Digitalization: The New Digital Consumer and the Change of Companies Value Chain

Marc Wiefel[a*], Prof. Michal Gregus[b]

[a]University of Bratislava (Slovakia), Hubertusstrasse 17, 85521 Ottobrunn, Germany
[b]Prof. PhD Michal Gregus, Špitálska 24, 813 72 Bratislava, Slovakia
[a]Email: Marc.Wiefel@bshg.com

Abstract

The world has changed dramatically within the last 10 years; it has changed much more in the past decade than in the last 70 years all together. The Internethype in the years 2000/ 2001 has already been a sign for a fundamental change and the impact of new media on our lives. Anyway the Internet exploded as the time has not been ready. Today companies are faced with a completely different environment: global competition, global communication, and global information transparency and last but not least: an end consumer that behaves completely different than 10 years ago which basically impacts on all companies, if operating globally or locally. Digital media and channels are dominating the search behavior and even online purchase is becoming much more important, depending on the product category. This should be the topic of the thesis: Digitalization: Chances and Risks for multinational companies with B2B focus" with regard to a revolutionized purchasing behavior of end consumers. Businesses around the world need to adapt to this "new world", otherwise they will simply be consolidated, as we see from some real industry giants like Nokia or Kodak.

Keywords: consumer behavior; digital devices; digital convergence; purchase process; new business model

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* Corresponding author.

E-mail address: Marc.Wiefel@bshg.com.

1. Introduction

Digitalization is dramatically changing the world, on consumer but also on company side. The following describes what has changed in the past 10 years and this impact on the value chain of no matter which type company (retail, BtoB or BtoC). To adapt to these changes it is important to understand what changed. The level of complexity of all factors involved is very high and nearly impossible to overview and analyse. The following article is a guidance towards the most fundamental changes happening and to basically understand what needs to be done to adapt to the new digital consumer. Normally big international enterprises are the first to adapt to changes of this magnitude but still they need a lot of time to overcome their traditional business models and to really become digital enough. Mostly smaller companies do not have the resources nor the explicit knowledge to anticipate these changes and to understand what needs to be done to become best in class in terms of digital transition. This article also shows which measures need to be taken into consideration and need to be partly implemented to reach new digital customers expectations.

1.1 The digital consumer

1.1.1 Purchasing behavior

For most American consumers, their everyday lives and their digital lives are now wholly intertwined. So much so that in 2013, the Oxford Dictionary officially codified the term digital detox – "a period of time during which a person refrains from using electronic devices such as smartphones or computers..." – by adding it and the definition to its online version (which, ironically, is accessible only via a digital device.)

Today's consumer is more connected than ever, with more access to and deeper engagement with content and brands, thanks to the proliferation of digital devices and platforms [1:1-6].

Digital consumers differ significantly from their traditional predecessors. Gadets such as computers, mobile phones, handhelds and PDA´s have become the chosen medium for almost every transaction, from social networking and sharing information to shopping and entertainment. Demographically digital consumers span every generation with each user seeking learning, utility or entertainment. Digital consumers are also changing the traditional consumer mindset in their approach to decision making. These consumers rely on Internet research, friends and online peer reviews as opposed to,, sponsored communication, to make their decisions. A recent study shows that a staggering 78% of consumers trust peer recommendations and only 14% believe advertisements [2:6-8].

The following example shows very much in detail, how the digital consumers information search and purchasing behavior looks like:

„Imagine that a couple has just bought its first home and is now looking to purchase a washer and a dryer. Mike and Linda start their journey by visiting several big-box retailers' websites. At one store's site, they identify three models they are interested in and save them to a "wish list." Because space in their starter home is limited—and because it is a relatively big purchase in their eyes—they decide they need to see the items in

person. Under an optimized cross-channel experience, the couple could find the nearest physical outlet on the retailer's website, get directions using Google Maps, and drive over to view the desired products. Even before they walk through the doors, a transmitter mounted at the retailer's entrance identifies Mike and Linda and sends a push alert to their cell phones welcoming them and providing them with personalized offers and recommendations based on their history with the store. In this case, they receive quick links to the wish list they created, as well as updated specs and prices for the washers and dryers that they had shown interest in (captured in their click trails on the store's website). Additionally, they receive notification of a sale—"15 percent off selected brand appliances, today only"—that applies to two of the items they had added to their wish list. When they tap on the wish list, the app provides a store map directing Mike and Linda to the appliances section and a "call button" to speak with an expert.

