KANTAR FUTURES

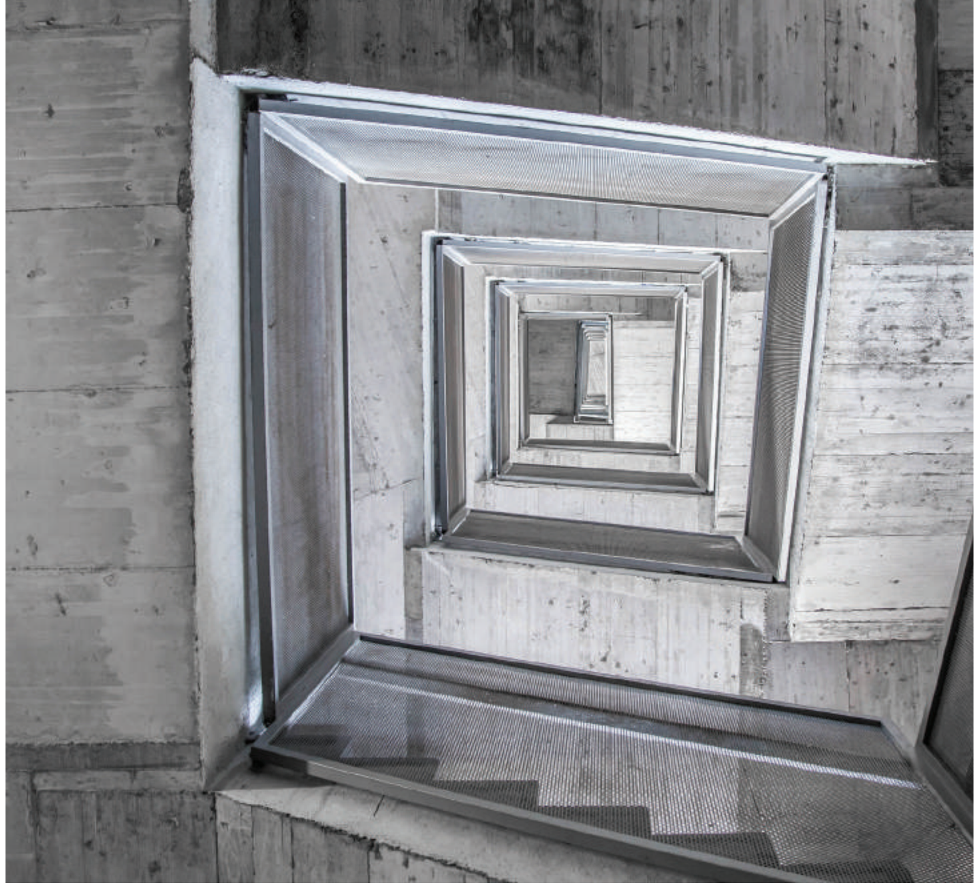
FUTURE PERSPECTIVE

THE THIRD AGE OF CONSUMPTION

LIVE LARGE–CARRY LITTLE IN A POST-OWNERSHIP SOCIETY

Future Perspectives are thought pieces with concise, focused insights into important issues of interest to marketing and business strategists.

THE THIRD AGE OF CONSUMPTION



The future of consumption is not one thing. It is many things, all of which find common root in the ways in which capacity is channeling the marketplace in new directions. Capacity is not a ceiling on progress, but it is a regulator, and thus consumers will continue to 'live large' with aspirations and spending as long as they can 'carry little' in doing so.

The First Age of Consumption was an age of exploration and luxury for the few. The Second Age of Consumption was an age of machinery and the democratization of the marketplace. The Third Age of Consumption will be a future defined by the manifold challenges of capacity. Already, both separately and together, these challenges are undermining the foundational assumptions on which most of today's largest and most successful global companies have been built.

The challenges of capacity take several forms. Cognitive capacity is strained by technology and the surfeit of information. Economic capacity is checked by deep-seated structural elements that are slowing long-term growth. Resources are fast approaching the boundaries of planetary capacity, which is being paralleled by a broader shift in environmental attitudes and lifestyle values.

New growth opportunities will abound, but in the new context of capacity. Understanding the different types of capacity and the ways of navigating them will be central to business success in the Third Age of Consumption.

