

The Evolving Consumer

A Special Report from THE MEDIACENTER



Consuming in a World of Contrasts

It appears many (if not most) Americans are living one life with two contrasting mindsets. Understanding these mindsets is the first step in understanding how consumers are evolving and creating challenges and opportunities to retailers.

The Positive Mindset

- More of them are working, with more disposable income to spend.
- They're buying new vehicles in record-setting numbers and are able to afford a first or new home with historically low mortgage interest rates.
- Inflation is less than 2% and is forecast to increase to a moderate 2.4% for all of 2016.
- According to the American Automobile Association, every driver had an extra \$550 in his or her pocket during 2015 because of the very low gasoline prices. Research shows that much (80%) of the \$115 billion in gas-pump savings was spent.

Convenience stores/gas stations and nearby restaurants received the largest share according to research from the JPMorgan Chase Institute, in the form of beverages (alcoholic, in particular) cigarettes and junk food.



Where Americans Spent Their Gasoline Savings, 2015

Sector	Percent
Restaurants	18%
Groceries	10%
Entertainment	7%
Electronics/Appliances	4%
Home improvements	2%

BloombergBusiness (JPMorgan Chase Institute), January 2016

Although consumers' gas savings were pumped into the retail economy, far fewer dollars were spent on merchandise with long-lasting value, such as electronics, appliances and home improvements.

The Wary Mindset

- The scars and scares of the recession run deep. They may have caused those who experienced life-changing economic woes during those times to remain wary and skeptical of the general economy and their personal financial situation.
- This caution and wariness have resulted in more consumers saying they will save this year's tax return or use it to reduce debt. A higher savings rate and less debt are good for the general economy, but less so for retailers.
- Millennials are more optimistic and less concerned about the world situation than older Americans. Now, this could just be the age-old contrast of naiveté and cynicism, but Millennials are now the largest generation and the one that will be driving consumer spending for decades. If they maintain much of their optimism, then this will be an important characteristic of the evolving American consumer.

Inside the Head of Today's Consumers

Although America's pioneering days are long past, Americans continue to be drawn to new horizons and opportunities. According to Fluent's Consumer Pulse: Home Services 2016 report, 17% of Americans plan to move during the next year, 11% current homeowners and 23% current renters. In addition, approximately the same percentages expect to buy or rent their next home.



Americans' Next Domicile, 2016

Homebuyers	Percent	Renters	Percent
More likely to buy	51%	More likely to rent	49%
Currently own	68%	Currently rent	56%
Men	58%	Women	57%
Kids in home	65%	No kids in home	61%

Fluent, Consumer Pulse: Home Services, March 2016

The Fluent survey also found that Americans have learned a critical lesson from the recession: being pre-approved for a mortgage, so they know what they can afford in advance.

American Homebuyers Pre-Approved for a Mortgage, 2016

More Likely To Be Pre-approved	Percent	Less Likely To Be Pre-approved	Percent
Pre-approved	55%	Not pre-approved	45%
Live in urban area	59%	Live in suburb or rural area	59%
Currently own	70%	Currently rent	56%
Men	70%	Women	68%

Fluent, Consumer Pulse: Home Services, March 2016

Another trend that may come as a surprise is that home Internet service has surpassed the telephone and cable television as the most common communication service in the home, at 66%, 44% and 54%, respectively.

The Fluent survey revealed that as many as 20% of Americans say they might "cut the cord" of any of the three services during the next year. Ironically, slightly more of them say they could cut their Internet service, although it is the most-prevalent service in the home. They would only eliminate their Internet service if their smartphones had fast and reliable tethering, which speaks to Americans' growing use of the mobile channel.

Americans' Cord-Cutting Possibilities, 2016

Possibility	Internet	Telephone	Cable TV
Definitely will	14%	13%	10%
Probably will	9%	7%	8%
Might or might not	21%	15%	12%
Probably will not	20%	19%	21%
Definitely will not	36%	45%	49%

Fluent, Consumer Pulse: Home Services, March 2016

Consumers Still Prefer the In-Store Experience

A 2016 survey from TimeTrade Systems discovered that 72% of consumers said they would shop in stores equally as much during 2016 as they did during 2015. A not insignificant number, 18%, said they would actually shop more in stores than last year.

The strength of this traditional approach to shopping/buying isn't lost on pure-play e-commerce retailers. Amazon, Warby Parker and Bonobos are opening permanent stores or temporary pop-up locations. Consumers' preference for shopping in these stores isn't much different, at 68%; with only 11% saying their preference is online.

