Global trend, local opportunity: the rise of the emerging middle classes

The emerging middle class: the 15-second download

5 The growth of the aspiring middle class with rising disposable income is a global phenomenon. But the media and entertainment demands, tastes and buying patterns of these consumers vary widely from market to market.

10 As a result, realising the revenue potential of the emerging middle class in any market demands a deep understanding of the local context and appropriate market segmentation including consumers' tastes and pricing expectations, and the predominant delivery platforms.

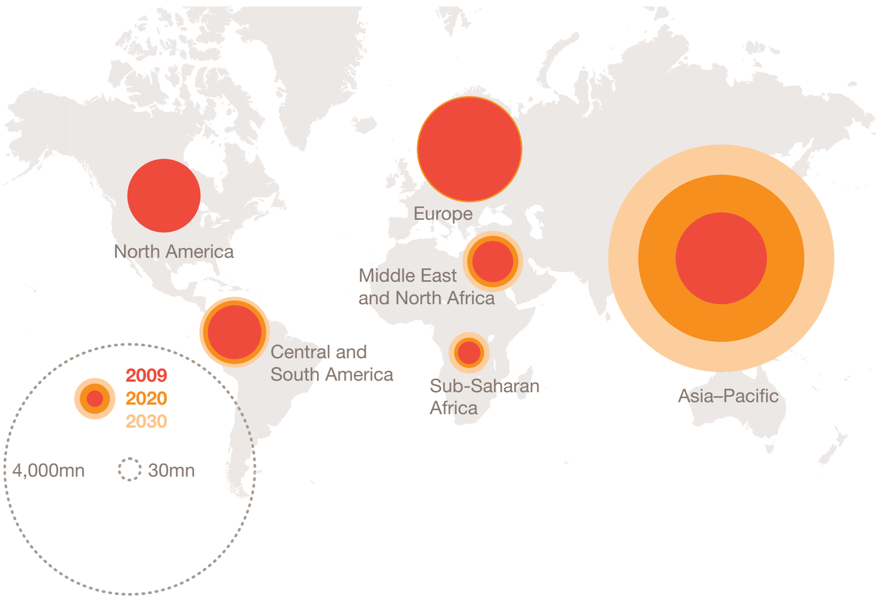
15 Since local entertainment and media companies already possess this knowledge, they are in pole position to realise the opportunity of the emerging middle class in each market. The optimal approach for international players is usually collaboration with local partners.

The emergence of an aspiring and increasingly discerning middle class in countries worldwide is one of the most significant social and demographic trends of the 21st century. The world is getting wealthier; the number of middle-class consumers is projected to rise dramatically over the next 15 years, especially in Asia (see Fig. 1).

Across the world, this expanding demographic are not only exhibiting rising disposable income and a readiness to pay for new and more compelling content experiences. They are also becoming increasingly 'connected' and mobile, and are not weighed down by legacy—attributes that are helping to position them as the principal driver of growth in entertainment and media spending worldwide over the next decade and more.

What's more, experience suggests that the presence of an emerging middle class tends to boost entertainment and media spending relatively earlier than other industries. Examples include people in India starting to buy their own newspaper rather than sharing, and the rapid growth in pay-TV subscriptions in China in recent years.

Fig. 1 The global middle class is expanding



Source: The new global middle class: A cross-over from West to East, *China's emerging middle class: Beyond economic transformation,* Brookings Institution Press, 2010

Clarifying areas of confusion

So the emerging global middle class presents major opportunities for entertainment and media businesses: that much is clear. Yet confusion surrounds many aspects of the global emerging middle. Where is it located? Who is best placed to realise its revenue potential? And what strategies can local or international entertainment and media companies best employ to harness its burgeoning spending?

To clarify these areas of confusion, the first point to stress is that the concept of the emerging middle class is very different from the concept of emerging markets. True, there are fast-growing middle classes in India and China. For example, a study by TNS recently estimated that in 2014 in China alone, 23 million people will rise out of poverty. But they also exist in developed economies: in the US, for example, the emerging middle class is largely Hispanic—a characteristic that should shape efforts to capture its spending.

A second—related—point is that the tastes, demands and expectations of the emerging middle classes vary profoundly from market to market. Culture, language, family size and structures, established media tastes and formats, social norms and values, income levels, aspirations, device types, infrastructure penetration—all these factors and more will influence what the emerging middle class wants, values and will be prepared to pay for in each country.

If it is possible to generalise about this 'emerging middle', it is the thirst for education and knowledge. This provides an important backdrop against which entertainment and media companies can position their products, localise and hence gain market traction beyond their normal positioning.

