

The consumer strikes back

Findings from our study on the digital consumer
conducted in France and in the United States

February 2014

SUMMARY

Our study shows that advertising in traditional media (TV and press) is losing ground to digital. This trend is even more pronounced in the United States. Moreover, digital is becoming more and more important in the purchase process and in consumer decision-making.

The implications for brands are major. They must move from a top-down mode of communication in which they “push” their products and services to passive consumers, to a more interactive model, in which the consumer is a stakeholder in the brand’s life and reputation.

As digital gains a foothold throughout the purchase process, including point of sale, competition between different channels will gradually give way to complementarity between physical and digital channels. Today, brands need to be present across all channels, targeting excellence in each.

Brands also need to revise their price strategies and demonstrate their real added value in a world where access to information is made much easier by technology. Competition is becoming more fluid, and the distance between established brands and new market entrants is becoming smaller. This should enable innovations to be brought to the market more easily.

Across all markets studied, recommendations by friends and experts play a deciding role in purchase decisions. These recommendations were traditionally by word of mouth – one of the oldest communications channels! Digital is becoming a part of this process, and continues to extend its influence.

THE CONSUMER STRIKES BACK

INTRODUCTION

The study we have carried out in France and the United States into the digital consumer brings new insights and data to a subject widely debated in the press and on the web.

The study was carried out in partnership with Enjeux Les Echos, making France an obvious choice for the group of consumers studied. However, to provide context to what we observed in France, we also decided to carry out the study in the United States, one of the world's most developed digital economies and which therefore represents a possible "near future" for the French market.

This paper presents a synthesis of the most interesting results of the study. During 2014, we plan to publish further data and analysis from this in-depth study via a range of channels and media.

Target

Men and women, 15-69 years old, taken from national representative samples. Quotas set for gender, age, social class (France) or household revenue (United States), region, household size.

Sample sizes

France: 1834 interviewees
US: 1496 interviewees

Data collection methodology

On-line

Data collection dates

France: October 10 to 21, 2013
United States: October 17 to 23, 2013

Questionnaire length

22 minutes

DIGITAL: THE NEW RULES OF THE MARKETING GAME

Until recently, the dominant mode of communication for brands was simple. Messages designed by creative teams in advertising agencies were brought to passive consumers via mass media. Consumers chose products on the basis of these messages, compared their prices in a handful of stores, and made their purchase. The major challenge for brands was to stand out among all this advertising noise. Success depended either on large investment – crucially, larger than that of the competition – or creative execution that was sufficiently imaginative to capture the attention of the masses. Sometimes, it depended on both.

Digital has radically changed this world. Consumers can access a considerable amount of information on brands and products, a growing proportion of which is published by sources that are not directly controlled by the brand. These sources might be the consumers themselves, via their opinions or ratings, but also bloggers, experts, price comparison sites, etc.

Brands now, are naked, for better or for worse. Digital media can represent a threat for brands, who can be punished, worldwide, for their mistakes. But this new media also offers great opportunities for brands: to connect with their consumers on a deeper level and recruit ambassadors who will spread positive messages about the brand in a way that is authentic, and therefore much more powerful, than any controlled communication channel. Even better, these opportunities cost less than traditional advertising.

WIDER ACCESS TO DIGITAL TECHNOLOGIES

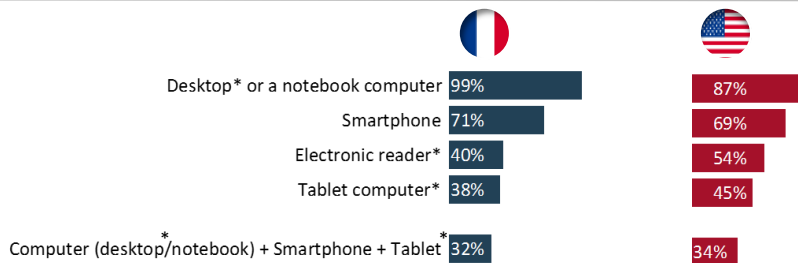
The first major fact observed is the high level of penetration in both France and the United States for different types of technological equipment that facilitate access to information. This fact transforms, as we will see later, the choosing and buying process for consumers.

Ownership levels for PCs (desktop or notebook) is at maximum level in both countries. Looking at other technological device ownership, we can see a higher proportion of tablet computer and e-reader owners in the United States than in France.

