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Energizing Global Growth
Understanding the Changing Consumer

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Foreword

As the global economy continues on its slow path to recovery, there is a prevailing sense of hope—and expectation—that businesses can grow profitably in the coming years. From my experience with clients across the world, I have learned that businesses and investors are tentative yet confident that a corner has been turned.

Yet while growth is high on the agenda, it is especially hard to achieve in a tough economic environment. In Europe, particularly, the outlook is challenging. It is still possible to find pockets of growth, however—the Baltic countries, for example, are all expected to grow at or above 2 percent in 2013. But for the most part, businesses will not be able to ride the wave of overall market growth. Instead, they will have to redouble their efforts to grow in mature or slowing markets.

In regions or industries where the overall size of the market is static—or may even be shrinking—the ability to capture market share becomes paramount. The companies best able to do this are those that excel in their understanding of consumers, a differentiator that applies equally well in growing markets.

This truth is relevant as we embark on what appears to be a new era of consumption—one that is evermore influenced by rapid advances in technology, huge quantities of information about individuals and their preferences, and increasing concern about the impact of consumption. What has amazed me is the pace of change shown by consumers, particularly in emerging economies. Nine in 10 emerging-market consumers have watched television on a phone, tablet or computer, and nearly two-thirds are considering the environmental

impact of their purchases more often than they did three years ago. Such consumer trends have the ability to affect not only business-to-consumer companies, but also business-to-business ventures and the public sector. Every organization must watch for signals of consumer change that can influence business growth and the recovering global economy.

Businesses must stay one step ahead of the consumer to succeed in such a world. Many companies will admit they are currently one step behind.

While there is no foolproof strategy that will help restore growth in economies where it has been hard to come by, a couple of imperatives are clear. Businesses should discern emerging consumer trends, and then invest selectively to stimulate growth in consumer spending. Governments have a role to play, too. They should actively create the infrastructure and the policy environment needed to foster business activity in this new era.

This is a time of great potential for businesses and the customers they serve—a time when better understanding of the consumer could energize global growth.



Mark Spelman
Managing Director
Accenture

A handwritten signature in blue ink that reads "Mark." followed by a long horizontal line that ends in a small arrowhead pointing to the right.

Mark Spelman

Preface

Consumers are changing the world. Or rather, changes in consumer behavior are changing the world. Those changes are driving massive growth across industries. And they hold the promise—if businesses recognize and capitalize on the opportunities—of lifting the entire global economy in the process.

What kind of changes in behavior are we talking about? Let's consider a few examples: it is the professor in Stockholm checking her e-mail before bed only to find an invitation to attend a conference in London, and immediately going online to buy airline tickets from a travel site. It is the young tech worker who gets his first job in Silicon Valley, sells his beat-up old car, and signs up for a car-sharing service for those times when he needs personal wheels. And it is the mother in São Paulo, who always looks for the label indicating that sustainable forestry methods were used to produce the paper products she needs for her family.

These examples all point to new types of behavior that we identified through extensive research over the past year. We found that the vast majority of consumers today are networked. They are almost always "on"—never far from an Internet connection that will put them in contact with companies; sometimes to buy, sometimes to offer advice, sometimes to praise or to criticize. They are also quick to use the tools of social media to connect with everyone—family, friends, colleagues and even companies from which they buy.

Furthermore, consumers are increasingly independent. They may want products that have been customized to meet their specific desires. They often prefer renting to buying, or second-hand luxury to first-hand average. And yet independent in no way means selfish—on the contrary. Consumers today are

more frequently co-operative: they seek community, and they expect companies to operate on behalf of communities. They are also conscientious, and they expect businesses to actively protect the environment and to promote social causes.

Why does this matter so critically to all business leaders today? Because it points to the truth that companies cannot be content to focus on the "where" and the "who" of selling. They are unable just to say "emerging markets" and "people over the age of 55." Instead, they must give new attention to the "how" and the "why" of consumption. The networked consumer is the new "how," and the independent and co-operative consumer is the "why."

If stock markets are correct, then companies must grow rapidly to meet analyst expectations. Just the non-financial companies in the S&P Global 1200 have to find an additional US\$5 trillion in revenue each year. To meet these expectations, business leaders must recognize key elements of changing consumer behavior and then undertake the necessary organizational shifts to capture the growth that those changes are generating.

Business leaders are confident in their ability to lead their companies to profitable growth in the next few years. Policy makers and government leaders should also be encouraged. We hope this report helps them "energize" global growth through their understanding of the changing consumer.



Paul F. Nunes



Paul F. Nunes

Managing Director of Research
Accenture Institute for High Performance

Executive summary

The global economy hangs in the balance. Economists continue to predict relatively low growth in the developed world over the next five years. Meanwhile, the largest emerging markets have not been able to maintain the astounding growth rates of the previous decade.

Yet shareholders appear to see things differently. High expectations for business growth at large global companies are already priced into the market. The gauntlet, then, has been thrown down: to meet expectations, businesses must find ways to continue growing in a world where average growth is lower than pre-downturn highs.

Accenture recently undertook extensive research to understand how companies can achieve high business growth in a slow-growth economy. The answer lies in recognizing how consumer behavior change is generating significant growth in a wide range of industries. Armed with that knowledge, business leaders can then create the toolkit, mindset and organizational structure that companies need to succeed in meeting expectations—including their own—for rapid growth.

Increasingly, as companies learn how to take advantage of the changing behaviors of their customers, they can collectively contribute to overall economic growth wherever they operate; in short, creating a virtuous circle.

Investors today are, once again, expecting robust business growth. We see this in our analysis of the S&P Global 1200, where enterprise valuations indicate high expectations. In fact, companies in that index will need to find an additional US\$5 trillion in revenue growth each year simply to meet the analyst expectations behind their current share prices.ⁱ

But while US\$5 trillion may be a big number, business leaders show a surprising degree of assuredness in their ability to deliver growth. In an Accenture survey of 600 executives in 10 countries, more than 80 percent reported confidence in their business's ability to grow profitably over the next two to three years.

Is such optimism warranted? The recent record is not encouraging: only about one in 10 of the S&P Global 1200 saw revenue growth outstrip economic growth in each of the past three years. And when the analysis was broadened to include the world's 3,000 largest listed non-financial companies, we learned that only slightly more than half of the companies had increased both revenue and net income over that period.

If the business climate has been challenging in recent years, the overall economic climate has been worse—at least, in developed economies where economic growth is roughly half what it was five years ago. And while those markets are expected to rebound somewhat in the next five years, the outlook for emerging markets is declining—with growth forecasts having been revised downwards regularly. What is the likely result? Executives should not expect that a rising economic tide will enable middling companies to become buoyant.

Instead, companies must look elsewhere, at consumers themselves and how changes in behavior are creating important opportunities. In the past, companies could grow simply by focusing on the "where" and "who" of consumption—places such as emerging markets and growing customer segments such as the elderly. Today, two additional elements are critical: the "how" of consumption, and the "why." Both areas have undergone rapid change in recent years—so rapid that executives, even when aware of the trends, have wondered how to respond. For instance, consider that more than four in five respondents (83 percent) in our survey recognized the opportunity in responding to changing consumer behavior, but nearly equal numbers (80 percent) said their companies were not fully taking advantage of those changes.

ⁱ Financial service companies have been excluded from this analysis because their market multiples are not exactly comparable with other industries. For financial service companies the market multiples are calculated at an equity level whereas for other industries they are calculated at an enterprise level.

The "how" and the "why" of consumption

Of course, it is possible to simply look around to get a sense of the changes in the way people consume and their reasons for doing so. It is not news that consumers are increasingly using mobile devices to buy anything and everything. Nor will it surprise readers to learn that many people are often less interested in acquiring "goods" and more interested in gaining experiences, or that they see consumption as an act of social responsibility.

But having a general sense of the changing environment is not enough. In addition to our survey of 600 executives, we surveyed 10,000 consumers in 10 countries to gain a data-led perspective on changing behaviors. Our analysis yielded valuable insights. Specifically, we were able to identify 10 dimensions of consumer behavior change that are affecting the ways in which, and the reasons why, consumers buy. Three of these dimensions point to the emergence of a **networked** consumer:

- **Connected** consumers are always on. For example, a large majority of those we surveyed check e-mail before going to bed at night. They are never far from a purchasing channel at any time.
- **Social** consumers interact with companies, institutions and each other through the Internet. For example, more than half of consumers reported that they increasingly use social media to interact with family members.

- **Co-productive** consumers are now a factor in the means of production. For example, they told us they more frequently provide direct feedback to companies and help design products.

The remaining seven dimensions illuminate why people consume. Personal fulfillment is critical to many people, and this can be seen in four dimensions that define an **independent** consumer:

- **Individual** consumers spend to express their particular personality and uniqueness: they want tailored offerings that will bring out who they really are.
- **Experiential** consumers want more than the digital world can offer. They seek the enjoyment of new and different experiences, from traveling to new places to attending live events.
- **Resourceful** consumers can seem like a familiar type: they work hard and spend thriftily to get ahead. The difference today is that they turn to new online platforms to buy used products, sell directly to other consumers, or participate in online auctions.
- **Disconnected** consumers like to distance themselves from the constant presence of the digital world and are willing to spend to do so. One in five reported that they turn off their phones for extended periods. But they still want products and services that help them leave the stresses of the world behind, ranging from scented candles to cruise vacations.

While seeking a growing independence, consumers are, at the same time, increasingly involving others in their consumption habits. They are becoming increasingly **co-operative**, placing a strong emphasis on responsible production and consumption:

- **Communal** consumers devote extensive time and money to causes with social impact—and they appreciate businesses that do the same.
- **Conscientious** consumers more frequently buy local, more often make what they need, and consider the environmental impact when deciding what to purchase. Also, they give away what they no longer need.
- **Minimalist** consumers purchase second-hand or reuse products. They may, for example, prefer car-sharing schemes to outright possession, tending to value access over ownership.

Faced with a more complex landscape of consumption, businesses must work to enhance their understanding of consumers and learn how to turn that better understanding into growth.

Targeting the new consumers—on their terms

What should companies do once they have gained this knowledge about consumers? Returning to the list of the 3,000 largest listed companies worldwide, we identified those companies whose median revenue growth most exceeded their industry peers—we term these companies “industry growth leaders.” By focusing on the set of highly successful companies that had succeeded in markets built on significant changes in consumer behavior, we were able to identify three common elements that kept them closer to changing consumers and enabled them to achieve dramatic growth. Industry growth leaders:

- Develop a cutting-edge analytical toolkit that enables them to continuously assess and respond to changes in consumer behavior.
- Instill an adaptive mindset that helps them anticipate or respond quickly to disruptive market forces.
- Create an agile organization to introduce the right capabilities to act on fast-developing opportunities.

How can organizations better profit from consumer change?

Develop an analytical toolkit. Leaders use advanced analytics to identify and bridge gaps between businesses and consumers. For example, Activision Blizzard Inc., a computer games developer, partnered with an analytics firm—which captures analytics data on 250 million consumers daily—to test and improve gameplay in real time. Netflix’s analytics capabilities lead the film rental industry, enabling the company to cater to individual consumers’ preferences in recommending titles for rent.

Instill an adaptive mindset. Leaders see disruption as an opportunity rather than a threat. They inculcate a mindset of perpetual change that allows many of them to shape their industry’s long-term direction. For example, publishing company Pearson Education Limited transformed its entire business model when faced with a growing shift to digital publishing. Tech-based education services replaced textbooks as its primary breadwinner. Brazilian pulp and paper company Suzano Papel e Celulose saw beyond the challenge of sustainability and recognized the potential for “triple bottom line” growth; it undertook sustainable forestry practices and was the first company in any industry in Latin America to receive carbon-friendly accreditation.

Create an agile organization. Leaders recognize the importance of winning quickly in today’s markets; having the right capabilities to turn insight into action. These companies scale offerings rapidly after identifying a successful response to an element of consumer change and are able to change direction quickly. Whole Foods Market understood consumers’ growing emphasis on healthy living and carried out mergers and acquisitions to become the world’s market leader in natural foods. Baidu, a Chinese search engine and technology company, is moving into Brazil as part of its internationalization strategy—despite losing US\$108 million in its overseas operations from 2008 to 2010.

The economics behind changing behaviors

It is not only that businesses can grow as a result of changing consumer behavior: the global economy can benefit substantially. By aggregating estimates of market size and growth for just a few industries and sectors associated with these areas of behavior change, we estimate the growth opportunity from those sectors alone to be roughly US\$2.4 trillion over the four-year period from 2012 to 2016. These industries and sectors are growing three-and-a-half times faster than emerging economies and 10 times faster than developed economies.

