2001

Ten-Year Forecast

New Consumers

Creating a New Marketplace

Institute for the Future

Corporate Associates Program

Dedicated to Don Davis,
whose generosity and treats won't soon be forgotten.

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About the ...

...Corporate Associates Program

The Corporate Associates Program (CAP) is the Institute for the Future's flagship service. Focused on the strategic planning needs of organizations worldwide, CAP offers an ongoing examination of the international and domestic business environment. During the yearlong membership, program members receive practical, incisive, and up-to-date analysis of emerging trends and their likely consequences. Throughout its 25-year history, CAP has offered an unparalleled opportunity for senior corporate planners and strategic thinkers to interact effectively on key issues with CAP colleagues, Institute for the Future researchers, and leading experts.

...Institute for the Future

Located at the northern edge of Silicon Valley in Menlo Park, California, the Institute for the Future is an independent, nonprofit research firm that specializes in long-term forecasting. We help businesses identify and evaluate specific opportunities presented by market trends and new technologies. Founded in 1968, the Institute for the Future has become a leader in action-oriented research for business, industry, and government. Our clients include Fortune 500 companies as well as midsized and emerging companies. We analyze policy, forecast alternative future scenarios, and identify markets for new products and next-generation technologies.

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Introduction

Welcome to the Institute for the Future's 23rd annual *Ten-Year Forecast: New Consumers Creating a New Marketplace.*

This is the first of the series to have a single theme. For that theme, we have selected the single most powerful driving force in the economy at the turn of the century—the emergence of consumers who use information more intensively to meet their economic needs. In the process, these new consumers are influencing a spectrum of business and economic decisions and transforming a variety of societal precepts.

While we have touched on a number of these themes in the Corporate Associates Program in the past few years, this *Ten-Year Forecast* acknowledges the significance of these drivers in creating a more consumer-centric economy. We have attempted to distill all of our research on the new consumer into a single volume. To this end, we track the new consumers by means of basic social data, we explore key changes in the way consumers use information to make commercial decisions, we gauge the impact of new consumers on the supply chain, and we identify some of the areas new consumers are likely to influence in the decade ahead.

This year's *Ten-Year Forecast* is divided into three sections. The first explores the social and demographic characteristics defining the new consumer. We put the emergence of this phenomenon in the context of wider and deeper social change, change that is creating more diverse societies where differences in behaviors and choices are more welcome.

The second section analyzes the particular ways new consumers use information—how consumers gather information when making decisions, what channels they use, and what sources are most important to them. These patterns of behavior are strikingly different from other groups in society and presage other notable behavior changes in the coming decade. In particular, new consumers are more likely to appreciate the value of exchanging their personal information with businesses and are more likely to turn to agents for help negotiating the more complex information flows.

The third section focuses on how the new consumer is beginning to change a wide variety of key societal precepts. These include not only how we shop but also how we calculate risk and put value on intellectual property.

Section I: The 21st-Century Consumer

In its simplest definition, the new consumer is someone who has some college education, lives in a household with discretionary income, and has access to new information technologies.

Our detailed surveys show that information-using behaviors change relatively smoothly over time—with each increase in educational attainment or household income, the likelihood of using information more intensively to make commercial decisions rises. We have developed easily quantifiable measures—having at least one year of college experience, living in a household with more than $50,000 in income, having a PC at home—that give us a shorthand for measuring how many new consumers there are and how fast this segment is growing.

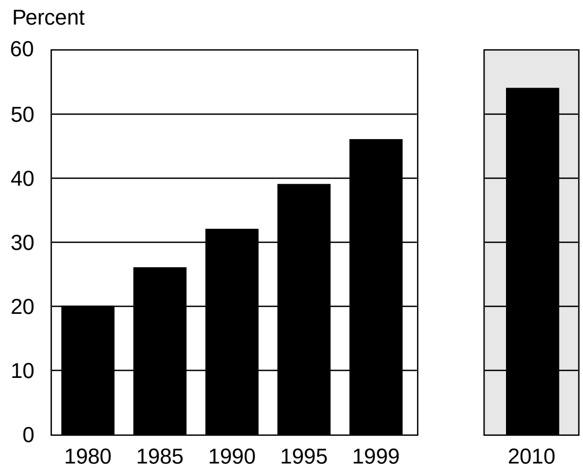
In the past 20 years, the share of the U.S. adult population comprising new consumers has been growing at almost 5.5% per year, while the total adult population has been growing at slightly over 1% per year. As a result, new consumers make up almost half of all adults in the United States today (see Figure 1). Given these numbers, there is little surprise that the new consumer phenomenon has come to dominate the marketplace.

The new consumer phenomenon is not restricted to the United States. Using the same criteria, we have found that many other countries across the North Atlantic are experiencing the same rapid growth in sophisticated, information-intensive consumers. While not as large as in the United States, the growing population of new consumers in Northern Europe is significant as well (see Figure 2).

Section I provides background to the emergence of these highly influential new consumers. Most of the focus is on the United States, where we first identified the phenomenon. We begin with the two key defining characteristics of the new consumer—the rapid long-term rise in educational attainment and the large growth in the share of adults in higher-income households ("Higher Education, Higher Participation" and "Household Income Spreads Up and Out"). We then take a look at several drivers of social change in the United States—the redefinition of the role of women, the ongoing social revolution, and the increasing diversity of the U.S. population—all of which continue to transform society ("Lady of the House: The Evolving Role of Women," "The Social Revolution Lives On," and "Diversity in 2010—The Multicultural New Consumer").

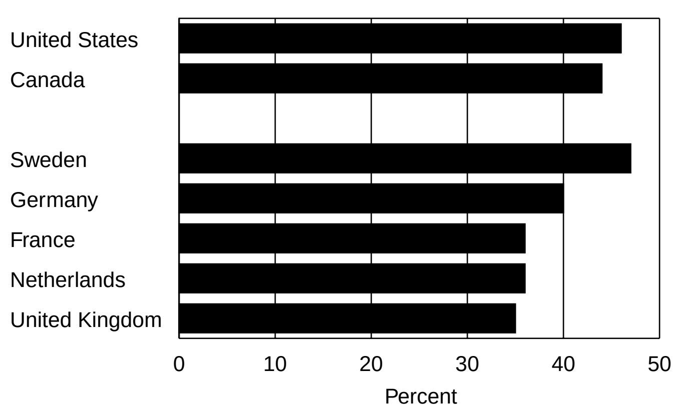
To make the point that this phenomenon is not just a U.S. experience, we draw parallels between social and demographic changes in the United States and those in the other major countries of the North Atlantic ("The North Atlantic Echoes the U.S. Market").

Figure 1
The Number of New Consumers Is Growing Rapidly
(Percent of all adults)



Source: Institute for the Future

Figure 2
New Consumers Spread Across the North Atlantic
(Percent of adult population)



Source: Institute for the Future, International Household Surveys, 2000.

These drivers have all contributed to the evolution of the new consumer. Together with the new consumer phenomenon itself, they are creating a much more diverse and fragmented society in which traditional mass-market communications strategies just won't work. More groups and individuals are demanding more personalized attention from businesses.

Section II: Changing Behaviors

The key insight we have gained in five years of consumer surveys is that the new consumers use information differently. They search for information in more channels, they refer to information more frequently, they prefer information for which they initiate the contact, they like interaction, and they use information to experiment more often ("New Consumers: Using More Information More Effectively").

By using richer sources of information and enjoying the potential for more interaction with businesses, the new consumers are also learning the value of their own personal information. They are increasingly looking to build relationships with businesses that understand how to provide greater value in exchange for that information ("Customer Relationships: The Evolution of the Value Exchange"). These new consumers are also beginning to seek out sophisticated agents, both human and electronic, whom they can trust to help them manage the increasingly complex set of life's tasks ("The Future of Agents: From Task Management to Life Management").

Finally, there is a very real and very large group of consumers who are not adapting as quickly to the plethora of information available. The people in this group are more racially and ethnically diverse and older than new consumers. They gather less information before they make commercial decisions, and when they do gather information, they tend to rely more on people, including experts, than on other resources ("Out of the Shadows: Traditional Consumers Gain the Light"). Businesses ignore these traditional consumers at the risk of alienating nearly half of the current marketplace.

Section III: Changing Society and Business

The new consumers are using information to force basic changes in how the economy functions. At the same time, they are beginning to affect societal precepts that define some of the rules of economic behavior. This section explores just a few of those longer-term consequences.

It is fairly easy to see that the new consumers' information-gathering and shopping behaviors are changing the retail sector. We offer a detailed example in Europe ("Retailing in Europe: Beyond the Hypermarket"). But their behavior is affecting other economic venues as well. The labor market is changing, not only because of the new consumers' demand for services at all times and all places, but also because, as workers, new consumers are defining new relationships in the workplace ("Double Jeopardy: New Consumers

Changing the Workplace"). Moreover, as new consumers get more information, they are emboldened to take more risks. In many areas—controlling their own retirement funds, making investment choices, switching jobs, borrowing to pay for more education, pushing for quicker federal drug approval—new consumers are accepting greater personal risk if it means more control ("New Consumers Raise the Risk Threshold").

The benefits of inexpensive and plentiful information may also get the new consumer to rethink some of the most basic assumptions about how society functions. Already, consumers are beginning to have new thoughts about access to intellectual property in a world where information sharing is pervasive ("Intellectual Property Management in the New Economy").

The most obvious manifestation of information-empowered consumers is in their effects on the supply chain. In the past, the key economic decisions—of what is made, where it is made, what it will cost, and when new products are introduced—were controlled by players well up the supply chain—processors, manufacturers, and brand builders. But in recent years, these decisions have moved closer to the consumer, first into the hands of the big retailers, and now increasingly into those of the new consumers in all their interactions along the supply chain ("Consumers Are Revolutionizing the Supply Chain").

On to the Annual Conference

This *Forecast* looks in depth at consumers, new and traditional, their use of information, and the impact of that combination on every aspect of the global economy. We hope you find it an interesting read filled with data, ideas, and insight. It can be read all at once or used as a handy reference throughout the year. It also provides background material for the Corporate Associates Program Annual Conference in Monterey, California, in February, where we will explore in greater depth how the new consumer is changing relationships all along the supply chain. We hope you enjoy the *2001 Ten-Year Forecast!*

Greg Schmid, Director
Maureen Davis, Program Manager

Corporate Associates Program
Institute for the Future (IFTF)
Menlo Park, CA

The 21st–Century Consumer

Higher Education, Higher Participation

Despite the anecdotes about high school dropouts earning millions in the software industry and news stories about the decreasing value of college, Americans are attending and graduating from high school and college at consistently higher rates. This growth is occurring across all genders, ethnicities, and races.

Since a larger portion of high school graduates is going on to college, the total share of the population with at least some college education is increasing as well. By 2010, almost 55% of the adult population will have at least some college training. We expect this share to continue to grow as the well-educated baby boomers enter retirement, replacing a generation with much lower attainment levels, and the echo boomers, with their very high college enrollment rates, enter the workforce. Such growth will create a more sophisticated, confident consumer base and workforce that will keep the United States competitive in the global economy of the 21st century.

The Drivers

Five critical drivers will continue to increase the educational attainment of the U.S. population:

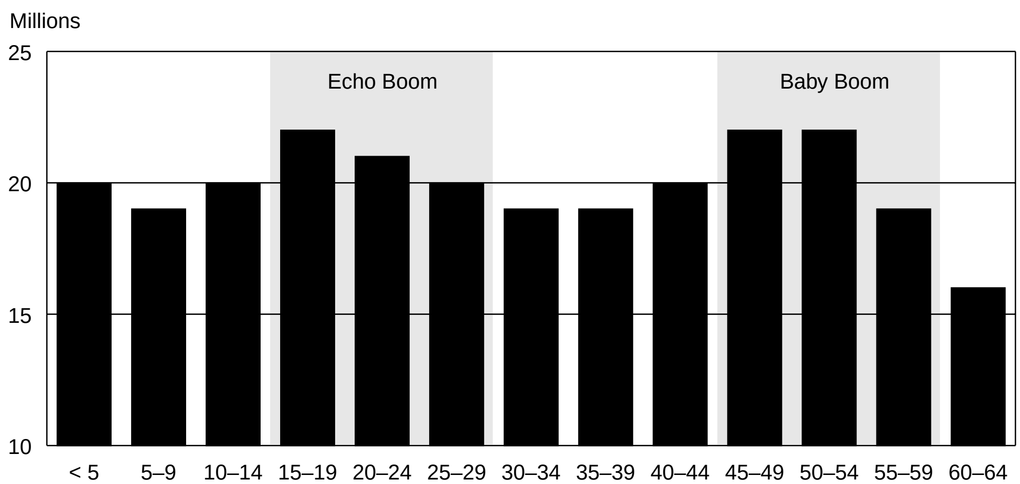
- The coming of age of the echo boomers.
- Lifelong learning for baby boomers.
- The increase in the number of people who attend some college.
- The economic returns on the investment in education.
- The public perception that education is necessary to succeed in the New Economy.

Echo Boomers Come of Age

The baby boom generation's prime fertility years resulted in the "echo boom"—the bulge in births from the late 1970s through the mid-1990s. Indeed, at 4.2 million, the number of births in 1991 almost equaled the number in 1961, the peak year of the baby boom, 4.3 million. In the next ten years, the echo boomers will graduate from high school, attend and graduate from college, and enter the workforce in significant numbers, just as the baby boomers begin to retire (see Figure 3).

The impact of the echo boomers will be far reaching. Since the 1970s, young adults have been attending college at increasingly higher rates. In 1980, for example, 48% of recent high

Figure 3
The Echo Boomers and the Baby Boomers in 2010
(Age distribution of the population in the United States in 2010, in millions)



Source: U.S. Census Bureau, *Projections of the Total Resident Population by 5-Year Age Groups and Sex with Special Age Categories: Middle Series*, December 1999.

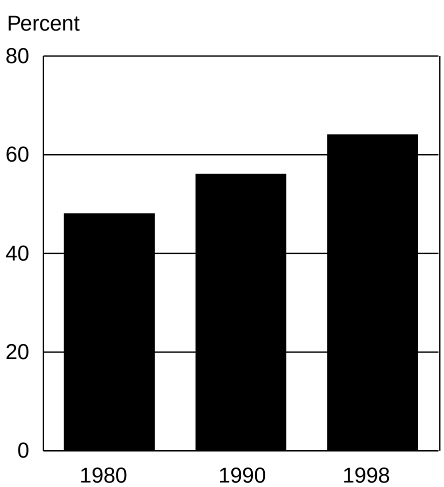
school graduates enrolled in college. By 1998, the share increased to 64% (see Figure 4). The increase in college attendance was even more dramatic for women. In 1990, the rate at which women attended college after high school graduation was virtually equal to that of men, but by the end of the decade, women went to college at considerably higher rates (see Figure 5).

Due to the large number of people born in the echo boom generation, the higher levels of education in the younger groups, and the greater college attendance of women, the absolute number of high school and college graduates is likely to continue to increase in the next decade.

Baby Boomers Keep Going to College

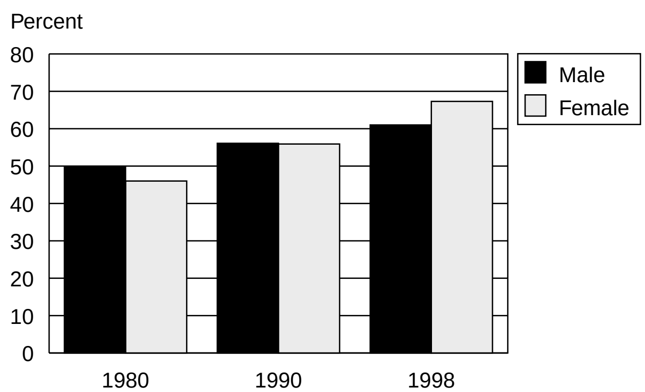
Even as they approach retirement, the baby boomers are continuing to contribute to the rise in educational attainment. Indeed, the baby boomers have turned to lifelong learning in droves, most likely to broaden their skills to compete in the rapidly changing workplace and to seek a measure of fulfillment by pursuing personal interests. If we follow a cohort of the baby boom generation through the past two decades, we see that such a typical cohort increased their degree holdings by 35% after the age of 30. In addition, we see a significant number of baby boomers going to college for the first time after 30 (see Figure 6 on the next page).

Figure 4
More Teens Going to College
(Percent of 19-year-old high school graduates enrolled in college)



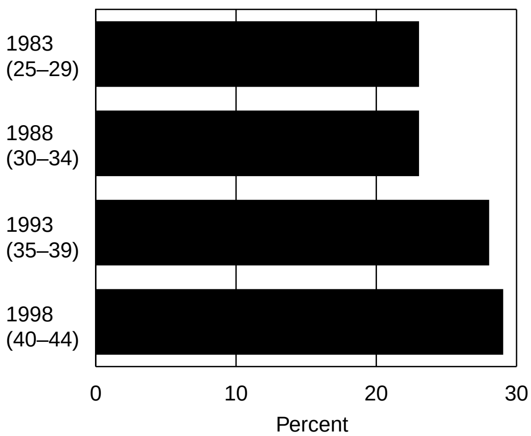
Source: U.S. Census Bureau, "Single Grade of Enrollment and High School Graduation Status for People 3 Years Old and Over, by Age," *School Enrollment—Social and Economic Characteristics of Students*, various years.

Figure 5
Women Catch Up with and Surpass Men
(Percent of female college students over percent of male college students, 19-year-old high school graduates)



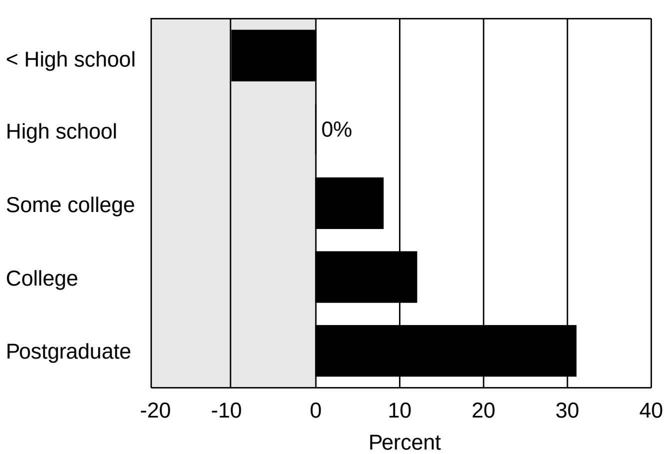
Source: U.S. Census Bureau, "Single Grade of Enrollment and High School Graduation Status for People 3 Years Old and Over, by Age," *School Enrollment—Social and Economic Characteristics of Students*, various years.

Figure 6
Baby Boomers Keep Learning
(Percent of baby boom age cohort with at least some college education)



Source: U.S. Census Bureau, *Educational Attainment in the United States,* various years.

Figure 7
The Economic Return on Education Expands
(Growth in average income by education, 1977–1997)



Source: U.S. Census Bureau, *Mean Earnings of Workers 18-Years-Old and Over, by Educational Attainment, Race, Hispanic Origin, and Sex: 1975 to 1998*, Table A-3.

Those with Some College Increasing as Well

The baby boom generation markedly increased the share of people who have attended college but haven't earned a bachelor's degree. This fast-growing group—those with "some college or an associate's degree"—is an important one to address for businesses that want to reach the broad spectrum of consumers. Even one year of college education typically results in much higher earnings for people and changes their key consumer behavior patterns, such as how they gather and use information at work and at home. If businesses are to market to this group effectively, they must know whether they behave more like high school graduates or college graduates. Our research has shown that consumers who have had some college education are likely to gather more information, to be more analytical in utilizing that information to make purchasing decisions, and to value information they have actively pursued themselves. In other words, they act more like college than high school graduates.

The Income Premium of Education Expands

In the past two decades, the spread in income across education levels has grown dramatically (see Figure 7). In that time, the average earnings for someone without a high school degree fell by 10% in real terms, while the average earnings for someone with a high school diploma remained almost constant. Average earnings for someone with a college degree, however, increased by 12%, and for someone with an advanced degree, by more than 30%.

Not only are the premiums paid to employees with more education increasing, the job market is growing more quickly in the very areas that require education. According to the Bureau of Labor Statistics, "all of the [occupational] categories requiring at least an associate degree are projected to have faster-than-average employment growth from 1998 to 2008. All the categories requiring less education and training are expected to grow more slowly than average."

This doesn't mean that jobs requiring less education are going away. Many of the slower-growing occupations will actually create more total jobs in the next ten years because their baseline is larger. These include jobs in retail trade, business services, health services, and some nonteaching, nonadministrative jobs in education—jobs that typically require only a high school education and on-the-job training.

Still, the fastest-growing jobs and the jobs with the highest and fastest-growing salaries require a college education. We expect that the distribution of jobs across educational levels will continue to shift toward those requiring more education, and that the young will continue to respond to the strong economic incentives for attending college.

Perception of the Value and Necessity of Education Grows

The U.S. population sees education as a very important determinant of future job success. In a series of focus groups facilitated by Public Agenda, an independent public opinion research organization, 77% of respondents said that a college degree is more important today than ten years ago, and 87% agreed that a college education today is as important as a high school diploma used to be.

Furthermore, in a survey also conducted by Public Agenda, respondents felt that a college degree is the single most important determinant of success in today's economy. Most felt that college plays an important role not only in short-term job opportunities but also for long-term prospects, a shift away from the paradigm of "working your way up the ladder."

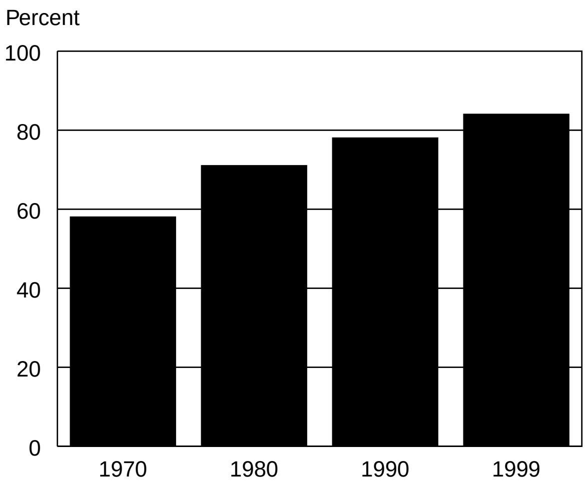
"The market demands [a college degree]. Before, you could get a good job with a high school [education]. Now you need a college degree, a master's, or even a Ph.D. The future market is going to be asking for that."

—Female participant in a focus group conducted by Public Agenda, May 2000

Parents especially are strongly convinced of the value of education for their children. More than 60% of parents surveyed felt that college was "absolutely necessary" for their children, while only 35% felt it was "helpful but not necessary." The value put on education is particularly strong in minority families. When asked for the single most important determinant of success in the world, 65% of Hispanic high school parents and 47% of African-American high school parents said a college education, while only 33% of white high school parents did.

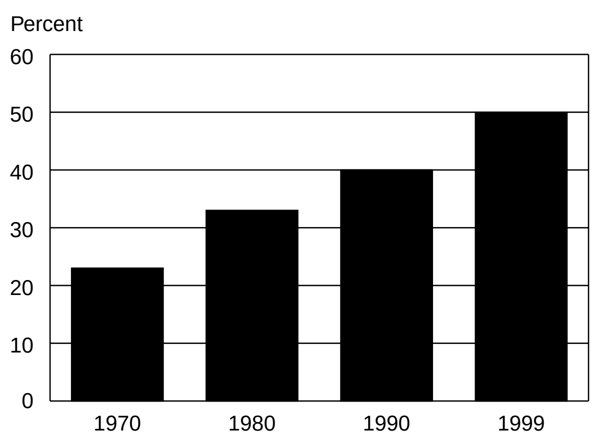
The Public Agenda survey also looked into whether people felt that the United States could ever reach a saturation point for college graduates. In 1993, a survey the firm conducted found that 54% agreed that too many people were going to college (instead of trade schools or other alternatives to college). But the coming of the New Economy changed that, and by 1999, 76% felt that the United States "could never have too many college graduates."

Figure 8
More High School Graduates …
(Percent of population with a high school diploma, 20 years and older)



Source: U.S. Census Bureau, *Educational Attainment in the United States,* various years.

Figure 9
… and More People with Some College Education
(Percent of population with at least some college, 20 years and older)



Source: U.S. Census Bureau, *Educational Attainment in the United States,* various years.

Given such data gathered in a variety of formats, it appears that the U.S. population continues to believe in the value of education. This sentiment is strongest in minority populations, which have typically had the lowest educational attainment rates and are likely to have seen the disadvantage of low attainment firsthand. This suggests that people will continue to invest in their education, and the education of their children, which is good news for the U.S. economy.

The Forecast: Educational Attainment Still on the Rise

The U.S. population is more educated than ever. The younger generations continue to graduate from high school and attend college at consistently higher rates than their predecessors did. This trend has produced a significantly more educated population as the younger generations replace the older, less-educated ones (see Figures 8 and 9).

High School

In the younger generation, however, the United States may be reaching a saturation point for high school graduates. The rate of increase has slowed over time, and the high school graduation rate for people 25 to 29 is leveling off at just under 90%. According to the Census Bureau, the increases each year were not statistically significant from 1995 through 1999.

The percentage of high school graduates as a whole in the general population is likely to continue to increase until it reaches the level of the younger population. When the baby boom generation—whose members were the first to attend and graduate from high school in such high proportions—is elderly, we are likely to see the same leveling off of the increases in the general population as we currently see in the younger generations (see Figure 10).

If the United States is indeed approaching a saturation point for high school graduates, this implies that at least 10% of the adult population will continue to have less than a high school degree. Whether this population is a short-term or permanent fixture in the United States depends partly on the composition of the group.

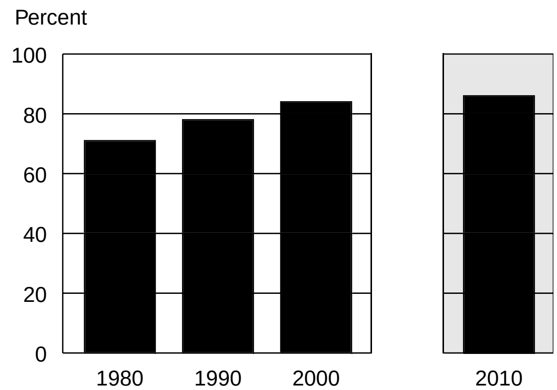
We would expect a good portion of this group to be adults with disabilities, since a study by the Census Bureau found that only 74% of adults with disabilities have a high school degree. Recent immigrants from countries without a strong, established education system would make up a good share of this group as well. Indeed, the Census Bureau estimates that while almost 85% of the total adult population has at least a high school degree, only 65% of the foreign-born population does (though the size of this group changes over time with the overall rate of immigration). Given these numbers, the composition and magnitude of this undereducated group is not likely to change significantly in the next ten years, and thus the percentage of these groups receiving high school diplomas is not likely to change significantly either.

College

College attendance in the younger generations continues to rise. Following a period of stagnancy in the 1980s, the growth rate picked up significantly in the early 1990s, and throughout the rest of the decade.

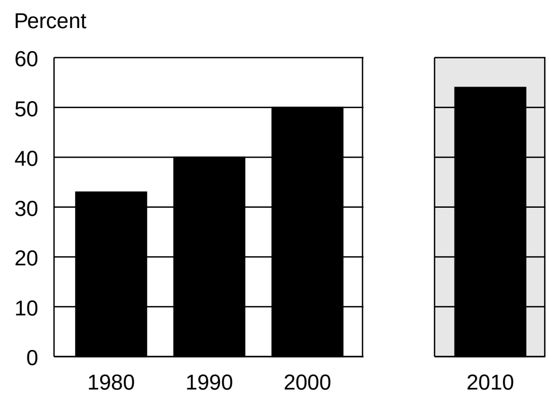
It isn't just the young who are going to college; the baby boomers are going back to school later in life. Together, these trends are driving up the total educational attainment of the population. We expect that by 2005, 52% of the adult population will have at least some college training, and by 2010, about 54% (see Figure 11). In the next decade, the total number of people with at least some college experience will increase 20%, from 99 million to 119 million people.

Figure 10
Share of High School Graduates Will Creep Upward
(Percent of population with a high school diploma, 20 years and older, 1980–2010)



Source: Institute for the Future; U.S. Census Bureau, *Educational Attainment in the United States*, various years.

Figure 11
More than Half Will Have Gone to College
(Percent of population with at least some college, 20 years and older, 1980–2010)



Source: Institute for the Future; U.S. Census Bureau, *Educational Attainment in the United States*, various years.

Implications

A more educated population will have important implications for the U.S. economy in general and for the workforces and customers of U.S. companies in particular.

Workforce: More Skilled, More Mobile

A more educated workforce is necessary to continue the United States' transition to a knowledge-based economy. The continuing success of U.S. companies in selling products with higher value-added qualities in the global marketplace depends on just such an educated labor force, which can design, package, sell, and service products around the world. The ability to compete in the increasingly competitive market depends on the growth of specialized knowledge.

Higher educational attainment is a good sign this growth will continue. It will also mean that workers of the future are likely to:

• *Be more flexible and adaptable*. An educated workforce is a more flexible and adaptable workforce. An individual with a strong education knows how to learn and can succeed in many different jobs. This expands both the labor pool available to the company and an individual's value and opportunity within a company. A strong education also gives workers more options outside the company, or even outside their current career paths, and the confidence to pursue such opportunities.

• *Be harder to entice and keep*. While the flexibility and adaptability of well-educated employees give companies access to a larger group of potential workers for any given position, these traits also increase the burden on the companies of convincing recruits to come on board and current employees to stay. With low unemployment rates, the U.S. economy is already experiencing a labor crunch. A strong educational background may also allow an individual to grow and adapt to changing work environments and responsibilities within a particular company, perhaps opening doors for a series of career positions at the same firm.

• *Experience reduced college premiums*. While there is likely to be a continuing squeeze on the number of employees with highly specialized skills (such as super programmers or nuclear scientists), the rapid expansion of the college-educated population is likely to slowly ease the size of the income premiums that college education currently draws. When the education of the workforce catches up with the knowledge economy, workers suited for work in the knowledge economy won't be as hard to come by. This will make it easier for companies to hang on to their workers.

Consumers: More Information Savvy, Harder to Please

More highly educated consumers will have important impacts on the way businesses meet their needs in the marketplace. More educated consumers are likely to be:

• *More critical when making purchasing decisions*. Expect the more educated consumers to be more critical and careful about making purchasing decisions. They will use the information-gathering skills gained in school and their greater access to technology to collect and analyze product and service information before making a decision. For their part, companies must work to make these types of information readily available through a variety of traditional and electronic channels.

- *More demanding*. Well-educated consumers will demand more from the companies they do business with, and they will be better informed and more knowledgeable about how to find the products they want, at the best price. Further, they will demand more services tailored to their individual needs. As a result, companies will no longer be able to rely on traditional mass marketing to reach their better-educated customers. More often, they will have to turn to the personalized marketing strategies enabled by the Internet and new database technologies that gather, store, and analyze purchasing behavior.

- *Wealthier and savvier seniors*. The cult of youth will be joined in consumer markets by the cult of seniors. With the aging of the baby boomers, the education levels as well as the income levels of the retiree population will increase dramatically. Companies across the board will have to take into account this large and influential group of senior consumers in their marketing strategies.

—Harriet Greenwood Ragozin

Household Income Spreads Up and Out

The baby boom generation has pushed the dispersion of household income dramatically upward for three reasons—the boomers are significantly more educated than their predecessors, more baby boom women have entered the workforce than women of previous generations, and many baby boomers have formed dual-income families. As a result, the dominant middle class has shrunk, the lower-income groups have remained flat, and the upper-income group has grown tremendously.

Because the baby boomers will continue to move through their peak earning years until they begin retiring in 2010, this upward shift in income will continue for at least the next decade. After 2010, the baby boomers will begin to retire, which will result in a dramatic increase in the elderly population, a decrease in the age and experience of the working population, and a moderating of changes in income distribution.

Background

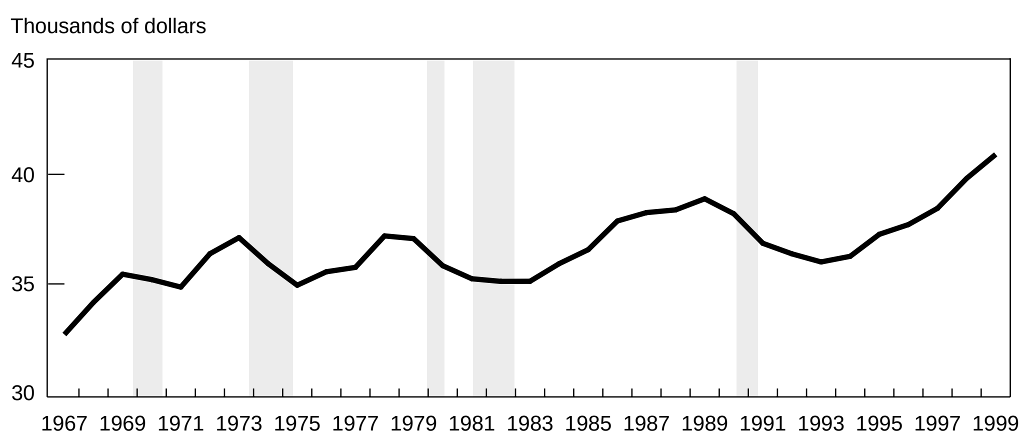
In the past 30 years, the business cycles in the United States have become more moderate, with shorter, milder recessions and longer, more gradual recoveries. The current expansion, for example, began in 1991 and continued through that entire decade, the longest expansionary period ever.

During the last two expansions, household income growth has tended to lag behind the growth of the economy as a whole; it wasn't until three years after the troughs of the recessions that household income grew. In fact, the slower household income growth may have played an important role in determining the length of the last two business cycles by making the expansions more moderate and controlled.

As a result, median household income has grown slowly and cyclically, following the business cycles but lagging slightly behind. These cycles of income growth have lengthened since the 1970s and early 1980s, when a full cycle lasted about five or six years. Since the mid-1980s, recoveries and declines in median household income have been more gradual, but more prolonged. Over this period, income has increased overall, however, as shown by the trend line on the graph (see Figure 12).

While the rise in median income paints a picture of a slowly improving standard of living, it doesn't show the most dramatic and significant changes occurring in the past 30 years. Indeed, groups above and below the median are changing in such a way that the median hasn't been dramatically affected.

Figure 12
Slow and Steady
(Household median income, in 1999 dollars)



Note: Shaded areas indicate recession years.

Source: U.S. Census Bureau, *Money Income in the United States,* 1999.

As a case in point, the mean income of households below the median was essentially flat from 1969 to 1996, increasing only 3.9%. In the same time frame, however, the mean income of households above the median grew 30%. The result is a much wider spectrum of incomes—in other words, the rich are getting richer.

A comparison of the income distribution in 1970 with that of 1999 underscores this distinct shift. The share of households earning more than $75,000 (in 1999 dollars) rose from 10% to almost 23% during that time (see Figure 13).

Why has the income distribution changed so dramatically and what does it mean for businesses and consumers?

