McKinsey&Company

Driving business growth by zeroing in on the consumer decision journey

December 2017

A big part of driving marketing-led growth is getting into, and remaining part of, consumers' initial consideration set of brands to shop. Companies can give themselves a leg up by making that a priority.

One part of the consumer decision journey (CDJ) turns out to be critical to driving the growth of a business: the initial consideration set of brands from which customers shop. In this episode of the *McKinsey Podcast*, McKinsey's Barr Seitz speaks with partner Dave Elzinga and partner Bo Finneman about this most important battleground for companies trying to win over customers and drive growth. Because about 70 percent of brands that are eventually chosen for a purchase come from that initial consideration set, it's where companies must focus their energy and resources.

Podcast transcript

Barr Seitz: Hello, and welcome to the *McKinsey Podcast*. I am Barr Seitz, global publishing lead for McKinsey's Marketing and Sales and Digital practices. And I'm very happy to be joined by Dave Elzinga, a partner based in McKinsey's Chicago office, and Bo Finneman, a partner based in our Miami office.

Dave and Bo have been leading McKinsey's research into shifting behaviors of the consumer decision journey, which they presented in a recent article titled "The new battleground for marketing-led growth." In today's conversation, we'll be exploring one of the key findings of their research: that for most brands, initial consideration is the important battleground for companies to win if they want to drive growth. We'll also be discussing the implications of these findings and what marketers and business leaders can do.

All right, so let's start. Dave, you've been looking at the evolution of the consumer decision journey for years now. In fact, you coauthored the first piece on that topic, in 2009, and since then we've published numerous pieces looking at various aspects of the journey, from the impact of digital to how marketers have adjusted their strategies and responses. Can you tell us what's new about your latest research and why it's such a change from how brands have been thinking about consumer behavior?

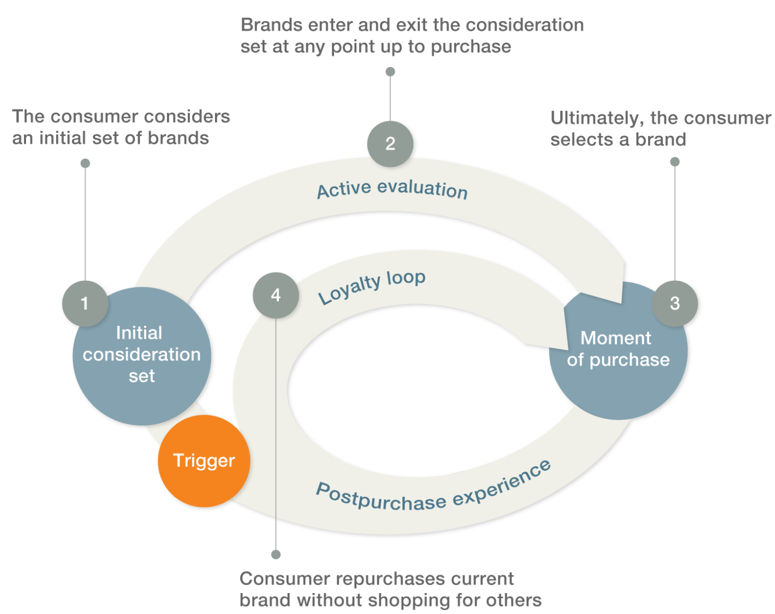
Dave Elzinga: Thanks, Barr; happy to do that. As you mentioned, we've been looking at consumer decision journeys for about ten years now. And in looking back over those past years, we really wanted to dig into what was changing about consumer decision making and how the world is changing and consumers are adapting to that world. In digging in, we looked at data from more than 125,000 consumers, across 350 brands in about 30 categories. What we learned was really astounding. Of the 30 categories that we looked at, only three of those categories were what we call loyalty driven.

What we mean is that a loyalty-driven category is a category where, when you have a purchase occasion, you repurchase the same brand without really shopping for others. As a former brand manager and a marketer, for me the fact that only three categories out of 30 were dominated by loyalty-driven behavior was really interesting and a scary proposition for marketers.

The other 27 categories, or 90 percent of categories, are shopping driven. And what does that mean? Within those categories—those 90 percent of categories—what we found is that only about 13 percent of consumers are repurchasing the same brand without shopping. The other 87 percent of consumers are shopping. Now some of those consumers will ultimately go back and buy their incumbent brand; in fact, about 29 percent of people do that. But those people are still shopping, which makes their current brand vulnerable. The other 58 percent of people switch brands from one purchase cycle to the next, and that was the fact, I think, that I found most surprising.

