

A brand new world

The future of brands in a rapidly changing consumer landscape



This report forms part of our series:



Rathbones
Look forward

Foreword



Like the landed gentry of the 19th century, who could live comfortably on the income from their land, today's 'dividend aristocrats' have long enjoyed growing streams of income from their brands. And just as agricultural disruption led to an existential crisis for the landed gentry, so today's 'branded gentry' are having to adapt to rapid changes in the consumer landscape being forged by the next generation.

At the side of the kitchen sink, where Fairy Liquid once had pride of place, you're just as likely to find Tesco's own brand, which many of today's consumers probably reckon gets the job done just as well for less. Pots of Yoplait and Danone around the breakfast table may feature in the memories of older readers. But the scene is changing – now new entrants are challenging that favoured place, with the likes of Chobani in the US appealing to the desire for more natural and healthier foods through adept use of social media and well-placed free samples.

Companies are having to innovate and evolve in order to engage with the shifting attitudes – as well as the changing spending habits – of the younger generation. Compared with their predecessors, millennials are more likely to express a strong interest in social engagement, purpose and values. They also seem to be more cost conscious and value experiences over possessions, presenting both challenges and opportunities for traditional brands.

These emerging consumers may be seen to be less loyal to established brands than older generations, instead preferring new, smaller entrants. However, we are confident that many of today's major consumer goods companies can survive and even thrive by recognising and adapting to the rapidly changing consumer landscape.

This is the first in the *Millennial Matters* series of reports exploring some of the major challenges facing the next generation and their investment implications. These insights will inform our approach to managing portfolios to grow and protect wealth throughout our clients' working lives and beyond. I hope you enjoy reading the report and look forward to continuing the conversation about the major forces shaping today's investment environment.

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Sanjiv Tumkur
Head of Equity Research

Rathbones has a long tradition of keeping an eye on the future. Over the next few months we'll be speaking to some of the great thinkers, journalists and writers of our time in a range of video and audio podcasts, articles and a broadcast at 9:50pm every Sunday on Jazz FM.

To find out more about the themes affecting the near future of our changing world watch, listen to or read the latest edition of *Rathbones Look Forward* online at rathboneslookforward.com

#rathboneslookforward



Why millennials matter

Expectations from the dotcom boom 20 years ago have come to fruition in disrupted business models and a reshaped society. New generations – the much-discussed millennials and Generation Z – have grown up with the internet and social media as an integral part of their daily lives. Their behaviour and spending patterns are markedly different from people their age 20 years ago, creating challenges and opportunities for companies seeking to engage with them.

Companies selling branded goods are under threat in this brave new world of mobile internet, where product quality is conveyed through user reviews as much as brand names. What can they do to remain relevant and stop the erosion of their brands? We believe these companies can continue to thrive, but only if they make significant efforts to be agile and innovative. Brand values must be clear and authentic, while companies need to understand what consumers want and how this is evolving. It will mean engaging with customers in radically new ways.

The threat is especially acute for those with long established brands, painstakingly built and maintained over decades, that used to command consistent loyalty and predictable consumer demand. These global 'brand champions' are key parts of portfolios

and economies, so what happens to them is important for all investors.

Millennials and Generation Z are important for brands. Despite having had less time to accumulate wealth than their predecessors, older millennials are now reaching their late 30s and settling down, albeit slightly later in life. Millennials are also a very large group – in the US they are on the cusp of overtaking baby boomers as the biggest age cohort, and will in turn be overtaken by Generation Z.

Globally they are of paramount importance, as millennials and Generation Z each number about 2 billion out of a total population of 7.4 billion. As birth rates have fallen to replacement levels or below in most regions other than in Africa, they are likely to remain the biggest segment of the world population.

There will clearly be major differences between Western millennials and those in emerging markets, where they are often the first generation of their family to have any meaningful level of disposable income or wealth.

What matters to millennials

There can be a tendency to make sweeping generalisations about any demographic element of a population which might hold for many but which will not be true for individuals.

Key points

The brave new world of mobile

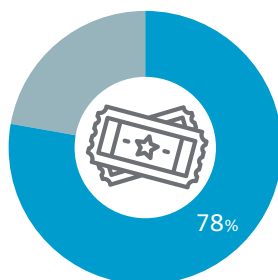
Companies selling branded goods are under threat as millennial preferences take hold for:

- emphasis on social engagement, purpose and values
- cost consciousness and choice
- experiences over possessions.

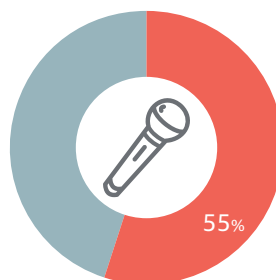


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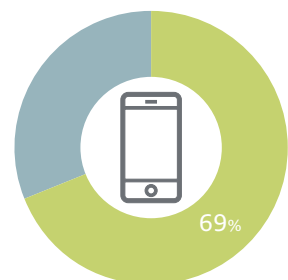
Figure 1: Millennial desire for experiences



of millennials would choose to spend money on an experience rather than buy something



of millennials say they are spending more on events and live experiences than ever before



of millennials say they experience fear of missing out (FOMO)

Source: Harris Research poll, Millennials: Fuelling the Experience Economy, Eventbrite.