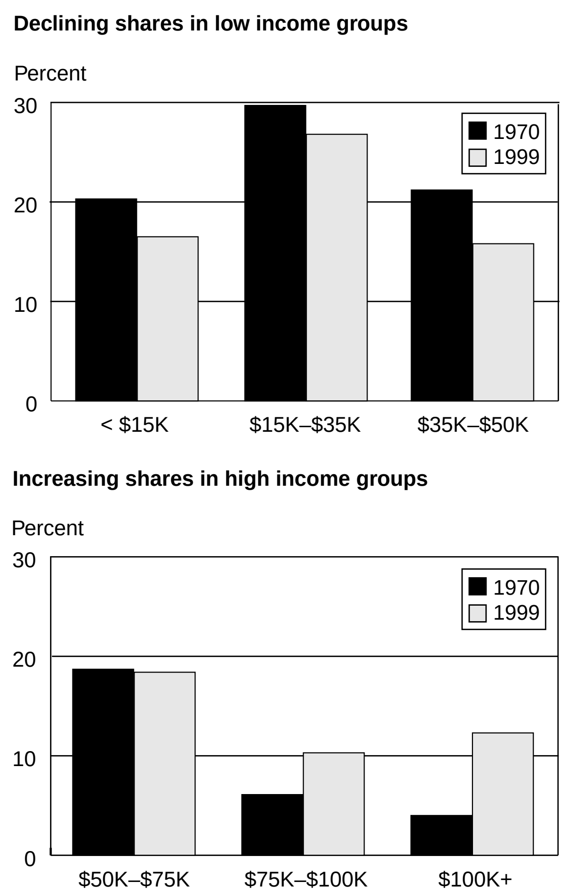
The Drivers

Baby boomers are responsible for much that has happened in the economy (and society at large) in the past 30 years. It was this group that spurred the trend toward higher educational attainment for both men and women, for example, which led directly to an increase of women in the labor force and the corresponding rise in the number of dual-income households. Furthermore, in the 1990s, baby boomers began to enter their peak earning years, 45 to 54. All of these factors contributed to the large growth in the upper income levels in the past 30 years.

A Highly Educated Population

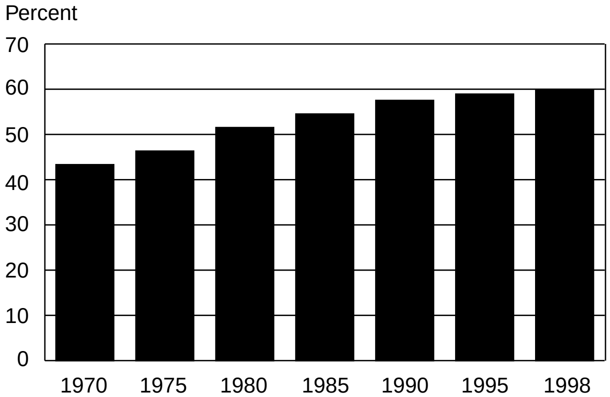
As shown in the “Higher Education, Higher Participation” article, earning potential is closely linked to education. Thus, a change in the distribution of educational attainment is

Figure 13
Movin’ On Up
(Household income distribution, in 1999 dollars)



Source: U.S. Census Bureau, *Money Income in the United States,* 1999.

Figure 14
Women's Participation Rates Way Up
(Percent of women in the labor market)



Source: *U.S. Statistical Abstract*, 1999

likely to drive a change in income distribution as well. The baby boom generation shifted the distribution of educational attainment upward by attending high school, college, and graduate school at unprecedented high rates.

Meanwhile, at the same time the boomers were going to college in greater numbers, the U.S. economy began moving from a manufacturing-based economy to a knowledge-based economy. Naturally, the labor market required more and more knowledge workers. Indeed, the fastest net job growth in the United States in the last decade has been in those occupations requiring an associate's degree or higher. As demands for educated workers increased, the returns on education increased dramatically as well. For example, the average earnings for someone with an advanced degree increased by 30% in real terms between 1977 and 1997, while the average earnings for someone with a high school degree remained virtually unchanged. The combination of a more educated workforce and an increasing return on education contributed to the rise in the higher-income categories. The population earning less than the median is typically less educated and did not benefit from the increasing returns, and thus remained at relatively low income levels.

In the next ten years, the overall educational attainment of the population will continue to increase, as discussed in the "Higher Education, Higher Participation" article. In a knowledge-based economy like the United States, a more educated population is a wealthier population, on the whole. However, a fair amount of the increase in educational attainment in the coming decade will occur in the elderly population, as younger, more-educated cohorts replace the older, less-educated population at the top end of the labor spectrum. Thus, the effect on the actual workforce will be slightly tempered compared to previous decades.

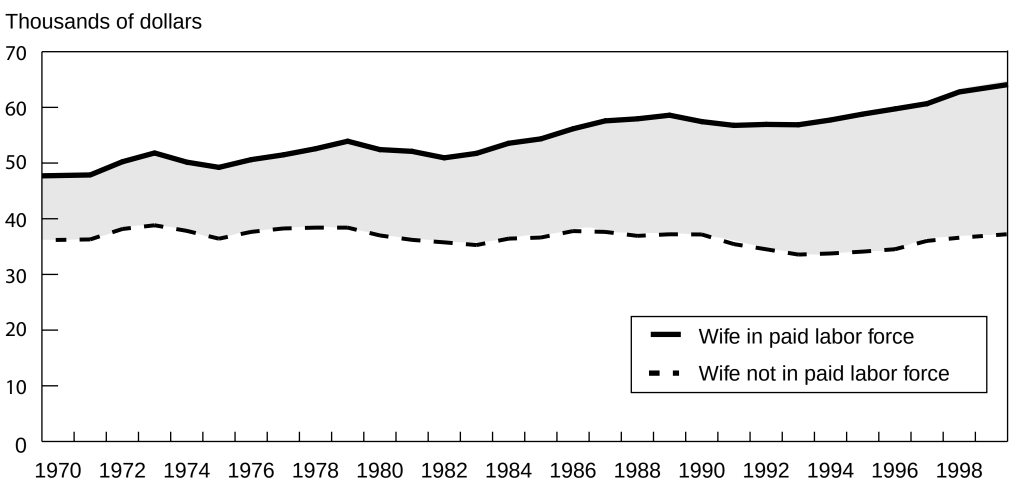
Women in the Workforce

The baby boomers also fueled women's participation in the labor market, which resulted in more dual-income households. In 1970, 43% of women worked outside the home; by 1998, that number increased to 60% (see Figure 14). During that time, the mean earnings for women also increased.

While overall income for women is still considerably less than for men, the rise in dual-income households drove the expanding income distribution. Between 1970 and 1998, the median income for households in which the wife participated in the paid labor force increased by 32%; the median income growth for households in which the wife did not was 1% (see Figure 15). In 1998, 74% of households earning more than $50,000 a year had two or more earners.

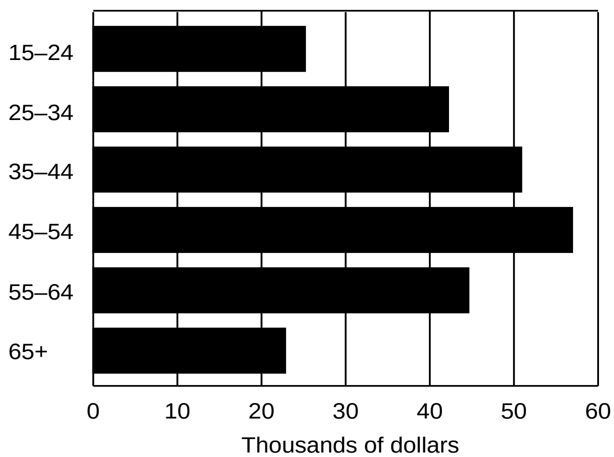
In the next decade, we expect a continuation of these trends, as those in the younger half of the baby boom enter their prime working years before their older counterparts begin to retire.

Figure 15
Dual-Income Households Dominate
(Median income for households by wife's labor force participation, in 1997 dollars)



Source: U.S. Census Bureau, *Measuring 50 Years of Economic Change,* 1997; *Money Income in the United States,* 1998 and 1999.

Figure 16
Earnings Peak in the Late 40s and Early 50s
(Median household income by age of householder, in 1999 dollars)



Source: U.S. Census Bureau, *Money Income in the United States,* 1999.

Baby Boomers Enter and Expand Their Prime Earning Years

The high birth rates that created the baby boom span 20 years. The older half of the baby boomers turned 45 during the 1990s; those in the second half of this significant population will turn 45 in the coming decade. The late 40s are a significant period during a person's career. For women in particular, the 40s mark a time of high labor force participation, as they are no longer in their prime fertility years. In general, a person's peak earning years are between the ages of 45 and 54. After 55, labor force participation traditionally begins to wane and median income begins to fall, and earnings drop off sharply after 65, the traditional age of retirement (see Figure 16).

In addition to seeing the younger baby boomers entering their late 40s over the next decade, we may also witness an increase in the median earnings of 55- to 64-year-olds. Well-educated, knowledge-based workers tend to work longer and at higher wages than less-educated, manufacturing and other lower-wage workers; in the next decade, look for more 55- to 64-year-olds in high-income households as the share of older knowledge workers in the workforce increases dramatically.

In the late 1990s, when many of the older baby boomers were in their prime earning years, incomes grew quickly. We expect that in the next decade, the second half of this generation, along with those members of the first half who stay in the workforce, will fuel a similar growth.

THE FORECAST

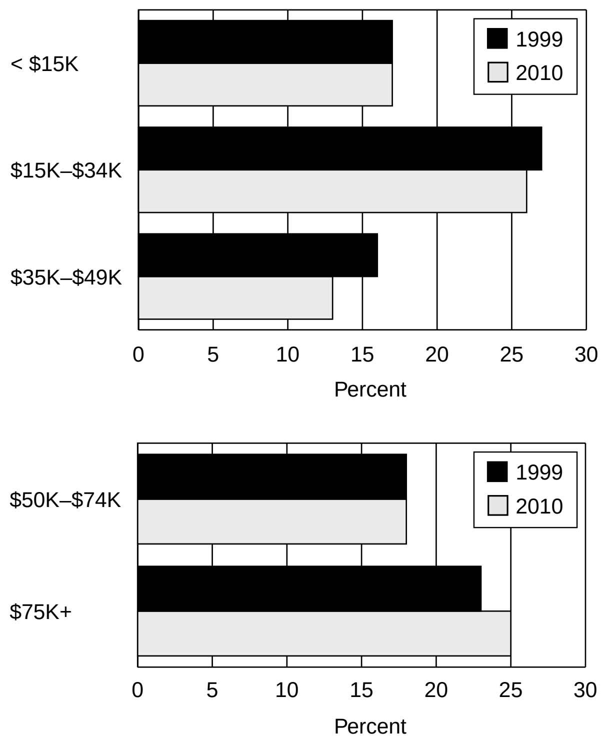
The Bureau of Labor Statistics foresees a decade of moderate economic growth and a strong healthy economy, with average annual GDP growing at 2.4%. The Bureau of Labor Statistics estimates that nominal personal income will grow at 4.5% annually from 1998 to 2008, and the growth rate of consumer demand will match that of GDP.

Growth by Income Level

To capture the changes in the income distribution in the next ten years, we looked at the changes occurring in the past 30 years and the pace of these changes. Based on these historical patterns and the underlying growth in personal income, we forecast the percentage of households in each of five income categories (quintiles). Although the percentage of people in each of the quintiles varies from year to year with the overall economic cycles, there are distinct growth trends in certain categories. Our forecasts are based on the trends underlying the cyclical variation.

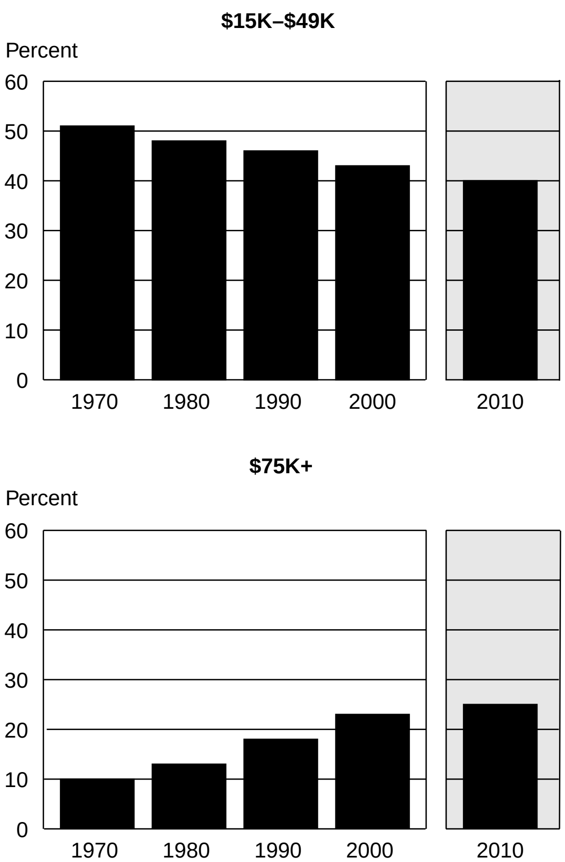
As shown in Figure 17, the lower quintile is likely to decline only slightly, the next two quintiles are likely to decline more rapidly, the next quintile is likely to decline only slightly, and the upper quintile is likely to grow significantly. In other words, the trend toward a flatter, wider distribution of income is likely to continue in the next decade, with the percentage of households earning more than $75,000 almost catching up to the largest quintile, those earning $15,000 to $34,999.

Figure 17
Flatter and Wider
(Household dispersion in five income categories, in 1999 dollars)



Source: Institute for the Future; U.S. Census Bureau, *Money Income in the United States,* 1999.

Figure 18
The Middle Shrinks, the High End Grows
(Households in the two most dynamic income categories, in 1999 dollars)



Source: Institute for the Future; U.S. Census Bureau, *Money Income in the United States,* 1999.

The two most dynamic changes in income distribution remain the decline of the lower-middle groups and the rapid expansion of the highest income category (see Figure 18).

Implications

In the next decade, the second half of the baby boomers will move into their peak earning years. For employers, this means a large supply of experienced, highly educated knowledge workers at the high end of the spectrum. This group will be supported by a series of relatively small cohorts until the bulge of the echo boom (the children of the baby boom) enters the workforce near the end of the decade.

In the meantime, there may be a dearth of low- and mid-level experienced workers. As we move past 2010 and the baby boomers begin to retire, the younger, smaller cohorts will move into their peak earning years. At that point, we can expect a reduction in the number of experienced managers and professionals, and a bulge in the younger, less experienced age groups (the echo boom). We may even see a return to hierarchical organizations as companies readapt to a newly bottom-heavy labor force.

As for consumers, a flatter, wider, more top-heavy distribution of income makes mass-marketing more challenging and suggests that targeted marketing campaigns may be more successful. Dual-income families are likely to continue to dominate the upper-income levels, and because of this, look for growing demand for time-saving products and services. Furthermore, with the baby boomers aging, look for a population of wealthier, more active elders, many of whom will continue working well past 65. This powerful, influential group will mean that youth alone will no longer rule consumer markets. Companies will have to continue to meet the needs of the generation that defined the world economy in the latter half of the century, even as they age—the baby boomers.

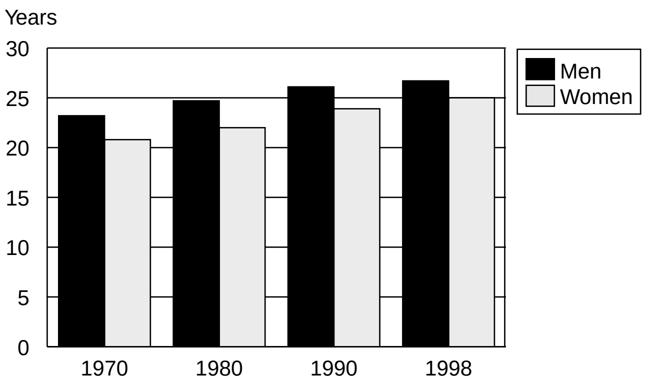
—Harriet Greenwood Ragozin

Lady of the House: The Evolving Role of Women

The most important unit for making purchasing decisions has always been the household. This hasn't changed over the years. But the ways decisions are made within the household *are* changing, and the key to this change is the evolving role of women.

The National Marriage Project at Rutgers, the state university of New Jersey, observes that "women are historically seen as the norm setters in courtship and marital relationships as well as the bearers of the cultural traditions of marriage. Thus, women's attitudes and expectations for marriage are an important measure of overall social confidence in the institution and an indication of which way the marital situation is going." Because marriage has traditionally been the foundation on which most households are built, women's attitudes toward marriage have a tremendous impact on the composition and dynamics of the household.

Figure 19
Age of First Marriage Is Increasing for Both Men and Women
(Median age at first marriage)



Source: U.S. Census Bureau

Today, women are seeking more equal positions in the household and the labor market—and getting them. As a result, women are spending more time on education and careers. This trend is influencing their decisions on family life: Women are marrying later, having children later, and choosing to live in settings other than the traditional household. All of these choices are changing the dynamics of households tremendously, and consumer purchasing patterns along with them. It is important for businesses to track the personal decisions women are making today in order to know where households are headed tomorrow.

Women's Choices Are Changing Society

Unlike their counterparts in earlier generations, women today are making choices that affect their professional as well as their personal lives—and society as we know it. There are several concrete indicators of women's evolving roles:

- Women are postponing their first marriage.
- Women are having children later.
- Highly educated women are more likely to forgo having children.
- More mothers are working.

Women Are Postponing Their First Marriage

Women are getting married for the first time at a later age. In the past 20 years, the median age of women at their first marriage has increased by more than four years, from 20.8 years old in 1970 to 25 in 1998 (see Figure 19). While the key driver of this change may be women's desire for education and a start on their career, men are postponing marriage as well. For men, the age of first marriage has increased by about three and a half years, from 23.2 years old in 1970 to 26.7 in 1998. This suggests that men are following the lead of women.

Although the increase in age might seem small, the impact on household formation and childbearing is enormous. And the trend isn't reversing itself any time soon. The median age at marriage is rising each year, and we expect these changes to continue.

Women Are Having Children Later

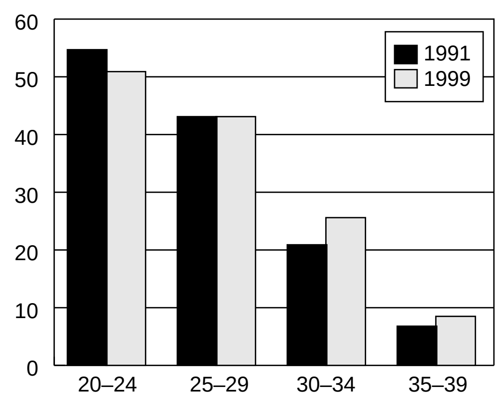
For the past couple of decades, women have been having children later in their lives. In fact, in the last decade, the percentage of women having their first child between 20 and 24 declined, whereas the percentage of women having their first child between 30 and 34, or 35 and 39, increased (see Figure 20).

When women postpone their first child in such large numbers, the average age of mothers having children in general (not necessarily their first) is likely to go up as well. Data show that the percentage of women having children between 30 and 39 is indeed increasing, while the percentage of women having children between 20 and 29 is declining.

More Educated Women Are More Likely to Forgo Children

Women are postponing marriage and the age at which they have children in large part to continue their education. Indeed, women with the highest levels of education are putting off having children the longest—or are not having children at all. Women between 25 and 34 and between 35 and 44 are much more likely not to have children if they have an advanced college degree (see Figure 21). Among women

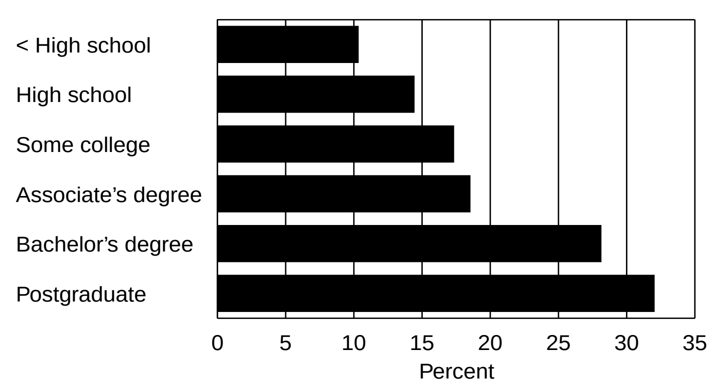
Figure 20
Women Are Postponing Their First Child
(First-child birth rates by age of mother)



Note: Birth rates are live births per 1,000 women in specified group.

Source: U.S. Census Bureau

Figure 21
Women with Higher Education Are More Likely to Be Childless
(Percent of childless women between 35 and 44, by educational attainment, 1995)



Source: U.S. Census Bureau

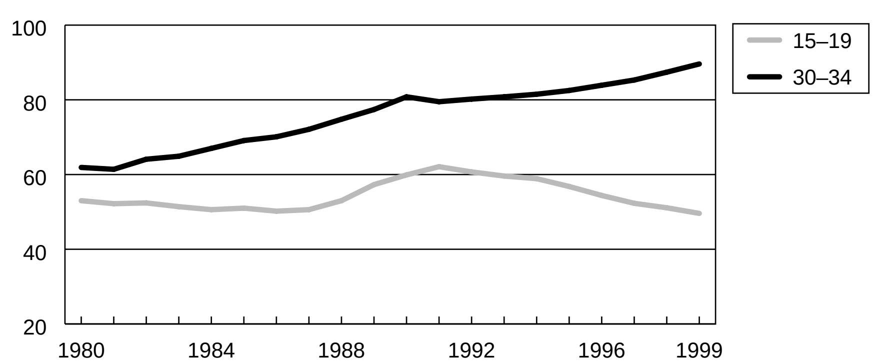
Historical Perspective: Birth Rates and "The Pill"

Between 1970 and 1975, just after the introduction of "the pill," birth rates for women of all ages declined. Beginning in 1975, the overall decline stopped and the birth rates started to show different patterns for women of different ages. This is especially obvious for two age groups: women between 30 and 34 and women between 15 and 19. From 1975 on, the birth rates of women between 30 and 34 have been increasing continuously, whereas birth rates for women between 15 and 19 continued to go down, except for the period between 1988 and 1993, in which they increased (see Figure 22).

The birth rates for women between 20 and 24 and for women between 25 and 29 show exactly the same pattern until recently: The birth rates for women between 20 and 24 seem to have stayed the same whereas those for women between 25 and 29 have gone down slightly. For a long period, the rates have been circling around the same value.

So, clearly, birth rate data support other indicators—women are putting off having children, many until well into their 30s. This postponement will have large impacts on when and how households spend money. If couples are well into their careers before they have children, for example, they may be ready to spend on big-ticket items earlier than previous generations. Likewise, when they finally do have children, they may not have to scrimp and save in the same way that they might have at a younger age, and thus may be open to buying more premium goods and services for their family.

Figure 22
U.S. Birth Rates Down
(Birth rates by age of the mother)



Source: U.S. Census Bureau

between 35 and 44 with postgraduate experience, 32% don't have children.

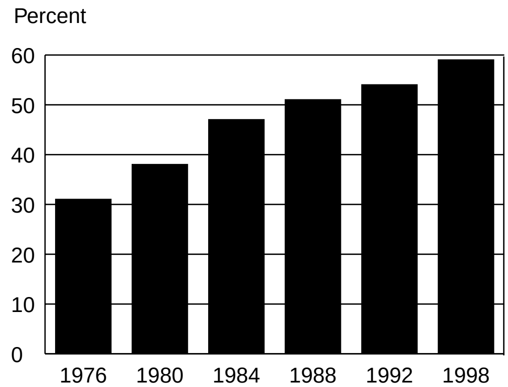
More Mothers Are Working

Not only are women better educated and more in control of family choices today, they are also paying more attention to their professional lives. Today, more and more women take their careers into account when making decisions about building a family.

In the past 40 years, women's overall participation rate in the workforce has almost doubled, from 35% in the mid-1950s to 60% in 1998. The growth rate was rapid from the mid-1960s to 1990, when women were making up for lost time and the better educated baby boomers entered the marketplace. Since then, the participation growth rate has slowed considerably, but continues to increase.

More striking than the fact that the overall participation rate is going up is the fact that more women are going back into the labor force sooner after having a baby (see Figure 23). The need to maintain a household income and standard of living to which their family has grown accustomed, as well as to foster career opportunities, has pushed more mothers back into the labor force quickly. The share of women in the labor force with infants (i.e., children under 12 months old) is now approaching the participation rate of women overall. And this share is still increasing. So, not only are women postponing having children, but once they have them, they are also much more likely to maintain their role in the workforce. This trend suggests that businesses ought to look into the special needs of these types of dual-income families and learn to accommodate them, both as providers of goods and services and as employers.

Figure 23
Mothers Back in the Labor Force Soon After Childbirth
(Percent of women with infants in the labor force)



Source: U.S. Census Bureau, Current Population Surveys, 1976–1998.

Massachusetts Is Set Apart in Ratio of Older Mothers

At first it seemed that it might be a statistical blip. But no, public health officials said today, it is a definite and striking trend: Massachusetts, they believe, has become the first state where more babies are born to women over the age of 30 than under it. Reasons for this include the fact the overall population is older and education levels are higher than the general average.

—From *The New York Times,*
June 21, 2000

Key Drivers

What is behind the evolving role of women in the household and the labor force? Higher education levels and the attractiveness of the labor market are the most important drivers influencing the changes.

First, the flourishing economy needs and rewards skilled labor—women are finding exciting, well-paying jobs because such opportunities are abundant in one of the most successful economies of all time. Prosperity has also made it easier for a much larger number of women to get advanced degrees. With prosperity, however, come rising expectations for the good life. The greater need for income to afford the attributes of middle-class living impels many women to join and stay in the labor force, even when they have young children at home.

There is at least one other trend behind women's choices regarding family and the household. Today, there is a much broader social acceptance of alternative life patterns. Women are no longer expected to simply become wives and mothers at an early age and to assume a support role to their husbands at the risk of being ostracized if they don't. Social acceptance of a wider variety of lifestyles allows and encourages women to participate in a wider variety of educational and workplace experiences before and while they are married, and to choose to live alone, with a partner, a spouse, or with or without children. Although not yet entirely universal, it has become more socially acceptable for women to take control of their own destinies and to take advantage of the opportunity to find their own sense of balance in their professional and private lives rather than to merely follow the dictates of outmoded traditions.

Forecast

Many of the basic social changes inspiring the evolution of women's roles were initiated between 1965 and 1980. We are still working through the changes begun in this period, though further changes continue gradually (see the article "The Social Revolution Lives On").

The median age of women at their first marriage will continue to increase slowly, following the continuing growth in women's educational attainment and workforce opportunities. By 2010, the median age at first marriage will be about 26 years old, up from today's 25.

The age at which women have their first child will follow the same trend. The percentage of women having their first child between 20 and 24 will continue to decline at the same pace as it has been. By 2010, this percentage will be 47%, down from 51% today. The percentage of women having their first child between 30 and 34, however, will keep increasing. In 2010, this percentage will be about 31%, up from 26%. Of course, there will be limits on this growth—a certain age at which women will have no choice but to start a family if they want one—but by 2010, this point won't be reached.

The workforce participation rate of women will also keep increasing, but at a slower pace. Our forecast, based on the projections of the Department of Labor, is that women's participation in the workforce will jump from today's 60% to 62% by 2010. The economics of young couples trying to buy a house, furniture, and cars, combined with the career aspirations of women, will push a greater share of younger women with very young children to an even higher rate of participation in the labor force. This forecast is based on the fact that such participation rates for young married women and single women are increasing faster than the overall rate. Our forecast is that the workforce participation rate for mothers with young children will be 65% in 2010, up from 59% in 2000, actually passing the overall participation rate for women. All in all, women will account for an increasing share of the labor market—48% in 2010, up from 46% in 2000.

Though these numbers may not be shockingly different, the impacts of these changes will be tremendous. The longer-term effects of women's career and family choices are very important to watch for the next ten years.

Why Should Businesses Care?

The more educated women are, the more they will choose a variety of different paths. Women are taking control of their own lives, which often means choosing a career as well as a family, and arranging their private lives around that career. As a result, women are marrying later, having children later or not at all, and going back to work more quickly once they do have children. All these choices have impacts on household dynamics, which in turn have countless implications for businesses.

Different Composition of Households Means Different Spending Patterns

If households are the center of purchasing decisions, the changing role for women will affect a wide range of these household decisions. More women in their 20s living alone, for example, will mean much higher spending in these households on personal rather than family products. Look for more spending on grooming, clothes, travel, and entertainment for these dynamic twentysomething households. Look, too, for more childless households for couples in their 30s and 40s—which are likely to spend more on housing, entertainment, restaurants, fine arts, investments, and so on.

Women are taking control of their own lives, which often means choosing a career as well as a family, and arranging their private lives around that career.

Looking still further, a growing number of households having children later will mean that some of the discretionary income that people in their 50s used to spend on consumer goods and services will be going to college education and other aspects of their children's upkeep. Businesses would do well to understand and meet the needs of these families charting new territory.

As the number of people putting off or forgoing marriage altogether rises, more people will live alone in one-person households or with roommates. How these households share their living expenses may change radically, with some items being shared and a growing number of decisions being made by the individuals. Businesses ought to be prepared to meet the needs of these consumers one by one. Single servings in the food department, smaller portions of household products, including paper goods, and health and life insurance packages designed for singles will all go a long way toward earning the loyalty of consumers who are on their own.

The more educated and workplace-savvy women will have a different role in the household. Not only are many women more financially savvy because of their contribution to family incomes, they are actively participating in many more household decisions, and getting more involved in major purchasing decisions, such as for cars and vacations. In addition, more than ever before, women are managing the finances of the household. This places them at the forefront of insurance and investment decisions, heretofore largely the domain of the "man of the house." Companies in these fields will need to provide information on a broad range of financial topics, but will also need to focus on the particular issues that are of particular interest to women, such as financial planning related to divorce and single parenthood.

Time Management: A Growth Industry

The fact that both men and women are working will result in the growing importance of time management services, including services such as child care, shopping, concierges, grocery delivery, cooking, and so on. Traditionally, women have spent large blocks of time managing the routine tasks of the household. Although many women are now working, the tasks of household management, especially with regard to children, still fall to them for the most part—or don't get done at all. This might change in the long term, but it will surely take time. Meanwhile, women will need help managing their overburdened schedules, both at home and at work. For businesses, there are enormous opportunities to support women in managing their time. Businesses should think about the following:

- Time-saving products and services like easy meals, one-stop shopping, and services that assume the burdens of planning, preparing, cleaning, and upkeep, such as those described in "The Future of Agents" and the "Customer Relationships" articles.
- Trusted services for taking care of children, including baby sitters, nannies, and perhaps "kid taxis" to get them to their myriad activities.
- Services that facilitate joint decision making in households with two strong points of view.

Women as Employees

Because the workforce increasingly consists of women, and a growing share of women are doing value-added knowledge work, it is important to maintain the loyalty of these valuable female employees. Women have different expectations about their work environment than do men. For women—who are usually responsible for managing kids and a household in addition to work—it is important to have flexibility. Organizations will have to reconsider how flexible they are with respect to arrangements like part-time work, telework, time schedules, maternity leaves, and full-time, on-site child care or other forms of child-care assistance. Ultimately, companies will have to rethink their benefits packages to keep women on board.

Flexible hours and benefits are just the first step. Women will change the workplace in all sorts of ways that are only just beginning to appear. Since research has shown that women prefer to live close to their work, for example, companies will have to think about where they locate their facilities. Telecommuting is one answer, of course, and so is setting up neighborhood branch offices, perhaps in the form of timeshares, closer to where their employees live.

Because many women have communication and leadership styles that differ from those of their male coworkers, the very nature of the workplace is likely to change as well, especially as women move into upper management, shifting from the traditionally male command-and-control hierarchy to a more cooperative network style. Women, with their myriad life roles as worker, spouse, mother, and caregiver, will seek more flexibility and responsibility in the workplace.

Meanwhile, for the household, businesses will have to imagine a range of new opportunities, by thinking about what it means for children to have two working parents, for example. They will also need to think about the implications of women having children later in their lives. Parents dealing with more active households later in life may need new types of health and medical services, for example.

Conclusion

The role of women is changing, and this has tremendous implications for every consumer-oriented business and employer. Companies that don't take these fundamental changes into account risk falling way behind the curve.

—Aurelia Kloosterhof

The Social Revolution Lives On

Between 1965 and 1980, a time of revolution, the baby boomers came of age in the United States, bringing with them vast social changes—a larger population, higher education, higher incomes, and broader civil rights for minorities and women, to name just a few. At the heart of this revolution was the notion that personal rights and choices are of paramount importance and that such rights and choices are to be respected and even protected by society.

The elevation of personal choice transformed U.S. society both for the better—broader civil rights for many, more women in the workforce, more tolerance of differences—and for the worse—higher divorce rates, more children born out of wedlock, the greed and excess of the 1980s. Today's households—society's basic decision-making units—are still assimilating these changes. In particular, greater longevity, broader social acceptance of a wider variety of lifestyles, and the aging of the baby boomers are transforming basic household characteristics, such as size and composition.

Changes Driven by the Baby Boomers

Several important indicators suggest that households are still working through the social changes of the 1960s and 1970s, in terms of number, size, and composition.

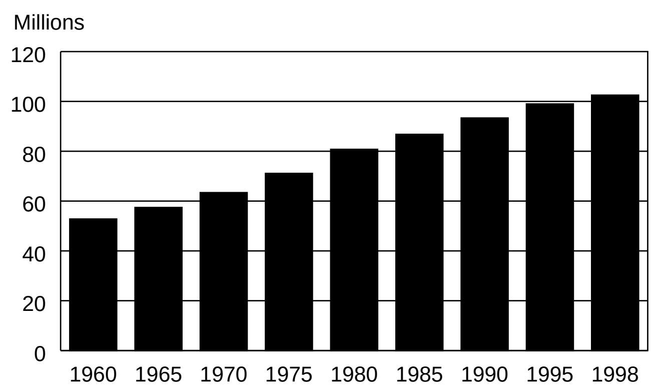
The Number of Households Is Growing

More than anything, the baby boom is synonymous with population growth, and as the baby boomers entered their adult years, the number of households began to increase. Indeed, the number of households in the United States has been rising rapidly since 1965, though the pace of change has slowed recently. Between 1965 and 1980, the growth rate increased at an annual rate of 2.3%; since 1980, the growth rate has been 1.3% (see Figure 24).

Household Size Is Declining

While the number of households has increased, the size of households has declined. As with the number of households, the largest change took place between 1965 and 1980, during which time the average household size declined 16%, from 3.29 to 2.76. Since then, the

Figure 24
Number of Households in the United States Is Steadily Growing
(Millions of households)



Source: U.S. Census Bureau

size has decreased by 5% (see Figure 25). In 1998, the average household size was 2.62.

One- and Two-Person Households Are on the Rise

Along with population growth, another key reason for both the growth in the number of households and their decline in size is the increase in the number of one-person households in the United States. Not only has the absolute number of one-person households increased, but their relative share of all households has increased as well (see Figure 26 on page 36). The most dramatic increase in the percentage of one-person households took place between 1965 and 1980; such households grew from 13% of the total in 1960 to 23% in 1980. Since then, the percentage of one-person households has continued to grow, but at a slower rate, reaching 26% of the households in 1998.

The explanation: Baby boomers were more likely to move into independent quarters earlier than people in the previous generation did; they tended to marry later; and they divorced and separated at a much higher rate. But perhaps the primary component of growth in one-person households is the aging of society. Everyone is living longer these days, but women generally live longer than men. For example, in the United States, the ratio of men per 100 women age 64 to 74 is 82; in the population 85 and older, the ratio is 49 men per 100 women. As a result, more and more widowed women are living alone.