THE FUTURE OF CONSUMPTION

The three ages of consumption can be sketched out briefly. The first age is associated with early European merchant adventurers and later mercantilism, and ran until the late 18th and early 19th centuries. This was a consumer world in which scarcity and luxury went hand in hand. Expensively procured goods and commodities like coffee, tea, chocolate, tobacco, and china dishes elevated the quality of life for those who could afford them, and became markers of status.

The second age was sparked into life by the mass-assembly techniques pioneered by Henry Ford at the turn of the 20th century. But even earlier, in the mid-19th century, the opening of department stores across the leading cities of Europe and the United States marked the rise of a new market of middle-class consumers. Innovative business principles included the brand management system pioneered by Procter & Gamble and the strategy of planned obsolescence made popular by General Motors. Mass media and mass advertising arose to cater to this fashionable new consumer culture.

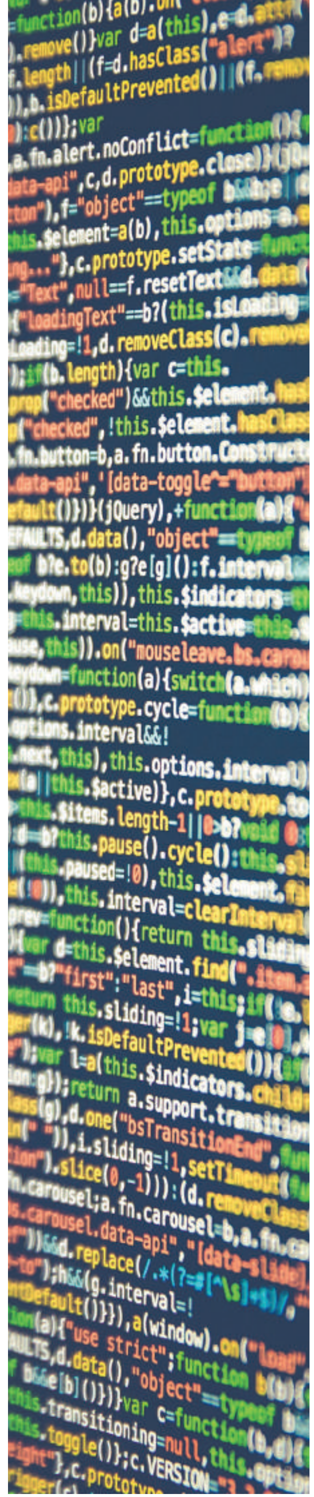
Early signs of the third age have been around for some time in influential ideas such as the "post-industrial society" and the "knowledge economy," as well as in the alarms of environmentalists and the critical writings of many so-called saltwater economists. The definitive moment of change, however, was the financial crisis of 2008, the moment when the worldwide credit boom that had shored up consumer spending during the last stages of the second age finally burst under the pressure. This key component of economic capacity was breached, and around the same time, the floodgates of other capacities were overtopped as well.

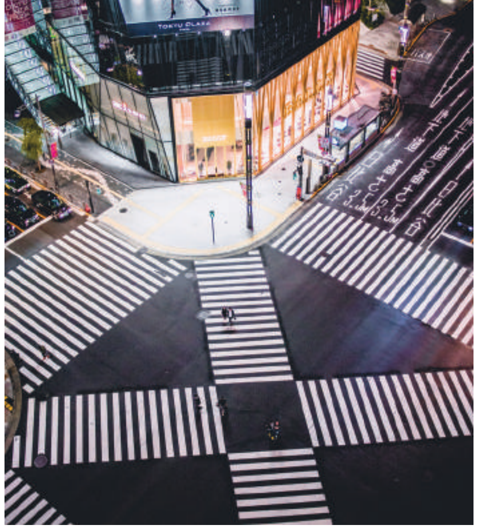
COGNITIVE CAPACITY

The amount of data that passes in front of U.S. consumers each day has increased over seven-fold since 1980, from the equivalent of 10 gigabytes then to more than 74 gigabytes today. There are similar research findings in other markets. Yet the capacity of people to process information remains bounded by the cognitive limits famously summarized by Princeton University psychologist George Miller as "the magical number seven, plus or minus two."