The large-scale adoption of smartphones creates the conditions for convergence between the digital world and physical distribution channels. No fewer than 44% of American consumers have used their smartphones at a point of sale to find out more information on a product or check that its price is not lower elsewhere. This figure is lower in France – 26% - but remains significant.

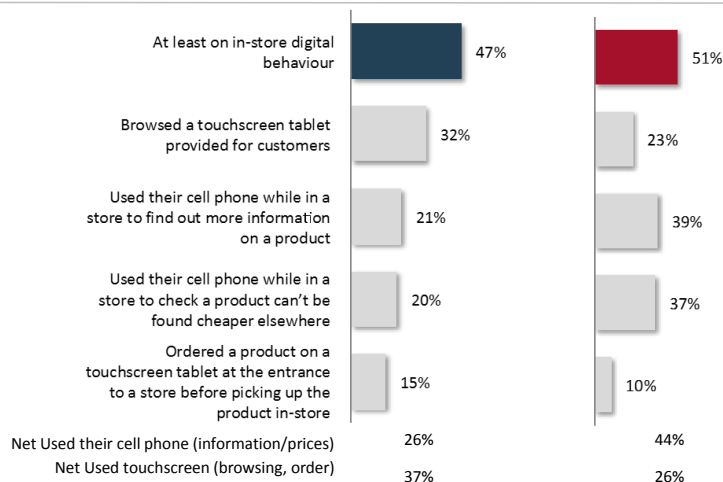
The use of touchscreens at point of sale is higher in France than in the United States (37% vs. 26%). These touchscreens probably represent a first step in point of sale digitalization: they are increasingly challenged by the rapid increase in mobile use in-store, and must therefore find new reasons to exist.

Individuals' ownership of devices



Basis: All interviewees
* Personal or home equipment

In-store digital behaviours



Basis: All interviewees

DIFFERENT GROUPS, DIFFERENT USAGES

This general data masks differences from one consumer to the next. Typological analysis confirms that ownership levels mark a clear line between different types of consumers, as do factors such as the level of interaction with brands on social networks, or digital habits in the context of the purchase process (e.g. Showrooming, Click & Collect, ROPO).

“Digivores” – young, male, urban, and from a higher socio-economic group– own numerous digital devices. This is the group that interacts the most with brands, and uses digital devices and media the most during the purchase process. They represent 15% of the population in France, and 13% in the United States.

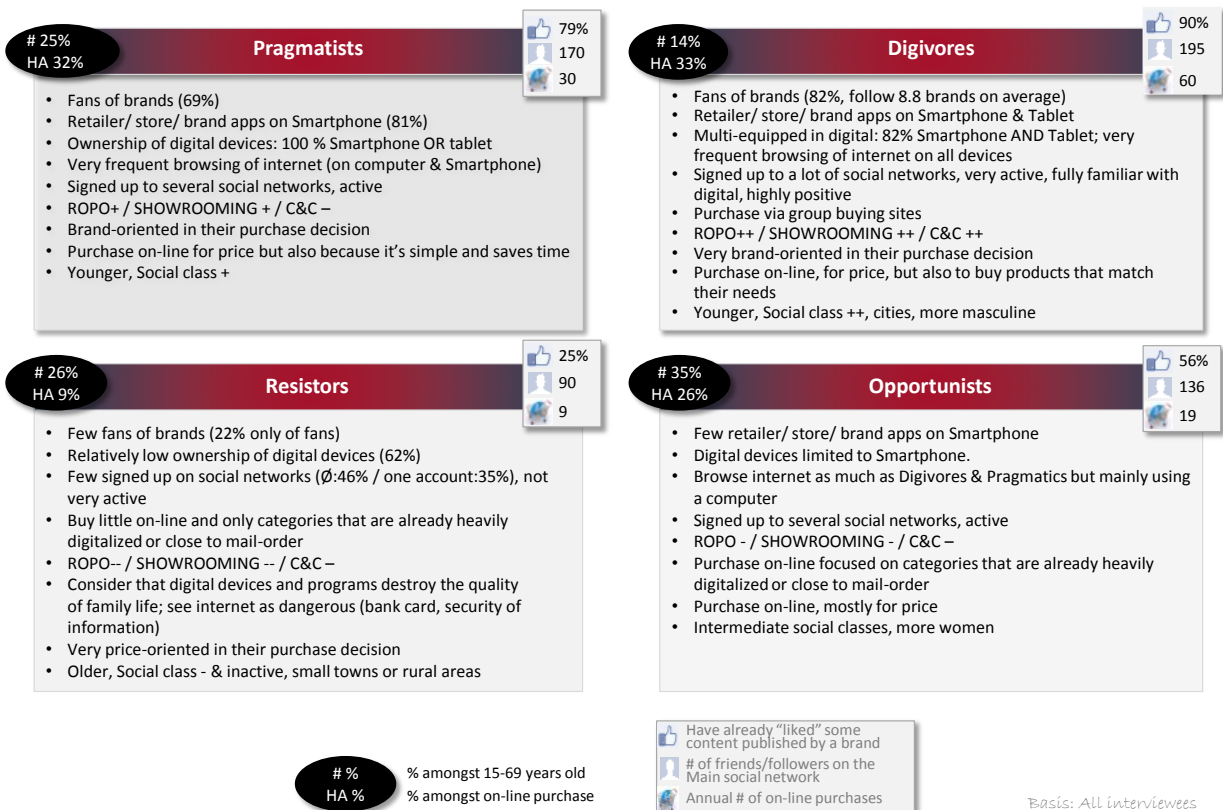
By contrast, “Resistors”, people who are older, often retired, and less urban, own fewer digital devices, and use the Internet and digital less in their purchases. They also hold “anti-digital” attitudes: they see digital tools as dangerous, and damaging to family life. They represent around 25% of the population in both countries.