Every generation also tends to react against the attitudes of its parents' generation and seeks to find its own identity, before becoming more conventional as it settles down and raises children of its own. This will be true to some extent for millennials. But the way millennials live their lives and spend their money could be more enduring. They are even having an influence on their parents and grandparents.

Among the defining characteristics for millennials and Generation Z is the greater emphasis they place on social engagement, purpose and values. This is at odds with the idea that millennials form the 'Me Generation', only focused on their own interests. They are digital natives who have grown up with the internet and social media and this has helped shape their view of the world and their position within it.

They are more aware of the world's challenges and have a sense of collective responsibility as global citizens to deal with them. In their own words they are 'woke' or alert to social injustice, and they actively use social media to promote causes and instigate change.

While this approach is sometimes derided as ineffectual or 'slacktivism', there are numerous examples of social media campaigns and petitions on sites like Change.org galvanising public opinion in order to effect fundamental societal change.

Recent examples include the #MeToo and Time's Up movements to expose and fight sexual harassment; advocacy for stricter US gun controls after the

mass shooting at the Marjory Stoneman Douglas High School in Florida; and the campaign to ban plastic straws and reduce plastic waste, which the World Economic Forum predicts will outweigh fish in the world's oceans by 2050.

Younger generations are big on health and wellness, embodied in concepts such as clean eating and self-care. This is evident in the higher proportion of younger people who are teetotal, or who are vegetarian or vegan – and the even higher proportion who are 'flexitarian' (those who are trying to reduce the amount of meat they eat).

Younger consumers on average have lower disposable incomes than previous generations did at their age, due to the dislocation of the global financial crisis and muted real wage growth. In the UK, this is exacerbated by higher housing costs, particularly in cities, and rising student debts.

In addition, they are more likely to be in less secure forms of employment as contractors or taking on part-time jobs as part of the 'gig' economy. Combined with the fact that they are digitally savvy and adept at performing product research and price comparison online, this gives them a keen focus on value for money.

The prevalence of mobile internet and the availability of apps to provide banking, transport (Uber) and food delivery (Just Eat and Deliveroo) at almost a moment's notice also gives younger consumers instant gratification and a heightened expectation for convenience in all areas.

The importance of experience

As an increasing proportion of their leisure time and interaction with friends is actually pursued 'virtually' or online, a higher premium is placed on real life experiences, which are gaining a significant share of wallet at the expense of possessions such as clothes, DVDs or cars. These things increasingly can be rented rather than owned in the sharing economy (via services such as Rent the Runway, Netflix and Zipcar), which has grown along with the numbers in 'Generation Rent' who can't afford to buy them outright.

Younger generations have less of a materialistic ownership mentality, with

more emphasis placed on experiences, fun, personal development and self-actualisation and rather less on salaries or financial wealth (figure 1). The concept of the pop-up (for example, a store or restaurant which is only open for a few weeks) offers experiences which tap into the millennial sense of FOMO (fear of missing out), and being in on something offering quality, a degree of connoisseurship and exclusivity.

Such experiences are often expertly catalogued and shared on social websites such as Instagram, with users carefully 'curating' their online persona to present the most impressive and enviable version of their life. There is also a deep sense of appreciation for the heritage or provenance of a brand, and the story behind it, which is partly behind the rise of craft beers and gins.

Brand loyalty

There is much talk, and some evidence, that millennials and Generation Z are less loyal to brands than older generations, given their exposure to alternative options through their time spent online, and a greater willingness to try new brands in the hope of getting a better customer experience or a cheaper price.

A 2015 study by consumer loyalty firm Catalina showed that 90 of the top 100 consumer packaged goods brands in generally low-growing categories in the US market (an area dominated by the likes of Kraft Heinz and General Mills) had experienced declines in market share. There is also growing mistrust of institutions, government and the media (measured by the Edelman Trust Barometer – whose 2017 survey saw the biggest ever drop in trust). This makes millennials less willing to defer to the judgement and brands of their elders and the companies whose television adverts they remember growing up with.

Younger consumers are more likely to mistrust big business and prefer to support smaller businesses or brands, or at least those which seem smaller and more authentic. Interestingly they appear to be willing to sacrifice a reasonable degree of data privacy in order to be able to enjoy a more personalised service or brand experience tailored to what matters most to them.



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From Vikings to IKEA: branding through the ages

The concept of branding has a long history. The word brand derives from the Old Norse word 'brandr' meaning to burn, and from the practice of branding cattle (and slaves) to symbolise ownership, something that has occurred for thousands of years of human history. There is evidence that symbols were used in ancient urban civilisations such as Mesopotamia, India and Rome to provide information about a traded product's provenance and quality.