They meet with the salesperson, ask some questions, take some measurements, and close in on a particular model and brand of washer and dryer. Because the store employs sophisticated tagging technologies, information about the washer and dryer has automatically been synced with other applications on the couple's mobile phones—they can scan reviews using their Consumer Reports app, text their parents for advice, ask Facebook friends to weigh in on the purchase, and compare the retailer's prices against others. Mike and Linda can also take advantage of a "virtual designer" function on the retailer's mobile app that, with the entry of just a few key pieces of information about room size and decor, allows them to preview how the washer and dryer might look in their home. All the input is favorable, so the couple decides to take advantage of the 15 percent offer and buy the appliances. They use Mike's "smartwatch" to authenticate payment. They walk out of the store with a date and time for delivery; a week later, on the designated day, they receive confirmation that a truck is in their area and that they will be texted within a half hour of arrival time—no need to cancel other plans just to wait for the washer and dryer to arrive. Three weeks after that, the couple gets a message from the retailer with offers for other appliances and home-improvement services tailored toward first-year home owners. And the cycle begins again" [3: 2-3].

This example shows, that consumer use a large diversity of digital touchpoint, even including the classical POS/ sales person. But not all consumers behave the same way. For years, touch points have been understood through the metaphor of a "funnel"—consumers start with a number of potential brands in mind (the wide end of the funnel), marketing is then directed at them as they methodically reduce that number and move through the funnel, and at the end they emerge with the one brand they chose to purchase. But today, the funnel concept fails to capture all the touch points and key buying factors resulting from the explosion of product choices and digital channels, coupled with the emergence of an increasingly discerning, well-informed consumer. A more sophisticated approach is required to help marketers navigate this environment, which is less linear and more complicated than the funnel suggests.

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McKinseys qualitative and quantitative research in the auto- mobile, skin care, insurance, consumer electronics, and mobile- telecom industries shows that something quite different now occurs. Actually, the decision-making process is a more circular journey, with four primary phases representing potential battlegrounds where marketers can win or lose: initial consideration; active evaluation; or the process of researching potential purchases; closure, when consumers buy brands and post purchase, when consumers experience them [4:3].

1.1.2 Different types of device users

Not only do consumers have more devices to choose from, but they own more devices than ever. In 2013, Americans on average own four digital devices and ownership of many digital, mobile and connected devices has reached critical mass. When looking at the average American household, HDTVs (83%), Internet-connected computers (80%) and smartphones (65%) are in a majority of households, with a near majority for digital video recorders (49%) and gaming consoles (46%).

As a result of the explosion in digital and mobile device ownership; American consumers are connected with screens throughout the day and engage with media content for more than 60 hours per week. TV remains at the center of consumer media consumption. However, increases in time-shifted viewing and streaming video through a PC or smartphone show that consumers are increasingly comfortable accessing content whenever and wherever they want [1:5].

To put it simply, today's consumer has a lot of digital devices. A majority of U.S. households now own high-definition televisions (HDTVs), Internet- connected computers and smartphones, and they spend an average of 60 hours a week consuming content across multiple screens. In addition to more devices, consumers now have more choices for how and when they access content, such as broadband-only delivery of programming and DVRs for time-shifted viewing.

In particular, the ownership of mobile devices is revolutionizing the consumer shopping experience: „Mobile is the game changer: going from 2 percent of our transactions three years ago to 20 percent today"[5:2]. Increasingly, consumers are relying on mobile devices to research potential purchases and compare prices for goods and services.

As U.S. consumers continue to take advantage of the convenience of anytime, anywhere browsing and shopping via their smartphones and tablets [1:3].

Just looking back for a moment: before the increasing Internet penetration and media convergence IBM developed the first Smartphone "simon", and finally it was Nokia which launched the first commercial smartphone in 2002. With the introduction of the iPhone the real take off of mobile devices started [6].

In the following we will go a little bit deeper into the user behavior of different digital devices and will also see how multiple devices are used at the same time.