Additional research we conducted estimates that stimulating consumer expenditure could raise the level of global gross domestic product by 2.3 percent in 2016. With these projected returns, understanding and following consumer behavior becomes everyone’s business today, including those that seek to increase growth at national and world levels. The end result is likely to be a boost to growth that benefits both developed and emerging markets—and the consumers within them.

About the research

Our research comprised four individual studies. Each study was designed to answer critical questions in a logical sequence that started with the individual consumer and ended with implications for the global economy:

- Is consumer behavior really changing—and if so, what patterns or trends can we discern to help businesses grow?
- Are business leaders aware of these changes, and if so, how are they responding?
- What are the best examples of companies that are capturing the benefits of changing consumer behavior, and what can other companies learn from them?
- What do changes in consumer behavior mean for the global economy as a whole, and can higher growth be stimulated by greater understanding of these changes?

For the [global consumer behavior survey](#), Accenture surveyed 10,000 online consumers from 10 countries—Brazil, China, Germany, India, Indonesia, Japan, South Africa, Turkey, the United Kingdom and the United States—to assess and quantify the extent of consumer behavior change. We conducted a factor analysis on the results of this survey to derive the 10 dimensions of consumer change discussed in this report.

For the [global executive survey](#), Accenture surveyed 600 business executives from the same 10 countries, across many industries. Approximately half of these respondents were C-level executives; the remainder were directors and other senior managers. Nearly 60 percent of the businesses surveyed had annual worldwide revenues above US\$1 billion; about one-third had revenues between US\$500 million and US\$1 billion; the rest had revenues between US\$250 million and US\$500 million.

In our [industry growth leaders analysis](#), Accenture assessed the world's top 3,000 listed companies by market capitalization and identified those that had achieved the greatest median revenue growth compared to their industry average over three-, five- and 10-year periods. A subset of these companies was used to create several case studies for the report.

Accenture conducted a [macroeconomic analysis](#) in conjunction with Oxford Economics to assess the impact of changing consumer behavior, identifying the effect of an increase in consumer expenditure on the economy as a whole.

In addition to the four studies listed, Accenture conducted interviews with client account teams and technology specialists.

The age of complexity

The global economic outlook

The residual impact of the great recession is still being felt by the global economy. While the prospects in 2013 look better than 2012 at a global level, concerns still persist over economic growth in developed countries, where the outlook over the next five years is below prior highs (see Figure 1).

Lower growth in the developed world, and the consequent reduction in imports, has dampened growth prospects among the largest emerging markets. These emerging markets are also facing challenges closer to home. China's growth is slowing as household consumption continues to lag investment,¹ with the percentage of gross domestic product attributable to consumer spending falling by 11 percentage points from 2000 to 2010.² India's 2012 growth rate is forecast to be the lowest in 10 years. It, too, has seen private consumption as a share of gross domestic product fall—by more than eight percentage points over the same period.³ Brazil's economy has oscillated from 7.5 percent growth in 2010 to 1 percent in 2012⁴ and back to a forecasted 3.9 percent in 2013. In such a complex macroeconomic environment, sources of growth are hard to find and constantly changing.

Consumer expenditure crucial for growth

Stimulating consumer expenditure is essential to steer economies onto higher growth trajectories, not least due to the size of consumer spending itself. Household expenditure is the main component in many developed economies—private consumption constituted 72 percent of gross domestic product in the United States in 2011.⁵ Many emerging economies are trying to stimulate consumer expenditure to rebalance economies that have become reliant on fixed investment and government expenditure for growth.

In addition, history shows the important role of consumer expenditure in recovery from prior recessions. Accenture analysis of 14 recessions suffered across Germany, the United States and the United Kingdom found that consumer expenditure was a significant component of recovery after eight of these downturns.ⁱⁱ However, the recent recession has been not only more prolonged but also more profound than those observed in the past. Personal consumption has taken 10 quarters to return to its pre-recession level in the United States, compared to an average of three in previous recessions (see Figure 2).

Market growth harder to attain

Many businesses are finding that traditionally "core" markets are showing little or no signs of growth. Consumer confidence in the European Union is approximately 12 percent lower than the long-run average, as unemployment rises and disposable household incomes fall.⁶ This decline in confidence has had a corresponding impact on retail sales, which were 3.6 percent lower in the eurozone than the year prior.⁷

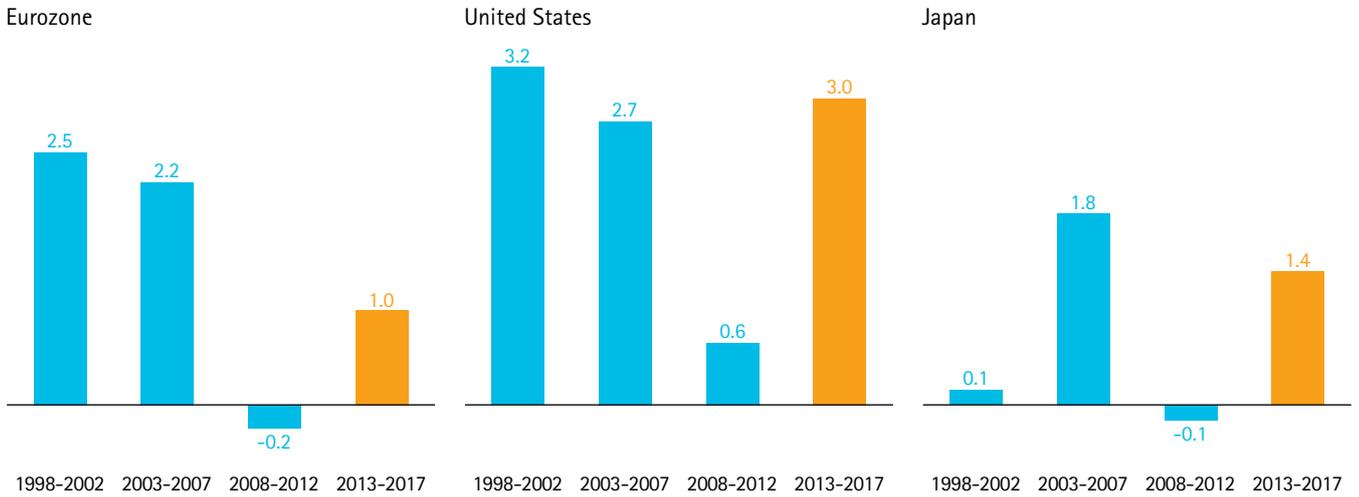
At the same time, emerging markets are unlikely to provide immediate returns for new entrants. The Accenture global executive survey suggests that emerging-market exposure has been critical for companies in developed markets to achieve high growth. Of the fast-growing companiesⁱⁱⁱ headquartered in developed markets, 23 percent gained more than half of their revenues from emerging markets, compared with just 5 percent of others. Yet the window of opportunity in emerging markets may be shrinking. In the Accenture Fast Forward to Growth study in 2012, 73 percent of respondents said they feel the need to accelerate their efforts and that they may already be too late to build satisfactory market share in high-growth markets,⁸ raising concerns that, while new hotspots of economic growth may be appearing, it will take time for businesses to reap the rewards.

ⁱⁱ The analysis looked at different components' contribution to changes in gross domestic product levels, and the extent to which the components' influence differed from a historical average in the quarter immediately following recession. "Very significant" is defined as greater than one standard error over the mean.

ⁱⁱⁱ Defined as those with an increase in total sales of 6 percent or higher over the last year.

Figure 1. Slow recovery in developed markets

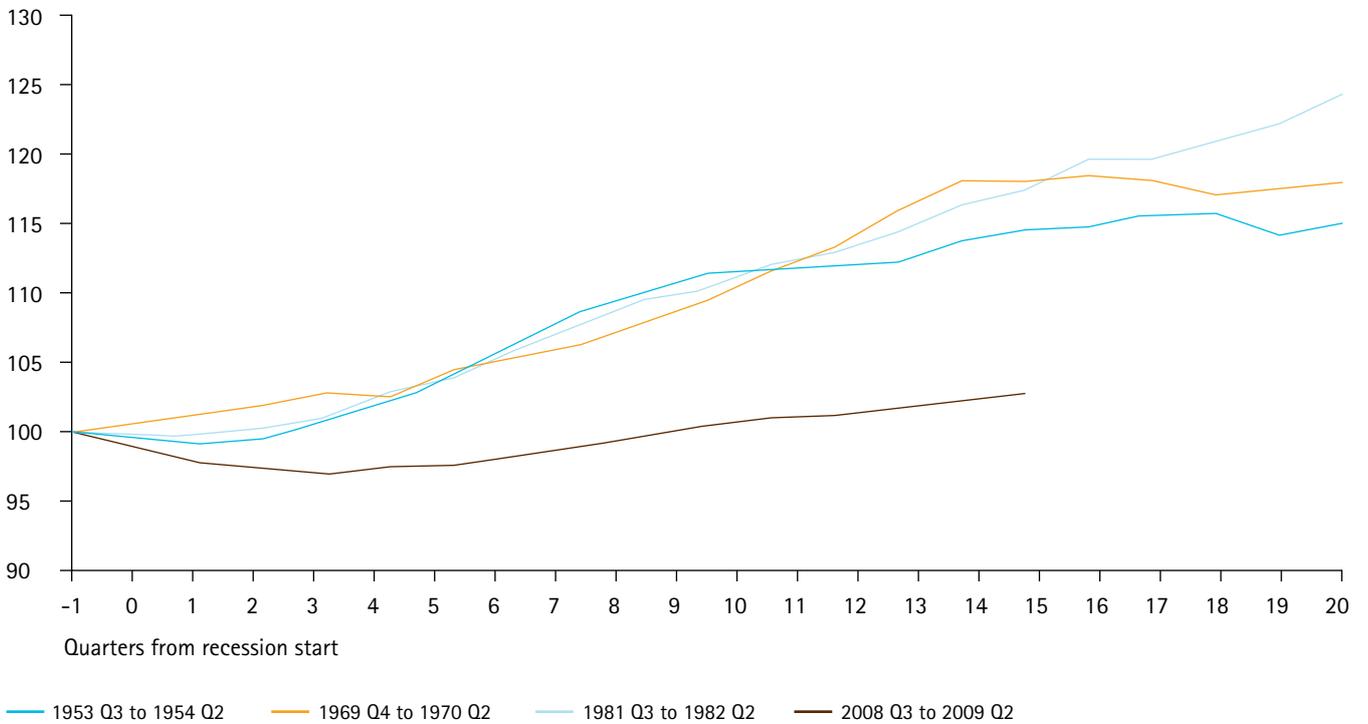
Average annual gross domestic product growth, developed markets (in percentage)



Source: Oxford Economics

Figure 2. Slower recovery than prior recessions

Personal consumption expenditure after United States recessions, index=100 for quarter prior to recession



Sources: United States Bureau of Economic Analysis, Accenture analysis

satisfaction

With the economic outlook in emerging markets facing downward pressure, it will be far more challenging for international businesses to deliver rapid growth. The Accenture global executive survey suggested a fading confidence in emerging markets—just one in three business leaders surveyed are very confident that selling more in emerging markets would enable profitable growth in the next two to three years.

The case for change

Given the importance of private consumption to major economies, a substantial recovery in consumer spending would help economies achieve a higher growth trajectory than currently forecast. However, consumers themselves are not going to spend their way out of the current situation. Business investment is critical to an economic upsurge, with governments also playing a role in providing infrastructure and creating a favorable policy environment.

Our analysis, carried out in conjunction with Oxford Economics, suggests that if consumer expenditure can be encouraged, global growth forecasts will be significantly higher. We believe that consumer expenditure globally could rise by US\$1 trillion over the baseline expectations by 2016,^{iv} resulting in an uplift to global gross domestic product of 2.3 percent (or US\$1.4 trillion).

Here is how global growth could play out: in developed markets, the slowing or ending of the drive for austerity (happening organically or led by policy) could encourage businesses to spend and invest some of their cash balances. Increased business activity will, in turn, improve labor-market conditions, lifting real wages while boosting consumer confidence. In emerging markets, this impact is likely to be more prominent, thanks to ongoing rebalancing efforts, continued urbanization and strong momentum in real income growth.

Although these changes are partly a question of policy—enabling a reduction in the savings rate in both the emerging and developed world, without precipitating a return to the overly high levels of personal debt that helped bring about the 2008 downturn—businesses also have a role to play in targeting investments to activities that appeal to consumers, allowing their spending levels to grow. To do so requires a nuanced understanding of how consumers have changed, and what they currently want.

^{iv} Oxford Economics baseline growth forecast as at November 2012.



individual

lifestyle

luxury

choice

personality

freedom

Great expectations

Market expectations of company growth are back

Despite unfavorable economic conditions, market expectations of company growth have returned to pre-crisis levels. Analysis of the S&P Global 1200 (excluding financial companies)^v shows that enterprise value multiples^{vi}—be they multiples of revenue or profit—are back to where they were in 2007 (see Figure 3).

