

The global consumer opportunity

Are Irish organisations ready?

An Economist Intelligence Unit report commissioned by Accenture Ireland



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About this report

The global consumer opportunity: Are Irish organisations ready? is an Economist Intelligence Unit report, sponsored by Accenture Ireland. It examines whether Irish organisations are prepared to take advantage of trends shaping global consumer behaviour. Ronan Lyons was the report author; Jason Sumner was the editor. Trevor McFarlane also contributed to the findings in the report.

To support this study, the Economist Intelligence Unit conducted a survey of 151 executives during April and May 2012. All respondents were based in Ireland. They were split roughly equally between large firms (51% from companies with over US\$500m in annual global revenue) and small firms (49% from companies with annual global revenue below US\$500m). They held senior positions in their organisations (65% C-level and 35% heads of departments and business units). Most sectors were represented, with the highest shares from financial services (19%), manufacturing (13%), IT and technology (11%) and consumer goods (10%).

To complement the survey findings, the Economist Intelligence Unit also conducted wide-ranging desk research and interviews with several executives and experts. Our thanks are due to the following for their time and insights:

- Andrew Algeo, commercial director, Paddy Power
- Dermot Breen, director of corporate affairs, Tesco Ireland
- Jonathan Byrne, director, consumer banking, Bank of Ireland
- Damien McLoughlin, professor of marketing, UCD, Smurfit School
- Barry O'Leary, chief executive, IDA Ireland
- Gerard O'Neill, chairman, Amárach Research
- Robert Watt, head, Department of Public Expenditure and Reform, Ireland



Executive summary and key findings

The profile of the global consumer in both developed and developing markets will undergo profound changes in the next decade and beyond. The Economist Intelligence Unit has distilled these trends into five broad categories—the emerging consumer, the frugal consumer, the connected consumer, the ageing consumer and the caring consumer. All of these trends will offer adept, forward-thinking organisations around the world the chance for expansion by establishing new channels and markets for existing products and services, and by developing entirely new offerings.

All of the trends carry risks, but there are significant potential opportunities. By 2030 two-thirds of the world's "consumer class" will be in the emerging markets of Asia, according to the OECD. Connected consumers also represent huge untapped potential—nearly 60% of Internet users in the EU27 bought goods online in 2010, compared with 32% two years earlier. Such a massive change in just two years shows that consumers are flooding into online channels. Alongside this trend, the share of online time spent using social media sites such as Facebook is growing. Half of all Irish adults use social media currently, up from one-quarter just two years ago, according to Amárach Research, an Ireland-based market research firm. In addition to the opportunities provided by the connected

consumer trend, even extended frugality is a chance to build loyalty and win customers from rivals through a renewed focus on value.

This report assesses whether Irish organisations are prepared to take advantage of the opportunities that these trends represent. How do they rate the significance of the trends to their future prosperity? How are they planning to respond through investments, new business models and strategies? In what areas are Irish organisations well placed to react, and where do they fall short? The report draws on a survey of 151 Ireland-based executives and in-depth interviews with executives and experts on consumer trends. The key findings from the research are as follows.

Global consumer trends offer significant opportunities for Irish organisations. On the evidence of this survey, Irish firms have the confidence that they can and will adapt to global consumer trends. In some areas, such as responding to the demands of the frugal consumer, it appears that Irish firms are on the right track after four years of post-crisis experimentation. Many are now pursuing value-focused innovation and unique partnerships, rather than simply cutting prices. There are Irish companies which are demonstrating the results that can be achieved with the right

mix of strategy, investment and execution. In other areas, however, such as targeting emerging markets or connected consumers, more investment and a change in strategy may be required.

Irish organisations express confidence, but there is more work to be done to take maximum advantage of global consumer trends. Irish executives in the survey believe their organisations are well placed to respond effectively to the changing global consumer. Over 40% believe their organisations are resilient – judging them to be highly effective at strategies including moving into new geographies, acquisitions, partnerships and investing in new systems. Their confidence extends to job creation, with respondents estimating they will generate a 10% increase in employment owing to changing consumer trends over the next five years. Other findings from the survey and interviews with experts suggest, however, that their readiness is more nuanced. For example, less than half of respondents say that decisions about strategically responding to consumer trends are being taken at board level.

Almost half of Irish executives say the emerging consumer is the most important future trend for their organisations, and Irish firms need to build on strengths in B2B sectors rather than targeting emerging-market consumers directly. The survey shows a desire to exploit consumer opportunities in countries such as China and India. Yet traditionally Ireland is not well set up to sell directly to consumers in Asia, and Irish companies probably do not have the resources or scale to attempt the shift. This is not necessarily a drawback, because Irish firms are strong in business-to-business (B2B) sectors such as food products, engineering and business services. They have the potential to feed the supply chain that reaches hundreds of millions of end-consumers in emerging markets. They also see operational challenges, with 43% of Irish organisations surveyed viewing local competition and cultural barriers as their biggest obstacles

to doing more business in emerging markets. Having enough personnel is a distant concern expressed by just 14%, despite experts saying that having senior personnel on the ground is a primary factor for long-term success.

Expected investments in online channels may be too low considering the size of the global opportunity, and most Irish organisations are not fully engaging with consumers through social media. Irish executives expect their organisations to receive an increasing percentage of revenue from digital channels over the next five years. However, although investments in digital channels are expected to rise, the majority will make only small or moderate increases. In the sample as a whole, about one-fifth of respondents say their organisations will boost investment in this area by up to 10%, with only about one-third planning to invest more than 50% over current levels over the next five years. Three organisations interviewed for the report, Tesco, Paddy Power and Bank of Ireland, demonstrate the potential returns from substantial investments in digital channels. Each also recognises that giving customers a choice of channels is key. Regarding social media, the survey shows that the bulk of organisations appear to be mainly using the medium to advertise or broadcast rather than engage.

Irish organisations understand the new frugality and are taking steps to research the needs of cost-conscious consumers and focus on value. Many organisations have cut prices in response to more cost-conscious consumers, but 75% of organisations in the survey aim to compete on quality. More than three-quarters are also developing new products and services for cost-conscious consumers or are marketing existing products and services in new ways and collecting data and information about customers to better understand their needs. Experts say that the response of Irish organisations has evolved over the last five years, with many cutting prices at the outset of the downturn. After finding that this reduced margins and the ability

to invest in innovation or marketing, companies are now looking at alternative ways to deliver value to the customer.

Most organisations are attempting to integrate ageing and caring consumer trends into their strategy or investment plans. Although these trends are seen as number one priorities by fewer executives, almost 60% of survey respondents say their overall corporate strategy will take the ageing consumer into account over the next five years. Regarding the caring consumer, although experts and executives interviewed for this report believe the effect of this trend has been somewhat muted by the rise of the frugal consumer, respondents appear to believe that investments are required even in austere times. According to over three-quarters of respondents, investment in corporate social responsibility will increase. ■

Introduction

Fully prepared or overconfident?

The new global consumer

In Western economies the financial crisis has had a dramatic dampening effect on consumer demand, and even when confidence begins to grow again, the psychological hangover is likely to last much longer. In the midst of this new frugality, however, the consumer is becoming more empowered through online purchasing, browsing and interacting with favourite brands. Increasingly this interaction will happen at any time and anywhere through the proliferation of mobile, smart devices. Frugal, connected

consumers are also caring consumers, and their choices will continue to be influenced to some degree by their impact on the environment. In the developing world, where overall economic growth remains relatively strong, hundreds of millions of new consumers are poised to enter the marketplace looking for previously unaffordable goods and services. They too will take part in the digital revolution, often leapfrogging fixed lines in favour of mobile connections and smartphones. In addition, in the next 20 to 30 years in most regions there will be a higher percentage of customers aged over 65, with important consequences for the way products and services are developed and marketed.

Global opportunities: A summary of the five types of consumer

The Economist Intelligence Unit has distilled global consumer trends into the following five broad categories: emerging, frugal, connected, ageing and caring. When asked to prioritise their importance, respondents said that growing disposable incomes in emerging markets such as China and India are most significant for their business, followed by the frugal consumer and the connected consumer. The ageing consumer is a top priority for only about one in ten respondents, with only 3% prioritising the caring consumer (see Chart 1).

The emerging consumer

In 2013 emerging-market economies will, for the first time in the modern era, make up more than half the world economy.¹ According to the OECD, Asia accounts for 28% of the world's "consumer class" today (defined as having a per-head income of US\$10 to US\$100 per day in purchasing power parity terms), and by 2020 that share will double. By 2030 two-thirds of the world's consumer class will be in Asia. This group in Asia today accounts

for about 23% of global consumer spending, and the OECD estimates that this could double by 2020.

The frugal consumer

Much of the developed world is emerging from—or is indeed still in—a balance-sheet recession, with high levels of household and government debt. Thus, growth in consumer expenditure among advanced economies will be weak over coming years. In Ireland, private consumer expenditure is expected to fall for six years straight, from 2008 until 2014.² According to the Economist Intelligence Unit, real personal incomes are expected to drop a further 1% in 2013, before flattening out to less than 1% growth until 2016.

The connected consumer

The world's commerce continues to move online, and much of these transactions are increasingly taking place over mobile devices. JP Morgan estimates that in 2012

¹ Figures based on GDP in terms of purchasing power parity, IMF World Economic Outlook, April 2012.

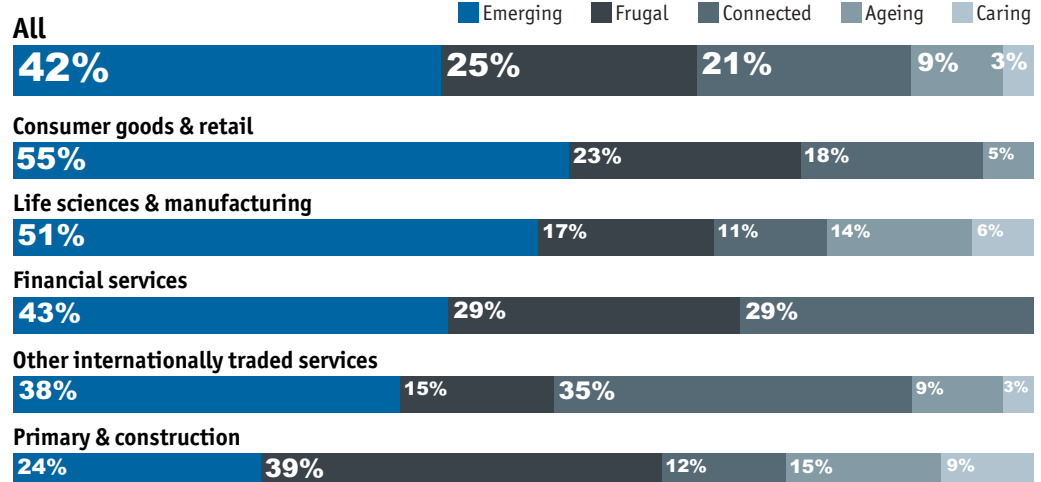
² Based on CSO National Income Accounts and ESRI Quarterly Economic Commentary, Q1 2012.