1.1.3   The digital living room

The rapid adoption of a second screen has transformed the traditional TV viewing experience. Consumers are using smartphones and tablets in ways that are natural extensions of the programming they watch, like looking up information about the characters and plot lines, or researching and purchasing products and services advertised just minutes before. Using social media to engage with other viewers has also transformed the live viewing experience for millions of consumers across the country.

Consumers today spend less time engaging with live content via traditional TV compared with the same time a year ago. However consumption of TV content has increased thanks to a significant rise in hours watching time shifted TV. When looking at Q2, 2013 compared with the same quarter five years prior, computer-based video consumption is up 157 percent, mobile users are spending 59 percent more time watching video on their mobile devices. Indicating that consumers are embracing opportunities to engage with content when and where they want [1:8].

Connected devices such as smartphones and tablets have become constant companions to consumers on the go and in the home. Eighty- four percent of smartphone and tablet owners say they use their devices as second-screens while watching TV at the same time. When using connected devices simultaneously, opportunities exist to deepen consumer engagement with content on the primary screen.

Consumers are more likely to reach for a tablet than a mobile phone as the second screen, with the exception of email / texting friends about the program [1:7].

Another aspect which accelerates the rapid increase of usage of mobiles devices are apps: the "Applications" are everywhere! apps increasingly offer the functionality that previously required a device purchase, consumer interest in apps of all forms rises. Every app the survey asked about is currently used or planned to be used by more than 50 percent of consumers: Cameras, GPS driving, gaming, e-reading, voice or music recorder, radio, and TV. Thus, despite the large number of product categories owned by respondents, a lot of the functionality they need is being added and more often used via apps on their multifunctional devices. That means there will be many companies like TOMTOM that will probably no longer sell their hardware but the software (maps) [7:7].

The "Internet of things" is rapidly becoming a reality and consumers are racing toward a complete digital lifestyle [7:10].

In regard to the target group of digital mobile digital shoppers, classical target group assumptions got to an end. There is no difference anymore in regard to gender, age or income. Additionally in terms of topics most of them equally look for reviews or search for store locators [1:23].

McKinsey identified in their "iConsumer research", that there are four kinds of mobile phone users in Europe taht have different usage patterns. Our analysis illuminated that market's underlying value-creation potential. We called consumers who largely use voice, even with their smartphones, traditionalists in our study. Data practicals use very little voice but lots of data. Data entertainers also use little voice but are heavy users of video, music, and games. Mobile omnivores are superusers of both roughly the same monthly service fees that the other two groups do [8:1].

So there is clearly a differing use profile in regard to intensity of use.

1.1.4 Six major consumer trends

In the same McKinsey research "iConsumer" six major consumer trends have been identified. The research tracks the cross-platform and cross-device behaviors of tens of thousands of consumers each year, in both developed and emerging markets around the globe. As we look back at findings from our fifth year of research.

2. What do these six trends mean and which implications do they have:

2.1 Device shift – from PCs to mobile/touch devices.

Smart phones are fast becoming ubiquitous, with penetration about 60% in the US. Just over 30% of US Internet equipped households now have a tablet as well, and the rest of the developed world is close behind. Mobile phones and tablets now make up about 44% of all personal computing time, having nearly doubled from 2008. The implications of this shift is already being felt by multiple device manufacturers and their major retail partners.

2.2 Communications shift – from voice to data and video.

Email and telephonic voice have fallen from over 80% to about 60% of our "communications portfolio", while time spent on social networks has doubled to take over a quarter of all our communications time. And when we use our phones, only about 20% of the time is for talking (down from over 60% just 5 years ago), with the majority used for more data-centric activities such as streaming music, browsing websites and playing games. The upshot: mobile carriers in particular face challenges in re-orienting their business models to focus on data rather than voice minutes. The US market has many lessons for the rest of the world in this area.

2.3 Content shift – from bundled to fragmented.

In large part thanks to powerful search tools, the 'long tail' of media and content (whether that be text, video, classified listings, products for sale, or otherwise) is accessible to anyone. Thus some of the value in traditional "bundles" (whether newspapers, network TV stations, or big-box retailers) has been eroded. The way we use our mobile phones illustrates this well. The number of apps (typically for specific single-purposes) installed has doubled to over 30 from 2008 to 2012. Our spending on these apps is highly fragmented, however, and the

growth potential still highly uncertain. Challenges abound for both content owners and marketers to reach and engage audiences that access such eclectic, fragmented media.

