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## Asia Consumer Product Trends: Implications for Retailers and Manufacturers

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Consumer buying behaviors are changing constantly, sometimes driven by product or technology innovation, but also in response to economic cycles. Emerging markets in Asia, Africa, Central and Eastern Europe and the Middle East are no exception. Accenture's consumer products practice recently completed research that identified key consumer trends and, more importantly, the implications of those trends for retail and consumer goods companies. Our research can help companies understand the current consumer mindset and position themselves for future growth.

Our research identified the following six distinct trends, some of which are already recognized by consumer products companies and retailers while others are just now being recognized for their impact:

1. A distinct polarization of consumer values, or the 'Kings and Paupers divergence'
2. A growing emphasis on personal and environmental health
3. The ongoing urbanization of emerging markets' citizens and their expectation of more convenient products and shopping experiences
4. The ageing populace, and what an older consumer base means for product development and brand loyalty
5. A quest for customized products and the thrill of 'co-creation' collaborations between consumers and product manufacturers
6. The interconnected, mobile consumer who wants to use consumer technology to make shopping fun, fast and collaborative.

Several of these trends are demographic and have been obvious for years. These include urbanization and the ageing of consumers as well as their focus on health and environment. In contrast, trends such as the pronounced polarization of consumer values, and the deep interest in product customization and mobile commerce result more from recent economic and technology shifts. These trends may hold greater promise for consumer goods companies to differentiate themselves because they can be acted on immediately, providing consumer goods companies with the ability to fulfill consumer needs with fresh go-to-market approaches and products, in short, a way to invite and maintain a dialogue with them. For that reason, players that move fast to respond to these trends can gain and potentially sustain a competitive advantage in this area.

How to make the most of this changing landscape? In addition to the specific implications for each trend that we profile here, we advise consumer goods companies to make a handful of targeted investments that help them respond effectively. Our research and experience indicates that key investments to consider include:

- Improving distributor visibility and collaboration, by using technology that allows touch-less direct relations with point-of sale customers and improve in-store execution
- Leveraging analytics to improve distributor and consumer segmentation, and more accurately and quickly integrate digital marketing data, location-based market intelligence and store data to optimize channel coverage and expansion
- Gaining better alignment between product development and marketing to tailor channel strategies by segment and identify innovative distribution to reach both rural and urban consumers
- Supporting consumer engagement by offering collaborative tools that allow customers to tailor retail experiences and even products to their taste, and share results and recommendations with their social network.

All these trends present challenges and opportunities for consumer goods companies, yet all can be used to help companies generate consumer interest and deepen customer loyalty.

# Kings & Paupers Polarization Requires Micro-segmentation – and Micro-Products

Rare is the recession that doesn't impact all socio-economic levels, and even as we emerge from the downturn it is clear that the most significant impact of the contraction hit the lower middle class – those with some but not a lot disposable income – who are acutely focused on getting value for any money they spend. Our research has confirmed that there has been a steady move toward 'trading down' to private label and more affordable brands (particularly in the premium beauty category) by this group of shoppers as well as some others. Furthermore, our research indicates that this behavioral change is "sticky" – meaning it will require significant effort by manufacturers to change this new behavior again once the economy improves. What's more, consumers are trying their hand at 'do-it-yourself' tasks, from cooking more home meals from scratch to performing beauty treatments traditionally done at a salon at home, like hair coloring and waxing. All in all, the consumer is shopping smarter and looking for value – and finding viable alternatives that they may elect to retain.

The retrenchment in spending is explained in part by the increasing polarization of socioeconomic classes, which exists in varying degrees across Asia. At the high end of the income scale there is a clear trend toward premiumization, with luxury items in the beauty and fragrance areas continuing to do well with affluent consumers.

Premium liquors such as Pernod Ricard's Martell Cognac<sup>1</sup> and Diageo's baiju<sup>2</sup> brand have enthusiastic audiences in urban China. This is not surprising because China had the world's fastest growing group of millionaires last year, an elite group that grew by more than 30% since 2008.<sup>3</sup> Despite the recession, there are more and more consumers who have substantial buying power and are willing to use it.

This divergence of consumer segments would seem to leave companies with fewer options to entice consumers, yet we found that companies that adjust to this new reality can gain market share. For example, 'little luxuries' – literally products launched in smaller packages – have attracted consumers. Both Estee Lauder and Viktor & Rolf offer small versions (20ml) of perfumes to maintain connection with consumers looking for an occasional indulgence.

