

What customers want tomorrow



Five trends will characterize German consumer behavior in the coming years. Here is how to use this knowledge to find a competitive edge.

By Peter Breuer and Dennis Spillecke

The knowledge advantage: successful manufacturers and retailers are asking themselves what people will want to buy in five to ten years – and where and how they will buy. Future shifts in customer preferences and consumer behavior require alignments to corporate strategy early on. A number of fundamental, consumer-relevant developments can be consolidated into five major trends. Our research identified these trends in the German consumer market, but we think the insights are relevant globally.

1. **The new uncertainty.** The financial and economic crisis has created uncertainty and undermined public trust in institutions. Consumers react to this with different coping strategies. Some discover “new modesty,” seeing no added value in abundance; others withdraw to the more easily controlled “comfort zone” of the private sphere. In addition, consumption that is ethically sound is gaining ground, favoring those providers with social objectives in addition to profit.
2. **The new online mobility.** Fast broadband access and new forms of communication make it possible to be online anywhere at any time. As real-life identity merges with the virtual, consumers also change. Unilateral advertising messages lose impact as dialog and discussion with well-informed consumers gains importance. The consumer can even morph into a “prosumer” by taking on a role in the value chain, for example by participating in innovation efforts.
3. **The new ecological dichotomy.** Many German consumers alternate between understanding that our natural resources need greater protection and the desire to minimize how much they have to cut back on personal lifestyle. Climate change and the perception of scarce resources may prompt consumers to challenge their established habits more. Indications of this are, for example, the rapid increase in demand for organic products or the increasing popularity of the LOHAS (lifestyles of health and sustainability) movement, which propagates a lifestyle that reconciles ecology and sustainability with comfort and pleasure.
4. **The new consumerism.** The perception that time and money is short, coupled with high expectations, has created a new consumer approach that is oriented toward lifestyle and individuality. Consuming in its own right is becoming part of people’s lives; it offers diversion and self-assurance. Shopping should be an experience, but also simple and convenient. The lifestyle aspect is also reflected in hybrid shopping behavior: expensive purchases coincide with bargain hunting. Consumers do both, depending on the situation.
5. **New life models.** This trend is closely linked with sociodemographic change and comprises two aspects. One is the protracted phases of life and “staying young” in particular. The other is societal fragmentation due to individualization, multicultural populations, and the erosion of the family ideal and gender roles. These developments have been apparent for years, but they have accelerated and will continue to have extensive impact on consumer behavior in the future.

Insights into action

Based on these trends, companies face two tasks in their strategic planning. First, they need to investigate the influence of these trends on consumer behavior and the market. Second, based on these insights, companies need to review and perhaps re-design their value propositions.

One way that manufacturers and retailers can investigate these trends is through consumer surveys designed to identify “purchase drivers” – meaning those factors that are decisive in the decision to buy a product or shop at a certain retailer. This survey should not only cover conventional topics like price, quality, and service but also such factors as corporate responsibility and traceability of product origin.

Important insights can be derived from such surveys. First, the current influence of the trends on the purchase process becomes transparent. Second, time-series analysis can reveal shifts in trends over time. And third, a simulation can show how the increasing significance of a given trend could change customer behavior and which purchase drivers hold the greatest potential. Since this survey is not only conducted for one company’s own brands, but also for those of several rivals, managers can ultimately determine how their company stands in the competitive landscape and how stable its market positioning is.

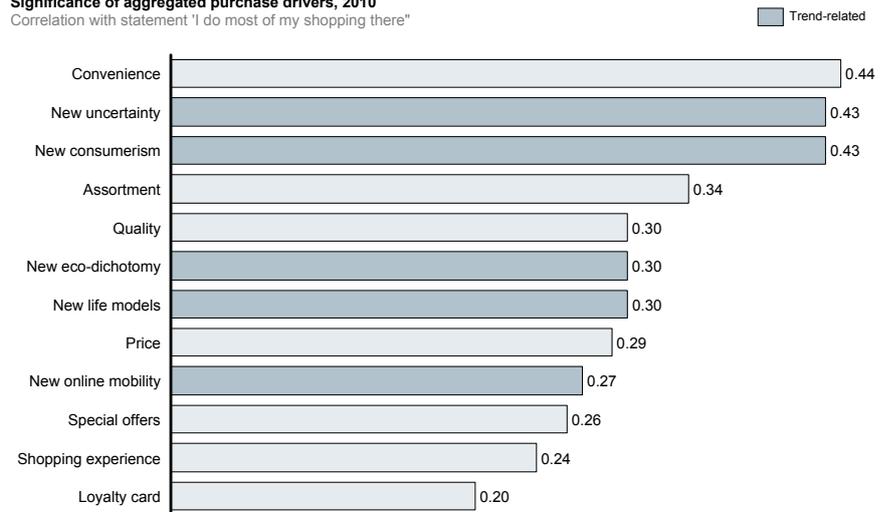
Exhibit 1 presents such possible market research results in graphic form. Earlier this year, McKinsey surveyed German consumers on their behavior in shopping at food retailers. This survey is based on a small but a very revealing random sample. What it showed is that the mega trends already determine five of the ten most important purchase drivers today. In particular, the trends “new uncertainty” and “new consumerism” have a great deal

Exhibit 1

The trends ‘new uncertainty’ and ‘new consumerism’ already count among the three most important purchase drivers in Germany

Significance of aggregated purchase drivers, 2010

Correlation with statement ‘I do most of my shopping there’



SOURCE: McKinsey Retail Survey 2010

of influence on the choice of where to shop. One strong incentive, the survey reveals, is convenience, meaning shopping ease and practicality. Beyond this, a comparison of the results with those from a consumer survey in 2006 revealed that the trend-based purchase drivers are gaining importance, while classic factors like prices are not as influential. Almost every second respondent now considers regional and exotic offerings (“new life models”) more important than in 2006.

