

# Retail & Consumer Insights January 2015

## Megatrends in the retail & consumer products industry



### Addressing consumer needs in an aging, more urban world

#### Highlights

- The population and buying power of middle-class consumers are shifting from Western nations to Asia as economic growth continues to lag in developed nations.
- Businesses will need to address the changing preferences and purchasing behaviors of an aging population. Value, size, and health considerations will be key.
- In the US, the size and buying power of the Hispanic population are growing fast. Engaging these consumers will require that companies understand their preferences, characteristics, and shopping patterns.
- Rapid urbanization is changing how consumers shop, what products they prefer, and how those goods are delivered.

#### How population shifts and urbanization will redefine shopping

Demographic shifts and rapid urbanization are the twin engines of change driving global economies. They are powerful forces that are redefining consumer shopping and product preferences. As these trends unfold in tandem, they are creating a paradox: The world is quickly becoming larger—and simultaneously smaller.

Consider the brand-building capabilities of technology. Today, more consumers across the globe can follow brands and purchase goods online; a brand that is big in Shanghai may be equally *grande* in São Paulo.

At the same time, demographic shifts will alter shopping and consumption patterns. The aging of the population in developed nations, for example, will result in diminished demand for products, a shrinking workforce, and a smaller middle class of consumers.

The percentage of the population considered middle class is shifting from North America and Europe to Asia as incomes rise in the East and older workers retire in the West. Today, Asia accounts for approximately 30% of global middle-class spending, up from 20% in 2000.<sup>1</sup>

While growth among some economic powerhouses has slowed, the outlook for developing economies is strong. “In emerging markets like Brazil and China, economic growth remains high in absolute terms, but it’s slowing compared with recent years,” said Don Mulligan, chief financial officer of General Mills, the consumer goods giant. “Nonetheless, it appears that the growth rate of the emerging-market middle class has remained very robust, and that’s the growth that’s relevant to us.”

In developed economies, by contrast, many shoppers tightened their belts at the onset of the global recession and have yet to loosen them. Consequently, consumers are seeking greater value by purchasing private-label brands and are reducing overall spending as retirement looms.

Companies must understand the ramifications of demographic shifts and rapid urbanization, and they must meet the needs of customers in disparate markets. Successful businesses will not only adapt to these trends, but they will also treat them as opportunities.



<sup>1</sup> The Economist, [Q & Asia](#), May 31, 2014

# A new approach will be needed in an older world

The global population is aging rapidly. By the year 2050, people aged 60 years and older will make up 21% of the global population. This is up from 10% at the turn of the century, according to United Nations estimates.<sup>1</sup>

More than any other demographic change, the aging population will alter consumer preferences for products, shopping, and consumption. It's a global trend that many business executives acknowledge will create new challenges and opportunities. In fact, according to PwC's 17<sup>th</sup> Annual Global CEO Survey, 69% of chief executive officers say that the trend that will transform business the most over the next five years is demographic shifts.

And they're right. Aging households in developed nations will catalyze a dramatic change in purchasing behaviors and needs. That's because as consumers age they typically downsize into smaller homes and have less room for products. As a result, they favor smaller models when it comes to products like appliances, furniture, and automobiles. Retirees often live on fixed incomes, and the need for value will motivate shopping—particularly in economies in which consumers have not adequately saved for retirement and have no government safety net.

## **Changing health needs**

Another factor to consider is the changing health needs of an older society. As people age, their dietary needs shift; they may prefer foods low in sodium and cholesterol, for instance. What's more, their caloric intake tends to decrease, and they often prefer smaller serving and package sizes.

Gaining the wallet-share of this segment will require that companies address health issues such as diabetes,

cardiovascular disease, and obesity by offering the right mix of dietary options, serving size, and easy-to-open packaging. "Older consumers look for different things from a health and wellness standpoint," said Mulligan of General Mills. "It's a matter of understanding how people's health and wellness needs change as they age and ensuring that your brands and packaging meet those needs."

## **What it means for the workforce**

Aging of the population will not be uniform across the globe, however, and that will impact the world's workforce. Consider that the working-age population is growing rapidly in countries like India, where nearly a million workers will join the labor force every month for the next 20 years. On the other hand, the working-age population has already peaked in China and has been falling for more than a decade in developed nations like Germany.<sup>2</sup>

Jobs create wealth, and these changes in workforce age will impact consumption patterns. In economies with younger workers and an ascendant middle class, an increasing desire for high-quality products will present an opportunity for consumer goods companies to create brand loyalty and expand their reach.

## **Newly empowered consumers**

Another force to be reckoned with is the growing purchasing power of ethnic populations. In the US, for instance, the rapidly growing Hispanic population will greatly impact consumer product preferences and sales.

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The US Census Bureau predicts that the Hispanic population will make up 31% of the nation's total population by the year 2060.<sup>3</sup> Their buying power is also soaring. By 2015, the purchasing power of US Hispanics is expected to climb to \$1.5 trillion, a 50% increase from 2010, according to Nielsen.<sup>4</sup>

This represents a tremendous opportunity for companies to tailor their products to the preferences, characteristics and buying patterns of these newly empowered consumers, who are more likely to own and shop with smartphones than non-Hispanics.<sup>5</sup> It's important to note, however, that across regions of the US, preferences will vary considerably. This will require a hyper-local attention to detail when designing products and services.

This same type of attention to specific needs also applies on a global basis across cultures. The takeaway? Retail and consumer goods manufacturers should localize their product mix and services to fit the needs of specific populations in each geographic region.