Consumer products companies are in a unique position because much of what they sell are necessities, so consumers will buy products particularly if companies have adjusted pricing and distribution strategies to reflect consumers' circumstances. In particular, small pack sizes have long proved effective in gaining market share in less-developed areas; this same strategy is now working for many manufacturers in recession-struck areas. Several companies including ITC and Hindustan Unilever (HUL) have added more direct distribution channels to serve hard-to-reach consumers.

In HUL's case, trucks with a wide variety of products act as stores on wheels that travel to remote villages to reach India's rural population.<sup>4</sup> Nestlé Brazil has taken the 'products to the people' ethos further, launching river barges that navigate the Amazon basin offering smaller and cheaper versions of its brands to people who live in the river delta and who are not able to get to a retail outlet.<sup>5</sup>

This recession has deepened the divide between the 'haves' and 'have nots' – the Kings and Paupers—yet one key finding is that each segment needs to be served and expects to be courted appropriately. To do so we advise companies to maintain their premium brands, perhaps in smaller packages to satisfy the 'Kings', while also launching lower- and higher-priced versions of current brands in carefully selected areas to address the needs of specific segments. Another key: get the segmentation right, and align channel strategy to serve both poles, whether that means opening slick retail outlets, re-launching brands to emphasize premium experience or value, or taking products to rural consumers directly. The bottom line: it would be a mistake to assume that there is no profit in courting segments across the spectrum; serving them all each in their own way.



# Emphasis on Personal & Environmental Health Gains Momentum

Emerging market consumers' interest in living a more healthful lifestyle mirrors behaviors seen in mature markets since the 1990s. In part this is driven by very real health concerns and the rise of chronic, lifestyle-related diseases. Heart disease is now the number one killer in India,<sup>6</sup> and China faces a 'diabetes epidemic' resulting from dietary and lifestyle changes.<sup>7</sup>

Yet, the quest for a healthier lifestyle also reflects growing concern about issues ranging from global warming to food safety. Consumers are gravitating toward certifiably healthy food choices; even as the global food supply becomes more globalized, there is a developing interest in using local, fresh food sources in many emerging market countries. Indeed, highly publicized cases of contamination of baby milk in China as well as periodic outbreaks of salmonella have peaked consumers' awareness and fears enough so that many are now willing to pay a premium for products that promote a healthier lifestyle and come from a 'safe' source. We found that almost half of consumers surveyed in China consider the environmental impact of products before buying them (see Figure 1).

These concerns and objectives offer tremendous opportunities for consumer goods companies that accurately sense and respond to the desire for many consumers to live a healthier lifestyle. Many have already taken the initiative, sometimes in collaboration with suppliers or governmental partners, to respond to consumer trends:

- Danone Turkey launched a campaign to improve hygiene in milk production with its 'Health to my milk and support to my village' project, which supports improvement and increases scale among small milk producers.<sup>8</sup>
- Asda, the British supermarket that suffered an expose of working conditions in its Bangladesh factories, installed shop-floor webcams that allow customers to view improved working conditions.<sup>9</sup>

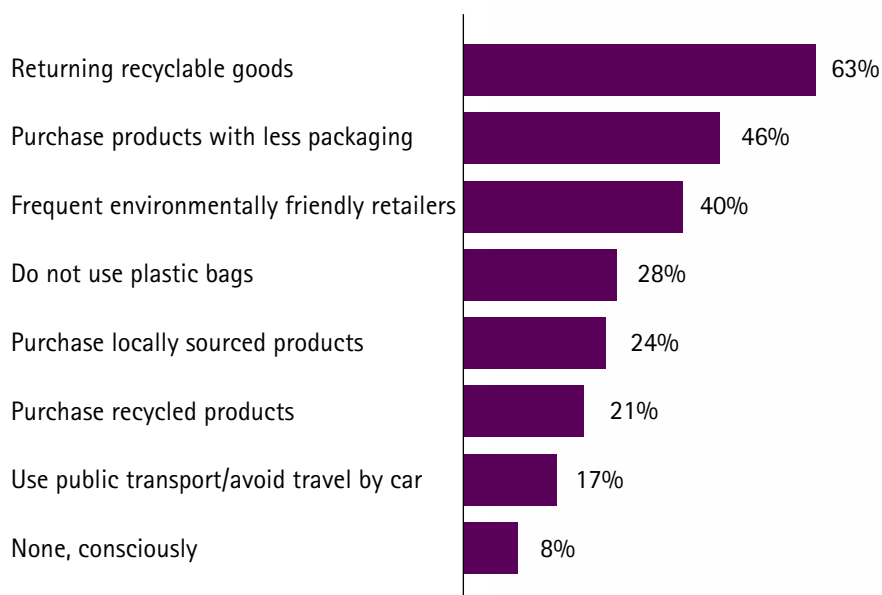
The primary insight for consumer products companies is that they should tailor some product and distribution strategies, as well as marketing and social media campaigns, to reach those consumers that are increasingly focused on the health benefits and environmental impact of products. Companies should consider partnering with governmental or credible NGOs to offer services that reflect these lifestyle concerns and promote related products. Yet, companies should also track the impact of their efforts and know that there are some limits to getting returns on their investments. Accenture found that while eco-friendly products command a premium and additional attention, sustainable processes may not; the costs of such processes may be significant but often cannot be passed on to consumers.