2.4 Social shift – from growth to monetization.

Social networking represents almost a quarter of all Internet time (up 10 points since 2008) and reaches over 75% of all Internet users. Yet, for the first time we have seen small declines in both total audience and levels of engagement in developed economies. This is a remarkably fast climb to maturity, given that major players like Facebook, LinkedIn, and Twitter have yet to celebrate their 10th birthdays. Facebook and LinkedIn now face the quarterly earning pressures of the public markets as well. At the same time, businesses of all shapes and sizes are now actively trying to use social media as part of their marketing efforts. Achieving real and measurable returns on these efforts will be a continuing challenge for players across the TMT spectrum.

2.5 Video shift – from programmed to user-driven.

Traditional live, linear television remains relatively flat on an absolute basis, but has slipped on a relative basis, and now represents just 65% of all video viewing for US consumers on their television screen, and 52% across all screens. Time-shifted DVR content, watching video on PCs and over-the-top internet video services such as Netflix, make up much of the balance. The increase in all varieties of time-, place- and device-shifting video options will continue to pressure traditional advertising-supported business models for distributors, advertisers, and content owners in the value chain.

2.6 Retail shift – from channel to experience.

Despite its tremendous growth and transformation of the retail landscape, e-commerce holds only about 5% of all retail sales. As connected mobile devices proliferate, their potential to transform the shopping experience (both in store and online) is the next opportunity. About half of all smart phone owners now use their devices for retail research, and though small today, we will soon see significantly more consumers using smartphones and tablets to complete their transaction as well. The combination of mobile retail and true multi-channel integration will have a transformative effect on the retail experience, and begin the era of Retail 3.0.

3. Consequences and implications for B2B companies

„To successfully acquire and retain customers, organizations must recognize these new dynamics, adapt and evolve to become more flexible and responsive " [9:2]. It is evident that the emergence of the digital consumer has staggered implications for businesses. The new trends in consumer behavior require organizations to re-look at company processes, product design, and quality of experience, pricing configuration, delivery mechanism and medium of marketing [2:3].

Companies are faced with opportunities and challenges as tech-savvy, on-the-go consumers use a mix of digital channels to move from browse to purchase. eCommerce, eCoupons, social networks and mobile applications provide more opportunities than ever to learn about, engage with and deliver the goods to consumers. Yet, the

expanding number of touch points and channels increases the difficulty of finding the right combination to serve them efficiently and consistently

Consumers are using digital channels to make more informed decisions and making purchases through multiple channels. Their experiences with Amazon, Google and iTunes have increased their expectations that companies will use the gigabytes of personal data surrendered to curate and deliver targeted offers. Frankly, today's digital consumers are baffled by, if not frustrated with, fragmented cross-channel efforts and irrelevant offers and campaigns.

Which brings us to the question at hand: Given what we know about consumers and how they use digital channels, how should companies prioritize their investments to attract, engage, sell to and retain digital consumers? [10:3].

Think—and operate—with multichannel in mind; Our research shows that consumers use a variety of channels as they move along the path toward purchase, yet many companies do not move to meet them where they are swiftly or fluidly. In part, this is a product of organizational structure, when separate channels are managed by largely separate teams. But companies need to tear down those barriers if they are to serve the multichannel consumer well and compete. They also may need new capabilities to understand how consumers are using each channel so that they can react appropriately and move them along the path to purchase.

When managed independently, single channels—even if executed superbly—have limited impact and provide just a slice of insight into consumer behavior, and it is

A potentially misleading one given that consumers use a variety of channels. A true multichannel strategy integrates, leverages, measures and optimizes the unique properties and advantages of each channel. Consumer behaviors displayed on websites, social networks, mobile apps, emails and in stores should all be considered in prioritizing multichannel investments.

CPG companies are finding that the best multichannel marketing is one that promotes an ongoing, synchronized dialogue with consumers. But, like all dialogues, it requires companies to pay constant attention to the flow of information received, and be agile enough to adapt to changes so they can deliver relevant, customized messages at the right time.