Chart 1



Which of the following consumer trends is likely to be most important for your organisation to address?

(% respondents; results by whole sample and by sector)



global e-commerce revenue, at US\$963bn, will be two-thirds higher than in 2010.³ In Ireland, 63% of residents were Internet users in 2010, according to Eurostat. Less than five years after the launch of the first iPhone, smartphones now make up over half the European mobile-phone market and almost two-thirds of the North American market.⁴ In Ireland, 37% of mobile phones were smartphones in 2011, according to Amárach Research. Social networks are also revolutionising the way in which consumers interact with customers, and penetration in Ireland is particularly high. Forty-five percent of Irish consumers are on Facebook, 10% higher than the EU average,⁵ and globally Ireland is number two in terms of LinkedIn penetration.⁶ In total, 50% of Irish adults use social networks currently, a figure that has doubled in the past two years, according to Amárach.

The ageing consumer

According to the World Health Organisation (WHO), in the half-century to 2050 the world's over-60 population will more than triple from 600m to 2bn, or nearly one in four people.⁷ In Ireland, the number of people aged 65 and over as a ratio of the labour force (those between 15 and 64) was 17% in 2010, and is expected to rise to 40% by 2050, according to Eurostat. Greater

life expectancy means there will be a powerful new group of consumers with their own needs and preferences. In a consumer market that is budget-conscious overall, the importance of the so-called grey euro – free from mortgage repayments and dependent children – will be vast, with an impact across sectors.

The caring consumer

From Fairtrade labels and carbon miles to socially responsible investment, consumers are ever more aware of the power behind their expenditure. Given the tumultuous last five years for the world economy, it would be easy to miss the changes that have been occurring in the attitude of the caring consumer. The Fairtrade label grew by 40% a year in the first decade of the 21st century, while socially responsible investing (SRI) now accounts for US\$2.5trn in the US—or about one in every ten dollars—and for €1.6trn in Europe.⁸ A 2009 survey of Irish consumers by Ipsos and Business in the Community Ireland, a non-profit business network, showed that corporate social responsibility qualities such as “respect for human rights” and “environmental practices and impact” were more important to consumers when forming judgments about companies than two years previously.

³ http://www.catalog-biz.com/articles_details.asp?DocId=3210

⁴ Source: <http://thenextweb.com>

⁵ Source: http://blog.comscore.com/2010/09/linkedin_crossing_borders.html

⁶ Source: <http://www.internetworldstats.com/europa.htm>

⁷ Source: <http://www.who.int/features/qa/42/en/index.html>

⁸ Source: <http://www-935.ibm.com/services/us/gbs/bus/pdf/gbw03024-usen-00-megatrends.pdf>

Expressing confidence

The executives in the survey are confident that their organisations are prepared to target the new types of consumer. Almost half of those surveyed believe their organisation is “very prepared” to respond effectively to the rise of the emerging-market consumer over the next five years (see Chart 2). Almost 40% say the same about the frugal consumer. By comparison, confidence drops slightly for the other three categories in the research, but overall a large majority believes their organisations are either somewhat or very prepared. When asked to rate their readiness compared with rivals, respondents tell a similar story. Very few executives believe their organisations are less prepared than their competitors.

Signalling self-assurance: Response extends to investment in systems and jobs

This self-assurance also extends to respondents’ view of business strategies such as restructuring,

investment and job creation. Almost all (97%) of respondents believe that their organisations are highly or somewhat effective at investing in new systems, distribution channels, supply chains and data management to deal with the changing consumer. Almost half of those surveyed believe their organisations are “highly effective” at moving into new geographies, sectors or targeting different age groups. Fewer, however, are confident when it comes to acquisitions, unique partnerships and new lines of business, or conducting market research to anticipate consumer trends (see Chart 3).

Almost all respondents expect employment to increase over the next five years as their business expands to cater to new types of consumers (see Chart 4). The 151 organisations represented in the survey are responsible for an estimated range of 65,000 to 133,000 jobs in Ireland. Their expectations for job creation over the next five years as a result of expansion in response to consumer trends amount to an approximate 10%

Chart 2



How prepared do you feel your organisation is to respond effectively to each of the following consumer trends over the next five years?

(% respondents)

● Very prepared ● Somewhat prepared ● Neither prepared nor unprepared ● Somewhat unprepared ● Very unprepared

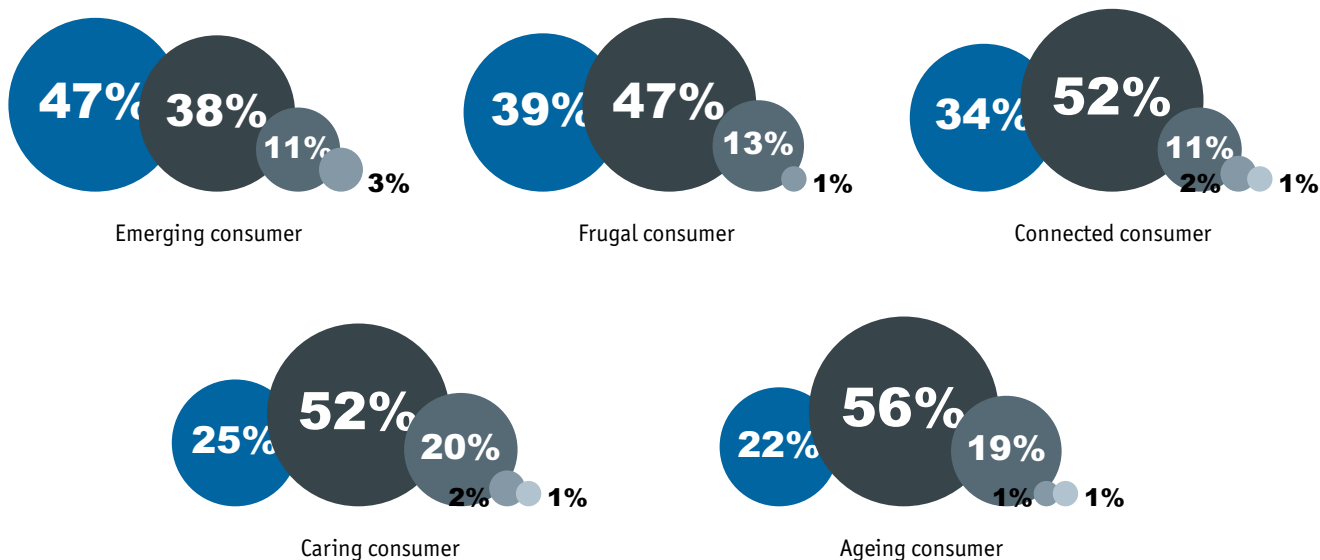


Chart 3

Q In general, how effective is your company currently at managing the following aspects of dealing with changing consumer trends?
(% respondents)

● Highly effective ● Somewhat effective ● Not at all effective

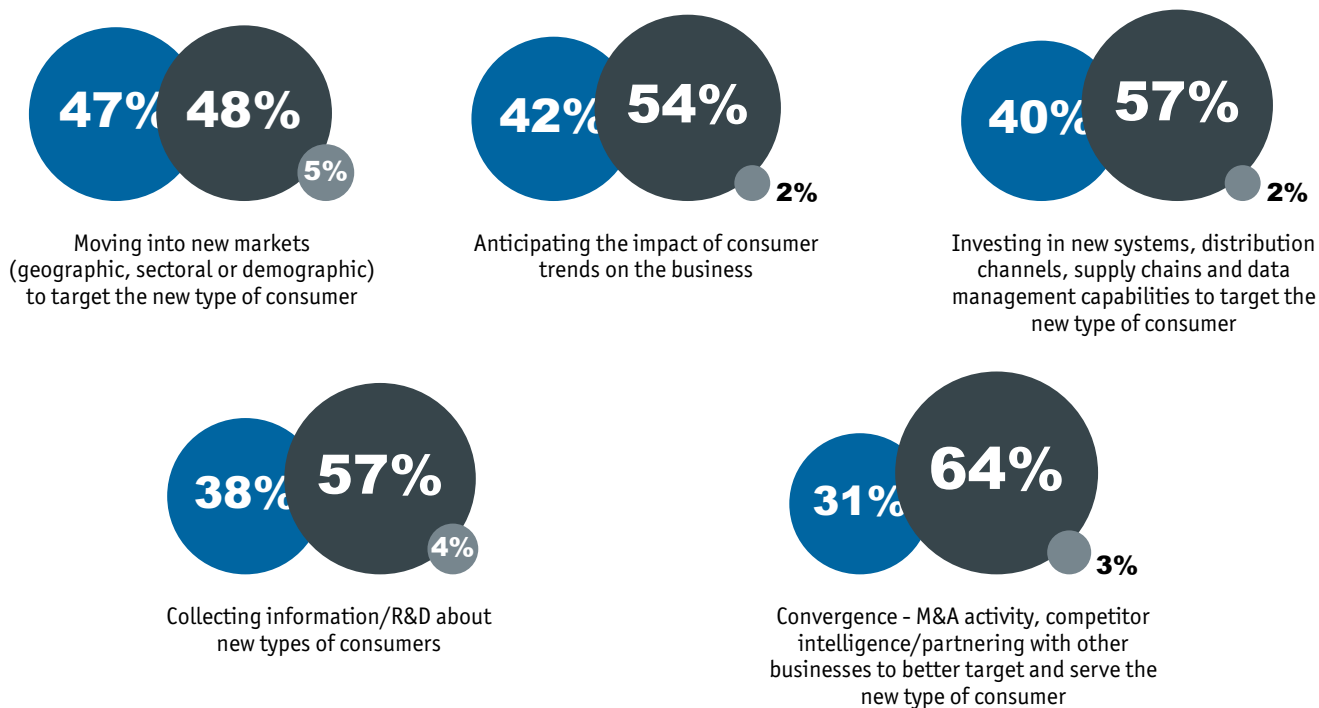
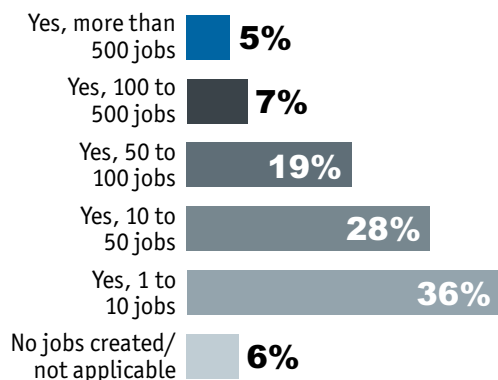


Chart 4

Q Do you expect that your organisation is likely to create jobs through business expansion in order to meet demand from new types of consumers during the next five years?
(% respondents)



increase over current figures, which would lead to the creation of between 6,500 and 13,000 new jobs. Companies such as the bookmaker Paddy Power reveal the potential for significant numbers in Ireland, especially to support online offerings (see “The connected consumer” section). Although these figures are estimates based on an opinion survey and not a rigorous economic forecast, they represent a significant vote of confidence in respondents’ own ability to react successfully.

