



The Consumer of 2020

by James Allen and Darrell Rigby

The Campbell Soup Company has come face to face with its new competitors—and they use drive-through windows. When the \$7 billion food giant enlisted scores of consumers to keep meticulous food diaries, it learned that people weren't just buying soup any more. They were seeking fast, nutritious meals to meet an increasingly hectic lifestyle. Campbell thus confirmed it was competing across a variety of categories that included McDonald's and Burger King. The soup company believed it had a healthier choice to offer customers, so it recently test-marketed quick-serve pouches, to round out its convenience line of soup in microwaveable cups and resealable bottles.

Campbell's defence against new and unexpected sources of competition – using deep customer insights to innovate – offers a glimpse of the future. Tomorrow's consumers will have more discretionary income, less time, more choices and new spending patterns – depending on age, geography and wealth. This picture emerges from our research at Bain & Company – across detailed case studies of the five largest consumer sectors in America, Britain, France, Germany, Italy, Australia and China – into the profiles and needs of the consumer of 2020. Corroborating our research with worldwide statistics and trends brought up patterns that we see playing out in other countries.

To keep up with consumers, tomorrow's competitors will need to anticipate “crossover” buying behaviour – as low-end consumers reach for

The top quintile of consumers will increasingly rank their time and leisure over their money, and reward businesses that recognize this. They will value products and services that are tailored to lifestyle and life-stage needs, particularly health and ageing

luxury and those at the high end seek cheap basic goods. And they'll have to prepare for cross-category competition, which leads consumers to make trade-offs not within categories (this candy bar versus that one), but between categories as different as confectionery goods and cell phones – in a world with just so many spare minutes and so much pocket money.

Reaching new regions and ethnicities

The first challenge in reaching the 2020 consumer will be to penetrate new regions and segments. Our research finds that developing

economies are growing most rapidly, and their disposable incomes are approaching levels that will trigger new spending on categories beyond the basics, such as athletic footwear, cereal and kitchen appliances.

The good news of the past 20 years is that incomes have increased for rich and poor alike, and the cost of household essentials has decreased in real terms. Flashing forward, our estimate of the amount of new global spending on discretionary items by 2020 is \$3.1 trillion, roughly equivalent to India's national income today. Put another way, the average American consumer will have approximately \$280 (in today's money) to spend on discretionary items per week in 2020, compared with \$200 in 2002. That means music lovers, for instance, who bought 13 compact discs (CDs) with their weekly pocket money in 2002 could afford to purchase 18 CDs a week in 2020, even after the effects of rising healthcare and pension costs.

At the same time, the centre of gravity for discretionary spending is shifting – from the developed to developing nations (particularly China), and from young to old (in Europe and Japan, those over 65 will control approximately 30% of discretionary spend by 2020). In developed nations the spending power of ethnic minorities will influence purchases in the mainstream – witness the Asian influence in Australian cuisine. Also in developed countries, a lower percentage of the total population will be employed as more people retire or seek more flexible working arrangements (see graph).

What does this mean for companies? They will need to find ways to reach countries like

Tomorrow's consumers will not easily be segmented. “High end” customers will sometimes buy cheap goods and “low end” seek the occasional luxury experience, say **James Allen** and **Darrell Rigby**

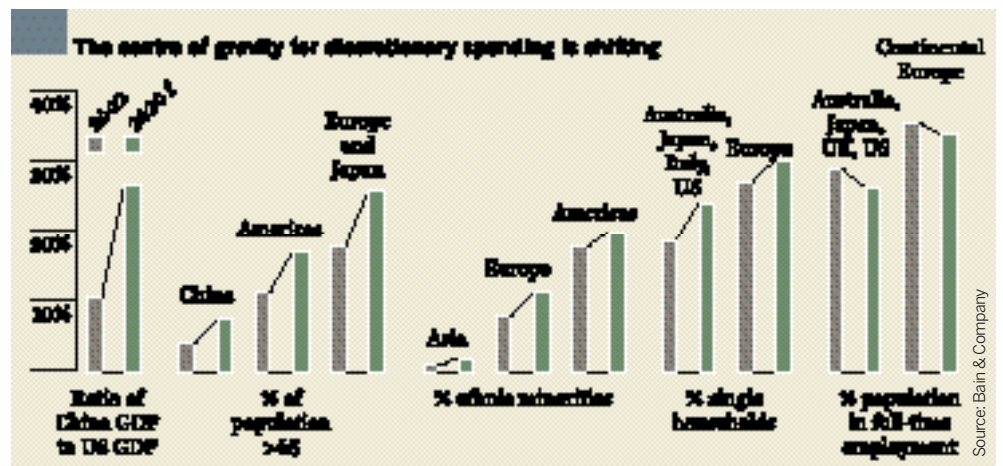
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China and India, and ethnic groups such as Hispanics and Asians more quickly and extensively than in the past. Manufacturers and retailers will need to refine their segmentation methods and collect far more detail to understand what will attract emerging nations and ethnicities with increased spending power. Meanwhile, retailers will need to flip their expansion strategies to warp speed. Multi-national retailers, for example, mulling over when and where to enter mainland China, will likely find that the best store locations in the largest cities are already being snapped up; remaining locations in three years' time will be in smaller towns, with less disposable income.