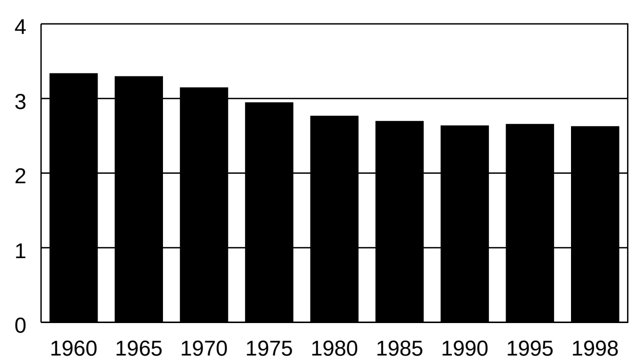
With the increase in the number of childless women, 32% of women between 35 and 44, and the increasing longevity of married couples, the percentage of two-person households has also increased, though not as dramatically as that of one-person households. The percentage of two-person households grew from 28% in 1960 to 31% in 1980 and 32% in 1998. At the other end of the spectrum, the share of households with five or more people declined dramatically, from 23% in 1960 to 13% in 1980. In 1998, only 10% of all households consisted of five or more people.

Household Composition Is Changing

The composition of households has changed in other ways as well, most notably:

• *Fewer married couples with children.* The percentage of married couples with children has fallen dramatically. The largest change took place between 1970 and 1985 as the last of the boomers left their parents' households. In 1970, 40% of the households consisted of

Figure 25
The Largest Decline in Household Size Took Place Between 1965 and 1980
(Average number of people in a household)



Source: U.S. Census Bureau

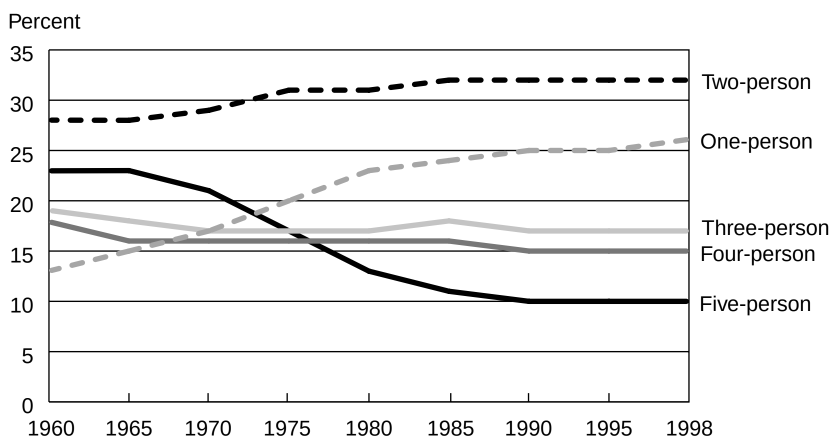
married couples with children, whereas in 1985, only 28% did. By 1998, only one-fourth of households consisted of a married couple with children (see Figure 27).

• *Nonfamily households increasing.* The percentage of nonfamily households has risen as well. This is a phenomenon closely related to the postponement of marriage, the higher divorce rates, and the increasing number of very old single people. The share of nonfamily households grew from 15% in 1960 to 26% in 1980, to 31% in 1998.

• *More singles.* There was a large drop in the percentage of married people (in the population 15 and older)—from 69% in 1960 to 61% in 1980. In the same period, the percentage of never-married people jumped from 25% to 30%. Since the 1990s, the pace of change has been slower. In 1998, 58% of the population 15 and older was married and 31% had never been married.

• *More unmarried couples.* Meanwhile, the share of unmarried couples is growing very rapidly. This relatively new form of household increased from 0.5 million couples in 1970 to 4.2 million in 1998. Although this form of living is not radically different from that of married couples in consumption patterns, there are significant implications affecting areas such as the legal status of property, benefit eligibility, and the rights and responsibilities relative to children if the unmarried couple separates (see Figure 28).

Figure 26
The Percentage of One-Person Households Is Increasing
(Percent of household type as a share of total households)



Source: U.S. Census Bureau

What Is Driving Household Changes?

Households are changing for two simple reasons: people are living longer and society is accepting a wider variety of lifestyles.

People Live Longer

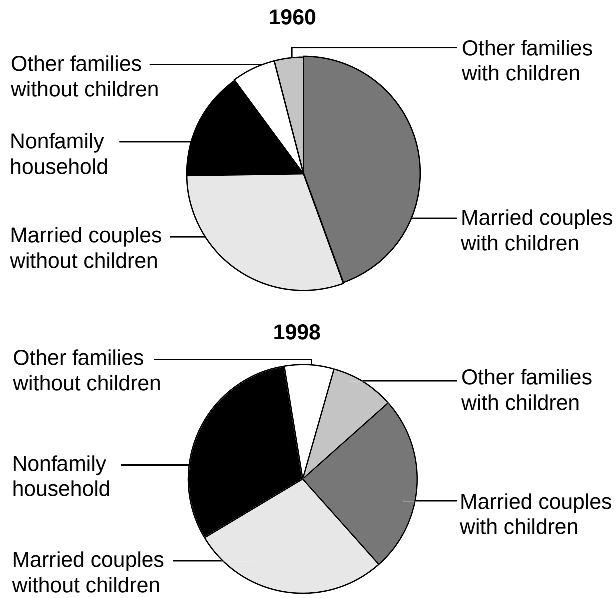
An important factor changing the composition of households is that people are living longer. Better health care and healthier lifestyles have increased longevity tremendously (life expectancy increased from 70.8 years in 1970 to 76.4 years in 2000). As the baby boomers enter their 60s over the next decade, the population as a whole will grow increasingly older. The gradual increase in longevity will increase the total number of households, especially the number of married couples without children and the number of one-person households.

Broader Acceptance of a Variety of Lifestyles

Another force driving these changes in household composition is the broader social acceptance of a wider variety of lifestyles. Some of the changing mores include living longer alone or with roommates, postponing marriage, postponing children, and ending marriages more often.

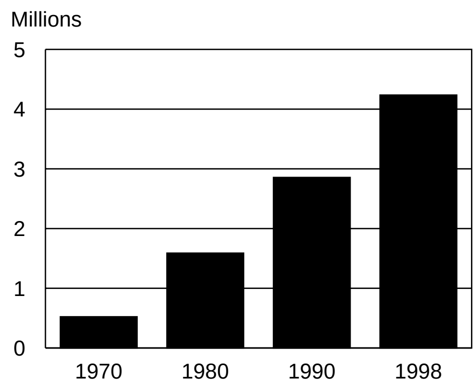
These changes give more control to the individual over key life decisions at almost every important stage of life. People are no longer making decisions based on questions such as, "What does my family or society expect of me?" but more often based on questions like, "What is best for me now? Do I want to get married? Do I want to finish my

Figure 27
Married with Children Is Losing Popularity
(Percent of household type as a share of total households)



Source: U.S. Census Bureau

Figure 28
Growing Number of Unmarried Couples
(Number of unmarried couples, in millions)



Source: U.S. Census Bureau

education first? Do we really want to get married or can we just live together? Is the marriage working for both of us?" Such a shift in the locus of decision making is neither good nor bad in itself, but it does contribute to a growing fragmentation of the marketplace.

Forecast

Changes in household composition were initiated by the revolutionary social changes that took place between 1965 and 1980. The baby boomers, reaching their 20s in that period, were the trendsetters for these changes, setting up independent households, living alone longer, marrying and having children later, and separating when things did not work out. Although change still continues, recent data suggest that while the current generation of young people accepts the changes of the boomers, they will extend these changes only slowly for the next ten years. Our forecast is based on Census Bureau projections.

Growing Number of Households and Shrinking Household Size

The population as well as the number of households will continue to grow slowly. The total population estimate for 2010 is 300 million (up from 279 million in 1998), and the total number of households will be 115 million. The average household size will keep declining at the same rate as during the past 15 years: 0.1% to 0.2% per year. In 2010, the average household size will be 2.53 people.

Increasing Nonfamily Households

The percentage of nonfamily households will continue to increase over the next ten years, and the percentage of married couples with children will continue to decrease. The forecast for 2010 is that only 20% of the households will consist of married couples with children, while 32% will consist of groups of nonfamily members. The number of one-person households will increase to about 27%.

Changing Age Structure

Because of the aging population, a large portion of one-person households will be older people living by themselves. Figure 29 shows the expected age structure of the population in 2000 and 2010. Every group over 50 years of age will increase dramatically as the baby boomers move into retirement and the population of the very old increases.

Why Should Businesses Care?

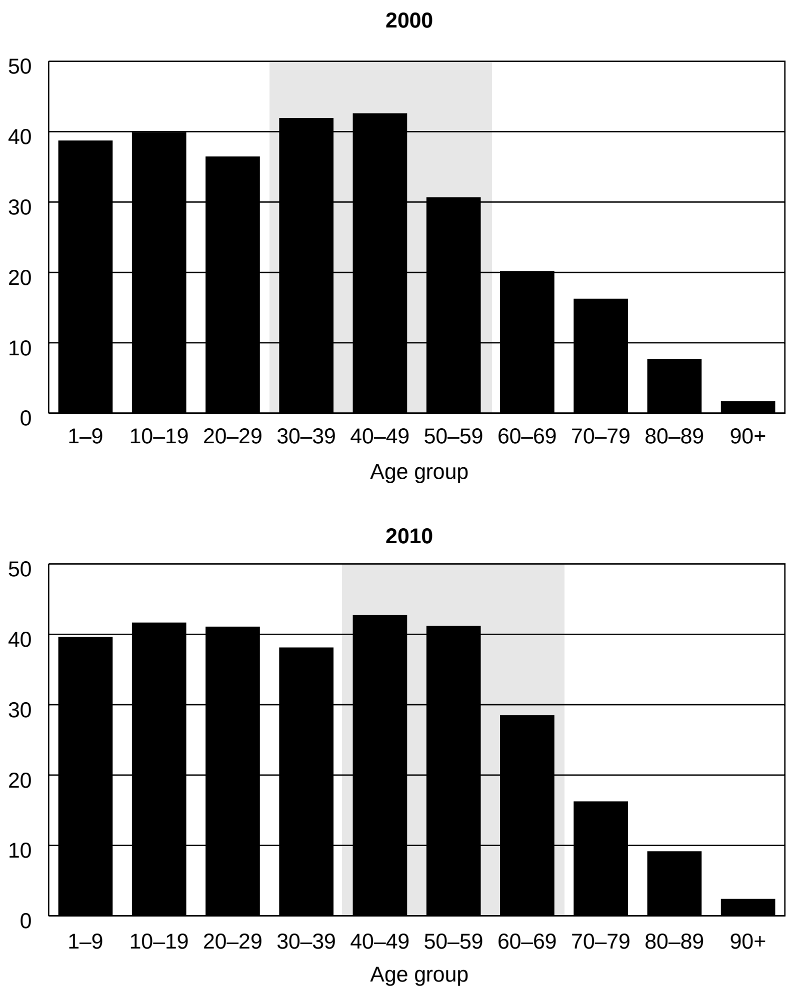
For businesses, the changing household means a fragmenting market, which in turn means a change in strategy. Companies will have to work harder for their customers. They will no longer be able to create products and services that appeal to the mass market alone, but will have to find ways to reach smaller sectors.

One-Person Households Mean Fragmented Markets

The change in household composition, especially the growing number of one-person households or nonfamily households, has big implications for business. One of the most obvious is the growing demand for housing, which also increases the demand for all the things that go along with a house: furniture, appliances, bank accounts, credit cards, and insurance.

However, many young people who are not married share an apartment with roommates, and thus pool a good number of these household purchases. Still, most of these

Figure 29
Changing Age Structure of the Population
(Number of people per age group, in millions)



Source: U.S. Census Bureau

people live their own lives. They have other needs and living habits than people living in a family, and much of their purchasing behavior is likely to follow different, more individualized patterns. There will be some shared expenses for housing, furniture, and home maintenance in nonfamily households, but many purchasing decisions, such as clothes, food, entertainment, travel, and transportation, will be done separately.

One significant difference for people living alone is that they will tend to live more of their lives outside the home. They are more likely to travel, and they will conduct more of their daily routine activities, such as meals and entertainment, outside the house.

Increasing Age of Population Means a New Silver Market

Older people on their own have needs different from those of younger people with families, including a more active community life and easier access to shops and entertainment. They may have very different patterns of vacations and travel, for example. They are likely to travel for a much longer time and wish to be part of more organized, less strenuous tours. This cohort can influence companies offering a wide range of goods and services, from housing—including how a house is designed and where it is located—to important services such as cleaners, drop-in health care professionals, cooks, and pet walkers, with whom they may form long-term relationships.

Growing Number of Unmarried Couples Means Complex Finances

The growing popularity of unmarried couples living together will have business impacts as well. The spending patterns of these couples are likely to be similar to those of married couples for many services and big-ticket items. But in the long run, unmarried couples are more likely to be less stable, more adaptable to change, and have fewer children, and thus would be less in need of structure and the entire children's market for clothing, toys, education, child care, sports teams, lessons, and so forth. They may also have more complex financial arrangements (e.g., separate bank accounts, insurance policies, pensions, and investments). And there may be more complex legal wrangling when these couples break up, unless care is taken with an initial contract.

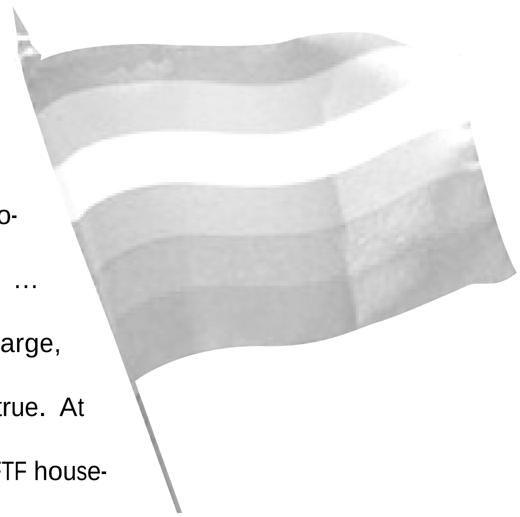
Conclusion: Market Fragmentation Paves the Way for Innovative Marketing

The revolutionary changes in household composition were initiated in the 1960s and 1970s. The basic forces put into play then—greater independence in choosing lifestyles and more varied patterns of living—are still in play today. We continue to see smaller shares of the population divided among a larger number of living arrangements. This fragments the market and makes it harder to find the key segment indicators, such as age and lifestyle, that have been so important in the past in developing products and services and building long-term relationships with customers. People no longer simply marry young and settle down, nor do they enter a limited and quiet retirement period.

The diversity of households is the foundation for the more complex society in which we live. Such diversity makes the business of selling, advertising, brand building, and maintaining customer relationships much more challenging and difficult. This range of households also makes these tasks more rewarding for those companies that can respond quickly to this more adaptable and flexible society. Companies moving to interactive and one-to-one marketing are positioned well to succeed with these more diverse households. The ability to offer the diverse households a range of choice that meets their needs will be of key importance.

—Aurelia Kloosterhof

Diversity in 2010—
The Multicultural New Consumer



Mention "new consumers" and many readers will think of affluent, well-educated, technologically sophisticated, and … white consumers. And by and large, this impression tends to be true. At least it used to be. In 1997, IFTF household surveys found that 87% of new consumers in the United States were white.

In the next decade, however, we will see a shift in the makeup of new consumers to include increasing numbers of racial and ethnic minorities. Entire groups of people—traditionally not marketed to and not used to being in the driver's seat—will for the first time gain a measure of control in the marketplace. What will this mean for the markets in general and businesses in particular?

Broad Drivers of Change

Six drivers are changing the racial and ethnic makeup of the new consumer segment:

- The United States population is becoming more diverse.
- The white population is aging rapidly.
- Whites live in the heartland and the suburbs; other demographic groups live in coastal cities.
- More people are getting a college education.
- The incomes of racial and ethnic minority groups are rising.
- The digital divide between whites and other groups is narrowing.

The Population of the United States Is Growing More Diverse

The most important driver changing the makeup of new consumers is simply the increasing diversity of the U.S. population. The population boom among Hispanics and Asians/Pacific Islanders from 1980 to 2000 and the steady state of the black population, combined with the lower fertility rates of whites, are creating an increasingly multicultural society. The share of the total population that is white is falling, while the share of the total population that is black, Hispanic, or Asian/Pacific Islander is rising (see Table 1). The fastest-growing racial or ethnic groups are Hispanics and Asians/Pacific Islanders, which are each expected to grow by approximately 25% in the next decade.

Table 1
America Is Becoming Increasingly Diverse
(Percent of population, by race/ethnicity)

	1980	*1990*	*2000*	*2010*
White	83	76	72	67
Black	12	12	12	13
Hispanic (any race)	6	9	12	15
Asian/Pacific Islander	1	3	4	5
Native American	<1	<1	<1	<1

Note: All groups are non-Hispanic unless labeled otherwise; 1980 census estimates for whites, blacks, Asians/Pacific Islanders, and Native Americans include Hispanics.

Source: U.S. Census Bureau (middle series estimates).

Whites Are Growing Older

Much has been made of the aging American population—by 2010, the leading edge of the baby boom will have reached retirement age, and there will be more elderly Americans than ever before. What analysts sometimes ignore, however, is that this trend applies predominantly to whites; other racial and ethnic groups are likely to be much younger as a whole. The median age of blacks and Hispanics is already lower than that of whites, for example, and age differences will only become more dramatic in the next decade (see Table 2). According to Census Bureau estimates, in 2010, the largest cohort of white non-Hispanics will be people age 50 to 59, whereas the largest cohort of blacks, Hispanics, and Asians/Pacific Islanders (together referred to in this article as "people of color") will be people 10 or younger (see Figure 30).

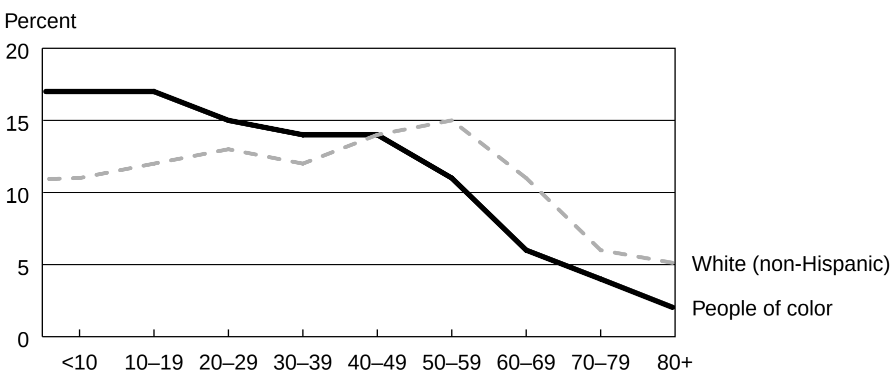
Table 2
Dramatic Differences in Median Ages of U.S. Racial/Ethnic Groups in 2010
(Median age in 2010 by race/ethnicity)

White	41.1
Asian/Pacific Islander	34.1
Black	32.5
Hispanic	27.6

Note: All groups are non-Hispanic unless labeled otherwise.

Source: U.S. Census Bureau (middle series estimates).

Figure 30
Age Differences by Race/Ethnicity
(Estimated percentage of racial/ethnic group in 2010, by age)



Source: U.S. Census Bureau (middle series estimates).

Whites Live in the Heartland; Other Groups Live in Coastal Cities

Certain parts of the country are likely to be more affected by the growing diversity than others. Historic patterns of immigration—Asians in the West and Hispanics in the South and Southwest—have resulted in concentrations of ethnic groups in particular states. For example, according to Census Bureau estimates, in 1999 only four states—California, New York, Florida, and Texas—were home to 48% of all American people of color. The Census Bureau estimates that this figure will top 50% by 2010. Since these are also four of the most prosperous states in the United States, any change in the makeup of the new consumer in these states will have a significant impact on the U.S. economy at large.

College Education Is More Widespread

The United States is quickly becoming a nation of highly educated citizens—in 1999, half of Americans 25 and older had at least some college education, like the new consumers. And this college-educated population is more diverse than it was in the past. Indeed, the racial group with the highest level of educational attainment in the United States is Asians/Pacific Islanders, not whites. In 1997, 85% of Asians/ Pacific Islanders had at least a high school diploma, while 42% had a college degree, as compared to 83% and 25% for whites.

Furthermore, educational parity is growing between blacks and whites. According to the Census Bureau, the number of blacks enrolled in college grew 50% from 1988 to 1998. Ethnic and racial differences in educational attainment will continue to decrease in the decade to come, as younger individuals in each group achieve more equivalent levels of schooling. For example, among young adults age 25 to 29, the high school completion gap between blacks and whites was only 4% (93% for whites and 89% for blacks), while about 64% of whites of that age and 54% of blacks had at least some college education.

Hispanics have lower educational attainment rates, however, in part because of the larger number of recent immigrants in this group. Today, about 62% of all Hispanics age 25 to 29 have a high school diploma, while only 31% have at least some college education. But these gaps grow narrower as immigrants spend more time in the United States. And because today's Hispanic teens outnumber Hispanic senior citizens by a 2-to-1 ratio (while the opposite ratio holds for whites), the Hispanic share of college-educated citizens will increase dramatically in the next decade (see Figure 31). All of these factors suggest that increasing numbers of ethnic minorities will have at least one year of college—a prime re-quirement for achieving new consumer status.

Incomes Rising Across the Board

One of the most important indicators of the new consumer is rising income levels. Individual income on the whole has grown an average of 21% since 1980, reflecting the ongoing economic prosperity of the United States. Indeed, the share of households with more than $50,000 in annual income—the level we've used to define the new consumer—reached 41% in 1999.

Ethnic and racial minority groups are beginning to attain these rising incomes as well. In fact, the average individual income growth rate of blacks (32%) between 1980 and 1997 outstripped the national norm. And the income gap between white non-Hispanics and blacks (27%) will stand at its lowest ever in

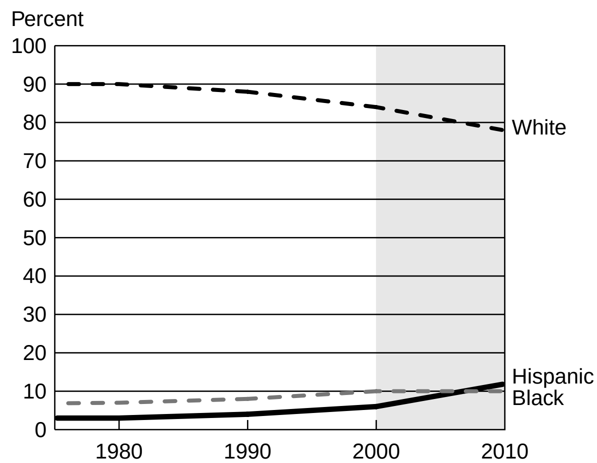
2010, down from 42% in 1980—a drop of 36%! This can be attributed to factors such as increased black participation in higher education, affirmative action and equal opportunity employment programs, and decreasing racial discrimination. Unlike blacks and white non-Hispanics, Hispanics have experienced much slower growth of average incomes, only 13%. At this slow pace of growth, the income gap between Hispanics and white non-Hispanics will actually *increase* to 51% in 2010, from 41% in 1980.

Even though the average incomes of Hispanics are growing more slowly than those of other groups, they are growing. Households earning $50,000 or more do include Hispanics. The growth of people earning more than $50,000 among blacks and Hispanics over the last two decades has dramatically outpaced that of whites by two- to threefold. These numbers also translate to strong improvements in the proportion of blacks and Hispanics with an annual household income of $50,000 or more (see Table 3). Even after adding in the large numbers of low-income Hispanic immigrants, the percentage of all Hispanics who made $50,000 or more in annual household income grew by more than 60% from 1990 to 1998. Clearly, these groups will be making sizable inroads into new consumer territory in the decade to come.

The Digital Divide Narrows

U.S. computer penetration and Internet access have rocketed in the past six years. These numbers don't tell the whole story, however. Analysts have noted a "digital divide"—a difference in computer and Internet access between Asians and whites on the one hand and blacks and Hispanics on the other. The Department of Commerce "digital divide"

Figure 31
Americans with Some College Education Will Look More Nationally Representative
(Percent of racial/ethnic group among individuals with at least one year of college)



Note: Figures are for adults 18 years and older; 2010 estimates assume 15- to 19-year-olds of each racial/ethnic group attend college at a rate equal to today's 20- to 29-year-olds of each group.

Source: U.S. Census Bureau; Institute for the Future estimates.

Table 3
Share of Blacks and Hispanics Increase Among Wealthiest Consumers
(Percent of households with at least $50,000 annual household income, by race)

	1980	*1990*	*2000*	*2010*
Hispanic	3	4	6	8
Black	5	6	7	9
White non-Hispanic	90	87	84	80

Note: All numbers in thousands and calculated in 1998 CPI-U adjusted dollars, based on assumptions of 3.9%, 5.6%, and 1.9% compound annual growth rates, respectively. Numbers may not add to 100%; Asians/Pacific Islanders and Native Americans not included due to incomplete census data.

Source: Institute for the Future; U.S. Census Bureau.

studies show Asian and white households as the most likely to own a personal computer (at 66% and 56% respectively), with blacks and Hispanics approximately one-half as likely (at 33% and 34% respectively) (see Table 4). Unfortunately, the differences between these groups have been growing.

The effects of the digital divide are tied closely to income, however—the divide is smallest for the highest income groups (i.e., households that earn $75,000 or more annually). With the growing numbers of blacks and Hispanics entering this high-income bracket, the divide will narrow substantially in the coming decade. This gap will also become smaller with the government's efforts to reduce the digital divide by providing grants to state, local, and tribal governments to increase the use of information technology in rural and underserved areas. Private companies have also pledged to provide information technology, access, and training to low-income and rural areas. In the next decade, moreover, Internet companies will seek to provide broader content in order to attract larger and broader audiences at lower income levels. Local or community news, more extensive job listings (including listings for unskilled labor), and job training and education will all be attractive topics for lower-income users.

Table 4
The Digital Divide Over Time
(Percent of households with computer and Internet access, by race/ethnicity)

	Computer Penetration		*Internet Access*	
	1994	*2000*	*1997*	*2000*
Asian/Pacific Islander	n/a	66	n/a	57
White	27	56	21	46
Hispanic	12	34	8	24
Black	10	33	9	24

Source: National Telecommunications and Information Administration; U.S. Department of Commerce.

New Consumers in 2010

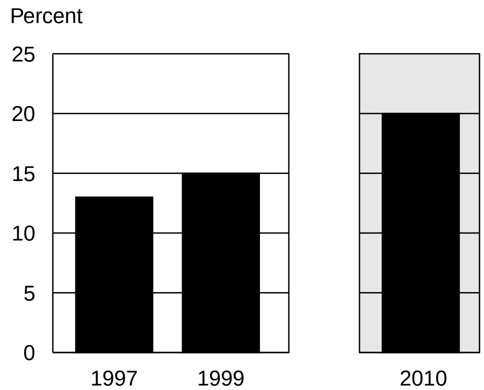
Despite ongoing economic and social inequities for racial and ethnic minority groups, unprecedented numbers of people of color will achieve new consumer status in the next decade. Based on IFTF estimates, almost 20% of new consumers will be from racial and ethnic minority groups by 2010 (see Figure 32).

Are there any issues businesses need to consider in marketing to these new consumers of color? Although IFTF household surveys have identified only a small sample of the new consumers of color, even limited data suggest that these consumers may be different from the white new consumers in several important ways.

Ethnic Marketing Renaissance

Clusters of large well-to-do groups, such as Chinese-American communities in San Francisco and greater Los Angeles, or Mexican-American communities in San Diego and Los Angeles, will gain renewed attention from businesses. These groups have been known to marketers for a long time; however, their rising income levels will make them more attractive to businesses, which will use increasingly sophisticated marketing techniques to reach them. Many such undertakings already are in place, especially on the Internet. Indeed, the last few years have seen the rise of ethnic-specific shopping portals that also serve as community contact points. For example, BlackPlanet.com, Netnoir, and BlackVoices.com offer news, career opportunities, online chats and community discussion boards, spiritual and lifestyle information, and information on African and black history and culture—in addition to Afro-centric and general shopping. Today's companies already realize that these are potentially high-growth

Figure 32
People of Color Make Up an Increasing Share of New Consumers
(Percent of new consumers who are black, Asian, or Hispanic)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Surveys.

ventures—America Online has a 19.9% equity stake in Netnoir, for example.

And this is only the beginning. Look for these sites to be used as one—but hardly the only—source of information by new consumers of color. Blacks and Hispanics indicate stronger interest in receiving information about new products and services; in a 1999 U.S. consumer survey sponsored by IBM, 18% of blacks and 21% of Hispanics indicated they were "very" interested in receiving this information, as opposed to 9% of whites. As companies learn more about the people of these cultures at their different life stages, the format and content of their ethnically targeted material will become more sophisticated.

If the mix of companies doesn't include some owned by members of the ethnic group itself, or if the traditional companies don't have a strong cross-section of minority employees, credibility and authenticity will be lost.

For example, the first ethnic online grocers directed toward particular ethnic groups in particular cities have been developed, such as MexGrocer.com, EthnicGrocer.com, and IndiaGroceryNet.com. MexGrocer, for example, focuses on San Diego–area Mexican Americans. In a recent interview for CNET, MexGrocer CEO Ignacio Hernandez stated, "We want to cater to those second-generation Mexicans that were educated in the United States but who learned the culture of Mexican food from their parents. They don't know how to get the food or make the recipes."

In general, this is a smart move, targeting not only later generations that want to maintain family traditions but also recent immigrants and interracial families, which are booming in states like California. However, scalability and ensuring the freshness of imported foods are still serious obstacles. Such small businesses are tempting targets for more established online grocers, which are likely to move quickly to compete with these ethnic online grocery deliverers or to buy them to extend their reach into these potentially lucrative markets. Larger online grocers will have better prices and a wider delivery range; however, new consumers of color who are looking for an "authentic" cultural experience and culture-sensitive customer service may still be attracted to the smaller ethnic online grocers. In fact, the ability to provide an authentic cultural feel to a product or service will be an obstacle to large companies using targeted marketing to retain these customers. Companies will need to commit resources to achieve cultural competence. It takes very few resources to market tortillas, but considerably more to market the proper ingredients for a Mexican-American new consumer to make the regional style of *sopapillas* that her mother used to make.

There are other challenges for businesses trying to reach the new consumers of color. Although targeted advertisements that accurately identify particular ethnic groups will be quite appealing ("They finally recognize that we exist!"), they will not be convincing if the makeup of the companies themselves doesn't change as well. For example, if the mix of companies doesn't include some owned by members of the ethnic group itself, or if the traditional companies don't have a strong cross-section of minority employees, credibility and authenticity will be lost.

Privacy and Cultural Co-optation

In particular, targeted ethnic advertisements may strike a wrong chord if they appear to be co-opting cultural phenomena in order to make white-owned companies richer. Many black communities have become sensitive to problems of cultural appropriation and the resulting demise of black-owned businesses. The misuse of information about black individuals—for example, that by scientists to promote theories of racial inferiority—has also led to blacks' reluctance to provide information to companies or institutions. For example, IBM's 1999 consumer survey on privacy found that 88% of blacks, as opposed to 74% of whites and 74% of Hispanics, reported being "very concerned" about the possible misuse of their personal information. When considering the possible misuse of personal information on the Internet, blacks (80%) and Hispanics (85%) were more likely than whites (70%) to report being very concerned.

Yet recent evidence suggests that blacks and Hispanics are less likely than whites to take active steps to protect their online and offline privacy. For example, in IBM's survey, fewer black and Hispanic respondents (at 46% each) than whites (60%) reported that they had ever asked a company to remove their name and address from a marketing list. Blacks and Hispanics also were less concerned about being able to opt out of marketing materials; only 61% of blacks and 79% of Hispanics, as opposed to 85% of whites, felt it was "absolutely" or "very important" that companies give consumers the choice not to have their name and address given to other companies for marketing purposes. But expect these more relaxed attitudes about opting out to disappear as more consumers of color begin to experience the marketing overload directed at new consumers.

Like white new consumers, new consumers of color will recognize the value of their personal information and will likely be willing to exchange it for benefits to themselves or their larger community or ethnic group. Recently, the Census Bureau appealed to this sensibility by hiring hip-hop artists for radio advertisements encouraging blacks (historically underrepresented in census estimates) to complete Census 2000 questionnaires. The ads stressed the need for blacks to provide their personal information in order for black communities to get their fair share of government resources. Such strategies seem a good bet for local or state organizations, and for nonprofit organizations as well.

The Increasing Financial Clout of New Consumers of Color

Historically, Hispanic and black consumers have participated in a more narrow range of financial services than whites. For example, Federal Reserve Board figures from 1999 (as analyzed by J. D. Powers) found that only about 3% of Hispanic households have brokerage accounts, compared to 29% of non-Hispanic households. Reasons for this gap may include the historical reluctance of financial services companies to pursue these markets, or even the understandable caution of newly prosperous individuals who don't want to risk their children's inheritance.

Investment patterns in these groups have started to change, however, as companies such as Merrill Lynch, Charles Schwab, and Citigroup Inc. have recently begun aggressively recruiting Hispanic, Asian, and black investors. For example, Charles Schwab now

Table 5
Electronic Bills and Statements Are Appealing to New Consumers of Color

	Whites	*People of Color*
Mean number of different financial accounts	6.08	4.42
Percent of each group who indicated interest in electronic bill presentment	34	52
Percent of each group who said they felt comfortable with receiving electronic statements	38	55

Note: Whites may include Hispanics; people of color include blacks and Asians.

Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Surveys.

offers Spanish-, Chinese-, and Korean-language Web sites for their U.S. investors, where customers can receive in-depth explanations about investment tools, strategies, and terms, plus summaries of Schwab products and services. Customers can also send requests over the Web for brochures in their native language concerning specific topics such as retirement or education planning. In the past two years, Charles Schwab also opened Chinese-language offices in six locations, including San Francisco, Los Angeles, and New York City. These efforts have met with some success, as Schwab now reports that Asian investors are its fastest-growing ethnic market. Other companies, such as Citigroup, are also accelerating their mortgage-related lendings to consumers of color, having increased their lendings to blacks and Hispanics by more than 600% from 1997 to 1999.

Although these efforts will undoubtedly lead to more investing by these groups, look for new consumers of color to remain particularly attracted to financial products and services that match their traditional ways of measuring wealth—such as real estate—and that can be used as a family legacy. Some of these investment trends, however, are likely to change once new consumers of color embrace electronic forms of tracking their financial accounts. As shown in Table 5, white new consumers have more financial accounts than new consumers of color, but new consumers of color show a strong interest in using the latest technology tools to track their money. The next logical step would be to use these tools to invest that money.

Multicultural New Consumers in 2010: Implications for Businesses

The new consumer group will grow increasingly multicultural over the next decade. As it does so, the multicultural cadre will share many characteristics with today's new consumers. Multicultural new consumers will be prosperous, well educated, and trained in academic processes for gathering and analyzing information. They will also have large amounts of discretionary income, access to information technology, and expectations of controlling their financial future.

As a result, by 2010, ethnic or racial gaps in the most select consumer groups of the United States will look smaller than ever; however, new consumers of color also have several unique characteristics that businesses will have to address.

Implications for businesses include:

- *New consumers of color have many interests similar to those of white new consumers—but are underserved.* Although new consumers of color will act like white new consumers in many respects, they will also exhibit important differences. For example, new consumers of color, like many members of their ethnic groups, are underserved in important products and services. New consumers of color will reduce some of these ethnic gaps—for example, by more aggressively investing and using online financial tools to monitor their financial progress. To create opportunities to reach new consumers of color, businesses should look for other places where people of color are underserved and create culturally specific marketing programs targeted to affluent consumers.

- *Be sensitive to issues of cultural co-optation.* The long and painful struggle against racial discrimination is likely to make new consumers particularly concerned about possible issues of cultural co-optation. Businesses will have to be aware of these issues when creating their marketplace strategies. One approach will be for companies to partner with local, ethnic-run businesses rather than to compete with or co-opt them. Companies with a workforce that represents the spectrum of the American population and a strong record in supporting civil liberties and social progress are likely to do well. The loyalty earned by a good employer–employee relationship is likely to make the company's first multicultural employees the company's first multicultural customers, paving the way to reach others in the culture. And finally, prioritizing diversity shows that the company is serious about reaching out to new consumers of color in a genuine way, not just to take their money.