## Green is the New Black, and a 'Must Have' for Many Consumers

Accenture's research found that many consumers will pay a premium for eco-friendly products, even and especially in developing and emerging markets. Chinese and UAE consumers in particular are willing to pay more, in the case of UAE consumers nearly 10% more for 'green' products. In contrast, consumers in western markets such as France and Canada would only pay 1-5% more for such products.

Figure 1. Chinese Consumers on Environmental Concerns

"What actions do you personally take to address environmental concerns?"







## Urbanization Increases Demand for Convenience

It is not news that most emerging markets, particularly India and China, are experiencing a wave of urbanization as citizens move from relatively isolated rural villages to cities large and small, and that formerly “smaller” cities are rapidly growing into large ones. What is startling is the pace and magnitude of this movement. Urban city dwellers are expected to be the majority in China by 2020, and India’s urban population is projected to double to 590 million by 2030.<sup>10</sup> The product implications for retailers and consumer products manufacturers trying to reach urbanites can be summed up in one word: convenience. The operating implications are more complex, and require more investment to ensure a dynamic, demand-driven supply chain that keeps products moving and shelves stocked.

City dwellers, whether in, Sao Paulo or Beijing, generally shop more frequently and buy less per trip (in part because their homes rarely have refrigeration and have limited storage space, and because most transport their groceries by foot or on a bike). The faster pace of

an urban lifestyle also means consumers gravitate to ‘grab-and-go’ outlets that are easy to get in and out of quickly and offer products in portable packages that can be easily carried. Similar to their responses to the eco-consumer, companies have reacted to this demographic trend by reformulating products or launching new products targeted at city dwellers:

- Kimberly-Clark’s Andrex toilet tissue is packaged in a convenient, re-sealable bag, complete with antibacterial spray.
- Nestlé changed the package of its Alpino, Nescau and Neston products to conform to hands, making it easier to carry and consume on the go than previous brick-shaped containers.<sup>11</sup>