High end and low end

So the good news is that more consumers from more regions and backgrounds will have more spending power. But there is another story nested in the changing demographics. While discretionary income will rise across the board, the gap between high- and low-end consumers looks to widen, particularly in developed countries.

Some historical purchasing patterns are likely to become accentuated. Those consumers in the upper quintile have tended to use the absolute increase in discretionary spend to improve their health and increase opportunities for their children by investing in education and skills development. In contrast, the patterns of spending behaviour among the bottom quintile have been leading to steady or declining quality of life, such as increases in smoking and obesity. These spending patterns, and the habits they support, also tend to be passed on to chil-



dren – raising the possibility that the gap will widen between the top and bottom segments.

What does this mean for companies? Those firms competing to serve the needs of the high end should take a page from Maslow's hierarchy of needs, which propounds that once a being fulfils his or her basic needs, they reach for creative stimulus. Just so, the top quintile of consumers will increasingly value their time and leisure over their money, and reward businesses that recognize this. They will value products and services that are tailored to lifestyle and life-stage needs, particularly health and ageing. They will also expect a more engaging experience from retail environments, with an appreciation for variety, which can default to an increase in switching between brands and retailers if companies don't pay close attention to winning and keeping customers' loyalty.

At the other end of the spectrum, those firms providing basic goods and services need to bear in mind that the low-end consumer of 2020 will seek out "great value" products and sacrifice time to travel to "big box" retail environments for bulk deals. They will favour convenience products over "healthy" products. And they will actively seek to recreate the high-end experience by purchasing value for money "clones" of luxury products and services.

Catching crossover consumption

And there's the tricky bit. Despite this growing disparity among incomes, consumers at every level will exhibit crossover behaviours. There will be a disappearance of tidy consumer segments (if they ever existed at all). The same limited-income shopper who seeks Wal-Mart-style value will also purchase clones of high-end products and experiences.

Meanwhile, the same upscale consumer who seeks out the "retail theatre" of an Armani store to buy a suit will go to Wal-Mart over the weekend to stock up on bulk items. And the hungry office worker who stops at McDonald's or sips Campbell "Soup at Hand" for lunch will spend hours on a Saturday evening preparing a gourmet meal from scratch with friends. Because of this, many companies will face a danger of being stuck in the middle. On the one hand, understanding customers in the middle – and how they make purchasing decisions, depending on category, time of day and even mood – will continue to be key to developing products and services. Given crossover consumption, understanding the market's extremes will help companies better reach the mid-market. To do that requires segmentation that can be deployed from the corner office to the front lines. On the other hand, as companies respond to diverging wealth patterns, there is also likely to be an increasing trend toward two business models dominating the profits of categories.

First, there will be the Wal-Mart model driving scale and a low-cost position, yet appealing not simply to the bottom quintile. Here, too, we may see new sources of competition.

The wild card could be China Inc. We've done several studies that show that if China were to move into direct competition with its current outsourcing partners, even assuming "western" marketing costs, it would enjoy up to 20% cost advantage over its western rivals. In other



FACTFILE THE CONSUMER OF 2020

TRENDS...

» Real discretionary spending will increase by roughly 50% – along with competition for consumers' pocket money.

» Growth will plateau in some mature product categories, and brands will feel the squeeze as consumer buying patterns cross over, with affluent customers buying bulk items at Wal-Mart, and less affluent reaching for designer clones.

» Consumers and segments will continue to blur – sometimes buyers want pure experience and sometimes they want pure cost, regardless of what

segment they usually live in.

» China: an opportunity, a necessity and a threat.

... AND IMPLICATIONS

» Companies will have to deliver extremely clear customer experience.

» Choose one business model or the other – high-end or value-for-money – to avoid getting stuck in the middle.