We also found that analysts' expectations of revenue growth among leading firms are significantly outpacing forecasts of economic growth. Using the S&P Global 1200 (excluding financial companies) as our dataset, we calculated that the median consensus revenue growth for 2012 to 2014 is 4.6 percent per annum. In comparable terms, economic growth in developed economies is forecast to average 3.3 percent per annum over the same period.^{vii}

The implication is clear—leading companies need to grow faster than their economic environment. Yet on average over the last three years, nearly four in 10 companies have failed to have revenue growth exceed gross domestic product growth in developed economies, and less than a quarter (24 percent) have had revenue growth that exceeded growth in developed economies in each one of the last three years.⁹

The expectations are high; in total, non-financial companies in the S&P Global 1200 need to achieve US\$5 trillion of revenue growth every year to meet analysts' growth expectations. In today's environment, achieving this revenue growth will be no small feat.

Unfounded optimism?

Faced with these high expectations, businesses are remarkably upbeat. Eighty-two percent of respondents we questioned in our global executive survey are confident in their business's ability to grow profitably over the next two to three years (see Figure 4). This growth is not restricted to companies based in emerging markets; in every country we surveyed, at least 60 percent of respondents said they are confident in the ability of their company to grow.

Such confidence may be misplaced: we looked at the revenue and net income growth of the world's 3,000 largest listed (non-financial) companies and found that, over the last three years, nearly half (44 percent) of them failed to grow both revenue and net income.

Weak overall growth in developed markets, coupled with challenges in achieving success in emerging markets, has drastically reduced opportunities for organic growth. Many large global companies, from sports clothing retailers to consumer goods companies, have recently issued profit warnings or lowered earnings forecasts in the face of increasing difficulties in emerging

markets. These difficulties have arisen for a number of reasons—weaker-than-forecast demand, regulatory pressures or a misunderstanding of consumers. One US-based retailer, for example, recently announced the closure of a store format in China poorly suited to local customers.

At the same time, it is significantly harder to realize inorganic growth. The combination of the uncertain macroeconomic environment, increasing protectionism and growing antitrust regulation globally has dampened the market for mergers and acquisitions. Global merger and acquisition deal values were 50 percent lower in 2011 than 2007, and the forecast for 2012 is lower still.¹⁰

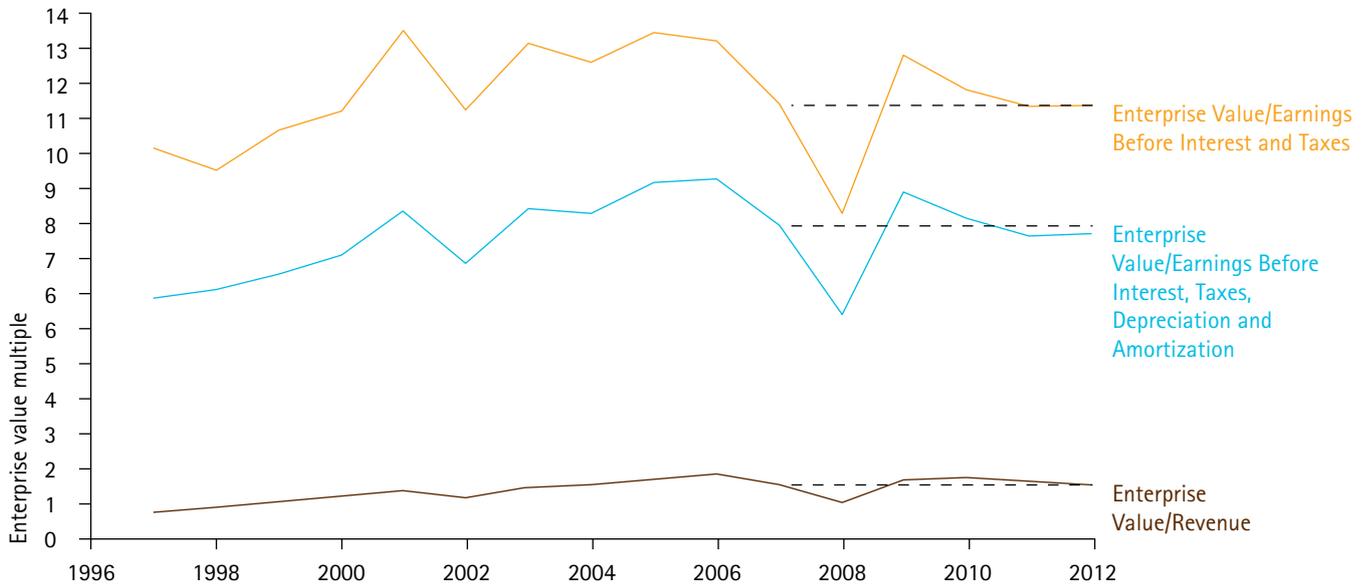
^v Financial service companies have been excluded from this analysis because their financials are not exactly comparable with other industries. For financial service companies the market multiples are calculated at an equity level whereas for other industries they are calculated at an enterprise level.

^{vi} Enterprise value is a measure of the market value of an entire business, covering both debt and equity (less cash holdings). Enterprise value multiples reflect the market's perception of company growth prospects—higher multiples indicate the high premium that the market attributes towards their future prospects.

^{vii} Consensus earnings estimates are in nominal terms in local currency, and we took the median of individual companies' growth rates. Developed economies' gross domestic product was calculated in current prices and constant (2005) exchange rates—this is the closest parallel possible. We use gross domestic product growth in developed economies as a comparison since companies from developed economies make up the vast majority of the S&P Global 1200.

Figure 3. Market expectations are back to pre-downturn levels

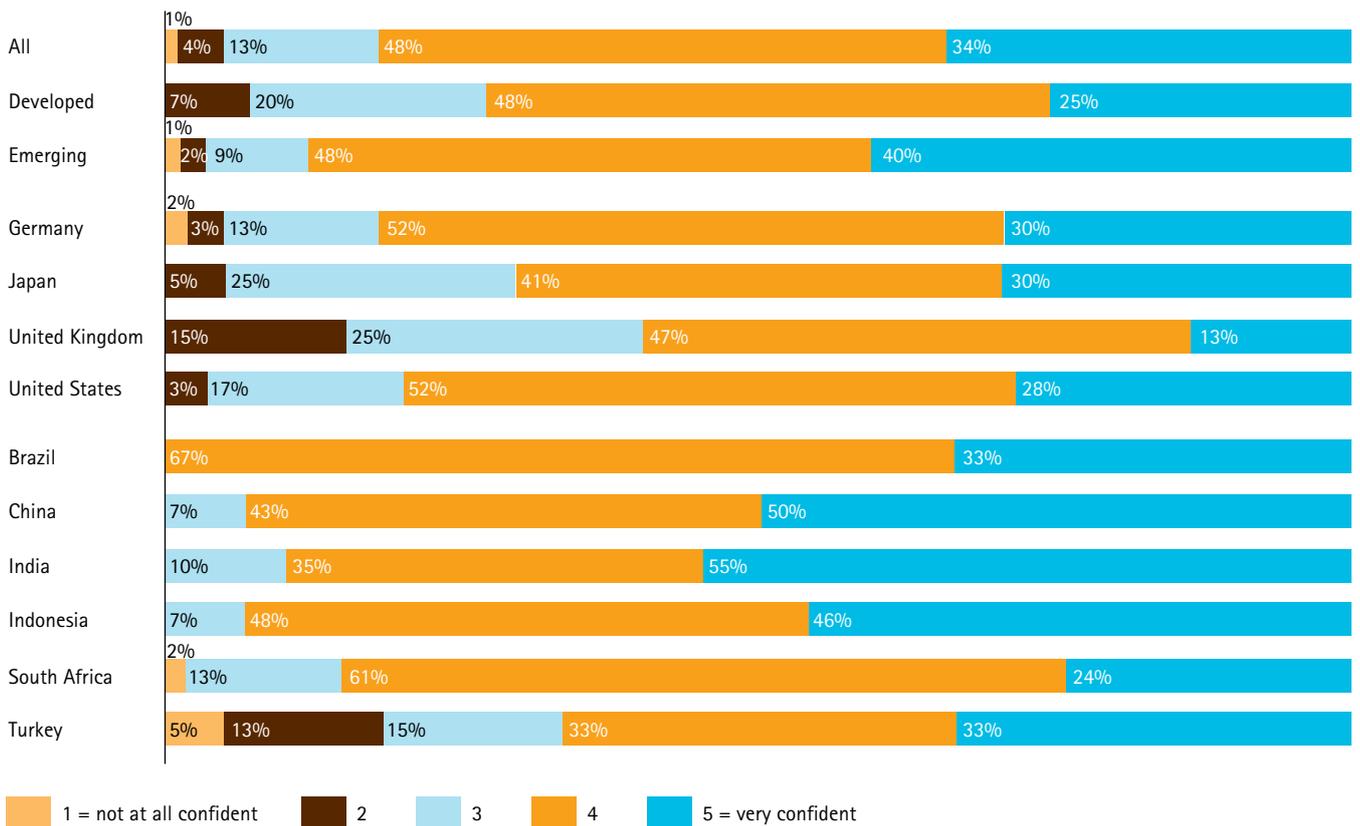
Enterprise value multiples, S&P Global 1200, 1997 to 2012



Sources: Capital IQ, Accenture analysis

Figure 4. Businesses are confident in their ability to grow

How confident are you in your business's ability to grow profitably in the next two to three years?



Source: Accenture global executive survey

Growth from consumer behavior change

So, how can companies find and deliver the growth they need? Growth opportunity comes from change—and changes in consumer behavior have the capacity to create huge market upheaval. In the churn that accompanies change, there is opportunity for companies to gain ground relative to their competitors. Moreover, this opportunity is not reliant on high levels of economic expansion—change will continue to create opportunity in high-growth markets, but gaining market share represents the most likely source of business growth in slowing markets.

The results of our global executive survey suggest that, despite recognizing the upheaval, business leaders are underexploiting changes in consumer behavior as a source of growth. More than four in five respondents in our global executive survey said that consumer behavior change presents opportunity for business growth (83 percent selected “4” or “5” on a 5-point scale). And yet 74 percent of executives said that their understanding of consumer behavior is less than complete. Fully 80 percent of executives we asked said that they are not taking advantage of this opportunity for growth.

Fast-growth companies are already taking advantage of behavior change

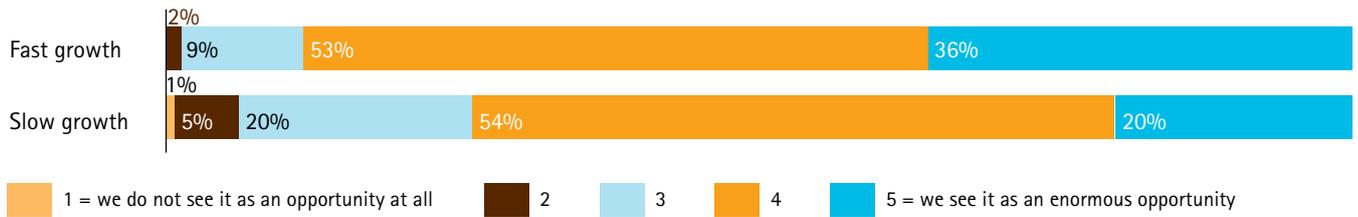
There is a significant difference between companies we surveyed whose revenues grew by 6 percent or more last year (“fast growers”) and those whose revenues did not (“slow growers”) in their attitudes toward consumer behavior change (see Figure 5). Fast growers are more likely to see business opportunity in consumer behavior change than slow growers (88 percent versus 74 percent). But they are also more likely to be investing to capture it—79 percent of fast growers have increased investment in consumer-facing activities in the last three years, compared with just 54 percent of slow growers.

This opportunity from consumer behavior change is not new—but the pace of change means that, similar to the emerging-market boom, those left behind now will struggle to catch up.

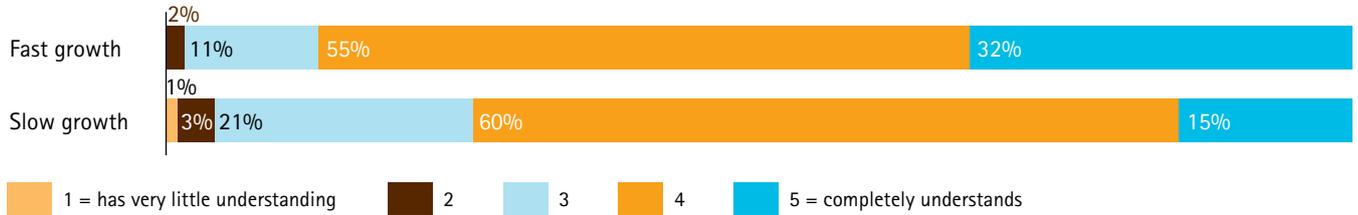
Executives recognize that economic and demographic change—the agents of “market growth”—are not the only trends that enable business growth. Our global executive survey found that business leaders believe that technology developments are the most important shift for enabling business growth (34 percent), with a further 13 percent saying that changes to consumer preferences are most important (see Figure 6).