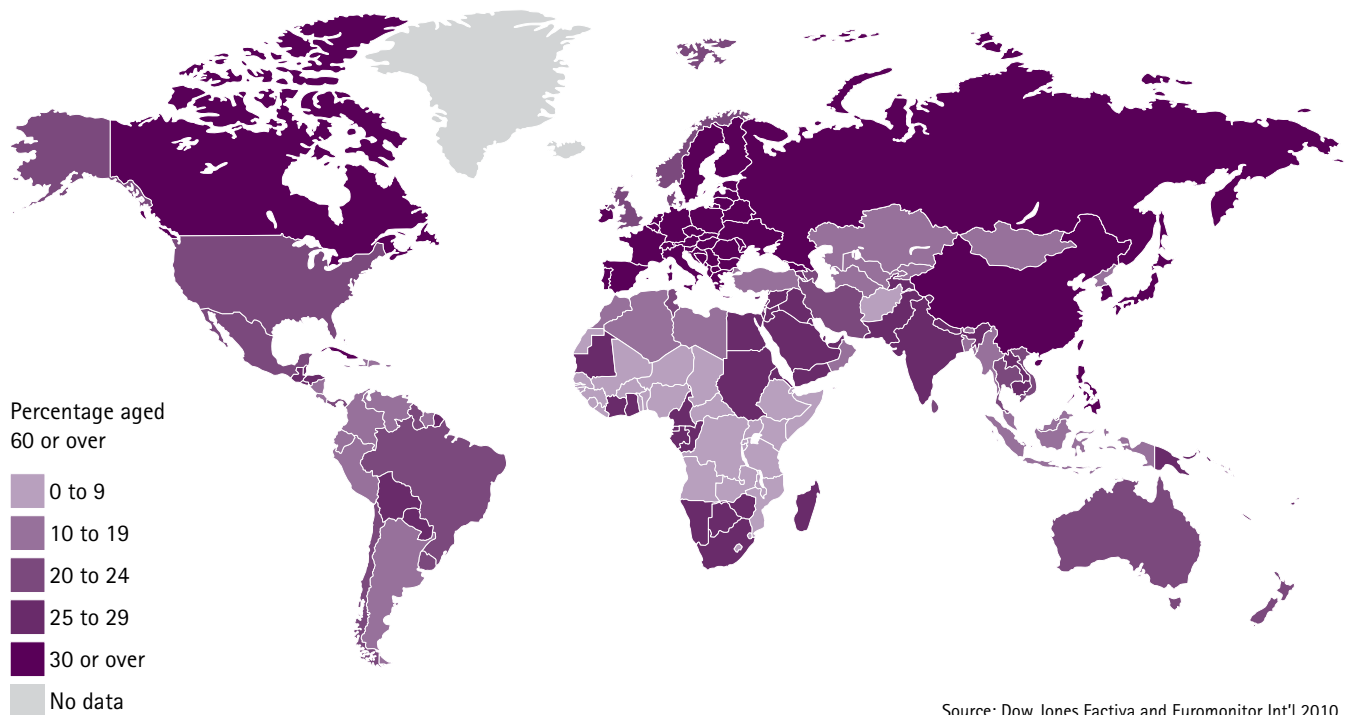
But it’s not just the products that are changing. The most action might be in channel development or rationalization to make sure consumer goods companies find the best route to urban consumers. Even as convenience stores and small mom-and-pop retailers continue to dominate emerging markets (e.g., 95% of Indian retail is through traditional

channels), there is a pronounced growth in modern trade with its more efficient, predictably formatted stores.<sup>12</sup>

There are many operating and merchandising implications to serving the urban consumers that go beyond convenient, portable products. Chief among them are the need to leverage technology – consumer and customer analytics, in-store POS terminals or handhelds, and supply chain integrated systems that facilitate collaboration – to make sure the right products get to the most valuable channels and ‘winning customers’ at the right time. Out-of-stocks are the bane of retailers’ and consumer products makers’ existence, and investments to prevent them can not only add sales but maintain for a position in the limited shelf space at small scale retailers. A case in point: Unilever introduced handheld terminals in India to speed up the data collection process, and improve its fulfillment processes.<sup>13</sup> We would advise other products makers and retailers to consider similar approaches to better serve the urban consumer.

# Serving the Ageing Consumer

Figure 2 – A Rapidly Ageing Population Commands Attention



Source: Dow Jones Factiva and Euromonitor Int'l 2010

Few trends are predictable, in life or in retailing. But one is certain: we all grow older. And as consumers grow older they need different products, or products packaged or made available in different ways, to reflect their unique needs. Much has been made of the generational shifts in the US and Europe, which are straining social fabrics and governmental budgets alike. Yet, in reality it is Asia Pacific that will soon have the largest number of elderly people. By 2020, citizens over the age of 65 in India and China will account for 37% of the world's total elderly (see Figure 2). Vietnam is also seeing a marked increase in elderly.

Companies' responses to this trend range from trying to help consumers turn back the clock with age-defying beauty products to accepting the inevitable and developing targeted offerings or re-packaging current offerings to better suit this huge group of consumers. 'Cosmeceuticals' and 'neutraceuticals' are beauty or food products that combine ingredients proven to help aging bodies. A good example: Milo with ACTIGEN-E® and PROTOMALT®<sup>14</sup> from Nestlé was launched in Malaysia to appeal to both the health and

cultural preferences of the residents. New elder-care services and store formats are also on the rise. Hojo, a senior-specialty store in France feature wider aisles, price tags with larger lettering and a staff trained in senior issues<sup>15</sup> to keep their senior shoppers safe, comfortable and coming back.