Beyond the self-assessment

In general, the survey respondents’ self-assessment paints the picture of nimble, opportunistic organisations fully ready to address the benefits of the new consumer. How accurate is this analysis? There is no doubt that many

Ireland-based organisations are taking the right steps to respond to the trends outlined in this report. Tesco has been expanding significantly into non-food areas, both in-store and online, and is moving into non-traditional sectors such as insurance and banking. Paddy Power has made use of strategic partnerships and, in one case, acquisition (acquiring Bulgarian games developer Cayetano in 2011) in order to expand its digital offering. Still, the survey and interviews reveal specific areas where Irish organisations as a

whole are perhaps less prepared than they could be. An example is the level at which consumer issues in general are being considered. According to less than half of respondents, their boards of directors or executive management teams are primarily responsible for reacting to changing consumer trends. Instead, most activity is taking place in sales, marketing and customer services areas.

Consumer trends: The public-sector response

For the public sector, although most citizens are keen to be “frugal taxpayers”—receiving ever greater value for the money they contribute to the state—there is no such thing as a frugal consumer, says Robert Watt, head of Ireland’s Department of Public Expenditure and Reform. And if anything, the needs of public-sector consumers have grown in recent years. This is where the connected consumer comes in. Technology, both

in citizen-facing initiatives and back-office improvements, is key to helping the public sector deliver services more efficiently. For the public sector, the ageing population will also have big implications, according to Mr Watt, and the public sector will need to continue exploring more effective models for delivering age-related services.

1

The emerging consumer: Building on B2B strengths

“

It would be insane for Irish firms not to think about participating in the Chinese economy, but they need to go about it in a different way.

”

*Damien McLoughlin,
professor of
marketing, UCD
Smurfit School*

Destination India and China

Among the trends explored in this report, respondents see the emerging consumer as their biggest priority. India and China, each home to more than 1bn consumers, are far and away the most important markets (see Chart 5). However, if Ireland's exporters were to target the emerging consumer directly, this would require a dramatic shift in the country's export patterns. "Ireland currently acts as a gateway to the Europe, Middle East and Africa (EMEA) region rather than the east," says Barry O'Leary, chief executive of IDA Ireland, the inward investment agency. Although Ireland's exports to emerging markets have grown substantially over the last 15 years, they have been driven by business-to-business (B2B) exports, such as chemicals, pharmaceuticals or medical devices, not goods for consumers. Currently, only 12% of Ireland's total exports to its top six emerging markets are consumer goods. For example, Irish exports to China have been a growth story, rising from US\$1.1bn in 2005 to US\$2.2bn in 2010, but the vast bulk is intermediate goods, a similar pattern to that seen in other emerging economies.

Road to success: Focus on B2B opportunities

Irish companies would be wise to build on B2B strengths rather than attempting to switch to

targeting consumers in China directly, according to Damien McLoughlin, professor of marketing at UCD's Smurfit School. "It would be insane for Irish firms not to think about participating in the Chinese economy, but they need to go about it in a different way," he says. He points out that the largest consumer firms in the world have gone to China and not achieved the market leadership they anticipated because they did not differentiate their products in the local market. The companies that have been successful have spent considerable resources ensuring that their offerings are sufficiently localised. "KFC is the most successful consumer brand in China, but a Westerner wouldn't recognise the menu," Professor McLoughlin says. Irish firms generally do not have the scale or resources to compete directly in consumer markets and should think in terms of supplying to other Chinese or Western brands; a model that would lend itself to a range of sectors in Ireland, including food, software, consulting, engineering or medical devices.

Committing the right personnel

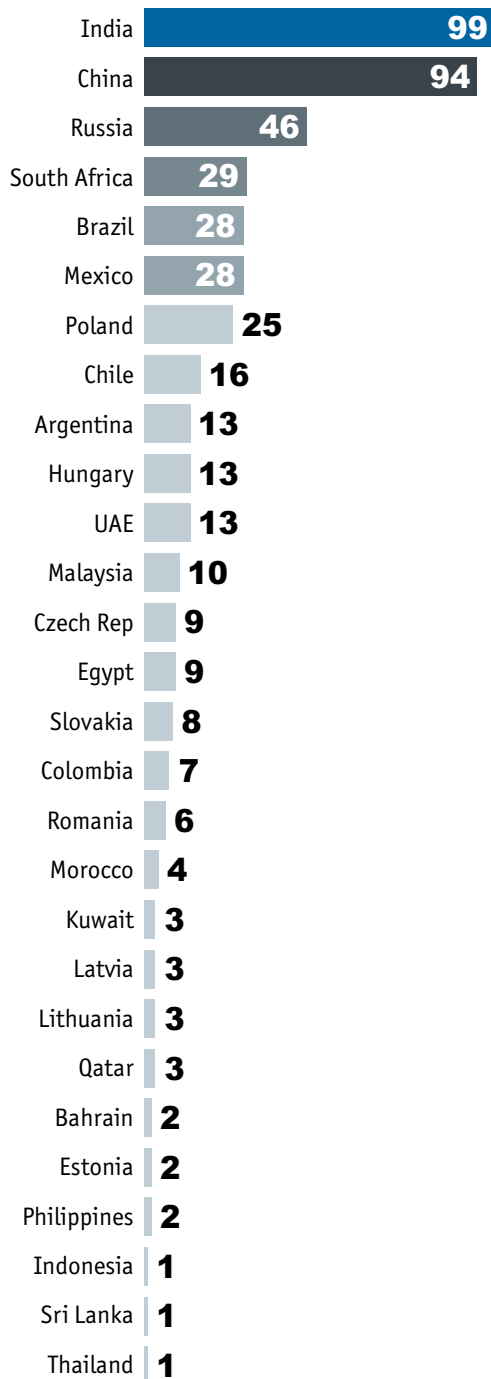
Although respondents see potential in emerging markets, they see challenges as well, including competition from local business and cultural barriers. Having enough personnel is regarded as much less of an issue, with only 14% of respondents listing it as the most important

Chart 5



Where will your most important emerging market consumers be in five years?

(Points awarded)*



*Note: The survey asked respondents to identify three emerging markets where they expect to be doing business in the next five years. First choices were awarded 3 points; second choices 2 points and third choices 1 point.

challenge. This is despite Professor McLoughlin's opinion that having the right people in place on the ground is the most important success factor: "You have to have serious representation in the country, either a local executive appointed to a position of responsibility or a high-level executive from outside the country. For example, Chinese nationality is not an issue, but seniority is—they must be seen to have authority. Learn the language, buy an apartment, bring the family, read the local newspaper. Be genuine." Once there, the senior executive must hire local people who are not seen as functionaries, but are recognised as playing an important role in the company.

2

The frugal consumer: Here to stay

“

New habits like frugality are here to stay. There is a clear shopping trend towards value products.

”

Dermot Breen, director of corporate affairs, Tesco Ireland

The decade between 2007 and 2017 is likely to be remembered as a period of global economic and financial insecurity, and to survive, organisations across sectors know they must respond. The survey shows that organisations are adapting their offerings to appeal to more frugal consumers. The executives and experts interviewed for this report also believe that after four years of experience with this trend, Irish organisations as a whole are on the right track.

Understanding the cost-conscious consumer

Clearly, price is critical to reach the more cost-conscious, and the survey shows that most organisations have already cut prices or are thinking about doing so in the near future. However, three-quarters of organisations aim to compete on quality, a higher proportion than those who say they will compete on price. Three-quarters are developing new products, services and channels for cost-conscious consumers and marketing existing products and services in new ways (see Chart 6). In addition, three-quarters of survey respondents are already collecting data and information about the needs of cost-conscious consumers to better understand their priorities. The survey results square with how the response of Irish companies has evolved, according to Gerard

O'Neill, chairman of Amárach Research. “The initial response was to perennially reduce prices and make better offers like ‘buy one, get one free’,” Mr O'Neill says. “The problem is that they dug themselves into a hole by reducing their own margins to boost volumes. Then without margin, there were no profits to invest in marketing and innovation.”

This is changing now, according to Mr O'Neill, because companies realise that they neglected the pipeline of next-generation products that will drive future revenue. In austere times, however, they are looking for more cost-effective ways to innovate; collaborating with competitors, for example, or partnering with university researchers. The wide range of companies that Amárach works with have addressed the more cost-conscious consumer in three ways: attempting to invent innovative products for which consumers will still pay a premium (the iPad model); targeting segments less affected by the recession, such as the over-50s, who have been relatively insulated from the downturn, as well as under-25s, who, because they are more likely to be still living at home, have more discretionary income; and using concepts such as differentiated offerings to, for example, introduce a range of food products at different prices in order to allow consumers to trade up and trade down as they wish.

Prioritising value at Tesco and Paddy Power

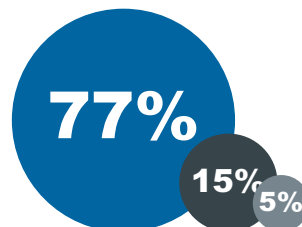
Tesco Ireland responded to the frugal consumer trend by launching a new budget product range across the UK and Ireland under the banner “Everyday Value”. The company has also recognised consumer preferences for more cooking and baking at home, and particularly eating in, and has launched popular “meal deals” to appeal to this growing market. The underlying message of these initiatives prioritises value, with as much emphasis on quality as on low prices, says Dermot Breen, Tesco Ireland’s director of corporate affairs. “New habits like frugality are here to stay,” says Mr Breen. “There is a clear shopping trend towards value products.”