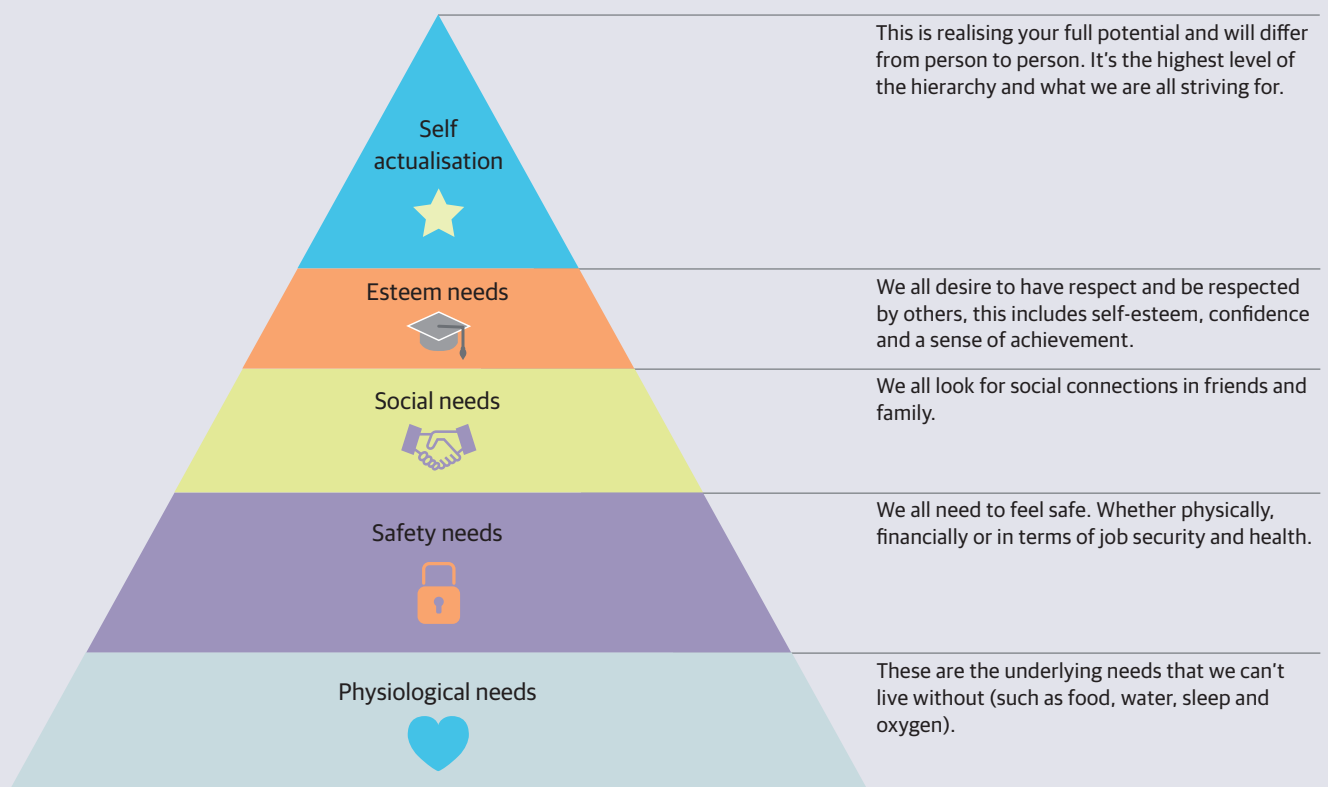
This practice continued into the medieval era with hallmarks and trademarks, such as the lion mark which Löwenbräu beer claims to have used since 1383. The Industrial Revolution led to an unprecedented period of urbanisation and the development of the mass production of goods. Large manufacturers needed to convey information about themselves in order to help them compete with more familiar, locally produced competitor products.

The modern era of the brand was born when companies began to use a product name and logo to identify themselves to customers who were encouraged or educated to associate their product with particular traits incorporating trustworthiness, quality and performance. Many of the brands that we know today emerged in the nineteenth century. Examples include Bass beer, whose red triangle brand became the UK's first registered trademark in 1876, Levi Strauss which

has made jeans since the 1870s and Coca-Cola, which was first sold in 1886 as a medicinal drink.

Since those early days, brand marketing has become increasingly sophisticated and led by data and behavioural science. A common framework for thinking about brands and their appeal to customers is psychologist Abraham Maslow's 'Hierarchy of Needs'. While all brands need to fulfil basic functional needs (physiological and safety), the most successful tap into the emotions and human desire for social connections, self-esteem and self-actualisation or realising one's full potential.

A brand is different from, and a lot more than, simply a name. Advertising guru David Ogilvy, who founded Ogilvy & Mather, described a brand as 'the intangible sum of a product's attributes'. This encompasses more than just the functional features of the product. Guinness beer, for example, is more than its distinctive colour and taste and superior ingredients – it's also the emotional attributes that we associate, or are encouraged to associate, with it. In Guinness's case it's the feeling of heritage and tradition, craftsmanship, refreshment and aspiration – the pint slowly forms and settles, and our patience in waiting for it is rewarded. These emotional brand attributes are often painstakingly nurtured through advertising and brand-building over decades.



Source: www.professionalacademy.com

Challenges to established brands

Branded consumer goods companies have tended to be successful investments over the long term. They enjoy fairly stable and predictable returns, gently rising demand and little in terms of earnings volatility through the economic cycle – particularly in the area of consumer ‘staples’ such as soap or toothpaste that consumers need to buy no matter how poor they feel.

The strength and durability of their brands was seen as giving them a high degree of pricing power and control over their own destiny. In many cases these companies were also seen as benefiting from the rise of urban middle classes in emerging markets, who often see ‘Western’ branded goods as aspirational, which would give them an additional engine of growth.

The predictability and cash flows of the consumer goods companies enabled them to pay growing streams of dividends which encouraged the market to value them highly because of the reliable growth that they offered.

Branded gentry

Decades of delivering steadily growing dividends have earned many of these companies the nickname of ‘dividend aristocrats’. For example, Coca-Cola, Nestlé and Unilever have held or increased their dividends every year for more than fifty years despite the vagaries of the economy.