In a youth-obsessed world, many don't like to think about growing old. Yet, one clear implication for manufacturers is that they must do exactly that, dedicating resources and finding the right marketing talent to understand the needs of the elderly. Companies need strategies and research capabilities to help them bring products to market that can easily be used by elderly hands (think 'Jitterbug' phones with big buttons and simplified functions, or senior-friendly twist-off caps for drinks) to serve the ageing consumer population. Innovative marketers should also consider ways to partner with retailers to make shopping easier, perhaps even developing in-store or in-home programs or services offered free to elderly shoppers as a way of deepening loyalty.



# Consumer's Desire to Customize and Co-create Products and Experiences

Consumer products companies want to give consumers what they want, and companies spend a vast amount of money trying to figure out what to put on shelves. As luck would have it, consumers also have a keen desire to tell manufacturers what appeals to them and even help co-create and customize products to their specifications. While some may see narcissism run rampant, manufacturers should take advantage of consumers' desire for new and unique products and desire to share feedback by inviting consumers to contribute in the development process. There are several actions manufacturers can take to successfully cater to the 'Me Society' and solidify their role in consumers' lives.

Actively study market behavior and local consumers to gain actionable insight. As P&G demonstrated long ago by embedding market researchers in consumers' homes to observe how they run their households and use certain products, nothing beats field research.<sup>16</sup> Companies that spend time understanding local tastes, infrastructure limitations, and values are better able to provide products that meet clear, specific needs. For example, observational and market research in India revealed that:

- Indians have a preference for herbal flavors, thus P&G has offered toothpaste to cater to these tastes.<sup>17</sup>
- The craze for BB Cream, a skin protection cream has spread from South Korea to Japan to Southeast Asia.
- Marico Bangladesh continues to do well, led by its flagship, Parachute coconut oil, which now commands a market share of 72%.<sup>18</sup>

In-depth local research can prevent companies from making a common mistake: believing that importing popular Western products will automatically lead to long-term growth. For some categories this may work, but certainly not for all.

Include consumers in the innovation process. Regardless of age, gender, nationality – everyone likes to be asked their opinions and to see their great ideas come to life. Now more than ever, consumer products companies should tap into consumers' intellectual capital and give them a say in what gets produced. Mars' "My M&Ms" allows consumers to customize its candies, choosing flavors, colors and printing, and will deliver the shipment direct to consumers.<sup>19</sup> Mystarbucksidea.com operates on the same principle, albeit one with mass impact.<sup>20</sup> Customers can share ideas on products or store services online to shape their Starbucks experience. A blog supports dynamic conversations between customers and Starbucks. This 'wisdom of crowds' approach fosters community, a little competition, and increases brand loyalty, setting Starbucks apart.

Embrace digital communication. More of the world's citizens have Internet access than have refrigeration. They are going online through PCs, smartphones or other mobile devices, making this channel a critical one to foster communication. Product updates, brief surveys or personalized rewards can be delivered quickly, easily and cheaply to targeted consumers, and steer consumers to retail outlets for specials. A recent Accenture Retail survey actually found that the typical smartphone user prefers to use their phone to facilitate shopping, rather than any other form of communication – including face-to-face communication with store personnel.

The quest for customization and co-creation also feeds the final, and perhaps most important trend: the rise of the interconnected consumer. What both these trends have in common is that consumer goods companies can quickly use them to their advantage to gain and maintain contact with consumers before, during and after shopping events. Likewise, involving consumers in the creation process and building communities around them using current technology favored by consumers places manufacturers large and small on roughly a level playing field, and positions the consumer closer to the center of the buying experience.

## The Power of Personalization

Mars has struck cocoa-flavored gold with its 'My M&Ms' offering: 800 pounds of M&Ms were ordered through the online site on its first day.<sup>21</sup>



# Connecting with the Interconnected, Mobile Consumer

Emerging market countries continue to narrow the digital divide by improving broadband Internet access, and mobile broadband is as or more popular with some than fixed access. The China Internet Network Information Center estimates that 66% of Internet users in China access the web via mobile phones,<sup>22</sup> and in Indonesia mobile Internet is more popular because fixed broadband is still relatively scarce.

Thus, web-based channels are critical, and bring a host of benefits, the most significant of which is that they allow marketers to overcome the recessionary effects of depressed spending by engaging consumers directly with digital, social media and mobile platforms. To meet connected consumers where and how they live, most consumer goods companies know they need a comprehensive digital strategy. Not surprisingly, CPG companies are expected to increase their interactive marketing spend by 22% CAGR by 2014 – more than any other industry (see Figure 4).