<sup>3</sup> U.S. Census Bureau, [U.S. Census Bureau Projections Show a Slower Growing, Older, More Diverse Nation a Half Century from Now](#), December 12, 2012

<sup>4</sup> Nielsen, [A Fresh View of Hispanic Consumers](#), April 15, 2014

<sup>5</sup> Alcan Media Group, [US Hispanic Trends and Behaviors](#)

<sup>1</sup> United Nations, [World Population Ageing 1950-2050](#)

<sup>2</sup> PwC, [17<sup>th</sup> Annual Global CEO Survey](#), April 2014

# Accelerating urbanization and the rise of *über* urban areas

The global population is quickly becoming much more urban, and urban areas are becoming much more populous.

Today, 54% of the world's population lives in cities, according to the United Nations. By the year 2050, urbanites will jump to 66%. The UN forecasts that almost 90% of this increase will take place in Asia and Africa.<sup>6</sup>

Currently the UN counts 28 megacities—urban areas with populations of more than 10 million. More than half of these megacities are located in developing economies, and the UN forecasts that the number of megacities will increase to 41 by 2030.

As cities morph into megacities, businesses will need to predict population growth and understand not only which cities will mushroom, but also which will have the most favorable economic conditions. In other words, companies must accurately predict where their next customers will live and then determine their product and shopping preferences.

Some characteristics are already apparent. Urban consumers drive less and shop more often; they also favor frequent shopping trips and small package sizes. As a result, urbanization is shifting the preference from big-box stores to smaller shops with differentiated layouts and specialized assortments. These diminutive footprints may require that retailers calculate productivity in revenue per square foot, a different way of measuring success that could potentially squeeze profits.

Differentiation will be key. Limited shelf space will demand that retailers match inventory to local preferences,

and create an in-store experience that conforms to neighborhood norms. Convenience also will be paramount. The fast pace of urban life will drive the need for on-the-go eating, quick purchases, and access to a wider range of inventory via technology.

## **Transit and delivery challenges**

Transit of that inventory may not be as fast as urban lifestyles, however. Poorly planned transportation systems and chaotic traffic in densely populated areas will make delivery of goods a vexing challenge. To succeed, delivery of products to store locations and to customers should be highly adaptive.

Success in many cases may also depend on whether a company has more than one globally harmonized supply chain. Global operations based on a single model will not be efficient in densely packed cities, and a diversified distribution channel will be essential to manage fast adaptation and growth.

Last-mile delivery will also present challenges. Today, companies are experimenting with solutions like local mini-warehousing and shared delivery that consolidates a range of products on the same vehicles for delivery to the same retail locations. In some markets, delivery by compact, energy-efficient vehicles like small electric cars and scooters may provide a compelling cost advantage. Other last-mile delivery options include self-collection locker boxes and distribution services provided by tech-enabled “sharing economy” start-ups.

Finally, it's worth noting that the megacity lifestyle may not appeal to everyone, and we may see a backlash in which urbanites move to less populated areas. It's a potential market that retail and consumer companies should consider.

## **The need for a job-ready workforce**

In many developing nations, education systems and funding have not kept pace with rapidly growing populations. As a result, many workers lack the right skills and knowledge required for business in the 21<sup>st</sup> century.

Businesses can help improve education and develop a job-ready workforce by partnering with school systems and universities. This type of involvement can help ensure that curricula address key skills and knowledge areas. It also can help build goodwill and brand awareness—and position the business as a catalyst for positive change in the communities that they serve.

Another option is to create programs that train local populations in general business skills necessary for employment. Some consumer goods manufacturers have founded corporate programs to provide training for individuals at all levels, including leadership and management.

In India, Coca-Cola provides practical skills and knowledge to help retailers manage stores, inventory, customer experience, and business financials through its Coca-Cola University. The company says more than 200,000 store employees and owners in India have taken part in the program since it was launched in 2007.<sup>7</sup>

Urbanization has long been associated with improved economic and social conditions such as enhanced health, education and cultural opportunities. Retail and consumer goods manufacturers that play a role in improving these conditions in the communities in which they operate stand to win the hearts—and brand share—of local populations.

<sup>6</sup> The United Nations Department of Economic and Social Affairs, [World Urbanization Prospects 2014 Revision](#), 2014

<sup>7</sup> Coca-Cola India, [Parivartan empowers over 200,000 Retailers in India](#), 2014

## **Contact information**

For a deeper discussion about technology breakthroughs,  
please contact:

### **Steven J. Barr**

US Retail and Consumer Leader  
Partner  
(415) 498-5190  
steven.j.barr@us.pwc.com

### **Barbra Bukovac**

US Retail and Consumer Tax Leader  
Partner  
(312) 298-2563  
barbra.bukovac@us.pwc.com

### **Ron Kinghorn**

US Retail and Consumer Advisory Leader  
Principal  
(617) 530-5938  
ron.kinghorn@us.pwc.com

### **Jon Sackstein**

US Retail and Consumer Assurance Leader  
Partner  
(646) 471-2460  
jonathan.s.sackstein@us.pwc.com

### **Leanne Sardiga**

US Retail and Consumer Deals Leader  
Partner  
(312) 298-3183  
leanne.m.sardiga@us.pwc.com

### **Blair Sheppard**

Global Leader, Strategy  
(919) 599-4019  
blair.h.sheppard@us.pwc.com

### **Tamara Wojtasiak**

US Retail and Consumer Risk Assurance Leader  
Partner  
(612) 596-3935  
tamara.wojtasiak@us.pwc.com