- *The workforce will take some time to adjust.* "Attributional ambiguity" is the term used by social psychologists Jennifer Crocker and Brenda Major to describe the uncertainty of not knowing how much race plays a role in everyday outcomes ("Did I not get that promotion because I didn't deserve it, or because I'm black?"). Employees of color, more experienced in working in multicultural environments, may be old hands at managing the unpleasant feelings of attributional ambiguity. White employees will have less experience with those situations ("Does my new colleague avoid me because I'm white and she's Asian … or is it something about me?"), and may need time to develop coping techniques. In the meantime, businesses ought to be prepared for more discrimination complaints and lawsuits, substantial numbers of which will be filed by whites. Smart companies will invest even more broadly in diversity training.

• *Look to the geographic concentrations of the groups you're marketing to.* New consumers of color will be concentrated in the coastal cities of four important states: California, Texas, Florida, and New York. Obviously, any companies interested in tapping the multicultural new consumer market will need to target these states. Successful retailers can take a page from financial service providers' books by opening stores in wealthy ethnic neighborhoods that feature bilingual salespeople (supported by multilingual customer-service call centers, of course) and culture- and age-appropriate products and services. The best stores will give the "authentic" experience desired by many new consumers of color. Targeted Web sites will allow new consumers of color outside these neighborhoods to still connect.

• *Think targeted marketing.* Recent IFTF research suggests that many companies are moving from a mass-marketing approach for reaching their best consumers to a more targeted, personalized approach enabled by increasingly sophisticated database and communications technologies. This will be no different for new consumers of color—indeed, it could very well be a test case for how well this approach can work. Businesses should consider culturally appropriate presentation of products and services as just one more piece of targeted marketing—but one that will require more resources to meet the "authenticity" requirement. At the same time, businesses should not lose sight of the fact that a digital divide still exists between whites and some of these other groups. Businesses will have to reach some of the new consumers of color the old-fashioned way, by growing their bricks-and-mortar presence in traditional minority neighborhoods.

• *Market to the life stages.* As they do now, businesses will have to market to the life stages most critical to new consumers. For white new consumers, it's the baby boomers who are in their prime earning years and about to retire. For new consumers of color, who are generally younger and have more children, it's the families with children that are most important. Some of them will be second- or third-generation Americans who will want a little help in raising children who are multicultural and multilingual rather than completely assimilated. Businesses will have to design multilingual family-friendly products and services to ease the burden of raising such families.

• *Create a value exchange with consumers of color.* Similar to their more traditional counterparts, new consumers of color will learn the value of their own personal information and expect some value in return, either for themselves or their larger communities. State, county, and city agencies can stress the benefits that providing personal information will create for ethnic communities. Successful companies may want to form partnerships with charitable organizations that target ethnic communities, in order to create a similar value proposition.

—Leah Spalding

The North Atlantic Echoes the U.S. Market

In other articles in this *Forecast,* we explore the key demographic trends within the U.S. population: rapidly rising educational attainment, dramatically increasing household income, and high use of new information-rich technologies such as the Internet. Not coincidentally, these trends characterize the new consumers—that group of sophisticated, demanding, relatively affluent consumers who are greatly influencing the U.S. marketplace. Indeed, the demands of the new consumers for customized products and individualized service are fragmenting the market into smaller and smaller segments. Other trends contributing to this ongoing market fragmentation include the changing composition of U.S. households and the increasing diversity of the U.S. population.

That covers the United States, and though the country's economy is an important one, it's not the only one. Are other economies undergoing similar changes, places in which companies successful in the United States can find symmetries? We don't have far to look to find likely candidates—the U.S. trading partners in the North Atlantic, including Canada, France, Germany, the Nordic countries, the United Kingdom, and so forth, are similar enough to warrant comparison. Indeed, it is instructive to track the key demographic trends of these countries in relation to those of the United States.

What we've found is that many of the same basic trends we identified in the United States hold true for these other developed countries as well. The following five are especially important, because each contributes to the increasing fragmentation of the marketplace:

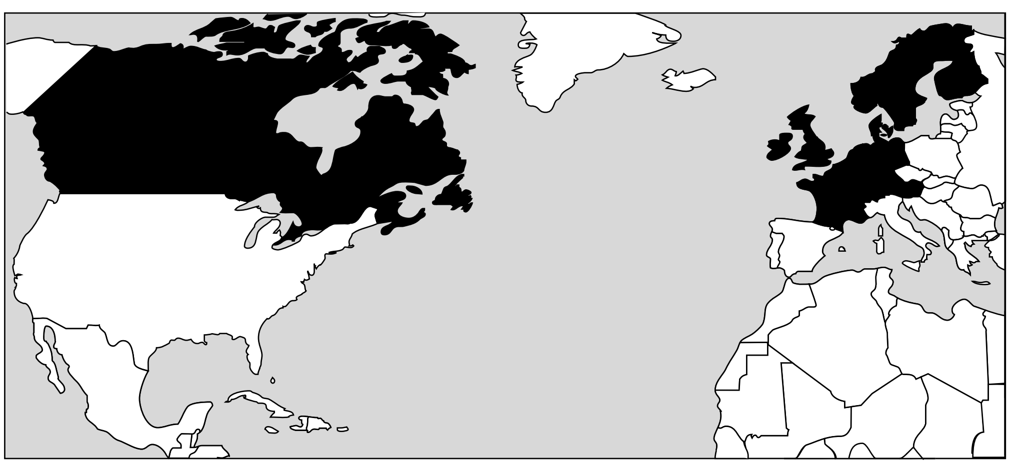
- Education levels are rising.
- Income inequalities are increasing.
- The PC ownership gap is narrowing.
- Alternative households are growing in acceptance and number.
- Populations are becoming more diverse.

Defining the North Atlantic Market: Key Demographic Similarities

To find a market about the size of the United States, we looked to the largest, wealthiest countries of Northern Europe and to Canada. We call this group "the Other North Atlantic countries" (see Figure 33).

As a group, the Other North Atlantic countries are similar to the United States in total population, and the numbers of house-

Figure 33
The Other North Atlantic Countries



Source: Institute for the Future

holds in both regions will grow at similar rates through 2010. Furthermore, the Other North Atlantic countries account for a total GDP relatively close to that of the United States, and they have a comparable standard of living (see Table 6).

Key International Trends

We compare the United States and Other North Atlantic countries on several key indicators: educational attainment, household income, and the presence of a PC in the household. Other important demographic characteristics also demonstrate fundamental similarities and differences between the two markets, including household composition and diversity.

Rising Levels of Education

The Other North Atlantic countries lag behind the United States in educational attainment at the college level. The share of the adult population (25 to 64) with a college degree is 13% in the Other North Atlantic countries, half the share of adults with college degrees in the United States (27%) (see Figure 34).

The data include the older generations—generations whose members may not have had the means or opportunities to attend college in the large numbers the youth of today do. But even if we look at the younger crowd, the rate of college enrollment is twice as high in the United States as it is in the Other North Atlantic countries. Total U.S. college enrollment is equivalent to 80% of the 20- to 24-year-old population. The corresponding number in the Other North Atlantic countries is

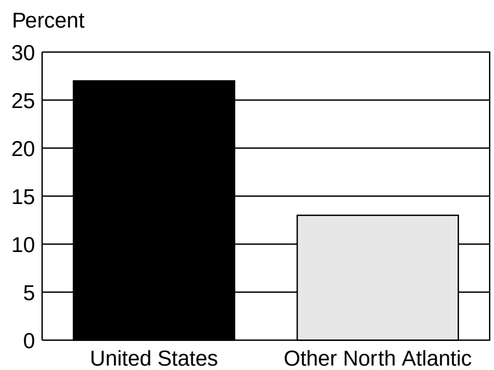
Table 6
United States and Other North Atlantic Countries—Similar Base Demographics

	United States	*Other North Atlantic*
Total population	275,000,000	273,000,000
Total GDP (in billions of U.S. $)	$8,351	$6,695
GDP per capita at PPP	$30,600	$22,209*

*Weighted average

Source: Institute for the Future; World Bank World Development Reports, 2000 and 2001.

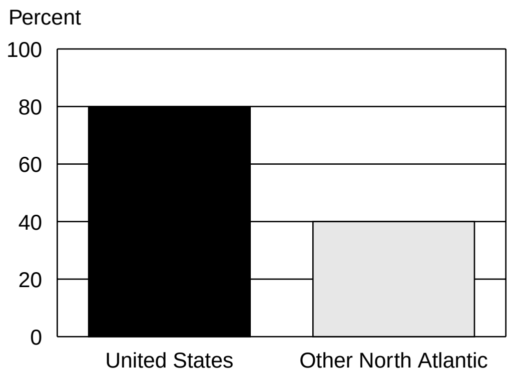
Figure 34
United States Leads in College Grads
(Percent of population 25 to 64 with a college degree)



Note: For the sake of comparison, we utilize the following six countries combined as a proxy for the Other North Atlantic countries as described above: Canada, France, Germany, the Netherlands, Sweden, and the United Kingdom. These six countries account for 84% of the population of the Other North Atlantic nations, as well as 81% of total Other North Atlantic GDP.

Source: Organisation for Economic Co-operation and Development

Figure 35
College Enrollment Is Half the Rate in the Other North Atlantic Countries
(Equivalent percent of 20- to 24-year-olds enrolled in college)



Source: Institute for the Future; World Bank Development Report, 1999; Deutsche Statistisches Bundesamt, *Statistisches Jahrbuch,* 1997.

Table 7
Gap in College Enrollment Is Closing, Slowly
(Annual percentage rate of increase)

	1965–1985	*1985–1995*
United States	1.9	1.2
Other North Atlantic	4.4	1.6

Source: Institute for the Future; World Bank Development Reports.

half the U.S. rate, or 40% (see Figure 35). (Note: Since many college students are either younger than 20 or older than 24, the ratios appear to be very high. The actual rate for 19-year-olds enrolled in full-time academic college programs is 58% in the United States.)

There are two primary reasons why the college educational attainment rate is twice as high in the United States as it is in the Other North Atlantic countries. First, the college boom started 20 years earlier in the United States, when the state university systems were built up after World War II as a result of the GI Bill and the baby boom. The state systems provided and continue to grant college access for qualified high school graduates at a subsidized cost. Second, the European secondary education system is more demanding than that of the United States, with the last year of secondary school being much more like the first year of college in the United States. This means that European "high school" graduates actually have more education than U.S. high school graduates—the equivalent of "some college" in the United States—making college perhaps less attractive and less necessary.

The Other North Atlantic countries, however, are now closing this gap. Between 1965 and 1985, enrollment increased at an annual rate of 1.9% in the United States. In the Other North Atlantic countries, the rate was more than twice as fast, at 4.4% (see Table 7). This large increase was the result of the Other North Atlantic baby boomers heading for college in droves.

Increases have slowed down in both regions since the mid-1980s, but the rate of increase in the Other North Atlantic countries is still one-third faster than that in the United States.

Common characteristics drive increased educational attainment in all of these countries. Drivers include expanding educational opportunities, increasing economic rewards for advanced education, global competition for high-tech products and jobs, increasing numbers of working women, and individual and family recognition of the social rewards of education. Jobs that require strong educational backgrounds, in particular those in global business, information technology, and business services, are better paying, and thus more attractive.

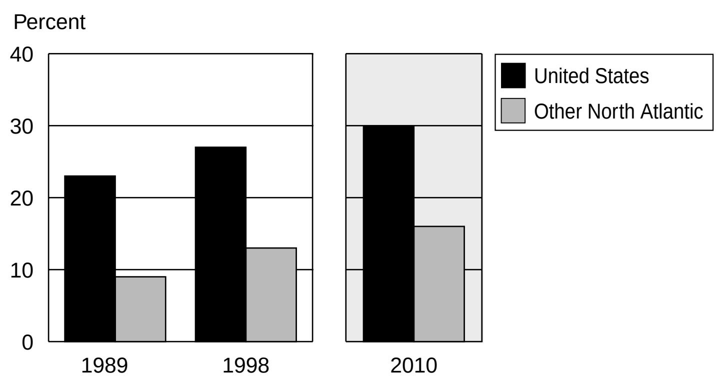
Increasing educational attainment is a key characteristic of mature middle-class consumer societies. Consumers recognize that education is a valuable asset, and as such, parents do all they can to get the best education for their children (and for themselves, as adults) that they can afford. This trend is one of the most important factors behind the rise of a global middle class.

Forecast

Levels of overall college educational attainment will continue to increase across the North Atlantic. Young people finish college each year at a slightly higher rate than the previous year. More important, college completion rates by today's youth are dramatically higher than those of today's seniors when they were young. As the younger generations replace the older ones, overall attainment will increase. It is worth noting again, as we did in the "Higher Education, Higher Participation" article, that the aging baby boomers will increase the educational attainment rate for people older than 55 in the next ten years. Accordingly, increases will occur at both ends of the age spectrum.

Over the next decade, both the United States and the Other North Atlantic countries will continue to experience a gradual growth in the share of adult populations with at least a college degree. The gap between the two regions will slowly narrow (see Figure 36).

Figure 36
The Education Gap Will Narrow, Slowly
(Percent of total population age 25 to 64 with a college degree)



Source: Institute for the Future; Organisation for Economic Co-operation and Development, Education at a Glance Reports, 1991 and 1999; World Bank Development Reports.

Increasing Household Income Inequality

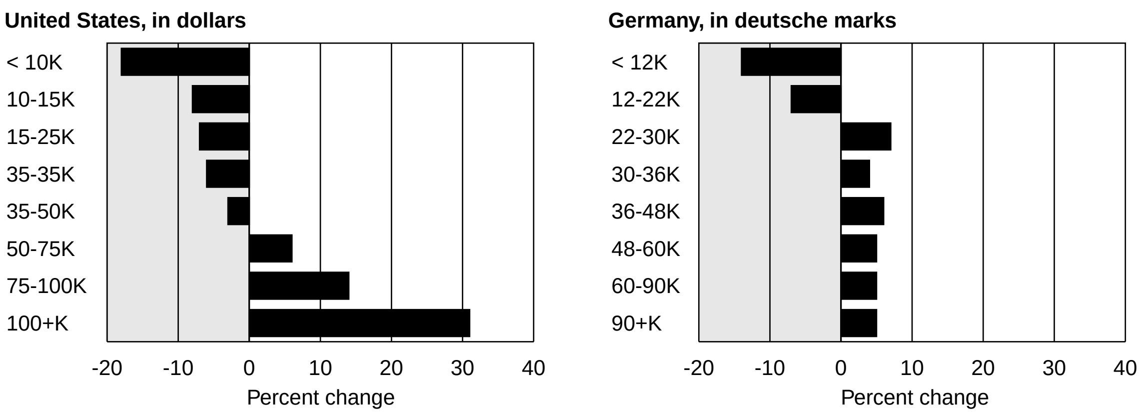
Household income patterns in the Other North Atlantic countries are broadly similar to those in the United States—with declines in the share of the population in the lowest income groups and rapid increases in those in higher income groups. However, the distribution gap is less extreme in the Other North Atlantic countries. Germany provides a good example.

The expansion of the upper-income groups in the United States is much stronger than in the upper-income groups in Germany (see Figure 37), which indicates a much more rapid increase in income inequality in the United States than in Germany. This pattern holds true across Northern Europe. What is the reason for this difference? With larger and more rapidly growing upper-income groups, the opportunity for commercial innovation is higher in the United States. There exist expanded roles for entrepreneurial activity and thus more opportunities to amass larger amounts of money beyond the rate of a typical career path and its incremental salary increases.

Forecast

These trends in income distribution can be traced back even further in time. A similar pattern developed in the 1980s, when higher-income groups were growing at a faster rate than lower-income groups were shrinking. Over the next ten years, this trend will be reinforced because well-educated baby boomers—many of whom live in dual-income households—will be reaching their years of peak earnings. Until they begin retiring en masse in 2010, incomes will continue to increase at this rapid pace.

Figure 37
Growth in High-Income Households Is Strong
(Average annual change in share of population with given levels of constant [1998] income in local currency, 1993–1998)



Source: Institute for the Future; U.S. Census Bureau; *U.S. Statistical Abstract;* Deutsche Statistisches Bundesamt, *Statistisches Jarbuch*.

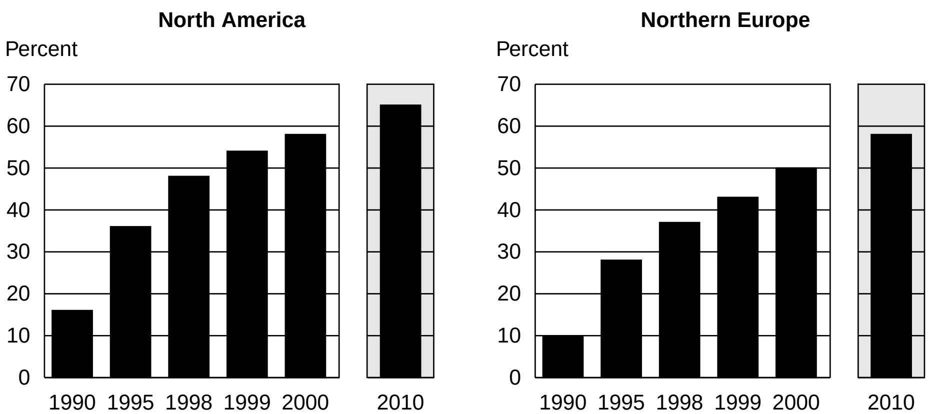
Narrowing PC Ownership Gap

The penetration of PCs into households has been rapid in the North Atlantic since 1990. Penetration rates remain somewhat higher in North America (the United States and Canada) than in the rest of the North Atlantic. (In the area of technology penetration, Canada more closely resembles the United States, rather than the Other North Atlantic countries.) The gap between the two regions, however, is narrowing and will continue to do so in the future (see Figure 38).

Alternative Households Flourish

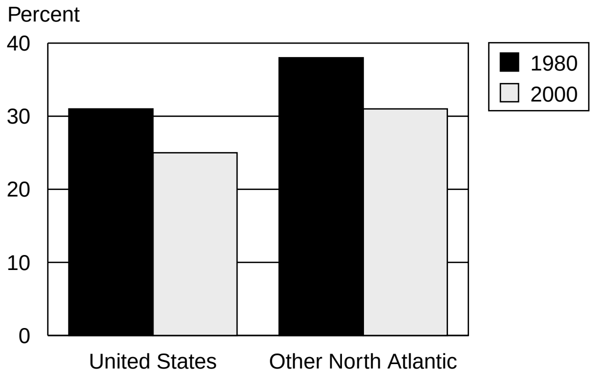
New consumers in the North Atlantic are likely to be found in a greater variety of households. (For more on the changing composition of households, see the article "The Social Revolution Lives On.") Traditional households—married couples with children—still compose a significant portion of households in the North Atlantic, but they are steadily decreasing as a percentage of the total. Other types of households—married couples without children, single-parent households, one-person households, and unmarried couples—are slowly replacing traditional households.

Figure 38
PC Gap Narrows
(Percent of households with a PC)



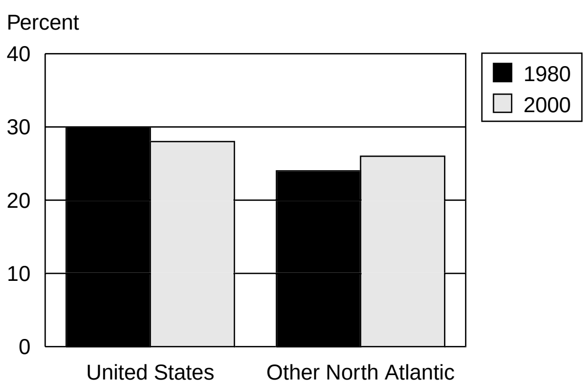
Source: Institute for the Future, International Household Surveys.

Figure 39
Traditional Households Decreasing in Share
(Percent of total households that include a married couple with children)



Source: Institute for the Future; statistical abstracts of France, Germany, the Netherlands, the United Kingdom, and the United States.

Figure 40
Similar Rates of Households Consisting of Married Couples Without Children
(Percent of total households that include a married couple without children)



Source: Institute for the Future; statistical abstracts of France, Germany, the Netherlands, the United Kingdom, and the United States.

As in the United States, the share of traditional households is decreasing in the Other North Atlantic countries. Between 1980 and 2000, the share of traditional family households fell by about 20% across the North Atlantic (see Figure 39).

The number of households consisting of a married couple without children has been relatively stable over the past two decades. On both sides of the North Atlantic, more people are marrying slightly later in life, which means there are fewer young married couples. Although older couples are living longer, their increasing numbers do not offset the declines at the other end of the age spectrum in the United States, where we see fewer early marriages, and thus a slight decrease in the total number of households consisting of a married couple without children (see Figure 40). However, there has been a small increase in the Other North Atlantic countries in their share of such households, largely because the populations in these countries are older overall. Increasing numbers of older couples living alone and living longer result in a slight increase in the total number of households consisting of a married couple without children.

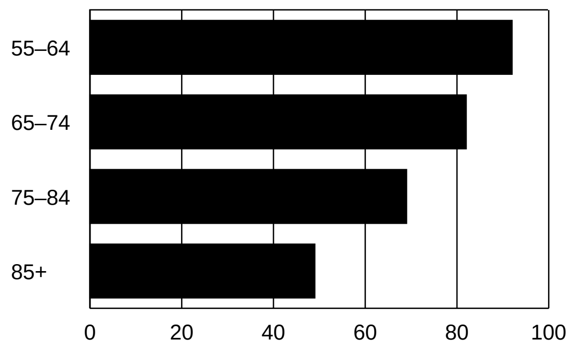
The share of single-parent households increased by 25% in the United States and by 28% in the Other North Atlantic countries between 1980 and 2000. Today, there are about 10 million single-parent households in each of the regions, which contribute to the variety of alternative households across the regions.

One-person households account for the largest share of alternative households in the United States and the Other North Atlantic countries. The primary component of growth in one-person households is the aging of society. The population of the North Atlantic is growing older, but women generally live longer than men. For example, in the United States, the ratio of men per 100 women age 65 to 74 is 82; for those 85 and older, the ratio is 49 men per 100 women (see Figure 41). The result of this imbalance is most often a widowed woman living alone. As the populations on both sides of the North Atlantic get older overall and live longer, this trend will continue to be the primary factor driving the increase in one-person households.

A second force driving the decrease in traditional households is the growing preference of young people for living alone, especially in particular countries. Among the Other North Atlantic countries, Sweden stands out. In 1997, 40% of Swedes—many of them younger than 24—lived alone, the North Atlantic's highest rate. Other Northern European countries are close behind: In France, Germany, the Netherlands, and the United Kingdom, almost one in three households is a one-person household, while the U.S. rate is lower, at about one in four households (see Figure 42).

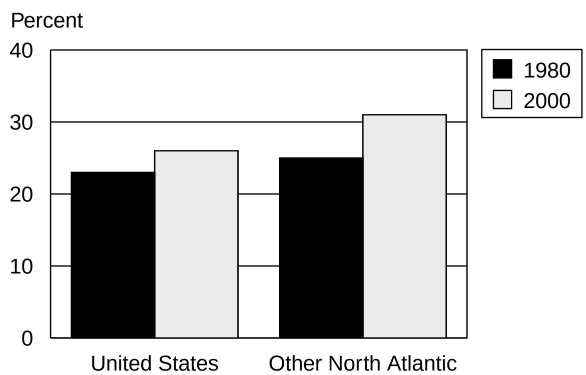
Not only are more single people living alone, but more couples are living together without being married. Such couples in Sweden, for example, grew from 11% to 17% as a percentage of all families between 1975 and 1990. In Canada, common law couples rose from 5% to almost 9% of all households between 1985 and 1995. In the United States, cohabiting, unmarried couples grew from 2% to almost 5% of households between 1980 and 1998.

Figure 41
More Women than Men in the United States
(Number of men per 100 women by age, 1999)



Source: U.S. Census Bureau, *The Older Population in the United States,* March 1999.

Figure 42
One-Person Households on the Rise
(Percent of total households)



Source: Institute for the Future; census data from France, Germany, the Netherlands, the United Kingdom, and the United States.

Forecast

Today, traditional families make up a large, though steadily falling, share of households. In 2010, the share of households that will be traditional ones may fall to as low as 23% in the United States and 27% in the Other North Atlantic countries, very low levels by historical standards. The vast majority of households in the North Atlantic, then, would be alternative households, including married couples without children, single parents, single people, and unmarried couples. Thus, new consumers in the North Atlantic will be living in a greater variety of household settings and, as a result, will be having a greater variety of consumer desires and needs.

Growing Diversity

It is difficult to compare population diversity across the North Atlantic countries—finding a common definition is problematic. But it is worth trying, because growing diversity is often cited as an important factor in creating an increasingly global economy.

In the United States, diversity is usually measured in terms of race or ethnicity. In the European Union, diversity is most often measured by birthplace. Countries in Europe count the number of “foreigners” among their populations. (The roughly equivalent term in the United States is “foreign-born,” and these people are often recategorized by race or ethnicity.) But regardless of the measurement employed, the populations of the Other North Atlantic countries are becoming more diverse, as people move across European borders more easily, refugees seek peace and assistance, and many immigrants from across the world seek employment in developed nations.

Immigration is thus one of the key drivers of changes in population diversity. Throughout the 1980s and particularly in the early 1990s, immigration accelerated in many of the Other North Atlantic countries. The increase peaked in 1993, and in the following years, decreases in the inflows of immigrants were seen in countries such as France, Germany, and the United Kingdom. Since 1997, however, this trend has been reversed in some countries. Immigration flows currently are increasing in France, the Netherlands, Norway, and Sweden—with many immigrants attracted to the booming economies of the Nordic countries. The reversal is not widespread, however. The downward trend continues in Germany, for example.

These immigration trends are resulting in increasing levels of population diversity, measured in the share of the total population that is foreign-born. The average figure for foreign-born people across the Other North Atlantic countries is the same as it is in the United States, 10% of the total population (see Figure 43). However, the percentage in some countries is above this average. For example, Switzerland’s share of foreign-born population was 19% in 1997, and Canada’s stood at 17% in 1996 (see Table 8).

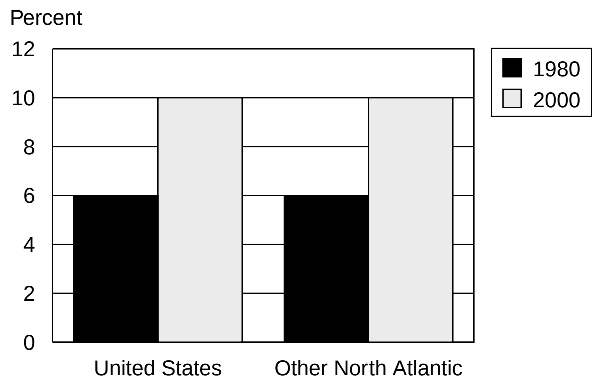
Forecast

As shown above, compounded annual rates of change in the number of foreign-born as a share of total population should continue to increase, but at a decreasing rate, putting the compounded annual rate at 1.5% across the North Atlantic (see Table 9 on page 66).

The percentage of foreign-born in all North Atlantic countries is expected to rise in the coming decade. However, the high annual compounded growth rates in levels of diversity of the 1980s and early 1990s have slowed to a more moderate pace. This moderate growth rate should continue during the first decade of the 21st century.

What will drive continued growth in diversity? In Canada, relaxed immigration policies will continue to facilitate the rise of immigrants, including wealthier business immigrants (see text box on page 67). By 2010, about one in five Canadian residents will be foreign-born. Also, the increasingly open immigration policy within the European Union will change demographic patterns, boosting levels of population diversity throughout the 15 member states. Finally, intractable ethnic conflicts in Africa, the Middle East, and the Baltic region will continue to drive immigration to the North Atlantic as families seek refuge from international political violence.

Figure 43
Diversity Rates on the Rise
(Foreigners or foreign-born as percentage of total population)



Source: Organisation for Economic Co-operation and Development, *Trends in International Migration,* 1999.

Table 8
Share of Foreign-Born Varies in Other North Atlantic Countries
(Foreigners or foreign-born as percentage of total population, 1997)

Switzerland	19
Canada	17*
Sweden	11
France	9
Germany	9
Norway	4
United Kingdom	4

*Canada data is for 1996.

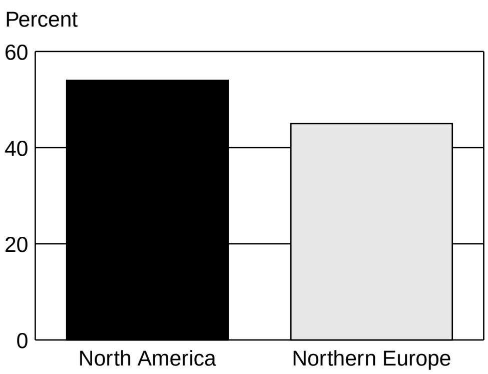
Source: Organisation for Economic Co-operation and Development, *Trends in International Migration,* 1999.

Table 9
Foreign-Born Populations Will Continue to Expand, But More Slowly
(Compounded annual rates of change in numbers of foreigners as a share of total population)

	1980–1990	*1990–2000*	*2000–2010*
United States	2.6	2.3	1.5
Other North Atlantic	2.9	1.9	1.5

Source: Institute for the Future; statistical abstracts of France, Germany, the Netherlands, Sweden, and the United States.

Figure 44
New Consumers Will Increase in Number on Both Sides of the Atlantic
(Percent of adults 25 and older who are new consumers, in 2010)



Source: Institute for the Future

New Consumers Expand Across the North Atlantic

Given the parallel arcs of demographic trends in the United States and the Other North Atlantic countries, it is clear that the new consumer is not just an American phenomenon. Indeed, the number of new consumers across the North Atlantic has grown significantly in the last two decades. By 2010, we expect the share of new consumers to be 45% of the population in Northern Europe and 54% in North America (see Figure 44).

Using existing and emerging technologies, new consumers on both sides of the Atlantic will continue to do everything they can to make consumption faster and easier. To meet these demands, companies are bringing products, processes, capital, innovations, and ideas across borders. In this way, new consumers have become sovereign transnational, supranational agents influencing the economies of every country in the North Atlantic—and the rest of the world.

Because the new consumer is likely to play an increasingly significant role in consumer spending throughout the North Atlantic, it behooves companies to tap into this increasingly large and lucrative market. Marketing strategies that reach the new consumers in the United States, for example, are likely to be successful in the North Atlantic—with sensitivity to cultural differences within and between countries, of course. Such strategies may provide a wider range of choices, such as customized products or service components embedded in products. Indeed, with the growth of the new consumer and increasing population diversity levels, national borders are falling, at least economically.

In the next decade, the new consumer will continue to transcend national sovereignty with purchasing power, and thus lead the way to a more truly global economy.

Implications: Look for Similarities and Partner on Differences

Several of the most important demographic and social trends in the United States also exist across the North Atlantic. Large multinational corporations must not only be sensitive to the differences within and between countries (e.g., cultural or class-based distinctions), but they must also recognize that there are similar trends or characteristics shared by many countries across the developed world. Strategies might include:

- *Addressing market fragmentation.* As U.S. companies learn to reach the growing number of consumer segments in the United States by means of one-to-one and interactive marketing, they ought to apply similar strategies to similar consumer segments in countries outside the United States.
- *Finding international partners.* U.S.-based multinational corporations need to understand the characteristics of other countries' consumers that are similar to those in the United States. They should partner with companies in the countries in question to obtain expertise on the characteristics of local cultures they know little about.

"Business" Immigration Soars in Canada

Canada's policy of entrepreneurial and business immigration has facilitated an increase in diversity levels there. As explained by the government's Citizenship and Immigration in Canada department: "Canada welcomes business immigrants who have the ability and resources to invest in or establish businesses in Canada. During 1998, business immigrants invested more than $437 million in Canada. Business immigrants, who represent nearly 8% of total immigrants, include investors, entrepreneurs and self-employed immigrants." As a result of these self-sustaining and money-generating immigrants, Canada has one of the largest foreign populations in the West. Canada's business immigrants have brought with them a level of investment and income for themselves and for Canada as a whole.

Source: www.cic.gc.ca/english/immigr/ibusiness-e.html

• *Tapping into common ethnic pockets.* Because the populations of the United States and the Other North Atlantic countries are growing more diverse, it might work for U.S. companies and organizations, for example, to reach out to groups of immigrants that the United States has in common with other countries. In this way, they won't be reinventing the wheel each time.

• *Traveling by Net.* On the Internet, physical cultural barriers tend to fall away, enabling corporations and other organizations to reach people they might not otherwise be able to access. Corporations should establish a local online presence as soon as possible. Cultural or legal barriers may exist, around the issues of privacy and commercial law, but businesses can work with the authorities in order to find acceptable win-win solutions.

—Mark Massoud

Changing Behaviors

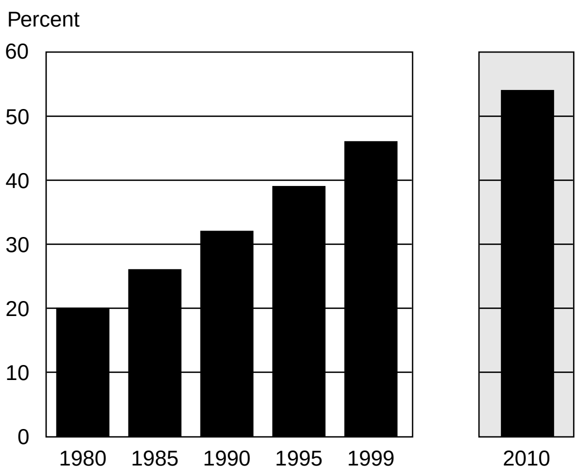
New Consumers: Using More Information More Effectively

The American consumer market is growing increasingly fragmented along the lines of sociodemographics. Clearly defined groups are arising based on education, income, and technology use, and each group has a slightly different approach to using information to make purchasing decisions. Perhaps most important for businesses is the rapidly expanding group we call the "new consumers"—that group set apart from traditional consumers by higher levels of education, larger incomes, and greater access to technology.

Indeed, we have found that the key demographic characteristics that define the new consumer affect the way people gather, process, and analyze information about products and services. For consumers, these characteristics also determine the relative importance of different types of information. The way businesses respond to how consumers use this information—that is, the way businesses conduct their business–customer relationships—will be the key to differentiating themselves from their competitors in the 21st-century marketplace.

Since the new consumer group—defined as people who have some college education, live in a household with at least $50,000 of income, and have regular access to a PC—is growing about five times as fast as the general population and accounts for nearly half of all adults in the United States, any changes in the way new consumers use information will be especially critical for businesses (see Figure 45).

Figure 45
Rapid Growth of New Consumers
(Percent of all adults)



Source: Institute for the Future

In our long-term study, we have found that new consumers exhibit the following characteristics:

- They are heavy users of information.
- They regard information they actively pursue as more important than information they receive passively.
- They like their information gathering to be interactive.
- They experiment more with new products.
- They use information as an agent of change.

About the Survey Data

The data cited here was gathered in a series of surveys of the U.S. adult population conducted by IFTF over the past four years. These surveys focus on how consumers use information to make purchasing decisions. Since we have found high correlations of behaviors across groups defined by income, education, and technology access, we use proxies of income and education almost interchangeably in exploring the attitude and behavior changes of new consumers.

