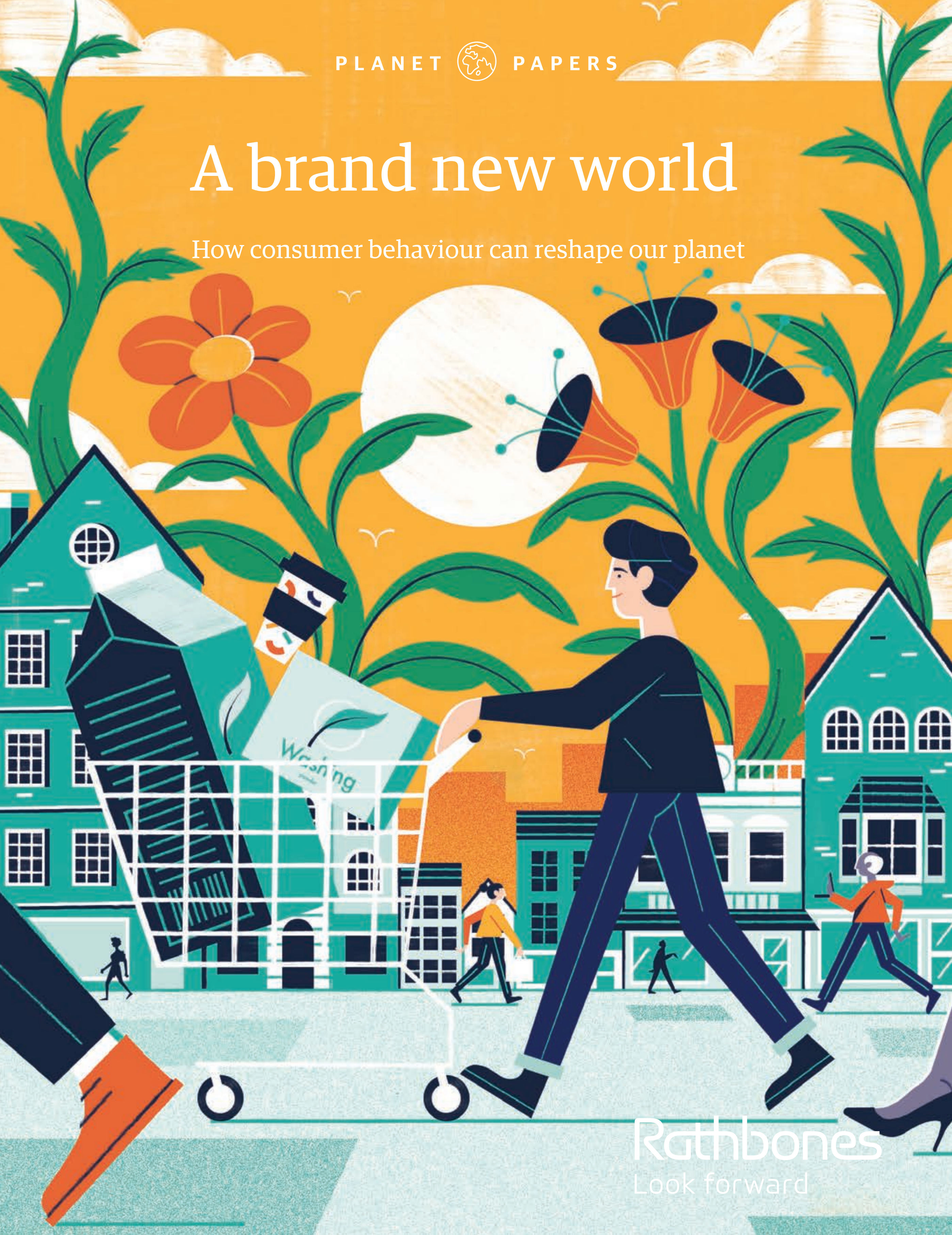
PLANET PAPERS

A brand new world

How consumer behaviour can reshape our planet



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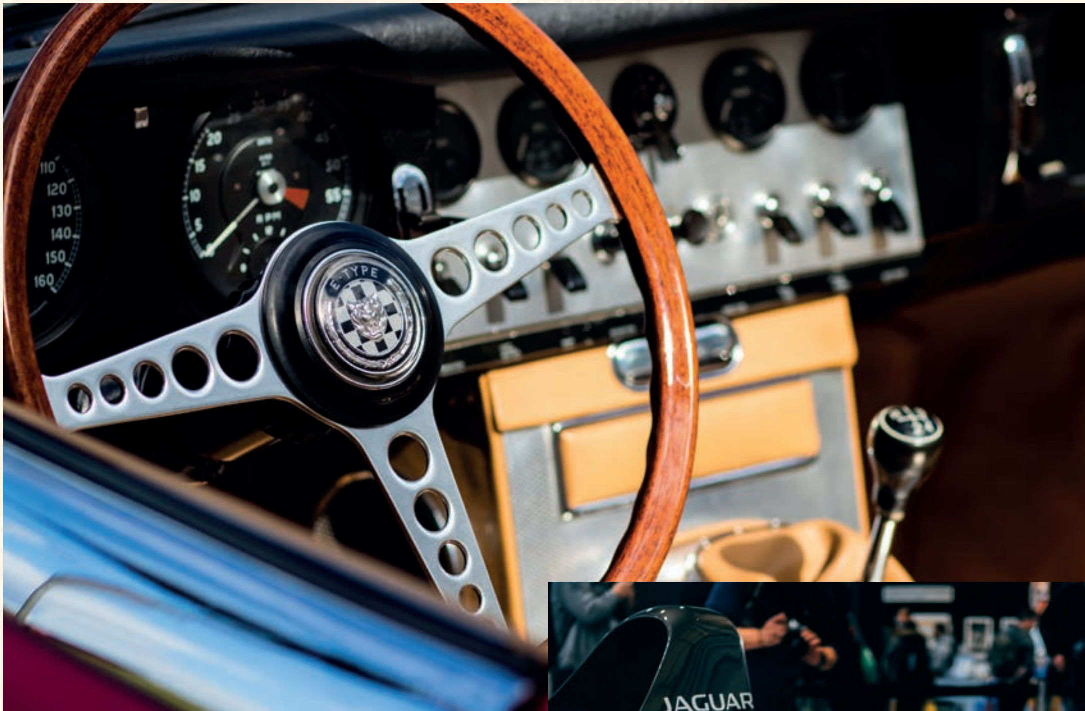
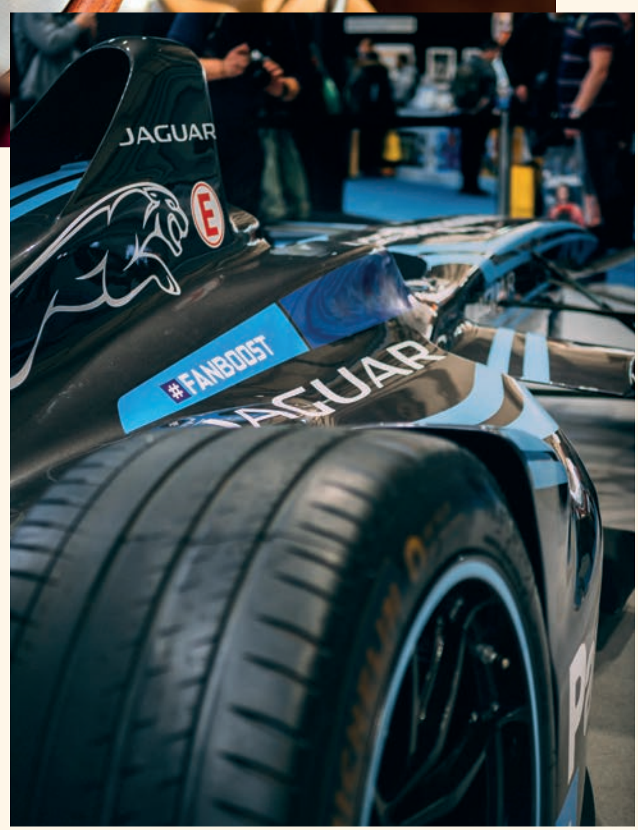
Look forward





Engaging with customers in radically new ways

From Jaguar's iconic petrol E-Type to today's electric Formula E race car

Cover illustration:
Michael Driver, Folio Art

Foreword

Companies are having to innovate and evolve in order to engage with the shifting attitudes – as well as the changing spending habits – of a new generation of consumers. Far from interrupting these trends, the coronavirus pandemic has accelerated them.

