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The consumer sector in 2030: Trends and questions to consider

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In light of dramatic changes in the consumer landscape, how can retail and packaged-goods executives prepare for the future?

What can happen in 15 years? A look back at 2000 shows how much the world can change in just a decade and a half. Back then, about 30 percent of people in developing countries lived in extreme poverty, compared with less than 15 percent today.[1] Only 12 percent of people owned a mobile phone; now, more than 60 percent do. Facebook, which today has almost 1.5 billion users, hadn't launched yet. These and other developments have changed how consumers live, think, and shop—and the changes are only going to accelerate. What's going on in the world economy is "no ordinary disruption," as our colleagues have explained at length.[2]

Disruptive forces can cause dramatic reversals. The retail and consumer-packaged-goods (CPG) sectors have seen such reversals in the past 15 years. In 2000, Kmart was the third-largest US retailer, with $36 billion in sales; by 2014, its annual revenues had declined by two-thirds. Over the same period, Amazon's annual sales grew to $89 billion from about $2.8 billion. Alibaba, the market leader in China's booming e-commerce business, was only a 15-year-old company when in 2014 it filed the largest IPO ever, valued at $25 billion. Anheuser-Busch was the world's largest brewer in 2000; today, it no longer operates as an independent company, having been taken over by formerly smaller players.

The next 15 years, too, will bring their share of industry upheavals. We believe companies that want to be on top in 2030 must study emerging trends and begin preparing for them now. Certain trends will follow a pattern of predictable growth; others may take more surprising paths. In this article, we cite examples of both types of trends and some of their high-level implications for the consumer sector. We then recommend a set of actions that retail and CPG executives can take now to position themselves for success in the next decade and beyond.

Which trends will matter most?

Drawing on our research, expert interviews, and extensive experience working with consumer-facing companies worldwide, we have identified and analyzed the main trends that have begun—and will most likely continue—to affect the consumer industry. Some of them are already top of mind among executives, others less so. The trends can be divided into five categories: the changing face of the consumer, evolving geopolitical dynamics, new patterns of personal consumption, technological advancements, and structural industry shifts (Exhibit 1).

There is some level of consensus among industry observers as to how a few of these trends will evolve in the next 15 years. For example, it appears fairly certain that spending among middle-class consumers globally will almost triple by 2030 (as emerging-market growth more than offsets stagnation in developed markets) and that more than 75 percent of the world's population will own a mobile phone.

Other trends, however, don't yet give clear indications of their medium- and long-term trajectory. Some trends could experience explosive growth while others simply peter out in a few years. One example is 3-D printing for personal use: although 3-D printers for the consumer market are now available for less than $1,000, experts are divided on whether the hype surrounding this new technology will translate into widespread consumer adoption.

Each trend will also have a different level of impact on the consumer industry. Some will affect more geographic regions and a greater percentage of the

Exhibit 1 **Five dominant forces—and an underlying set of trends—will drive change in the consumer landscape over the next 15 years.**

Changing face of the consumer	Evolving geopolitical dynamics	New patterns of personal consumption	Technological advancements	Structural industry shifts
• Middle-class explosion • Aging population • Women in the workplace • Urbanization • Rich becoming richer • Millennials taking over • Shrinking household size	• Rising labor and commodity costs • Economic power shifts • Economic interconnectedness • Climate change	• Increase in convenience • Focus on health and wellness • Demand for personalization • Shift in discretionary spending • Sharing economy • Focus on shopping experience • Demand for customization • Buying local • Simplification of choice	• Mobile world • Big data for operations • Digital profiles • 3-D printing • Advanced robotics • Autonomous vehicles • Advanced analytics for marketing • Ubiquitous Internet • Social-media-driven consumption • Artificial intelligence • Internet of Things • Virtual reality • Wearables	• Activist investors • Direct-to-consumer models • Continued consolidation • Talent shift/drought
Globally, middle-class spending will almost triple by 2030.	**China's real GDP could exceed US real GDP within 10 years.**	**The size of the sharing economy could exceed $300 billion by 2025.[1]**	**By 2030, ~3 out of 4 people will own a connected mobile device.**	**More than 300 companies faced activist demands in 2014 alone.[2]**

