
The Behavioural Science of CPG:

Disrupting the customer experience

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How human engagement with technology influences our mental functioning is one of the most important developments facing brands. This is heralding an era of what we call the 'Mind Economy', where the relationship between digital technology and decision-making is increasingly playing a part in the successes or failures of brands.

This paper outlines the way in which the Mind Economy is fundamentally reshaping the way customers engage with consumer packaged goods (CPG) brands. And considering the centrality of consumer decision-making to brands' digital strategies, we propose how consumer insights underpinned by Behavioural Science can directly and positively influence brand value in a digital environment.

The shifting CPG landscape

It is clear that large CPG brands do not always appear in the best of health. Annual industrywide CPG unit sales have been flat to negative since 2008.⁷ From 2012 to 2015, according to McKinsey, the CPG industry grew organic revenue at 2.5%, a figure slightly lower than global GDP over that period.⁸ Rather more concerning is that companies with net revenue of greater than \$8bn

grew at only 1.5% (55% of GDP) while companies under \$2bn grew at twice the rate of their larger counterparts. A recent study from Condé Nast and Goldman Sachs suggests that smaller brands have gained market share in 62% of the top 50 packaged food categories.¹⁰

Much of this poor performance is related to the challenge of new technology-driven business models. Just look at the impact that Dollar Shave Club, a subscription razor service with an irreverent and fun style, has had on the fortunes of Gillette, the market leader. Gillette's share of the men's-razors in the US fell to 54% in 2016, down from more than 70% in 2010. P&G slashed prices in an attempt to protect market share, but sales volumes have still declined, and their market share fallen.¹¹

Dollar Shave Club was acquired by Unilever in 2016 for an impressive \$1bn, proving itself a marker of the potential for new business models.

Further to generating new business models, technology is also creating new channels to market as consumers increasingly shop online rather than in-store. This creates different buyer dynamics and a new set of challenges for CPG brands, because consumers can more easily compare features and prices, read reviews and gauge the popularity of products, and smaller brands can go to market and reach critical mass much more quickly.

This means that the best-selling brands on Amazon are often not the leading brands in bricks and mortar.¹² And with Amazon grocery sales rising fast, this should ring serious alarm bells.

Existing market structures will not necessarily help an agile response from the larger players, but the success or failure of consumer goods companies - large or small - will ultimately rest on the extent to which they can rise to the challenges of the digital economy.



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The evolution of customer decision-making

Tools have always shaped our view of the world, and the way they define our historical epochs, from the Stone Age to the Iron Age, is testament to this. And although at the time it is challenging to appreciate how we are ourselves being shaped by new technologies, these effects can be seen in hindsight. For example:

- **The printing press** moved our society from an oral tradition to one where stories were shared and hand-written books read aloud, to one where we consumed knowledge individually. This can be considered to have been responsible for ushering in an era of individualisation.
- **The telescope** challenged the notion of humans at the centre of the universe with our lives dictated by a deity, and allowed us to consider that life may be determined by mathematical laws of nature.
- **Clocks** served as a means of organising workforces and were key to changing attitudes about personal achievement and productivity.

We are currently in the midst of another such revolution with **digital technology**. Although it has been part of our lives for some time, in the last decade we have seen a profound deepening and broadening of the scale and scope of digital and its associated connectivity. In this Digital Age, more and more of our lives are played out on technology platforms for socialising, purchasing and accessing services.

The mediation of brand-consumer relationships via technology changes the nature of the judgements and decisions that consumers make. This disruption loads new and different expectations for customer experience onto brands operating in completely different product categories, including CPG. A consumer's experience of the ease with which they use iPhone apps will influence their expectations of their experience with online banks or online delivery systems.

Ipsos is not alone in understanding that digital experiences are creating a new mindset for consumers. The Royal Bank of Scotland takes inspiration from Amazon and Uber's focus on customer experience'.

"Customers' expectations are set by Uber and SkyScanner. How people can do things so quickly in other industries plays a role in how we do things in banking. Our digital channels give us an opportunity to make customer experiences quicker, cleaner and smoother." ¹³

- Maeve McMahon, Marketing Director at RBS.

A huge body of evidence supports the argument that technology influences our decision-making, but the way this is manifested in customers' brand relationships is less clear.

This paper will go towards filling this evidence gap with a discussion of Mind Economy trends and a Behavioural Science informed analysis of customer experience in CPG.

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Digital is not only changing customer behaviour, but also their expectations for the shopper experience.

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‘Mind Economy’ trends

Here we propose five key ways in which technology is reshaping customer decision-making, and their particular relevance for CPG.