The Kantar FragmentNation work finds that even though people are devoting more time and attention than ever to media, the number of ads and brands competing for attention has grown at a much faster rate. For example, in the U.S., the number of ads grew 120 percent from 2008 to 2015 and the number of brands grew over 30 percent.

Consumers are responding by narrowing their horizons. In many markets, the number of retail brands shopped each month is falling. In the U.S., the average number is down nearly 25 percent from 2008 to 2015. The percentage of TV ads consumers are exposed to that they watch all the way through has plummeted from almost 100 percent in the late 1980s to less than one in five today. One-quarter of consumers say they have installed ad-blocking software; one-third say they avert their eyes when ads appear. For news, advice and guidance, people are turning instead to smaller worlds of influence and information that echo and endorse existing tastes, preferences and beliefs.





ECONOMIC CAPACITY

Economists have squared off in a fierce debate over the capacity of the global economy to recover lost momentum and to grow again at the rates enjoyed in the latter half of the 20th century. The heart of this debate is whether or not technological innovation can reverse the past four decades of declining productivity growth.

Northwestern University economist Robert Gordon argued in a widely read paper in 2012 that the strong growth in productivity and GDP enjoyed in the U.S. during the 20th century (and by extension, all developed markets) was due to a one-off set of transformative technological breakthroughs, and the gains unlocked have been almost fully exploited. Hence, slower growth is in the cards.

Gordon's critics maintain that experience shows it is impossible to predict the future of technology and invention. They point to many technologies being developed now with transformative economic potential.

But there are different ways into this debate. The McKinsey Global Institute calculated that even making the generous assumption that productivity growth over the next 50 years would be the same as that of the past 50 years, declining population growth means a 40 percent drop in annual GDP growth over the next half-century for the G19 markets plus Nigeria. Their calculations also show that the only way to avert this plunge in economic growth is for productivity to grow at a rate 80 percent higher than the past. Even Gordon's critics don't expect that productivity growth can be reignited to that degree. Going forward, economic capacity will be much smaller.

Adding to these worries is the changing geopolitics of the global economic order. Populist movements may have peaked at the polls, but they have rekindled nationalist sentiments and have given fresh momentum to anti-globalization attitudes. Globalism is in retreat since the financial crisis, with global trade growth stagnant, global capital flows down sharply, and cross-border labor movement uncertain in an environment of increasing anti-immigration rhetoric. If carried too far, global retrenchment will starve the global economic order of the capacity needed to maintain the prosperity and continue the expansion of the global middle-class.

RESOURCE CAPACITY

In 2009, the Stockholm Resilience Centre proposed a framework of nine planetary boundaries that mark the outer limits of the capacity of the earth to sustain a hospitable environment for humanity. The U.N. endorsed it in 2012. Scientists have determined that, as a result of human activities, four of these nine boundaries have been breached already, and even more in some regions of the world.

Of these nine boundaries, climate change and biosphere integrity are core boundaries, and these are two of the four that have been breached. Global warming is bringing sea-level rise and extreme weather events, which will, at the very least, require significant remedial investments in infrastructure and relocation. Climate change is also putting more pressure on the biosphere, which is well into what is variously referred to as either the Holocene Extinction or the Sixth Great Extinction. Over 60 percent of all species of life have disappeared during the last 50 years, and the rate of loss is accelerating.

One illustration of the peril of overwhelming resource capacity is the water shortage threatening the megacity of Bangalore, considered to be India's Silicon Valley.

Population growth, intensive urban development, an antiquated water system, years of drought, and the illegal dumping of chemical wastes and sewage have driven the City of Lakes to the point where some observers believe that, within a generation, a lack of sufficient water will make it uninhabitable.

In the 1970s, the Club of Rome made headlines with an unsettling book that carried a self-explanatory title, *The Limits to Growth*. Their models and predictions were much criticized, but Australian physicist Graham Turner recently revisited their growth and collapse curves and found that, to date, their base case forecast has been borne out and remains, depressingly, right on target.

One encouraging development is that because of increasing resource pressure, many people are changing their lifestyles to be more energy-efficient and less resource-intensive. This can be seen in many trends from new patterns of food consumption to greater demand for 'lifetime' goods and handcrafted products to a growing interest in all things local to inventive new ways of living and traveling lighter.