The new frugality became abundantly clear to Paddy Power, when its customers’ average bet size dropped by 35% in three years, from €23.58 in 2008 to €15.26 in 2011. The company recognised that “value was becoming disproportionately important to customers”, according to Andrew Algeo, Paddy Power’s commercial director. In response Paddy Power has expanded a number of its value promotions, including money-back specials, in which the company pays out for select bets, even when the customer has bet the other way. Likewise, “justice payments” for bad refereeing calls have been successful tools to expand the customer base to make up for the reduction in average spend.

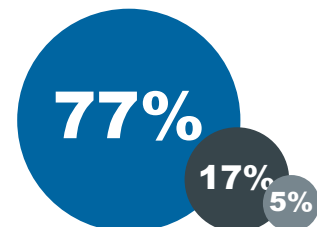
Chart 6

Q Is your organisation currently taking any of the following actions to respond effectively to more cost-conscious consumers, or planning to during the next five years?
(% respondents)

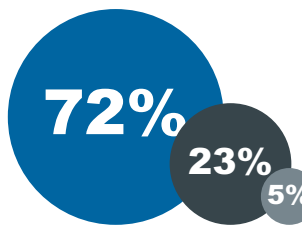
● Currently doing this ● Not currently doing this but planning to in the next five years ● Not currently doing this and no plans to in the next five years



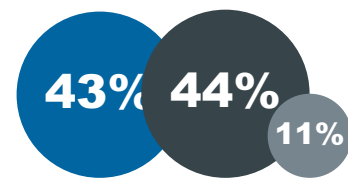
Collecting data and information about needs of cost-conscious consumers to better understand their priorities



Developing new products, services and channels for cost-conscious consumers



Marketing existing products and services in new ways for cost-conscious consumers (eg emphasising value-for-money, instituting loyalty programmes)



Cutting prices of existing products and services

3

The connected consumer: Not fully engaged

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What will differentiate banks is the ability to use all of the various channels to allow customers to interact with them in a way that is adding value for the customer.

”

*Jonathan Byrne,
director of consumer
banking, Bank of
Ireland*

More investment needed?

The survey suggests that digital channels will become more important for Irish organisations over the next five years, and most will boost investment to some degree. In terms of importance, almost 20% of executives in the survey expect their organisations to receive up to half of their revenue through online channels in five years, double the percentage of organisations that do so now (see Chart 7). These respondents are planning to invest more in digital offerings over the next five years than the total sample. However, given the explosive growth of online buying, browsing and interacting through the web, mobile phones, email and social networking channels such as Facebook and Twitter—in Ireland and throughout the world—the survey raises a question-mark over whether Irish organisations, as a whole, are committing enough resources to meet the demand. In the sample as a whole, regarding levels of investment in digital channels to reach customers, about one-fifth of respondents say their organisations will make only small increases (up to 10%). A further 38% say they will make investments of between 10% and 50%, with only about one-third planning to invest more than 50% over current levels.

Offering multiple channels at Tesco and Bank of Ireland

For Tesco Ireland, although online food shopping currently accounts for about 1.5% of its total food sales in Ireland, the figure is growing rapidly, at 25% per year, according to Mr Breen, director of corporate affairs. The amount of non-food items sold online is also expanding. “We are continuously refining the offer,” he says, by adding delivery slots and expanding the number of stores that operate online deliveries. The online service currently covers 84% of Irish customers, and the company is planning to continuously expand this figure over the next few years.

Digital channels are crucial to the Bank of Ireland as well. Jonathan Byrne, its director of consumer banking, sees choice of channel and the development of new channels as a key differentiator. “Being online is a basic requirement for banking,” he says. “What will differentiate banks is the ability to use all of the various channels to allow customers to interact with them in a way that is adding value for the customer.” Earlier this year Bank of Ireland launched a mobile application for use on iPhones and Android, while the bank also operates

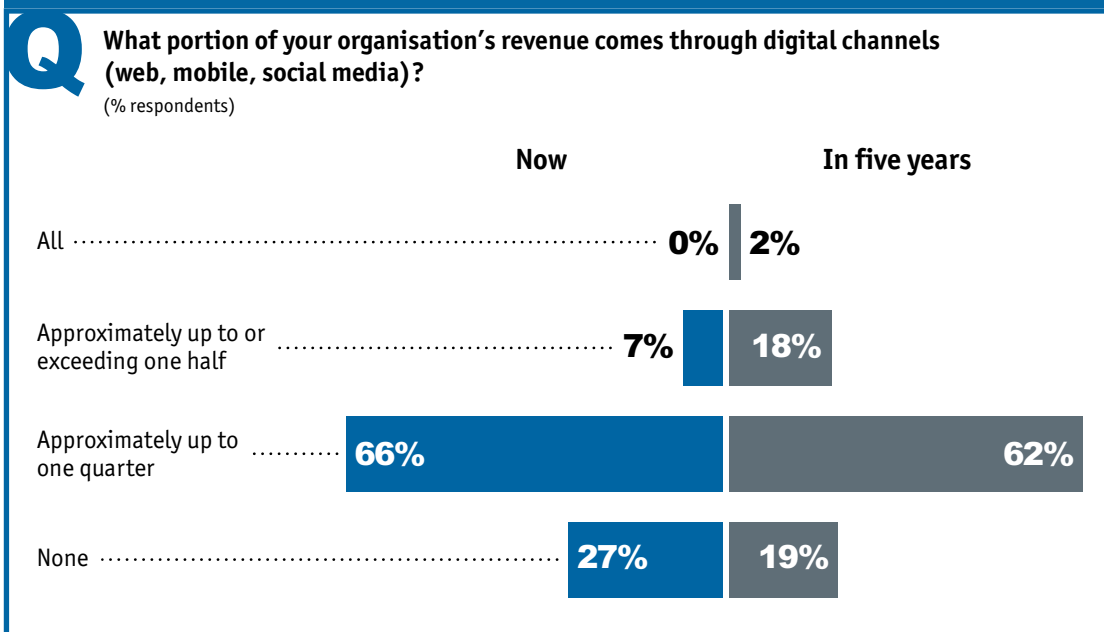
“

Digital channels are absolutely vital for Paddy Power.

”

*Andrew Algeo,
commercial director,
Paddy Power*

Chart 7



270 branches, a phone banking service as well as a “mobile mortgage manager” initiative, in which advisers travel to a location of the customer’s preference.

Power of digital at Paddy Power

Paddy Power provides some perspective on the investments required and the returns that can be expected when the strategy falls into place. “Digital channels are absolutely vital for Paddy Power,” says its commercial director, Mr Algeo. In 2011 some 1.1m customers transacted with Paddy Power through digital channels (online or mobile), up 35% over 2010. The growth in earnings from digital has been just as dramatic. In 2004, 28% of the company’s EBIT (earnings before interest and tax) came from digital channels instead of its betting shops; by 2008 this figure had risen to 57%, and by 2011 Paddy Power received 79% of group EBIT from digital channels. And “digital” is rapidly switching from just “online” to “mobile” – with revenue from smart devices quadrupling from 2010 to 2011.

Paddy Power’s primary investment has been to bring digital expertise in-house, Mr Algeo says. The number of people engaged in e-commerce

activities (customer service, digital marketing, customer security, payments and the technical team) has doubled to 650 people from 2009 to 2011. Of the 60 people either reporting directly to the CEO or reporting to those just below the CEO, three-quarters are either new to Paddy Power or new to their current role. “They bring new ideas and new ways to think about the e-commerce business and the bandwidth to execute the idea,” according to Mr Algeo. These jobs, while based in Dublin, are allowing the organisation to fulfil consumer demand in overseas markets.

Social media: More than a one-way channel

There is little evidence from the survey that most Irish organisations are as yet taking full advantage of both the wealth of channels of communication and the opportunity to connect and engage through social media. Over half of respondents use social media to promote products, but most organisations also seem to view social media as primarily a one-way channel of communication and a source of competitive intelligence, rather than a way of engaging the consumer to deepen brand strength.

5

The ageing and caring consumers: On the corporate radar

Although the ageing and caring consumer trends are seen as number one priorities by fewer executives in the survey than for the other three categories, most organisations are attempting to integrate them into their strategy or investment plans.

Ageing consumer: At the strategic level

Almost 60% of those surveyed say that their overall corporate strategy will take this issue into account over the next five years. This makes some sense in that the ageing consumer is for most organisations a longer-term trend than the other four categories in the research (although immediately relevant to healthcare and pharmaceuticals). Sectors as diverse as leisure and tourism, food and beverages, technology and fast-moving consumer goods will eventually be affected, however, and Irish firms should be prepared. Globally, firms such as Intel, General Electric, Danone and Philips have already set up dedicated research efforts to better understand older consumers, from nutritional needs to retirement plans.

somewhat muted by the frugal consumer trend. At the same time, respondents also appear to recognise that even in an austere period, consumers wish to see organisations sourcing products and services in a sustainable way and doing good in the community. Over three-quarters of respondents expect investment in corporate social responsibility to increase. According to Mr Breen of Tesco Ireland, ethical considerations tend to be more important for customers with older children who have left home, as well as younger consumers who still live at home with their parents. As a result, Tesco has an active corporate responsibility programme, involving donations to community charities and supporting environmental programmes. Bank of Ireland also has a charitable investment programme; however, Mr Byrne, its director of consumer banking, believes that the number one priority for the banking sector is to demonstrate that banks “do banking well”. “By proving you do that through actions rather than words will give you a mandate to go beyond that,” he says.

Caring Consumer: Investing in austere times

Experts interviewed for this report believe that the effect of the caring consumer has been

Conclusion

Closing the opportunity gap

The changing consumer offers huge opportunities for Irish organisations. On the evidence of this survey, one attribute Irish firms do not lack is confidence that they can and will adapt. In some areas their confidence appears indeed justified—the survey and interviews suggest that Irish organisations are responding to frugal consumers by researching their needs and introducing new value-focused products and services to appeal to them. Most organisations in the survey say they will incorporate the rise of the ageing consumer into their corporate strategy, and even in the midst of austerity many plan to boost investments in corporate social responsibility.

It is important, however, that confidence translates into action. In some areas there appears to be a gap between respondents'

self-belief and facts on the ground. The growth of emerging markets, from India to China, is a top priority for Irish organisations. However, respondents themselves see challenges in this area, and Irish firms should focus on B2B sectors rather than targeting consumers directly in these fast-growth regions. The survey also appears to show a possible lack of necessary investment in digital channels or attention to the social media strategy.

It is clear that Irish organisations have work to do if they are to take full advantage of the opportunities presented by a changing consumer landscape. But the good news is that there are a number of companies that have demonstrated the results that can be achieved with the right combination of strategy, investment, execution and innovation.