1. **Personalisation:** Moving from one-size-fits-all to services that meet our individual needs
2. **Engineered environments:** Increasingly designed and immersive environments mean external cues (rather than internal factors such as opinions or attitudes) will shape our decisions.

3. **Moment optimisation:** The time gap between the desire and its fulfilment is shrinking

4. **Hyper-rationalisation:** Rather than relying on the brand as a marker of quality, we increasingly look at product and service features and their assessment by others.

5. **Experientialisation:** The continued move away from products and towards services which offer richer experiences.

1. Personalisation¹⁴

The customer experience	We are moving from a consumer environment of ‘one-size-fits-all’ to one where services meet individual needs. Most online experiences are now customised without us being aware. We are used to seeing personalised recommendations, including those prior to checkout.
Examples	Proven: Using AI to help create custom skin care lines that adapt to the changing needs of their customers. (https://www.tryproven.com/pages) eSalon: Personalised at-home hair-dye kit, developed by professional colourists and delivered to your door. (https://www.esalon.co.uk/)
Customer decision-making	Personalisation is starting to become a standard expectation. It is currently typically based on past behaviours, but there is an increasing recognition that other psychological attributes will influence decision-making.
Research implications	The challenge is how to optimise personalisation. This requires knowledge of customers’ personalities to then adapt the customer experience and marketing or ‘persuasion messages’* to have the most impact. Market research can identify these psychological drivers for personalisation.
Future directions	We are likely to see an increasing number of psychological insights derived from behavioural data assets used for personalisation. This is already the case with advertising, but will become a standard part of customer experience strategy. Research will increasingly seek to find ways to leverage insights from available customer data.
Implications for off-line	We are likely to see more hybrid models where customers can make their preferences online and pick up in-store (e.g. their own selection of flavours in multipacks).

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2. Engineered environments¹⁵

The customer experience	The immersive nature of the digital environment encourages choice based on external rather than internal cues. Our context is shrunk to our screens, where we are surrounded by cues designed to prompt our behaviour.
Examples	<p>Spotify: The increasing willingness to listen to playlists rather than albums reflects the success of engineering the choice environment</p> <p>Amazon: With more than a third of Amazon sales now via recommendations, the design of the user experience is successfully driving business</p>
Customer decision-making	We increasingly rely on external cues from the digital world to make decisions and become more passive in asserting our internal cues and more stable, inherent preferences.
Research implications	Measuring different features of the online environment such as cognitive biases and heuristics that are deployed and identifying their relationship to attitudinal and behavioural outcomes.
Future directions	We will see greater use of behavioural science to design the consumer environment. But this will be accompanied by greater consumer awareness of these designs, which may impede their efficacy.
Implications for off-line	Store layouts will become increasingly important: retailers will need to become more flexible to meet a more sophisticated understanding of how environment shapes preferences and behaviours.

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3. Moment optimisation

The customer experience	Digital technology is satisfying our needs ‘in the moment’. As and when we need something, we click online, and it arrives.
Examples	Amazon Prime offers next-day delivery as standard on most items Drizly is an app that allows users to order alcohol to their door within an hour, at the press of a button.
Customer decision-making	We expect physical goods and services to arrive much sooner after the ‘click’. This means customers’ passing mood states can be leveraged more effectively by brands. Drink manufacturers can supply alcoholic beverages as and when customers feel like celebrating, when previously they would have had to plan in advance. This reduces the chance that the moment - and the sales opportunity - could pass.
Research implications	As fulfilling demand gets quicker, a wide range of new opportunities become available. Identifying these and finding ways to fulfil them will become ever more important.
Future directions	Psychographic segmentations will be used to identify new demand spaces that can be satisfied by moment optimisation via fast fulfilment services.
Implications for off-line	We expect to see even more fulfilment services available to deliver goods as quickly as possible. We also expect to see the fulfilment itself being customised and becoming an integral part of the overall shopper experience.



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4. Hyper-rationalisation¹⁶

The customer experience	As we purchase more items online, we look at other peoples' behaviours (peer ratings and expert reviews) instead of relying on the brand as a marker of quality. In this way, we evaluate whether the features of the product or service meet our needs rationally, objectively and in detail.
Examples	Amazon and other retailers allows us to filter based on reviews Cosmetics is an app that allows users to scan barcodes of skincare products so they can check ingredients (and their ethical provenance).
Customer decision-making	We become less focused on the marketing communications activities of brands and instead look for product features and prices that meet our needs and preferences.
Research implications	Tracking the changing decision dynamics of different categories according to whether they rely on marketing messages, product characteristics or other people's behaviour.
Future directions	Brands will want to understand this aspect of consumer behaviour to ensure Return on Investment (ROI) of marketing activity. It may completely change the nature of their marketing activity, e.g. focusing on priming the market with product reviews rather than using celebrity endorsement.
Implications for off-line	Marketing activity will increasingly need to understand the characteristics of online purchasing and match this offline to reflect the influential features of online reviews.