Exhibit 1

The consumer decision journey has four key battlegrounds.



McKinsey&Company

Bo Finneman: Just to build on what Dave said, as we found that consumers were primarily shopping and, in fact, switching brands, the key conclusion is that the battleground where the brand that is most often selected enters is what we call the initial consideration set (Exhibit 1).

That is the collection of brands that consumers have in their minds at the moment that they are triggered to make a purchase. The importance of the initial consideration set is far and away where we believe that marketers and business leaders really need to focus today.

And you might say, “Why is that the case? In a digital world, can you enter later? Is the battleground which we call ‘active evaluation’ potentially more important?” But what we believe is that consumers are fundamentally shopping with a confirmation bias, and we see this, time and time again, across categories. What happens most often is that the consumers have about two brands in their initial consideration set, and one of those is likely the incumbent, so you’re competing for one incremental spot.

And as consumers move through the journey, as they add and subtract brands, we find that they’re likely doing that with a relatively superficial view of shopping. So, they are doing research and other things to ensure that they’re making a smart decision, but not necessarily open to or choosing a brand that enters later on.

Because of this confirmation bias, we believe it’s critical to focus on initial consideration. The last point, just to go back to the concept of loyalty programs, what we’ve seen from a fact base is that not only is membership increasing but, in a challenging environment, engagement is decreasing. And although they might be a critical means by which we engage current consumers, they are not necessarily something that we’ve seen be quite successful driving initial consideration and, ultimately, growth.

Barr Seitz: At one point, I remember, when we had this conversation, we were talking about there being a difference between consideration and awareness. And can you talk a little bit about what does that mean in terms of decisions a marketer might make?

Dave Elzinga: Well, pure awareness is just simply somebody knowing your name. That’s not enough. Consumers have to know more than that, and they have to have some positive associations with your brand, either tangible—they understand what the product does or how the service works—or something intangible, which could be something they’ve heard about the reputation of the brand.

“In a category like cars, I’m going to, most likely, buy something—almost two-thirds of the time—that was in my initial consideration set.”

But consideration only comes from a deeper relationship, not just a name. And the difference between initial consideration and total consideration is also important for people to understand. Bo mentioned that when somebody's triggered to shop—so I run out of a household product, I need to replace it, I'm thirsty, I need to buy a beverage, my car breaks down and I need to buy a new car—at that point, I am launched into decision-making mode. I'm not necessarily making a decision before that point. So, at that point, I draw on my past biases and experiences and what other people have told me, advertising I've seen, and I form what we call the initial consideration set. That's a point in time. From that point in time, people add brands as they go into active-shopping mode, and that forms the total consideration set. But it's this initial consideration set that's so important in driving purchases because almost 70 percent of brands are actually chosen from that initial consideration set.

In a category like cars, even though I'm going to spend three months shopping, I'm going to, most likely, buy something—almost two-thirds of the time—that was in my initial consideration set. That shows the power of getting in early.

Bo Finneman: The other point I'd just note is that if you look at the number of brands in a given category and the number of brands that are in the initial consideration set, it's not that many. And so, I think this draws the distinction between what consumers can be aware of, in terms of their ability to recall a brand name, and their actual willingness to consider it initially. I think the nomenclature we often use is not only are you just aware of the brand, but do you have a deep appreciation for what we consider the value proposition of that brand. But given that there tend to only be about two brands in the initial consideration set, that fact alone lays out just how much harder it is to get initially considered beyond just having a consumer be aware of you.

Barr Seitz: You've taken the emphasis on initial consideration and developed an indicator, this customer growth indicator, or CGI. Through your research, you've managed to develop this score as a way to highlight, for companies, what brands have the greatest potential for growth. Dave, can you tell us a little bit about what this score is and how it is useful for marketers, businesses, and even investors in evaluating brands?