Appendix

Are you personally based in Ireland?

(% respondents)

Yes

100

Thinking about the next five years, which of the following consumer trends is likely to be most important for your organisation to address? Please choose one answer only.

(% respondents)

Emerging consumer (growing middle classes in emerging markets such as China, India, others)

42

Frugal consumer (extended period of restrained consumer spending overall; focus on value-for-money)

25

Connected consumer (increase in online/mobile/social networking for buying decisions, browsing and interaction with organisations)

21

Ageing consumer (consumer demographic becoming increasingly older)

9

Caring consumer (growing concern about ethical purchasing and how consumption choices affect the environment and society)

3

How prepared do you feel your organisation is to respond effectively to each of the following consumer trends over the next five years? Please choose one answer in each row.

(% respondents)

Very prepared Somewhat prepared Neither prepared nor unprepared Somewhat unprepared Very unprepared Don't know

Frugal consumer (extended period of restrained consumer spending overall; focus on value-for-money)

39

47

13 1

Ageing consumer (consumer demographic becoming increasingly older)

22

56

19 11

2

Connected consumer (increase in online/mobile/social networking for buying decisions, browsing and interaction with organisations)

34

52

11

2 1

Caring consumer (growing concern about ethical purchasing and how consumption choices affect the environment and society)

25

52

20

2 11

Emerging consumer (growing middle classes in emerging markets such as China, India, others)

47

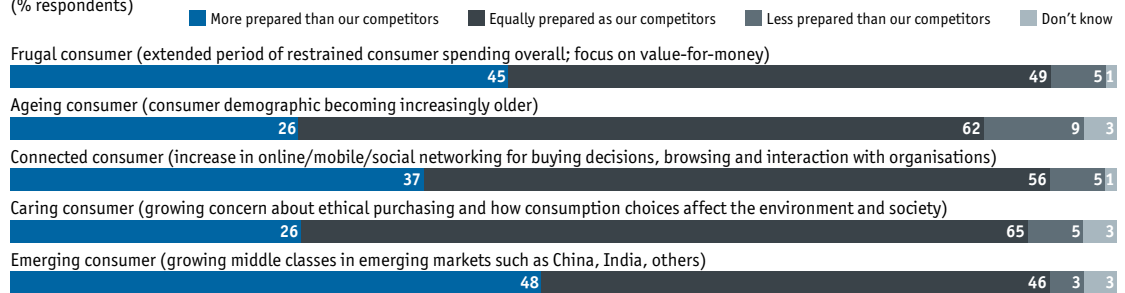
38

11

3 1

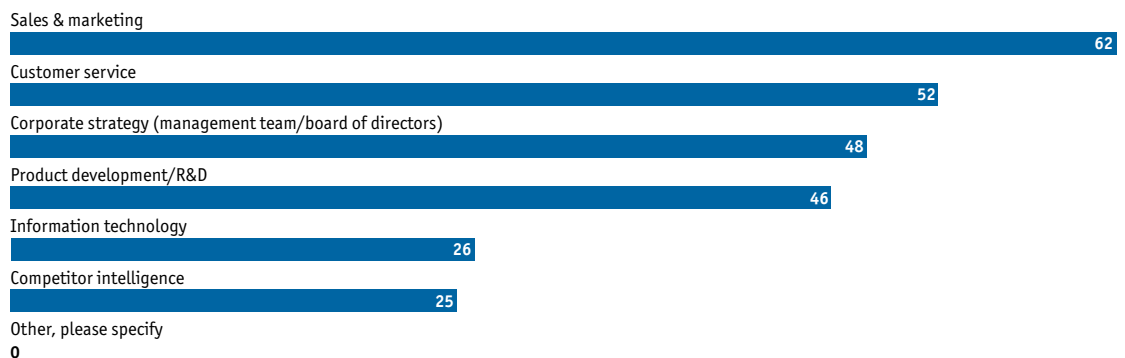
In general, do you feel your organisation is more prepared or less prepared than its competitors to respond effectively to the following consumer trends over the next five years? Please choose one answer in each row.

(% respondents)



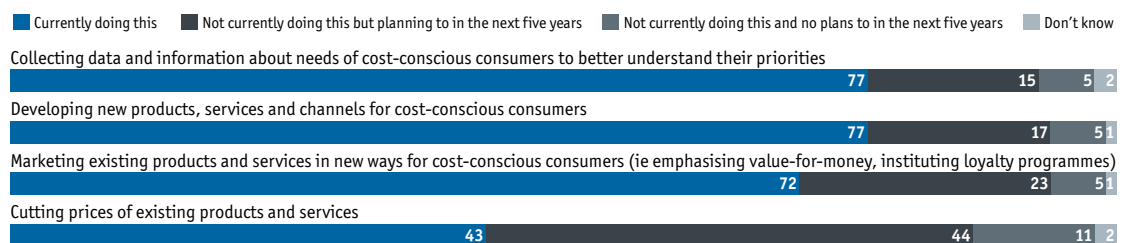
Where do the primary activities take place currently in your organisation to respond effectively to changing consumer trends in general? Select up to three.

(% respondents)



Is your organisation currently taking any of the following actions to respond effectively to more cost-conscious consumers, or planning to during the next five years? Please choose one answer in each row.

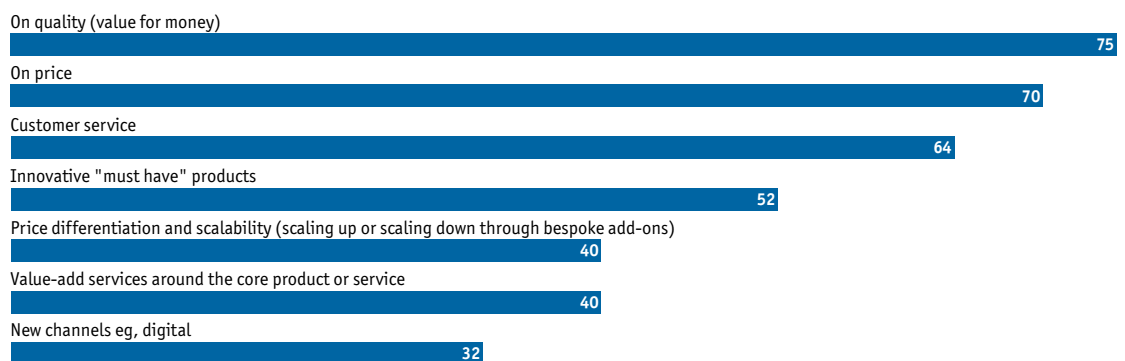
(% respondents)



What is the best way for your organisation to compete for the more frugal consumer over the next five years?

Select all that apply.

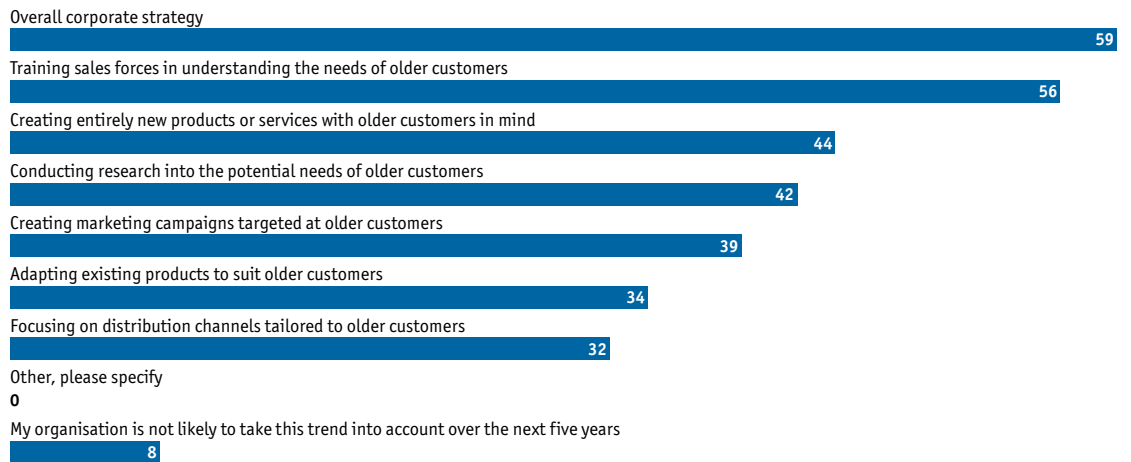
(% respondents)



In what ways is your organisation likely to take ageing consumers into account over the next five years?

Select all that apply.

(% respondents)

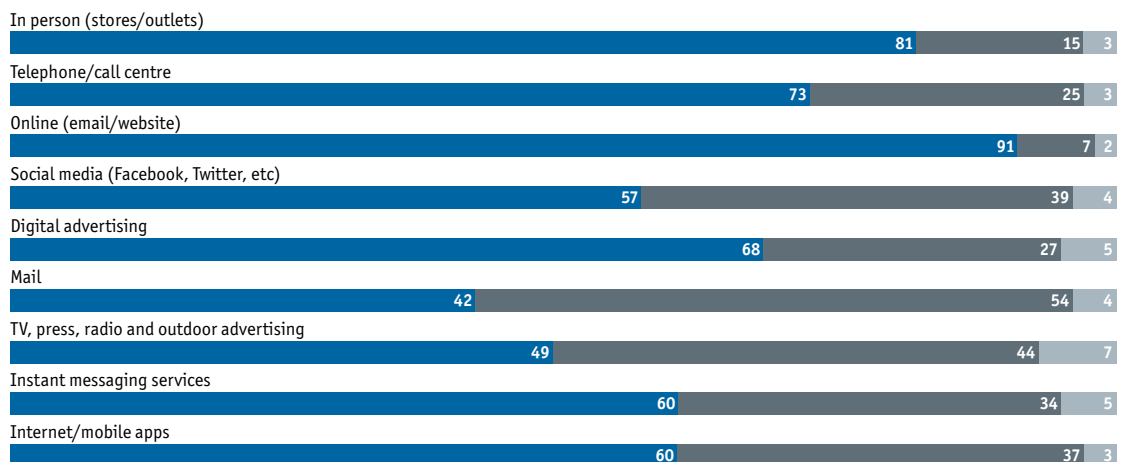
**To your knowledge, which of the following best describes your organisation's plans for the channels it uses to interact with customers (selling or marketing)? Please select one in each row.**

(% respondents)

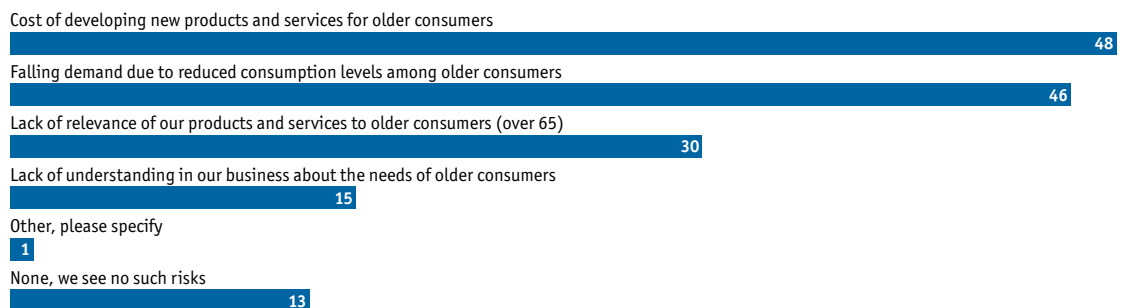
■ Increase use of this channel over the next five years

■ Decrease or stop use of this channel over the next five years

■ Don't know

**What are the biggest risks for your business associated with ageing consumers? Select up to three.**

(% respondents)



To your knowledge, approximately what percentage of your organisation's revenue comes through digital channels (web, mobile, social media) currently?