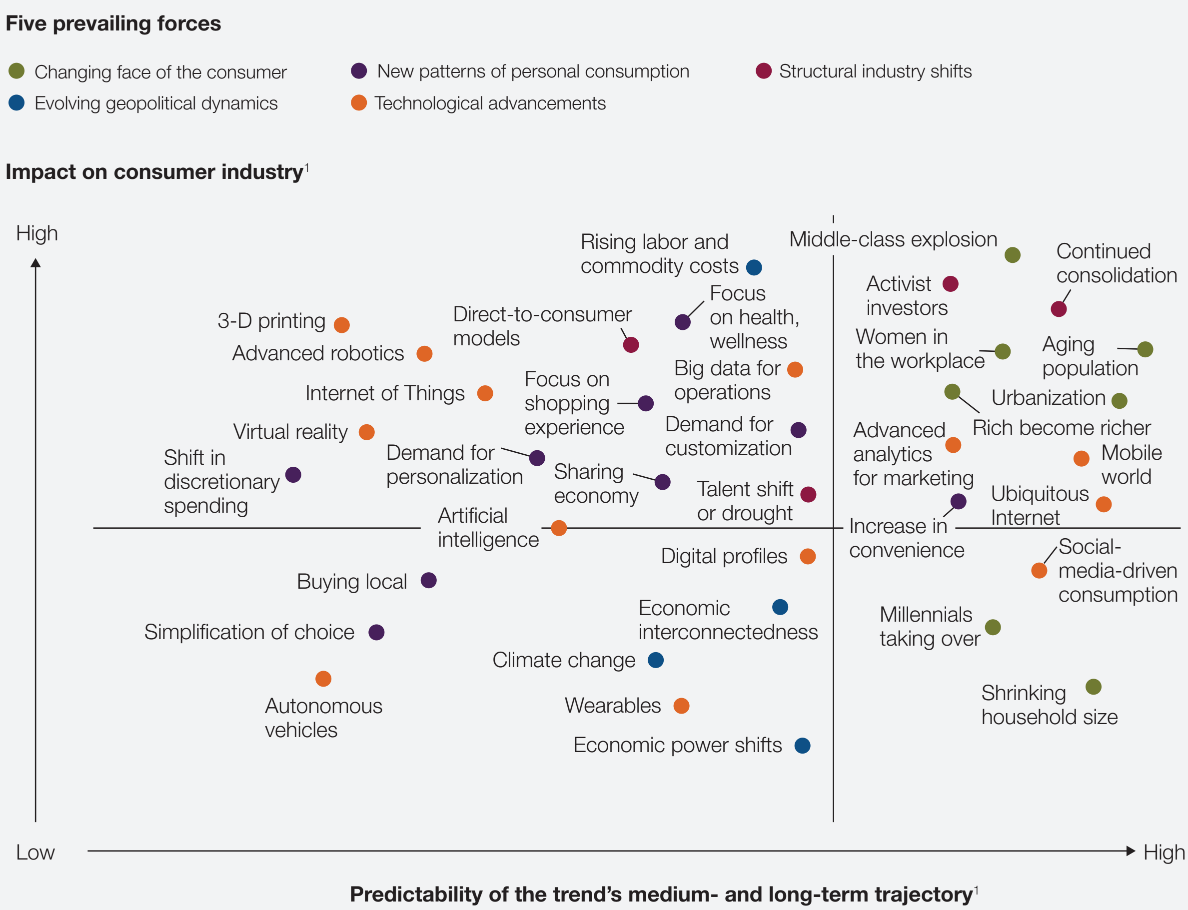
[1] *The Sharing Economy*, Pricewaterhouse Coopers, April 2015.
[2] Activist Insight.

world population; some will cause bigger shifts in consumer spending. Mapping the trends on a matrix—with level of predictability on one axis and potential consumer-sector impact on another—can give consumer companies a starting point for understanding which trends could have the greatest effect on their businesses (Exhibit 2).