In between these two extreme groups, we find the “Pragmatists” and the “Opportunists”. The “Pragmatists” use the Internet frequently, and are well-equipped. Younger and from a higher socio-economic group, they value brands and shop on line to make their lives easier. They represent 27% of the population in the United States and 22% in France.

“Opportunists” own fewer devices, but go online frequently (as often, in fact, as “Digivores”). Above all, they are looking for a bargain. This group is more feminine, made up of people with mid-level jobs, who are not particularly active on social networks. It represents a quarter of the population in both countries.

An important point to take away is that the two groups that are both the most active online, and the most digital in their purchase behaviour – the “Digivores” and the “Pragmatists” represent 40% of the population of the United States but 66% of online purchases. The figures are similar for France – 37% of the population is responsible for 62% of online shopping.

Typology of individuals



BRANDS: ECONOMIC POWER NO LONGER MEANS DOMINANCE

For classical economists, one of the conditions for perfect competition is transparency of information. Until recently, this condition has remained confined to theory: information on products and services was rarely shared completely (or sincerely) with customers by retailers and manufacturers, as it was not in their interests to do so. The cost of access to information for consumers was, moreover, extremely high, in terms of both time and money.

The extraordinary ease of access to information today creates the conditions for more fluid competition. This reduces the gap between established brands and new entrants. A direct consequence of this is a structural reduction in loyalty in developed countries. This is demonstrated by the 2012 Ernst & Young study: only 25% of US consumers, and 24% of European consumers, are influenced by a brand's reputation when they make a purchase decision.

Consumers have adopted the Internet to find product information, but also to compare features and prices. Even when they visit a store, consumers stay online: they use their smartphone to access additional information, or ensure they cannot find the product cheaper elsewhere.

Not only do they use digital to make decisions: they also use it to influence others' decisions, notably via social networks: around 65% of French consumers signed up to a social network have interacted with a brand on a social network, for example by liking or sharing content, offering an opinion, or starting a discussion. This figure rises to 75% for consumers in the United States.

The stakes for businesses are therefore shifting: economic weight no longer guarantees success. A consumer can now choose between a brand that spends millions of euros in advertising and a small brand that enjoys high levels of recommendations or which has similar features to those of the leading brand in the category.

The characteristics of online shopping, namely the reduction in time between the research phase, assessment and comparison, and the final decision, gives small brands a greater chance, provided they can inspire confidence at the critical moment. This critical moment is when the decision is made: what Google calls the Zero Moment of Truth (ZMOT*)

ONLINE AND OFFLINE PURCHASE MOTIVATIONS CONVERGE

Do online sales cannibalize offline sales or complement them? In order to reach a definite answer to this question, it is important to understand whether reasons for shopping online differ from reasons to visit a store.