» Catching consumers as they stray beyond segments requires continuous innovation and finding consumers at every touchpoint.

» The next threat could come out of left field – by way of China.

how credit card companies, for example, learned that card rejections by retailers were their problem (the No. 1 root cause of a cardholder defections), not their merchants'.

Some companies are on the right track: Kimberly-Clark, known for Kleenex and Huggies nappies, is investing in customer relationship management that reaches beyond retail chain customers to collect information from consumers. Moen, a Cleveland-based manufacturer of plumbing products, including sinks, shower heads and taps, now reaches beyond its customers – plumbing wholesalers and do-it-yourself retailers – to film consumers using Moen products throughout the day, in order to adjust product designs to enhance their experience.

Growing with your customers

As Campbell and Moen testify, companies recognize the increasing importance of customer knowledge. Indeed, today, customer insights can lead companies to their best opportunities for growth far more accurately than that marketing presentation in the boardroom. Where will the consumer of 2020 lead consumer products manufacturers and retailers? In general, the higher end will demand new experiences, more premium categories and more innovation. The pace of innovation will increase, as the rich have more money to spend and can purchase innovative products early. This will drive down prices and make new products and services available to mass markets more quickly. The spoils will go to the firms that let customer information lead their growth moves and most quickly adjust their strategies and business models to segmentation findings.

All in all, the Consumer of 2020 might sound like some science fiction movie, with scenarios that take place far beyond the retirement age of the next generation of your company's management. But these trends are both powerful and probable. Companies that recognize this, and build capabilities today to cope with the challenges and opportunities of tomorrow will enjoy 15 years of faster growth, and create an institution that is well positioned to win in years beyond. **GA**



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words, Chinese retailers might actually be able to out-Wal-Mart Wal-Mart.

Second, there will also be a premium niche model, focusing on delivering a superior customer experience to the top quintile and capturing middle customers seeking a moment of "premium-ness". To do this, premium providers will need to get good at helping their front line identify just which type of customer is before them, differentiate their experience and pitch service accordingly. The danger lies in providing neither low cost nor a truly differentiated experience.

Redefining your business model for the changing 2020 consumer involves a two-fold strategy. Learn more and more about your customers and rethink your segmentation. Then close the delivery gap between what your target customers really want in innovation and experience and fulfil their desires early and practically. Both models will require deep customer understanding. But since both models will serve a mixed bag of consumers, companies will also need to develop what we see as a kind of drive-through approach to segmentation. Like service from McDonald's drive-up window, companies will have to home in quickly on a customer's profile and identify the slice of life they're serving, to deliver a wide variety of products and experiences swiftly, depending upon who shows up, and when. Think of Campbell trying to put a hot meal into its customers' hands at just the right moment. Or think of its unsuspected competitor, Burger King, whose motto is: "Have it your way."

Preparing for cross-category competition

Finally, as the Campbell versus Burger King story portends, competition for consumer spending will increase between categories, not just within them. This development of cross-category competition is remarkable. As a chief executive officer (CEO) in 1974, you would have expected new products or categories to take roughly 15% of consumer spend by 1984. Today's CEO can expect new products or categories to constitute roughly 35% of consumer spend by 2020, based on our projections of representative companies in several different sectors.

One driving force? In many developed-nation categories, consumer goods companies will face consumption caps – the constraint on how

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much people can consume. This will affect a significant number of media channels, whose consumers will not be able to absorb any more information about products and services, either because they suffer from brand overload, or technology has intervened to allow consumers to "opt out" of marketing channels. This means that cross-category competition will intensify as consumption caps kick in on markets that satiate physical and creative appetites. While we've always faced such caps, competition for the 2020 consumer's wallet share will increase from unlikely sources. For years, De Beers has been marketing diamonds on behalf of the industry, recognizing that it is competing not simply against other gems, but against other discretionary spending by affluent consumers – on travel, cars, watches and, more recently, technologies such as home theatres. That seems fairly self-evident. But a recent study showed a decline in confectionery sales among teens. The cause? Mobile phones. Teens were using their pocket money for text messaging, not Snickers bars. That's unexpected.

How should companies prepare? In a nutshell, get closer to consumers. For one, they'll need to engage consumers with an experience broader than simply the purchase of a product or service. For another, they'll need to clear higher hurdles for innovation if they want to engage that customer more closely with their brand. To do this, companies will need to look for ideas beyond the usual suspects – branded consumer products manufacturers – and increasingly seek marketing insight from industries like telecom and financial services, that have been talking directly to their end-users for decades. That's