Americans' Interest in E-Commerce Retailers' Physical Stores by Generation, 2016

Interest	Gen Z	Millennials	Gen X	Baby Boomers
I like the option of visiting a physical store	71%	71%	64%	67%
It doesn't matter much to me	17%	15%	24%	27%
I would rather shop strictly online	12%	14%	12%	7%

TimeTrade Systems, The State of Retail, March 2016

The Consumer-Retailer Disconnection

What has and continues to plague many retailers is a failure to recognize that many consumers take an omni-channel approach to shopping and buying. The data is clear: approximately 80% start the buying journey online – and, more importantly, they easily move between all their devices and online channels and sources.

They may be sitting in their living room on their tablet, prompted by a TV commercial, and then continue their online research of brands and prices on their mobile device outside the home and/or their work desktop/laptop computer.

In addition, consumers research many products online at higher rates than others.

Consumers' Online Research Rate for Selected Products, 2016

Product	Percent	Product	Percent
Appliances	58%	Outdoor living	37%
Electronics	54%	Baby	33%
Men's apparel	49%	Tools and hardware	32%
Toys & games	44%	Beauty	26%
Kitchen	41%	Furniture	19%
Automotive	40%	Food	19%

BazaarVoice, 2016

The table above should be viewed cautiously since it is only a snapshot in time. For example, the online research rate for food may be minimal today, but actual online grocery shopping is a service that is likely to increase rapidly. Brick Meets Click surveyed 12,000 US shoppers during 2015 and found that 21% had bought groceries online during the past 30 days compared to 11% during 2013.

According to Wall Street analysts at Cowen & Company, Amazon is forecast to move into the top 10 list of the entire US food and beverage grocery market by 2019.

Retailers' Share of Online Grocery Sales, February/March 2016

Retailer	Percent	Retailer	Percent
#1: Amazon Prime	49%	#7: Other supermarket Websites	8%
#2: Walmart.com	30%	#8: Kroger.com	8%
#3: Amazon Fresh	18%	#9: Peapod	6%
#4: Other online grocery sites	17%	#10: Google Express	5%
#5: Amazon Prime Now	11%	#11: Fresh Direct	5%
#6: Safeway	9%	#12: Instacart	4%

BloombergBusiness (Cowen & Company), March 2016

An interesting comparison of consumers' and retailers' perspective of how well retailers are providing a consistent shopping experience across all channels was revealed in the TimeTrade Systems report.

Consistent Shopping Experience Across All Channels, 2016

Perspective	Consumers	Retailers
Yes	26%	51%
Somewhat	55%	44%
Needs great improvement	20%	5%

TimeTrade Systems, The State of Retail, March 2016

The disconnection trend is reinforced in the following two tables.

Customer Service Perceptions, 2016

Consumers: Poorest Customer Service Channels	Percent	Retailers: Top Priorities to Improve Customer Service	Percent
Call center	51%	Social media	29%
In-store/branch	26%	Web	26%
Social	23%	In-store	20%
Mobile/text	21%	Email	10%
Web	20%	Mobile/text	9%
Kiosk	19%	Call center	5%
Email	18%		

TimeTrade Systems, The State of Retail, March 2016

Comparison of Marketing Initiatives to Drive In-Store Traffic, 2016

Consumers	Percent	Retailers	Percent
Website special promotions	55%	Social media marketing campaigns	79%
Print ads	49%	Special in-store events, such as sales	74%
Email campaigns	38%	Mobile ads	54%
Location-based promotions opted into through a retailer's mobile app	29%	In-store classes	22%
Permission-granted text notifications	27%	Appointments with a personal stylist	10%
Social media marketing campaigns	20%		
Mobile ads	18%		

TimeTrade Systems, The State of Retail, March 2016

Evolving with the Consumer

Among the many strategies that retailers can implement to transform the consumer-retailer disconnection into a strong connection, four of significant importance are improving customer service, the adoption of in-store technologies, removing barriers to a satisfying customer experience and utilizing real-time marketing.

Improving Customer Service

- According to the TimeTrade Systems study, consumers said they value prompt service the most, at 54%, with a personalized experience, 30%, and smart recommendations, 16%, also critical to optimizing customer service.
- Of the consumers surveyed, 85% said they would leave the store if they were comparing various clothing styles and sizes in a dressing room and discovered they needed a different size and no associate was readily available to assist them.
- According to a Salesforce survey, 42% of consumers thought stores could provide better customer service if the store was already aware of consumers' prior online research.

Adopting In-Store Technologies

- Gartner has forecast that 85% of the customer-business relationship will not involve a human on the business side of the relationship by 2020. Companies/retailers, therefore, will require more reliance on technologies to serve customers and serve them well.
- TimeTrade Systems reported that retailers are investing in and implementing a number of retail technologies during 2016.