Figure 5. Fast-growing companies at the forefront of consumer behavior change

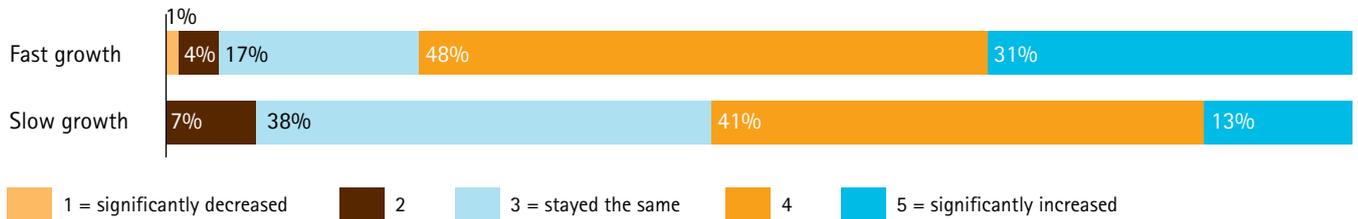
Opportunity from consumer behavior change



Understanding of consumer behavior



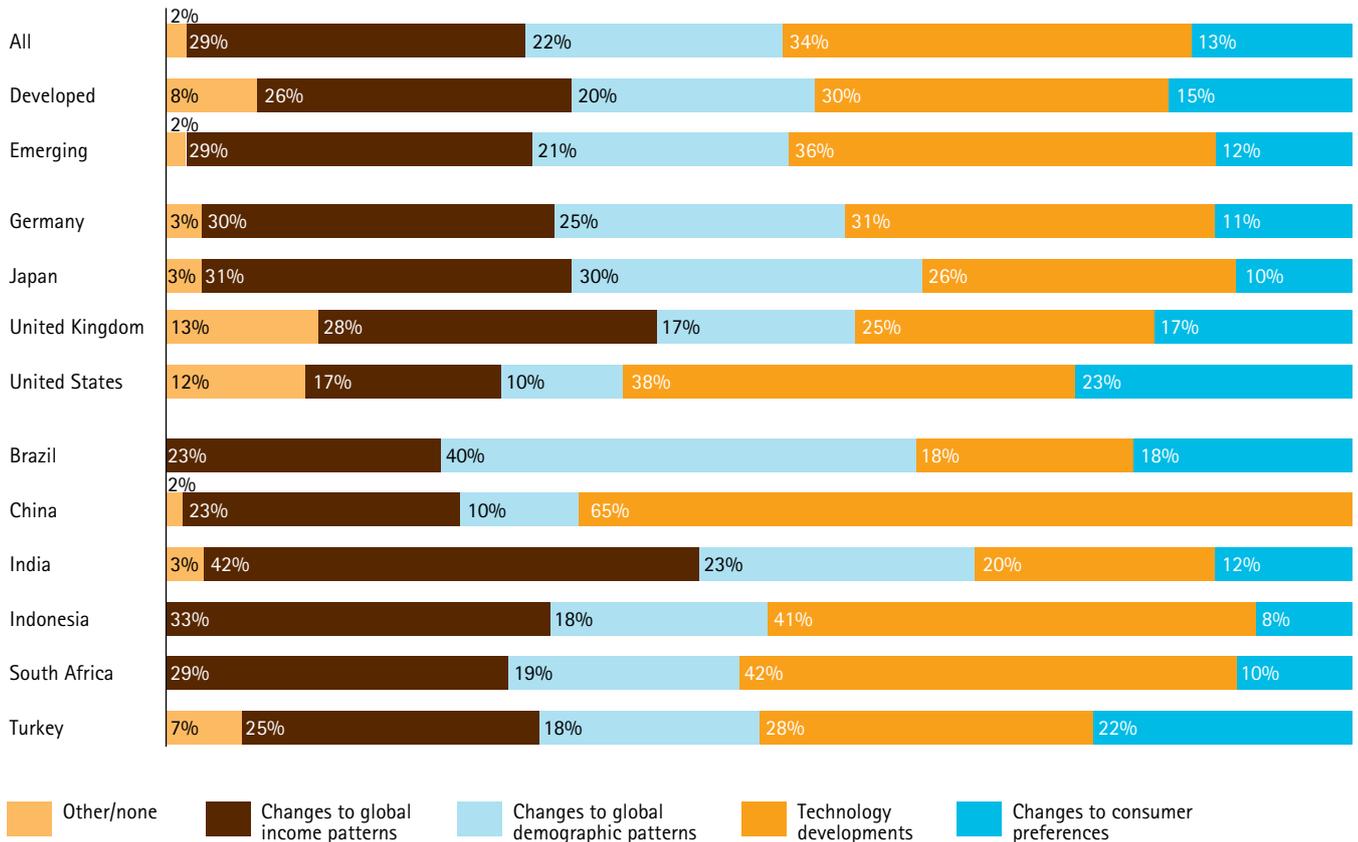
Investment in consumer-facing activities, last three years



Source: Accenture global executive survey

Figure 6. Technology seen as the main driver of business growth

Which of these broad shifts do you see as most important for enabling your business to grow profitably in the next two to three years?



Source: Accenture global executive survey

Why consumer behavior is important for all businesses

Very few businesses do not have a consumer at the end of the value chain. While a traditional business-to-business company may think it is not affected by consumer change, it is not well insulated.

Take tablet computers, for example—as traditional “consumer” goods, they have been introduced in “non-consumer” industries, such as healthcare and education, to disruptive effect. Also, indirect effects of consumer behavior change have had a butterfly effect on some business-to-business industries. The growth in demand for rare-earth minerals in new consumer technologies (such as tablet computers) contributed to price rises and export controls—creating real risk in industries that use rare earths for different purposes, such as petroleum refining. In an interconnected world, all businesses, everywhere, need to have an understanding of changing consumer behavior.



entrepreneur

independence

income

variety

shrewd

convenience

Understanding the changing consumer

Beyond "who" is consuming and "where"

Fast-growth companies understand that knowledge of "who" is consuming and "where" they are consuming is necessary yet insufficient for achieving sustained consumer-led growth. The demographic and economic shifts that are affecting consumption patterns are well-documented. More than 15 percent of the world's population today is under 15 and living in Asia. Yet by 2050 there will also be 2 billion people in the world over 60.¹¹ In all 10 countries we surveyed, the median age of the population is expected to increase between 2010 and 2050.¹²

Geographically, the locus for "where" consumption is taking place is shifting east and south, as greater disposable income brings millions in emerging economies into the consuming class. According to Accenture analysis, China and India are projected to experience a total increase of household income of US\$4.6 trillion between them from 2010 to 2020. By 2020, Turkey is anticipated to have an extra 4.7 million households with annual incomes more than US\$30,000—and Mexico another 3.3 million.¹³

However, awareness of consumption shifts does not guarantee growth, and fast-growth companies differentiate themselves by recognizing that they need to respond to change in consumer behavior—as well as demography and income patterns—to capture the opportunity in increasing global consumption. As a result, they possess a fundamental understanding of the changing consumer which recognizes "how" and "why" we consume.

"How" and "why" we consume

Both digital enablement and attitudinal changes have altered "how" and "why" we consume, resulting in a new consumer paradigm (see Figure 7). Today's consumer is better-informed than in the past, with unprecedented access to products and services through new **methods** of consumption. At the same time, consumers today differ from their predecessors in their **motivations** for consumption. They make choices not only to improve their material welfare but their physical and mental well-being as well, and they are more interconnected with the lives of others. These developments are less predictable than economic and demographic change, yet also less reliant on high levels of economic growth.

This degree of changing behavior is borne out by the Accenture global executive survey. Nearly three quarters of respondents (73 percent) said that consumer behavior is markedly different than it was just three years ago.

10 dimensions of consumer change

To take advantage of opportunities that arise from changes in consumer behavior, organizations of all kinds need to understand it better. As part of the Accenture global consumer behavior survey, we identified 10 dimensions of consumer behavior change happening now that characterize the changing consumer. We analyzed survey responses to determine which behavior shifts were cross-correlated—that is, those that moved in step with each other. This analysis resulted in eight groups of behaviors, or "dimensions" of behavior change. We then split the largest ("networked") dimension further, into three observable trends in online consumption. We grouped the remaining seven factors into those that are primarily concerned with the individual—what we term the "independent consumer"—and those that primarily involve interaction with others—the "co-operative consumer." The dimensions of consumer behavior change are defined in Figure 8.

Figure 7. Moving beyond the "who" and "where" of consumption

Four major shifts...

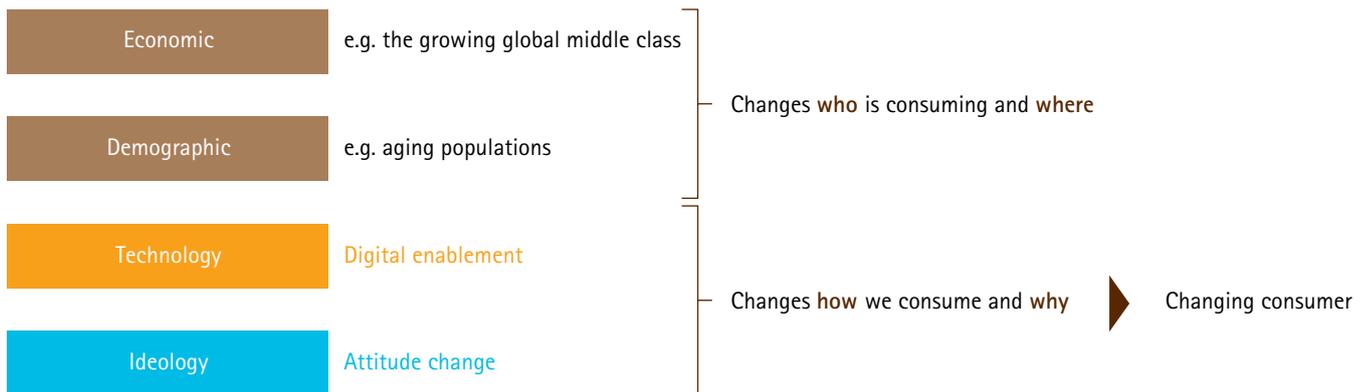


Figure 8. The 10 dimensions of behavior change

Networked	Connected	• Ensures they are always "on," continuously in a channel
	Social	• Uses digital technologies to interact with friends, family, strangers, institutions
	Co-productive	• Plays a role in production through design, or providing data to companies
Independent	Individual	• Values uniqueness and luxury, seeks to express their personality
	Experiential	• Desires new experiences, attends live events, shares experiences with friends
	Resourceful	• Works hard to get ahead, shrewd with money
	Disconnected	• Tries to switch off, break from tradition
Co-operative	Communal	• Participates in society, with a strong group ethic
	Conscientious	• Buys local, makes rather than buys, considers the environment before purchase
	Minimalist	• Places access above ownership, happy to purchase second-hand or reuse

The networked consumer

Technology has now permeated all spheres of life. The uptake of new devices is now faster than at any point in history—the time taken for smartphones to move from 10 percent to 40 percent penetration in the United States was equaled only by the television. Tablet computers have become the fastest technology to reach 10 percent penetration, achieving this milestone in a mere 18 months.¹⁴ There were nearly 6 billion mobile phone subscriptions in 2011, and 2.2 billion Internet users—roughly one-third of the world's population.¹⁵ Facebook passed 1 billion users in 2012,¹⁶ while it takes only a week for Twitter users to send 1 billion tweets.¹⁷ Society has moved online, creating a **connected** consumer class with continuous access to goods and services. Our global consumer survey found that 73 percent of consumers are using the Internet to research or purchase products or services more than they were three years ago.

Increasingly, networked consumption has also become a **social** experience—we found that 53 percent of consumers are increasingly using social media to interact with friends and family, while customers are also using the recommendations of family, friends and others whose opinions they trust to inform their purchasing decisions more often. But social networks on the Internet spread beyond friends and family—there has been an explosion in online forums and chat rooms that discuss various goods and services, and consumption blogs (food or otherwise) have become a mainstay of online society.

Also, networked consumers have a radically different relationship with producers than their offline forebears. Not content to merely purchase goods and services and share their opinions with contemporaries, they want to actively participate in the production process as well, working with businesses

to design products and providing direct feedback to improve offerings—what we term **co-productive** consumption. Thirty percent of consumers are buying things they helped design or make online more often than three years ago. Co-production can mean anything from designing personalized greeting cards to providing funding for a start-up. Networked consumers are empowered to tailor products to their desires and aspirations instead of vice versa, transforming the act of consumption.