This new generation of consumers are more likely to express a strong interest in social engagement, purpose and values than their predecessors, and the disruption that COVID-19 has wrought across the globe seems to have strengthened the demand for a more sustainable approach.

This shift presents both challenges and opportunities for traditional brands as we look ahead to the post-pandemic world.

A mindset of what has been dubbed agile long-termism is needed in this 'brand' new world. For consumer brands that means remaining resolutely focused on long-term vision and values, while being more tactical and nimble in response to the changing patterns of consumer behaviour.

While there has been some evidence that these emerging consumers may be less loyal to established brands than older generations, we are confident that many of today's major consumer goods companies – which form such an important part of many investment portfolios – can survive and even thrive by recognising and adapting to the rapidly changing consumer landscape. Indeed, since the COVID crisis struck, incumbent brands in general appear to be gaining ground.

As our head of stewardship Matt Crossman pointed out in the first of our *Planet Papers: A responsible recovery,* the pandemic has highlighted the weaknesses of the old way of doing things. Yet it could also be a catalyst for accelerating the move towards a more responsible capitalism, and an opportunity for companies to direct their investment towards building a more sustainable future for their customers and themselves.

S Tumkur

Sanjiv Tumkur
Head of Equity Research

Why companies should care about the planet

Expectations from the dotcom boom 20 years ago have come to fruition in disrupted business models and a reshaped society, impacts that are being accelerated by the current health crisis.

New generations 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. This may be especially true when it comes to perceptions of how companies are treating our planet.

Companies selling branded goods are under threat in this brave new world of mobile internet, where information on product quality and supply chains can be easily conveyed through user reviews. In a separate section below, we discuss some of the ways that blockchain technology is enabling this development. What can the incumbents 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, and demonstrate genuine commitment to sustainable business practices. Brand values must be clear and authentic, while companies need to understand what consumers want and how their tastes are evolving. It will mean engaging with customers in radically new ways.

Brand champions

The threat is especially acute for companies with long-established brands, painstakingly built and maintained over decades, which 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.

The emerging new generation of consumers 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' 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 movements begun through social media that have galvanised public opinion in order to effect fundamental social change, Black Lives Matter being a striking example.

Brand loyalty

There is much talk, and some evidence, that the new generation of consumers are less loyal to brands than their parents and grandparents. This shift may be due to 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.

There is also growing mistrust of institutions, government and the media, as measured by the Edelman Trust Barometer. The 2020 survey shows that a majority of the population don't trust the institutions it tracks. This makes younger generations less willing to defer to the judgement and brands of their elders and the companies whose television adverts they remember growing up with.

In Edelman's latest survey, more than half of the respondents globally believe that capitalism in its current form is doing more harm than good. This makes consumers more likely to mistrust big business and prefer to support smaller businesses or brands – or at least those that seem smaller and more authentic. Consumers are increasingly willing to support, and often pay a premium for, brands which have a clear sustainable ethos and are seeking to help solve environmental or social problems. Younger generations in particular 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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Branding through the ages

The concept of branding has a long history. The word brand comes from the Old Norse word 'brandr' meaning to burn, and from the practice of branding cattle (and slaves) to symbolise ownership, which is 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.

