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**Douwe Rademaker and Ben Joosen**

GAME CHANGERS

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As brands struggle to survive in a transforming world, brand managers often ask: What are the driving forces behind these changes? Which changes should we pay attention to? How should we react? While these are interesting questions, they are not the only questions to ask. We believe it is imperative for marketers to also ask themselves:

- Which changes in my category are truly disruptive?
- Is my brand initiating any of these disruptions? If so, in what sense?
- If not, how am I harnessing my brand or portfolio against these disruptions?

To start a conversation about the challenges brands face in a disruptive world and how marketers are addressing these challenges, we posed these questions to 30 of our clients around the globe. While our clients work in a variety of industries (including Food and Beverage, Beauty, Healthcare, Auto, Tobacco, Telecommunications, Quick Service Restaurants (QSR), and Retail), many of their responses to the disruptions they are seeing in their categories were quite similar. On the other hand, their responses to how their brands are approaching disruption were quite different – even when they played in the same space.

In the following pages, we will share with you the feedback we received from our clients – including the critical role that consumers play in our transforming world – along with our point of view: that whether a brand is a disruptor or not depends on the company's internal strategy to manage change. Do they take ownership of transforming their category, strive to think differently, and set up their people to drive change…or not?

## Digitalization and competition are the biggest disruptors

When asked about the most disruptive changes in their category, our clients most often cited *digitalization* and *competition*.

*Digitalization* as a disruptor comes as no surprise. It encompasses e-commerce, the merging of the online and offline worlds, new apps, services and touchpoints, and the use of social networks to connect with consumers. Here is what some of our clients had to say:

- "Digitalization affects the entire business: product development, communication, distribution." – Global Beauty Client
- "The move towards digital sales channels will fundamentally change how category management is performed (i.e., no aisle limits, new personalized ways of offering products, etc.)." – Retail Client
- "The digital environment and social networks make the customer aware of his power by transmitting their opinions and experiences to others, both good and bad, and he has become more demanding as to what he expects to receive for his money and less loyal to brands." – QSR Client

*Competition* as a disruptor was perhaps more interesting. Clients from nearly every industry cited competition from new sources as one of the biggest disruptors in their category. Competition is now coming from other categories, local brands, niche players and new private labels (e.g., Amazon). According to our QSR client, a major disruptor is "the ability of new players, even small ones, to get a big impact in the short term and with small budgets. They can create a relationship with the consumer in a very fast way through new media and social networks." Another client confirmed this phenomenon: "The available offer does nothing but increase. Years ago, creating a brand and reaching a considerable number of customers took years; today it can be done in months." There may also be a boomerang effect. According to Fernando Bayeux, Global Insights Director, AB InBev: "Consumers are seeking authenticity and are finding it in small brands that mean something to them." In other words, consumers are going back to brands closer to them in the world of globalization.

Following digitalization and competition, our clients cited the following as major disruptors:

- New distribution channels (which are helping smaller brands' availability)
- New regulations (e.g., in the food, alcoholic beverages, tobacco, and healthcare industries)
- Health and wellness trends (which impact processes and margins)
- Promotions/pricing (consumers demand lower prices and wait for a promotion to buy)

So, the next question is: *How are our clients dealing with these disruptions?*

# Are brands initiating change?

When asked if their brands were initiating any of the disruptions, about half of the clients we interviewed believed they were. So, what were they doing that made them see themselves as disruptors and not just reactors?

By and large, the most disruptive brands developed a strategy that enabled them to think outside of the box. Here are some of the approaches these companies took to get out of the comfort zone of their categories.

*Experimentation*

Uber initiates autonomous movement of people and things by offering, for example, Uber Freight (movement of goods across longer distances) and the upcoming Uber Elevate (movement of people for short hops via air). According to Uber, they "continuously experiment to not lose their edge or to be left behind."

Experimentation is not limited to products. It can be applied to distribution, POS, and business models as well. For example, some newcomers are applying a daring new business model that focuses on acquiring penetration first and making a profit later.

*Transforming the organization*

Daimler is not about cars anymore, but about 'Intuitive Mobility'. Another automotive client told us that they are now moving from their long-standing product-based model to a customer experience-based model.

*Creating incubators*

We see our more disruptive clients setting up incubators to develop new products and businesses that address emerging consumer needs. For example, L'Oréal's Technology Incubator is a team that operates like a start-up within the company with the goal of developing products at the forefront of the beauty industry. One recent launch was UV Sense, a battery-free wearable electronic that provides consumers with individual information of their ultraviolet (UV) exposure through a small design worn on the nail. AB InBev launched ZX Ventures, a global growth and innovation group within the company whose mandate is to develop new products and businesses that address emerging consumer needs.

*Working with experts*

To leverage social media to connect with their clients to understand their changing preferences and flex their offer continuously, our client Zena, a restaurant chain in Spain, told us, "We recruit people in the digital environment and social networks and incorporate their input into our brands. We try to be attentive and activate the listening." One of our clients in CPG said: "We adopt the recommendations of health nutrition experts" to stay at the forefront.