The independent consumer

We are seeing unprecedented levels of wealth globally, with many people in many countries enjoying disposable income for the first time. But money does not necessarily make you happy. As societies develop, consumers seek more from their lives than a conveyor belt of washing machines and automobiles. Consumers around the world are now adopting lifestyles that can provide an outlet for self-expression in their pursuit of happiness.¹⁸

Independent consumers expect **individual** offerings to match their personalities and preferences—40 percent of consumers are buying things more often that they think help express their individual personality. Moreover, they are **experiential**, seeking unique experiences, from the adventure of an urban scavenger hunt to the enjoyment of attending a music festival—38 percent of consumers increasingly are seeking out new or unique experiences. **Resourceful** consumers are shrewd with money, and they are working hard to get ahead—35 percent of global consumers are working outside normal business hours more often than three years ago.

And some choose to become noticeably **disconnected**—switching off from the "noise" of modern life. Nearly one in five consumers say they turn their phones off for extended periods of time more often than they did three years ago.

The co-operative consumer

Consumer expectations for products and services are going beyond personal utility. Now, consumer choices are guided by the need to do good—for others and for oneself. Co-operative consumers place a strong emphasis on responsible production and consumption. They are **communal** in their outlook, participating in society and improving their health (47 percent of consumers participate more in physical activity to improve their health than they did three years ago). They are **conscientious** in their consumption—51 percent of consumers consider the environmental impact of the product or maker more often before purchasing a product. Instead of purchasing a new product, co-operative consumers rent or buy used; what we term **minimalist** consumption. Twenty-five percent of consumers are more frequently buying or using things previously owned by someone else (see Figure 9).

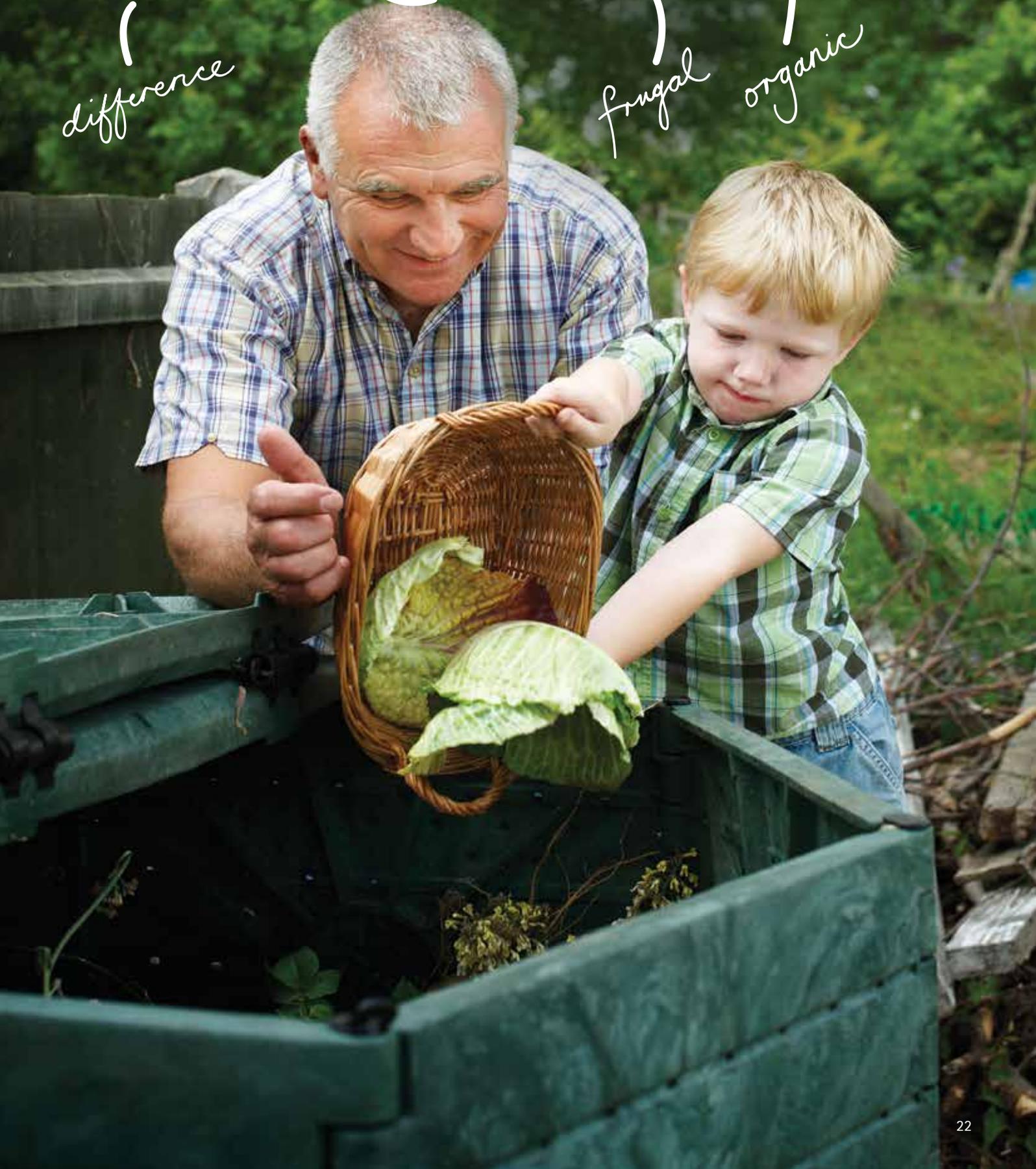
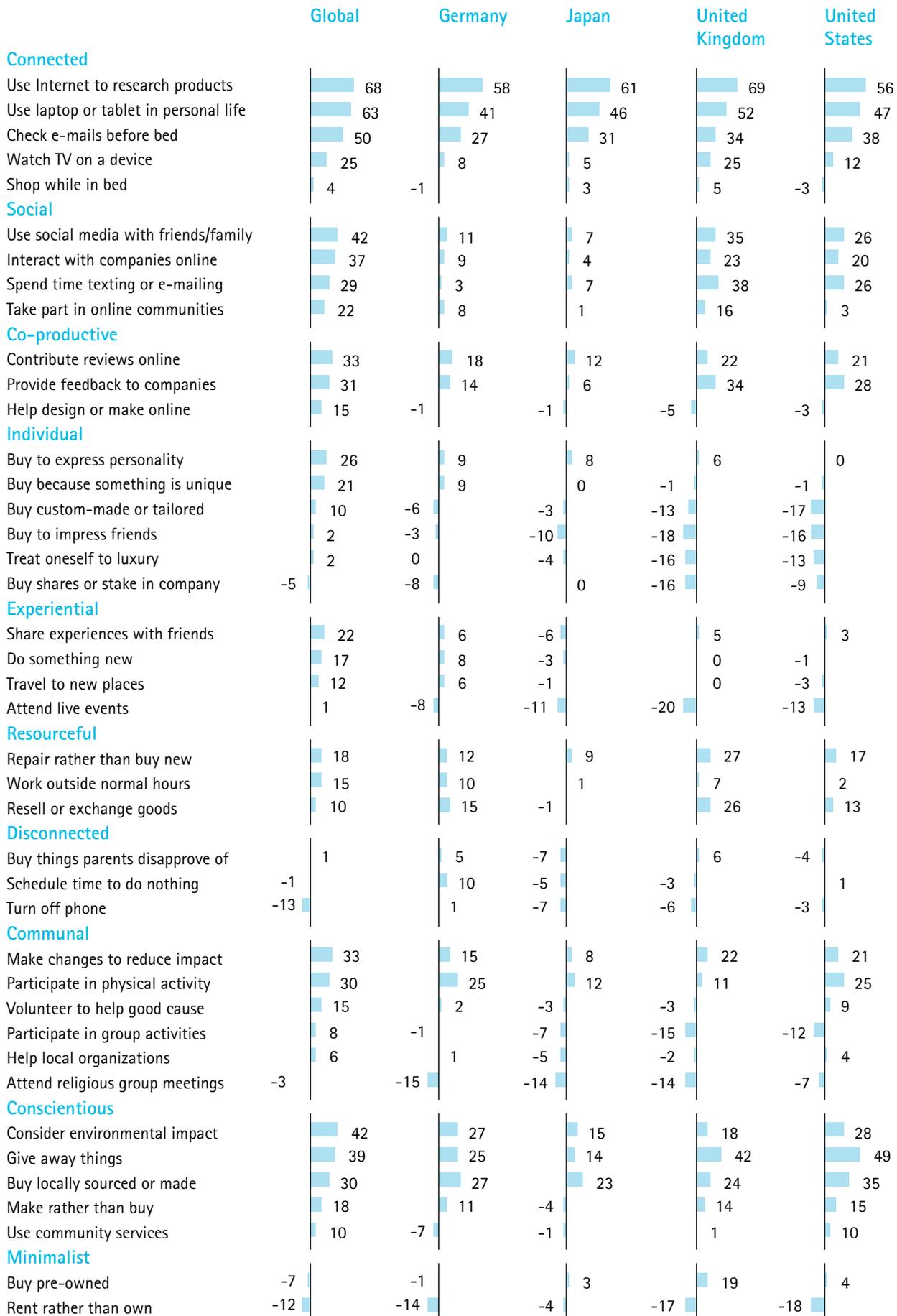
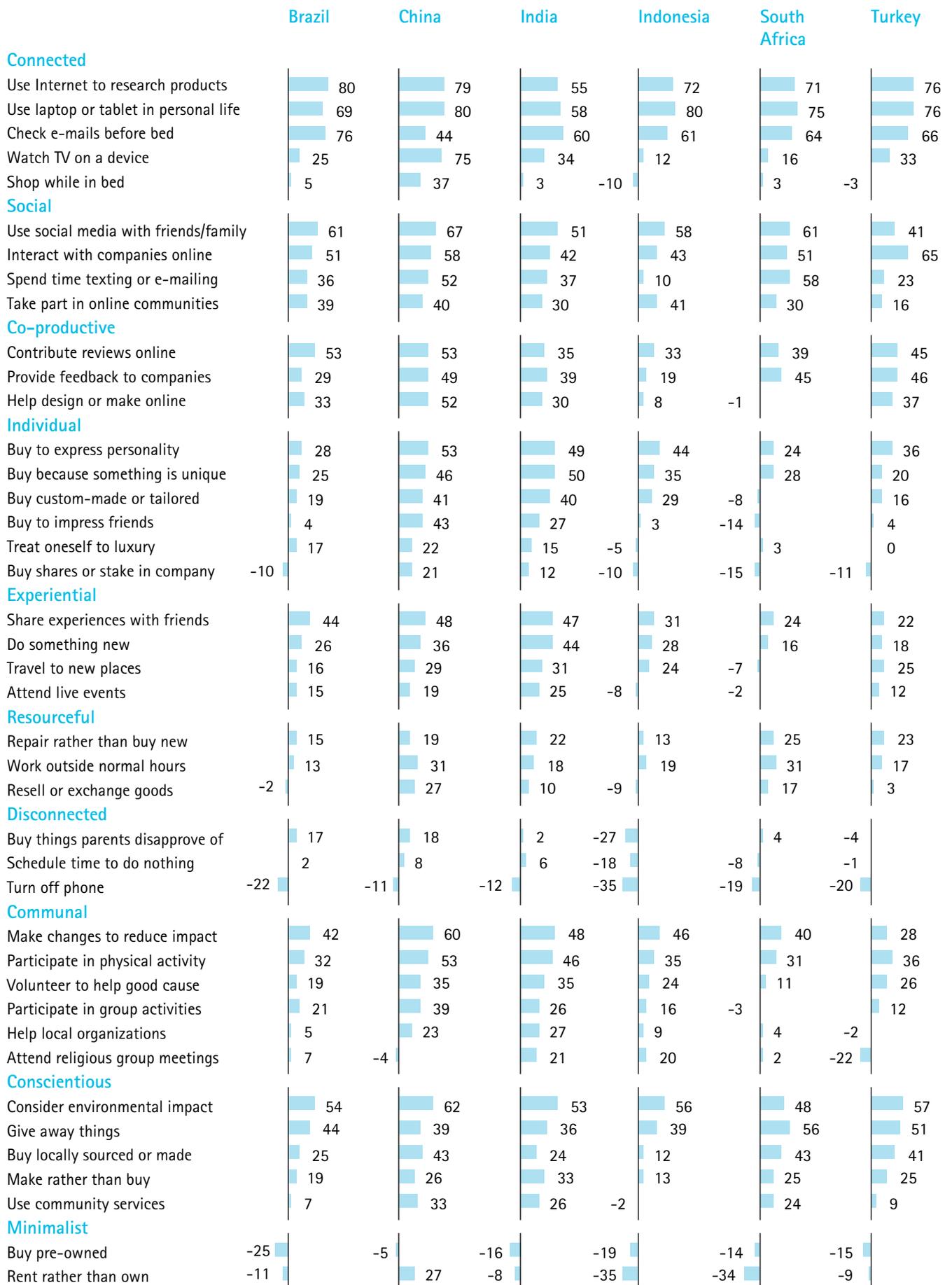


Figure 9. Consumer Change Index

Key: Bars show net increase in activity. This is calculated by subtracting the percentage of respondents that have done the activity less in the last three years from the percentage that have done the activity more in the last three years.



