

The future of the Consumer Products industry

The end of the world... or a world of opportunity?

In the midst of explosive population growth, increased urbanization, an evolving, demanding customer base and global climate and natural resource issues, the Consumer Products (CP) industry faces shifting market dynamics, channel challenges and renewed pressures for business model innovation. An emerging class of empowered consumer, steadily increasing consumption and aggressive competition from private labels will require CP companies to execute flawlessly in connecting with consumers, managing supply chain efficiencies and collaborating with channel partners.

The world is changing...rapidly.

Consumer products companies have traditionally focused their efforts and resources on serving a relatively narrow, affluent segment of the world's population. These coveted consumers are likely to live in a developed market, make regular trips to the supermarket and chemist, with less frequent trips to a hypermarket or supercenter. To grow their business with these consumers, CP companies leverage heavy doses of trade and consumer promotion, while seeking to improve collaboration with retail customers to help deliver operating efficiencies.

While this marketing and operating model remains prevalent today, it is not an engine geared to drive long-term, sustained growth. Dramatic population growth and

income gains in regions such as Asia, Latin America and Africa, coupled with urbanization and global macroeconomic shifts, are challenging notions about how and where to grow. For CP companies, these shifts are creating historic opportunities that will require new thinking, decisive action and flawless execution.

Consider, for example, that the global population, 6.75 billion at the end of 2008, will reach 8 billion by 2025.¹ In 2008, for the first time, more than half of the developing world's population was middle class or above, and more than half of the world's total population lived in urban areas.²

Continued urbanization is expected to create a growing number of megacities, which will represent tremendous concentrations of both population and

wealth. Individuals living in these cities will face challenges, but have greater opportunities to move up the income ladder during their lifetimes.

When we couple individual consumption power with population growth and increasing urbanization, a population diamond emerges with four broad segments. In the top two facets are the Cosmopolitan Elite (0.5 billion), and below them the Growing Middle Class (2.1 billion), which together have been the focus market for CP companies. Next are the upwardly mobile Affluent Potentials (3.4 billion), and then at the base of the diamond, the Rural Poor (1.5 billion).³ Within each facet of this diamond, in both developed and emerging regions, opportunities exist for CP companies to serve basic needs, as well as the occasional luxury or indulgence.

This changing world is ripe with opportunities for CP companies to connect at a deep level with new facets of the population and work to exceed their expectations. However, this world of opportunity is also increasingly unpredictable and unfamiliar, and CP companies need to embrace the challenges and take action now to position themselves for future profitable growth.



Critical areas of focus will include:

- Becoming intimately familiar with the new markets and finding new ways to connect with consumers
- Understanding and sustaining consumers in the lower income tiers with appropriate services and products
- Mastering diversified distribution channels, collaborating with retail customers and, at the same time, forging direct relationships with consumers
- Grasping where direct involvement in the value chain adds value and creates sustainable differentiation.

Regardless of their area of focus, winning CP companies in the 21st century will be those that can effectively address markets, channels and model, while executing flawlessly against six enabling capabilities:

- *Glocalization* – Balance market demands for localization of offerings with need for global operating efficiency driven by global standard processes and systems

- *Differentiation* – Focus on those assets and processes that create sustainable differentiation and deliver the greatest value
- *Integrated information* – Integrate information both inside and outside the organization, and analyze and use that information to drive the business through insight
- *Innovation* – Create and deliver innovative product and service offerings that go beyond consumer expectations
- *Consumer-centricity* – Find new ways to connect both physically and virtually with consumers, either directly or via retailers
- *Corporate responsibility* – Integrate corporate responsibility into the organization as a source of value, efficiency and effectiveness.

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- 2 IBM Institute for Business Value analysis; "Burgeoning bourgeoisie." *The Economist*. February 14, 2009; "World Population Prospects: The 2007 Revision Population Database." United Nations. 2007; "Wealth Gap Creating a Social Time Bomb." *The Guardian*. October 23, 2008.
- 3 IBM Institute for Business Value analysis.