Analysis for individual food retailers in Germany is particularly interesting: How well do the various companies meet trend-based customer needs? A substantial rift becomes apparent between superstores and supermarkets on the one hand and discounters on the other. While consumers assess classic retailers positively (and Edeka in particular), discounters rank below average in the trend survey and show hardly any differentiation at all. A simulation of the future points to this rift widening – the implication is that discounters could come under massive pressure.

Defining a future that works

In order to validate market research results and more precisely forecast future consumer behavior, it is a good idea to first develop business-based theories for the future within the scope of expert workshops. Over the course of these, participants translate the impact of trends into concrete statements on consumers and markets – and then derive implications for the company.

Six future theories and their potential consequences for companies illustrate how the results of such an expert workshop could look, using a food retailer as an example.

1. **No price leadership without cost leadership.** This theory results in a new capability on the part of consumers, namely of soon using their mobile phones to compare prices at any given time. Thus, the retailer who not only is perceived as the price leader by customer, but also actually offers the lowest prices will distinguish itself from

the rest – and this is only possible if costs are driven down to the bare minimum. Implication: retailers who currently rely on perceived price leadership must either adjust their value proposition or achieve true cost leadership.

2. **Customer touch points will become ubiquitous.** Retailers will accommodate the customer's desire for more convenience with an increasing number of touch points. At the same time, the growing importance of the Internet further drives customer willingness to shop online and across sales channels. Implication: with regard to customer contact and also the purchase process, food retailers will need to become very creative or at least adaptable. Responding to this also entails resolving possible channel conflicts between online and store offerings.
3. **Regionalization and standardization.** The fragmented society requires increasingly granular segmentation – even geographically. Retailers with regionally or even locally tailored offerings are already seeing this pay off. Implication: companies will make efforts to serve local customers with new, tailored store formats coupled with attractive, modular assortments (such as specific country-based modules in regions with a high share of emigrants).
4. **Customers trust customers.** The increasing influence of customer reviews diminishes the brand's authority as a quality guarantee. Implication: for companies, word-of-mouth will gain significance as a marketing instrument. They will increasingly endeavor to achieve positive customer reviews and the dissemination of these, addressing negative reviews more and more assertively. Retailers can also use

customer commentary to optimize their product offerings.

5. **Cherry-picking rather than customer loyalty.** The Internet is making the market more and more transparent, enabling consumers to find the best offers. Thanks to the proliferation of ordering and pickup services, it will become even quicker and more convenient to shop with a number of retailers. Implication: retailers will attempt to strengthen ties with their customers, for example using loyalty card programs, promotions like bundled prices, and volume discounts along with flexible delivery charges.
6. **Trust will become a price factor.** Increasing uncertainty among consumers makes trust a valuable asset, for which people are willing to pay a premium. Customers want to rely on the quality, origin, and ecological compatibility of products. Implication: based on changing retailing formats and adjusting assortment – by focusing on products from the region or transparency regarding article origin and composition for example – retailers will be able to command a price premium.

The new value proposition

Based on these analyses, the ultimate objective is to review the corporate value proposition and then adjust it to meet these demands. The new value proposition, in turn, forms the frame of reference for all future actions. Such actions should be developed specific to sectors.

One useful tool in developing short-term actions – to remain with the food retailing example – is the “retailing pentagon”: price, service, convenience, shopping experience, and assortment. For each

of these five elements, the quantitative market research described can help determine where a specific retailer is lagging behind which competitors.

The basis for developing long-term actions is a comparison between former positioning and the new value proposition (gap analysis), in which the company identifies areas needing alignment. There are four areas that require action:

Sales channels. Do customers want to shop in stores, from home, or via the mobile Internet?

Store network. What store density is needed and at which locations (such as in downtown locations, in business districts)?

Store format. What type of stores – large markets, small shops, kiosks, discount centers – can achieve strategic objectives?

Brand positioning. Where should priorities lie – in assortment, service, or price?

An approach that creatively combines quantitative with qualitative analyses can help companies establish a solid foundation for the future. Only those who recognize and adapt to these social developments will assert themselves in increasingly intense competition.

Peter Breuer is a partner in McKinsey's Cologne office and the leader of the German Consumer Goods and Retailing Sector. Dennis Spillecke is a partner in McKinsey's Cologne office and a member of both the Consumer Goods and Retailing Sector and the Marketing & Sales Practice.

<http://csi.mckinsey.com>