Source: Accenture global consumer behavior survey



The size of the prize

The marketplace for the changing consumer is vast and growing rapidly. To understand this market's size and economic prospects better, Accenture identified a list of emerging industries and sectors that are driven by the 10 dimensions of behavior change. We then researched each industry's size and projected growth rate from 2012 to 2016. Finally, we combined these industries and sectors to create a composite growth trajectory on a global scale.

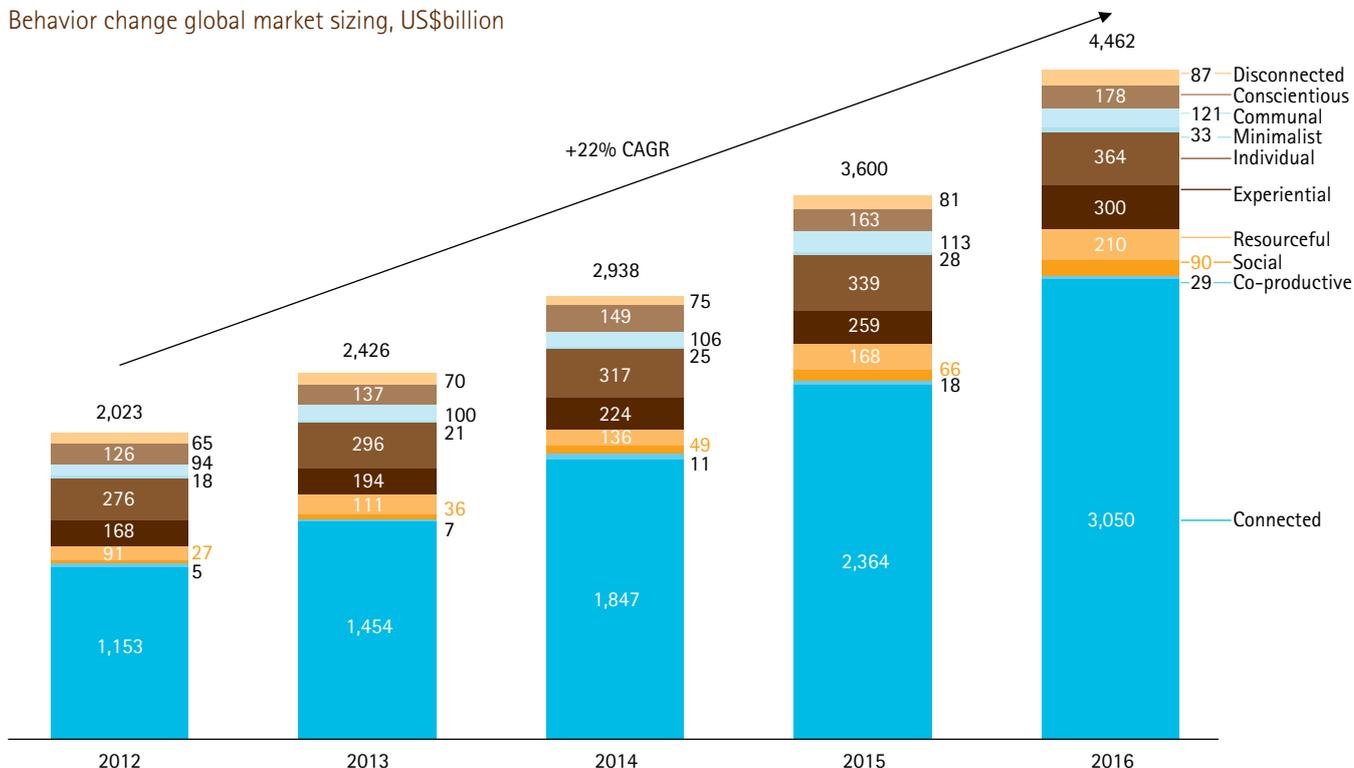
The results are striking. The market size for industries and sectors we have associated with behavior change are projected to more than double by 2016 from US\$2 trillion in 2012 to US\$4.5 trillion, with a compound annual growth rate exceeding 20 percent (see Figure 10). By contrast, the global economy is expected to grow at an average rate of 3.3 percent over the same period.¹⁹ Put another way, these consumer behavior-driven markets are expected to grow at three-and-a-half times the rate of emerging economies, and 10 times the rate of developed economies, between now and 2016.

It should be noted that our model provides only a partial picture of the true potential of the market size associated with the changing consumer. The industries included are indicative of each dimension of consumer change,^{viii} with account being taken of any potential overlap between industries to avoid double-counting and overestimation.

In low-growth environments, companies must focus on gaining market share in an environment where potential gains are constrained. There is immense capacity for businesses to achieve growth through these sectors—but such growth may come at the expense of incumbent offerings and businesses.

Figure 10. The growth opportunity from changing consumer behaviors

Behavior change global market sizing, US\$ billion



Note: Individual figures may not sum to the total due to rounding errors.
Source: Accenture analysis

^{viii} The industries included are: organic foods and health clubs (both communal); mobile transactions and e-commerce (connected); crowdfunding and 3D printing (co-productive); cruises and sleeping aids (disconnected); low-cost airlines and mobile coupons (resourceful); fair trade goods and green packaging (conscientious); live music and adventure travel (experiential); video-on-demand and luxury goods (individual); digital music and e-waste/reuse (minimalist); social media and virtual goods (social).

Hotspots of growth

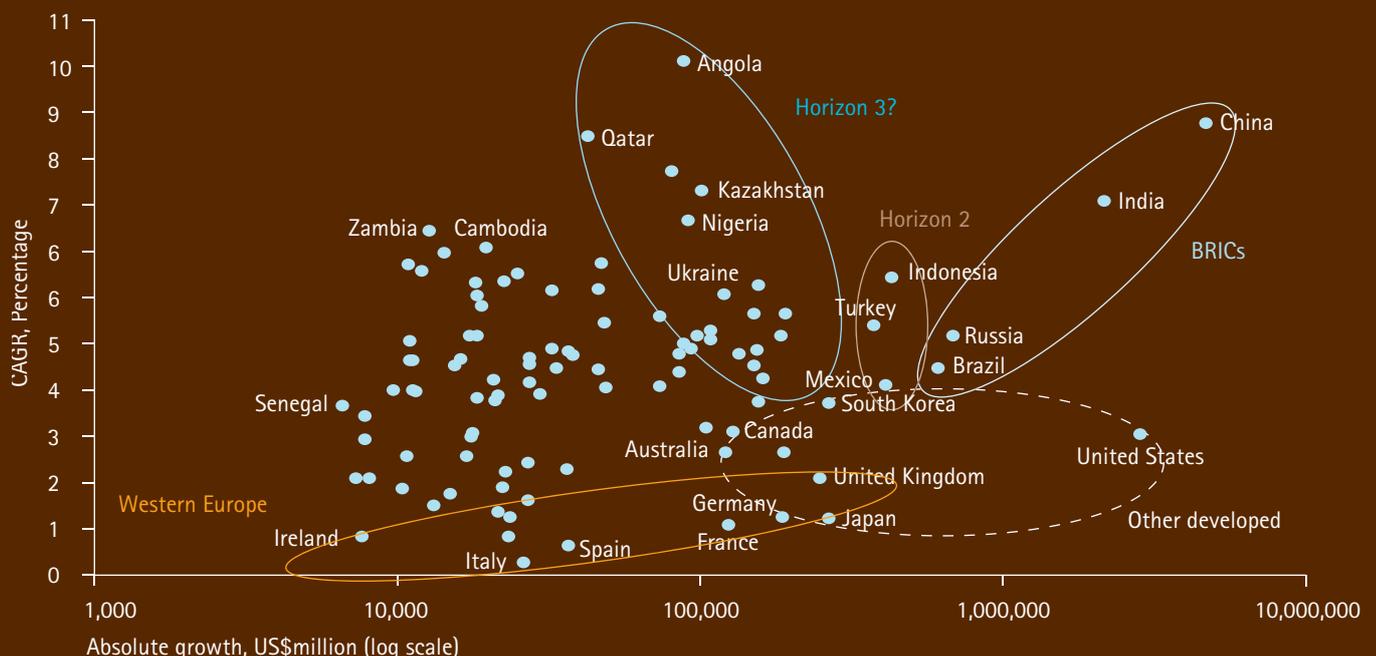
Hotspots of pure economic and consumer spending growth can still be found in unlikely consumer markets. Horizon 2 markets, such as Indonesia, Mexico and Turkey, form the next wave behind the BRIC^{ix} economies, expected to grow at a compound rate of between 3.7 percent and 5.8 percent over the period from 2010 to 2020. Beyond this, Horizon 3 markets, such as Pakistan, Ukraine, Angola and Egypt, combine rapid growth with strong absolute increases in consumption (see Figure 11). Compared to 2010, Kazakhstan will have nearly 500,000 extra households with income over US\$50,000 a year in 2020.

However, under current forecasts, consumer expenditure growth in developed markets will be limited, and companies will have to look to behavior shifts for growth opportunity. Apart from the United States (which is likely to experience the second-largest growth in consumption to 2020, behind China) growth in consumer spending in many developed countries is going to be low.

Yet while expected growth may be low, we observe significant consumer behavior changes in developed and emerging markets alike. These changes present incumbents with continuous challenges and create opportunity for new entrants. In mature markets it is critical to focus now on behavior change as a source of growth—and it will become increasingly important in emerging markets over time.

Figure 11. Next waves of market growth

Private consumption growth—Compound Annual Growth Rate versus absolute, 2010 to 2020



Source: Oxford Economics, Accenture analysis

^{ix} Brazil, Russia, India and China

New consumer realities

Assessing the landscape of change

Our analysis of the ways in which consumer behavior is changing reveals some interesting and potentially counterintuitive trends.

Emerging-market businesses on top?

The recent downturn has challenged companies in developed markets more so than those in emerging economies. But our global executive survey reveals a real risk that businesses in developed countries are neglecting opportunities that their emerging-market counterparts are pursuing.

A confidence gap exists between companies in emerging markets and those in developed markets. More than 90 percent of the executives we surveyed in Brazil, China, India and Indonesia were confident in their company's ability to grow profitably in the next two to three years, compared with just 60 percent in the United Kingdom, for example.

This enhanced confidence is supported by recent action: emerging-market companies have been more active across all areas of business investment. The gap is largest in consumer-facing activities: 82 percent of emerging-market companies have increased investment in customer-facing activities in the last three years, compared with just 50 percent of developed-market businesses.

Emerging-market companies are also more bullish about technological change. Sixty-five percent of Chinese respondents said technology developments were the most important shift in enabling profitable growth, vastly exceeding the global average of 34 percent. Nearly half of respondents in emerging-market businesses (44 percent) said they see increasing digital enablement as having a significant positive impact

on growth potential—compared with just 24 percent of respondents in developed-market businesses.

Perhaps as a result of these findings, emerging-market business leaders are becoming more attuned to consumer change and the underlying growth opportunity. Emerging-market business leaders see a greater degree of consumer change than do their developed-market counterparts, with 81 percent saying that consumer behavior is markedly different now than it was three years ago, compared with 61 percent in developed countries.

However, emerging-market business leaders also possess greater belief in their understanding of consumer change: 32 percent of executives in emerging economies said that their businesses completely understand how consumer behavior is changing, compared with 17 percent in developed countries. This could be a reflection of a number of factors, including a greater pace of change in emerging markets, or a lower starting point. The message for developed-market businesses is clear, however: emerging-market companies are catching up, and may be forging ahead, in their understanding of consumers.

Emerging-market consumers—communal, conscientious, individual, social

Our survey of more than 10,000 consumers worldwide highlighted some interesting disparities between those in developed countries (Germany, Japan, the United Kingdom and the United States) and those in emerging markets (Brazil, China, India, Indonesia, South Africa and Turkey). We found that, on the whole, consumers in emerging markets are becoming more **communal**, **conscientious**, **individualistic**, and **social**—and that the change in those markets is far greater than in developed markets.