Japanese minimalists are one example. They reduce radically the number of possessions they own because they believe doing so is a gateway to better state of mind. Beauty vloggers known as anti-hauls are another example. They are making waves with influential lists of products not to buy as part of a broader backlash against product proliferation, over-consumption and heedless consumerism among marketing-inundated, financially strapped, environmentally aware younger consumers. Caught like everyone else in the intersection of every capacity crunch, minimalists and anti-hauls are among the many voices alerting people to the new ways of consuming required in the Third Age of Consumption.

LIVE LARGE–CARRY LITTLE

The hallmark of the Second Age of Consumption was a shared presumption of no limits. Historian Christopher Lasch characterized it as an "ideology of progress" and wrote that this belief in "[p]rogressive optimism rests, at bottom, on a denial of the natural limits on human power and freedom." Limitless accumulation was both the end-point and the engine. As Lasch put it, an economy in which "insatiable appetites, formerly condemned as a source of social instability and personal unhappiness, could drive the economic machine" meant the "moral rehabilitation of desire." In turn, this elevated the status and the influence of engineering, both technical and social.

No limits meant no need for economizing or curbing progress. It was assumed that advances in engineering technologies would unfailingly create greater abundance. This assumption was proven right time and again as economies of scale and demand propelled discovery and invention, at least, that is, until it stopped working. Only now as capacity is closing in is this assumption tottering. For example, Stanford University researchers have found that the research effort needed to create each additional percentage point of productivity growth is increasing exponentially, which is its own kind of capacity limit. The age of unlimited consumption is giving way to an era of mindful consumption.

A new imperative now animates consumption, one best summarized as "Live Large–Carry Little." Consumers want no less of the good life, but they want it without all of the baggage that has come with it before. Consumers want just as much enjoyment, convenience and enrichment, but less of the accumulation, possession and debt. This doesn't necessarily mean less stuff, but it does mean that consumers will have a different connection with things. For consumers, it means an age in which ownership is, increasingly, disconnected from consumption. It means that consumers will be thinking first in terms of post-ownership rather than taking it for granted without a second thought that ownership is part and parcel of consumption. It is about consumers continuing to live large with big ambitions and aspirations while carrying little in doing so.

This shift in mindset is not just a phenomenon of developed economies. Obviously, developing markets and the emerging middle-class are still in an accumulation phase of development. But unlike the experience of the past, consumers in these markets will go through the phase of accumulation in a global context of capacity, not in one of no limits. Consumers in developing markets are coming up in the Third Age, not the Second Age of Consumption. Kantar Futures Global MONITOR® research shows that Asian consumers are more aware of capacity constraints than their counterparts in Europe and North America. Capacity is front and center for consumers in developing markets. So a new model is needed everywhere and for everyone.

EXPERIENCES RELATIONSHIPS ALGORITHMS

Modern brands were invented in the Second Age of Consumption, when population boomed along with the consumption of energy and domestic goods. Thus, it is not surprising that these brands are struggling as the marketplace starts to come to terms with capacity. The brands that will win in the Third Age of Consumption will be those that find ways to align credibly with the new requirements of capacity.

To understand what this new era means for brands, it is necessary to focus on the essential elements of engagement for consumers. In addition to the new realities of capacity, there are several things ahead that can be anticipated, in particular, mobile digital technologies, the Internet of Things, the aging of the population globally and in nearly all countries, and the handoff of cultural leadership from Baby Boomers to Millennials and Centennials. But these things are features of the future, not the location of value.

If there is an acronym for the Third Age of Consumption, it is one of a new E.R.A. Value will be found in the connections that consumers have with ***E****xperiences*, ***R****elationships* and ***A****lgorithms*. These three things, and their points of intersection, will create ways for consumers to live large yet carry little.

Experiences are what people seek from products, and there will be more decoupling of the benefit of the experience from the artifact itself. The ride without the car is the first such disruption. Consumers want to be experience-rich, and this makes it both acceptable and smart to be ownership-poor. The premium lies in the quality of the moment not in possession over time. For objects that are used only intermittently, paying for access when needed is more economical and more efficient than the cost of ownership.

