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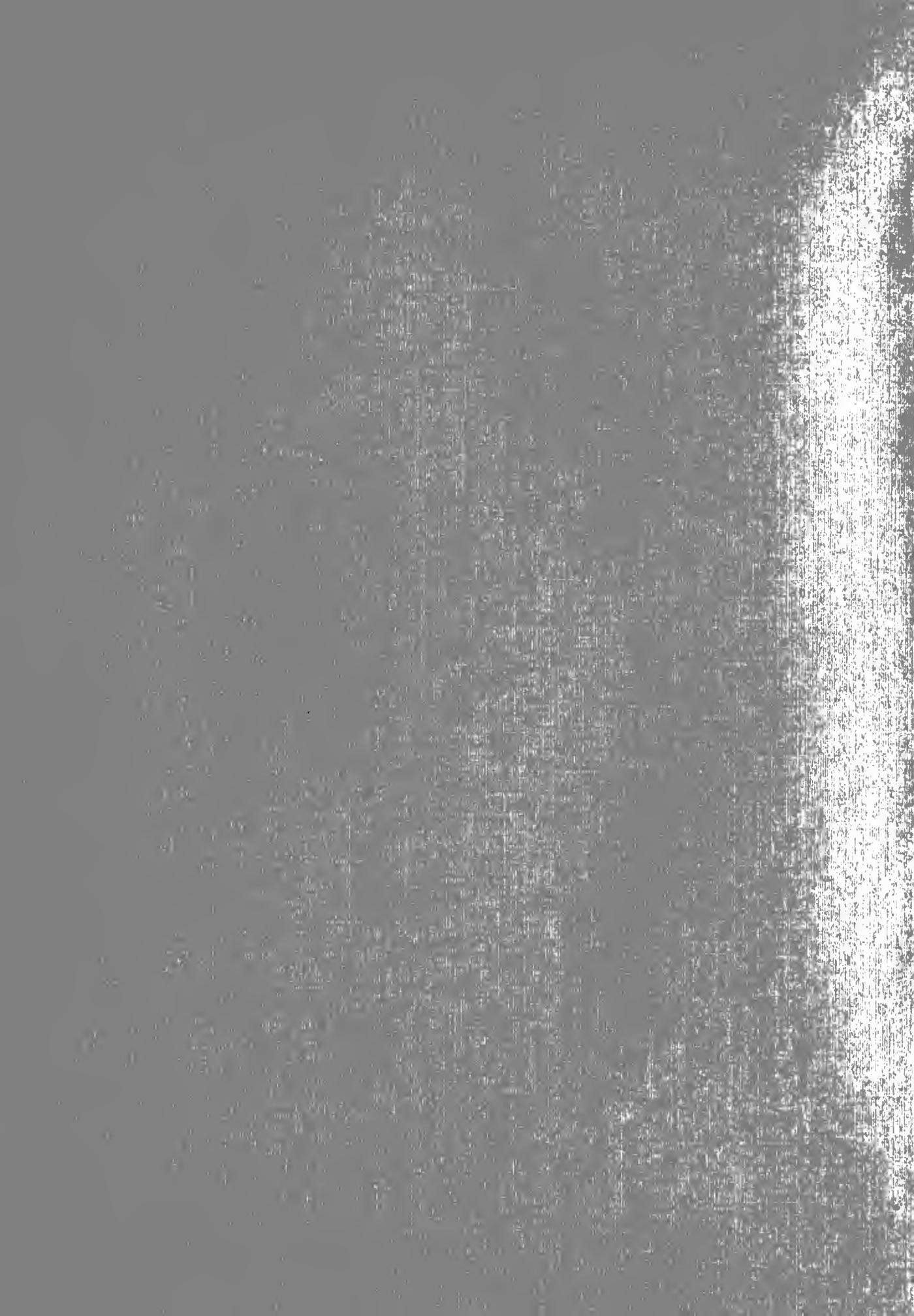
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Megatrends in Consumer Marketing

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Megatrends in Consumer Marketing

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# Megatrends in Consumer Marketing

Jagdish N. Sheth

## Abstract

This paper identifies seven marketing megatrends as a consequence of changing demographic characteristics and technological advancements. They are: dual mass consumption (affluent and average); personalized consumption; role blurring for self sufficiency; time-place universality; dominance of wants over needs; pluralistic specialty markets; and one stop hassle free shopping.