Emerging-market consumers are becoming more sensitive to the wider impacts of consumption and adjusting their behavior to be more considerate of others. Volunteering is on the rise in emerging markets: 43 percent of surveyed respondents in those markets said they volunteer more often than they did three years ago, compared with just 18 percent in developed markets; highlighting the growing concern for the **communal**. Sixty-four percent of emerging-market consumers consider environmental effects more often before purchasing—double the proportion doing so in developed countries—as they become more **conscientious** in their consumption.

At the same time, emerging-market consumers have become more **individualistic** in their consumption behaviors, buying things that express their personality (54 percent in emerging markets said they do so more often than they did three years ago, versus 20 percent in developed countries) and sense of uniqueness (50 percent, versus 18 percent in developed countries).

Lastly, consumers in emerging markets have become far more **social** in their use of technology than consumers in developed markets—providing more feedback online (53 percent versus 30 percent), interacting more with companies and institutions online (62 percent versus 25 percent), and using social media more to interact with friends and family (66 percent versus 34 percent).



adventurer

know-how

insight

experiences

fulfilled

skills

Developed-market consumers—connected, resourceful, conscientious

Although the pace of change in developed markets may be slower than in emerging economies, consumers in developed countries are not standing still. The role of technology in facilitating **connected** consumption is burgeoning quickly. Nearly two-thirds (65 percent) of developed-market consumers are using the Internet more to research products and services than they were three years ago.

In addition to the “how,” the “why” in developed countries is also changing, signaling gradually shifting attitudes. Consumers in developed markets have become more **resourceful**, with 27 percent choosing to repair or refurbish more frequently than three years ago, and 25 percent reselling or exchanging goods more often. This may be due to recessionary pressures, although cultural factors are also important. Both these trends are most marked in the United Kingdom and least pronounced in Japan.

Despite poor economic conditions, developed-market consumers are exhibiting rising concern for others, manifested in some aspects of **conscientious** consumption. Localism is particularly acute: 35 percent of developed-market consumers buy locally sourced or locally made products more often than three years ago, a figure relatively stable across the four developed countries surveyed.

The consumer vanguard

Our survey identifies a vanguard of young, happy, tech-savvy and time-rich consumers among the avant-garde emerging-market consumers who are spending more and at the forefront of consumption trends. This group not only typifies the ongoing consumer evolution, but is also driving further change because its members are less traditional, less encumbered and less resistant to new modes of consumption. Despite their low (but growing) incomes, these consumers stand out among their contemporaries because they are

using their rising affluence in radically different consumption patterns and behavior. These ascendant consumers provide an outlet for growth in a low-growth world (see Figure 12).

However, targeting this new breed of consumer will not be easy. These consumers are highly demanding: 74 percent said that it is important to be able to buy what they want when they want it, and 72 percent said it is important to be able to customize products to be exactly what they want. They are just as demanding about the information at their disposal. Sixty-five percent of growing spenders think it is important to read expert reviews online, while 55 percent feel it is important to see information and advertising from selling companies. Given these consumers' growing spending power, these trends are likely to become more important, placing immense pressure on businesses to respond.

Barriers to understanding, barriers to growth

Barriers to understanding: information overload and “unpredictability”

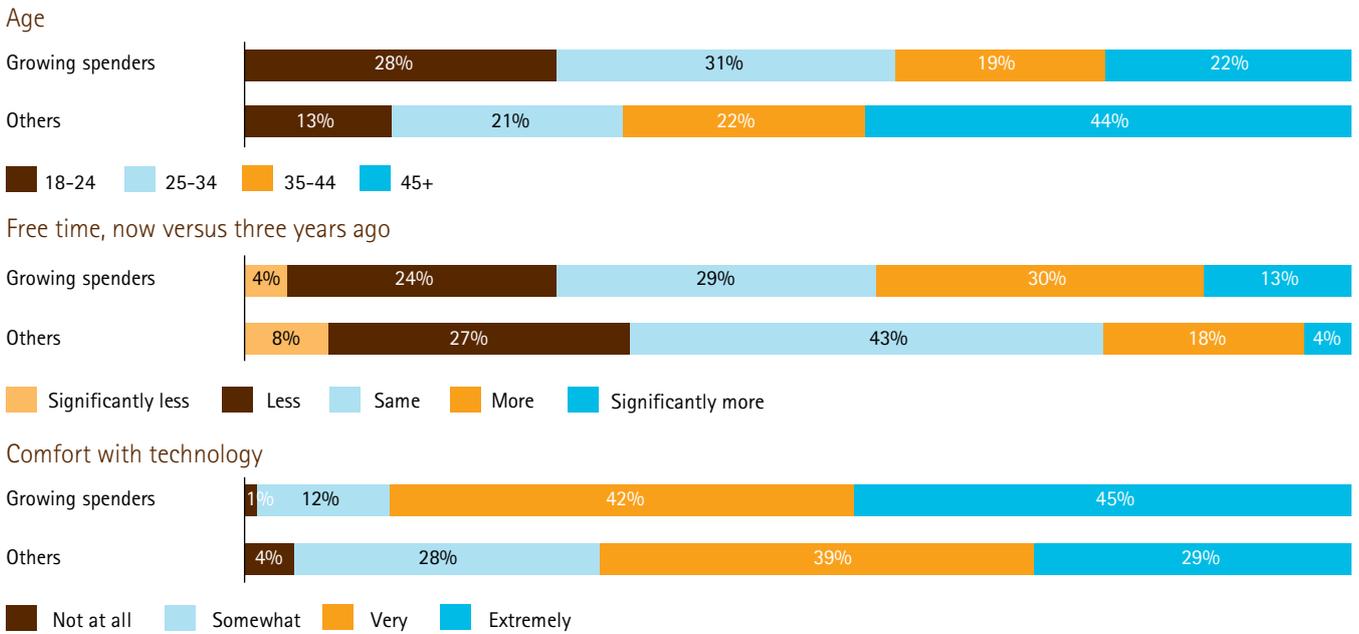
Businesses face internal and external barriers to understanding consumer change and achieving consumer-led growth. Internally, businesses confront an information paradox: the surfeit of data available from numerous channels has, in many cases, obscured more than it has revealed. Although executives are broadly aware of the opportunities for growth that arrive from changes in consumer behavior—83 percent of our respondents rated the opportunity as “4” or “5” on a 5-point scale—only 26 percent of executives said that they had a complete understanding of how consumer behavior is changing, due in part to uncertainty about what data to rely on when assessing consumer change. Accordingly, only 20 percent of executives said that their companies are taking advantage of the opportunities “extremely well.”

This lack of understanding has perpetuated an internal attitude that consumers are innately erratic and incomprehensible. Fully 40 percent of executives said that the “inherent unpredictability” of consumers is the main barrier to understanding them better (see Figure 13). Unsurprisingly, 39 percent of those who rated their consumer understanding as poor or limited find that they are unable to generate insight from what data they have.

Barriers to growth: skills shortages and pace of change

Internally, executives most frequently cited the slow internal pace of change as the most likely barrier that prevents them from realizing growth opportunities, with more than one-third (35 percent) stating that this is the case. But digging a little deeper reveals some interesting disparities between those companies that are fastest-growing (with revenue growth of 16 percent and above in the last year) and all others. The fastest-growing companies are less likely to see problems in skills areas—whether that may be marketing, advertising and media skills and capabilities, or analytical capability. They are also less likely to be hindered by a limited knowledge base in the organization or a slower pace of internal change (see Figure 14).

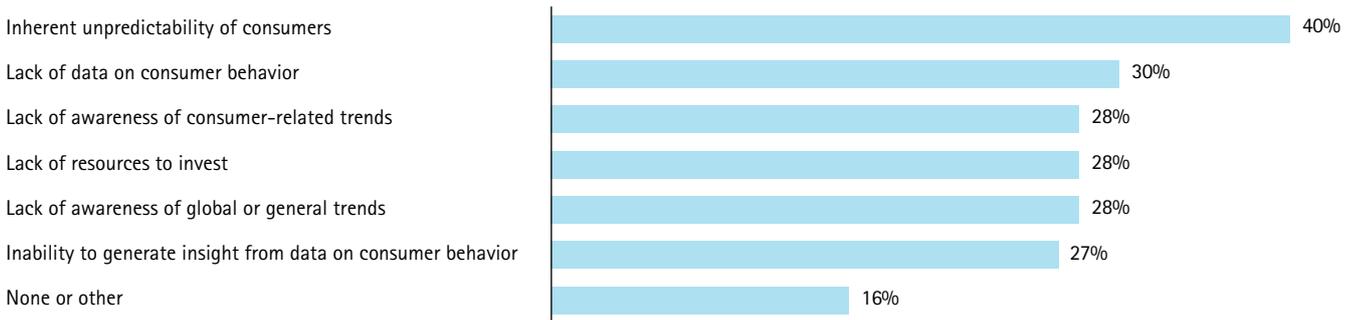
Figure 12. The consumer vanguard



Source: Accenture global consumer behavior survey

Figure 13. Barriers to understanding

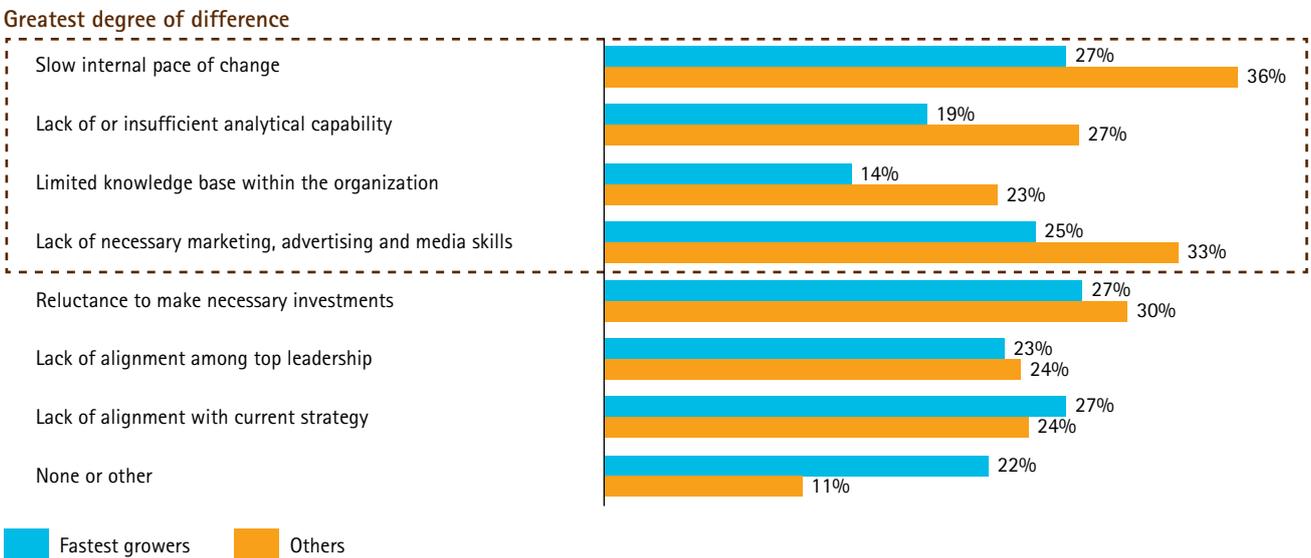
Which of the following most prevent your company from better understanding consumer behavior?



Source: Accenture global executive survey

Figure 14. Barriers to growth

Which of the following are the likely main barriers to maximizing the growth opportunities created by changes in consumer behavior?



Source: Accenture global executive survey

Lessons from industry growth leaders

Understanding and monetizing the opportunities presented by changes in consumer behavior requires the right confluence of forces to come together in organizations. Companies must deploy the right [analytical toolkit](#) to be able to continuously derive the consumer insights they need to succeed; they must inculcate an [adaptive mindset](#) that is conducive to seeing consumer insights and turning them into tangible opportunities; and they need to build an [agile organization](#) with the right capabilities to turn insight into action. Failure in any of the three areas will result in failure to capture advantage.

Creating this kind of change in organizations is never easy, but our analysis of industry growth leaders^x (henceforth referred to as "leaders") reveals three important ways they manage to build these elements inside their organizations. Their approaches separate these companies from competitors, put them closer to consumers and make them better able to monetize growth opportunities.