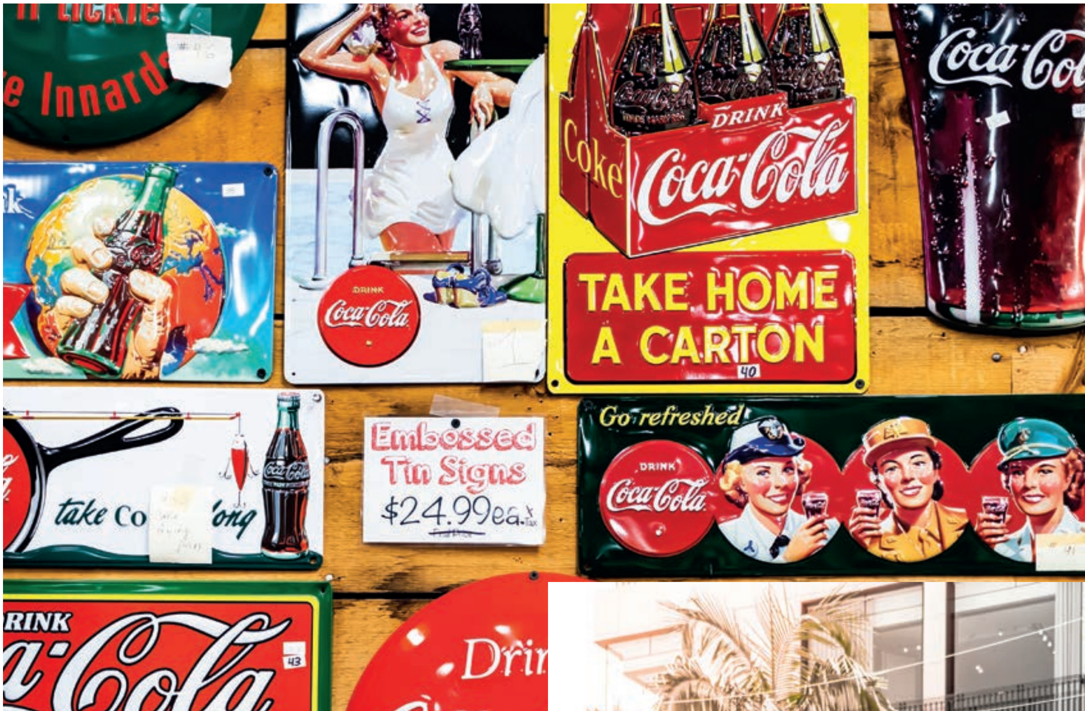
This practice continued into the medieval era with hallmarks and trademarks, such as the lion mark that Löwenbräu beer claims to have used since 1383. The Industrial Revolution led to an unprecedented period of urbanisation and the development of the mass production of goods. Large manufacturers needed 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. They 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 19th 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. In a world of increasing environmental and social concerns, brands are increasingly seeking to address consumers' anxiety about these issues.

Burberry is an example of a brand that has remained relevant through a long history. First established in 1856, the luxury fashion brand is applying the time-tested principles of provenance, quality, and trustworthiness to the values and desires of today's consumers with its commitment to sustainability. In particular, its "Responsibility Strategy" seeks to reduce its environmental footprint and enable social progress.

See the "Blockchain coming into fashion" section on page 13 to read about how Burberry and others are using this emerging technology to promote sustainable business practices.



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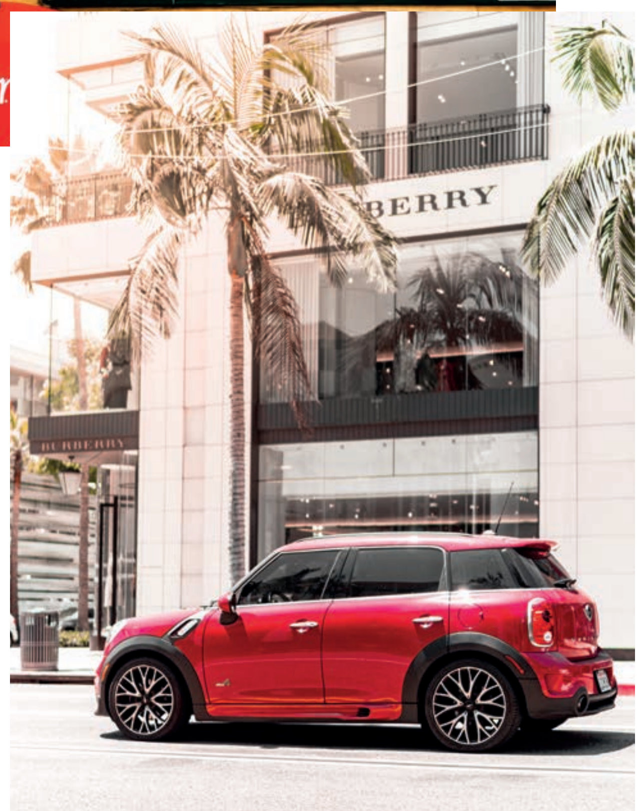

Challenges to established brands

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, encouraging the market to value them highly because of the reliable growth they offered.

However, COVID aside, 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.

Relevant and sustainable

Some are meeting the challenge head on, and seem to be benefiting from an approach that looks beyond short-term profits to longer-term relevance and sustainability. One example is the multinational consumer goods company Unilever. As head of investor relations Richard Williams says, with some 2.5 billion people using Unilever's products around the world every day, "We have a duty to be responsible". Unilever's own results show that its sustainable brands are growing faster and have better profit margins than the average for all of its products.