However, the predictability of these companies – the bedrock of many diversified portfolios around the world – is being called into question by the radical changes we are seeing in consumer tastes and behaviour.

The consumer staples sector has started to lag the wider market because of these concerns. Slowing growth momentum in their emerging markets businesses and the impact of rising interest rates are also weighing on companies that are deemed to be ‘bond proxies’, because of their bond-like predictable historic returns.

A more level playing field

Established brands built over decades are facing assaults from a number of different angles. Firstly the barriers to entry for new competitors are falling. Access to finance for entrepreneurs with an interesting idea has become democratised through crowdfunding sites such as Kickstarter or peer-to-peer lending platforms such as Lending Club.

Manufacturing new products is also becoming easier, particularly in areas like clothing, where global supply chains have been shortened by digitisation. Using the internet, computer-aided design and 3D-printing and prototyping can accelerate the translation of designs into actual products ready to be shipped.

Inditex, the owner of clothing retailer Zara, has demonstrated particular success here in ‘fast fashion’, enabling it to offer much faster moving product lines. It can quickly reorder those lines which are most popular, or design new products which data insights tell them will sell well.

As consumer tastes have changed, smaller niche companies have been adept at spotting these changes before larger more established corporations. Often they are able to innovate in order to fill emerging gaps in the market, transforming these niches into mass markets where they might become a leading player. This has long been true in technology, where Amazon, Facebook and Google are powerful brands and everyday utilities that only came into existence over the last two decades.

An example of these new consumer challengers is The Honest Company, established in 2012. The company was founded by Hollywood actress Jessica Alba in response to the difficulty she faced trying to find natural baby products which did not contain harsh chemicals. This followed her alarming discovery that the US Food & Drug Administration had banned less than a dozen chemicals for use in household products, compared with 1,300 chemicals banned by the EU.

Key points

‘Branded gentry’ under threat

Global brands are losing their advantage as new entrants benefit from:

- better access to finance
- a big reach through social media without big costs
- new ways to shop and greater choice for cost-conscious consumers.



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The Honest Company has now expanded into beauty and household products.

Private-label goods are also on the rise, tapping into consumers' desire for value for money and scepticism about whether the price premium charged by brands is justified by superior quality. The expansion of low-cost supermarkets Aldi and Lidl in countries such as the UK and the US is spearheading this: 90% of what they sell is private-label. There is significant scope for private-label to take a greater share of the US market where it represents just 15% of consumer packaged goods sales (compared with 51% in the UK).

Amazon has growing plans to sell consumer goods under its own labels (such as AmazonBasics, Mama Bear nappies and baby food, Happy Belly nut and seed snacks and Presto! laundry detergent and toilet paper), and its acquisition of Whole Foods Market stores indicates a desire to branch out into groceries. A recent Silicon Valley start-up, Brandless, aims to offer better no-brand products than the branded incumbents but for less money (in this case, \$3 per item across more than 200 items).

A big reach without a big cost

The cost of getting in front of consumers is also falling dramatically thanks to online advertising via platforms such as Facebook, Instagram and YouTube. Start-ups can target advertisements at carefully segmented audiences online at a fraction of the cost of having to produce expensive television advertisements. In some cases a particularly catchy advert will be rapidly shared on social media (going viral) and dramatically increase viewership and brand awareness at no extra cost to the advertiser.

Examples include Dollar Shave Club's punchy and irreverent first advert in 2012, produced for \$4,500 but garnering 4.75 million views in its first three months. This propelled the start-up brand into the limelight and it quickly rose to be the number two razor blade

Importance of social media

Do images you look at on social media channels inspire or influence your purchases in the following categories?

■ Answered yes (aged 18 to 34)



Source: Marketing Week, 'Social commerce: How willing are consumers to buy through social media?', March 2016.



Dollar Shave Club's punchy first advert in 2012, produced for \$4,500, garnered 4.75 million views in its first three months. The start-up brand quickly rose to be the number two razor blade vendor in the US after Gillette, prompting interest from Unilever which acquired Dollar Shave Club for a rumoured \$1 billion in 2016.

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A key challenge is how to grab younger audiences' attention in a world of media-platform proliferation. Generation Z often flit between five different screens (smartphone, tablet, laptop, desktop and TV). You may be able to convey your message to them, but can you guarantee that they are listening?

Headlines a couple of years ago claimed that the attention span of the average member of Generation Z had shrunk to eight seconds – slightly less than the humble goldfish. While potentially alarming, this is not a sign of a youth bereft of any ability to concentrate, but rather the result of a generation being so overwhelmed by stimuli competing for their attention that they have to apply stringent filters to everything that comes before them. If they are

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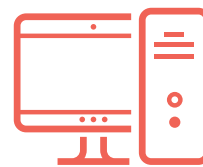
Brands and blockchain

Blockchain technology is a decentralised digital ledger of transactions and records, which relies on peer-to-peer verification and can't be amended. There are an increasing number of companies investing in building applications and databases based on blockchain, with much speculation about how the technology and its uses will evolve over time as it matures and gains wider acceptance.

For established brands blockchain presents challenges and opportunities. It offers verified data on a product's provenance and quality, which are attributes that have historically been signalled by brand names. If blockchain takes off, this could lower the barriers to entry for new 'challenger' brands even further, perhaps eroding the price premium that established brands can command. The counter-argument to this is that blockchain and the data it encapsulates can actually strengthen brands by reinforcing their existing quality credentials.