The paper also recommends several strategies to corporations for survival and growth in the turbulent times. These include focus on the market, controlling costs, broadening the horizon, decentralization of the company, and pluralistic ways of doing business.



## MEGATRENDS IN CONSUMER MARKETING

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### INTRODUCTION

A number of fundamental and mostly irreversible demographic as well as technological changes are taking place right in front of our eyes. Unfortunately, many marketing practitioners don't see them even though they are living through them partly because these changes are evolutionary rather than revolutionary and partly because of their preoccupation with tactical operations, annual budget battles and continuous reorganizations.

At the same time, the emerging demographic and technological changes are as dramatic and significant as the postwar baby boom and move to the suburbs which took place in the decades of the forties and the fifties. One can almost directly attribute failures of basically good companies such as W. T. Grant and A & P to blatant neglect of market changes. Similarly, decline in sales of such good basic products as coffee, electric iron and family magazines can also be directly attributed to changes in the market place. In my opinion, many companies and industries today are facing similar challenges created by the emerging demographic and technological changes.

Accordingly, the purpose of this paper is to examine fundamental changes in consumer values and buying behavior as a consequence of demographic changes and technological innovations. First, we will

summarize the demographic and technological forecasts and their fundamental impacts on consumer behavior. Second we will develop a list of marketing megatrends which are likely to be the driving forces in consumer marketing. Finally, we will suggest strategies of survival for companies and industries in light of these megatrends.

### DEMOGRAPHIC AND LIFE STYLE CHANGES

Demographic changes can be summarized in terms of three fundamental changes:

1. Maturing of America. There is almost a unanimous consensus among all the demographers that America is clearly shifting from a nation of young adults to a nation of mature adults. For example, the median age in 1980 was 30 years and it is expected to be 42 years by the year 2050. Similarly, we are witnessing the present migration from the baby boom to the baby bust era. This is indicated by the replacement of 18 to 34 age segment as the biggest buying segment by the 30 to 40 age segment in the population.

This aging of America is directly attributed to the ever increasing life expectancy (69 years in 1960 to 74 years in 1980 and nearly 80 years in 2000) as well as ever declining fertility rate (3.8 children in 1960 down to 1.8 children in 1980 and stabilizing at 1.7 children by the year 2000). It is expected to generate the largest growth in the 30 to 45 age segment and the second largest growth in the 65 and above age segment.

2. Dual-Income Households. A second major change is the emergence of dual income households in which both husband and wife are wage earners.

For example, more than 50 percent of women are now in the work force. This has resulted in redefinition of the family roles of bread winners and homemakers.

It is anticipated that most American families will be distributed on a bimodal basis on the income continuum. Those who believe in the traditional family roles of husband as the bread winner and wife as the homemaker are likely to experience a sharp decline in their real income whereas those who adopt the more contemporary roles of dual income earners will experience a sharp increase in their real income. In short, it is very likely that there will be a decline of the middle class as we know today. In its place, we are likely to evolve a two class society - the Affluent and the Average.

3. Nontraditional Households. A third major demographic shift is the sharp increase in nonfamily households such as singles (single adult), mingles (multiple adults of same sex), and single parent (divorced or separated family) households. For example, 22 percent of all households were single adult in 1980, and they are expected to increase sharply by the year 2000. It would appear that more adults prefer to live alone, or establish households on the basis of friendship instead of kinship. In the process, the average size of the household is expected to decline sharply (from 3.6 in 1960 to 2.8 in 1980 down to 1.8 in year 2000). In short, households will become more and more atomistic.

As a consequence of these three major demographic changes, it is my belief that we will experience the following changes in household life styles and values.

1. Individualistic life styles. As more and more adults live alone and/or establish households on a friendship rather than kinship basis, it is inevitable that people will be able to manifest life styles which are not constrained by the family norms and desires of other members of the family. In the process, household consumption activities are likely to be reshaped from household to per capita basis. In short, more and more consumption will be personalized to each individual.