Employ data analytics to move through the marketing and sales cycle with consumers; Companies develop a cross-functional, integrated analytics vision, as well as invest in the technology, processes and topflight analytic talent needed to identify target consumer segments and tailor marketing and sales strategies and offers. Delivering personalized, performance-based messages has never been easier given the access that digital channels provide. The companies that use analytics systematically to understand consumers better and act on that understanding will reap the rewards of big data.

Embrace the small screens and the mobile consumers so attached to them; They're everywhere and sometimes in the way: slowly walking while scrolling through texts and emails, clogging store aisles as they scan bar

codes, or tinkering with their new mobile payment app to pay for the skinny latte at the coffee shop. In many markets, more than half the population has mobile devices or smartphones, and over 10 percent have more than one mobile device.

Mobile is the most intensely personal channel for many consumers, and a successful mobile strategy requires a mindset shift that reflects this sensitivity.

At the beginning of the digital age, many companies set up a separate unit to manage the "e-commerce" website—separate staff, separate budget, maybe even a separate location. Now, the complexity of executing marketing operations increases significantly as the number of digital touch points and channels multiplies, demanding a new level of integration.

Marketers need cost-effective and efficient integrated technology platform and services processes to help manage and consistently evaluate their ever-expanding mix of digital and non-digital assets, and to ensure that they complement one other effectively to deliver consistently relevant consumer experience.

As channels multiply and companies seek to enter more markets more efficiently. It's imperative to integrate marketing channels and operations more effectively. Taking such steps not only benefit the consumer by delivering more consistent experiences, they deliver financial and competitive benefits to CPG companies as well.

Recognize that "winning the digital consumer" is an enterprise responsibility; Many companies still operate as if serving the digital consumer is primarily the purview of marketing and sales teams, with perhaps a hefty assist from the technology team. Gaining alignment between marketing and technology is crucial.

In addition to executive leadership, new organizational structures and talent management processes that facilitate and reward sharing consumer insights are good first steps. Without such actions companies will lose the ability to effectively cross-sell brands or increase the lifetime value of consumers.

Today's digital consumers present companies with more information, opportunities to connect and challenges than ever. With loyalty and sales on the line, companies need to be strategic in how they invest in building their understanding of and relationships with consumers. More focused use of data analytics, better social listening and a comprehensive mobile strategy can all aid in deeper understanding and connection. Optimizing websites to facilitate commerce, and experimentation with digital coupons can also generate insight and sales. Finally, consumers who use multiple channels to make their purchases expect companies to deliver a high-quality, consistent multichannel approach as well. Companies that execute on these dimensions could remain relevant, win sales in the short term, and the loyalty of digital consumers in the long run.

Structural changes (especially declines) often happen quite slowly until they happen very quickly. Hemingway's observation on how people go broke is as relevant today as after the Great Crash. Short-term economic and industry factors often mask long-term structural problems that lead to gradual – and then very sudden –

reversals. Consider that the newspaper industry enjoyed its most profitable decade in the late '90s and early 2000's, even as online-only competitors for classified and display advertising grew in scale and market power.

This describes also the way how iconic brands/ industry giants in sectors most hidden by digitalization like Nokia and Kodak failed and finally disappeared.

4. Conclusions

Digitalization has been the buzz word in the past years and will possibly remain a megatrend in the near future.

There are constantly coming up new digital products and services, there are 10 million new Apps per day worldwide going online. Only a small part of these applications finally impact the market, but the most impressing thing of all: We are not talking about products with high complexity and years of R&D behind, we are talking about something like WhatsApp that today has 700 million users and 30 billion messages over the last 5 years.

Digitalization offers many changes but also many risks, probably to traditional business models more risks and to digital companies more changes. But it is absolutely necessary to understand what all this is about and how big the impact on a company is, if you neglect this megatrend.

For all those companies that did not so far deal with digitalization and think it is not necessary for them: deal with it. It is about understanding but especially about creating awareness. There are many examples from big industry players like Nokia or Kodak that knew but were no aware about the impact of digital. But there are also examples from very small operations: when the App "MyTaxi" was introduced in Germany many of the traditional taxi companies didn´t realize that their business model became redundant: as consumers order taxis/ drivers directly, the call center was no longer needed.

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