A decade ago, Unilever set out to decouple its growth from its environmental impact while increasing its positive social impact through the launch of its Sustainable Living Plan. The plan's main goals, supported by time-bound measurable targets, are to improve health and wellbeing, reduce environmental impact and enhance livelihoods. These targets include halving its products' carbon footprint by 2030 and sustainably sourcing 100% of agricultural commodities by the end of 2020. Meeting the targets is also part of the company's incentive plan for executives and senior management.

Although the need for personal protective equipment to restrain the spread of COVID-19 has threatened to stall or even reverse progress on reducing waste from single-use plastics, strides are being made in reducing waste at the company level. For example, Unilever plans for all of

its plastic packaging to be reusable, recyclable or compostable by 2025. In May 2019, global food and drinks giant Nestlé reported an 8% reduction in its food waste since 2016. Budget fashion retailer H&M offers to reuse, recycle or repurpose any used clothes brought to any of its stores, with nothing going to landfill. In July, its UK rival Primark followed suit with a similar nationwide in-store recycling scheme, encouraging customers to donate "pre-loved" clothes from any brand to be "re-loved".

Adapt to survive

As Rathbone Greenbank Investments' deputy head of ethical research Kate Elliot notes in her 2019 article *Reducing waste, protecting value*, the way companies deal with the issue of plastics will also determine whether they benefit or get left behind by future changes in regulation and consumer preferences.

Fast fashion was an emerging threat to the more traditional clothing brands. Yet more recently this industry has itself had to adapt to consumer concerns about the obvious waste of trying to keep up with the latest trends. Inditex, the owner of clothing retailer Zara, has demonstrated particular success, enabling it to offer much faster-moving product lines. It can quickly reorder those that are most popular, or design new products which data insights tell them are likely to be popular. Zara has also responded to growing demand for more sustainable products, pledging in 2019 to use only organic, sustainable or recycled cotton, linen and polyester.

In our previous *Planet Paper: Changing the planet* we noted that investors are increasingly looking for companies that take their responsibilities to the planet, their staff, customers and neighbours seriously, and are run transparently and well. It's fair to say consumers are also looking for brands that exhibit these qualities. This would help explain why over the long term, more sustainable can also mean more profitable.

No company can rest on its laurels, or a good environmental, social and governance (ESG) rating. This was made abundantly clear in July, when it emerged that workers in Leicester linked with making clothes for the highly ESG-rated online fashion giant Boohoo were being paid just £3.50 an hour – nearly 60% less than the minimum wage. Social media lit up with shoppers promising to boycott the company, and its shares lost nearly half their value in the space of a week.

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Interbrand's Best Global Brands for 2020

"Sustainability has to become a radical priority for organizations and brands… The real question may be, are you going to lead from the future or manage your decline?"
Charles Trevail, Global CEO of Interbrand

01 Apple +38% $322,999m	**02 Amazon** +60% $200,667m	**03 Microsoft** +53% $166,001m	**04 Google** -1% $165,444m	**05 Samsung** +2% $62,289m
06 Coca-Cola -10% $56,894m	**07 Toyota** -8% $51,595m	**08 Mercedes-Benz** -3% $29,268m	**09 McDonald's** -6% $42,816m	**10 Disney** -8% $40,773m
11 BMW -4% $39,756m	**12 Intel** -8% $36,971m	**13 Facebook** -12% $35,178m	**14 IBM** -14% $34,885m	**15 Nike** +6% $34,388m
16 Cisco -4% $34,119m	**17 Louis Vuitton** -2% $31,720m	**18 SAP** +12% $28,011m	**19 Instagram** New $26,060m	**20 Honda** -11% $21,694m
21 Chanel -4% $21,203m	**22 J.P. Morgan** +6% $20,220m	**23 American Express** -10% $19,458m	**24 UPS** +6% $19,161m	**25 IKEA** +3% $18,870m
26 Pepsi -9% $18,603m	**27 Adobe** +41% $18,206m	**28 Hermès** 0% $17,961m	**29 GE** -30% $17,961m	**30 YouTube** New $17,328m

Source: Interbrand's Best Global Brands 2020 report; figures represent Interbrand's measurement of brand growth (%) and value ($ millions)

How should brands respond?