Even in the traditional family households, one would expect increase in individualistic life styles as career or work related schedules generate more conflicts in getting together at the same time. For example, when both husband and wife are professional workers, it is very likely that business obligations as well as travel away from home will diminish the chances of eating dinner together.

2. Adult-Oriented Life Styles. Maturing age of the population, emergence of single adult households as well as formation of households on a friendship basis all indicate decline of children's presence in the household. It is expected that this should result in an increase of adult oriented life style, both at home and away from home situations. For example, more and more adult programming is patronized at home through network as well as cable television.

3. Time Driven Life Styles. As the population matures to the prime age, it has by definition more activities to perform but within the same time limit. This is because the activity curve over the life cycle from birth to death tends to peak at the middle years. At the same

time, we are an affluent nation both in terms of average annual income and personal wealth. It is, therefore, inevitable that America will become a nation of time poor, money rich households. In short, more and more people will substitute time as the scarce resource in place of money, resulting in establishing priorities for products and services based on how much time they will save rather than how much money they will cost. For example, more and more people tend to call by long distance phone rather than write letters. Similarly, they travel by air rather than by car for long haul distances.

#### TECHNOLOGICAL CHANGES AND BUSINESS FUNCTIONS

Along with the demographic changes, there are also significant technological changes taking place which impact on the supply function.

The primary technological change is the emergence of the electronics age of mankind. It is a direct substitute for the electromechanical technologies which began with the Industrial Revolution. It is also having an impact on the chemical technologies in many fields such as food processing, pharmaceuticals and photography.

Unlike the previous technologies identified with the industrial era (mechanical, electromechanical and chemical), the electronics technology seems to possess several unique features which all impact on the business functions.

#### Low Entry-Exit Barriers

First, it is a relatively low capital technology. Therefore, practically anyone with an invention or expertise can think of starting his or her own

business. This is clearly manifested by the emergence of the Silicon Valley Industry in California as well as numerous high technology industrial parks in and around major research universities. In other words, the electronics technology has immensely lowered the barriers of entry and exit which will foster greater competition in all industries.

#### Global Perspective

Second, the electronics technology can be located in virtually any location. It requires much less dependence on such natural resources as water, air, and energy. All it needs is skilled labor and supply of manmade resources. Therefore, it is a worldwide technology rather than limited to those geographical areas which have unique natural resources. This also means that a company must take a global perspective with respect to manufacturing and distribution of its products and services.

#### Functional Integration

Third, the electronics technology seems to have the capability of improving productivity (output to input ratio) of business functions considerably greater than any previous technology. By integrating many separate and specialized functions such as orders, shipping, billing and collection as well as requiring lower capitalization, it tends to generate sharper declining experience curves in manufacturing and marketing of products and services resulting in lower unit costs.

#### Enhanced Quality at Lower Cost

Fourth, it appears that the electronics technology is unprecedented in its capability to offer a highly reliable maintenance-free product or service as compared to the electromechanical and even the chemical technologies. For example, today's electronic calculators and watches are not only cheaper but infinitely more reliable in their functionalities

than their counterpart electromechanical products. Similarly, you can today buy an electronic telephone which will give a more reliable dial tone and perform other telecommunication functions at far lower costs than its counterpart electromechanical telephones.

The enhanced quality at a lower unit cost is not limited to the electronics products themselves. It appears that it pervades all business functions. For example, computer aided design (CAD) and computer aided manufacturing (CAM) are enabling suppliers to offer greater variety of nonelectronic products at lower costs. Similarly, the inventory costs and shipping time are dramatically reduced with the use of computerized physical distribution in most consumer goods industries. Even professional services such as banking, accounting, legal and consulting services are upgraded in their accuracy, timeliness and reliability with the computerized work methods. Indeed, it is no exaggeration to state that the microprocessors are performing routine business functions far more reliably and at considerably lower costs than human beings.

Finally, the electronics technology has made it economical to utilize alternative methods of selling and promotions targeted at highly specialized and fragmented segments of the market. For example, it is possible to target and customize direct marketing efforts at the individual consumer level with computerized mailings. Similarly, today it is possible to explore telepromotions as alternatives to mass advertising, and telemarketing as alternative to personal selling.

