face of overwhelming opposing forces one has to focus on the decisive point, i.e., the point where a battle is won or lost. This of course makes a lot of sense.

So where is the decisive point? For a brand it is when the shopper decides to buy your or your competitor's brand. It's the point where the sale is won or lost.

Give the expected future developments of the operating environment there is another important reason for focusing on the decisive point: the shopping experience will have a determining impact on the shopper's decision to either delegate the task to a digital personal assistant or to go shopping themselves – may this be online or in a bricks & mortar store. When the shopper expects the shopping experience to be less than rewarding and engaging she is likely to delegate the shopping task. And when that happens there is a fair chance that she will not ask for a specific retail outlet and/or brands to be bought.

It follows that between today and when a significant number of shoppers use digital personal assistants we have to develop experiences shoppers value and want to experience again and again.

Finally, as I am sure you remember, it is very likely that a significant number of shoppers will be under severe financial pressure (assuming ignorant governments introduce the UBI) and this will make it even more important for the emotional relationships that are being built between shoppers on the one hand and retailers and brands on the other are strong enough to create a desire in the shopper to personally engage.

In summary, to future-proof your business you need to:

Create a shopping experience that is rewarding and exciting, triggering dopamine hits and, by doing so, creating a desire to come back for more, again and again.

Create a strong emotional connection between your brand and the shopper to make sure your brand is selected when shopping and specified when using a digital personal assistant. Again, this calls for your brand to be seen to address a goal that is of greater importance to the shopper than the mere product offer. You may want to consider Deep Rooted Drivers of Behaviour as you can rest assured that the goals these Drivers represent are of a long-lasting nature.

Importantly, you need to make sure that you focus on the decisive point. For the retailer this is when a decision on where to shop is being made (which increasingly includes the option of delegate this choice to a personal digital assistant). For the brand owner it is when the purchase decision is being made, i.e., at the point-of-purchase.

This suggests that all marketing initiatives need to ultimately focus on the decisive point: they may use primes (in advertising, social media campaigns, etc.) that can be activated at the decisive point; they may build emotional connections that can be triggered at the decisive point; they may create dopamine hits that can be repeated at the decisive point; and so forth. Shopper marketing needs to become the starting point for the development of a marketing campaign, rather than being an afterthought as is often the case today.

Finally, there is a need for researchers to broaden their horizons. Many researchers – including those using neuroscience based methodologies – focus on assessing elements of execution, such as the best way to present price information, the impact of a particular package design or size, or the optimal price to charge. They test planograms and new products in virtual stores and observe how shoppers react to displays using facial analysis or in-store cameras.

All this is valuable. I am not for a moment saying this work does not deliver important information and insights. But increasingly we will be researching the executions of ineffective strategies. And to get the execution right when the strategy is ineffective is not a good use of limited resources.

What we are likely to see happen...

Here are some likely developments due to the less than favourable future we have to prepare for:

Retailers and brand owners will increasingly collaborate to create exciting and rewarding shopping experiences.

For retailers there are two core strategies: either offer (only) homebrands or collaborate with the most important brand owners (i.e., the most important to your retail business) to develop an engaging and rewarding retail environment that will benefit both, you as the retailer and the brand owners contributing to this effort.

For brand owners there are also two core strategies: either develop strong emotional relationships with consumers, increasing the chances that they will (always) specify your brand even when delegating the shopping task to a digital personal assistant; or make your brand an integral part of an engaging shopping experience, developed in collaboration with a retailer.

Retailers will complement run-of-the-mill on-line catalogue type stores with exciting and rewarding store concepts that engage shoppers and bring them back, again and again.

Catalogue stores are typically about convenience, although there are categories (such as fashion, furniture, or interior decoration) where the online store can deliver much more, such as augmented reality applications that allow the shopper to see the product in use.

However, alternatives to a catalogue store need to be offered in categories where such value-added features are difficult to find or where repeat purchases are common. This will allow shoppers to either go for the rewarding shopping experience or for convenience. Naturally, shoppers in the latter category are more likely to end up delegating the whole shopping exercise to their digital personal assistant, so developing the former is a must when preparing for the future.

Brands will shift more of their spending to shopper marketing, i.e., in-store initiatives.
Research has shown that consumers are more responsive to ads when they are in shopping mode. This is due to the goal(s) that are activated at the time: when on social media they seek interactions and recognition; when searching they seek answers; when shopping they seek great ideas, innovative solutions, exciting opportunities and new news making them receptive to promotional messages.

Given that shopper marketing is the decisive point where a brand succeeds or fails and that the shopping environment needs to become much more engaging and rewarding than it is today, it makes sense for brand owners to shift more of their marketing budget from mass media (including social media) to shopper marketing initiatives.

Store concepts and shopper marketing initiatives will be designed to overcome ad fraud and ad blocking, allowing marketers and retailers alike to get their message across.
Clever integration of shopper marketing initiatives with purchase requirements can avoid the problems of ad blocking because shoppers will be keen to get involved rather than seeing the initiative as a disruption to what they really want to do. And shopper marketing initiatives are typically also unaffected by ad fraud (note that I don't count banner ads and similar activities on shopping sites as shopper marketing initiatives).

Market research firms will develop early warning systems.
There will be a need to monitor developments to allow retailers and brand owners to stay ahead of the curve. Looking back, i.e., extrapolating from past data, may not be an effective approach as disruptive events are likely to occur. Similarly, asking shoppers what they think or how they feel about the future is not effective because direct questioning delivers rationalizations rather than insights into the impact of drivers of behaviour. The Response Time Test and Predictive Markets could be of great use here.

Consultants, communications and shopper marketing agencies will adopt a shared focus, resulting from an integrated approach and true collaboration.
We will see a much greater integration across different facets of the marketing universe. The integrated path to purchase has been elusive, mainly because of the lack of a shared focus. As more brand owners adopt a focus on the decisive point they will find that integration is not that difficult when all touchpoints are focusing on how to influence the purchase decision at this point.

The current obsession with Zero, First, Second, et cetera Moments of Truth and the focus on attribution will become somewhat superfluous, as a shared focus will allow for an assessment of the combined impact of a set of initiatives that have a defining impact at the decisive point, i.e., the point-of-purchase.

Before I close I want you to think back to the Global Financial Crisis. In some ways it is a long time in the past, but does it really feel like a full ten years have passed since the events in 2007 started the crisis? The time ahead of us always seems longer – ten years may seem like a lifetime. You may agree with (some of) my points, but feel that there is plenty of time to take action later. After all, you are extremely busy right now. But look back ten years and you realize how quickly time passes.

The events we are anticipating will take a few years to play out. Ten years may be an appropriate planning horizon, although the impact of the technological disruption will be felt much earlier. Whatever you do, don’t fall into the trap of thinking that this gives you plenty of time to get ready for this new and different operating environment. To succeed you really need to start today.

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