Faced with this radically evolving landscape, are there strategies the major branded consumer goods companies 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 investors in companies with major brands will need to be vigilant, monitor progress and continuously 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. As mentioned above, the growing market share of big brands amid the current pandemic suggests many of them are doing this.

First and foremost, brand owners need to acknowledge the fundamental changes in the way that consumers react to them.

In the past, it has been too easy to dismiss younger consumers' behaviour as quirky and faddish. However, as these fads persist and are increasingly adopted by older generations — particularly in areas like the desire for 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, which will need to incorporate sustainability, 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 their 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 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 consultancy Interbrand, for example, incorporates the role of the brand in purchase decisions along with competitive strengths and financial performance in its ranking of the top 100 brands.

Younger generations 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. And the success of brands with a sustainable ethos to date – including those we mentioned and many others – suggest this is resonating strongly with today's consumers.

The days of brands being able to rely on winning a customer and then keeping them for life ("lazy loyalty") are over because 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 survival.

What is absolutely key for brands seeking to engage with the next generation of consumers is that they must be authentic in what they stand for.

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 – responsible consumption ranking ever higher among these. 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 characteristics justify.

Blockchain coming into fashion

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 been signalled by brand names in the past. 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 counterargument to this is that blockchain and the data it encapsulates can actually strengthen brands by reinforcing their existing quality credentials.

Established brands also have the resources to maximise the potential of blockchain. A recent example of this is Burberry's collaboration with IBM to develop a prototype cloud and blockchain tool that aims to trace materials and products across the fashion supply chain. This includes information about the environmental and human impact at each step.

The complex and multinational nature of supply chains makes it difficult for businesses to track materials and products and human rights and environmental risks associated with them, and to give confidence to consumers (the Boohoo example being a case in point). Blockchain may prove to be a crucial technology to enable this.

Another example from the fashion industry is a collaboration between the World Wildlife Fund and Google to create an environmental data platform for the fashion industry, tracking the impact of business decisions on emissions and other forms of pollution. The platform will further develop a cloud-based tool first piloted by Stella McCartney.

Blockchain is still relatively new and rapidly evolving, so it remains to be seen exactly how it will affect brands – old and new. However, in this brand new world where consumers want assurances that the products and services they buy are sustainable, and brands want to maintain their appeal, blockchain could play a valuable role.

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?*

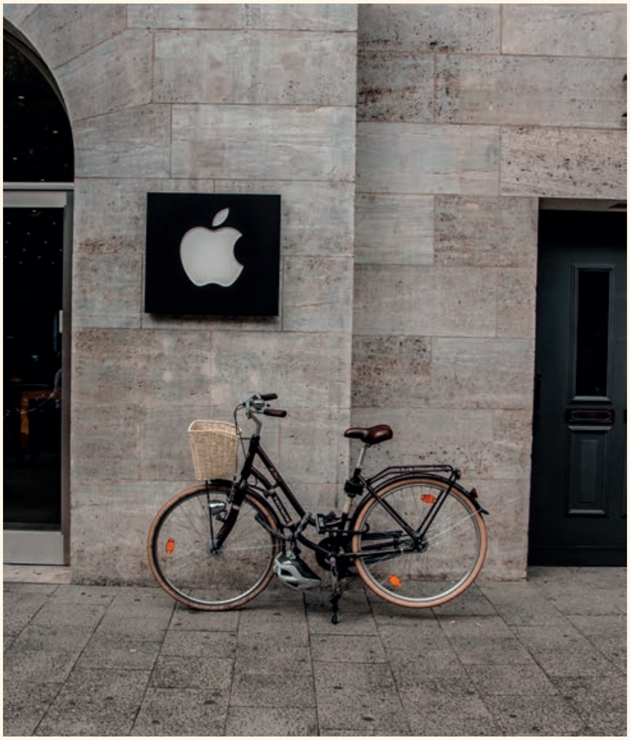
What is absolutely key for brands seeking to engage with the next generation of consumers is that they must be authentic in what they stand for, and must have the values they seek to promote enshrined in their corporate culture. In terms of the story they are telling their customers, companies must walk 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, as with the recent example of Boohoo.

A new brand of vigilance

We've seen that as the next generation grows in importance, their emphasis on values is influencing wider consumer behaviours. 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.

While there are a number of challenges for established brands to acknowledge and overcome, we think any 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.

This publication is an update of a longer research report we published in 2018, also called A brand new world.



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