MAGAZINE

New Consumers, New Markets

CONSUMER GLOBAL INNOVATION

ANDREW CURRY, THE FUTURES COMPANY 31 AUG 2011

Picture the scene. The Futures Company's chief executive, Will Galgey, on a trip to Shanghai, returns to his room after breakfast, to find that the staff have already started to clean it. The television has been re-tuned to CNN, and the maid is trying to tell him something.

As he later blogged, “She was gesticulating with her fingers to make the number ‘two’ and pointing at the television. My Mandarin was no better than her English, and it was only after she left that I saw the news that China had just overtaken Japan to become the second largest economy in the world.”

For Galgey, the story was about the pride the Chinese have in the country's recent economic achievements – compressed into less than a lifetime. It is, say the IMF, only a few years before she will be able to celebrate China's arrival as the largest economy in the world, at least by some measures of spending power. And where China goes, India and Brazil are following.

The speed of this transition has been remarkable. By 2030, Asia's economy could be larger than that of the US and the European Union combined, with the region's share of world GDP swelling from a little under 30 per cent to more than 40 per cent. According to Anoop Singh, head of the IMF's Asia and Pacific Department: "Twenty years from now, Asia's economy as a whole will be larger than that of the G-7 and half the size of the G-20". And Latin America-which, like Asia, had its financial crisis early-is growing at speed as well.

When the economic trends are combined with population changes and urbanisation, it is not surprising that the world is now looking to the south and south-east. We are likely to see another billion people on the planet in the next twenty years, who will mostly be found in the new mega-cities in Asia. And Asia and Latin America also have younger populations-certainly compared to Europe and Japan-which gives them, for the time being, an economic and innovative energy.

The consultancy McKinsey has put some numbers on the scale of the coming global shift. In typically breathless style, it reports, "The rapidly growing ranks of middle-class consumers span a dozen emerging nations, not just the fast-growing BRI C countries, and include almost two billion people, spending a total of $6.9 trillion annually. Our research suggests that this figure will rise to $20 trillion during the next decade-about twice the current consumption in the United States." The goldrush, it seems, is on.

There are some wrinkles, though. It is unlikely that China, in particular, will continue to grow at the same hectic rates we have seen over the last couple of decades. Like India, it is rapidly moving out of the stage of being a low cost producer. Issues of inequality continue to surface. Resource shortages, in particular food and water, are already causing problems. Pollution is problematic. In India, corruption remains an acute issue, and-for all the millions who have been lifted from poverty there -it still has the largest population of the world's poor within its boundaries, some 350 million.

And in Asia, in particular, there is poor social protection, for dealing with unemployment and healthcare, which means that families save instead of spending. From a global perspective, this has meant that China has been able to carry on underwriting America's debts, but it is not a route to a balanced or stable global economy. Even orthodox economists have started to point to the successes of Latin America in this respect. Generally left-of-centre governments have started to address high levels of inequality, and increased social protection, with the result that people have started to buy more, creating more balanced, and more prosperous economies.

Shifts in corporate ownership

Perhaps, so far, the biggest fundamental economic shift has been the global changes we are starting to see in ownership. There are now 61 Asian businesses in the FT's Global 500, based in China, India, Taiwan, Singapore and Indonesia, and Asian multinationals are reshaping some of the world's biggest industries. It is not coincidence, either, that Bill Gates has been displaced as Forbes' richest man by the Mexican telecoms tycoon Carlos Slim.

The result is a re-shaping of the world's industrial landscape. In the car business, for example, Volvo has been acquired by China's Geely, after changing hands for $1.5 billion. India's Tata group now owns Land Rover and Jaguar, as well as being the world's largest steelmaking group. In telecommunications, China's Huawei is the world number two in mobile-infrastructure equipment, behind Ericsson. Its rise has provoked a major restructuring of the global market, which saw Siemens and Nokia merge network infrastructure divisions and France's Alcatel acquire America's Lucent.

The Chinese telecoms company, China Mobile, meanwhile, is among the world's ten biggest companies by market capitalisation, with more than 508 million consumers. It has also pushed its way into the top ten of the brand value survey BrandZ. This acquisition trend seems certain to continue. Because developing markets have weathered the global downturn better, they are in a position to buy.

A Grant Thornton survey in March this year shows that 44% of privately held businesses in Brazil, Russia, India, and China are planning to grow by acquisition in 2011, up from 27% last year. In other words, the story here is not the one that's usually told. This is not a tale about virgin consumer landscapes, with people anxiously waiting for the delights of the world's finest packaged goods products. Instead, we see markets which have strong and successful local players, with skilled workforces, different patterns of innovation, and which are moving rapidly up the value chain and into new markets.

Most of the world's science and technology graduates now come from China and India, and China is already-by some distance-the world's largest producer of both solar panels and wind turbines. Huawei, similarly, was listed as one of the world's top innovators by Thomson Reuters. Network provider China Mobile is now one of the top ten global brands in Millward Brown's annual BrandZ rankings – a list that assesses consumer brand equity as well as financial performance. The notion that Western businesses do the design and leave the low-cost production to the Global South is rapidly becoming out-dated.