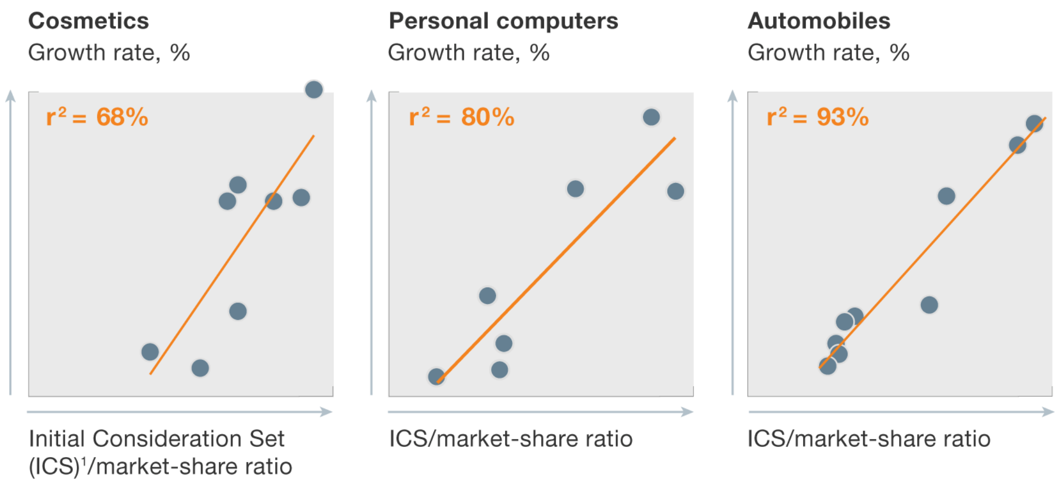
Dave Elzinga: Given this world where initial consideration seemed to be so important, we really wanted to see if there was a way to find a metric that marketers and business owners could track and use to understand what their future performance might look like. And so, based on some analysis we did, we came up with a very simple metric, and that is this: you take the percent of time that you're in that initial consideration set, you then divide that by your current market share, and you multiply by 100 to create an index, and that gives you what we call the customer growth indicator.

What we have found is that across the categories that we looked at, and we did this in about 17 categories, more than 60 percent of those categories—so ten of those categories—had a 60 percent or greater R-squared (Exhibit 2) in terms of explaining the variants of future growth.

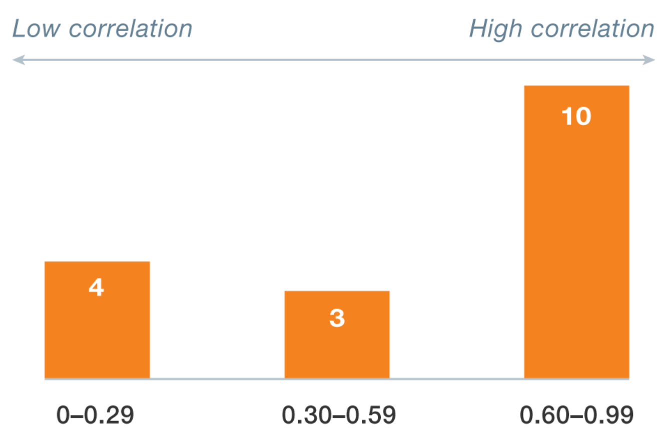
Exhibit 2

In most shopping-driven categories, the ratio of initial consideration to market share explains more than 60 percent of the variance in growth.

Selected industry examples



Distribution of r^2 values, number of industries[2]



Note: r^2 is the proportion or percentage of variance explained by a regression.

[1]The brands a consumer thinks of when first deciding to make a purchase.
[2]Calculated as growth to ICS/market-share ratio; includes 17 shopping-driven categories; excludes 3 loyalty-driven categories and 10 shopping-driven categories for which data were unavailable.

McKinsey&Company

That is a very, very strong relationship with future growth. So, what the CGI can do is help you understand, within your competitive set, are you more likely or less likely to grow faster or slower than your competitors? If you know that, you can then do something about it, which is the power of the metric. If I know I am in the bottom quartile as compared to my peers, I know that in the next purchase cycle I am likely to grow slower than my competitors. There are things you can do to boost that CGI and change that position. But the idea is that if marketers track this, they can do something about it over time.

Bo Finneman: The only additional context in which we think the CGI is quite critical is to help you talk about investment, and investment can be done from a private-equity perspective or from an M&A point of view. But also, if you think about some of the more multibrand units and companies that we see today, as they think about where they want to spend their funds, we really believe that the CGI is a critical metric where you can think about areas where you have to do something quite transformative. So, to Dave's example, if you're in the bottom quartile, because this metric is compared relative to peers, you, as either an executive or potential investor, can really think about the types of funds that you need to deploy in order to get that metric up to par. As we've seen in many categories, when you get to the top of the list, your growth outperforms that of your peers in a pretty significant way.