In France, utility indicators are not the same:

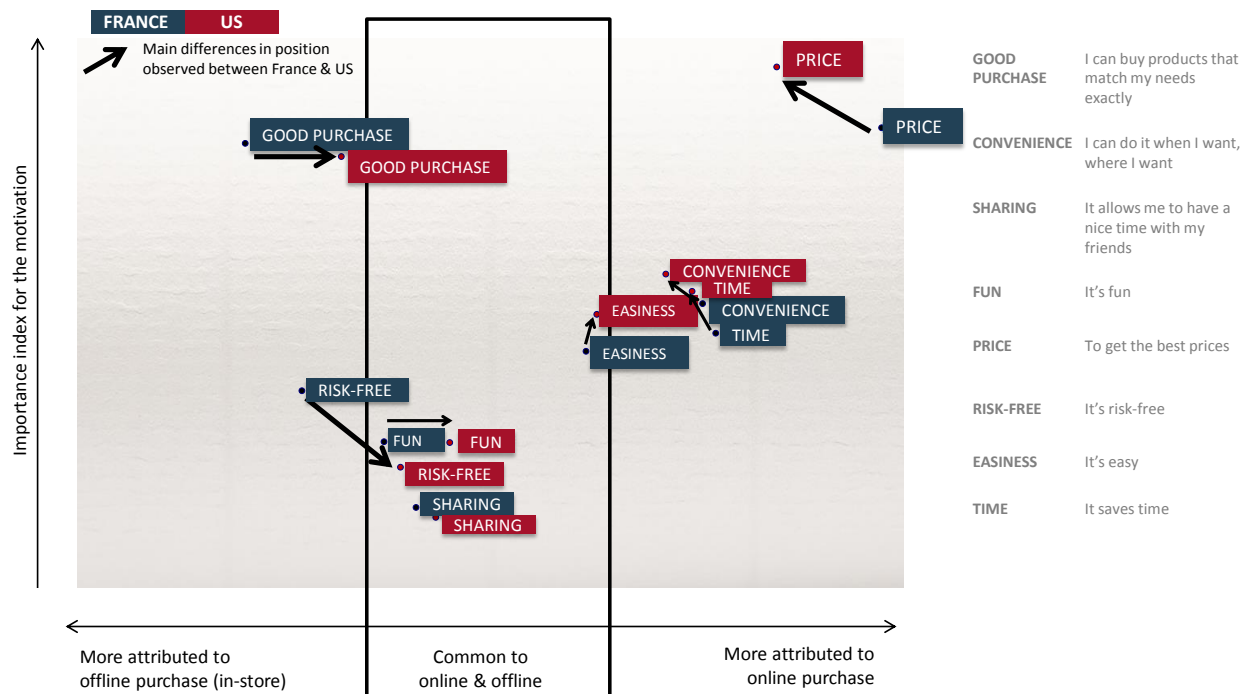
- Physical shopping reduces the risk of error and enables customers to buy products that fulfill their expectations;
- Online shopping, on the other hand, enables customers to benefit from the best prices, save time and can be done "when you want, where you want"

In the United States, online retains its relative advantage in terms of price, time and ease, but we also note a net convergence in purchase motivations between the two channels.

This trend whereby motivations converge is most likely explained by American consumers' greater familiarity with online shopping. The result is that online purchases become "just another purchase". We can also note that competition between the channels has pushed each seller to complete their service offer to attract a wider audience. This is also seen in the cross-fertilization between digital and the physical point of sale - which goes on to blur the boundaries in the consumer purchase process.

That France will develop in the same way is a sure bet: as digital becomes more widespread, including at the point of sale, the competition between the channels will gradually make way for complementarity, as demonstrated by the growing popularity of ROPO.

Online and offline purchase motivations converge



Base : Have purchased at least one category online and offline in the past 12 months

These results provide a rational foundation for a phenomenon – particularly evident in the United States and United Kingdom – highlighted by retail experts: “pure online players” are seriously considering opening stores.

A recent study (December 2013) by Royal Mail in the United Kingdom, interviewed 400 small online retailers. Of those retailers, 16% were considering opening a physical store in 2014, and 40% were counting on new channels to boost sales.

Five years ago, debate raged on whether traditional retailers would disappear as a result of competition from giant retailers such as Amazon. Showrooming was criticized by these retailers, who saw their customers visit stores to compare products before finally buying online. Today, we are heading towards a scenario where physical retailers must be present across all channels, targeting excellence across each.