Consumers seemed to know first what companies are now finding out: digital communication is fun, fast, personal and as creative as you want it to be. P&G's launched 'uArt',<sup>23</sup> an iPhone app that lets consumers 'use' the company's Gillette Fusion razor shave and create facial hairstyles once they upload a photo of themselves – a personal, fast, fun gadget perfectly targeted at P&G's intended customer. In Japan, where smartphones are even more ubiquitous, the company combines QR code mapping and mobile technology to promote new tea giveaways and loyalty programs; all a mobile phone owner needs to participate at a vending machine is her phone.

So now that company-to-consumer dynamic digital interaction is a given, companies who don't have an engaging online presence or effective mobile strategy or app will suffer in comparison to those who do. Indeed, the implication for companies is that digital marketing is particularly important in emerging markets where consumers can be more difficult to reach with traditional

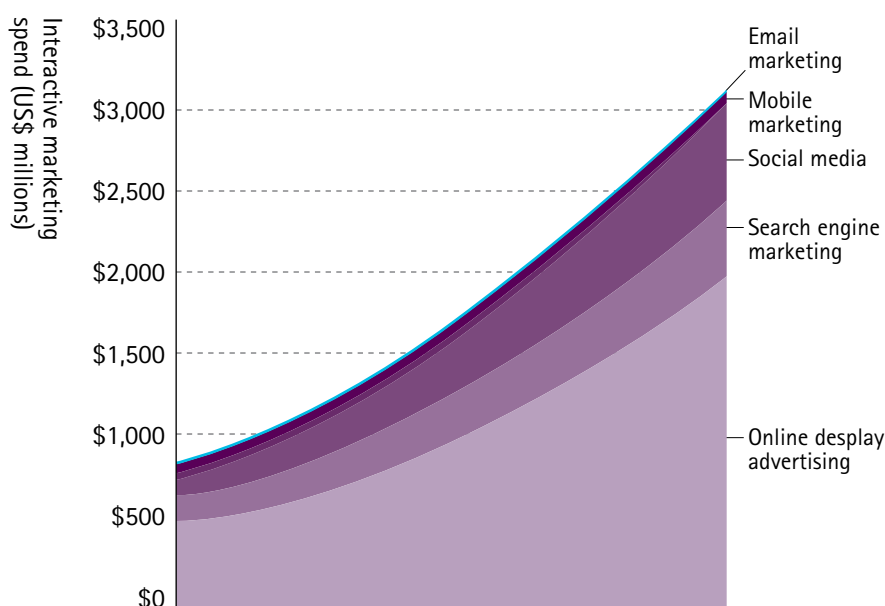
advertising. Yet that is just the beginning of how mobile commerce and advertising are changing the way consumers shop. Amazon, the world's pioneering online retailer, has developed a 'Price Check' app that allows users to instantly compare prices on items by submitting a picture of a product or of the product barcode.<sup>24</sup> The app then conducts an online analysis of retail prices. To complete the transaction, a consumer can order the product directly from Amazon using the same app if the price is right. Amazon has brought convenience to the consumer, and probably swiped a lot of retailers' sales in the process. The implication: companies need to understand that consumers are no longer a captive audience in a retail location because they have immediate access to pricing information. Retailers and manufacturers alike will need to adjust their pricing strategies accordingly to maintain market share.

Is all this cost effective and strengthening the bottom line? It is hard to measure the specific business impact of these ideas, particularly because most consumer goods companies also use traditional print, TV and in-store

advertising, all of which can have a cross over effect. Yet, it can't be denied that they have injected a level of creativity and connection with consumers that is hard to duplicate offline. In this age, digital marketing is the perfect mash-up of merchandise, medium and message.

Consumers in Asia reflect many of the known economic, demographic and technology-based trends that are shaping retail across the globe. Yet, they also represent a huge untapped source of potential sales for companies that enhance their products and services through analytics, technology, collaborative tools and online services. All of these will allow companies to understand their markets, expand channels, and develop deeper relationships with consumers and customers. Indeed, a key finding from Accenture's research is that there are new ways to serve all consumers– young and old, wired and mobile, urban and rural, affluent and working class – a little bit better.

Figure 3. Interactive Marketing Spend Growth



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