By looking across the high-predictability, high-impact trends (those in the upper-right quadrant of the matrix), we can develop a base case for 2030—a picture of what the consumer industry will probably look like in 15 years. With the number of city dwellers increasing at a rate of 65 million each year, the majority of the consuming population will be urban. The average consumer will be slightly older, since growth among aging populations in developed markets is outpacing growth in the younger demographic in emerging markets—although age profiles will of course vary by market. About 75 percent of the 8.5 billion people projected to be alive in 2030 will have both mobile and Internet access. The middle class in emerging markets will be substantially bigger and its members better off than their parents (average wages in China, for instance, are likely to be approximately 45 percent of those in the United States, up from 15 percent today). On the business side, consolidation will continue, owners and investors will become more interventionist, and companies will make better use of digitization,big data, and analytics.

Exhibit 2 **Which trends could most affect consumer companies?**

This conceptual matrix will differ for each company depending on the company's specific product categories, geographic markets, and business context.



[1] Based on analysis of third-party projections, publicly available reports, and expert opinions.

The trends won't affect all consumer markets and product categories equally. For instance, advanced robotics is making headway in Asia but is yet to take off in South America or Africa. Companies should bear such nuances in mind when determining which trends are most relevant to their own situations.

To prepare for low-predictability trends—those on the far-left side of Exhibit 2—the most forward-thinking companies consider and debate a range of scenarios for how the trends might unfold. They define a set of markers that indicate the likelihood of each scenario materializing (examples of markers might include a major change in the number of SKUs in a product category, or the amount of investment in a particular technology among start-ups). They then explore how the industry structure, value chain, and competitive landscape might change in each scenario; prepare a portfolio of options; and scale investments up or down as new information becomes available.[3]

Five questions to consider

For most companies—regardless of geographic or category mix—the base-case trends will almost certainly result in financial pressures. In fact, our analysis indicates that close to 20 percent of companies in the consumer sector are already in financial distress today.[4]

Companies that are active primarily in mature, low-growth markets are particularly vulnerable. Spikes in input costs, even if partially offset by factors such as lower oil prices, could increase cost of goods sold and depress gross margins (in some categories, by as much as ten percentage points). Greater product complexity and rising labor costs could push up operating expenses by three to five percentage points. And investments in automation and digitization could increase depreciation on capital expenditures by two to three percentage points, even as they enable efficiency gains over time.

Leaders would do well to consider the following five questions. Formulating thoughtful answers to these questions will help equip them for what lies ahead.

What makes us distinctive?

In an environment of heightened competition, continued industry consolidation, and deeper involvement from private-equity owners and activist investors, "challenge everything" could be one mantra of consumer and retail companies. They ought to be willing to evaluate and rethink every part of their business system, zero in on what makes them different and what truly confers competitive advantage, and drive out all superfluous costs. Companies that have made moves in this direction include The Coca-Cola Company, which has been divesting its US distribution assets over the past two years, and P&G, which shed more than 100 brands so that it could focus on approximately 70 core brands.

Rigorous cost reduction is an essential part of such an undertaking. The most disciplined companies make cost-structure improvements part of the annual strategic agenda, conduct detailed internal and external benchmarking, and instill a cost-conscious mind-set at all levels of the organization through individual targets and incentives. Many companies should seek to drive out at least 20 percent of operating costs, through initiatives such as lean transformations,[5] outsourcing of business functions, or zero-base budgeting.[6] It's likely that ambitious cost programs—such as those recently undertaken by Best Buy and Levi Strauss & Co.—will become much more common.

How can we engage consumers in an ongoing dialogue?

Especially in an era of fast-changing consumer profiles and behaviors, companies must strive for a thorough understanding of what consumers want and are willing to pay for, and systematically use those insights to inform the evolution of products and brands.