In my opinion, these four attributes of the electronics technology (low barriers, global perspectives, functional integration and higher

quality at lower cost) are also likely to bring about the following supply-driven changes in the market place.

1. Responsive to Market Changes

With the integration of information functions such as storage, processing and transport functions, the electronics technology has significantly reduced the time and space distances in market transactions between the buyers and the sellers. For instance, today it is possible to respond to demand changes on a real time basis if a company has computerized order processing and inventory management procedures. Even in highly volatile industries such as fashion or emergency business, it has become possible to reduce the time and place gap between production and consumption functions.

Consequently, this has encouraged more and more companies and industries to become market responsive and customer oriented rather than driven by production capacity or resource constraints.

2. Niching and Market Fragmentation

Lower entry and exit barriers as well as more cost efficient production and marketing of smaller orders has enabled more and more companies to become market or product specialists. It is, therefore, possible to engage in niching strategies and still remain profitable. The consequence is that the mass markets are getting more and more fragmented. The diversity of products and services is rapidly increasing in practically every industry from fast food restaurants to university education; and from home appliances to fruits and vegetables. In the process, the traditional economic concepts of

competition such as oligopoly and monopolistic competition are becoming obsolete and replaced by new emerging realities of market fragmentation and product specialization as competitive market structures.

### 3. Single Vendor, One Stop Businesses

The electronic technology's capability to integrate business functions as well as to provide enhanced quality at lower cost are likely to encourage companies and industries to redefine their missions and businesses so that the customer does not have to make separate choices of suppliers and brand names for related products and services. For example, banks, brokerage houses, and insurance companies are all planning to redefine themselves into financial services business. Similarly, cable, television, motion pictures and game computer industries are all redefining themselves into entertainment business. Also, hospitals, medical insurance, and physical fitness are all getting integrated into the wellness business. Finally, computer data processing, telecommunication and newspapers and television networks are also getting integrated into a single information industry.

### MEGATRENDS IN CONSUMER MARKETING

The demand-oriented demographic changes and the supply-oriented technological changes in consumer marketing are so dramatic that they must be called megatrends. Furthermore, these megatrends in consumer marketing are highly universal in their impact on diverse consumer products, companies and industries. Finally, these megatrends are likely to persist well into the 21st century.

I have identified the following seven megatrends in consumer marketing.

1. Dual Class Mass Consumption. With the decline of the traditional middle class as a consequence of career oriented, dual income and adult-oriented life styles, it is my belief that the single class mass consumption society will be more and more replaced by a dual class mass consumption society consisting of the affluent and the average classes. For the first time, it will be possible to offer high priced, premium products and services to a much bigger segment of the total population than ever before possible. In other words, what was within the reach of a handful of filthy rich people in the society will be within the reach of as much as 20 to 25 percent of the total population.

Consequently, companies which specialize in premium products and services will find that the growth potential for their products is enormous. At the same time, they will be able to utilize mass marketing tactics and reduce their marketing costs per unit of transaction. Therefore, these companies will also have greater profit potential. Examples include premium cars, custom built homes, luxury products such as boats and satellite dishes, as well as home appliances. Furthermore, the same process is likely to benefit premium retailers such as Dayton-Hudson, Neimann-Marcus, and others.

At the same time, it will become more and more difficult to survive for those companies who offer mass market functional products and services. As the single class mass consumption society partitions itself into a dual-class mass consumption society, it is inevitable that the total market share of functional products will decline resulting in intense price competition to protect or increase market shares. It is my expectation that lower market shareholders in the mass markets will not survive resulting in

market consolidation. This is already evident in the home appliance industry where today only a handful of manufacturers are surviving. A similar possibility exists for the automotive industry including the aftermarket for replacement tires, batteries and accessories. For example, a major retailer (J.C. Penney) has recently announced that they will get out of appliances and automotive services business. Even K-Mart has experienced difficulties in its autocare program. Witness also the packaged goods business at both the manufacturing and the retail levels. Among grocery manufacturers such as Pillsbury, General Foods, General Mills, Nabisco, Procter & Gamble and many others, one observes a good deal of jockeying for position by mergers and acquisition as well as abandoning major product lines in order to consolidate their positions of market strength. The same reality is emerging in the retail food chains such as A & P, Jewel, Kroger, Safeway and particularly many regional chains such as IGA.