DIGITAL AND PURCHASE BEHAVIOR: IT ALL DEPENDS ON THE CATEGORY

One of the key findings of our research is that the share of purchases represented by digital is not constant across all sectors of the economy. The proportion of consumers that buys online varies enormously from one category to another.

For practical reasons, we selected a range of categories, each representing significant spend for consumers. The results are as follows:

- The categories in which digital has effectively taken over the purchase process are: train and plane tickets (purchases in stores or agencies are now minimal for this category), music/ films and books. A common characteristic of these products is that they are, or on their way to becoming, digital products in themselves. For these categories, the online-only purchase rate (using a base of category shoppers in the last 12 months) is over 40% in the United States and over 30% in France.

- For clothing, shoes and accessories, electronics and household appliances, shopping in-store remains popular, but the level of online buyers is high (over 50%). The purchase process usually combines online and offline.

- For luxury and cosmetics brands, the share represented by the physical store remains large, even though there is a significant proportion of online shoppers. In the United States, the proportion of consumers to have bought a product from a luxury brand online stands at 42%, versus 33% in France.

- For FMCG products, offline purchases remains overwhelmingly dominant: the proportion of online shoppers is under 15% in both countries.

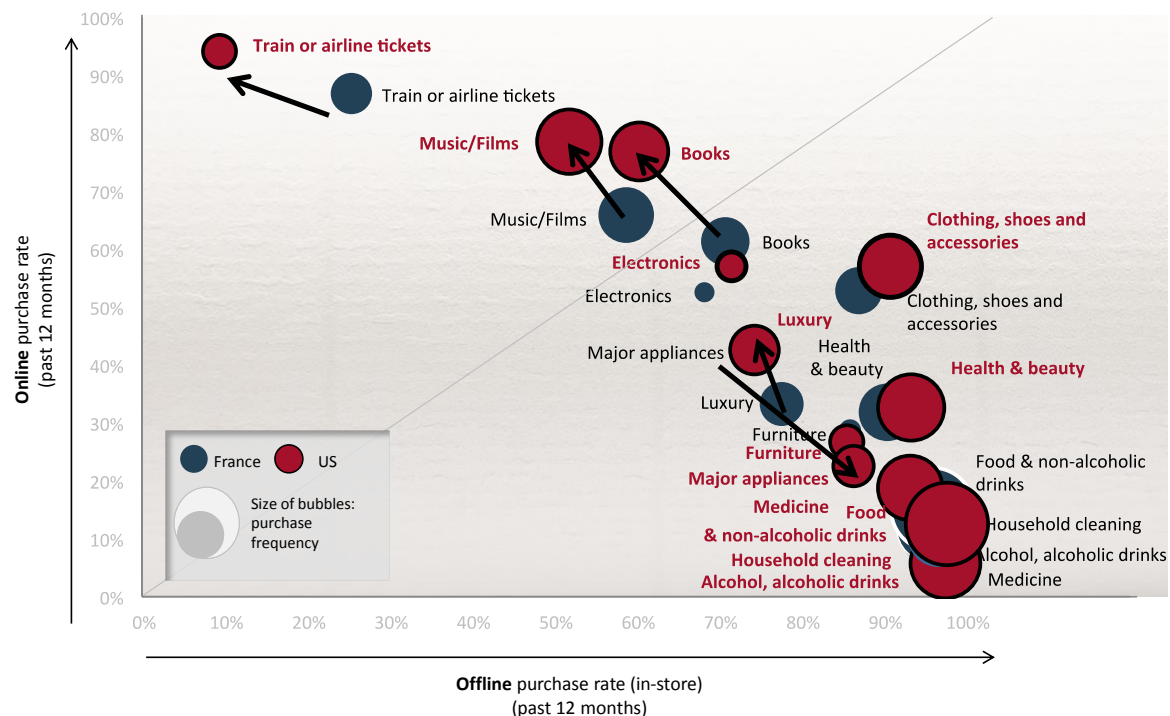
Another key point to emerge is that the higher the risk (financial, social or physical) associated with a purchase, the more intricate the decision process and the more likely consumers are to demonstrate hybrid behaviour, spreading their information gathering and purchasing across available channels.

In this context, it is interesting to note that the health & beauty category, which carries physical risks (allergies etc.), is generally purchased in-store, but shows a high level of hybrid behaviour, such as ROPO, Showrooming and Click & Collect.