And there are two big implications from all of this. The first is about innovation, the second about brands and branding.

The implications for innovation

We are increasingly seeing innovation emerging from the new competitors in Asia and Latin America which has originally been designed for local markets. Such products tends to have squeezed out features and materials to reduce cost.

Historically, such products would be unlikely to gain traction in more affluent markets, but in a post-crisis climate, more affluent consumers are increasingly also savvy shoppers who understand that choice comes with a cost. So Huawei's $100 smartphone has been developed for the Asian and African markets, but there are already signs of a 'grey market' which imports handsets into the US . The Tata Nano is a lightweight car that has been designed against Indian pricepoints, but which is likely to be modified, to comply with market regulations, as a low cost model for Europe and elsewhere.

And global brands have also been learning how to adapt innovation from the South for their traditional markets. From our Streetscaping network, we see increasing numbers of examples. France's Groupe Danone, for example, learned about reverse innovation in Bangladesh, where they set up local microplants that produced a tiny fraction of the yogurt of a standard facility, partly because of the lack of refrigerated storage. The lessons learned from Bangladesh helped Danone launch a low-cost yogurt sub-brand called Ecopack in France.

In the specialist health sector, Medtronic developed for the Indian market a low-cost pill-sized pacemaker which could be inserted in the heart using a stent. This was both a simpler procedure-so more surgeons were capable of carrying it out-and the design also included a sensor for remote monitoring. The company now plans to launch this in the United States and Europe, and sees opportunities to adapt it for other health conditions, such as Parkinson's.

Sometimes, such innovation is just a matter of repositioning a product for a new market. Nestlé's Maggi brand-low-cost, low-fat dried noodles developed for rural India and Pakistan-found a market in Australia and New Zealand as a healthy and budget-friendly alternative. P&G, similarly, found that the market for its Mexican Vicks Honey Cough cold-remedy syrup could extend to Western Europe and the US.

Of course, there are risks in this. Philips has considered launching in the affluent world the low-cost solar-powered lighting it designed for Ghana. But this might cannibalise existing products and hurt margins. But this is a classic business conundrum: if you don't launch these products yourself, a competitor will-and quite likely a new competitor from Asia or Latin America.

The implications for brands

Increasingly, in this world, we expect to see brands operating in more complex ways than in the past to manage the complexities of different markets, new competitors, and more complex consumer behaviour. As we argue in our recent report on The Future of Global Brands, increasingly, global brands will start to build local brands, sometimes in partnership with local businesses, using local expertise to “co-create” new products for this emerging middle class, rather than merely copying existing lines.

Some examples:

- dENiZEN by Levis. dENiZEN was launched last year in Shanghai, the first time Levis has launched a brand from the outside of the US , and the first Levi’s brand to have its headquarters outside the US. The five-pocket jean is aimed at 18 -29 year-olds in China, Singapore, South Korea, and, in the future, India. Levi’s calls this target group “Asia Rising.” In style and price, these jeans are all about this new global consumer. As importantly, these jeans represent a ground-up approach to building a global presence. Content new consumers, new markets
- Shang Xia. Shang Xia is a new Hermès luxury brand launched last year targeting the Chinese market. Historically, Hermès expanded by buying existing brands. But as with dEN iZEN , Shang Xia is being launched from the ground up, using local know-how and materials to build a global presence at a lower price point. A Hermès representative has insisted that it is “a Chinese brand, developed in China with the Chinese team, based on Chinese craftsmanship and broadly made in China. We don’t want any confusion.” The challenge for Hermès, as one scholar of the Chinese luxury market has noted, is that products specifically targeting the Chinese market are often “less welcomed than products that are totally foreign”. It will be interesting to see if Hermès’ co-creation model resolves this challenge.
- BonVi. Launched in Ghana in 2009 by Amway, BonVi-a range of personal, nutritional, and household products-was developed through a live

prototype run in rural Ghana involving in-home interviewing and village charrettes with feedback on everything from product samples to the proposed colour of the brand identity. BonVi aims at a mass market using local engagement to convert existing Amway products to fit local needs, and co-creation to identify additional needs learned from local collaborators that can be met by new products within the global capabilities of Amway such as water purification tabs. There are always risks here; Coca Cola discovered the hard way in India that its American approach to water management created more enemies than friends, and has spent the best part of a decade developing different approaches which ensure that local communities are not disadvantaged by the presence of a Coke plant, rebuilding its reputation slowly as it goes.

But the bigger challenges are in the deep restructuring of the world economy. When China does become the largest economy in the world, it will be the first time that the largest economy has not also contained the richest consumers. However large the growth of the ’emerging middle class’ over the next decade, they will still be far poorer than the middle classes in the affluent world-even as those more affluent consumers are still squeezed by debt and rising costs. The big opportunity is for innovation for a crowded planet which uses less resources, costs less to produce, and still rewards its innovators. It will take a very different mindset.

Additional research by Anand Rao

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