

TREASURE HUNT

Inside the Mind of the New Consumer

by

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with John Butman

Introduction

One of my early projects as a young partner at The Boston Consulting Group was for a company that made a variety of chemical products for home use, including cleaning agents and bug spray. I invited the head of the bug spray division to join me on a series of in-home interviews to get a better understanding of how the company's products fit into their customers' lives.

One of our first visits was to a sixtyish woman named Lillie, who lived in a mobile home park near Tampa, Florida. She welcomed us in and we perched ourselves on folding chairs while Lillie dropped into a La-Z-Boy recliner. I asked Lillie to tell us a little bit about herself and she launched into the story of her childhood in Mississippi, her first marriage, the birth of her two kids, her hardworking life, her divorce and remarriage.

Just as Lillie was telling us about the sudden death of her second husband, an enormous cockroach emerged from the kitchenette and ambled into the living room. My client and I noticed it at exactly the same moment. We looked at each other, looked at the cockroach, and then looked back at each other, wondering whether we should mention it or pretend we hadn't noticed.

But Lillie spotted the cockroach, too. "Damn!" she growled. She leapt out of the La-Z-Boy, tore open a kitchen cabinet, and pulled out a can of my client's very own brand of bug spray. She closed in for the attack, bent over, aimed the nozzle at the roach, and nailed it. I counted -one-one-thousand, two-one-thousand, three-one-thousand, four-one-thousand, five-one-thousand—as the roach jerked into a deathly paroxysm and the spray formed a toxic puddle around him.

"Take that, you bastard," Lillie said.

My client and I looked at her with raised eyebrows.

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“Roaches!” she said with disgust. “Remind me of my first husband.” She placed the rim of the can on the carcass and bisected it with a definitive crunch.

What did we learn from our visits? First, that customers use far more spray than necessary. More important, Lillie demonstrated that even a utilitarian product like bug spray can have deeply emotional, even primal, meaning. Our visit with Lillie became a reference point for the bug spray organization as it created news and improvements for its products.

Over the twenty-five years since that visit with Lillie, I have spent a great deal of time listening to consumers, watching them in action, and gaining insights that can be applied to business strategy. I have seen that consumers will always “trade down” and buy the cheapest product in a category if suppliers fail to deliver a stream of innovation and build loyalty based on product superiority. I have come to understand the constant trade-offs that middle-class consumers make in the purchase of goods, how many buying decisions they face in a day, and how much competition there is for their attention. I have come to appreciate how sophisticated consumers are. They have access to a wealth of product information. They do not tolerate poor quality in a product without complaint and a vow that they will “never again” buy it. I know that household budgets are tight and that they are predominantly controlled by women. That’s because women, since going to work in large numbers, are responsible for 100 percent of the growth in household income. Women manage the family budget like an industrial purchasing agent who occasionally turns into a hedonist. The home, although still a family haven, has also become a pressure cooker. This smart, educated middle-class population—highly stressed and faced with tremendous choice—increasingly buys at both ends of the price spectrum, while ignoring the middle.

Middle-class consumers have embarked on a relentless, continuous treasure hunt. The treasure hunt is a real and global phenomenon that presents challenges to both retailers and their suppliers, and has delivered death in the middle to the average, middle-market producer—companies like Chevrolet and Kraft.

In *Trading Up*, my co-author Neil Fiske and I explored one aspect of the treasure hunt—how middle-market consumers would distort their spending to buy premium goods that were highly meaningful to them. The book originated, interestingly enough; in a

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series of conversations we had with young women about their underwear. During the course of that consumer discovery work for Victoria's Secret, Neil and I developed an idea that we called "the ladder of benefits"—an ascending scale of technical, functional, and emotional benefits. A genuine technical difference leads to an advantage in functional performance, which can ultimately result in a positive emotional response, attachment to the product, and brand loyalty. The combination delivers the potential for the company to charge a price premium.

With the ladder of benefits in mind, we worked with the leaders of Victoria's Secret to help create a new line of lingerie called Body by Victoria. It offered technical, functional, and emotional benefits, and Victoria's Secret priced it at a premium to middle-market lingerie. The new line took off and quickly grew into a \$500 million business. Its success was evidence that, if you get the ladder of benefits right, consumers will not only pay a premium for your product or service, they will even distort their spending patterns to do so.