2. Personalized Per Capita Consumption. With the emergence of non-traditional households as well as dual income career oriented life styles, it is inevitable that most products and services will be demanded and consumed at a per capita level rather than shared at the household level. Furthermore, as we continue to increase living standards, it will become more and more possible to afford products and services which are personalized rather than standardized.

In particular, per capita consumption is likely to grow for consumer durables, professional and personal services, leisure, and packaged foods industries. It is my belief that the concept of a family car is likely to

give way to a personal car. Therefore, the demand for station wagons should decline and demand for personal cars should increase over time. In other words, the issue facing the automobile industry is not just the size of the automobile but also the type of the car demanded by the market place. Similarly, cameras, radios, television sets and other brown goods are also likely to become per capita products.

Professional and personal services such as insurance, health care, legal and financial services must also be redesigned so that they are offered on a per capita basis rather than per household basis. This is already evident in the banking and medical services.

Third, as we shift food preparation to food consumption at home as well as from family dinners to individual eating habits for all the three meals, it is inevitable that grocery manufacturers will have to innovate new packaging sizes and ready to serve foods, which are better suited for personal consumption rather than household consumption. These include cereals, soups, cheeses, bread, meat and all other staple foods.

Fourth, the leisure market including entertainment and recreation must shift from family to individual consumption. For example, it is very likely that each member of the family will watch his or her own television or cable programs rather than together as a family partly due to time constraints and partly due to increasing individualism. Therefore, television programming in both content and timing needs to shift from prime time family programs to all time personal programs. This will be necessary even for television news programs. For example,

it will be more and more difficult for the American family to get together at or after the dinner time to watch the Walter Cronkite show as they did for a generation. In short, network news will have to be offered more and more on a continuous basis including on a 24 hour basis.

Similarly, recreation activities are likely to become highly individualistic and personalized. It is likely that each member of the family will engage in a different recreation activity even when the family is together at home. For example, the young adults may play videogames or program the personal computer while the parents exercise at home. The individualism in outdoor recreation will be manifested even more. For example, tennis, racquetball, fitness centers, shopping, eating out are all likely to compete for individual attention.

3. Role Blurring for Self Sufficiency. Increasingly, consumers are likely to become more and more generalists as they manage and control their own life. It is my expectation that the old concepts of the homemaker and the breadwinner which resulted in functional specialization are likely to become obsolete. Therefore, women will become shoppers and buyers of financial services, technical products, and other male oriented products and services. Similarly, men are likely to become shoppers and buyers of household products such as laundry detergents, grocery foods and vacuum cleaners. Finally, young adults will learn how to shop, and manage households along with learning to cope with school education and computers.

The consequence of this role blurring to become self sufficient is that most marketing practices will have to become universal in content.

This includes media, advertising, product displays, sales personnel, retail promotion, closing and opening hours as well as all support services such as refund, exchange, credit financing and other activities. They will have to be designed so that they appeal to all age and sex groups.

4. Time-Place Universality. Partly due to the demographic changes and partly due to the technological changes, it will become increasingly common to disassociate from the time and place separations of work, home and shopping activities. As Toffler has pointed out in his Third Wave, it is becoming popular to work at home as we shift from the industrial to the post-industrial society. It is also becoming increasingly popular to shop at home through electronic shopping and direct marketing.

In my opinion, it will become more and more common to blurr the task driven time and place boundaries between work, home and shopping activities. Consequently, marketing of consumer products and services will have to be offered on a 24 hour continuous basis. It will be also offered through multiple and often nontraditional channels of distribution as well as at home through electronic marketing programs. In short, for the first time in marketing history, consumer will go to the market and a marketer will go to the consumer at the same time. This is quite different from either the wagon days when the marketer went to the consumer, and the more contemporary shopping mall days in which the consumer comes to the marketer. The specific place of transacting with each other will be primarily determined by the trade offs of costs and benefits to each party.