But not all clients we interviewed felt that their brands were driving disruption in their category. These companies were trying to harness their brand or portfolio or make better strides on the marketing front. For example, they might bolster their brand's value by acquiring small leading-edge technology companies to advance their digital capabilities. They may make their products available at e-commerce sites. Or, they might harness the power of their established brands by moving them into new segments (for example, one client expanded their processed meat brand into the vegetable segment and was able to quickly build credibility). Unfortunately, this might not be enough. As one of our food clients pointed out: "Sometimes private labels are more disruptive."

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**Zena**

Spanish chain restaurant

# The key to being a disruptor: Where lies the control?

What separates the leaders from the followers? Could it have to do with the company's perception of who is in control of disruption?

Our point of view is that there are three roots of transformation that apply to all markets and categories: people, technology, and context. We acknowledge that these don't exist separately. Changes in one will give rise to changes in another: it is an ongoing spiral of transformation that sets new boundaries, creates new opportunities and requires rethinking of our businesses and our processes.

1. **People**: People are transforming markets in a myriad of ways. New generations have different values (e.g., Millennials vs. Baby Boomers); the growing middle class is moving to cities and, consequently, owning a car or a house have become less important aspirations; longer life expectancies translate into new possibilities to spend one's retirement, impacting leisure activities, sports, food and holidays.
2. **Technology**: With new techniques and scientific developments, products and services are getting more and more sophisticated, triggering not only different experiences for consumers, but also different opportunities to shape companies. For example, consumers have grown accustomed to the automated production of food, health and beauty products, cars, etc. This has given rise to a counter-development: products being produced in an authentic manner (back to basics), which is forcing companies to rethink their product portfolios.
3. **Context**: Each new context creates new possibilities or sets new boundaries, whether this is driven by changes in the economy, politics, resources, etc. For example, categories like tobacco, alcohol, healthcare, and digital services are facing new regulations that are forcing them to modify their products and, in some cases, re-think the core of their business.

These roots of transformation are outside a company's control. Every company, every brand, is subjected to these. No matter how smart or sophisticated a new marketing mix or strategy is, it drills down to this: Do you as a company have the conviction you can drive change or not?

We believe the success of a company depends on whether they see the power to change their industry within their control or not. We need to remember that companies are just a group of individuals. Think about yourself as an individual. If you personally feel you control your own life, it is said that you have an internal locus of control. If you feel you are not in control, that events happen to you, it is said you have an external locus of control. Not only is the locus of control related to the type of actions you take, but also how you react to reinforcements and disappointments. When you feel you have no or little influence on the result of actions, you will be less inclined to change your behavior following the reinforcement (good result of an action) or a disappointment (poor outcome of an action). This phenomenon is called locus of control.[1] To give an example: someone who loses a tennis match, having an internal locus of control, will contribute it to her or his own performance. Someone with an external locus of control will contribute the loss to poor playing conditions or other circumstances. If these principles work on a personal level and in your personal life, why not also in professional life? And, as companies are made of people, aren't companies subjected to this phenomenon as well?

Scientific research shows they are: locus of control is linked to company performance. A leader's locus of control is linked to a company's productivity and profitability, as well as employee satisfaction. Moreover, how people in a company perceive the culture within the company affects their perception of locus of control.[2] The more the company has an innovative, risk-taking, results-oriented culture, the more people will feel they are in control and will display forward-looking behavior.

**References**

[1] *Personality: Theory and Research* (1989, Lawrence A. Pervin)

[2] *Fundamentals for becoming a successful entrepreneur* (2016, Malin Brannback, Alan Carsrud)

## Taking control of disruption

How can marketers take control of their market and start initiating category disruption instead of reacting to it – that is, how can they instill an internal locus of control? Here are some recommendations:

1. **Stay close to your consumers:** Understand how to stay relevant in changing times. What experiences are people looking for? What makes a brand stand out? How do you connect with consumers today? Again, according to Fernando Bayeux of AB InBev: "The challenge is that disruption is happening at different stages in countries, and even within countries. There is an unanswered question – what do consumers think of disrupting brands – why are these new brands 'cooler' than a brand they know their whole life?" In that respect, branding must stay relevant to connect with consumers.

2. **Dare to embrace new possibilities:** Allow your company to think outside its core business or processes. Some car companies position themselves as a mobility company instead of a car producer; others have set up special independent teams to generate unhindered new ideas. This demonstrates an understanding of how to detect and create new solutions and can lead to greater success than trying to find new opportunities within existing categories.
3. **Create a culture of growth:** Make people responsible for results. Train and stimulate people on general skills that allow them to take risks; don't focus too hard on narrow technical knowledge or skills they can only use within a specific work context. Manage by example. The companies that go for the win internalize their locus of control and set the standard for transformation. They don't follow change, they lead change. Think about creating small 'experiments' of change and see how the team reacts and flexes. Introduce challenges for teams to address. Acclimate the organization to constant change and creative thinking. This serves not only to spark more innovation, but also allows for more flexible thinking when larger external challenges present themselves.

In short, stop being a victim of disruption. Take control of transformation and shape the future of your brand and category.

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