Local content services demand local knowledge …

This variability across different territories brings two implications. One is that meeting the needs of the emerging middle class—and capturing their revenue potential—is a local and domestic activity in each market, demanding deep local knowledge and insight into what consumers want and will pay for. The migration to digital does not change this at all, although it does mean it may be easier and quicker to reach more consumers with appropriate content experiences.

The second implication is that international entertainment and media companies should not expect to be able to realise the worldwide potential of the emerging middle classes simply by taking their existing offerings from one market and transplanting them into others. To win middle class eyeballs and spending, content offerings need to be local—or at least localised—by taking account of local tastes, behaviours and price sensitivities. In both cases, success is ultimately about defining local relevance and structuring solutions to meet that relevance.

The need for local knowledge does not stop there, as it needs to embrace an understanding of the local media landscape in terms of key players, the regulatory environment, infrastructure and business norms.

… meaning local players have the edge

All of this means that the local players in each market with a fast-growing middle class are the best-placed to realise its potential. As with any other group of consumers, engaging and monetising this emerging demographic is about delivering relevant content in the relevant way at price points tailored to its spending expectations and disposable incomes. And the companies with the deepest insights into these local factors are the local players.

Conversely, the need for detailed insight into local middle class consumers creates a barrier for international entertainment and media companies looking to tap into their rising value. Historically, international players have a patchy track record at best in gaining and applying deep local knowledge in new markets.

In some cases, the result has been failed attempts to sell content services that are simply unsuited to local tastes. We've even seen a mobile telco target the middle classes in a new market by developing mobile content apps based on one specific device platform, only to discover that most consumers in the country used a different device.

Strategies to capture the emerging middle …

So, how should entertainment and media companies—whether local or international—go about targeting the emerging middle? Since these consumers vary so widely by territory, the answer for both domestic and global players lies in getting local answers to key overarching questions.

Questions like: what blend of content experience and delivery platform is most attractive to consumers in the market? What content verticals do they find especially compelling? What pricing will they bear? What kind of service bundling would appeal at the local level? How about the profile of advertisers? How to take advantage of aspirational needs such as the thirst for education? Are there certain brands that have particular local resonance and should be brought in as cornerstone advertisers, sponsors or commercial partners?

… for domestic or international players

Building on these basic local insights, both local and international players can map out their strategies. Both need to start from an understanding of what their key strengths and core competencies are—feature films, children's entertainment, mobile content, sport, or anything else—while remembering that success is not just about having the world's best content, but the best content for the local context.

Local players will already have much of this knowledge and insight at their fingertips, which is why they have the edge. Similarly, media multinationals need to accept that the local understanding they need for a successful entry exists within players across the domestic entertainment and media sector. To tap into this pool of insight and create the right localised offerings, the most effective approach for international players is generally through a collaborative partnership or joint venture, providing them with access to people on the ground who understand the market.

These collaborations are likely to extend beyond local content houses to include local technology and infrastructure players. Aside from a joint venture approach, full acquisition of local players may be a further option. But this can bring a risk of alienating local talent—and in many markets it's ruled out anyway by local ownership regulations.

Whatever the chosen entry method, an international player will need to develop a good understanding of the local market landscape and key players, conduct reputational due diligence on any local partners before signing an agreement, and gain robust assurance on key issues such as digital rights management. The two companies can then work together to apply their respective assets and skills in the most complementary and mutually beneficial way for the local context—whether through co-productions, localisation of existing content, format adaptation, or other approaches.

Once up and running, the international partner may decide to invest in building a local innovation capability to drive continuous adaptation and meet local consumers' needs better and more fully over time. This capability must be supported by sufficient capital—but the most difficult component to find is often the right local talent.

The rise of the middle class may be a global trend—but it can't be harnessed through a global one-size-fits-all approach. When it comes to realising this new potential, local players' deep consumer knowledge and insight means they're best placed to succeed. The question for multinationals is whether and how they can create local relationships to share the resulting value.

Ten questions to ask:

For local and international players:

1. *How deep is your understanding of emerging middle class consumers in your chosen markets?*
2. *What blend of content experience and delivery platform do they find most compelling?*
3. *How are their pricing expectations and disposable income levels changing?*
4. *What service bundling strategies appeal to them?*
5. *What content verticals and brands resonate with them most strongly?*

For international players:

1. *If you are targeting the middle classes globally, how deeply do you differentiate between them in different markets?*
2. *How are you gaining insight into the tastes and spending expectations of middle class consumers in your target markets?*
3. *What is your strategy for localising your content or producing local content to meet those requirements?*
4. *How well-developed is your ability to collaborate with local partners in different markets?*
5. *Have you built a local innovation capability in any local markets—or do you intend to do so?*