In general, however, it is my expectation that nontraditional multiple

channels of distribution will become more the norm rather than the exception. For example, telephone and other utility services may be procured from the supermarkets and other convenience locations. Durable appliances as well as automobiles may be bought at home through electronic shopping. Financial services may be offered without personal interactions and from a long distance through telemarketing programs. What is suggested is only a tip of the iceberg. Eventually, it is very likely that the boundaries between shopping, specialty and convenience goods will become blurred sufficiently to change the whole pattern of retailing institutions.

5. Dominance of Wants over Needs. As the society progresses on Maslow's need hierarchy from physiological and safety-security needs to love, affection and self-esteem needs, it is inevitable that psychological wants will increasingly dominate the consumer motivations over and above the physiological needs. It is no exaggeration to state that as an affluent nation, America is a want driven rather than a need driven society.

It will become increasingly difficult for companies to survive and grow as the consumer markets shift from need driven to want driven markets due to several reasons. First, products acquire want driven utilities through their associations with socioeconomic and other reference groups or with imageries and personalities, rather than through their inherent functional benefits. Therefore, wants are harder to engineer in products and services. Indeed, it is precisely this shift from a need driven to a want driven society which is largely responsible for the failure of technologically driven products and marketing programs. It

will, therefore, require more and more understanding the psychology of the markets rather than the physiology of markets.

Second, people are likely to be more divergent on what they want as compared to what they need. It will therefore, become increasingly difficult to mass market want driven products and services. Market segmentation and market specialization will have to be learnt in place of product specialization and mass marketing. Indeed, it will become increasingly necessary to utilize pull strategies in place of push strategies in marketing.

Finally, wants are more dynamic and volatile. Unlike needs which are fairly stable and consistent over longer time periods, wants tend to rise and subside much faster. Therefore, it clearly suggests that consumer marketing will increasingly manifest shorter and shorter product, image, and competitive positioning life cycles. Indeed, it means that consumer marketing companies will have to plan major technological and marketing innovations with shorter payback periods.

The emerging evidence of shorter life cycles particularly for those products and institutions which are positioned on want dimensions is massive. Examples include magazines, recreation, entertainment and fashions which are all more want driven rather than need driven industries. They also include newer retail institutions such as specialty chains, party selling and supermarkets.

6. Pluralistic Specialty Markets. Pluralism in our values, life styles and behavior is likely to increase due to greater tolerance for individualism and personalized consumption. Furthermore, the electronics age permits

marketers to profitably cater to smaller and smaller market segments. Therefore, it is my expectation that the next two decades will see increasing desire not to assimilate unique market segments in the mainstream mass markets but to cater to their needs and wants as specialty segments. These include ethnic groups such as Blacks, Hispanics, Orientals, and Asians as well as more traditional European ethnic groups. It also includes other unique market segments such as the handicapped, foreign tourists, people who work at home, farmers, and other unique occupations such as truck drivers and traveling salespeople. They all have unique needs and wants either due to biogenic needs or due to unique settings in which they live or work.

As we become pluralistic, it is obvious that the potential market out of these segments will increase. Furthermore, as the economies of scale in manufacturing and marketing are achieved at lower and lower capacity levels due to the electronics technology, it will become more and more interesting for consumer marketers to treat these segments as separate specialty markets.

The trend is already here. For example, cable and television programs, and other entertainment media are catering to some of these specialty markets. Similarly, food companies are increasingly marketing ethnic foods both in the retail food chains as well as in fast food restaurants. Witness the emergence of theme restaurants.

7. One Stop, Hassle Free Shopping. As the society becomes increasingly time driven on the one hand, and as the marketers increasingly broaden their business definitions, it is likely that consumers will prefer one stop

hassle free shopping and procurement of products and services.

This trend has been there for several years now, as witnessed by the emergence of shopping malls and neighborhood shopping centers. However, the future is even more pronounced toward this hassle free one stop shopping in which the traditional location and supplier boundaries between durables and consumables, and between products and services are also likely to disappear. The emergence of hyperstores is here. For example, it is very likely that more and more dry goods such as home appliances, electronics products, perfume, and apparel will be bought and sold at a neighborhood Kroger or Safeway stores along with groceries. Similarly, financial services such as insurance, tax preparation, real estate, stocks and shares as well as money management services will be transacted in a Sears store. Finally, practically all products and services are likely to be shopped and procured from the privacy, convenience and comfort of the home through electronic shopping.