Similarly, for categories such as clothing, shoes, electricals, luxury or furniture, the buying process tends to be more complex, with both online and offline used to find and compare information and purchase products.

Conversely, the low risk associated with the purchase of food or alcohol and the frequency of these purchasing decisions, tends to push consumers towards their usual stores, without any additional research.

Digital and purchase behaviour depend on the category



Base : Have purchased the category in the past 12 months

40% TO 45% OF BRAND IMPACT RELIES ON MASS MEDIA AND DIGITAL

We then drilled down to address the question of the influence of touch points on consumer decision-making. Our intention was to understand to what extent the purchase process is influenced by digital, by studying several key categories in-depth.

The five categories we studied in detail were: insurance, small domestic culinary appliances, cars, shampoo and chocolate bars. These categories were selected as a result of the need to study categories and markets that invest heavily in marketing and communications, and which are represented by strong brands.

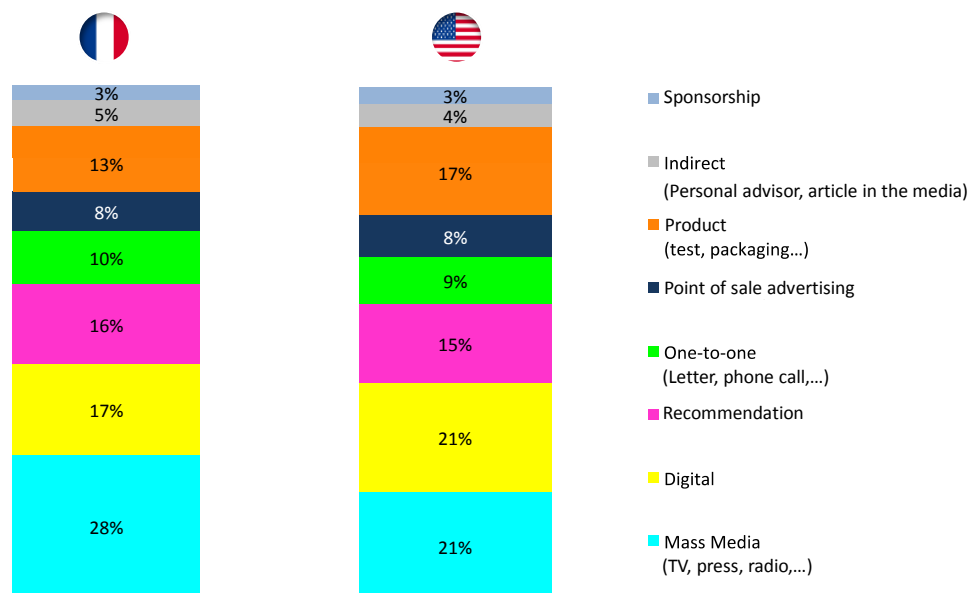
A touch point can be defined as each time a brand comes into contact with consumers.

Traditionally, these touch points are grouped into 8 “families”:

- Mass media (TV, magazines/ newspapers, posters, radio etc.)
- Indirect (article appearing in the press, expert or third-party opinion)
- Digital (advert, brand website, official social network page or channel, social media activity etc.)
- Sponsorship
- Recommendation
- Point of sale
- One-to-one (loyalty card, promotion, email newsletter)
- Product (samples etc.)

A comparison of the different types of touch points used in the United States and France, and across all categories, shows that traditional mass media, such as TV advertising and press, is losing ground to digital touch points such as brand websites and price comparison sites.

Share of touch points groups in the categories purchase experience (all categories combined)



Basis: All interviewees

As such, mass media accounts for 28% of the purchase process in France versus 21% in the United States: digital, meanwhile, accounts for 17% in France versus 21% in the United States.

Data from IREP (the French national institute for advertising research) confirms that spend is moving from traditional media to the Internet. The influence of digital will, we believe, grow in France to reach the level seen currently in the United States.

The other “touch point families” have a broadly similar influence in both countries, even if touch points relating to product (sampling) are more important in the United States.

FRANCE LAGS BEHIND IN THE DIGITALIZATION OF SOME CATEGORIES

If we look at the 10 touch points that matter the most for each of the product categories, five are common to all categories: recommendations by friends and family, recommendations by professionals or salespeople (all categories except food), TV advertising (all categories except insurance), the brand website and promotions.