Relationships are what people seek from their lifestyles, and there is an on-going shift underway from time spent with things to time spent with other people. Social media are but one part of this. The broader phenomenon of connections with others is finding expression in the redesign of city spaces, the sharing of goods and experiences, the burrowing into tighter communities of friends and interests, the reliance on peer networks rather than institutional authorities for guidance and recommendations, and the priority now placed on things that are local, handcrafted and invested with communal significance.

Algorithms are what people seek from marketing, and there is a growing adoption of AI-powered technologies to combat the clutter of engaging with advertising and retail. Consumers want value with as little expenditure as possible of time, attention, effort and headspace. Algorithms offer unparalleled convenience and efficiency. Consumers can engage with the marketplace in ways that give them exactly what they want without taking up the time they would rather spend with other people.

Even more, algorithms change the relationship between brands and consumers because the focus shifts to using data to maximize consumer experiences, not to boost the visibility of any particular brand. This is a challenge that brands are facing already with online retailers like Amazon, and it will be an even bigger challenge ahead as consumers shift their consumption styles to adapt to the new constraints of capacity.

THE THIRD AGE OF CONSUMPTION

Capacity is the defining characteristic of The Third Age of Consumption. No longer free from limits, consumers are taking up the mantra of Live Large–Carry Little. Not less, just different. This is relocating value from accumulation, possession and ownership to experiences, relationships and algorithms. The future E.R.A. will open up along these lines, not as one thing but as many things, each reflecting a different sensibility about the place and purpose of marketplace transactions, and each opening up new routes to value. In this regard, five key questions are front and center now for strategists, innovators and brand owners.

1. Does enough of your value proposition come from experiences, relationships and/or algorithms?

If not, how do you build more? If so, how do you secure it?

This is critical to benchmark and audit, and it is especially important to assess relative to the vulnerability of your category. For example, Amazon doesn't have to compete in your category to capture your customers and devalue your brand. All Amazon needs are algorithms driving shopping experiences that better align with cognitive and economic capacity and relationships.

2. Does your marketing successfully avoid the overall trend of consumers turning away from marketing channels?

If not, what channel strategy is better? If so, will it last?

This goes beyond media economics. Exiting the treadmill of chasing reluctant consumers is about mastering friction-free capacity, not better information, entertainment or planning. For example, research finds that consumers like advertising and find it valuable even as they do everything they can to avoid it. The answer to this paradox is not better advertising. It's better alignment with the new imperatives of cognitive capacity.

3. Is your value proposition well positioned for an economy undergoing rapid changes and for consumers facing less job and wage stability?

If not, how do you adjust? If so, will you stay competitive?

The unprecedented rate of social and cultural change makes fixed practices and reference points unsuitable. Fast-following and flexibility matter more now than experience and familiarity. For example, after a 50 percent decline in the 2008 downturn, Hyundai USA remade its value proposition with the 'assurance' that if you lost your job, you wouldn't be stuck with a new car you couldn't afford. This innovative flexibility trumped hunkering down on familiarity. 2010 U.S. sales set a record to that point.

4. Are you reaping competitive advantage through strategies to reduce the resource impact of your products and/or services?

If not, how much are you at risk? If so, how can you do more?

Whatever the political currents of the moment, the world is committed to sustainable development, which The Business Commission estimates will open up a bare minimum of $12 trillion in new market opportunities. Either you move here or your competitors will move past you. For example, Unilever has broadened its commitment to water care. In addition to improving its own upstream usage of water, Unilever is developing products that improve downstream water usage by consumers. This is a classic 'and/and' proposition. It's both more resource-friendly and more economical, thus tying together two aspects of capacity in a unique value proposition.

5. Do you have a clear view of the future of your categories, businesses and brands in the coming E.R.A. of the Third Age of Consumption?

If not, how will you develop it? If so, how do you evolve and execute it?

One of the biggest necessities in responding effectively to change is ensuring that the organization is committed to a shared view or shared story of what is happening in the broader environment and what this implies for how the company must operate. Without this sort of alignment, growth and innovation initiatives almost always fizzle out and fail.

As The Third Age of Consumption unfolds against a backdrop of cognitive, economic and resource capacity, the new focus must be on growing value from experiences more than products, from relationships more than brands, and from algorithms more than branding. That is the new E.R.A. of success.

KANTAR FUTURES

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