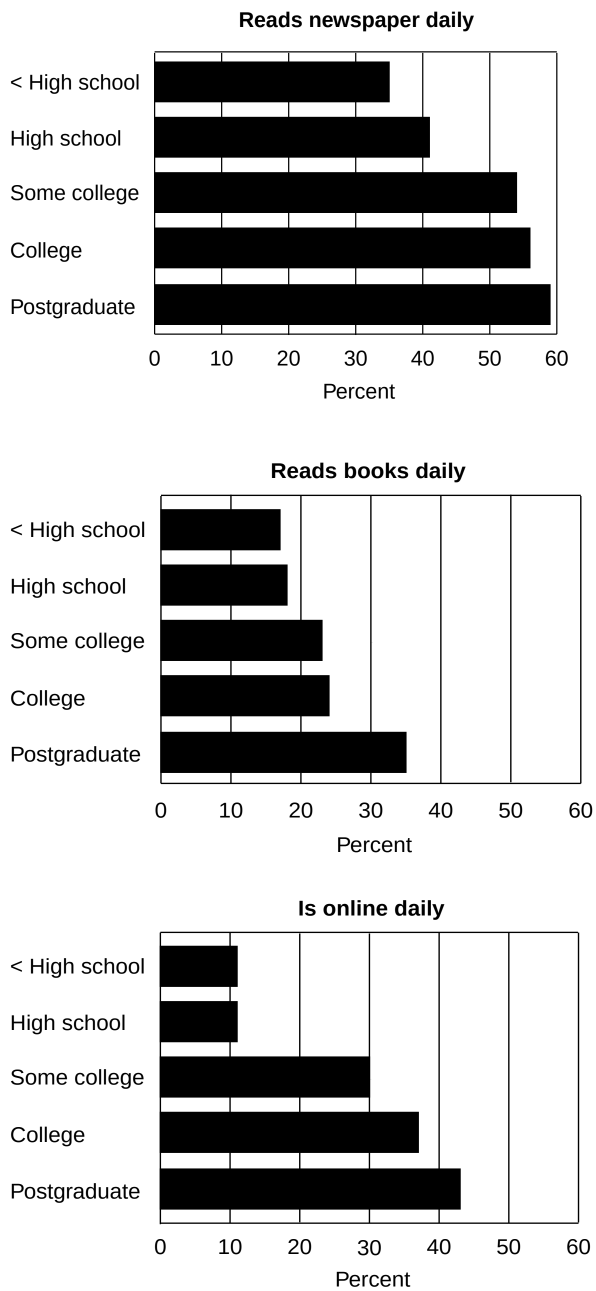
Using Information More Intensively

In making decisions about what to buy, new consumers use more information than other consumers. They prefer information tailored to their needs. They like a wide range of choice. And they find information they pursue actively more useful than other types of information. New consumers see information as a powerful tool for making smart purchases and improving their lives.

New Consumers Search for More Information

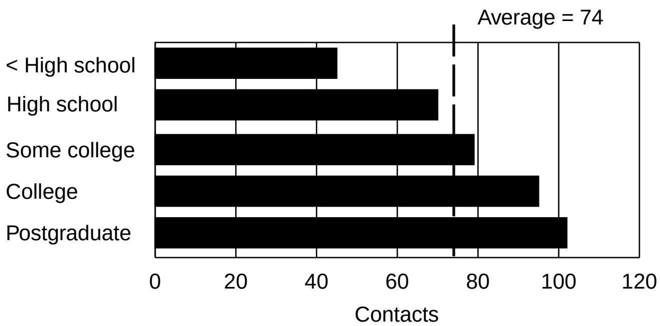
New consumers are heavy users of information. Our studies show that consumers with higher levels of education or income gather information from a greater variety of channels, including both traditional media and emerging channels such as the Internet and mobile devices. And new consumers use more of these channels more frequently than traditional consumers do. By definition, they are much more likely to go online on a regular basis, for example, but they are also much more likely to use a variety of new and older communications channels more frequently as well—to listen to the radio, to read a daily newspaper, or to read books regularly (see Figure 46).

Figure 46
New Consumers Use Information Channels More Frequently
(Percent of each group that …)



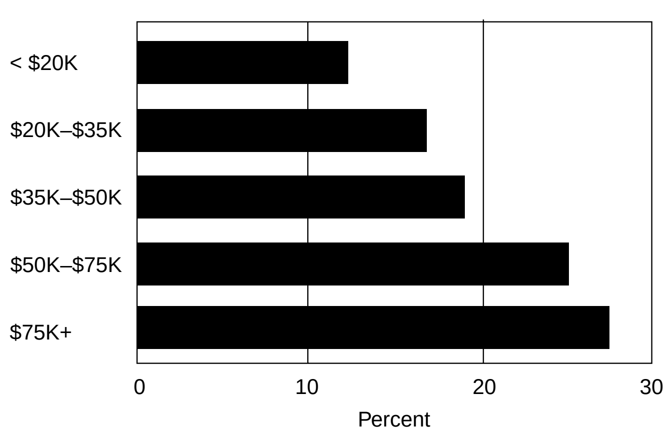
Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

Figure 47
New Consumers Have the Most Contacts
(Consumers' recollection of the number of discrete commercial communications received each month by mail, Web visits, telephone, or store inquiries, by education)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Survey, 1999.

Figure 48
Information Searching Increases with Income
(Percent that searches for information in four or more channels before making a major purchasing decision, by income)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Survey, 1999.

Because many of these channels—newspapers and magazines, radio, Web sites, stores, mail, and catalogs—provide ads or other product or service information, new consumers are likely to be inundated with myriad advertising messages. Indeed, this is the case. New consumers get many more discrete messages from businesses each month than other consumers (see Figure 47).

New consumers put this information to good use. They consult commercial information from a greater variety of channels, especially for major purchases. Our surveys indicate that new consumers are about twice as likely as other consumers to gather information from at least four different channels before they make major buying decisions (see Figure 48).

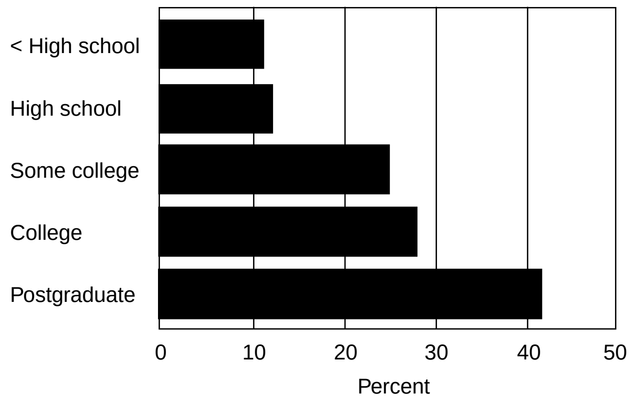
New Consumers Initiate Contact for Information

New consumers aren't just passive receptors of information; they go out and look for information themselves. In addition, they also put much more credence in information for which they initiate the inquiry. When we asked consumers about their most important information sources when they want to buy something, a much higher portion of new consumers identified sources they initiated (e.g., by examining magazine articles comparing products, by telephoning for particular information, or by conducting a Web search) rather than ads they received in a more passive format (e.g., seeing a TV or newspaper ad, coming across an item in the store, or receiving a telephone solicitation or an ad in the mail) (see Figure 49).

New Consumers Like Information That Is Personal and Interactive

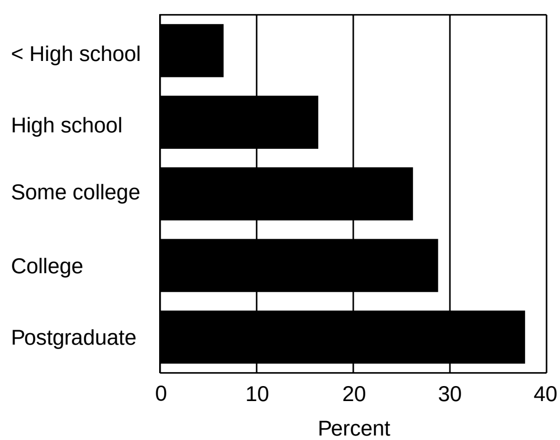
More useful even than information new consumers gather themselves is information they find in an interactive setting, such as talking to a salesperson in a showroom or on the phone (the traditional ways), or exchanging information by e-mail or online chat. In the future, these interactions may include using interactive TV and radio to get answers that are tailored to their most important questions. Indeed, new consumers are much more likely to say that information they have gathered in an interactive format—where their questions are responded to immediately—is much more valuable than any other type in making their final decision (see Figure 50). This is particularly true as they reach the final stages of a decision, where a critical bit of information may push them one way or another.

Figure 49
New Consumers Find Information They Ask for Valuable
(Percent who find that the information they ask for is the most useful in making their final purchasing decision, by education)



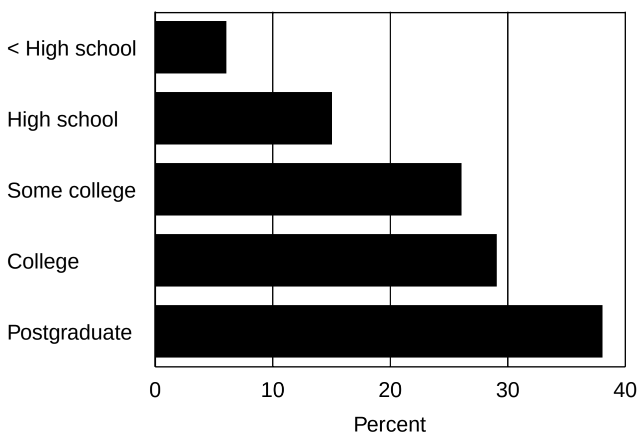
Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Survey, 1999.

Figure 50
New Consumers Are Much More Likely to Prefer Information to Be Interactive
(Percent who prefer information to be personalized, by education)



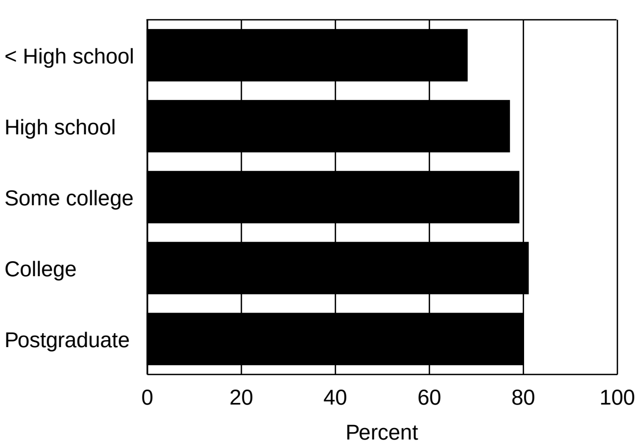
Source: Institute for the Future/Princeton Survey Research Associates, U.S. Household Survey, 1999.

Figure 51
New Consumers Prefer Information that Allows Product Comparisons
(Percent who find information gathered from sources that allow perusal of multiple products most useful)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1999.

Figure 52
Educated More Likely to Try New Products
(Percent who say they try a new brand on a typical grocery shopping trip)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

New Consumers Look for Comparisons

New consumers also prefer information that allows them to make product comparisons. When asked which was the most valuable type of information they received before making a purchasing decision, new consumers were four or five times more likely to identify sources that allowed them to compare two or more products at the same time (see Figure 51).

New Consumers Experiment

New consumers are more likely than other consumers to use their greater access to information to experiment with new products, especially with items for daily use. In a typical visit to a grocery store, for example, people with higher levels of education are more likely to try new brands or products (see Figure 52).

Information Is a Change Agent for New Consumers

The responses of new consumers to our surveys clearly suggest that they use information to make important decisions. One of the most obvious examples of this is in their selection of new products. When they decide to switch brands of food products, for example, new consumers are much more likely to utilize the nutritional information on the product to help determine their decision (see Figure 53).

New consumers don't just use any type of information—they seem to prefer very sophisticated sources, especially in matters of importance. When making choices about health care, for example, new consumers—especially those with the highest levels of education—are much more likely than other consumers to identify medical reference books or medical journals as the best sources of information (aside from the doctors) (see Figure 54).

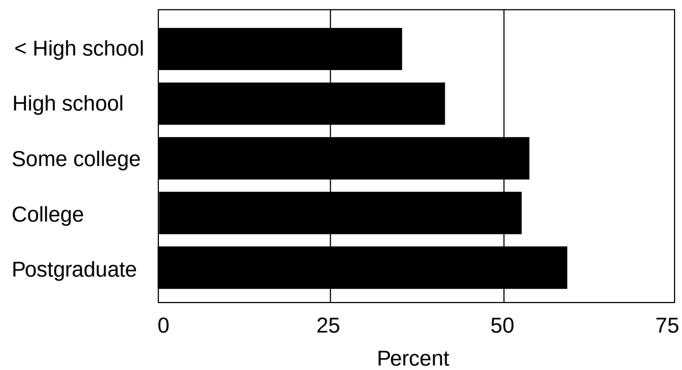
The Forecast

The ways new consumers use and value information are very dynamic—they are constantly evolving and changing from year to year, especially as new consumers experiment and increase their use of the new channels of communication. This makes forecasting difficult; nonetheless, we can offer basic observations about the likely evolution of the behavior of new consumers in the next decade.

First, some background. The amount businesses are spending on communicating with consumers has been growing rapidly in the last few years, and businesses seem committed to continuing to increase spending on customer communications as a share of total spending. Digital formats have dramatically increased the number of channels businesses have at their disposal and the number of messages they can send through these channels. As a result, consumers are getting exposed to more and more commercial information. You'd think that at some point the number of messages would reach saturation point. There's a parallel trend, however, preventing such saturation. New consumers have become much more directly involved in deciding what type of information is useful to them in the purchasing process. The more choice they have, the more they like it, as long as they can find relevance in the choices. Indeed, they are beginning to settle for no less.

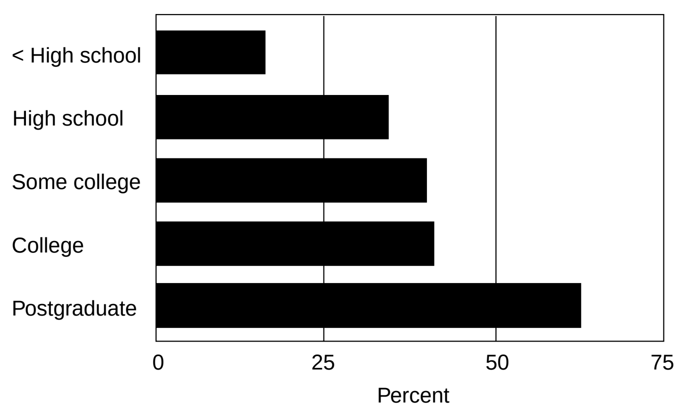
While no consumers act the same way each time they buy something, we have clear evidence that as income and education rise new consumers are more likely to use product and service information in ways that increase their choice, control, convenience, and accessibility to the products and services they want.

Figure 53
Information Is an Agent of Change
(Percent of new consumers who "almost always look at nutritional information before trying a new brand")



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

Figure 54
New Consumers Prefer Sophisticated Information
(Percent who prefer "medical reference books and journals" as best sources)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

We also know that the number of new consumers will grow very rapidly in the future. We have made the simple assumption that the population will continue to include people with some of the same sociodemographic characteristics as new consumers—and they will tend to use commercial information in ways similar to today's new consumers. This means that the total number of people acting like today's new consumer will grow dramatically in the coming decade. Indeed, soon the "new consumer" will simply be the "consumer."

Today's new consumers are also likely to learn from experience in the marketplace, and to continue to look for new ways to use the types of information most valuable to them. We expect them to continue experimenting with information to find ways to use it in their best interests.

Our best forecast, then, is that:

- The number of new consumers will grow dramatically, reaching almost 55% of the total adult population in 2010.
- More new consumers will find ways to increase their use of commercial information in their own interests.
- New consumers will use new channels to find what they want, new technologies to help them find these things more quickly and efficiently, and emerging agents, electronic and human, to help them sort through more of the information even more quickly.
- More new consumers will demand better information before they commit to a purchase or a service relationship.

We have seen only the tip of the iceberg of the new consumer phenomenon. In years to come, there will be more people and a greater share of the population who act the way new consumers act today.

What Does It Mean?

The new consumer phenomenon is with us to stay. What does it mean that an increasing share of people will use information in an increasingly sophisticated way to further their own interests? In more and more of their commercial decisions, new consumers will:

- Use more information from a greater variety of sources for decisions about products. These sources will include traditional channels like television and newspapers, leading-edge technologies like the Internet and both interactive TV and radio, and text-based responses transmitted to mobile devices.
- Value information more when they take the initiative to gather it. In other words, new consumers are more likely to value information they ask for and less likely to be susceptible to mass-marketing strategies that they passively receive through traditional media.
- Prefer information sources that can give them a direct and immediate response to inquiries. These sources will range from the salesperson on the showroom floor to customer-service representatives on the phone, chat rooms, interactive Web sites, and interactive TV.
- Express a strong preference for comparison data. New consumers will use the analytical skills they picked up in college to interpret the data of the different products they are considering. Confident in their own

analytical abilities, they won't want to be told what to buy; more often, they'll want to figure it out for themselves.

• Experiment with new products and services. New consumers never will be fully satisfied; they always will be looking for products and services that are of higher quality and more cost-effective.

• View information as a tool that can better their lives, and increasingly prefer better, more sophisticated information. The effective use and understanding of information creates knowledge, and knowledge is power for the new consumers—power in the marketplace and power to take control of their own lives.

Remember, however, that the group of new consumers is not monolithic—they don't act one way all the time. What our analysis suggests is that the higher the levels of education and income, the greater the likelihood that "new consumer" behaviors will be brought to bear on some aspect of the purchasing cycle. Consumers may act this way only for certain items, or at certain times—perhaps only when buying new items, for example. What is clear, however, is that businesses will encounter an increasing number of consumers who will use information as a key tool in achieving their own goals.

As a result, any businesses that deal with consumers on a regular basis need to take into account the varied behaviors of this new information-savvy consumer. They need to be able to respond efficiently and effectively to this thirst for information and interaction, even if in many cases consumers don't ask for it specifically (though these sophisticated consumers increasingly will know what to ask for and how to ask for it). Companies need to be able to provide high-quality information when and where the consumer wants it, in at least some of the following ways.

• *Traditional print media.* Magazines, newspapers, brochures, catalogs, and direct mail are still the most effective channels for presenting detailed, "introductory" information that consumers can go through at their leisure.

What is clear, however, is that businesses will encounter an increasing number of consumers who will use information as a key tool in achieving their own goals.

• *Real-time contact.* Mobile consumers are demanding more options for real-time information, such as stock updates, sports scores, travel schedules, and restaurant reviews, delivered to cellular phones, pagers, and PDAs. There's no reason that such channels can't be used for passing along product information in real time.

• *Interactive information.* Giving consumers the ability to interact with a live person, whether in a store, on the phone, through e-mail, or by online chat, will be a critical means of getting information to consumers when they most need it—at the point when they are about to make their decision.

• *Tailored offerings.* Because of their affluence and education, new consumers are likely to be highly self-confident. They will know what they want, and they won't want to be treated just like everyone else. In response, businesses will need to learn the individual preferences of each consumer—what channels they prefer, when they access those channels, and what types of products and services are relevant at a particular time. In practice, businesses will have to invest in database technology, vary the channels they use, differentiate the content of their messages, tailor responses to individual needs and preferences, spend more time in interactions, and allow room to experiment. This ability to target and individualize information will be critical to success. If companies can't do it on their own, they will have to partner with third parties such as electronic agents and buyers' publications.

The key for businesses trying to woo the new consumers will be to meet them where they live; that is, they must respect the sophistication of the new consumers and give them the opportunity to browse, shop, and experiment at will. Without pushing information on new consumers in the form of mass marketing, businesses must have any and all types of information available to them at any time they want it. To accomplish this, businesses must establish open, adaptable business models, with a customer-service apparatus that is nimble and knowledgeable. To treat the new consumers as just another part of the traditional mass market will be to alienate a highly desirable—and affluent—share of the marketplace.

—Gregory Schmid

Customer Relationships: The Evolution of the Value Exchange

The consumer marketplace is coming full circle—from the corner store of yesteryear to the industrialized mass market, and now back to the high-tech version of the corner store, enabled by the Internet and database technologies. It's not that companies are shrinking. Rather, large corporations and dot-com start-ups alike are striving to create the *feel* of the corner store, where successful storekeepers knew their customers by name, remembered standing orders and preferences by heart, and kept a running tab for their best customers on good faith. Indeed, in those days the quality and depth—the value exchange—of these customer relationships could make or break a local business. It is these relationships that today's companies are trying to emulate.

At the heart of the value exchange in the business–consumer relationship is information. The customer lets the shopkeeper know what she wants both directly, by telling him, and indirectly, by past behaviors and purchases. To keep the customer coming back, the shopkeeper makes sure she gets what she wants with a minimum of fuss, and also lets her know about other things that might be useful. She pays him for the goods—and the service; that is, good information. The value exchange goes both ways.

In the 21st century, of course, it's not that simple. Consumers are busier and more distracted than ever. Women, especially, who make most of the household buying decisions, are managing more activities at work and at home, placing themselves under greater time pressures and stress. At the same time, they are inundated with a host of information from a myriad of channels, old and new—newspapers, radio, broadcast and cable TV, direct mail, and the Internet. Armed with such information, consumers are taking control of the marketplace. But they also face information overload, and it becomes harder and harder to distinguish good information from bad.

To deal with the pressures of information overload, consumers are developing coping strategies—toolkits of helpful technologies, trusted resources, and social networks that help them sort through the reams of information they require to meet the complex needs of modern households. Increasingly important tools in the toolkit are personalized relationships with providers of goods and services—in other words, the traditional customer–storekeeper relationship. When the customers trust the providers to give them good information, they can cut through a mass of extraneous noise, thereby simplifying the shopping experience—as well as their lives.

The challenge for businesses—which face their own problems competing for the attention of these overloaded consumers in a rapidly expanding global economy, where anybody with a laptop and a server can get a start-up going, and companies from all over the world are crossing borders—is to become an instrumental part of that toolkit. Businesses must earn consumers' trust and become their partners in negotiating the demands of the information age. The only way to do this is by enhancing the value exchange of the business–consumer relationship. Already, we are seeing new technology-enabled, information-based relationships emerging all along an increasingly diverse spectrum of business-to-consumer interactions.

Businesses Need Deeper Customer Relationships to Survive

The availability of more information through more channels and an increasing diversity of choices in products and services have shifted control in the marketplace to consumers. Consumers can now access almost anything they want to know about a business, from product specs to corporate earnings, simply by logging on to the Internet or picking up the latest business magazine. Businesses, for their part, are struggling to learn how to leverage the transactional data consumers leave behind and to persuade them to provide even more personal data voluntarily. Winning a consumer's trust is essential, since, to make inroads in the New Economy, businesses must rely on the quality of information customers are willing to give out. Ultimately, consumers hold the big sticks—

their trust and loyalty. If companies can't earn that trust and loyalty, consumers won't share personal information. If businesses don't get that personal information, they've lost an important tool for retaining good customers.

Unfortunately, the decline in customer loyalty is well documented in the business press. Most estimates maintain that consumer-oriented companies today can expect to lose nearly 50% of their customers every five years. In his book *The Loyalty Effect*, Frederick Reichheld argues that such an erosion of loyalty results in decreased corporate performance, shrinking margins, and smaller profits. Moreover, decreased loyalty translates into decreasing customer satisfaction, which has also been well documented in the business press. According to the University of Michigan's American Customer Satisfaction Index, overall customer satisfaction is down in every sector of the economy since the index began measuring it in 1994 (see Table 10).

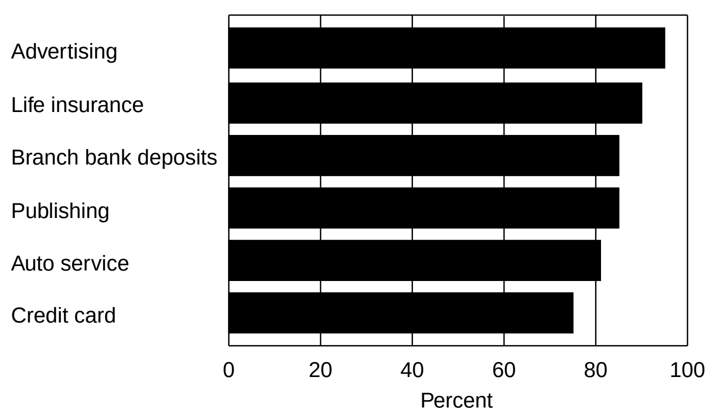
As trust and satisfaction decrease, so does consumer retention, which hits the companies where it hurts—at the bottom line. Analysts argue that a 5% increase in customer retention can increase profits by as much as 85% in financial services organizations and 30% in retail organizations. Reichheld maintains that incremental increases in customer retention can have significant impacts on a company's margins. He asserts that a company, if it holds on to and retains an additional 5% of its customers each year, can dramatically increase the total profits generated over the life of a typical customer relationship. For example, Reichheld estimates that publishers can increase the total lifetime profits of a customer by 85% by increasing customer retention by a mere 5% (see Figure 55).

Table 10
Decreasing Customer Satisfaction Across Many Consumer-Oriented Industries

	1994	*2000*	*Percent Change*
Airlines	72	63	-12.5
Banks	74	68	-8.1
Stores	77	72	-6.5
Hotels	75	72	-4.0
Personal computers	78	74	-5.1

Source: University of Michigan, American Customer Satisfaction Index, Industry Scores, 1994–2000.

Figure 55
Impact of a 5% Increase in Retention Rate on Customer Net Present Value
(Percentage increase in customer net present value, by industry)



Source: Frederick Reichheld. *The Loyalty Effect.* Boston, Massachusetts: Harvard Business School Press, 1996.

How can businesses work to forestall this decreasing loyalty, retain their customers, and keep up their revenues? By making it harder for customers to leave—that is, by improving and deepening the business–consumer relationship.

The Basis of a Relationship Between Businesses and Consumers

At its core, a business–consumer relationship is like any other relationship. To understand how to build customer relationships, then, it is important to understand the dynamics of relationship building in general.

Boiled down to its essence, a relationship is a mutual exchange of benefits. People choose relationships as they might a long-term investment—to maximize return and minimize losses. Under these terms, a relationship isn't entered into once and for all. People continually assess the status of a relationship by measuring their returns and losses, comparing them with alternatives, and evaluating the potential downside if the relationship should end—by shopping around, in other words.

For personal relationships, this works at an intrinsic level. The more intrinsic rewards another person provides (e.g., attraction, love, or companionship) and the fewer the costs (e.g., time and effort, compromises, or giving up other opportunities to continue the relationship), the more likely the relationship is to endure. Another way to look at it is that the greater investment a person makes in the relationship (e.g., emotions, money, or time), the more unlikely it is that he or she will end the relationship.

The business–consumer relationship has much the same dynamics, but the rewards are more extrinsic. Indeed, the traditional relationship between businesses and consumers rests on the exchange of money for goods and services. While this monetary exchange is still at the heart of commercial relationships, of course, the nature of today's business–consumer value exchange is growing far more complex. On one hand, fragmenting communication channels, anytime-anyplace sales and transactions, and a vast number of choices in the marketplace are making it more difficult than ever for businesses to communicate effectively with consumers. On the other hand, sophisticated consumers expect a much higher quality of goods and services adapted to their individual needs.

In the New Economy, with its innumerable possibilities for business–consumer exchanges, it is no longer enough to rely on the simple exchange of money for goods and services to maintain consumer loyalty and to keep the relationship going. What can keep a business–consumer relationship going for the long term? Information. High-quality information.

Information has emerged as the newest form of currency in continually evolving business-to-consumer exchanges (see Figure 56). Businesses need information from their customers to sell products and services effectively, to differentiate themselves from competitors, and to provide added value. Customers need information about businesses to make the best purchases and to manage their households more efficiently. The more information the two parties exchange on an ongoing basis, the more opportunity they have to deepen their relationship—to make it last.

How Relationships Are Built and Maintained

Many businesses are trying to establish long-term customer relationships as a means of improving performance and increasing profitability. However, such relationships are not forged in a vacuum. Businesses must understand their position within the network of relationships—both commercial and social—their customers maintain with a wide range of other businesses, organizations, and individuals. This network is made up of a variety of interdependent relationships at different stages along a spectrum, ranging from informal encounters to long-term associations, all of which fulfill particular needs.

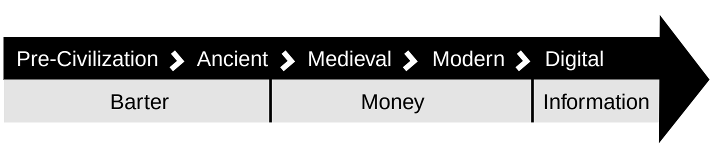
Understanding the Spectrum of Relationships

One popular psychological framework for understanding relationships is Bernard Murstein's Stimulus-Value-Role Theory. Murstein suggests that relationships progress through three stages—stimulus, value, and role—with each stage characterized by increasing trust and an increasing intensity of interactions (i.e., more interactions lead to more developed relationships).

Figure 57, on page 86, illustrates the types of relationships along the spectrum, from random encounters to lifelong relationships with spouses, family, and close friends.

Within this framework, Murstein describes three different outcomes at each of the stages: attraction, attachment, and commitment. In the first stage, external stimuli, such as physical appearance, attract two people to each other. In the second stage, the basis for the relationship shifts from external to internal attributes, such as shared values and beliefs. Once the two parties realize they share these attributes, they form an attachment to one another. The third stage emphasizes the importance of relationship roles. Commitment or loyalty is predicated on the successful, ongoing performance of a role or a function

Figure 56
The Evolution of the Business-to-Consumer Relationship Exchange



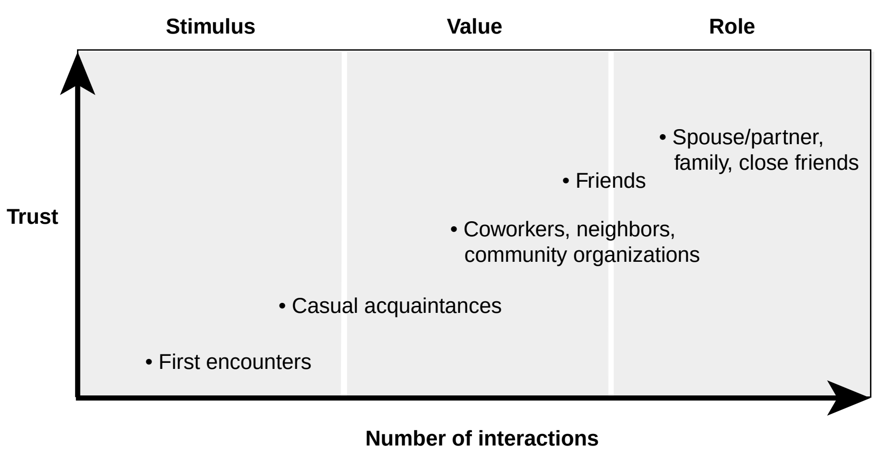
Source: Institute for the Future

within the relationship. For example, a man might consider a good friend to be someone who stands by him in difficult situations. If that friend fails to stand by him, he has not met the relationship's expectations and, in most cases, will no longer enjoy the same level of friendship. As people move up the scale of relationships, they invest more of themselves and derive more value from the exchange.

Although this model was designed to describe personal relationships, it is useful for understanding business–consumer relationships as well. We have identified five stages of business-to-consumer interactions that can be superimposed on Murstein's relationship map (see Table 11). At each stage, businesses and consumers have the opportunity to deepen the relationship by investing more of themselves in the relationship—giving out more information—thereby increasing the value exchange and moving up the scale.

We have mapped these categories onto Murstein's relationship stages to help clarify the function of business-to-consumer inter-

Figure 57
Spectrum of Personal Relationships



Source: Institute for the Future

Table 11
The Five Stages of Business-to-Consumer Relationships

Type of Relationship	Interaction	Relationship Value
Mass Customer Examples: • Bank of America • Coca-Cola • Levi's • Procter & Gamble	Initial contact based on mass advertising, broadcast media, brand awareness campaigns, and so on.	A simple exchange of money for goods and services, with no promise of continuation. For example, buying soda or toothpaste.
Customer Profile-based Example: • Bass Hotels (Holiday Inn)	Profile developed based on demographic information collected from or provided by the customer (e.g., address, or income).	Exchange of money for goods and services that match needs associated with particular customer demographic profiles. For example, a broker sending marketing materials to households above a certain income.
Targeted and Relevant Examples: • Coolsavings.com • Respond.com	Targeted and relevant information provided in response to individual customer data (e.g., transaction data, store visits, or response to advertisement) or personal information provided by the customer (e.g., preferences or likes and dislikes).	Exchange of information for improved customer value derived from relevant information received when and where needed. For example, grocery delivery services reminding a client to buy margarine because he is about to run out.
Customized Product and Service Relationships Examples: • American Airlines • Dell • Yahoo!	Targeted and customized products and services tailored to individual needs and specifications provided by the customer (i.e., mass customization).	Exchange of information for increased customer value derived from goods and services tailored to individual needs. For example, designing a car from scratch.
Comprehensive Information Examples: • American Express • Concierge services	High level of personalized service that responds to individual consumer needs across multiple purchase categories, providing a range of product choices tailored to individual needs.	Exchange of information for increased customer value derived from personalized service that can fulfill individual needs across multiple categories of purchases. For example, a personal assistance service that reminds a man about his wife's birthday, then researches and buys the perfect present and makes reservations at the best restaurant in town.

Source: Institute for the Future

actions in the relationship-building process (see Figure 58).

Scaling the Relationship Spectrum

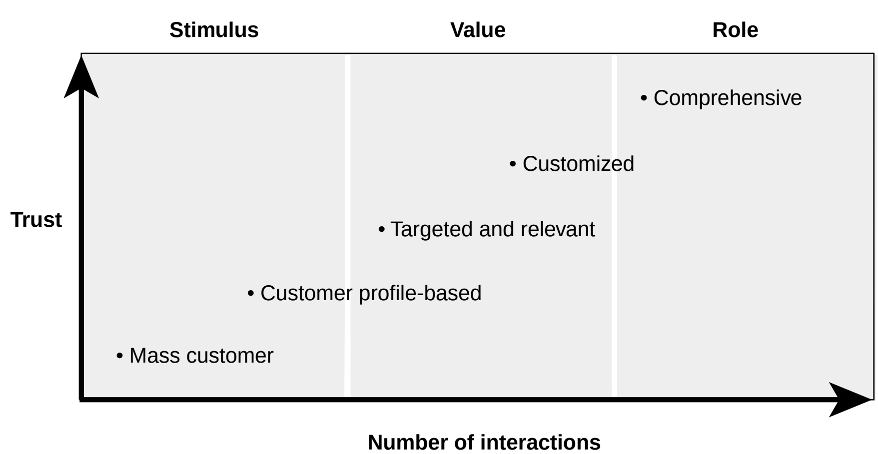
We don't mean to imply that all companies should strive to take all their relationships with consumers to the level of comprehensive information relationships. That simply wouldn't be cost-effective, since each step up the scale becomes more expensive in its requirements for individualized, hands-on services. In fact, for many commodity products—soft drinks, toothpaste, or garbage bags—the mass-market approach is still the most cost-effective. What we do suggest is that companies are already engaged in some form of relationship with their customers. Thus, this map can be useful for two purposes: (1) to help determine the type of relationship that makes sense for particular products or services; and (2) to sketch out a way of taking opportunities to deepen those relationships. As the New Economy shifts more power into the hands of the consumers, companies will do well to learn how to earn the trust and commitment of their customers by understanding the complexities of relationship building at each level.

Attracting the Mass Customer

Just as in the realm of personal relationships, where first impressions determine whether or not a relationship between two individuals gets past the first "hello," the first impression businesses make on consumers is likely to determine whether or not they will become paying customers. Advertising, promotions, brand-awareness messages, and so forth serve to shape consumers' first perceptions about a company, product, or service.