Retailers' Investment in Technologies, 2016

Technology	Percent
POS (point-of-sale)	65%
Social selling	63%
Analytics	49%
Video	36%
Integrated omni-channel	31%
Wearables to serve customers	21%
Beacons	6%
Augmented reality	4%
3D printing	2%

TimeTrade Systems, *The State of Retail*, March 2016

Removing Barriers for a More Satisfying Customer Service

- According to Infoquest, "a totally satisfied customer contributes 2.6 times as much revenue as a somewhat satisfied customer."
- dotmailer, in its 2016 Customer Experience Masterplan report, recommended these barrier removal ideas.
 1. Make it easier for all customers to complete an online purchase without requiring that they create an account first.
 2. Ask new customers for basic information during their first purchase, and then ask for more details as they make additional purchases.
 3. When customers choose to abandon any part of the purchase process, send an immediate email that offers assistance based on the exact abandonment reason.

Utilizing Real-Time Marketing

- In a 24/7 digital marketing world, retailers can't delay responding to customer inquiries or issues until the next day. According to MIT Research, a hot lead only lasts approximately an hour, and then it is ice cold.
- A March 2015 study, *The 2015 Wayin Real-Time Marketing Report*, reveals the importance of real-time marketing for the 200 US marketers surveyed.

Reasons US Marketers Use Real-Time Marketing Tactics, March 2015

Reason	Percent
Form customer relationships	56%
Promote events	55%
Complement existing content	51%
Increase social media engagement and reach	49%
Complement e-commerce strategy	48%
Identify new customers & audience segments	47%
Identify brand advocates and influencers	40%
Complement Website SEO strategy	39%
Increase time spent on site	33%
Analyze sentiment	14%

eMarketer (*Wayin*), February 2016

The Secrets of Consumer Psychology

Consumers may be evolving in how they interact with brands, retailers and the channels in which they communicate, shop and buy, but ultimately it's human psychology that drives many of consumers' decisions about what and where they buy.

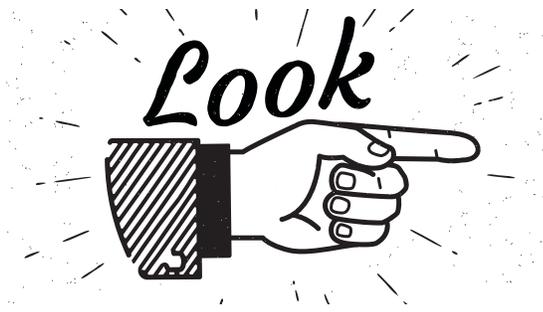
Marketo, in its e-book, *Leveraging Psychology in Digital Marketing*, offers practical ways for advertisers to utilize 7 different consumer psychology tools to create a stronger attraction to their brands and stores and strengthen the connection with customers.

1. Persuasion Architecture

To be persuasive and compel/motivate an action requires that the process be easy. Psychological studies have found that humans would rather follow the path of least resistance; so making it difficult or time-consuming for consumers to understand a marketing message and act accordingly yields very poor results.

This is even more pronounced in the digital world. Since it delivers so much information on multiple devices, people have become high-tech skimmers.

Advertisers must include explicit and implicit cues to catch the eye of the skimmer when designing a TV commercial, print ad or Website or content for a smartphone screen. These cues are rather simple: using an arrow, line or curve to draw consumers to the essence of the message and the call-to-action. Another simple technique is to position the "model" in an ad, email, etc., so his or her eyes are "looking" at the message or call-to-action.



2. Engaging Emotions

Psychological research has repeatedly proven that consumers' buying decisions are almost totally emotion-based. No doubt, consumers need "rational" information about a brand, product or store. They are much more likely to buy, however, when presented with images, stories and persuasion architecture that evoke emotions.

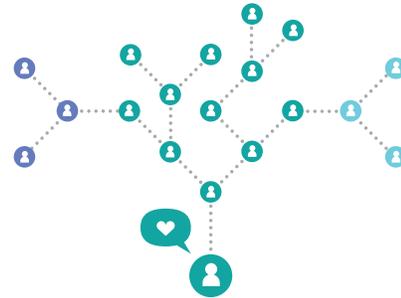
Story telling can be particularly compelling, as people will often emotionally project themselves into the story. Once they are "hooked" by the story, it is much easier to present data and analysis that is often considered cold and uninteresting in a straightforward presentation.

3. Social Proof

Humans are very social creatures. Not only are humans attracted to the same activities in which their fellow humans are participating, but also view that participation as proof that it would be beneficial to participate as well.

This is why word-of-mouth still remains first among all the influences on consumers' shopping and buying behaviors. Despite the millions, even billions, spent on advertising, it's often the recommendations of family members, friends and co-workers that have the strongest impact.