(% respondents)



To your knowledge, approximately what is your best estimate for the percentage of your organisation's revenue that will come through digital channels (web, mobile, social media) five years from now?

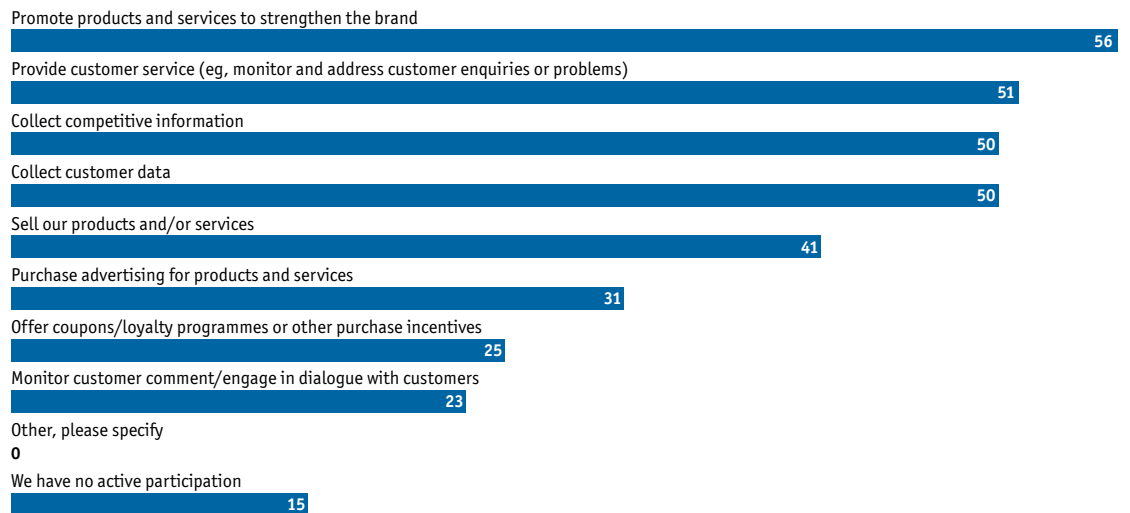
(% respondents)



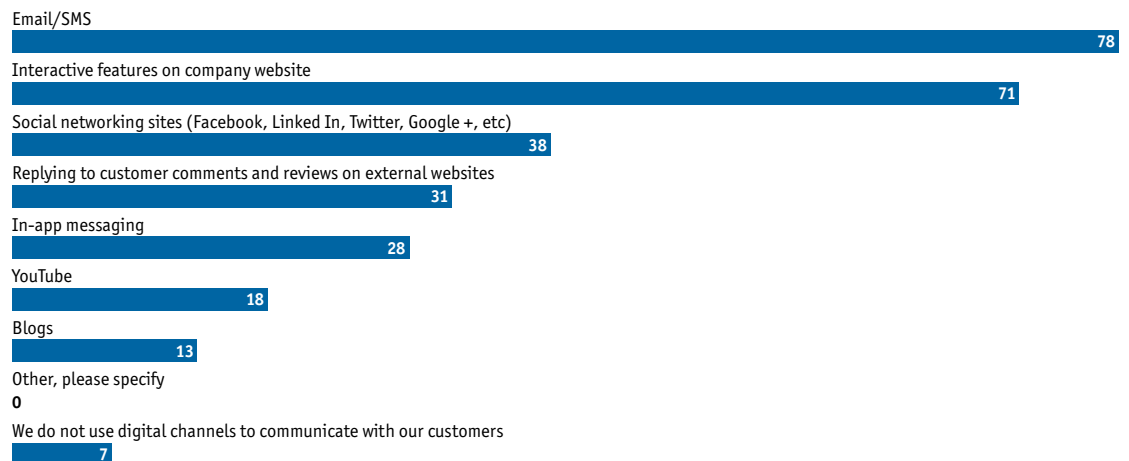
To the best of your knowledge, which of the following activities does your organisation engage in on social media sites?

Select all that apply.

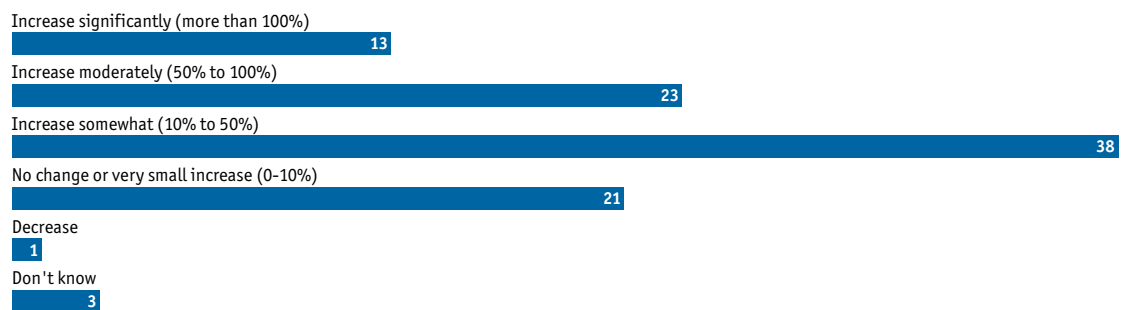
(% respondents)



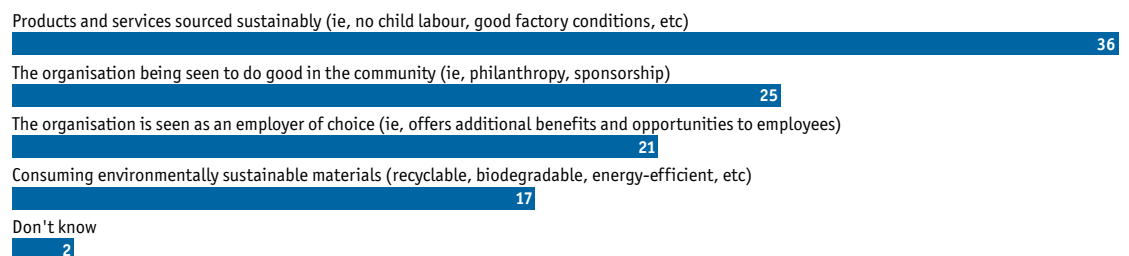
To the best of your knowledge, which of the following digital channels does your organisation use to communicate with customers? Select all that apply.
(% respondents)



Applying your best estimate, which of the following describes your organisation's likely plans over the next five years for investment in digital channels to reach customers? Please select one answer only.
(% respondents)



To the best of your knowledge, which aspects of corporate responsibility programmes do you think will be most important for your customers during the next five years? Please choose one answer only.
(% respondents)



Applying your best estimate, what do you expect will be your organisation's likely investment plans for corporate social responsibility programmes? Please select one answer only.

(% respondents)

Increase significantly (more than 100%)

9

Increase moderately (50% to 100%)

22

Increase somewhat (10% to 50%)

42

No change or very small increase (0-10%)

22

Decrease

1

Don't know

2

My organisation does not have a corporate social responsibility programme

2

Please indicate where your most important markets are currently.

(% respondents)

Western Europe

77

Asia-Pacific

40

Eastern Europe

23

North America

19

Middle East and Africa

19

Latin America

17

Please indicate where your most important markets will be in the next five years.

(% respondents)