Many companies find that there is a long way between that first contact with consumers, even if it is favorable, and retaining them as loyal customers. Consumer product firms

Figure 58
Spectrum of Business-to-Consumer Relationships



Source: Institute for the Future

like Coca-Cola and Procter & Gamble, and clothing manufacturers like Levi's, have written the book on building brand loyalty in the mass market. They do so by continually reinforcing their brand relationship with the consumer by being the most attractive product at the point of purchase.

Product manufacturers like Coca-Cola go where their customers are, so in addition to the usual places like grocery stores and restaurants, Coca-Cola positions vending machines anywhere someone might get thirsty—train stations, amusement parks, and parking garages. Similarly, consumer banks like Bank of America are placing ATMs in more accessible locations, such as grocery stores, malls, and restaurants. This approach reinforces the *mass customer relationship* by literally being there for the consumer—attracting the customer at the place and time they are most likely to need or want the product.

Building a Customer Profile

As many companies are finding out, attracting customers to look at their products or services and earning their loyalty are not the same thing. Enticing new customers with attractive discounts and promotions, for example, does not create loyalty in and of itself, as many online companies have learned to their regret. In focus groups with online shoppers, many consumers reported that they were willing to try out a new online service because of an attractive promotional offer, but most also noted that they did not return to make another purchase unless similar discounts were offered again. In one of our focus groups, one consumer indicated that he was unlikely to buy vitamins online unless there was a huge financial incentive, since he had no real need for the product (see quote).

Thus, if a company's objective is to build loyal relationships, investing money in attracting just *any* customer with a discount or promotion can prove to be costly. A better approach is to go after a smaller group of targeted, qualified leads that will find real value in the company's product or service. Many companies are using technology to build detailed customer profiles in order to target product and service offerings more effectively. Databases and tracking technologies on the Internet allow companies to track individual consumers' transactions and behaviors, for example, and to identify groups of consumers likely to be interested in a particular offer.

"The only reason I bought the stuff—it was free! Twenty-five dollars off your first purchase and $20 off your other purchase. I wouldn't have bought it if it wasn't free. [*Will you go back to them?*] If they give me something for free, sure. [*Would you go back and pay for the vitamins?*] Their prices were pretty good. But I didn't even need them."

—Single male new consumer, early 30s

Indeed, many companies are beginning to realize that they can reduce advertising costs and improve response rates significantly by targeting the right customers. Bass Hotels & Resorts (owners of international chains such as Holiday Inn and Inter-Continental hotels) collects detailed information about response rates to its promotions. By sending promotional deals to only those consumers who have responded in the past, the company has reduced its mailing costs by 50% and increased response rates by 20%. These *customer pro-*

file–based relationships take advantage of information about consumers to attract the customers who will find the most value in the company's products and services.

Providing Targeted and Relevant Offerings

In order to deepen a relationship—to take the next step in developing trust and loyalty—the parties must establish a foundation of shared values. In personal relationships, individuals seek out other people, groups, and communities with similar interests, such as sports, hobbies, or fine arts, or those who live in the same neighborhood or work for the same employer.

This is the critical "getting to know you" stage, where interactions revolve around information exchanges that allow people to understand what the others want out of the relationship—their values, needs, preferences, and so on. Similarly, for businesses to successfully reach this point in their customer relationships, they must engage in an interactive exchange of information with their customers. One consumer commented in our focus groups that in order for a home grocery delivery service to be really valuable, the service needed to spend time getting to know her. In turn, the grocery service provider would gain access to valuable information about her service needs, her schedule, and product preferences (see quote).

Other companies offer valuable benefits in exchange for a consumer's personal information, especially on the Internet. Companies like Coolsavings.com and Respond.com are leveraging the interactivity of the Internet to engage consumers in a dialogue about their preferences.

Coolsavings offers consumers valuable information and discounts based on a consumer's stated interests and needs. Whenever a consumer is interested in making a purchase, she can go to Coolsavings for a coupon or promotional information in exchange for information about her interests. Likewise, Respond provides a tailored shopping service to consumers willing to share their needs and preferences with them. In exchange, Respond provides a list of companies that offer the desired product.

Most consumers maintain numerous *targeted and relevant relationships* with a variety of different businesses for different aspects of life (e.g., financial, professional, or familial). However, the depth and breadth of relationships can vary significantly at this stage and do not necessarily imply extended loyalty to any one person or provider.

"I think I would like [the grocery delivery service] to give me a trial offer, you know, before I had to commit to anything—so that they would know my schedule ... that I didn't get home until 7:00 and I left the house at 8:00. I'd have to get used to it. I would want it on a trial basis without anybody getting annoyed because you didn't do this or you didn't do that—maybe 30 days.... And then you could work out the kinks in it, and then you could both have a good relationship. You could get what you need, when you needed it."

—Divorced female new consumer, late 50s

Customizing for Enhanced Value

Companies that can engage customers in an information exchange and utilize that information to respond with products and services tailored to their specifications will move even further up the relationship scale. For instance, many consumers get information from a variety of news providers. Online portals customize information and news to the user's interests, such as Yahoo! does through MyYahoo!. Other news services like CNN and the *Wall Street Journal* gather stories based on users' preferences and e-mail their subscribers targeted and relevant headlines every day.

Airline frequent-flier programs are another example of how a company can build customized relationships by translating information *about* the customer into increased value *for* the customer. Tracking information about frequent fliers allows companies like American Airlines and United to accommodate the preferences of their most valuable customers by offering them their preferred seating and meals, as well as priority for upgrades. Moreover, these companies can offer a much more customized experience by tracking information like whether or not a customer puts his eye shades on to go to sleep or if a customer is tall and needs extra leg room. Product manufacturers are also organizing to respond to the needs of individual consumers with customized products. For instance, Dell allows customers to customize their PC configurations to their individual specifications. Similarly, Acumins produces vitamins formulated for the specific health needs of individual consumers. And the day is coming when consumers will be able to design their own cars from scratch.

Other companies are following suit. In our focus groups, one woman described how Amazon has been successful at winning her repeat business by providing valuable information that responds to her interests (see quote).

These *customized relationships* are beginning to establish that level of trust that is becoming all-important for success in the New Economy.

"Well, I have my favorite authors. And with Amazon.com I am on some kind of deal where every time the author that I like comes up with a new book, they e-mail me and let me know…. Which is kind of neat. So I have gone back to [Amazon] a couple of times because of that."

—Married female new consumer, late 40s

Investing in Customer Information to Meet (and Exceed) Expectations

To reach the top of the business–consumer relationship scale, both parties must continually fulfill the expectations of the roles they've set up for each other. For the company, this means anticipating and meeting the customer's needs and expectations. For the customer, it means consistently returning to the company as a loyal customer. This type of relationship can't exist without the fulfillment of these mutual obligations. If either side fails to fulfill the expectations of the role, then the relationship slips back down the scale. For example, if the company leaves the consumer in the lurch, or the consumers go to other companies even once they get the highest level of service from the first company, then the relationship is damaged.

At this ultimate stage of the business–consumer relationship, companies can leverage their deep knowledge of a consumer built up through ongoing interactions. This base of information allows companies to respond to consumers with a high level of personalized service to meet a diverse set of consumer needs.

There are many ongoing experiments in developing relationship-focused business models to serve this profitable and exclusive niche. Several companies are offering “agent” services, both electronic and human, which play the role of “personal assistant.” Essentially, they help time-starved consumers take care of errands and chores they can’t seem to fit into their busy schedules. Many credit card companies like American Express and First Union offer their most valuable customers a concierge service that can gather information or get any product from anywhere in the world. Moreover, businesses like Charles Schwab and 3Com are offering their employees concierge services as a benefit, in recognition of the increasingly delicate home–work balance today’s knowledge workers are struggling to maintain. Circles.com and VIPdesk, for example, can help with everything from household chores (e.g., cleaning, grocery shopping, or dry-cleaning) to event planning (e.g., obtaining tickets to a concert or planning an anniversary dinner). (For more information about these services, see the article, “The Future of Agents.”)

For other companies, reaching the pinnacle of the relationship scale means leveraging valuable customer information about preferences and needs to expand the scope of their current services, becoming an invaluable resource across categories. Companies like Nordstrom are well positioned to build on their reputation for high-touch customer service and to provide an expanded array of product and service offerings to their loyal customers. For instance, Nordstrom’s personal shoppers can become the agents for customers, providing diverse services other than shopping, like travel and event planning. Similarly, online players like Amazon and Webvan are forging partnerships with a network of other product and service providers in order to expand their offerings from books and groceries, respectively, to electronics, toys, and so forth.

The Forecast for 2010

Building, maintaining, and deepening customer relationships—that is, moving up the relationship scale—requires substantial investment. A critical factor in moving up the scale is developing the right balance of cost-saving technology solutions and high-value, high-cost personal service. Although the Internet has opened up many more options for providing consumers access to services at incredible cost savings, it has not completely eliminated the need for human interaction, especially for services. The human component of the business–consumer relationship is becoming increasingly rare as companies save money by reserving it for only top-tier customers. Yet providing more personalized services at all levels is becoming increasingly important to companies concerned about customer loyalty and retention.

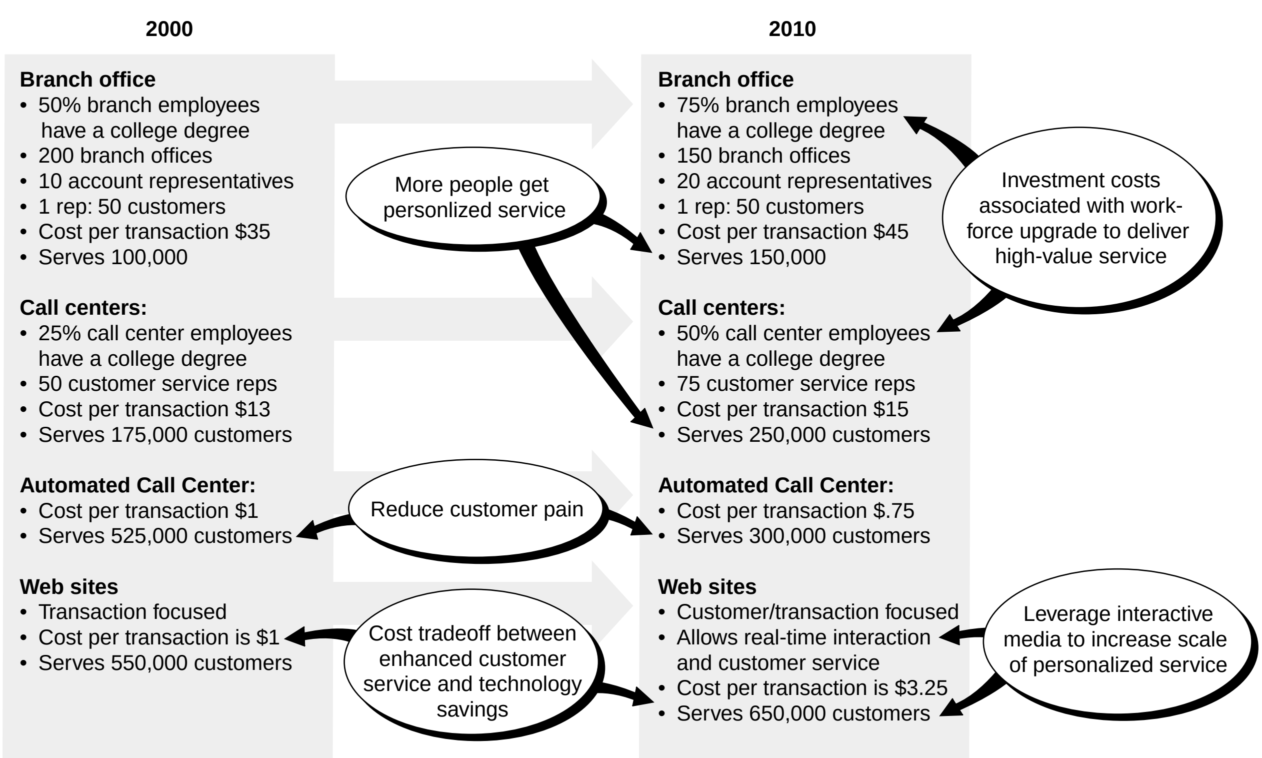
To illustrate the investment and trade-offs associated with implementing customer-focused relationship-building strategies, we use the case of a brokerage firm to forecast the transformation in service offerings and to identify necessary investments and trade-offs required to generate increased value for customers in 2010, and to increase overall customer retention. For instance, a source of a significant customer annoyance is the automated call center, which many companies have implemented to reduce their call center expenses. Likewise, Web access that is not linked to a readily accessible help desk to resolve issues, and that does not provide prompt responses to e-mail inquiries, can be a source of growing frustration for consumers, even though it saves money for the company. Figure 59 highlights key investments in technology and human resources to support more personalized services for high-value customers and to support relationship-building activities with potential high-value customers.

Implications

Businesses that hope to build good customer relationships, or to improve existing ones, will do well to consider the following points:

• *New relationship opportunities abound.* As communication and sales channels continue to proliferate, the traditional notions of business-

Figure 59
Investments and Trade-Offs



Source: Institute for the Future

to-consumer relationships will give way to new opportunities to define the value exchange between businesses and consumers. Each company must identify its unique value proposition to deepen relationships with customers and to keep them from going elsewhere.

• *Information is currency.* The value of information increases as companies and consumers climb the relationship scale. Innovative companies are just beginning to explore the potential role information will play in building a new wave of trusting customer relationships. Successful companies will utilize information to deliver personalized services, products, and further information tailored to individual customer needs.

• *Consumer expectations of service are rising.* There are enough options in the marketplace that most consumers know what good service is. New players are creating new markets catering to specialized needs, raising the bar of consumer expectations ever higher. The benefits of investing in customer-relationship strategies will remain elusive if companies cannot develop the right mix of human and electronic customer service to meet their demands.

• *Don't neglect potential high-value customers.* Although there are many examples of businesses focusing their efforts on building relationships at different stages along the scale, there are no companies servicing the full range of possible customer relationships. Today, companies that are able to identify their most valuable customers must invest significant resources in deepening these highly profitable relationships. However, for most companies this means cutting back on services to other customers, many of which could be future high-value customers. In order to take advantage of future growth opportunities, companies must identify a wider spectrum of customers with whom to build and deepen relationships. The key challenge for companies is to build a diversified portfolio of customer relationships; that is, relationships all along the scale, based on the nature of their products and services.

• *Relationships are about value creation.* The relationship paradigm represents a fundamental shift in focus away from profit generation through mass-market activities to value creation by building a relationship with individual consumers. But don't think these companies are giving up on profits. Rather, they believe that if they get the relationship value exchange right, profits will follow.

—Liz Casals

The Future of Agents:
From Task Management to Life Management

intelligent agents

mobile agents

autonomous agents

trusted agent

insurance agent

travel agent

"Agent" is a popular buzzword in the business world these days—we see or hear agents mentioned just about everywhere. There are old-fashioned agents like the insurance or travel agent. There are new-style agents—some electronic, some human. There are autonomous agents, intelligent agents, and mobile agents. Then there's the paragon of agents, the "trusted agent" that nearly every company, behemoth or start-up, now aspires to become.

Until fairly recently, these agents have had one thing in common. They have been primarily task-management agents—they have helped people perform particular, well-delineated tasks, like finding the best price for a vacation package to Cozumel, or finding an insurance policy that's right for them. But life is getting more complicated for many consumers, with the growing multitude of tasks they are asked to perform at work and at home, the changing composition of the household, and the tremendous amount of information they receive through all channels, from newspapers to wireless Internet connections. A busy household can use dozens of task-managing agents. Unfortunately, managing all these agents can easily become just another part of the problem, another stress in an already stressful life.

What truly busy households need are not hordes of agents assisting them with individual tasks, but a few trusted agents who can take over whole domains of household activities—say, finance or health—or help them with any number of roles they take on throughout their busy days, like that of a parent, a daughter, an employer, or a citizen. Perhaps best described as "life-management agents," these agents can help manage an entire range of much more complicated task domains and identities for a household or an individual, freeing them up for more value-added activities.

Driving Forces

Many factors will drive the market for life-management agents in the coming decade. Chief among them are the crazy pace of life in the information age and the changing gender roles and composition of the household.

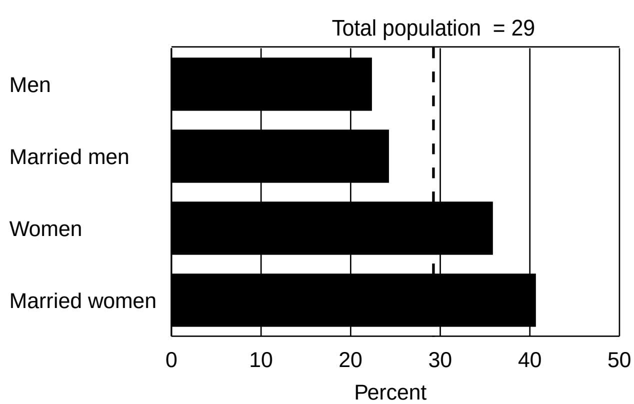
Running a household in the information age is already becoming more stressful due to the increased information processing required to make even the simplest decisions. At the same time, an increasing number of jobs have become "knowledge work" jobs, with more stressors, such as increased information-processing requirements at work and blurring work–home boundaries, thanks to high technology; since knowledge work can be done anywhere there's a computer and a phone line, workers must continually negotiate and renegotiate the boundaries between work and personal life. Workers are working longer hours, and bringing more work home with them, making it trickier to maintain a good work–life balance.

The evolving gender roles of the past few decades are contributing to households' complexity. While women who work outside the home have become the norm (from 36% in 1955 to 60% in 1998), no clear rule about how to divide household tasks in dual-income households has emerged—many households struggle mightily to negotiate the daily allocation of such tasks (even if in the end women still bear more of the burden of the "second shift"). For women in the workforce with children—a population that is growing, as the labor participation rate of mothers was 71% in 1998—this negotiation is even more of a struggle, as there are even more tasks to negotiate. This continual negotiation of tasks—with increasingly fuzzy guidance from traditional social roles—constitutes work in itself, adding to the stress of household management for couples (see Figure 60). We don't expect the clarity of household roles to improve substantially over the next decade.

Not only have gender roles continued to evolve, but the composition of the household itself has also grown more diverse in the past few decades, as high divorce rates, immigration, the large baby-boomer sandwich generation, and new norms for relationships have created more blended families, more groups of single, unrelated people living together, more domestic partnerships, and more extended families under the same roof. Like households with evolving gender roles, these households also need to negotiate tasks and a more diverse set of purchasing preferences without much guidance from traditional norms and roles.

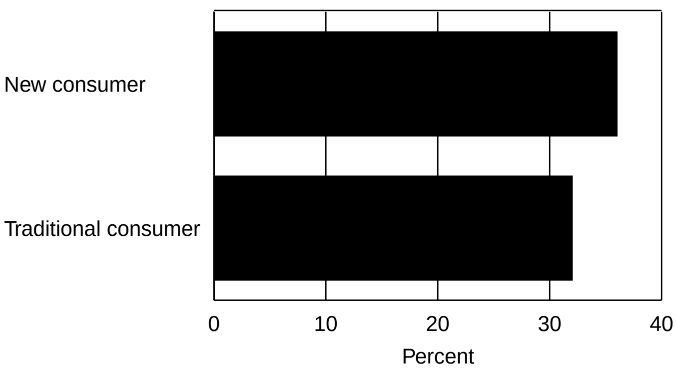
For many of these households, there is a real time crunch felt, mostly due to the fragmentation of time into smaller segments as home and work activities are increasingly mixed up throughout the day. But even for households that don't feel time pressed, the stresses of household management are increasing. As traditional temporal and physi-

Figure 60
Today's Householders Are Stressed—Especially Women
(Percent who feel "always rushed")



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

Figure 61
New Consumer Households Are Under Stress
(Percent of … households that "feel under great stress" several days a week or more)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

cal boundaries between home and work have eroded in the 24/7 global networked economy, people are called on to shift more frequently between their multiple roles and domains of activity throughout the day and night. As a result, many households are facing more stress because they have to juggle so much, in two main areas:

- *Role juggling.* Shifting gears from one role to another (e.g., parent, employee, neighbor, or friend) continually, around the clock.
- *Domain juggling.* Coping with major issues in multiple life domains (e.g., health, career, finance, leisure, marriage, and housing) all at once.

Both role juggling and domain juggling require mental concentration and emotional energy. Some people manage to cope with them well, but even resource-rich "new consumer" households report stress (see Figure 61).

Thus, managing the household is becoming, for many, a very complex enterprise. Most task-management agents today focus on relieving some of the time crunch for consumers—but these types of agents are reaching the limits of their effectiveness.

Task-Management Agents: Hitting the Task Ceiling

Traditional agents, such as insurance agents, tax agents, and travel agents, help consumers manage the tasks involved in interacting with large bureaucratic organizations, such as insurance companies, the IRS, and airlines, to name a few. As the information age progresses, however, purchasing choices and information involving such tasks have multiplied, and sophisticated new consumers have more options for dealing with these institutions more directly and more effectively on their own. In fact, many consumers are becoming responsible for their own purchasing decisions and relationships with such companies, leaving traditional agents out in the cold. Meanwhile, new types of electronic and human task-managing agents have emerged to fill the gap by offering to manage the information-filtering tasks needed to make a "rational" product purchase (i.e., shopping agents), rather than the tasks of interacting with bureaucracies. The increasing complexity of consumer decision making in the information age has given all companies (including agents) the opportunity to develop new levels of relationships with their customers, focused around the exchange and filtering of information.

Recent Innovations of Task-Management Agents

As the relatively wealthy and sophisticated new consumers have grown as a percentage of the population over time (they will be 54% of households by 2010), households have increasingly turned to household employees, including nannies, gardeners, and maid services, to allocate some of the tasks of a role or a domain. Furthermore, many traditional retailers have tried to become task-management agents for consumers by providing new time-saving services; for example, the personal shopping services now offered by high-end department stores such as Nordstrom. The explosion of e-commerce has boosted direct-to-consumer shopping of all types, including new household delivery services like grocery delivery (e.g., Webvan and Peapod), portals like Yahoo! and Excite, and community-growing e-tailers like Amazon. These companies help consumers with many household purchasing tasks online by filtering information and prices based on consumers' stated or inferred preferences.

Recently, task-management agents have taken the notion one step further, with the emergence of more holistic task-management agents. They call themselves "concierge services." Modeling hotel concierges, and operating like a cross between an infomediary and a butler, services like Circles and Quixi can handle both research tasks for purchases and other last-minute household labor needs. These services provide instant phone or electronic access to a human task-management agent who can search for, purchase, and deliver just about anything a client might need—just in time, and for a fee. They do so on an as-needed basis, gathering only as much information about the client as needed for the task.

A man who once might have hired a chauffeur to maintain his car and drive him around, for example, can now call the concierge when his car needs servicing, and the concierge will arrange to have it picked up and serviced. If he needs a ride to the opera in the meantime, the concierge service will arrange for a limousine as well. Concierges will also find clients the best available seats for the baseball playoffs in their price range, help them research a new refrigerator, find a babysitter for their evening out, or find the perfect gift for their spouse's birthday. Businesses have recently begun to provide such services both to their customers (most notably in the real estate industry, where large agent firms have begun to provide concierges who will help with all moving and new-home tasks) and to their employees (a growing number of large companies and New Economy startups across many industries).

The broad range of tasks concierges take on does span multiple roles and domains in a consumer's life, but generally stops well short of fully understanding and managing an entire domain or role. As a result, task-management agents, even in the form of concierge services, are reaching the limits of their effectiveness. The value added for consumers by purchase-specific information-filtering services and concierges is hitting a ceiling because most people are only willing to engage in a small number of such relationships before the relationships themselves become too much to handle.

Life Management: The Next Agent Frontier

As we note in "Customer Relationships: The Evolution of the Value Exchange," relationships between companies and their customers have evolved from simple barter and monetary exchange to increasingly targeted forms of information exchange. If there are only so many task-managing agents a single household can deal with, one possible next step in the evolution of the value exchange for companies—especially agents—may be what amounts to "identity exchange."

Even with a sophisticated concierge service, consumers still have to keep track of the myriad of goals that need to be accomplished in multiple roles and domains. Consumers must also switch between multiple roles and domains during the day as they attend to these different goals—even if it's just to call the concierge. A simple concierge service allows consumers to outsource tasks, but not entire domains or roles.

Consumers need agents that allow them to be less involved in the day-to-day management of their own activities, while still maintaining a sense of continuity and implementing their own values. This is where life-management agents are stepping into the breach, offering to manage entire roles and domains of household activities in exchange for a deeper understanding of a customer's identity.

Who Will Be in the Market for Life-Management Agents?

The latest wave of task-management agents—concierge services—has been primarily paid for by employers trying to retain employees and increase their productivity in a tight job market. It remains to be seen how many households will want to pay for such services themselves. While concierge services save time and are valuable for just-in-time household needs and individual decisions, they don't address the real stresses of the new household management: role and domain juggling.

Agent services that could relieve the strain of role juggling or domain juggling, or both, would be valuable to many households. The key will be positioning these life-management services correctly, and carefully negotiating the line between helping out and violating privacy and security.

The early adopters of the services of life-management agents (whether purchased directly or received as a benefit through an employer or public service agency) are likely to come from three groups of people:

• *Those who primarily need role management*. This group includes young echo boomers without children who are trying to juggle many new roles, like employee, spouse/partner, homeowner, child, or friend.

• *Those who primarily need domain management.* This group includes older baby boomers and seniors who live alone and may need help managing their health, their daily routines, their finances, their transportation, their entertainment, their education, and their retirement, for themselves and their families.

• *Those who need both.* This group includes working parents with children at home who experience both role and domain juggling and all the mental clutter and stress that come with them.

Mapping the Territory

Knowing the market for life-management agents will not be enough, however. Understanding the current and future agent territory is also important. We think this territory can be mapped along two dimensions:

• *Life understanding.* The degree of understanding (by means of the exchange of meaningful information) the agent comes to have about one or more of a client's roles and domains. This axis ranges from low understanding (agents with limited information, who understand only a few tasks of a single role or in a single domain) to deep understanding (agents with detailed information, who understand nearly everything about one or more of their clients' roles and domains).

• *Service scope.* The degree of the particular roles or life domains the agent helps the client manage. The axis ranges from a narrow scope (agents who help their clients with only a small piece) to a broad scope (agents who help their clients with nearly every aspect of one or more of their roles or domains).

Agents are then placed along these dimensions based on the degree to which they show these characteristics (see Figure 62 on page 102).

Types of Life-Management Agents

In the upper right hand quadrant of Figure 62 are the most sophisticated agents—the life-management agents. There are three types of life-management agents: role-focused agents, domain-focused agents, and cross-role/cross-domain agents.

Role-Focused Agents

Several of the recent entrants into the life-management territory are role-focused agents. Babycenter.com, for instance, manages its clients' parenting role (in a rudimentary way) electronically by e-mailing them weekly newsletters tailored to the age of the child.

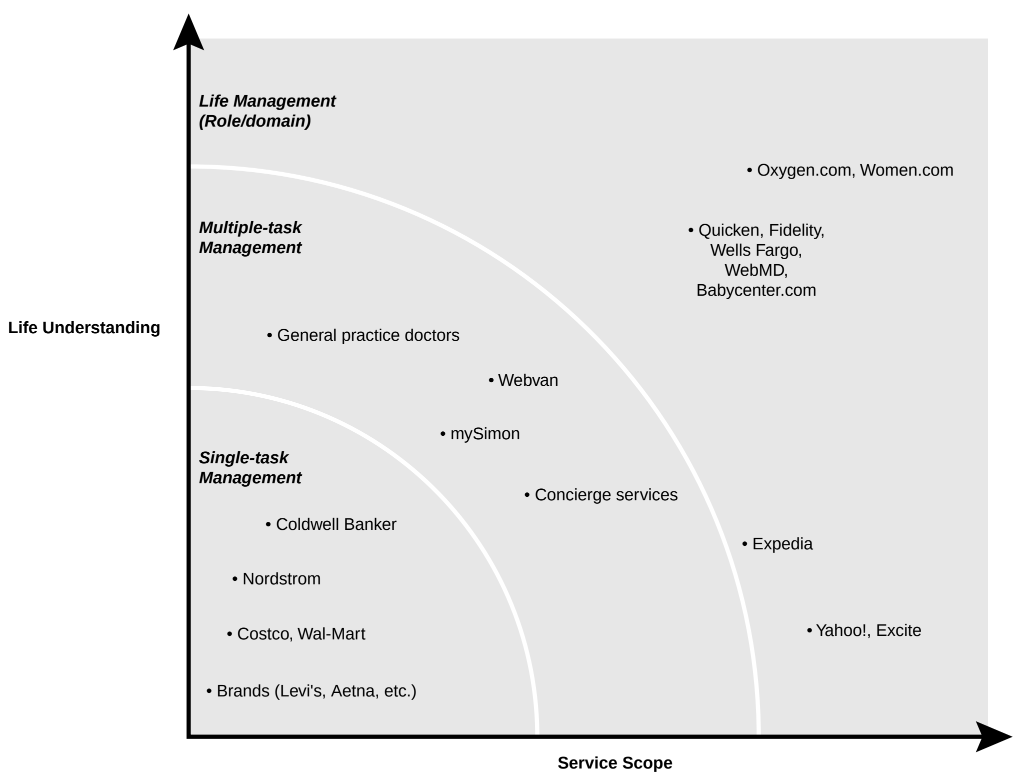
The newsletters describe how the child should be progressing, what to expect, and what the parents should be doing for the child at that age, and offer links to its Web site and other management tools, as well as to specific products in their online store.

In the next three to five years, agents are likely to emerge that manage most aspects of being a parent with even less legwork for parents—creating calendars and checklists, finding nannies and nursery schools, ordering diapers and baby food, keeping track of soccer practices, and so on. Other role-focused agents are likely to include caretaking agents that help the sandwich generation juggle the caretaker role with the parent role, household employer agents that help manage the hiring and supervision of independent household service providers, and homeowner agents that help manage all the responsibilities, risks, and opportunities that come with owning a home and being a resident of a city or town.

Domain-Focused Agents

Other recent entrants are domain-focused agents. WebMD, for example, helps consumers manage their entire domain of health activities. (It also offers services for physicians.) As the Web site explains, "You have easy access to the latest health news and a vast library of medical articles. You can ask ex-

Figure 62
The Agent Territory: Evolutionary Stages



Source: Institute for the Future

perts the questions you want answered. Chat with other people any time of the day or night. Measure your fitness. Find a doctor. Store your health records in a safe, private place. Welcome to WebMD, a world of help in one place." Eventually, such electronic agents may "visit the doctor" for the client—sending her genetic profile and medical history, along with the results from her home-health blood-test device.

Brokerages like Fidelity and banks like Wells Fargo are also entering the territory of life-management agents, as their offerings converge and they attempt to help consumers manage their entire financial domains. New entrants like Quicken's Web site (sponsored in part by Fidelity and Morgan Stanley Dean Witter) are attempting the same thing, though Quicken is also able to build off its personal finance management software. Quicken's site offers customizable tools and services to help consumers manage their investing, mortgages, insurance, taxes, banking, and retirement funds, among other things. Fidelity's services include an online brokerage, mutual funds, a retirement investing center, online financial planning tools, college planning, annuities, an insurance center, a charitable gift fund, a personal trust, and portfolio advisory services. Wells Fargo offers similar types of agent services across the finance domain.

Cross-Role/Cross-Domain Agents

A few cross-role/cross-domain agents have also emerged recently, most notably Oxygen.com and Women.com. These portal sites are moving beyond the usual portal format by offering services and tools that help women manage the multiple roles and domains of their lives. As the Women.com site says, "Women.com offers expert advice, in-depth information, and unique services and tools to assist women in every area of their lives, from health to home, parenting to career." Oxygen.com and its subsites and Women.com serve primarily in an electronic format, by providing electronic information access combined with interactive life-management tools. Access to live agents through such sites is likely to grow—for the wealthiest women, and for others if sources of funding can be found (like employers and advertisers).

The Trust Barrier

Though life-management agents sound like a dream come true for many busy households, there are several barriers to their widespread adoption. The most important is lack of trust. Life-management agents require an unusually high level of trust from their clients. To serve well, a life-management agent must understand the details of an entire role or domain of activities. If the client doesn't trust the agent, the arrangement will quickly wither. Respect for privacy and strong security are paramount in earning this trust.

The issues around trust vary depending on what type of life-management agent a company wants to become. For domain-focused agents, some domains, like food/diet, are even more sensitive than others for consumers, and they require higher levels of trust. In other domains, though, consumers already have more experience trusting their personal information and activities to organizations. In terms of their health, for example, consumers routinely share very personal and sensitive information with providers in order to receive quality care. In finance, people trust banks, brokers, and accountants to handle their money and account information. In contrast, a new food/diet management agent would have to build trust from the ground up, since most people have little experience trusting players in that domain with personal information.

Would people therefore trust their doctor to pick out their groceries or to manage their diet more than a new player? Our research indicates that people's trust in a company or provider is domain-specific—consumers don't trust companies much outside of their established practices. But it is possible to leverage that trust across domains. Partnering or affiliation strategies have the potential to accomplish this very effectively. Doctors, for example, could use their trusted status to refer people to particular types of food agents that meet specific needs—essentially "prescribing" some foods for their health benefits.

We've seen the importance of earning trust in our work on direct-to-consumer sales. Consumers in our focus groups have stated that they would have little interest in using automatic replenishment services (like regularly scheduled grocery delivery) until the service had earned their trust beyond doubt. Automatic replenishment services require a very high level of trust in the delivery person and the company, since such intimate knowledge of the household schedule could enable a delivery person to burglarize a house or sell that information to a third party. Like information on the comings and goings of a household, full knowledge of domain and role activities constitutes very personal information—the risks are high if one's trust is misplaced.

Establishing Trust

Thus, just as automatic replenishment services must hire only the best and most trustworthy delivery people, companies hoping to become life-management agents must hire good people and spend time and money training them to be smart, reliable, customer-centered, and trustworthy. The very essence of life-management agents—their ability to act intelligently on the consumer's behalf in dealing with one or more entire roles or life domains—requires significant knowledge of the household's activities. Whether they interact electronically or in person, life-management agents, like butlers of old, need to know their clients deeply to be successfully unobtrusive helpers.

In the coming decade, new electronic security technology will likely become mainstream to help overcome the trust barrier online. But there's another problem for those hoping to become life-management agents. To establish genuine trust and ensure that there is no conflict of interest, the services of life-management agents will have to be "free" (as in ad-revenue online community models), paid directly by the consumer, or paid by employers (as is done now for many concierge services). If their fees are paid by the companies they do business with on the consumer's behalf, in contrast, the potential conflict of interest will make consumers less likely to trust them to the level needed to make the service effective.

Another way to establish trust is by leveraging brand names. Brands are powerful and easy-to-understand tools for leveraging trust, but they're not always a sure thing. Companies with existing powerful product or service brands need to think carefully before attempting to leverage brand loyalty further to become a life-management agent. It may not ultimately be in their best interests, since becoming an agent by definition means taking the consumer's position and brokering multiple brands, not just the company's own. This risks the dilution of the company's existing brands. Moreover, such brand-intensive companies may not have the experience to become life-management agents. Partnering with other companies or brands with more agenting experience may be the best strategy for companies with established brands trying to break into the life-management market.

"Bots": Cheaper Life-Management Agents?

A question that frequently arises in discussions of modern agents is whether automated search technology will provide an inexpensive agent for people who can't afford personal human agents. "Bots"—automatic shopping programs that act as task-management agents, searching the Web for deals that match a consumer's specifications—are still fairly primitive, but are improving. Might they eventually evolve into independent life-management agents?