At first, we thought this might be an anomaly and applicable only in the fashion industry. But we researched many other categories of consumer goods, including cars, wine, spirits, and home goods, and found that the desire to move up the ladder of benefits was a broad phenomenon. In category after category, up to 20 percent of the market was in goods that sold at a premium of 50 to 200 percent to midprice offerings. We estimated that "trading up" in 2002 accounted for about \$300 billion in annual sales in about twenty-three major categories in the United States. Since then, it has grown to over \$500 billion in this country and about the same amount in Europe.

In my work with clients and consumers since 2002, it became increasingly obvious that the trading-up phenomenon, although extremely significant, is actually just one element of the bigger and more important story of the treasure hunt: the bifurcation of the consumer goods market into trading-up and trading-down segments, with death in the middle.

Thus, this book deepens the inquiry and broadens the scope of the work begun in *Trading Up*, with two main purposes. First, it is to help the reader better understand middle-market consumers, who are too often ignored or misinterpreted by business-people, the press, and others. Some economists even characterize them as spendthrifts

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and the culprits behind the U.S. trade deficit. I see middle-class consumers as essentially hardworking and noble people who must deal with an increasing amount of pressure to make choices for their families and themselves. They are generally wise about their spending, although they sometimes carry more debt than they would like to and accumulate more goods than necessary. I hope the stories in this book will bring them more respect and understanding. You'll meet:

- Alice and Ben Nelson. The family went on an austerity budget to afford four TVs as a Christmas gift.
- Sarah and Rick Montfort. Sarah drives across town to save a few pennies on chicken. Rick blows \$500 a month on golf and poker.
- Lauren James. Age thirty, she invests heavily in clothing and personal care, and saves money by eating Cheez-Its at the 7-Eleven.
- Masako Tanaka. One of millions of young Japanese “office ladies,” she lives with her parents and spends liberally on fashion, entertainment, and travel.
- Peter Kim. He earns about \$80,000 as a waiter, but feels left behind by friends who are starting families and buying big homes.
- Hilda Schmidt. With a household spending allowance of €600 per month, she stocks up on goods in case of an emergency or shortfall of cash.
- Stephanie Granby. She fell in love with scarves in her early twenties, but couldn't afford to indulge her interest—until she discovered eBay.

The second purpose of the book is to show how companies must take advantage of the treasure hunt phenomenon or be left behind by it. To do so, we have interwoven the consumer stories with accounts of some of the most interesting companies that have affected, or been affected by, the transformation of the consumer goods market, including:

- Aldi. The extraordinarily successful hard discount chain, founded in Germany, and now catching on throughout Europe and in the United States.
- Bath & Body Works. The unit of Limited Brands that has repositioned itself to meet the changing value calculus of women's beauty.

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- Best Value Inn. The fastest-growing hotel chain in the United States delivers a quality room at a trading-down price.
- Dollar General. One of the many dollar chains that are proliferating throughout the United States with its own funky interpretation of the treasure hunt.
- eBay. The world's largest garage sale and the most dramatic manifestation of the consumer-driven market.
- LG. The Korean maker of home electronics and appliances that started at the bottom end of the market and now “spans the poles.”
- McDonald's. McDonald's revitalized its burger and fries and kept the Happy Meal from becoming just “utility fuel.”

By linking the stories of consumers and companies, I hope to deliver a double benefit for the reader: consumer understanding and actionable business ideas—along with a healthy serving of data to support both.

I know from close experience the daunting challenges that businesspeople face in today's dynamic, almost vibrating consumer goods markets. I respect those leaders who find a way to create products, brands, and companies that connect with consumers and energize categories and transform markets, because—in the whirl of meeting investor expectations, complying with Sarbanes-Oxley requirements, and motivating the workforce—it is easy to “forget” the consumer and lose touch with the market.

I also hope the ideas in this book will help entrepreneurs get rich and, in the process, enrich the lives of “average consumers.”