Western Europe

75

Asia-Pacific

44

Eastern Europe

26

Middle East and Africa

22

North America

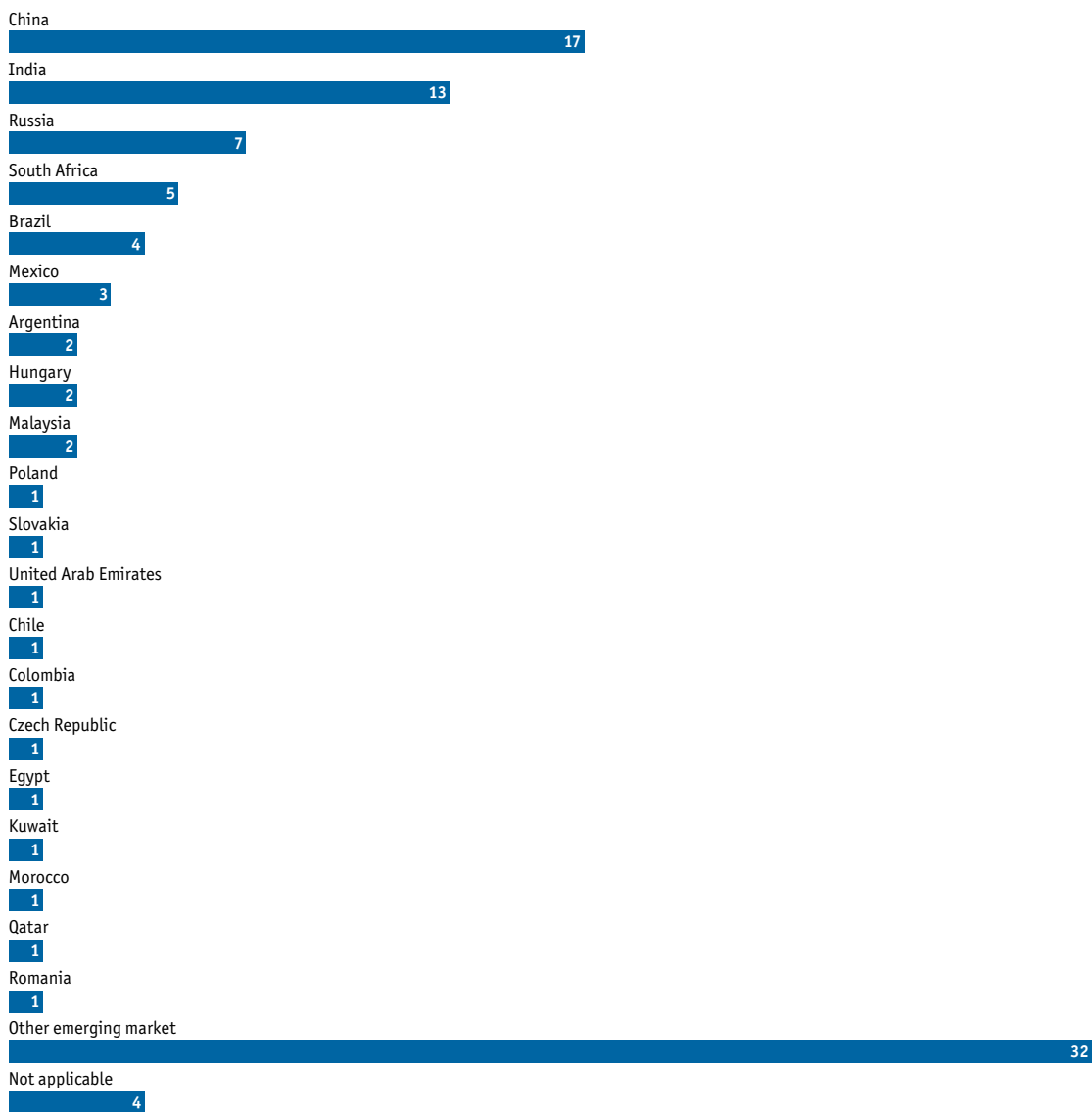
19

Latin America

19

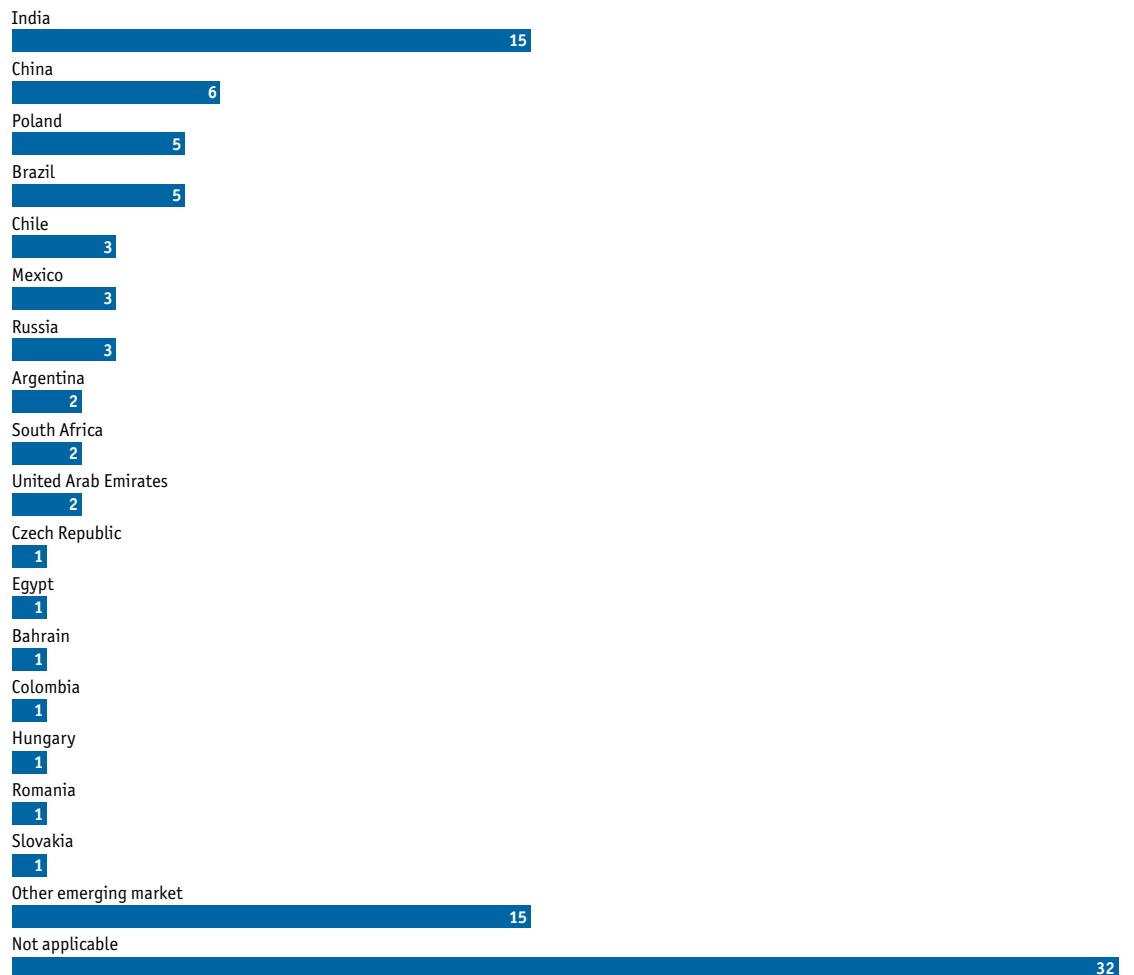
Emerging market we expect to be doing the most business with over the next 5 years

(% respondents)



Emerging market we expect to be doing the second most business with over the next 5 years

(% respondents)



Emerging market we expect to be doing the third most business with over the next 5 years

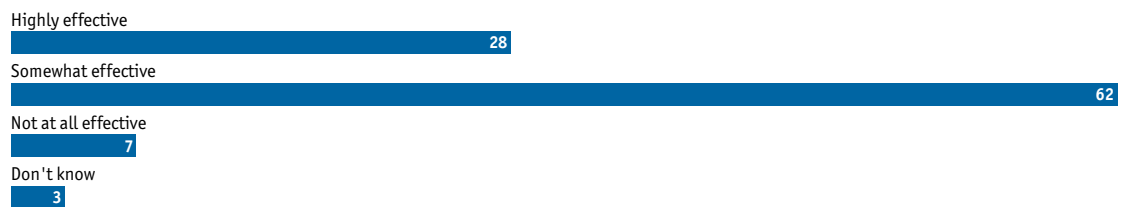
(% respondents)

Mexico
5Russia
4China
3India
3Brazil
2Chile
2Poland
2South Africa
2Colombia
1Czech Republic
1Egypt
1Estonia
1Hungary
1Philippines
1United Arab Emirates
1Indonesia
1Malaysia
1Morocco
1Romania
1Sri Lanka
1Thailand
1Other emerging market
5

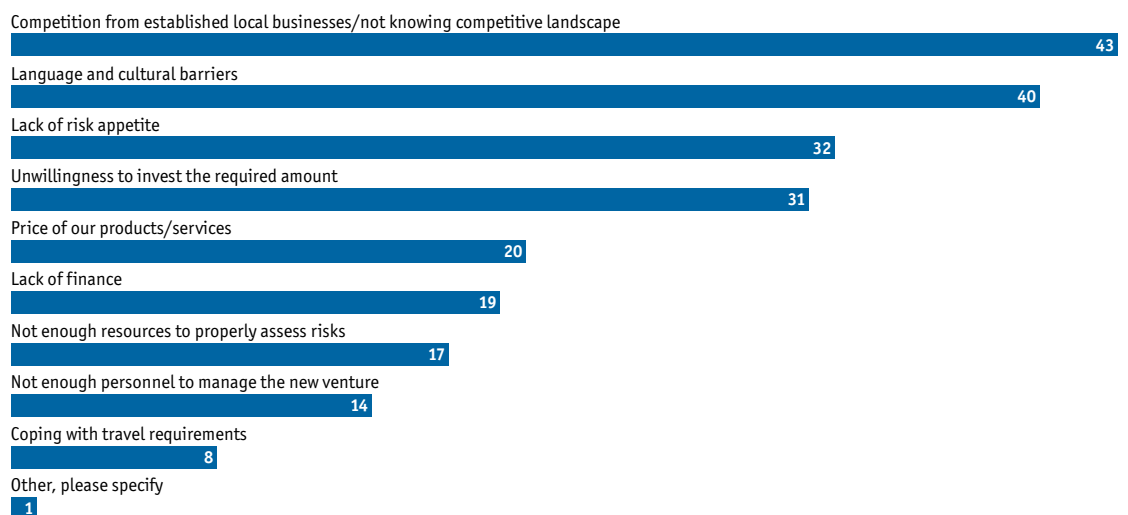
Not applicable

59

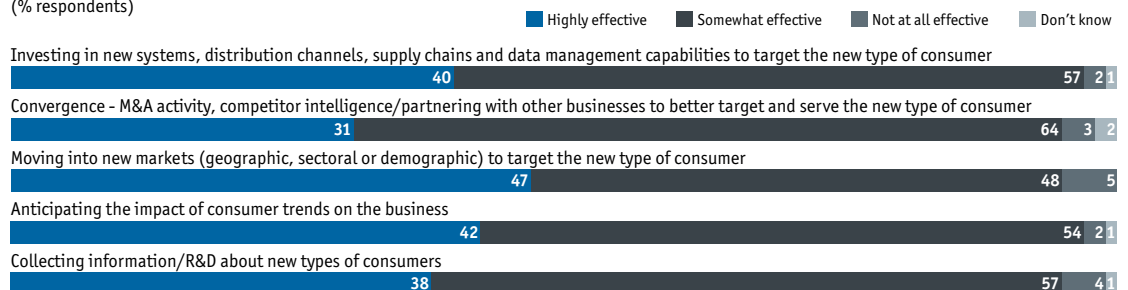
How effective is your organisation at targeting customers in emerging markets? Please choose one answer only.
(% respondents)



In general, in your view, what do you think are the biggest challenges within your own organisation in deciding to target customers in emerging markets? Please choose the top three only.
(% respondents)