The answer is maybe, but they have a few hurdles to jump before they do. First, although bots can search and compare large amounts of data, for them to be effective at helping manage an entire role or domain of activities, consumers must trust them with very personal information about their needs and preferences. Consumers must also trust them to make transactions or procure items on their behalf. Until recently, however, trust in Internet security has been fairly low—so far, many consumers have been unwilling to give out the amount of information necessary to make bots work as life-management agents. There's one other, very important, difficulty. One thing that separates life-management agents from task-management agents is their ability to work the social side of things; it is likely to be a long time before bots can take on a social role, such as that of a parent or an employer, on a client's behalf.

Partnering with other companies or brands with more agenting experience may be the best strategy for companies with established brands trying to break into the life-management market.

Though bots aren't likely to become free-standing life-management agents until they can negotiate the social aspects of the job, they are already helpful tools for human agents and human-assisted agent portals to use behind the scenes. Broad household shopping agents like mySimon.com use intelligent electronic agents "trained by [their] own team of shopping experts," as the service states on its Web page, to gather information from any online store and compare it to information from other stores based on criteria their users specify. They then issue e-mail "price alerts" to notify users when a product becomes available at their desired price. Life-management agents will need to track even more complex data and match it with their clients' needs in a holistic way.

Automated programs can also be very effective tools for helping users manage some roles and domains of activities on their own. This function may appeal to baby boomers who want to be in control of their lives and who may be more willing to relinquish some of that control to an electronic bot than to a human. Bots will also be appealing and familiar for the younger generations of consumers who have grown up with computers. These younger folks—raised in the more fluid and uncertain world of the New Economy—will be more willing to give up some choice and control in return for the services of life-management agents, whether electronic or human.

Forecast

What is the growth potential for life-management agents in the coming decade? As the "voluntary simplicity" movement of the late 1990s demonstrated, not everyone will feel that agents are the solution to overly busy lives. But by 2010, we expect a significant market will exist for such offerings (see Table 12). We base our initial estimates of the potential need for each type of agent on three different demographic groups:

• *Those who primarily need role management*. We assume that for most of this group, the head of household will fall between the ages of 20 and 34 and be both in the labor force and married (juggling many new roles), but have no children under 18 living at home. In 2000, there were approximately 2.9 million men and 2.5 million women who were in the

Table 12
Estimated Market for Life-Management (LM) Agent Offerings in 2010
(Millions of people in the United States)

	Potentially Using LM Agents	*Open to Using LM Agents*	*Actually Needing LM Agents*
Role-focused agents	5.5	2.2	0.3
Domain-focused agents	12.9	5.2	1.0
Cross-role/ cross-domain agents	49.8	19.9	3.4
Total	**67.6**	**27.3**	**4.7**

Source: Institute for the Future; U.S. Census Bureau.

labor force and married but childless, between the ages of 20 and 34—for a total of 5.4 million people. If labor force participation rates remain about the same in 2010, this will rise to about 5.5 million people.

• *Those who primarily need domain management*. We assume that for most of this group, the head of household will be 45 years old or older, not in the labor force, and living alone (juggling issues in many life domains such as health, transportation, and finance). In 2000, there were about 2.4 million men and 8.6 million women older than 45 who were living alone and not in the labor force, for a total of about 11 million people. If labor force non-participation rates remain about the same in 2010, this figure will rise to about 12.9 million people.

• *Those who need both.* We assume that for most of this group, the head of household will fall between the ages of 20 and 54, be in the labor force, and have children living at home (juggling multiple roles and life domain issues, as children add health, transportation, and education issues, among others). In 1998, there were about 24.9 million fathers with children under age 18 at home who were in the labor force in this age group, and about 23.3 million mothers, for a total of about 48.2 million people. If labor force participation rates remain about the same in 2010, this number will grow to about 49.8 million.

Within each of these broad groups, we then estimate the percentage that would be likely to be open to using a life-management agent, and the smaller percentage that would actually decide to use such an agent. We believe that by 2010, the awareness, acceptance, and trust of all such agents will rise, climbing from perhaps 10% of the population in 2000 to closer to 40% of the population. Our previous research on the gap between consumer attitudes and behaviors, particularly with sophisticated consumers, suggests that perhaps 20% of those who are open to a service actually use it. This rate will vary somewhat by type of agent, however. Most two-parent families will want only one set of cross-role/cross-domain agents, so we divide that group by two before applying the 20%. Likewise for some, but not all, childless married couples with role-focused agents (we divide that group by 1.5). The group for domain-focused agents remains the same, however, since members of that group live alone.

Strategic Implications

Successful life-management agents will take a variety of forms. Their funding structures will vary; some will be free (paid by advertising), some paid by the consumer, and others paid by the employer. Their strategies will be different; some will be new players partnering with existing brands and a few will be highly trusted existing companies offering a new agent service. But despite the variations, to succeed as life-management agents, they will need to:

• *Learn what the job entails.* Being a life-management agent is not a commodity proposition; rather, it is a highly value-added position, requiring high-maintenance, hands-on services, patience, and the ability to learn what the client wants across the board and act on it. Being a life-management agent is not for everybody or every company. Companies that have some previous experience and success in high-end services (or partner with those who do) are likely to be most successful.

• *Create high-quality service infrastructures.* The name of the game is people, people, people. Hire well-educated workers and pay them well. They also have to be well-trained in technology and smart on their feet if they are to serve the clients seamlessly. Set up call centers and invest in database access to give human agents 24/7 support and clients 24/7 coverage.

• *Leverage electronic "intelligent agent" searching tools and other technologies.* Given that being a life-management agent is a very hands-on position, companies should use the latest in electronic agent technologies to help them out where they can. Understanding the details of household life through ethnographic research methods, such as in-depth interviews and focus groups, should also be a high priority, to be able to anticipate clients' needs more effectively.

• *Partner with trustworthy players.* Unless a company is building a life-management agency from scratch, it's likely that it won't have the internal expertise to be a life-management agent. And even if the company is building from scratch, it's likely that it won't have a name that consumers will recognize and trust. One way to earn that trust (in addition to working hard at the job and doing it well) is to partner with other companies that already have a degree of trust in the marketplace. Manufacturers and retailers should partner with established service providers. New service players should partner with established manufacturers and retailers or other service providers.

• *Look to new consumers and young consumers for clients.* The life-management agent concept is so new, especially its combination of hands-on human service and leading-edge technology, that many traditional consumers may shy away. Two groups of consumers are likely candidates to use such a service, however. The well-educated, tech-savvy, relatively affluent new consumers are likely to be interested because their lives are busy and they have the means, knowledge, and self-assurance to *take control* by *giving up control* in this way. Younger consumers—those who grew up in the information age—are also likely to find such a service useful, because the concept of negotiating their lives with the help of humans and technology will be a familiar one.

• *Provide stringent security and privacy measures.* For life-management agents to be successful, they need to know many personal details of the lives of their clients. But their clients won't trust them with that information unless they demonstrate absolute trustworthiness. Such companies should have a rigorous and thorough employee screening and training process. They should never even think about selling client information to third parties, even in the case of bankruptcy. And the electronic components of their services should have state-of-the-art security so that the information cannot be accessed by anyone except the client and the agent.

• *Develop expertise in understanding and managing entire roles and life domains.* If a company's going to be a client's life-management agent for, say, the education domain, then that company had better know education from A to Z; likewise for roles like parent or caretaker for the elderly. The more the agent knows, and the better it is able to distill that information and use it seamlessly to act on the client's behalf, the more likely the service is to succeed.

The emergence and growth of life-management agents has implications for non-agent companies as well. Because life-management agents are likely to partner with product and services companies to obtain discounts and other benefits for their clients, manufacturers and retailers should be on the lookout for successful life-management agents with which to partner. There will also be increased opportunities for companies that specialize in collecting and understanding in-depth domain and role information, and for companies that specialize in deep understandings of the nature of the role juggling and domain juggling that increasingly typify the lives of today's consumers. In fact, in the near term, there will likely be more opportunities with less risk for these secondary supplier/support companies than for the life-management agents themselves.

Ultimately, all companies would do well to take on some of the characteristics and consumer-centered attitudes and practices of life-management agents. If they can work to understand their clients' lives in depth, they will enjoy greater opportunities for developing a deeper level of exchange with individual consumers, moving from information exchange to identity exchange, and thus retain their most valuable customers—and their revenue—well into the future.

—Elaina Kyrouz

Out of the Shadows: Traditional Consumers Gain the Light

For the past five years, IFTF has been tracking new consumers—the relatively well-educated, affluent, and tech-savvy segment of consumers at the leading edge of the information and distribution revolutions in the marketplace. This group has given us clues about how consumers have come to sift, sort, and analyze the oceans of information now available through a multitude of new and traditional media, including the Internet, cable television, broadcast TV, radio, direct mail, and newspapers and magazines. New consumers are also making and receiving more of their actual purchases through the new channels. Indeed, their activities and numbers—new consumers grew from less than 25% of all North American households in the 1980s to more than 45% in the mid-1990s and are projected to reach 54% by 2010—have transformed the marketplace forever.

But what about the other half—the nearly 50% of the population that we can still describe as "traditional consumers"? These traditional consumers are less sophisticated in their information-searching strategies than their new consumer counterparts. They are less likely to use the new channels both to search for information and to make their final purchases. For these reasons, they often struggle with the glut of information available in the New Economy, and they can be easily overlooked by companies streaking into the future without looking back. Though traditional consumers aren't the most affluent or sophisticated shoppers, for the next ten years and beyond, they will continue to hold a significant share of the marketplace. Companies ignore them at their peril.

Defining Traditional Consumers

By definition, traditional consumers are everyone who is not a new consumer; that is, they have lower levels of education (no college), lower levels of household income (less than $50,000), and little or no access to computers. What these traits add up to is perhaps the most defining characteristic of all—traditional consumers struggle to process the myriad information available to them by the multitude of channels fueling today's New Economy. These traditional, struggling consumers are not necessarily those receiving the *most* information. They are simply the ones least able to handle the information they do receive.

Like many people put into a position they don't know how to negotiate fully, traditional consumers have developed their own mechanisms for coping. Indeed, we are beginning to find that traditional consumers have strategies for dealing with information that are very different from those of new consumers. Whereas new consumers might find new tools to help them manage their information overload, for example, traditional consumers may simply stop engaging in information-searching activities when they reach their limits and become overwhelmed. Indeed, traditional consumers often struggle with the information overload and fall back to more comfortable behaviors, or even to some kind of avoidance activity. The bottom line is, traditional consumers do the best they can with what they have in order to get through the information clutter, but they are generally not aware of new strategies that might help them, and they are reluctant to move into the new channels.

Who Are Traditional Consumers?

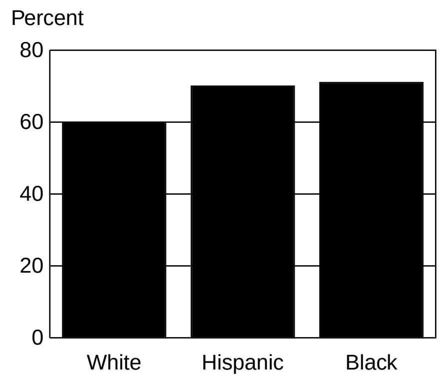
Whereas new consumers are a fairly homogeneous group, with similar characteristics and behaviors, traditional consumers are a mix of subgroups with different characteristics and behaviors. In general, traditional consumers include more racial and ethnic minorities and seniors than do new consumers. It is instructive to explore the characteristics of the more significant subgroups.

More Minorities Are Traditional Consumers

A larger proportion of several minorities are more likely to be traditional consumers than whites are. Whereas 60% of white consumers are traditional consumers, for example, 71% of blacks and 70% of Hispanics are traditional consumers (see Figure 63). This is a significant development, since the proportion of the U.S.

population that is nonwhite is expected to grow in the next decade. Indeed, by 2010, almost 33% of the U.S. population will be nonwhite, up from 17% in 1980. This growing group of minority consumers—who make up a good portion of the traditional consumers—suggests that traditional consumers will continue to play an important role in tomorrow's marketplace.

Figure 63
Traditional Consumers Are Racially and Ethnically Diverse
(Percent of racial/ethnic group that are traditional consumers)



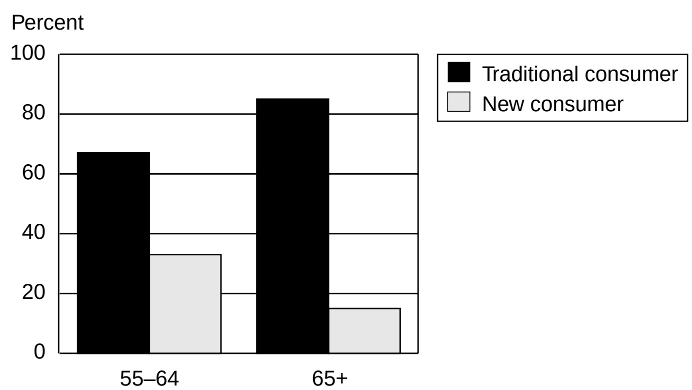
Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

More Seniors Are Traditional Consumers

More seniors are traditional consumers than new consumers, perhaps because the older generation has had less opportunity for higher education and, since many lived a good part of their lives before the computer revolution, they also have had less exposure to information technologies. These two factors mean that seniors' lifetime incomes have not been as high as the generations following them. Add these factors up and it appears that the older age cohorts tend to be less information savvy and have lower incomes, and thus fall into our definition of traditional consumers. Indeed, in 1998 almost two-thirds of the cohort of 55- to 64-year-olds were traditional consumers, for example, and almost 85% of those 65 and older were (see Figure 64).

These generations of older people will not abandon the consumer marketplace any time soon. Indeed, by 2010, people 65 and older are likely to compose 13% of the U.S. population, a piece of the market that businesses can't ignore. It won't be until 2010 that the first of the baby boomers will reach senior status, making this age cohort more affluent and information savvy. For the next ten years, at least, seniors will not change their information-searching behaviors.

Figure 64
Traditional Consumers Are Older
(Percent of age group that are a specific consumer segment group)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998.

How Traditional Consumers Handle Information Overflow

When traditional consumers are confronted with information overload, they develop their own strategies for cutting through the clutter to get to the resources they find helpful. What do they rely on most?

In the last several years, IFTF has conducted a number of surveys of consumer behavior, both at the state and national levels. One of the most informative has been the "California State Library Survey on Californians' Information Needs." The issue of coping with the increasing load of information is particularly acute in California, where the proximity to computing giants and dot-coms has made the information technology revolution a common topic of discussion at the dinner table.

The highlights of these surveys shed light on the information strategies of traditional consumers. Since a good portion of Hispanic and older consumers are traditional consumers, we use respondents from these groups in this survey as proxies for traditional consumers, and respondents with higher incomes ($50,000 to $75,000) as proxies for new consumers.

Traditional Consumers Are Less Information Hungry

On the whole, traditional consumers seem to be less hungry for information than new consumers. They tend to read less, for example. About 75% of Hispanics who responded to the 1995 survey read a newspaper at least once a week or more, compared to more than 90% of respondents with higher incomes (see Table 13). Similarly, only one-third of Hispanics used the Yellow Pages weekly, compared to 43% of the higher-income sample in the survey. And only 51% of Hispanics subscribed to cable TV, compared to 71% of white consumers. This may mean that Hispanics have less discretionary income to purchase information sources, such as reading materials and cable television.

Table 13
Traditional Consumers Don't Read or Access Information as Often
(Percent who … during the past week)

	Traditional Consumers	*New Consumers*
Read a newspaper	77	91
Read a magazine	61	72
Had a cable TV subscription	51	71
Read a book	45	50
Looked up something in the Yellow Pages	33	43

Note: In this table, Hispanic survey respondents are proxies for traditional consumers; survey respondents who earned between $50,000 and $75,000 are proxies for new consumers.

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

Traditional Consumers Engage in Fewer Information Activities

Since traditional consumers' low reading levels might be related to their household's lack of discretionary income, we explored other routine information activities that don't depend as much on discretionary funds. In particular, we asked consumers whether during the past year they needed to speak to someone or look for information about a number of typical household activities.

Hispanics' most common information-searching activities involved learning a new skill, researching a medical or health issue, purchasing a large item for the home, and planning a vacation (see Table 14). But in comparison to consumers with higher incomes, fewer Hispanics searched for these types of information. A total of 46% of higher-income households sought medical information, compared to 34% of Hispanics, for example. And 21% of higher-income households looked for information on managing a household budget, compared to only 12% of Hispanics. What this may mean is that Hispanics either may have felt they needed less information about these activities, or they didn't realize there was information on these topics, or didn't know how to access it.

Other traditional consumers don't seem to recognize latent information needs, either. Consumers older than 65 participated in considerably fewer information-seeking activities, for example, than those with higher incomes. Their top information-searching activity was planning a vacation, but only 25% of them conducted this activity, compared to 48% of consumers with higher incomes. Even searching for information about medical or health issues, which might be of greater concern for that age group, rated low. Only 8% of consumers older than 65 sought out resources

Table 14
New Consumers Still Lead in Information Searching
(Percent of consumers who needed to speak to someone or look for information about …)

	Traditional Consumers		*New Consumers*
	Hispanics	*65+*	*Income $50K–$75K*
Learning or updating a skill for your job or your own personal growth	35	10	40
Purchasing something big for your household	34	22	50
Medical or health education issue	34	8	46
Planning a family vacation or recreational activity	27	25	48
Parenting concerns	19	2	16
Managing your household's budget or personal finances	12	12	21

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

to find more information on a medical or health issue, compared to 46% of consumers with higher incomes.

Not only were Hispanics and older consumers (our proxies for traditional consumers) less likely to perform as many information activities in a given year as new consumers, they were also more likely to have difficulty finding all the information they wanted concerning the activities they did choose to ask about. For example, in the case of searching for information to update a skill or learn a new one, a total of 35% of Hispanics stated that they sought out information in the past year, and more than 40% of that group said they didn't receive enough information (see Table 15).

Californians age 65 and older also had some difficulty getting all the information they needed. Older Californians had little trouble finding information for their top activities like vacation planning (see Table 16). But for other, less commonplace activities, like researching medical issues or updating skills, they had a harder time finding the right resources. For these less common tasks, a higher percentage of seniors reported needing more information.

Table 15
Traditional Consumers Don't Get Enough Information
(Percent of Hispanics who still needed more information for a specific information activity after searching for information)

Rank	*Searched for information about …*	*Percent Still Needing More Information*
1	Learning or updating a skill for your job or your own personal growth	42
2 (tie)	Purchasing something big for your household, such as a car, TV, furniture, appliance, or computer	35
2 (tie)	Medical or health education issue	44
4	Helping a friend or family member through a crisis	45
5	Planning a family vacation or recreational activity	22
6	Parenting concerns	52
7	Managing your household's budget or personal finances	50

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

Whereas a new consumer would have a strategy for finding the missing information—going online, say, or heading for the library—traditional consumers didn't seem to know where to begin. A total of 47% of Hispanics in our survey, for example, stated they had difficulty knowing where to go or who to call to get information, compared to 35% for other consumers. In fact, many traditional consumers don't recognize their latent information needs; not only are they not aware of how to go about searching for certain types of information, they often don't even know that such information exists in the first place.

Traditional Consumers Rely on Experts to Make Decisions

Because traditional consumers have trouble finding information on their own, they often turn to experts to give them information and to make their decisions. While new consumers often do a lot of research in preparation for their face-to-face encounters with experts, for example, traditional consumers prefer to talk to a person first in order to get their information. We asked Californians whether they preferred to talk to a person or read in order to get the information they needed. A total of 72% of Hispanics preferred talking to a person

Table 16
Older Consumers Have Information Gaps for Less Common Information Activities
(Percent of consumers age 65 or older who still needed more information for a specific information activity after searching for information)

Rank	*Searched for information about …*	*Percent Still Needing More Information*
1	Planning a family vacation or recreational activity	3
2	Purchasing something big for your household, such as a car, TV, furniture, appliance, or computer	19
3	Helping a friend or family member through a crisis	29
4	Managing your household's budget or personal finances	3
5	Learning or updating a skill for your job or your own personal growth	18
6	Medical or health education issue	20
7	Parenting concerns	0

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

to reading, compared to 67% of respondents with higher incomes (see Table 17). Respondents 65 or older also favored talking to a person; 57% of older Californians preferred to talk to a person than to read information.

The differences between these groups are more significant for medical and health issues, for which most consumers *have to* seek out expertise to answer their questions. The traditional consumers' strategy is to rely on the medical experts to make decisions for them. For example, 10% of the total population are most likely to look to their doctor to decide what treatment is best without getting involved in the decision, compared to almost 30% of people older than 65 (see Table 18). Higher-income consumers are equally likely to want to read up on treatment options *or* to work with the physician to determine the best treatment or make the decision themselves. Meanwhile, 58% of Hispanics want to read information about their treatment options and have the *doctor* make the final decision. Thus, traditional consumers' information coping strategy is either to avoid participating at all, or to take a minor role and look to the experts to make the decision.

Implications for Businesses

Traditional consumers make up about half of the U.S. population, and an even greater proportion in other countries. As a market share, they are simply too big to overlook, so businesses must develop strategies to understand and to communicate with traditional consumers.

Understanding Traditional Consumers

When it comes to analyzing traditional consumers, businesses should realize that they are a complex group. In order to understand traditional consumers, businesses should:

- *Know that diversity reigns.* Traditional consumers are more likely than new consumers to encompass a range of demographic groups, including Hispanics and seniors—groups that are growing as a percentage of the population as a whole.

- *Accept that anyone can be a traditional consumer*. In a variety of situations, even the most sophisticated information user may act like a traditional consumer. Knowing how to reach traditional consumers ensures that com-

Table 17
Traditional Consumers Prefer Talking to a Person to Reading
(Percent of consumer segment that agrees with the statement)

	Traditional Consumers		*New Consumers*
	Hispanics	*65+*	*Income $50K–$75K*
I usually prefer talking to someone rather than reading to get the information I need.	72	57	63

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

panies have the capability to reach all of the consumers all of the time.

• *Realize they make up a significant part of the market*. While the traditional consumers are a diverse collection of groups, any given subgroup represents a significant part of the market. Successful companies must find ways to communicate with *all* of them.

Communicating with Traditional Consumers

Just which strategies should businesses employ to communicate with all of the different traditional consumer subgroups? Companies would do well to:

• *Engage in more person-to-person interaction*. Traditional consumers prefer talking to people rather than reading information. This is a great opportunity for most businesses—to convey a message in person and have the consumers make the decision to buy immediately.

• *Position salespeople and other stakeholders as experts*. Because traditional consumers prefer to talk to someone when they need information, they will rely on salespeople as experts to help them determine what information is critical to know and what product is best for them. Salespeople should be armed with loads of product information and be able to communicate this information in a variety of ways to a variety of customers.

• *Explore how to link word of mouth and expert testimony*. Family and friends are very important sources of information for all consumers. This fact might be even truer for traditional consumers, since they rely on

Table 18
Traditional Consumers Rely on Experts as Part of Their Information Coping Strategy
(Percent of segment that selected one of the three answers to the following question)

Question: Suppose you were seeing a medical specialist and needed treatment for a particular medical condition. Which of the following would you most likely do?

	Traditional Consumers		*New Consumers*
	Hispanics	*65+*	*Income $50K–$75K*
A. Let the doctor decide what treatment is best without involving you	3	29	4
B. Look for info to understand your treatment options, but let the doctor decide what is best	58	34	48
C. Look for info about treatment options so you can decide for yourself what is best	39	34	47

Source: Institute for the Future, California State Library Survey on Californians' Information Needs, 1995.

people rather than written materials as primary information sources. If a company can combine the power of experts (i.e., salespeople) with the word of mouth of family and friends, it creates a dynamic one-two punch for reaching traditional consumers. To do so, companies can invite family and friends to product seminars and focus groups; they can go out into the communities to partake of the cultural life of the people; and they can offer family packages for their goods and services. Having salespeople armed with stories of how other families made similar decisions, how they used the product, and what worked for them, will also be effective.

• *Reach traditional consumers through their media of choice.* One way businesses can make sure that traditional consumers receive important information about their products is to reach them through their favorite media—broadcast TV rather than the Internet or cable TV and live people rather than written materials. A certain amount of educational outreach about the importance of getting the right information, especially in medical fields, could be helpful as well.

• *Leverage younger family members*. In IFTF's research on new ways to shop, we have discovered that, for at least one subgroup of our traditional consumers—seniors—young, tech-savvy family members are critical links. In one household, the daughter set up her mother's computer account and created an automatic delivery schedule with the local pharmacy. This ensured that her mother had her prescriptions refilled regularly. Reaching out to the sandwich generation and other younger family members in similar ways can help businesses reach seniors and other traditional consumers.

• *Make traditional consumers into new consumers*. There are any number of ways that companies and communities can help bring traditional consumers into the information age. For people who lack education, companies can support or even offer continuing education programs for the older folks, and scholarships, internships, and after-school jobs for the younger folks. Such educational opportunities will not only help those involved to become more information savvy, they also will translate directly into better jobs and higher incomes. For people who lack access to the Internet and other information technologies, companies can donate computers and expertise to local libraries, schools, and continuing education programs. Businesses can even use their own computers to offer education after hours.

• *Use the same strategies for reaching consumers of different cultures.* Since traditional consumers are made up of a number of minority groups, strategies used to target these specific groups are likely to work for traditional consumers as well (see the "Diversity in 2010—The Multicultural New Consumer" article). One effective strategy might include targeting the geographic areas in which the groups live (e.g., Texas, New York, California, and Florida for Hispanics; and Florida and Arizona for seniors). Another might be hiring from a broad spectrum of groups, which would both build goodwill among these groups and pass along information about products by word of mouth. Yet another strategy might be marketing to the life stages (the Hispanic demographic group is generally younger and family-oriented, and seniors, of course, have very specific lifestyle needs and represent a large and quickly growing market as people live longer lives of lasting quality).

The bottom line is that, even as a good portion of the marketplace rushes headlong into the New Economy, an almost equal portion—those who prefer traditional channels and information activities—are being left behind. Companies have much to gain by paying attention to these traditional consumers, and lots to lose by ignoring them.

—Nancy Ozawa

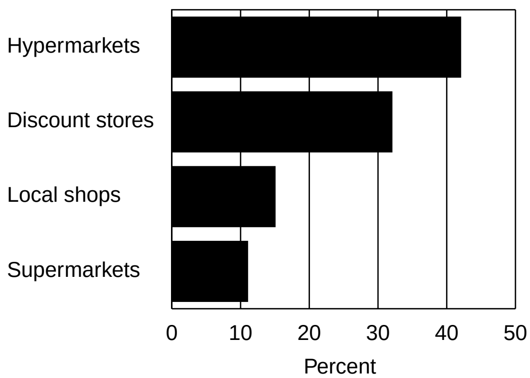
Changing Society and Business

Retailing in Europe: Beyond the Hypermarket

Europe's retail environment has undergone a thorough transformation in the past three decades. During that period, the "hypermarket" emerged and changed the competitive landscape. Even bigger changes are expected in the next decade, however, driven by the shifting preferences of the new, more sophisticated consumer.

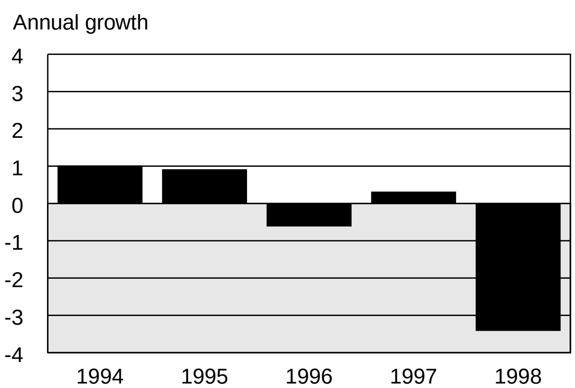
These changes will involve a period of rapid industry consolidation and the emergence of innovative consumer-centric retailing formats. The current environment and the changes that are likely to occur will set Europe on a course different from that of the United States—the struggles of Wal-Mart in the United Kingdom and Germany provide evidence that the European retail market has its own dynamics. To examine this evolution, we focus on the changes occurring in Germany, the largest and one of the most challenging retail environments in Europe.

Figure 65
Hypermarkets Dominate German Retailing
(Percent of total food and beverage sales, 1999)



Source: A.C. Nielsen

Figure 66
Stagnant Sales in Germany
(Percent annual growth of German retail food and beverage sales, adjusted for inflation)



Source: Federal Statistical Office of Germany

The Retail Environment in Germany

The suburban hypermarket is the dominant retail format in Germany today. However, the German retailing sector is characterized by low margins, strict regulation, and thrifty consumers—a combination that sets the stage for significant restructuring.

The Emergence of the Hypermarket

The hypermarket first emerged in France three decades ago and has since spread throughout Europe. Similar to an American discount store but with a much larger food selection, the hypermarket took the concept of the supermarket and enlarged both its footprint and its range of products. Hypermarkets are almost always located outside city centers and tend to carry a variety of product lines, including groceries. These stores have marketed themselves as having the advantages of better prices and the convenience of one-stop shopping. In this way, they have been very successful in attracting shoppers from grocery stores and supermarkets. In Germany today, hypermarkets account for 42% of retail food sales (see Figure 65).

A Difficult Place for Retailers

Germany is the largest market in Europe, with a population of 83 million people. Despite the allure of its sheer size, critical factors such as stagnant consumer demand, overcapacity, and intense competition make retailing in Germany a challenge for domestic and foreign firms alike.

• *Stagnant demand.* There has been no real growth in retail food sales for the past six years. Revenues from retail sales in Germany have grown at a rate close to that of inflation every year since 1994 (see Figure 66).

• *Overcapacity.* While demand has stagnated, the number and size of retailers have grown. There are almost twice as many square meters of retail space per capita in Germany as in Britain or France. The retail construction boom in eastern Germany in the years following reunification exacerbated what had already been a serious problem in the west.

• *Global competition.* Increasingly, retailers outside of Germany are entering the market, bringing new ideas and new capital resources. European integration and the broader trend of globalization have contributed to an intensely competitive environment. The entry of Wal-Mart into Germany in late 1997 further heightened competition.

These three factors have created a very difficult environment for retailers. Indeed, most German retailers have margins of between only 0.1% and 1.0%.

A Strict Regulatory Environment

Germany's strict business protection laws also contribute to the challenges that retailers face. The 50-year-old *Ladenschlussgesetz*, or store-closing law, for example, prohibits most retailers from remaining open on evenings and Sundays. In addition, a 1933 law on fair pricing makes it illegal to offer temporary discounts beneath market norms or to sell goods below cost. The laws were originally intended to keep small shops from being forced out of business by large stores or hypermarkets that might raise prices once their competition was eliminated. The laws are still in force, however—in September 2000, the German cartel office ordered some hypermarkets, Aldi, Lidl, and Wal-Mart, to raise prices on products they were selling below cost. Faced with fines of DM 1 million ($435,000) per product, the hypermarkets complied.

Price-Sensitive Consumers

Consumers themselves also pose a challenge to retailers in Germany. Relative to consumers in the United States and the United Kingdom, German consumers are extremely price sensitive. The low margins in the retail sector are in part a result of pressure from thrifty shoppers. The struggles of Wal-Mart Germany provide evidence. Although the U.S. megastore entered Germany three years ago, Wal-Mart has struggled to attract shoppers to its stores. Because it cannot set prices below cost due to German law, and because its costs are high due to its relatively small scale in Germany, Wal-Mart prices are generally higher than those of competing hypermarkets. Despite its marketing efforts and front-of-store greeters, Wal-Mart is finding that it needs to be very aggressive in pricing, within existing laws, to make any mark at all. As consumers gain better access to retail information, this tendency for price sensitivity shows few signs of changing.

Drivers of Change

These factors add up to a retail environment ripe for change. The retail sector simply can't sustain itself on such small margins, and a restructuring is highly likely. But while the competitive environment itself seems to have sown the seeds for a wrenching transformation, it is the consumer who will likely shape the outcome of this change.

Three drivers will have a substantial impact on the retail environment that emerges in Germany in the next decade.

Imminent Industry Consolidation

The German retail industry experienced industry consolidation in the 1990s. In 1993, the top ten retailers in Germany accounted for 75% of sales. Today, they account for 84%. And this consolidation is only the beginning. The combination of stagnant growth, excess capacity, and global competition has set the stage for a further rapid consolidation of the German retailing industry.

With continuing European economic integration and the gradual convergence of consumer tastes across Europe, we can expect this consolidation to become more international—perhaps first on a regional level ... then throughout all of Europe.

To generate sufficient profits in this low-margin environment, retailers need huge scale—they must be able to obtain better pricing from their suppliers, to implement new technologies, to leverage their distribution systems, and to create brand recognition and acceptance across a wide range of consumers. In short, to survive, retailers must be much bigger—such that perhaps five firms could end up accounting for the sales that the top ten account for today.

The consolidation in Germany in the 1990s involved, for the most part, only German companies. With continuing European economic integration and the gradual convergence of consumer tastes across Europe, we can expect this consolidation to become more international—perhaps first on a regional level (within northern or central Europe) and then eventually throughout all of Europe. Wal-Mart's acquisitions in Europe have put further pressure on retailers to consolidate. That firm's reputation for rapid acquisition to achieve its necessary scale has already prompted defensive mergers, such as that between Carrefour and Promodes in France in 1999. A further round of intense industry consolidation in Germany seems not only likely but imminent.

Regulatory Liberalization

Germany has long been known for some of the strictest retailing laws anywhere, yet these too seem ready for change. In September 2000, 13 of the 16 German states agreed to extend shopping hours in the evening—from 8 p.m. to 10 p.m. on weekdays, and from 4 p.m. until 8 p.m. on Saturdays, though shopping on Sundays is still prohibited. However, an influential poll last year by the Institute for Economic Research based in Munich found that 45% of Germans wanted completely unrestricted shopping hours, while only 36% wanted some limits.

The trend toward deregulation seems to be motivated by retailers who believe they can gain a competitive advantage by staying open longer and by consumers who like the convenience of being able to adjust their shopping patterns to their own lifestyles. Interestingly, much of the support for liberalization has come from states in the eastern part of the country, which see longer store hours as a means of attracting new investments and bolstering their sluggish economies.

The Convenience-Driven Consumer

Ultimately, the shifting preferences of consumers may be the most important driver of change in the German retail sector. U.S. consumers are motivated by a diverse set of factors and have high expectations for service, choice, and information. Consumers in Germany, unlike their counterparts in the United States, are highly focused on just two factors: price and convenience.

While the price sensitivity of German consumers is not new, their focus on convenience is. As a result of changing lifestyles, German consumers are increasingly displaying a preference for convenience when they shop. Because consumers have less leisure time, shopping is being shaped by the demands of daily life—commuting to work, socializing, visiting the doctor, and so on. Indeed, one of the fastest-growing retail segments in Germany is the convenience store, a segment that includes kiosks, gas stations, railroad stations, and airports. There are currently about 86,000 of these outlets in Germany. While ownership of these stores is fragmented, one company, Lekkerland, supplies more than 80% of them—this is a company to watch.

Convenience stores represent one of the few outlets where consumers are less sensitive to price—prices are 30 to 70% higher than at supermarkets and hypermarkets. Thrifty German consumers are apparently willing to pay a premium for such convenience. The emergence of gas stations that also sell fresh bread and the popularity of grocery stores in railroad stations suggest that some retailers are paying attention to this change in consumer preferences.

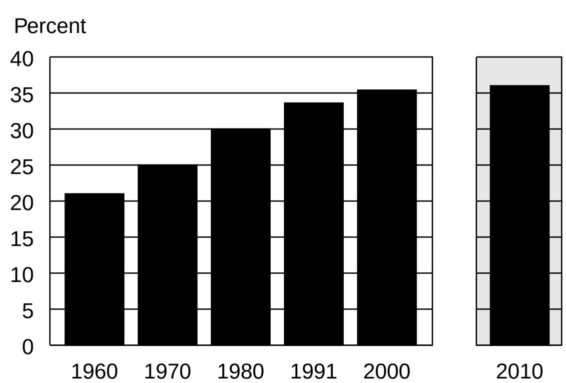
Crucially for retailers, this preference for convenience has changed shopping patterns. Increasingly, consumers shop to top off supplies rather than to restock the whole household. This shift results in lower average purchases per trip but more frequent trips.