Furthermore, blockchain could ultimately lead to an environment where consumers are aware of the value of their time – which they currently give free of charge to platforms such as Facebook – with new developments to allow companies to approach consumers directly and pay them to view adverts or content about brands. This could bypass social media platforms, which act as middlemen connecting advertisers directly with consumers. Blockchain could enable companies to have much better and more granular data about individual consumers' purchase history and preferences, and therefore could enable brand messages to be targeted with much greater accuracy than ever before.

Blockchain is still very nascent, so it remains to be seen exactly how it will affect brands – old and new. For more detailed information on blockchain, how it works and how it could be applied, please refer to our 2017 report on disruptive technology, *How soon is now?*



Chobani®

An example of an innovative new consumer brand is Chobani, which Turkish entrepreneur Hamdi Ulukaya developed in an old Kraft Foods yoghurt factory in New York state and launched in 2007. Chobani is a thick, strained Greek-style yoghurt which appeals to consumers' desire for higher protein and more natural foods.

Using social media and free samples at festivals and family events in order to spread product awareness more cheaply than via conventional media campaigns, the company expanded its sales and became listed in national grocery chains. By 2012 it was achieving more than \$1 billion of annual sales and had expanded the Greek yoghurt market significantly, compelling its long-established yoghurt competitors General Mills (Yoplait) and Danone to play catch up.

not enticed within eight seconds they will move on to the next item. This is a cohort which for a large part of its life has had the ability to fast forward through advertisements.

Influencer marketing has quickly gained ground in the age of social media through the advent of bloggers, and in particular vloggers (video bloggers), who have benefited from the rapid growth of YouTube, since the online video platform's foundation in 2005 (and acquisition by Google in 2006).

Probably the most successful vlogger so far, PewDiePie, has accumulated nearly 60 million subscribers and 15 billion views of his video blogs about video gaming. Closer to home Zoella, or Zoe Sugg, is one of the most successful British vloggers, focusing on beauty and fashion.

These video bloggers offer advertisers millennial and Generation Z audiences with targeted interests – for example video games, beauty products or fitness – and engage their audiences through humour, content, advice and recommendations.

Shop till you drop

There are many new ways to shop. Online ordering being the simplest – either through a brand's own website or through platforms, for example Net-a-Porter and Farfetch for clothing. There is a growing choice of subscription models that enable automatic reordering of previous purchases. For example, Amazon's Subscribe & Save service which offers a discount on subscriptions for multiple eligible products, or the aforementioned Honest Company and Dollar Shave Club.

This has the added advantage of ensuring that consumers don't run out of products that they might otherwise forget to re-order. Membership commerce models involve paying a fixed monthly fee and then being sent products which should be appealing based on previously stated preferences – Fabletics (athleisure clothing), Birchbox

(beauty products), ShoeDazzle (shoes and bags for women), graze (healthy snacks) and the Craft Whisky Club are just a few examples.

A growing medium of purchase is via voice-activated digital assistants such as Amazon's Alexa. This may mean less choice compared to ordering from a web page with a dozen different options, and could help funnel consumers towards a company like Amazon's own private label offerings.

How should brands respond?

Faced with this radically evolving landscape, are the major branded consumer goods companies doomed to irrelevance and terminal decline? Are there strategies they can adopt to win over younger generations of consumers and stay relevant in the 21st century?

We are confident that many of today's consumer goods companies can survive and even thrive in this new environment, if they recognise the challenge, adopt the right strategies and then execute them with a relentless focus. But this will require vigilance and ongoing, active management of these major brands in client portfolios to separate the wheat from the chaff.

No more 'lazy loyalty'

First and foremost, brand owners need to acknowledge the fundamental changes in the way that consumers react to them. They must make their organisations, marketing, customer engagement and product development more flexible in order to react to these changes and ideally try to stay a step ahead of future changes and trends.

In the past, it has been too easy to dismiss younger consumers' behaviour as quirky and faddish. However, as these 'fads' persist and are indeed increasingly adopted by older generations – particularly in areas like the desire for natural ingredients, sustainability and ethical standards – they will become impossible to ignore.

Brand design consultant Elmwood suggests that brands need to adopt a mindset of 'agile long-termism'. That means remaining resolutely focused on their long-term vision and values, but being more tactical and nimble in terms of marketing their brands in response to the changing patterns of customer engagement.

Key to this is a clear understanding of your customers and their desires, and how they are changing. While demographics are important here, of even greater significance is psychographics: the attitudes, values and behaviours that different people have.

Brand marketing is increasingly incorporating sophisticated neuroscience

Key points

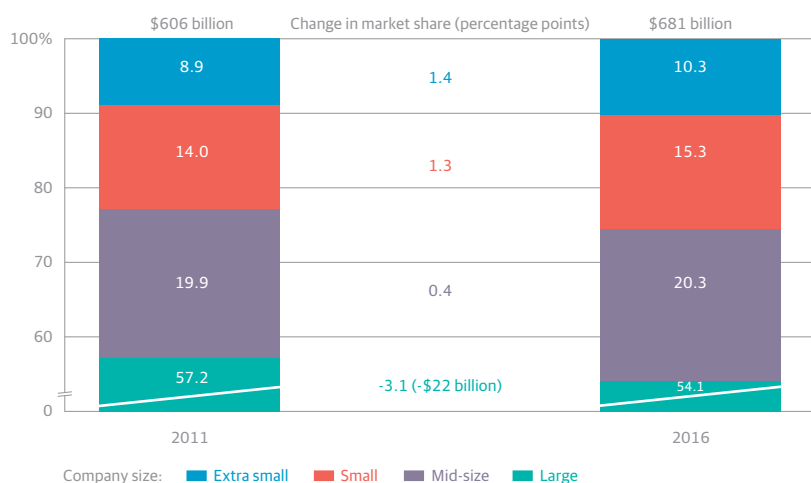
The right response

We are confident that many of today's brands can survive, but they will need to have a mindset of 'agile long-termism' by:

- remaining resolutely focused on long term vision and values
- being authentic and clearly communicating their values
- being more nimble in adapting to changing customer behaviour
- leveraging their strengths.

Figure 2: Smaller companies are taking market share from their larger rivals

North American fast-moving consumer goods sales



Source: IRI Liquid Data database, 2011-2016, covering multi-outlets and convenience stores. IRI Consulting analysis.
 Note: FMCG = fast-moving consumer goods. M&A is accounted for in company size categorisation. Extra small companies have annual sales of less than \$100 million; small companies, from \$100 million to less than \$1 billion; mid-sized companies, from \$1 billion to less than \$5.5 billion; and large companies, greater than or equal to \$5.5 billion; excludes private-label sales.



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Brand marketing is increasingly incorporating sophisticated neuroscience in order to understand how people engage with brands at an emotional level, using this information to fine-tune customer engagement and creative advertising.



Brand owners can often go back to basics to define what their brand encapsulates, if this has become lost over the course of time. Barbie doll sales had been hurt by competition from Disney's Princess dolls and other types of toys, and also by perceptions that it was somewhat vapid and consumerist, and presenting an unrealistically perfect body image to young girls.

Owner Mattel took Barbie back to its core founding principles from 1959, of stimulating girls' imaginations and encouraging them to visualise women pursuing different professions such as doctors or pilots. This was coupled with the launch of Barbies with differing body shapes and a range of skin tones. The more inclusive, aspirational and purposeful Barbie seems to be resonating with millennial mothers and their daughters – Mattel reported 18% annual growth in global Barbie sales in the quarter ending March 2018.

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Millennials have more options for where to spend their money, and a greater tendency to experiment and trial, but this does not necessarily make them less loyal. Survey data indicates that when they find a brand that resonates with them and works hard to engage and retain them, they will be loyal – just not necessarily to established brands.

The trick is for brands to establish and cultivate this personal connection. The days of brands being able to rely on winning a customer and then keeping them for life ('lazy loyalty') are over, as consumers are constantly reappraising their choices and need to be 'recruited and re-recruited', as beverages giant Diageo has noted.

This combination of long-termism with agile execution is something branded companies should always be

doing, simply as best practice, but it has never been more crucial to success – and indeed survival.

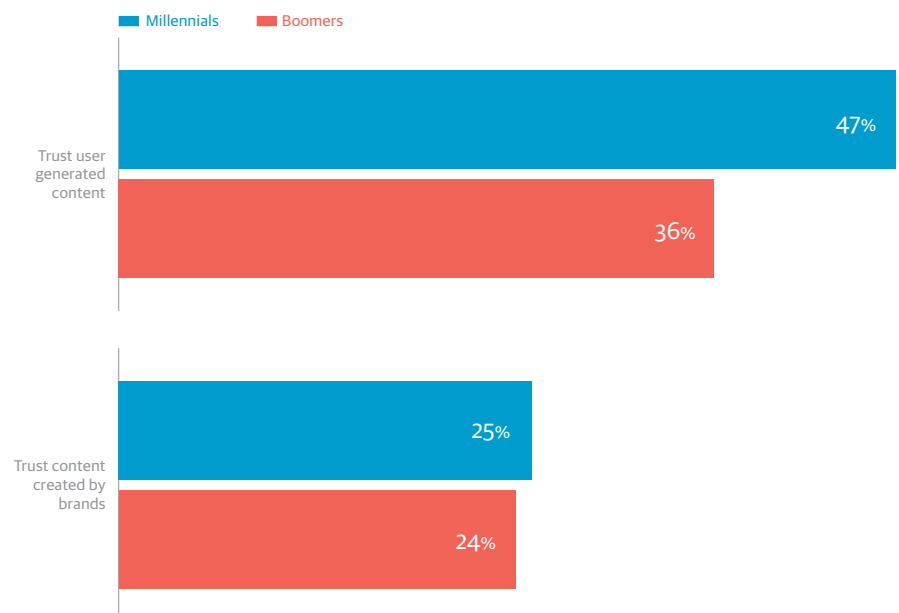
Clarity and authenticity

Brand owners must work hard in order to understand what their brands are setting out to be and do and then communicate this story clearly. Again this is something that brands should always have been doing, but have often lost sight of. Consumers want to know what a product's sense of purpose is, why it exists, and what the brand and the company behind it stand for.

They increasingly want the values embodied in a brand to resonate with the values that they consider important and that they identify themselves with. The more these values tap into the higher echelons of Maslow's Hierarchy of Needs, the more a brand is likely to establish an enduring connection with its customers, as they make an emotional investment in it beyond what its basic product

Figure 3: Generational differences

How millennials and baby boomers consume user-generated content, such as online reviews.