How emotional states relate to consumption may offer insights into new demand spaces.

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5. Experientialisation¹⁷

The customer experience	We are seeing a gradual shift away from products to services. In this way, there is greater demand and more opportunities for creating a much richer product and brand experience.
Examples	Dollar Shave Club: Instead of buying razors ‘off the shelf’ they are delivered every month with an engaging and fun ‘wrap-around’ and social media linkage, delivering a rich experience.
Customer decision-making	We are increasingly looking for pleasurable and rewarding experiences to engage and maintain our interest. The challenge for CPG will be how to create greater ‘experiences’ around everyday products.
Research implications	Identifying ways to enhance and extend the customer experience will be a key part of research. Identifying the white space between product and service is key, alongside ways to monetise it.
Future directions	This focus on experience will require new business models – typically enabled by technology. It is these new business models, rather than new products, where we are likely to see most innovation taking place.
Implications for off-line	Offline products will increasingly need to be augmented by an online ‘wrap around’ in order to augment experiences.

We are now starting to observe and understand how digital technologies are shaping the behaviours and decision-making processes of consumers in fairly consistent and predictable ways.

In this way, for brands to achieve growth, it is crucial that they understand these emerging Mind Economy trends, not least because market success always has and always will be determined through a comprehensive understanding of the consumer.

Behavioural science will help CPG brands to be more competitive by creating a more disruptive customer experience

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Behavioural science: the building block for brand growth

Now, more than ever, brands need to understand the nature of consumer decision-making if they are to increase shareholder value. But the environment is fast-moving and requires a radically different approach to the one that has historically been in play.

Technology is not only reshaping channels to market but is fundamentally changing the way in which consumers think, feel and make decisions, as well as what they expect from their experience as a customer.

Behavioural science offers the right lens and tools to explore, measure and predict consumer behaviour in CPG, as shown by the 5 Mind Economy trends.

And these can have useful potential applications for brands including:

- **Personalisation:** Brands will increasingly offer services based on personalisation by measuring psychological attributes and using them to design marketing and CX strategies. As such, psychological profiling is rapidly becoming an important ingredient of market research studies.
- **Engineered environments:** As customer experience design is increasingly informed by Behavioural Science, agile testing will be used to optimise these for different audiences.
- **Moment optimisation:** Behavioural science will be used to better understand and identify the new demand spaces. How emotional states relate to consumption may, for example, offer new insights.
- **Hyper-rationalisation:** Behavioural Science will be used to better understand the nuances of how consumers interpret and act on different reviews, and how this varies by market segment and category.
- **Experientialisation:** Using Behavioural Science to design optimal experiences will become essential to brand 'stickiness'.

The starting point for brands is to think more strategically about the changing psychology of the categories they operate in. The themes we have identified are a starting point, and Ipsos is continuing to develop them for workshoping with our clients. The outcomes are two-fold:

1. To identify ways to optimise and augment both innovation activity as well as marketing strategy
2. To inform measurement strategy – if we know the category dynamics are changing then what we measure will need to change to reflect this

Changing markets are creating significant threats for established brands as new entrants, unencumbered by established trade relationships and business models, leverage new opportunities generated by technology.

However, there are huge opportunities for brands to better understand these emerging dynamics and use their marketing expertise and logistical excellence to not only compete effectively against these competitors, but to create market growth in these challenging times.

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⁷ <https://retail.emarketer.com/article/cpg-industry-struggles-find-growth/597a639eebd40003acdf2dcf>

⁸ McKinsey & Company “Consumer Packaged Goods The new model for consumer goods” <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-new-model-for-consumer-goods>

⁹ <https://www.cnbc.com/2017/06/15/millennials-like-small-food-companies-but-big-brands-arent-dead--yet.html>

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¹² <https://www.clickz.com/which-cpg-retailers-are-winning-on-amazon/103363/>

¹³ <https://www.marketingweek.com/2018/10/03/rbs-digital-customer-experience/>

¹⁴ For more detail on this topic see: <https://www.psychologicalscience.org/news/releases/marketing-is-more-effective-when-targeted-to-personality-profiles.html> and also Maurits Kaptein, Persuasion Profiling

¹⁵ For more detail on this topic see Brett Frischmann & Evan Selinger: *Re-Engineering Humanity*

¹⁶ For more detail on this see Simonson, Itamar. *Absolute Value: What Really Influences Customers in the Age of (nearly) Perfect Information*. First edition.

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