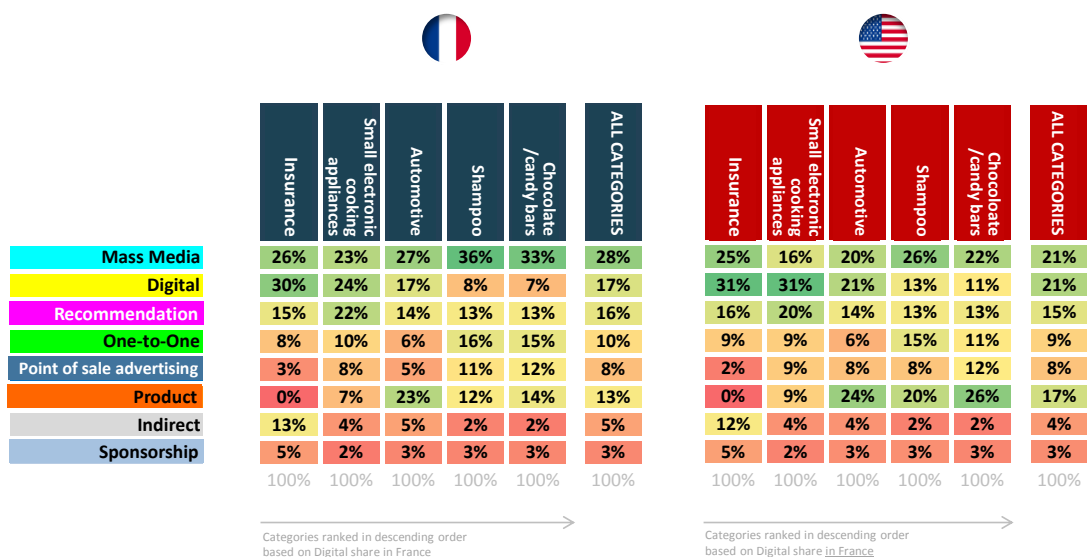
Analysis of the relative importance of touch points for each category reveals the following key findings:

- Insurance and small domestic culinary appliances are the most digital categories: in the purchase process, the share of touch points held by digital reaches 31% in the United States;
- Shampoo and chocolate bars have the weakest digital presence: mass media and product experience hold the highest shares of touch points
- Cars rank in between, and show a median level of digitalization

For the most digital categories the “digitalization gap” between France and the United States is minimal. By contrast, even though shampoo and chocolate bars are relatively under-digitalized in both countries, they are much more digital in the United States. Digital therefore has room for growth in these two categories in France.

There is one striking fact: the share of digital touch points in the purchase process does not exceed 35% for the categories studied. This result is in line with what we have observed to date in the numerous studies we have carried out for our clients on this subject.

Shares of impact: touch point groups by product category



Basis: All interviewees

It seems that to be effective, brands need to activate touch points in a way that impacts different moments of the customer persuasion cycle. Mass media continue to play an important role in building reputation. Sampling and tasting encourage consumers to try the product and are important in attracting new customers. Vehicle test drives in the cars sector play a decisive role in converting interest into a purchase etc.

This model cannot be applied to product categories that are in themselves digitalized, or becoming increasingly digitalized, such as books, music, films, and train and plane tickets. In this context, digital is already pushing aside physical stores by offering competitive prices, exceptionally wide choice and unbeatable ease of purchase.

AGAINST THIS BACKDROP, CAN DIGITAL CONTINUE TO PROGRESS?

We are not convinced by the idea of a dramatic increase in digital-only touch points in the coming years. This scepticism is supported by the fact that the share of digital is identical in the United States and France for the most heavily digitalized categories. We should also remember that “Digivores” represent the same proportion of the total population in the two countries.

On the other hand, across all sectors, recommendations by friends and experts play an extraordinarily important role in influencing purchase decisions. Historically, this recommendation was by word of mouth - one of the oldest media channels to impact brand reputation!

Today, social networks are gaining a strong foothold in this area, and we can state categorically that recommendations via digital channels, for example on social networks, will continue to grow in importance.

AS A CONCLUSION...

Confronted with these changes, brands have no choice but to develop their communication strategies: rather than talking “at” consumers, they must make the effort to engage “with” consumers via social networks or forums.

This, however, requires a new approach to marketing which puts the customer – and not the product – at the heart of brand communications. The benefits of this approach are clear, but it is not without risk for brands: are they ready to abandon absolute control of their image and open Pandora’s box?

For more information about this survey,
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