Source: Olapic, January 2017.

characteristics justify. These needs are a feeling of belonging, self-confidence and respect, or self-actualisation.

What is absolutely key for brands seeking to engage with younger customers is that they must be authentic in what they stand for, and must have the values they seek to promote enshrined in their corporate culture. In terms of the story they are telling their customers, companies must walk the walk and not just talk the talk. Social media can be used to rapidly disseminate instances where companies fall short of lofty goals, and perceived corporate dishonesty is quickly punished.

Getting the brand message across remains crucially important, and brands have to be nurtured to maintain their power. But the methods of doing this have changed. In an age of media fragmentation and audiences wanting a more personalised relationship with brands, massive broadcast advertising campaigns are less powerful than they were. A nuanced and multi-platform approach seems best in this new era, as we shall explore in a moment.

A recent school of thought for branded consumer companies, particularly in low-growth categories in the US, has been to focus most efforts on cost efficiency through a method called 'zero based budgeting'. This essentially involves justifying every item of spending, rather than just carrying it over from the previous year. This has had a negative impact on brand spending, which in turn is very likely to have exacerbated the decline in sales growth seen at companies espousing it, such as Kraft Heinz and AB InBev.

Engage socially

Younger customers want to have the opportunity to fully buy into and engage with the brands that matter to them, and feel that by doing so they are part of something bigger. Brands can offer this through the creation of communities, enabled by websites and apps that

customers can use to learn more about the product or service's core values, purpose, heritage and qualities. This can sit alongside more mundane information about ingredients or features, and enable users to engage with the brand and with other customers – this new dimension is called 'social commerce'.

A truly effective approach would incorporate the ability for consumers to access value-added content and advice, post comments and reviews, engage with the brand and its representatives and fellow consumers (both online and through real life experiences).

This can be combined with a personalised service (either through tailored special offers or if possible personalisation of the product) and rewards for loyalty in the form of points or discounts, earned through purchases or ongoing engagement such as advocacy (for example via social media), quizzes and games. Incorporating philanthropy and engaging with specific charities that have a natural connection with the area the brand operates in is a particularly strong way to connect with younger consumers, given their interest in making the world a better place.

This more personalised approach to brand-building creates both challenges and opportunities for the advertising agencies which have historically derived a significant proportion of their earnings from big marketing campaigns for consumer brands.

A key differentiator with younger consumers is the weight that they place on social proof and recommendation, particularly by people within their community or friendship group. There is a focus on 'user-generated content', in particular product reviews and ratings.

A consumer trust survey conducted by Olapic found that 47% of millennials trust this while only 25% trust content generated by brands themselves. In an age of mistrust of corporates and authority in general, and scepticism about advertisements, consumers feel

A survey by US advertising agency Moosylvania of 15,000 millennials aged 17 to 37 found that most of their favourite brands are still long established names such as Coca-Cola, Target, Ford and Nike, which have managed to retain their relevance, along with a few brands that have grown over the last 20 years such as Amazon, Starbucks and Apple.



A good example of social engagement is the Virgin Red app which gives customers of various Virgin businesses such as Virgin Money, Virgin Trains and Virgin Active gyms automatic points for being customers, as well as for quiz and survey participation, giving them chances to win prizes. This encourages constant interaction from consumers and draws them into a sense of community, providing opportunities to educate them about Virgin's charitable endeavours and new ventures.

that endorsement by other 'ordinary' people has much greater authenticity and therefore value to them. The new generation of vlogger-influencers tap into this feeling, and the most influential earn millions of dollars a year for their endorsements and product demonstrations, as brands recognise that they are a viable alternative to more traditional advertising and promotion.

Sports brands have been quick to adapt to social commerce, with successful community-building efforts including yoga apparel company lululemon's use of its stores for after-hours yoga and meditation or 'mindfulness' sessions for customers.

Nike has excelled in this area. Its Run Clubs engage customers in group exercise; its Global Community Impact Fund partners with charitable organisations such as Kids Run Free in order to encourage children to exercise outside; and its Training Club and Nike+ app offer training instructions, fitness content and access to Nike events.

Nike dominates its peers in terms of customer engagement, social commerce and social media engagement, gently reinforcing its central message of

encouraging everyone to be active and pursue a fitness lifestyle to the best of their abilities. Nike uses social media hashtags such as #nikewomen and #justdoit in order to make customers feel like they are part of a community all trying to achieve their full potential.

Many other companies are incorporating philanthropy into their businesses – for example Brandless has partnered with charity Feeding America to give a free meal at a food bank for every customer order made online, and TOMS Shoes similarly makes a donation to poverty alleviation programmes in Africa for every order.

Leverage strengths

A key element of a mindset of agile long-termism is to identify new trends quickly and try to understand which will prove to be enduring. Large consumer goods companies perhaps became too complacent and bureaucratic to be agile, proactive and innovative, and found themselves playing catch-up with smaller more nimble start-ups.

However, established consumer goods companies have some significant incumbency and scale advantages that we should not ignore. Their scale means they recruit some of the best and brightest talent in terms of product development and marketing, attracted by the chance to develop their careers across geographies and product ranges.

They have deep and well-established distribution networks through which to sell their products, though there is more work they can do to optimise their positioning in e-commerce and mobile commerce. Their brands continue to enjoy good name recognition, albeit this needs to be supplemented by further moves into social commerce and engaging with consumers across multiple platforms (online, mobile and potentially augmented and virtual reality before too long) with consistency.