One of the easiest applications of this concept is to ask social media site visitors to help select the brands and/or products offered for sale. Giving people this power not only attracts them, but also attracts all other visitors who are influenced by "someone just like them" making those choices.



4. Scarcity and Loss Aversion

Two closely aligned concepts of human psychology are the desires to experience little or no pain and to maximize pleasure. A consumer pain point is missing the opportunity to take advantage of a money-saving offer or the limited inventory of a product. Pleasure is derived from taking the action to acquire the product and wisely doing so at a lower price.

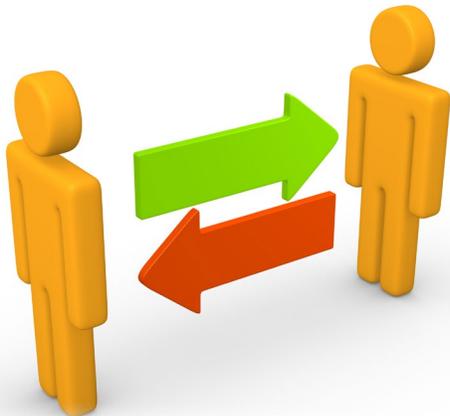
Advertisers have been utilizing this psychological trigger for decades in the form of a limited-time offer or describing a product as a "limited edition." A price point can be described as "the lowest price ever" or "this price will never be offered again." In digital media, some advertisers have actually included a countdown clock until a sale ends.



5. Reciprocity

Humans want a balance between themselves and others; so we often reciprocate when we anticipate receiving a gift, for example, during the Christmas holidays. Your neighbor brings your trashcans from the curb to your garage door this morning, motivating you to do the same for him or her next week.

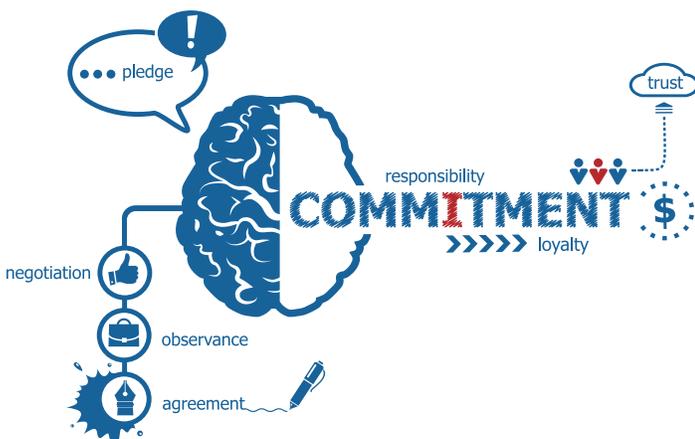
The common usage of this principle in digital advertising is to provide Website or social media visitors with a discount, coupon or informational material in exchange for their contact information.



6. Commitment and Consistency

Humans don't like renegeing on a commitment, even if they don't feel as strongly about it as they did initially. When applied to consumer marketing, however, the secret is to require just a small commitment during the first contact, such as registering to receive an e-newsletter or to join a rewards program.

Another example is to allow customers to make their first purchase without creating an account or asking for account information after they've made the commitment to purchase, which makes the process easier.



7. Anchoring

The human brain prefers to make decisions quickly and unconsciously, so we don't have to think consciously about taking each breath or step. Often, the first bit of information the brain receives triggers decisions, as in what product to buy. The first impression that that information delivers is referred to as the anchoring point, which then influences future decisions.

In advertising, this concept often takes the form of establishing the value of a product according to its "standard" price point and/or the benefits derived from owning it. Then, when consumers see the same product on sale at a lower price point, the desire to purchase will be stronger.

Despite the deeply embedded human psychology that has motivated our decisions and actions since humans first walked the planet, today's consumers are evolving – and often very quickly. Understanding how they are evolving is critical for both media representatives and advertisers. Advertisers are able to transform the current disconnection between themselves and their customers into a strong connection and provide the insights to retain those customers longer and maximize what they spend.



Sources: Kiplinger Website, 3/16; BloombergBusiness Website, 3/16; CNN Website, 3/16; Fluent Research Website, 3/16; TimeTrade Systems Website, 3/16; BazaarVoice Website, 3/16; Supermarket News Website, 3/16; BloombergBusiness Website, 3/16; Salesforce Website, 3/16; dotmailer Website, 3/16; eMarketer Website, 3/16; Marketo Website, 3/16.

Updated: March 2016

© 2016 THE MEDIACENTER. All rights reserved.



THE MEDIACENTER
7000 Kennedy Blvd. East, M-9
Guttenberg, NJ 07093
Tel: 866.921.1026
www.mediacenteronline.com