Leaders

Use technology to observe and respond to changes in consumer behavior

Leaders use powerful new technologies to identify and bridge gaps between their businesses and consumers through better understanding. Take Activision Blizzard, for example. The computer game developer partnered with an analytics firm—which captures analytics data on 250 million consumers daily—to test and improve gameplay in real time.²⁰ Netflix's analytics program leads the film rental industry, enabling it to cater to individual consumers' preferences in recommending titles for rent. Tencent, a Chinese Internet

company, has created a suite of online platforms for its customers, allowing them to work, play and share. Its success has been partly founded on a relentless drive to understand consumers, as more than half of the company's workforce is devoted to research and development.²¹

Leaders

Recognize and exploit market disruptions to enhance their business models

Leaders approach disruption as an opportunity rather than a threat. First movers proactively shape their industry's long-term direction, instead of merely reacting to it. Publishing company Pearson Education transformed its entire business model when faced with a growing shift to digital, reinforcing its market-leading position. Brazilian pulp and paper company Suzano Papel e Celulose recognized the potential for "triple bottom line" growth by undertaking sustainable forestry practices and was the first pulp and paper company worldwide, and the first among all industries in Latin America, to receive carbon-friendly accreditation. It has consistently outgrown its peers on the way to ranking second in pulp production globally. Meanwhile, fast followers see disruption as a template for enhancing their offerings. Car rental company Hertz replicated the business model of new players offering short-term rentals in its Hertz On-Demand service. By meeting disruption head-on, Hertz has been able to use its scale and scope advantages to reduce the threat of new competition while improving customer choice.

Leaders

Organize to scale their responses to consumer insight rapidly

Leaders rapidly scale offerings after identifying a driver of consumer change. Whole Foods Market understood consumers' growing emphasis on healthy living at an early stage and carried out numerous merger and acquisition deals to become the world's market leader in natural foods.²²

Also, leaders are able to change strategic direction quickly when reacting to consumer change. eBay has followed an aggressive acquisition strategy, taking over PayPal and StubHub Inc. to expand on its core auction business. But when it realized that Skype did not complement its core offerings, the company was strong enough to take action, putting it up for sale. Chinese search engine giant Baidu is moving into Brazil as part of its expansion strategy, despite losing US\$108 million in its overseas operations between 2008 and 2010 as it experienced the growing pains of internationalization.²³

^x These companies are taken from our study of the 3,000 largest listed global companies, excluding financial services companies. They have been selected from a shortlist of companies that have most outperformed their industry's median annual revenue growth over three-, five-, or 10-year periods.

On the trail to consumer-led growth

So how exactly should companies embrace the approaches we identified? While the right solution depends upon the specifics of industry and geography, we see some common elements in the ways that companies around the world are changing their organizations.

Analytical toolkit

Deploy advanced technology to derive insight from changes in consumer behavior

Implement analytical tools to interpret and act upon data

Netflix is the preeminent example of a business model that is built on consumer data analytics, overtaking a bricks-and-mortar industry in the process. But what of companies where analytics is less of a core skill and more of a step into the unknown? The answer is to begin collecting data, and then use it to inform strategic approaches to change how the business operates. The Royal Shakespeare Company, a theatre company in the United Kingdom, realized that to stay competitive in an era of more fragmented entertainment options, it needed to encourage new customers to attend while securing more repeat visits from its existing customer base. The company managed to integrate box office, marketing and fundraising data into a single customer database, which enabled them to undertake a more strategic segmentation. This approach significantly increased the number of ticket buyers at its Stratford theatre, and resulted in its pre-season targeted mailings selling out London shows much earlier than they had previously.²⁴

Hire, retain and train analytical capabilities in-house

Being able to respond to data requires a new set of skills—or at least the melding of two traditionally disparate skillsets. Businesses now require a combination of “hard” analytics understanding and softer skills such as marketing and advertising, putting a premium on individuals who are able to marry the two, and ensuring a good mix of both sides in the customer-facing functions of the organization. Attracting and retaining the best analytical talent is challenging. Independence Blue Cross, a Philadelphia-based health insurer, found

that grouping analytical talent together in one organization created a center of excellence that made the career proposition more compelling for existing employees and recruits.²⁵

Use data and understanding to overhaul the consumer experience

In an era of “big data,” generating actionable insights from large data sets is imperative. There is a risk that companies become overwhelmed with data without focusing on the end in mind—improving the consumer experience.

Some leading companies are using consumer data to overhaul their approach to loyalty and customer service. Caesar’s Entertainment, a casino operator, works on the basis of “pre-loyalty”—awarding customer rewards to incentivize future behavior rather than based on past behavior. In doing so, it is able to reward select customers with truly unforgettable experiences, like a seat at the World Series of Poker main event.²⁶

The insurance industry is not renowned for consumer innovation, but a number of insurers around the world are challenging this preconception by using technology to deliver better consumer experiences. Migdal HaEmek, a life and pensions insurer in Israel, recognized that customers were migrating online but sales agents were reluctant to follow. To avoid channel conflict, the company built an array of digital solutions to complement its traditional organization—an online customer database, iPhone mobile digital device apps for agents, and a dedicated website. It has reduced operational costs and increased sales and network efficiency.²⁷ In Italy, Genialloyd (part of the Allianz Group) allows customers to get insurance prices in real time on Facebook by asking them to input only the car’s license plate and the owner’s date of birth, receiving a 4 percent discount in the process (at the beginning of the initiative). This is not a standalone offer—the company also provides customer service through social media sites.²⁸

Adaptive mindset

Inculcate the right mindset to identify opportunities and challenges from changes in consumer behavior

Adopt a cross-functional data-driven approach to decision making

The first step in being able to respond to changes in consumer behavior is to decide that it is a strategic priority. To do so may require a shift in the culture of an organization—away from decision making based on “gut feel” toward data-driven conclusions. This culture change needs to permeate all levels of leadership. Yahoo! Inc. was an early adopter of this kind of mindset. The company bought a data mining group that was tasked with testing the effect that the content and placements of news and advertising had on user clicks. Soon, it became the source of truth—used to inform almost every decision.²⁹

In many organizations both data and the insights they hold sit in silos across the organization, dispersed throughout marketing, sales, and customer-service functions. As companies track and gather more and more data, the need for a cross-functional approach to data management and insight generation becomes more pressing. Accenture partnered with a large Brazilian retailer to set up a cross-function business intelligence unit that helps the company use analytics to capture actionable customer and transaction data. The company used the insights generated to develop new approaches to segmentation and marketing, new store formats for city center stores, and targeted campaigns for high-frequency loyalty card customers.³⁰

Recognize and act on challenges at the edge of the radar

When faced with the disruptive threat of car-sharing schemes, Hertz took some time to react. A number of small start-up businesses based in urban centers did not seem to constitute a direct competitive threat to such a global player. But after the CEO's

son came home espousing the virtues of the start-up model, the company took notice, developing its Hertz-On-Demand service as a rival. While it will never be known what might have happened had the company kept its back turned to disruption, the diversified business model has given the company new opportunities.

Hindsight shows the error of reacting too late. When bookseller Borders Group went bankrupt, one of its most valuable assets was its interest in the Kobo e-Reader, a relatively late market entrant.³¹ In the aftermath of Blockbuster's demise, it was argued that the company should have bought Netflix when it had the chance. Both companies missed out—and paid the price. As more consumers switch away from a traditional “own and acquire” mindset, incumbent companies must be prepared to confront new challengers, as access becomes more important than ownership.

Embrace the lateral thinking necessary for innovative responses

Innovative responses require lateral thinking, meaning that businesses need to step outside the day-to-day operational mindset. This approach is reflected in the growing number of businesses that are able to intertwine sustainable business practices and profitable growth, a development linked to the emergence of conscientious consumers. Brazilian company Suzano Papel e Celulose has found that in adopting a communal approach to business practice it has actually developed increasingly profitable operations by pre-empting the disruptive potential of environmental restrictions and accreditations. Safaricom Limited, a telecommunications provider in Kenya, has added medical services to its traditional mobile banking model. With the new service, 50 qualified doctors are on call to provide information, instruction and referral to local health centers if necessary for approximately US\$0.02 per minute.³² In seeking to close gaps in service offerings, companies can couple social good with enhanced profitability.

Agile organization

Put in place the flexible organizational capabilities to act on insights

Welcome new business models to complement the old

It is human nature to want to “enjoy the good times” without concern for the future. But it is precisely when companies are still successful that they should be planning for the effects of disruptive consumer change. Chinese technology company Baidu was able to reorient its entire business when it realized that search—although profitable—was not the ultimate potential of its technology, so it expanded into new territory with a variety of social and entertainment offerings. What about companies that are not as dynamic as technology companies? Some traditional businesses have been successful in looking outside their industry for disruptive ideas—General Motors Corporation has partnered with RelayRides to allow its customers to share its vehicles, giving them flexibility and supplementing their income.³³

When Tesco Stores established HomePlus South Korea, it faced an uphill battle. It had far fewer retail stores than the market leader and lacked the capacity to expand further. By understanding Korean consumers—hard-working and time-pressured—HomePlus South Korea responded by installing virtual stores at subway stations, where commuters could use their smartphones to photograph grocery items for home delivery.³⁴ When faced with consumer change, businesses must be versatile enough to experiment with new business models or face losing ground to nimbler companies that are able to change offerings and operating models at pace.

Accelerate the pace of response through acquisition or divestment

The rapid pace of consumer behavior change warrants a quick response from organizations. Being able to scale insights on consumers is critical to turning a good idea into a dominant business. Whole Foods Market has nearly doubled in size every four years, undertaking organic expansion and 19 acquisitions of other organic grocers by 2009 as it ventured into urban areas with high proportions of college-educated and upper-income residents. This rapid expansion strategy helped cement its market-leader position, ensuring that its brand became synonymous with healthier living and social good.

This decisive approach can work both ways. Having identified that closing the gap between buyers and sellers in markets was a profitable business model, eBay rapidly scaled by adding payment processors PayPal and ticket exchange company StubHub Inc. Following these successful acquisitions eBay added Skype to its portfolio as a platform to enable trust and interaction between buyers and sellers, but the lack of synergies with the e-commerce and online payments businesses prompted a rethink. By applying the same decisiveness to both acquisitions and divestments the company was able to forge ahead. The speed of transition allowed the company to focus back on consumer insights, shifting the business away from auctions and more toward becoming an aggregator in a fixed-price marketplace.

Create an environment for fostering disruption in-house

A proactive approach to disruption brought about by consumer behavior change is to do as much as possible in-house, rather than waiting for disruptions to hit the market first. In doing so, companies may have to make investments in multiple start-ups at the same time. In response to consumer expectations for more environmentally friendly advanced fuels, BP set up its

Alternative Energy Ventures group in 2006, tasked with making investments in technology start-ups. The Ventures group has a separate set of investment requirements, meaning it can spend time incubating disruption a degree of separation away from the quarterly pressure on results.³⁵ Many of the chosen investments have long lead times, and some of the bets might not pay off. Nevertheless, the company believes that it has given itself the best chance of developing and licensing the technologies that could “win” in the future.

Open the organization to embrace and exploit the value of outside expertise

Today's consumer has shown greater willingness to act as a factor in the means of production—whether consciously or not. As well as the upside of offering more targeted choice, having consumers design their own goods can lower research and design costs while giving increasingly predictable revenue flows. T-shirt company Threadless is the quintessential example. Its business model is built around customers voting for their favorite designs, at which point production runs start and designers are recompensed.³⁶ More revolutionary still is the business model of giffgaff.com, a subsidiary of UK telecommunications company O2. It offers a low-cost SIM card based upon a business model of “crowdsourced” customer service, wherein customers are rewarded for solving other customers' problems through social networks. No offline customer service exists, reducing operating costs.³⁷

Successfully scaling ideas at speed is hard and often requires expertise outside the business. AT&T's Foundry Innovation Centers bring together large technology houses, small start-ups and AT&T's own research expertise to accelerate technology developments, sometimes at up to three times the rate of traditional processes. Such speed means being first to deliver to the consumer. One such example from AT&T is Sunday Sky, a personalized video “attached” to a customer's phone bill that explains charges and taxes, which

has led to a reduction in billing inquiries. Finding solutions to difficult problems can be expedited by opening up the firm, allowing organizations to enlarge the window of opportunity to act on consumer insights. Procter & Gamble Company, Avery Dennison Corporation, Janssen Pharmaceutical Companies and the Rockefeller Foundation have all used open innovation platform InnoCentive to find solutions for complex research problems.³⁸

Conclusion

The idea that consumers are changing is not new. What is different, however, is the ways in which they are changing and the seemingly inconsistent directions they can take. This diversity presents companies with a substantial problem, as they try to apply traditional business models—premised on size and scale—to a more complex and fragmented reality. Retailers, for example, must meet the expectations of consumers accustomed to buying goods online at competitive prices and having them delivered quickly. And they must do so while creating offerings that are distinct enough to address individual preferences against a backdrop of social and environmental responsibility.

For many, juggling these demands may seem like trying to square the circle, and business leaders might feel daunted by the challenge. The answer lies in responding to change with agility—successfully wedding the scale advantages of the large with the tailored approach of the small, the traditional benefits of the old and the cutting edge of the new. By achieving the right balance between sets of extremes, businesses can shape—and have shaped—consumer change to their advantage. Businesses that find this balance can help trigger higher levels of consumer expenditure, which, in turn, can energize global growth.

interdependent

minimalist

shared

footprint

reuse

rent



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