Consumer Trends Drive Big Changes for Companies

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Consumer consumption trends continue to evolve: Consumer habits are changing, the rise of influencers is shaping consumption, voice technology is changing purchasing, and companies have lost control of distribution. But what can brands do to stay competitive?

Brands are struggling with these changes.

A lot of companies have struggled with changing consumer consumption trends. The Matthew Effect, which refers to accumulated advantage, is in full force.

The Matthew Effect is sometimes summarized by the adage "the rich get richer and the poor get poorer," but I'm referring to it in regard to companies. The ones that have goodwill are performing better, and the ones that don't have goodwill are performing worse.

Whatever you're doing will compound on itself. We've seen that over the last couple of years. The brands that get this really are creating a lot of value for shareholders on a sustainable basis. And the brands that don't have been left behind. And the gap is not closing. It's getting bigger and bigger. Brands actually see market share move when they don't change.

Companies have to change.

From around 2005 to 2015, companies created a lot of value by rationalizing the cost base, and the last leg of that was cutting advertising.

In the past, a strong brand could persist for a few years after an advertising cut. But now we're seeing advertising cuts lead to volume declines and pricing-power erosion.

That's because the company hasn't innovated or hasn't been communicating with customers, and the business model and the durability of cash flow streams have become impaired.

Cosmetics and luxury goods are some of the only industries that have maintained, if not increased, advertising as a percentage of sales over the past five years, and they're among the few industries in which large multinational corporations are actually growing share relative to smaller companies.

Big data is helping companies respond.

Companies aren't using data and analytics to force you to like something. They're using it to provide you with something that you would be interested in. It's anticipatory.

As a consumer, I love it because I don't feel like something is being forced down my throat anymore. A company is now able to put something in front of me that I would be interested in. They know I want to travel to cool places, and they know if I have that kind of profile, I will potentially also like other things.

While we can use new sources of data to better observe consumer trends, it's harder to find data sets that look at things globally. For example, if we're looking at a company that derives 60% of its growth from China, a U.S.-based data set provider normally doesn't have what we need. Additionally, the channels are different and we deal with translation issues. So it becomes difficult.

So we meet with a lot of management teams. Do they have a CTO? Do they have a CIO? Is that person empowered? Is everything integrated or is the marketing team completely separate? What are the incentives? Is the CEO able to articulate the strategy beyond a high level? It's always a red flag if the marketing team and the digital team aren't embedded.

The point is, data is not in itself a silver bullet that guarantees getting a stock right or wrong; it's another part of the mosaic. You only create the insights by putting it together with other analysis.

Blog Series: Consumer Consumption Trends
Part 1: Changing Consumer Consumption Trends

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