Are we paying enough attention to social media?
Recent research proves yet again that social media has a strong influence on purchase decisions: across product categories, 26 percent of purchases on average were spurred by recommendations on social media.[7] As smartphones get smarter and social networks become more sophisticated, it will become even easier for consumers to share their opinions about products and services. Companies can't afford to ignore these conversations. They should consider investing in ways to listen in on—and, just as important, generate—social-media buzz.

How can we involve consumers in brand innovation? Many companies—LEGO, Pepsi, and Unilever, to name a few—already use crowdsourcing in one form or another to develop and test new products. The advent of 3-D printing and rapid-prototyping techniques has made it easier and cheaper for companies to test and continuously improve their new-product ideas.[8]

What new consumer touchpoints can we offer? Companies must meet consumers' rising expectations for being able to buy what they want, when and how they want it—which means providing a seamless omnichannel experience. They must ensure that consumers have every opportunity to interact with the brand, be it through online or offline channels.[9] For example, Nordstrom customers can buy products not just in stores and on the web, but also on a mobile app, on Instagram, or via text message—and they can pick up, return, or exchange their online purchases at Nordstrom stores.

Are we set up to reallocate resources swiftly and at scale?

The rapid pace of change requires companies to nimbly move capital, talent, and leadership to the consumer segments, geographic markets, and business models with the greatest growth potential. A disproportionately large investment in developed markets, for instance, may be shortsighted, as it reflects a bias toward markets that are currently the largest rather than those with the greatest growth potential. (This bias may be part of the reason that, in almost every emerging economy, multinational CPG players are losing share to local champions.)

Furthermore, the skill sets that CPG companies and retailers will need to win in the future, such as serving emerging-market consumers and managing new technologies, are different from the skills they've traditionally valued. A company's talent must align with its long-term market needs. Companies might consider doubling their people investment (with regard to both staff size and skill levels) in long-term growth areas, particularly in critical functions such as advanced analytics and R&D.

Indeed, research suggests that companies that more actively reallocate investments deliver, on average, 30 percent higher total returns to shareholders annually than companies with more static budgets.[10] Yet agility in resource allocation is still rare. At most organizations, the current year's allocation serves as the basis for the next year's, with only marginal changes.

How can companies get away from the "stickiness" of historical resource allocation? Best-practice companies agree on and continually monitor a set of metrics (such as underlying market growth in a category) that serves as the basis for dynamic resource allocation. Reallocation is on the agenda at annual top-management workshops and regional strategy sessions. The management team has transparent decision-making mechanisms and a clear sense of priorities to guide investment and divestment.[11]

What strategic relationships should we seek out and nurture?

In an uncertain and rapidly changing world, partnerships and acquisitions can be especially critical in two areas: better managing the supply chain and coming up with new ideas.

Are there opportunities to integrate up or down the value chain? Partly as a hedge against rising input costs, and more broadly as a means of exerting greater control over the supply chain, some companies are pursuing backward integration. Mexican bottling company Arca Continental, for instance, already has a stake in a sugar mill and is looking to expand its position.

Who is in our 'innovation ecosystem'? The most innovative companies regularly tap into external sources of skills and expertise, particularly in areas outside their core competencies. Partners might include "connected home" vendors, research providers, or academic institutions. Today, for instance, CPG companies are working with strategic-design firms to identify unmet consumer needs and develop consumer empathy. Retailers are collaborating with telecommunications providers to create cutting-edge in-store tracking systems and shopping apps. For example, discount chain Target, seeking to grow its grocery business, is partnering with design firm IDEO and the MIT Media Lab to study food trends.

How can we use technology to differentiate, not just enable?

The leading consumer companies of the future will also be technology leaders.[12] Many companies have acknowledged this reality, as evidenced by their recent openings of "labs" in Silicon Valley and other technology hubs. @WalmartLabs employs more than 3,000 people. The Home Depot acquired Austin-based tech start-up BlackLocus and turned it into an in-house lab. Coca-Cola, The Hershey Company, and Lowe's have invested in SU Labs, a program at Silicon Valley's Singularity University that, according to its website, helps companies "experiment with emerging technologies . . . before they're ubiquitous."