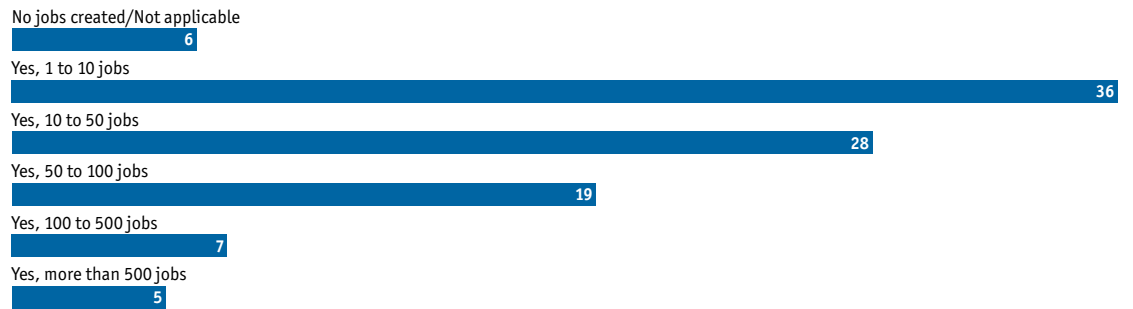


In general, how effective is your company currently at managing the following aspects of dealing with changing consumer trends? Please select one in each row.
(% respondents)



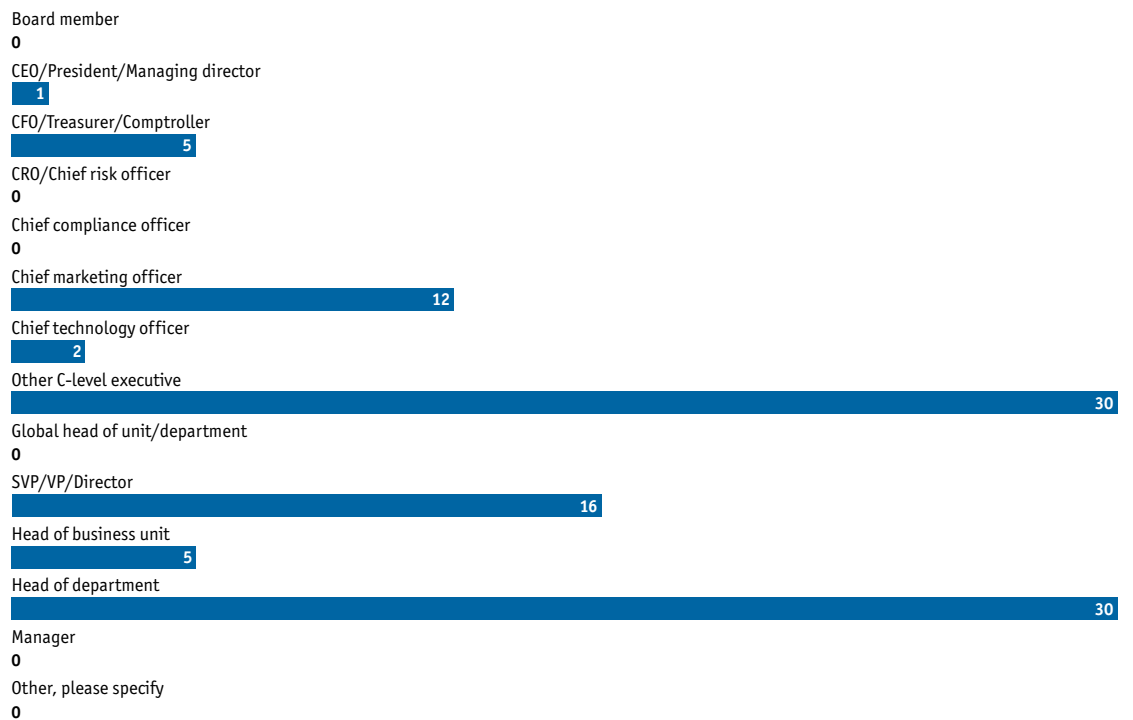
Do you expect that your organisation is likely to create jobs through business expansion in order to meet demand from new types of consumers during the next five years?

(% respondents)



What is your title?

(% respondents)



What is your organisation's global annual revenue in euros?

(% respondents)

Under €25m

0

€25m to €50m

0

€50m to €100m

25

€100m to €250m

15

€250m to €500m

9

€500m to €1bn

12

€1bn to €5bn

11

€5bn to €10bn

5

€10bn or more

23

How many employees does your organisation have in Ireland?

(% respondents)

1-100

27

100-500

35

500-1,000

18

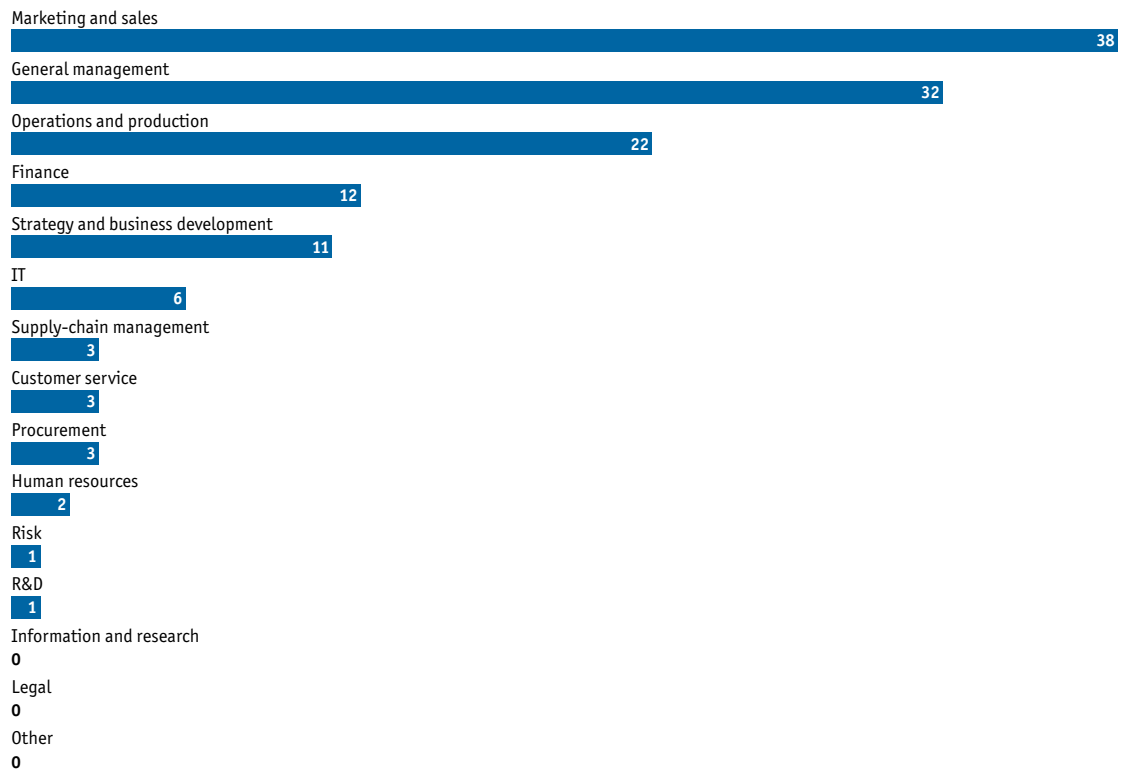
1,000-2,500

13

More than 2,500

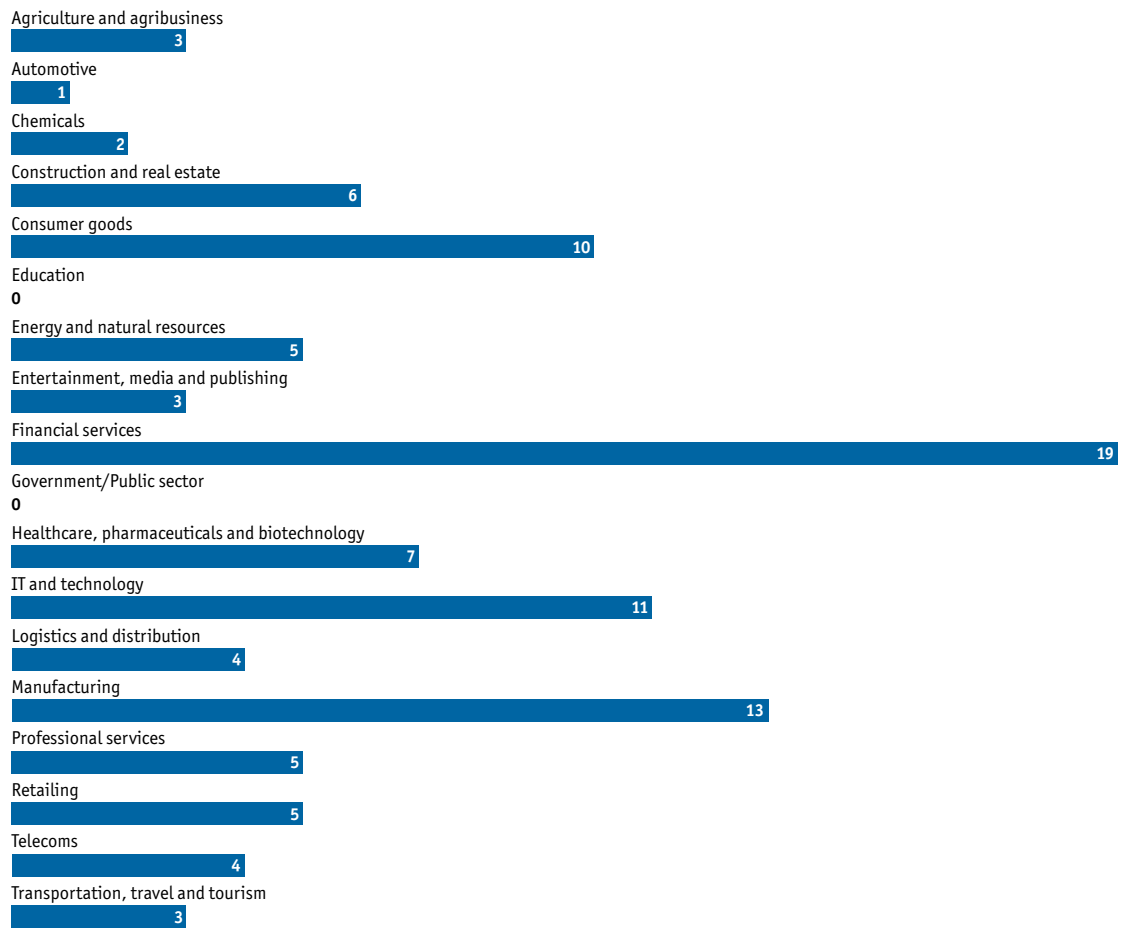
7

What are your main functional roles? Select up to three.
(% respondents)



What is your primary industry?

(% respondents)



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