Barr Seitz: So, Dave, you just mentioned that there are a number of things companies can do with this information. Can you give us some examples? Bo, let's start with you.

Bo Finneman: Sure. I think it's quite interesting, when you think about it—to refer to some of the conversation earlier—it's a relatively daunting task as a marketer to have consumers shopping around, not necessarily showing extreme loyalty to the incumbent, and having to find a way to always make your position in what we call the initial-consideration-set, or ICS, battleground. I'll just give you one fact before I get into the example of what a marketer could do. We do find when we look across data sets that dissatisfaction with your current product, or seeing new and innovative items on the market, is a key trigger that makes consumers want to shop and spears them into this consumer decision journey.

One of the most important things we think that you need to do as a business leader is to identify and define the "what." So, what is it that you're offering for a consumer? That can be a tangible item, like a product, or something more intangible, related to the experience. But we think, fundamentally, that coming out with innovative offerings into the market—and ensuring that you do that in a way that is newsworthy, on brand, and compelling—is a consistent way where we have seen brands drive improvement in their ICS scores.

Dave Elzinga: So, if you think of the iPhone, people did not even know that product was a need they had. And that product innovation changed the initial consideration for Apple in a way that created a whole new category. Another example is Hyundai. Back in 2008, there was the financial crisis, and as everybody probably remembers, people were not buying cars, and all car manufacturers were declining in sales. Hyundai came out with an offer that created initial consideration for them, and that idea was very simple. They said, "If you lose your job, we will take your car back," and that created interest for people, in buying cars, that they hadn't had.

So, in the following quarter, they grew when the rest of the industry was still declining, because of this unique offer that created the initial consideration for people to actually be launched into that decision-making process when they hadn't been in the market previously.

Bo Finneman: This is a good distinction to add, which is that innovation, as we see it, can fundamentally happen at a product and experience level. But we also believe that innovation in a marketing campaign, and that development perspective, is something that can drive critical inclusion in the ICS, as well. So that Hyundai example is a good one of campaign development versus product innovation.

Dave Elzinga: Right; so that's a little bit about the "what." You can also innovate in the "how," and that might be how you spend your money and go to market. So, if you're reallocating your dollars to those touchpoints that best drive initial consideration, that is going to be a way to boost your CGI. Or you decide to double your spend on something that would boost CGI, so that is going to be a second way. The third way to think about this is who you're targeting. So, there's often people, as we know, who have had past experiences with you and may have left you for some reason. There might be lapsed consumers or people that you've never targeted before. You can target new audiences and create initial consideration for those new audiences by just speaking to them.

A great example of this is Disney. When they created their cruise lines, they went to people who hadn't, historically, been cruise-line people. They went to their current consumers from the theme parks, and they created a whole new offering that created initial consideration for those people, for cruising, who may have never done that before. So that's a way of finding initial consideration among a new target.

Bo Finneman: In terms of just layering on the point of who you might target, we may see more brand coalitions come to market. As a company, you start to think about who you might be able to target because of other ancillary brands, or family brands, that you could partner with as a means to really go after what is likely a valuable group of consumers who have similar needs, or at least similar attitudes, that you could target.

The other point that we know is on most marketers' minds is around budget allocation. And this goes back to Dave's point that where you spend your marketing dollars is utterly critical in whether or not you'll have success at ICS. Some of our early analysis and research on the touchpoints actually shows that it's not directly intuitive where you should spend your money.

So, you may think traditional advertising is critical, like television or otherwise. Certainly, we see that as one driver of ICS. But we do see other critical touchpoints as well, including things around past experience, word of mouth, and even in other categories—elements related to seeing the product in a store, or before you decide to make a purchase, having an interaction with a salesperson or trusted authority on the topic. Each of these touchpoints has the ability to be what I consider incredibly meaningful at ICS. And it's not always a directly simple view to say these two or three will drive inclusion. It has to be both specific to your category and, I think, a touchpoint and area where you as a brand can deliver something compelling, too.

“You need to continue to do the right job in the postpurchase experience.”

Dave Elzinga: You can’t lose sight of the other parts of the CDJ. Once you get into initial consideration, that doesn’t mean you stay there, because brands come in and out of the consideration set as people go through the active part of the shopping process. You are vulnerable. Even though you’re there, you have to stay there.