Have we digitized both our front and back end? Companies must take a disciplined approach to thinking through and managing large digital initiatives.[13] And they must digitize not only back-office functions, but consumer-facing functions as well. By 2030, we expect retailers will be able to create new retail "worlds"—virtual stores that use augmented reality to give customers the experience of walking down a store aisle, for instance, or personalization engines that link to real-time biometric data to recommend meals with optimal nutritional content.

Have we adopted a 'mobile first' mind-set? Given the massive shift to mobile shopping, companies will need to develop a mobile-led omnichannel strategy rooted in a "mobile first" mind-set. Already, leading consumer companies are allowing customers to "scan to buy" products from home or to use mobile-linked features to navigate a store without the help of sales staff. For retailers, a mobile and loyalty platform—available on any mobile device and featuring all the functionality and information that customers need in order to make buying decisions and digital payments—will be table stakes. For CPG companies, a robust mobile strategy will involve not only developing their own digital assets but also optimizing their brands' presence on the mobile apps of Amazon and other multichannel retailers.

Are we advancing with analytics? To fully exploit data and analytics, companies must be able to choose and manage data from multiple sources, build models that turn the data into insights, and translate the insights into effective action.[14] All this requires deep analytical skills that typically need to be brought in from outside. Companies must be willing to invest in new talent. We've found that a small but expert analytics team, equipped with cutting-edge tools, can accomplish much more than an army of unqualified employees.

■ ■ ■

In our view, the future of the consumer industry is neither as unknowable nor as predictable as some suggest. The smartest retailers and CPG companies will study and begin to act on the known factors, while also ensuring they are nimble enough to respond to unexpected developments. By deliberating—and executing—on their answers to these five questions, companies will be well positioned to become the winners of tomorrow. ■

1 *The Millennium Development Goals Report 2015*, United Nations, 2015, un.org.

2 Richard Dobbs, James Manyika, and Jonathan Woetzel, *No Ordinary Disruption: The Four Global Forces Breaking All the Trends*, first edition, New York, NY: PublicAffairs, 2015.

3 Drew Erdmann, Bernardo Sichel, and Luk Yeung, "Overcoming obstacles to effective scenario planning," June 2015, mckinsey.com.

[4] In June 2015, we analyzed 730 consumer-goods and retail companies with revenue of $500 million or more. Almost one in five met at least two of the following criteria: year-over-year revenue decline of more than 10 percent; year-over-year decline of more than 20 percent in earnings before interest, taxes, depreciation, and amortization (EBITDA); year-over-year cash-cycle days increase of over 15 percent; share-price drop of at least 20 percent versus 52-week high; EBITDA/interest expense ratio below 1.25; and net debt/EBITDA ratio over 4.0.

[5] For more on lean operations, see *The Lean Management Enterprise*, January 2014, mckinsey.com.

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[7] Jacques Bughin, "Getting a sharper picture of social media's influence," *McKinsey Quarterly*, July 2015, mckinsey.com.

[8] Jean-Baptiste Coumau, Victor Fabius, and Thomas Meyer, "Incumbents as attackers: Brand-driven innovation," May 2015, mckinsey.com.

[9] For more on how to meet customer needs anytime and anywhere, see Edwin van Bommel, David Edelman, and Kelly Ungerman, "Digitizing the consumer decision journey," June 2014, mckinsey.com.

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[12] Marco Catena, Stefan Niemeier, and Andrea Zocchi, "The retailer as technology company," *Perspectives on retail and consumer goods*, Winter 2013/14, mckinsey.com.

[13] Driek Desmet, Ewan Duncan, Jay Scanlan, and Marc Singer, "Six building blocks for creating a high-performing digital enterprise," September 2015, mckinsey.com.

[14] Peter Breuer, Jessica Moulton, and Robert Turtle, "Applying advanced analytics in consumer companies," May 2013, mckinsey.com.

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