#### HOW TO SURVIVE MARKETING MEGATRENDS

Both demand driven and supply driven changes are massive and unprecedented. It is, therefore, inevitable that consumer marketers will have to cope with these changes and become more and more adaptive to the changing environments. Those who resist or ignore the inevitable are likely to be swept away by these megatrends. Those who pay attention and adapt are likely to grow and survive in the future.

But how does one cope with these marketing megatrends? In my opinion, it will require a change in the corporate culture. It will require

accepting new philosophies of management and adopting new functions and operations. It will require breaking traditions.

The following are some of the suggestions to inculcate a new corporate culture.

1. Focus on the Market. With the maturity of the consumer markets (experienced consumers and powerful competitors) it is absolutely essential that marketers constantly search for win-win situations between the company and the market place. This will mean striving to deliver more value to the consumers without jeopardizing corporate profitability. It means subordinating technology to customers. It means bending the organization (products, distribution, promotion) to fit the market place rather than bending the market place (customers, intermediaries, competitors) to fit the organization.

While this is an obvious and a deceptively simple rule of survival, it is as difficult as breaking a habit or going on a diet. Large corporations have a way of creating and perpetuating the bureaucracy (traditions and work procedures). Often, it will require a change in the top management team who can see the forrest while gazing at the trees.

2. Control Your Costs. With the lowering of entry-exit barriers as well as global competitive perspectives, it will become necessary for management of large corporations to identify cost structures separately for each product-market combinations. With very large and diverse product portfolios, it becomes very difficult if not impossible to

identify and trace various cost components. Furthermore, these costs should include all functional activities which are associated with procurement, manufacturing, marketing and management overheads. It will require greater financial controls and development of on-line real time information systems. The two most common methods of cost control which have become increasingly popular are functional consolidation and automation. The former is an effort to retrain the specialists into generalists while the latter is to replace the specialists by microprocessors.

3. Broaden your Horizons. It will become increasingly necessary to understand competitive forces outside the industry. These are more commonly associated with substitute technologies and with the customers including end users producing their own products and services rather than buying from the market place. At the same time, it will become increasingly necessary to redefine businesses more broadly than in the past. For example, packaged food companies must redefine their businesses as the market shifts from a food preparation to a food consumption society. Similarly, banks must redefine their business as financial services as the electronics technology by-passes the regulated geographical franchises. Finally, consumer appliance companies need to redefine themselves as shopping goods companies as people begin to buy computers, video games and cassette tape recorders from the same appliance dealers.

4. Decentralize the Organization. The span of control vs. cost of control are all encouraging more and more decentralization of the corporation. It is, therefore, possible to provide greater autonomy to individual product-market divisions without losing the span of control.

The result is that one can easily eliminate as many as two levels of management ranks from the organization without jeopardizing the coordination and control objectives.