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17 to 37 found that most of their favourite brands are still long-established names such as Coca-Cola, Target, Ford and Nike, which have managed to retain their relevance, along with a few brands that have grown over the last 20 years such as Amazon, Starbucks and Apple.

It is also important to remember that many of the initially fleet-footed niche start-ups may well fail to endure, as they face the inevitable difficulties of scaling up production and distribution, and adapting to further changes in the market place. Long established consumer goods companies have significant scientific and product development knowledge, as well as resources in the form of computing power, data analytics and market intelligence, which they can use to give themselves an edge.

Diageo, for example, has created tools using commercial data and consumer insights to help make their sales and marketing more effective. Its Polaris tool uses sales data to drive 'net revenue management', ensuring that products are delivered at the right price and in the right way to maximise sales and profits, and measuring profitability by customer and channel. Its Catalyst tool uses market data to analyse the returns generated by marketing spend, both strategic and tactical, which enables quicker and more confident marketing campaigns and bolder decision-making.

Time to innovate

Consumer goods companies generally have large research and development departments focused on innovation in order to improve existing products and help create new ones. Some companies have not spent enough time or money on innovation and their sales have suffered as a result.

Scientific insight is important and can often lead to breakthrough products, which are most successful when they are allied with valuable insights into consumer needs that are not being addressed. Agility is important, and large



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companies can stifle innovation if there are too many impediments to speedy decision-making.

Unilever has 6,000 employees working in research and development across six centres around the world and seeks to link their work to consumer needs. Recent innovations include a shampoo that keeps hair fresh under hijabs, a key selling point in Islamic markets, and Regenerate, the first toothpaste to regenerate early tooth enamel erosion.

Other innovation has dramatically reduced the amount of plastic the company uses in its packaging, and reduced the amount of water needed to be used with its shower gels or laundry washes, in order to improve environmental sustainability.

If you can't beat 'em, join 'em

Even with the best consumer insights and innovation platforms, no consumer goods company can innovate for every single promising new product opportunity. There have always been start-ups that will spot something that the rest of the market has missed.

Established players can benefit from these additional insights in three ways. The first is to recognise that a rival has identified a new growth area that's been missed, and speedily address this market. So when established dairy giant Danone spotted that Chobani was expanding the hitherto small Greek yoghurt market, it quickly scaled up its own presence in this area with its Oykos and Greek Light & Fit brands, using its established distribution and product authority to gain significant sales in this growing market.

The second way to benefit is to use one of the other advantages that a large consumer goods company typically has – namely lots of cash – in order to buy niche players that have products with sustainable growth potential, particularly when they can benefit from the greater profile and distribution that a larger parent can offer them.

Unilever has been active in this way, buying smaller innovative companies such as subscription razor blade provider Dollar Shave Club, REN in natural ingredients skincare, and Pukka Herbs in premium organic and herbal teas. While this approach involves paying entrepreneurs goodwill for the businesses they have built, and so is not as cheap as internal innovation, it is an important way of limiting the risk that a disruptive new player could erode an incumbent's market share.

This acquisitive approach is most effective when the purchase brings insights and expertise that can be used more widely. So Unilever would hope to use Dollar Shave Club's experience of direct-to-consumer selling and subscription models to good effect for its other products.

The third approach is to partner with start-ups, offering them expertise and resources (premises, legal advice, technology help or distribution) in return for a stake in their business or an option to buy in or distribute if they reach a certain scale. Many consumer goods companies are pursuing this strategy, recognising that they do not have a monopoly on good ideas.

An example is Diageo's Distill Ventures which partners with entrepreneurial spirits companies such as Seedlip, the world's first non-alcoholic spirit, Starward, an innovative Australian whisky, and Belsazar, a German vermouth which Diageo has recently acquired outright.

Companies can also partner with start-ups offering help outside of product innovation. Diageo Technology Ventures seeks to engage entrepreneurs to help solve problems such as retail theft, digital engagement and using technology to discourage underage drinking. Other examples of large players co-opting entrepreneurial insights are Unilever's Foundry and Procter & Gamble's Connect + Develop programme.

While there are a number of challenges for established brands to acknowledge and overcome, we think talk of the 'death of brands' is greatly exaggerated.

A new brand of vigilance

We've seen how millennial preferences matter to brands, as the next generation grows in importance and their emphasis on values, cost-consciousness and experience over possessions influences wider consumer behaviours. And not only are consumer tastes shifting in significant ways, but smaller niche companies have been good at spotting these changes before less nimble established brands.

Against this backdrop, the 'branded gentry' can no longer rely on 'lazy loyalty'. They're losing their advantage as barriers to entry come down: access to finance is more readily available to challengers; new entrants can have a big reach without big costs; and there are many new ways to shop, offering plenty of options for cost-conscious consumers.

While there are a number of challenges for established brands to acknowledge and overcome, we think talk of the 'death of brands' is greatly exaggerated. Some will undoubtedly fall by the wayside, as they always do, but others are already successfully adapting and more are likely to follow suit. Those in attractive growth areas with management teams who are forward-thinking and embed agility, innovation and rigorous consumer insight into their businesses should continue to thrive. For investors the key will be to identify the brands that can adapt to this 'brand new world' and to avoid the ones that can't or won't. We continue to keep a close eye on this changing consumer landscape to spot these threats and opportunities.

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