That means having the right kind of messages and experiences, online and in store. It means getting the right recommendations from a salesperson. It means getting the right kind of word of mouth from other consumers. Those are all ways brands come in and out of the consideration set. And even once you get purchased, it’s not over. You need to continue to do the right job in the postpurchase experience because, as you know, brands that do a good job in that get put back into that ICS when the trigger happens. Most triggers are recurring events, so you need to do a good job during that postpurchase experience to get put back into that ICS. If you create a great ICS, but you have a leaking bucket out at the other end and people don’t come back to you, then you obviously can’t drive growth.

Bo Finneman: The other insight we’ve uncovered across the data set is this distinction between initial consideration and final consideration. Initial consideration is the collection of brands that are there when you experience a trigger. Final consideration is the final group of brands that you’re actually going to make a decision between as you make the purchase. We find that there are often two brands in the final consideration set.

“Winning at this battleground that we call the moment of purchase is something that you cannot lose sight of, because your inertia from initial consideration alone will not carry you all the way through.”

So, as you think about inclusion in the ICS, that’s critical. But winning at this battleground that we call the moment of purchase is something that you certainly cannot lose sight of, because your inertia from ICS alone will not carry you all the way through to when a consumer only has one brand. In the final consideration set, there are two. And so, making sure that you know what brand equities and what touchpoints are most critical for that battleground is the only way to make sure that you experience that purchase and drive growth.

Barr Seitz: So, imagine I’m a chief marketing officer or the head of a business. I’ve got multiple brands and this entire decision journey to manage. I’m sure the answer is “it depends,” but how do you help a company or a client think through where to put their resources and efforts across the decision journey, given that we know initial consideration is important, but you still need to have some baseline capabilities. How do you help somebody think through that?

Bo Finneman: Go back to the context of where the CGI metric can be so helpful. As an executive, if you have a collection of brands and you're trying to assess where you need the most investment, I would say running an initial CGI across each of those brands, relative to their competitive sets, is one key insight to tell you where you have key strength today with your brand and can likely count on that for future growth, versus where you might really need to deploy funds in order to turn something around and drive initial consideration.

So, I think this metric will actually be quite helpful for executives that are managing a brand portfolio to understand where it is that they need to invest. All of the nuances we talked about earlier, there are certainly additions to that. And whether that is "I need to also improve performance in the moment of purchase or I need to improve performance in the postpurchase experience" or otherwise, there are analytical means that we look at to understand if there are opportunities.

Barr Seitz: Of companies that you've observed and worked with, what do they do well at in terms of taking those insights about how consumers behave and putting them into action in a way that drives growth?

Bo Finneman: So, in terms of what clients do that is quite successful when they really use both the CDJ and the CGI to drive growth, three things come to my mind. One is they use the CDJ and the CGI metric to provide explicit clarity and focus the enterprise on what they're trying to go after. And they use that to set their initial strategies, but they also use it to inform very specific tactics that are often meant to go after touchpoints or equities where they know they need to make traction.

The second thing that clients tend to do, who really embrace this and do it well, is they track the metric over time. And it's not just the CGI; it can be additional metrics from the CDJ more broadly, as well as other metrics they look at across the enterprise. We think the tracking of that over time is really critical to know where you've reached par or outperformed competitors, versus where you might need to continue to focus going forward.

The third element is creating a language for the enterprise to use. There's almost a principle that says we're going to build our future initiatives and our discussions, as we come to the table, rooted in a consumer insight or need that is based off this research. I think it's important having that direct, explicit expectation of different functions and businesses to say, "As we start to develop programs, let's ensure that they link back to a customer-centric point of view or insight that we're trying to drive."

Doing those three things is something that doesn't just provide a foundation for growth today, but it ensures that over time, you continue to gain competitive advantage, you continue to provide clarity for teams, and they really use it to embrace, ultimately, getting the business results they need.

Barr Seitz: I'm afraid we're out of time. Thank you, Dave and Bo, for joining me for this conversation. As a reminder, you can read their article "The new battleground for marketing-led growth" on McKinsey.com, and you can keep up with the latest from McKinsey on consumer-journey and organic-growth topics by following us on Twitter. Thank you for joining us today. □

Dave Elzinga is a partner in McKinsey's Chicago office and **Bo Finneman** is a partner in the Miami office. This interview was conducted by **Barr Seitz** of Digital McKinsey and McKinsey's Marketing & Sales Practice.