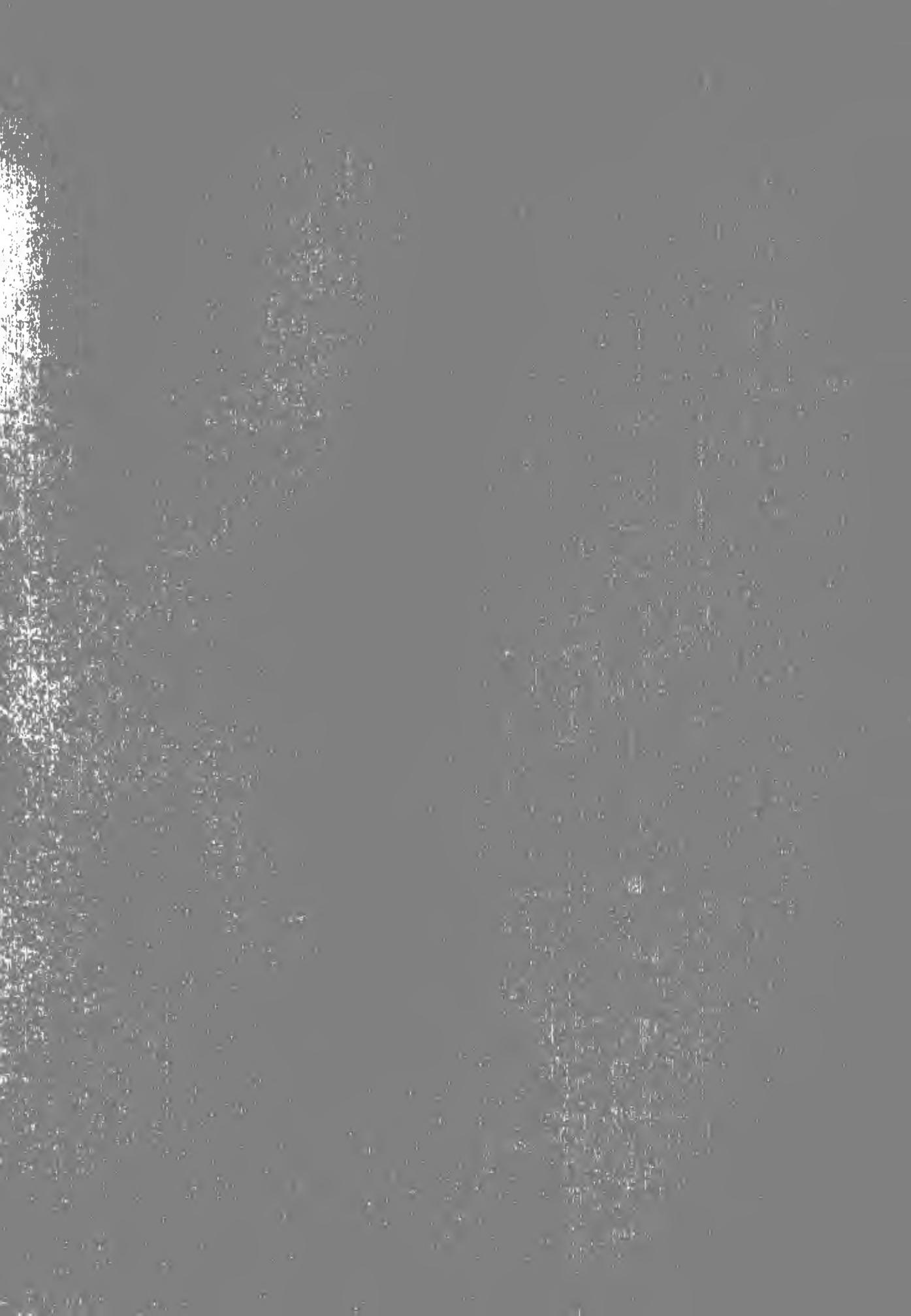
In general, it is desirable to break up the monolithic organization into separate lines of business (profit or cost centers) based on the commonality of manufacturing, distribution and/or product life cycles. Not only is the decentralized organization more cost effective, it also enables the corporation to better focus on the market and thereby become responsive to changing market wants.

5. Practice Pluralistic Philosophy. No single marketing approach is likely to be sufficient in the future simply because markets are becoming more and more divergent with respect to both the wants and needs as well as the buying power. Therefore, a single way of doing business is unlikely to appeal to all market segments.

It will be necessary for most large companies to offer multiple product lines with significantly different price points and market their products through multiple channels of distribution as well as develop relationships with multiple suppliers. For example, consumer durables such as consumer electronics and appliances are likely to be increasingly produced by the same company with significant functional differences under two or three different brand names with significant price differences. Similarly, a single brand name is likely to be distributed by many different retail channels such as department stores, specialty shops, chain stores, discount houses and catalog stores. Finally, most retailers will find that offering the same assortment of dry goods or grocery products

through separate outlets will be necessary. For example, grocery chains such as Jewel Companies sell through box stores (self service) as well as through Superbazaars (full service). Similarly, Dayton-Hudson (full service) has a successful alternative retail channel called Target (self-service).

By following these five rules, a company is likely to survive the turbulent times.









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