A study by Blumenauer Immobilienholding found that German consumers are taking advantage of being able to shop later and that last-minute shopping is increasing in popularity. A visit to the bustling medium-sized grocery store in the Friedrichstrasse train station in central Berlin at rush hour on a weekday evening provides a vivid example of commuters combining their shopping with commuting.

Demographically, the growth of one-person households has enhanced the trend of convenience-driven, last-minute shopping. One-person households have become the most common household structure in Germany and now account for 35% of households (see Figure 67). A declining propensity for marriage and having children has caused this number to rise steadily for years. And, as might be expected, the rate is even higher in cities.

Single consumers are less likely to make big shopping expeditions and are more likely to adopt the just-in-time household inventory model. The need for convenience extends not

Figure 67
Singles Are Changing Shopping Patterns
(One-person households as a percentage of all households)



Source: Federal Statistical Office of Germany only to the location of the retail outlet but also to the design of the store itself. Time-starved consumers want to be able to navigate the store easily and to get in and out quickly.

Outlook: Beyond the Hypermarket

Retailers must adapt if they are to survive the impending consolidation and embrace the changing preferences of the German consumer. Changing attitudes toward hypermarkets are perhaps the clearest indicator that current retail formats inadequately serve the consumer.

The emergence of hypermarkets arguably has been the most significant change in the past three decades of retailing in Europe. However, their growth has slowed in recent years. They seem to have reached a saturation point in market share inside Germany, since most new European retail store construction, even by German companies, happens outside Germany.

Although hypermarkets are incredibly efficient, they are stumbling because they do not adequately serve the changing demands of their customers. Hypermarkets have achieved much of their success by appealing to the twin demands of price and convenience. However, consumers are finding that prices are not always lower at hypermarkets than at other types of retailers, because discounting is increasingly done selectively. And while the convenience of one-stop shopping remains, this factor holds little appeal to the consumer who shops in the "topping off" mode. Furthermore, many find that navigating such a large store takes considerable time—the store's size is actually a deterrent to convenience for these shoppers. And although driving to a suburban location is a common practice in the United States, to many Germans, the out-of-town locations of hypermarkets are difficult to reach. The hypermarket is an impressive model of scale and efficiency; however, it is less impressive when it comes to serving the diverse needs of the new, more fragmented German consumer.

As a result, new retail formats are likely to emerge that serve the wide spectrum of needs of the German consumer. Already, innovators are beginning to promote some of these characteristics.

Return to the City Center

To capitalize on consumers' increasing preferences for convenience, retailers are returning to the traditional epicenter of commerce, the city center. In the United States, where cars rule, consumers think nothing of driving miles for shopping or entertainment. With their much higher population density and higher propensity for using public transportation, however, Germans find it much easier to commute to the city center.

A harbinger of this change is the recent success that city center supermarkets have had in competing with hypermarkets. By broadening their product offerings, grocery stores and supermarkets have taken advantage of their convenient city-center locations and their access to public transit systems. Early indicators suggest that they may even be winning back customers from suburban-fringe hypermarkets. Extending shopping hours should enhance the attractiveness of city-center locations further as after-work shopping becomes more practical. One of the most spectacular examples of this strategy is the

Promenade Hauptbahnhof, a 30,000-square-meter shopping center with 140 shops, restaurants, and service outlets, located in a restored downtown railroad station in the eastern city of Leipzig.

Local Flavor

Another element that retailers would do well to pay attention to is the Germans' affinity for local brands. Consumers in Germany have a much lower tolerance for homogeneity than those in the United States. As a result, new retail outlets that house recognizable neighborhood brands create a strong bond with the consumer. ECE Projektmanagement GmbH, Germany's leading shopping center developer and one of its most innovative, claims that about 40% of the stores in its developments are local, stores whose success is based upon understanding the unique needs of the neighborhoods where they are located. Even though local shops account for only 15% of retail revenues, they make up nearly two-thirds the number of stores—these local brands are small, but they are pervasive. By retaining local flavor and understanding the appeal of neighborhood brands, retail developments harness a powerful force—people's affection for the familiar.

Entertainment

The combination of shopping and entertainment is an American innovation that has shown signs of catching on in Germany as well. German consumers have proven to be initially receptive to the combination of dining, movie going, and other forms of entertainment with shopping.

Perhaps the most stellar example of a thriving entertainment-focused retail outlet is the "Arcade" at Potsdammer Platz, which opened in late 1998. A huge development in the center of Berlin with 40,000 square meters of retail space and two cineplexes, this "entertainment mall" is located at the intersection of five subway lines and has parking spaces for 4,000 cars. The Arcade's location puts it within a 15-minute trip of 912,000 people and within 30 minutes of 2.5 million. The success of the mall two years later, after the novelty has worn off, is a testament to both the advantages of a convenient location and the success of the entertainment-mall model. An important note here is that developers need to design these experiences in such a way that they do not obstruct convenience-driven shoppers. If the entertainment causes the nonbrowsing shopping trip to take longer, the center loses the advantages of its convenient location.

By retaining local flavor and understanding the appeal of neighborhood brands, retail developments harness a powerful force—people's affection for the familiar.

Services

Another way retailers have been effective in reaching more consumers has been by offering services along with hard and soft goods. Karstadt Quelle, for example, the largest department store chain in Germany, has a joint venture with Lufthansa to offer travel services to customers in its retail stores. Other services such as financial services and health care show promise as well when they are offered as part of the shopping experience. Delivering parcels to customers after their afternoon of browsing and shopping may be a service waiting to happen.

One can envision the retailer—using data about the customer—electronically guiding the customer around the store by means of a small wireless device.

Multichannel Outlets

Shopping motivated by convenience implies that consumers make more frequent and quicker trips. This preference also suggests that consumers may choose to buy certain goods through different channels depending on the type of good and perhaps even how busy they are on a particular day. Retailers that offer consumers choices for how they purchase goods and services can appeal to these mercurial consumers.

In addition to the city-center retail outlets, the Internet and gas stations provide the consumer with attractive alternatives to hypermarkets. Electronic commerce seems particularly promising in Germany given that country's relatively large Internet penetration (18%) and its history of being very receptive to mail-order catalog shopping. Electronic commerce could actually grow faster there than in the United States once retailers solve the problems of low credit card use and privacy concerns. Anticipating the coming importance of the Internet channel, Karstadt recently bought Quelle, a mail-order house. And Metro, the largest food retailer, has purchased 51% of Primus Online, a leading Internet retailer.

Smart Shopping

In the future, the most effective way for retailers to meet consumer demands for both price and convenience is likely to be by providing the customer with valuable information during the shopping experience. One can envision the retailer—using data about the customer—electronically guiding the customer around the store by means of a small wireless device. Perhaps the consumer lets the guide know if she is in an "in-and-out" or "browsing" mode, and the guide optimizes the customer's route through the store. The consumer selects which products she takes with her and which she will have sent by mail or delivery.

In addition, there is a potentially large opportunity for manufacturer-sponsored advertising and promotion in such a scenario. The customer could receive highly targeted reminders of specials, or of products that correspond to her purchase history, or that complement items in her shopping basket. Such advertising could be lucrative for the retailers and enable them to actually subsidize the prices of products with ad revenue from manufacturers, in effect giving the shopper lower prices.

This strategy, however, comes with a critical caveat: these messages need to be composed with the shopper in mind and communicated carefully. The consumer needs to perceive them as immediately beneficial. Consumers already are so overloaded with ads that nontargeted ads are likely to become absorbed into the general advertising noise. Customized ads have their pitfalls as well, however. The recently implemented EU Data Protection Directive sets stringent limits on how companies can use consumer information. Moreover, German consumers in particular are extremely averse to giving up information they perceive as personal—a recent study found that the majority of them (52%) “do not think personalized marketing is a good thing.” Ads that consumers perceive as distracting or annoying will detract from the benefit of convenience. Ads that consumers perceive as invasive will prompt a quick exit.

Toward a New Retail Format

When we add up all these changes, we expect that new retail formats will emerge in Germany in the next decade. The ultimate manifestation of these outlets will be shopping experiences with local offerings that take into account the specific needs of customers, but that also take advantage of some of the efficiencies of the hypermarket. Hypermarkets, supermarkets, and grocery stores will remain where and when they serve customers well. But most of the growth will be in formats that embrace the emerging demands of those consumers who define convenience in different ways.

These retail innovators will offer shoppers the goods they need in an easy-to-access and easy-to-navigate setting. Opportunities will exist for easy in-and-out stores, for stores that offer nontraditional shopping hours, and for stores with good product selection at locations consumers pass by on routine trips. Up-selling possibilities abound in a variety of locations, and consumers are likely to take advantage of service and entertainment offerings when they are unobtrusive. Similarly, with the use of data and communication technology, new revenue streams from advertising and promotion could be significant and could be used to subsidize prices. But the successful retailers will need to devise innovative techniques to make sure these communications are immediately perceived as useful and that they do not overwhelm or distract the convenience-driven shopper.

Implications

The stage is set for dramatic changes in the retail sector in Germany. The outcome is likely to look different from today’s German marketplace and much different from that of the United States. And while what goes for Germany does not necessarily go for the rest of Europe, the futures of both are becoming increasingly intertwined. As a result, the changes coming to Germany will affect the rest of Europe.

The emergence of homogeneous mass-market shopping epitomized by hypermarkets and Wal-Mart seems to have reached a saturation point in Germany. This format is not likely to disappear, as it serves most people well at some time and a large segment of the population well on a regular basis.

But one size will not fit all in the new Germany. Effective retailing solutions in the next decade will be those that address the preferences for low prices and the growing diversity of ways German consumers define convenience. Retailers that offer consumer-centric retail experiences are likely to win the business of this increasingly important convenience-driven segment. Retailers that can combine the operational efficiencies of the hypermarket with innovative methods that serve consumers well will be able to thrive in this large but challenging market.

—Greg Nemet

Double Jeopardy: New Consumers Changing the Workplace

Today's workplace is caught between two contrary trends. On the one hand, new consumers are demanding that businesses respond more effectively to their every need by offering more helpful information, greater accessibility at more convenient times, tailored products, responsive services, and rewards for being good customers. To meet these demands, businesses must make major changes in how they structure their workforces—they must hire flexible, intelligent employees who can think on their feet and who are willing to work shifts that provide coverage around the clock.

On the other hand, these same new consumers are making up an increasing share of the workforce. This is both a boon and a challenge for businesses. New consumers are knowledgeable, driven, and valuable workers, but they also are demanding—they want challenging and rewarding work, quality time to spend with their families, flexible work schedules that fit their busy lives, and higher salaries for knowledge work. Companies are challenged to build more flexible organizations to adapt to these key workers who are less inclined to work at all hours of the day and less apt to accept rigid, traditional work arrangements.

In responding to the needs of the new consumer, the labor market shows signs of reversing some of the fundamental trends of the past three decades—specifically, the substitution of labor for capital investment and the move away from traditional command-and-control hierarchies. How companies deal with the new consumers as both customers and workers will go a long way toward determining their success or failure in the coming decade.

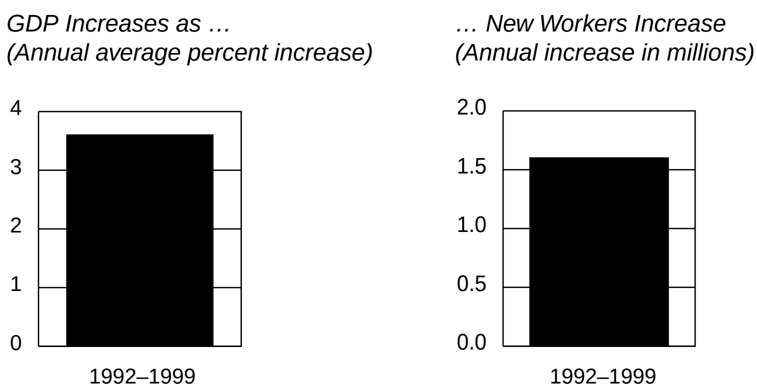
The Labor Market and the Economy

Having lasted an unprecedented nine years so far, the current economic expansion has affected the general labor market in new ways. A combination of the natural course of business cycles and longer-term socioeconomic trends means that demand for labor is up, labor growth rates are slipping, and wages are beginning to pick up. To meet the challenge of these conditions, companies are turning to new capital investments designed to increase productivity rather than simply hiring new workers as they have done in the past.

Demand for Labor Up

As the economy has gone through a long period of expansion, the demand for labor has been high. Over the past eight years, the labor market has been expanding by more than 1.5 million workers per year (see Figure 68). The unemployment rate has fallen from 7.5% in 1992 to its current level of around 4%.

Figure 68
The Demand for Labor Is High



Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics.

Employment Leveling Off

For decades, the labor market expanded tremendously as the baby boomers flocked into the workplace and women increasingly joined the workforce. Between 1961 and 1990, the labor market grew at an annual rate of 2%, increasing in size from 70 million people to 125 million in that period. In the last decade, however, that growth rate has slowed markedly as a much smaller cohort of younger workers moved into the labor market and the increase in women's workforce participation rate has slowed (see Figure 69).

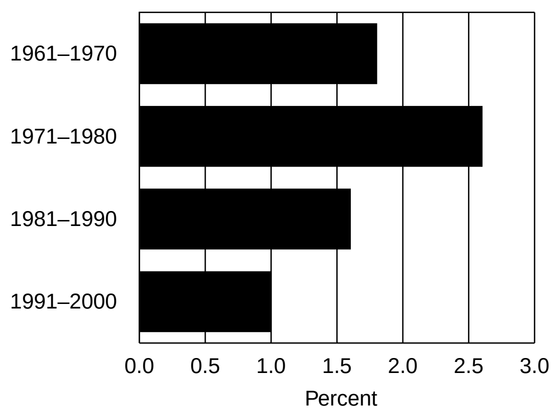
Wages Up

Real wages fell during the two decades the baby boomers were flocking into the labor market (see Figure 70). Real wages declined because of the tremendous annual growth in the number of people seeking jobs and because many of the new jobs were taken by younger people, whose average salaries were less than those of the more experienced older people. But now that the labor supply is tighter and the economy is booming, wages are beginning to catch up.

Investment as a Solution

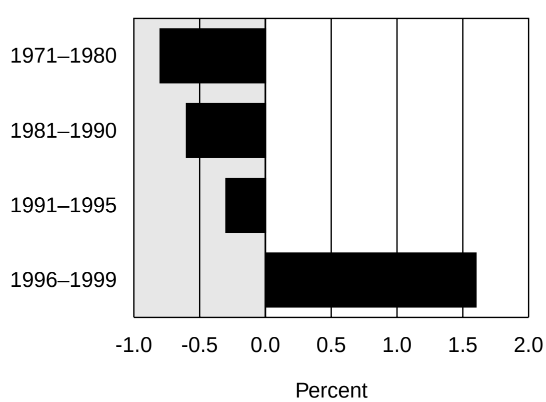
Faced with a rapidly expanding economy and a diminishing pool of new workers, firms have increased their capital spending to enhance the productivity of existing workers. After decades of substituting eager young knowledge workers for large increases in new capital investments, firms in recent years have pushed up their capital expenditures. In the last five years, in fact, the scale of capital expenditures in real dollars has tripled as manufacturers have automated their processes and other employers have stocked the offices

Figure 69
Employment Evening Out
(Annual average percent growth in labor force)



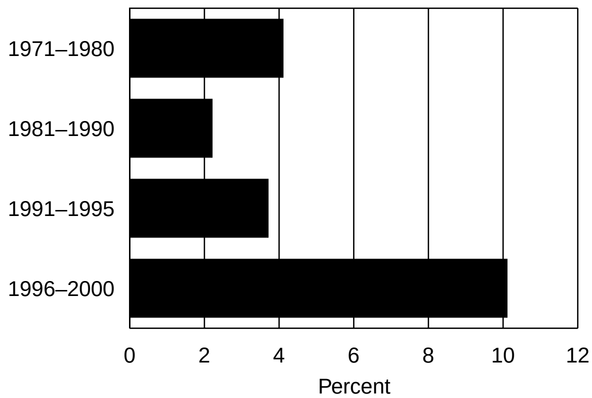
Source: U.S. Bureau of Labor Statistics

Figure 70
Wages Finally Picking Up
(Annual average percent change)



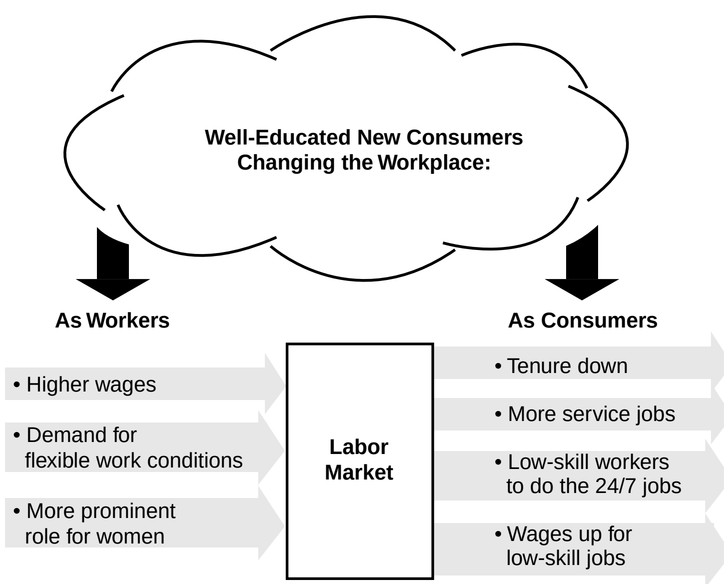
Source: U.S. Bureau of Labor Statistics

Figure 71
Investment in Capital Equipment Way Up
(Annual average percent increase in constant dollars)



Source: Institute for the Future, derived from U.S. Bureau of Economic Analysis.

Figure 72
Key Emerging Issues in the Labor Market



Source: Institute for the Future

of more sophisticated new workers with computers, mobile and intelligent phones, and individually tailored software (see Figure 71).

Based on signals from the economy, the labor market, and the capital markets, these moves are classic responses to the traditional business cycle. But the size and scale of these responses—the capital investment boom of the last five years, the slower growth in the labor force, and the rising wages, along with the spread of new consumers in the labor market—have set the stage for more fundamental transformation. Indeed, as the new consumers enter the workplace, they are changing the ways firms use and organize their workers.

Trends for the 21st-Century Labor Market

Six emerging trends, all driven by the rise of the new consumers as customers and as employees, are changing the structure of the workplace. Some of these changes result from new marketplace demands from the sophisticated consumer that are pushing companies to use their workforces in new ways. Others result from the well-educated workers who are pressing companies to redefine the employer–employee relationship by demanding more flexible ways to work (see Figure 72).

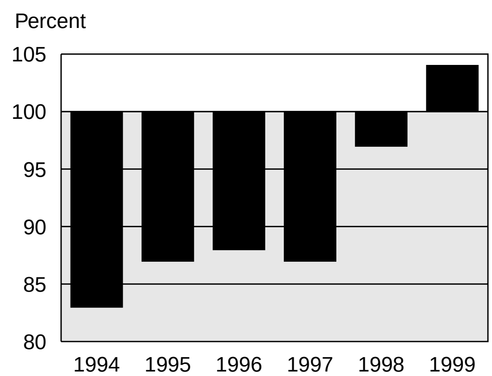
1. Service Jobs Dominate

In the long term, jobs are shifting to the service sector, driven at least in part by the rapidly growing number of well-educated new consumers who want knowledge-based managerial or professional jobs. Even though service jobs have been growing faster than other jobs for decades, the shift is accelerating. Last year, for the first time, the number of jobs outside services actually fell while the number of jobs in services rose rapidly. Thus, services accounted for more net new jobs than the rest of the economy put together (see Figure 73).

2. Women More Involved in the Workplace

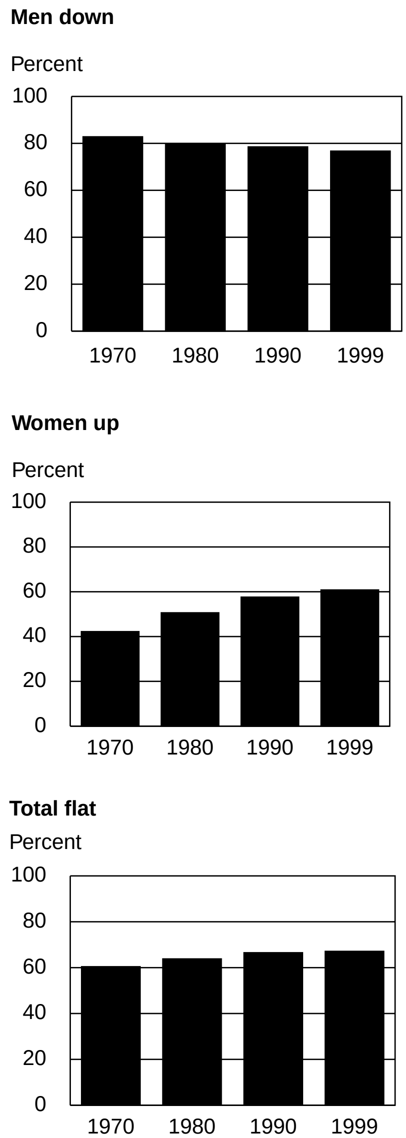
As the participation rate of women in the labor force rises, women account for an increasing share of total jobs in the United States. While men's participation rate continues a long-term decline (as the age at which men retire continues to fall), women's labor force participation rate keeps going up. In fact, the women's rate has been going up so fast in the past three

Figure 73
Service Employment Takes Over
(Service industries' contribution to net new jobs)



Source: U.S. Bureau of Labor Statistics

Figure 74
Women's Participation Key to Increase in Workforce
(Percent participating in workforce, 20 years and older)



Source: U.S. Bureau of Labor Statistics

decades that the overall participation rates have continued to rise slightly (see Figure 74). The women's share of the total workforce went up to 48% of the total, and the number of women in the labor force could well pass that of men in the next decade. Many of these career-oriented women are new consumers who provide that all-important second income (or the first, in a growing number of cases) to their households.

3. Wage Distribution Bifurcating

Average wages are going up, and the highly educated new consumer is receiving a large portion of that increased income. With more disposable income, these new consumers can afford to hire workers to perform many services, such as cleaning, landscaping, and grocery shopping, that would otherwise subtract from their time for family, work, and play. This demand for services is working its way through the economy, raising incomes throughout, but especially at the lower levels. In the last decade, the wages of workers in traditionally low-wage occupations (e.g., retail sales, food service, child care, building maintenance, security, and other service jobs) have been growing even faster than those of the well-paying occupations in the middle range. In fact, people in the lowest-paying occupations have seen their real wages grow almost twice as fast as those in the highest-earning occupations (see Figure 75). The real losers are the mid-level workers, whose wages have grown the slowest of all.

What this means is, the pressures on the labor market—to utilize the talents of the educated and to provide them with the services of lower-paid workers they need to free up their time for such work—are bifurcating the income distributions in the United States. Low-paying jobs are increasing in number and income, as are high-paying jobs, while the middle is contracting.

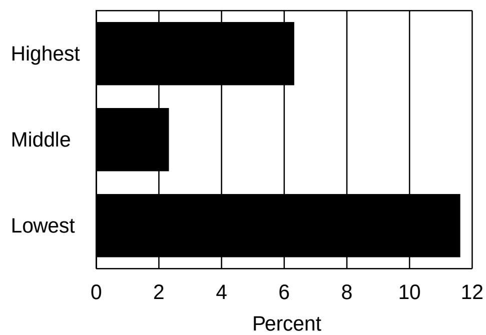
4. New Consumers Want Flexible Work

New consumers are looking for flexibility in the workplace, and there are a number of ways for them to achieve it.

First off, many workers are opting for some form of contingent employment to control their own destiny. Contingent jobs are those that are defined as either temporary or having a specific, limited commitment. Such jobs include white-collar jobs in offices to meet the special needs of a particularly busy time, seasonal jobs in retail outlets, census takers, and many jobs in construction. Indeed, during this period of economic boom, contingent jobs are growing at the same rate as overall jobs. And increasingly, workers who hold such jobs are taking them by their own choice. The share of workers who hold contingent jobs who say they prefer that type of work to a permanent position has increased 25% since 1995 (see Figure 76).

A second way to achieve job flexibility is to opt for alternative employment arrangements. Alternative work covers a range of work styles, from participating in temporary work to contracting independently, to working for a contracting firm. These are not seasonal contingent workers, but they are outsourced or contract workers supplied by an outside firm. There is clear evidence that, while alternative work as a whole is not increasing, the share of people doing key types

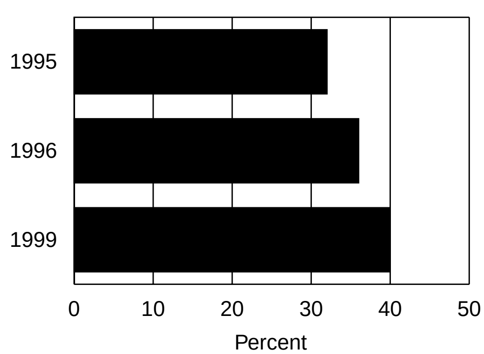
Figure 75
Wage Distribution Is Changing: 1990s
(Percent gain in real wages by level of earnings)



Note: Groups are divided by occupation, with managers/professionals/sales managers in the highest earning group, technicians/craftspeople/operators/administrative support in the middle group, and retail sales/support services/administration in the lowest earning group.

Source: *Monthly Labor Review*, "Earnings and Employment Trends in the 1990s," March 2000.

Figure 76
Preference for Contingency Work Up
(Percent who prefer contingent work)



Source: U.S. Bureau of Labor Statistics, "Contingent and Alternative Work Arrangements," USDL 99-362.

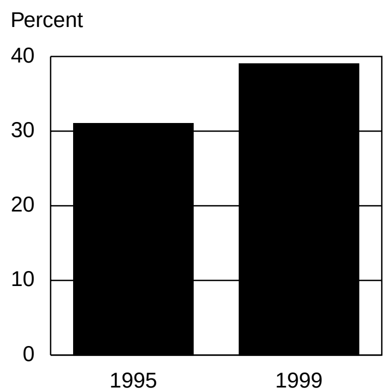
of alternative work such as contract work are increasingly college-educated new consumers (see Figure 77). This group includes professionals like software designers and accountants. Their growth in numbers shows that these workers have an increasing interest and confidence in jobs that enhance career options, income, and a flexible lifestyle rather than those that give them the security of permanent employment.

5. Low-Skilled Workers Cover the 24/7 Jobs

New consumers are demanding more services and marketplace choices at all times of the day and night, and in all locations. But the better-educated, higher-income workers are more interested in flexible working hours that maximize their own personal time. They like to spend some of their working time at home and they are less willing to work late at night or on holidays. This makes it difficult for companies to find well-educated employees who are available at the time that many consumers want specialized services.

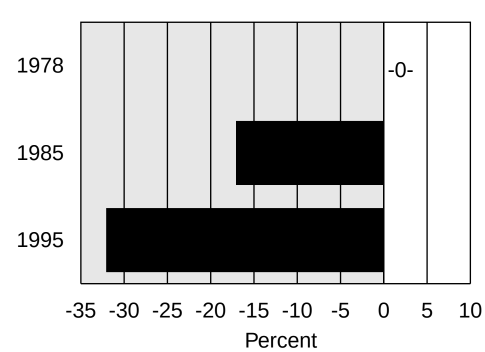
As a result, night-shift and weekend work is increasingly done by workers in the lowest quartile of pay. Over the past two decades, as the growth in work activity in the night hours has increased, the burden has shifted to the poorly paid. The differences in the share of work done at late hours of the night or the very early hours of the morning between workers in the lowest and highest quartiles has increased (see Figure 78). This puts the burden on companies to support these workers with the training and technology to provide a seamless interface with their customers.

Figure 77
Better-Educated Going into Contract Work
(Percent of all contract workers who are college grads)



Source: U.S. Bureau of Labor Statistics, "Contingent and Alternative Work Arrangements," USDL 99-362.

Figure 78
Lower-Wage Workers Do Much More of the Late-Night Work
(Ratio of highest-paid to lowest-paid quartile of earners who work between midnight and 4 a.m.)



Source: *Monthly Labor Review,* "Changing Inequality in Work Injuries and Work Timing," October 1999.

6. Benefits of Tenure Down

It is no surprise that workers with more education are much less likely to lose their jobs than workers with less education. The percent of college grads displaced in any given year is about 2%, the percent of those without a high school diploma is about 3.8%, and those with only a high school diploma is about 3%.

But the biggest change in the last decade was that an increasing portion of the displaced workers were those with the longest tenures. The difference in displacement rates between those with three to four years of experience with their employer and those with 15 to 19 years averaged 2.4% from the 1980s to the mid-1990s; in the latest survey, the difference had decreased to only 1.2%.

What Does It Mean?

The needs and wants of the new consumer are driving changes in the labor market. Many of the well-educated new consumers have a very active, high-cost lifestyle. To maintain this lifestyle, they need service support, flexibility at work and at home, and the high income promised by professional jobs and dual incomes.

As a result, the workplace is undergoing a dramatic change in structure, with high-wage and low-wage jobs growing and mid-level jobs flattening out. If this shift continues, it implies the reversal of many of the key trends in business organizations over the past 30 years, including the substitution of labor for capital investment and the move away from command-and-control hierarchy.

The new trends result from an emerging synergistic partnership between high-wage and low-wage workers (see Figure 79 on page 144). There are clear benefits for both of these parties that allow the servicing of the New Economy. Yet these trends also exacerbate the stagnation of the middle-level occupational groups, as they fall behind the other two in both wage increases and job growth. The shrinking middle will be a major concern for the labor market because this has been the traditional path of upward mobility for low-wage workers.

What Does It Mean for Businesses in the New Economy?

These changes in the labor market point to some notable lessons for companies as they think through their labor policies for the New Economy:

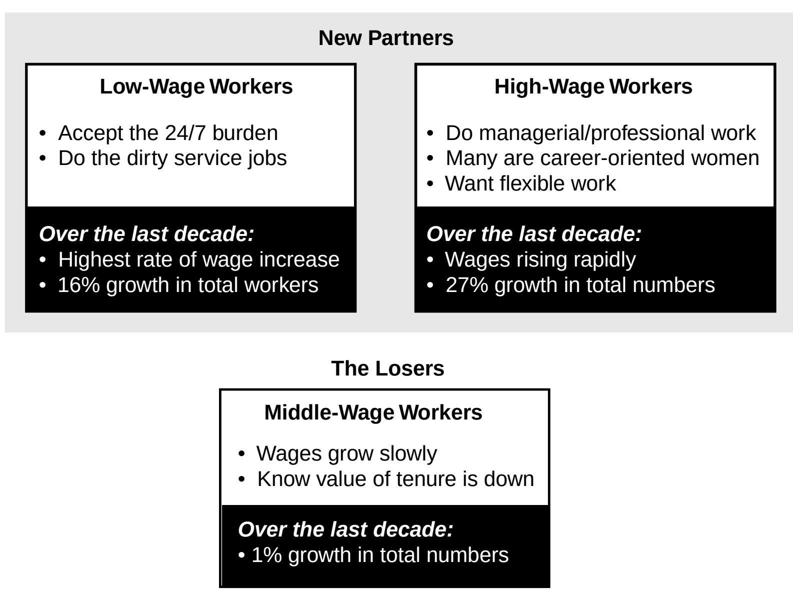
- *Flexible organizations.* The most obvious solution for companies is to build flexibility into their organizations—to find people with limited skills who, with the support of technology, can answer the inquiries and meet the needs of the new consumer 24 hours a day. This means heavy investment in capital equipment and training.

- *Service workers.* Service workers will be an increasingly important component of the 21st-century economy. Many essential service workers come with relatively few skills and fill relatively low-wage positions. Organizations that know how to manage their large numbers of low-wage workers have a unique undervalued skill that will be a real competitive advantage in the New Economy. Look for organizations like the United States Postal Service, Wal-Mart, and McDonald's to become the role models for an increasing number of firms that want to keep regular contact with a wide range of consumers.

• *The comeback of hierarchy.* Two factors favor the comeback of the old hierarchical system of running organizations. The first is the aging of the baby boomers, which will lead to a gradual retirement of a large number of workers over the next decade. The much smaller cohort that follows them is likely to produce fewer experienced leaders for a much larger group of young workers. The second factor is the need to coordinate large numbers of service workers who have a wide range of skills to respond to a wide diversity of consumer needs. It may be that tightly knit, command-and-control hierarchical-style organizations will be the true winning models by 2010. Such organizations can present a seamless interface to their customers while delivering flexible services at relative low margins for large-scale enterprises in a range of consumer-oriented services.

• *A unique political coalition.* Politics is often defined by splits between the "haves" and the "have-nots." But in the emerging new labor market, we could see a brand-new political coalition between those in the upper wage groups and those in the lower groups, both of whom benefit from the current economy. These groups have every incentive to continue the benefits of the New Economy and defend them against the increasing complaints of the middle earners, who will find themselves threatened on every side and will seek protection and security. While the middle pushes the government to protect jobs, the edges may be

Figure 79
The New Workplace Partnership



Source: Institute for the Future

more interested in retaining a flexible economy. This is similar to the great "Tory Revolution" in Europe in the 1880s, when the conservative upper classes gave employment, health, and social insurance to the working classes to build a political coalition that ousted the middle-class liberals from power.

• *Stymied middle-class aspirations.* If the real dynamics of job growth are at the upper and lower ends of the pay spectrum, it may make the aspirations of the lower class to break into the middle class more difficult to achieve. Career paths for workers or their families, especially for those with less than a college degree, may be blocked by the dearth of middle-level jobs in a dual-track society. The social frustration of hard-working young people, community college attendees, immigrant families, and others could taint the American dream and have broad social repercussions. This backlash may take the form of protest politics, social unrest, and even rising crime rates.

• *A more polarized society.* As the number of workers in middle-level jobs decreases, society will be much more polarized, with a much larger portion of well-to-do people, and a good portion of people in decent but relatively low-income positions. This bifurcation of the income distribution will make companies' attempts to build and maintain large-scale market penetration much more difficult. It will complicate branding, advertising, product design, and the types of information companies make available to consumers. Consumer businesses may essentially have to put into place two-pronged marketing strategies to reach the widest possible customer base. Targeted, interactive marketing will become even more critical.

—Gregory Schmid

New Consumers Raise the Risk Threshold

As new consumers become better educated, more affluent, and more effective in using technology to gather information, they are gaining the confidence to assume greater risk. That is, they are more willing to trade the possibility of failure or loss for the benefits of a wider range of choices. This will have tremendous impacts on marketplace decisions ranging from investing behavior to privacy regulation.

Redefining Risk

Risk is the possibility of loss or danger. To assume risk is to accept a greater degree of danger. Risky events—a tornado, a car accident, or losing a job—have a low probability of occurring for any individual at any given time, but if they do occur, they can have disastrous or even tragic consequences. Because such events are likely to occur somewhat randomly, they are difficult for individuals to anticipate and prepare for on their own. Thus, throughout history, protection against individual risk has often been accomplished by collective activity—groups of people acting together to mitigate the effects of life's disasters when they occur.

Private insurance and government social programs, for example, have been established to protect against some of the most obvious risks: fire and accidents, old age and failing health, unemployment and disability. In exchange for these protections, people accept some limitations on their actions, pay for the protection, or both. Table 19 shows some of the risks for which 20th-century society has accepted community action as the best protection.

The government often plays a key role in such community efforts. The government can establish programs (e.g., Medicare and Social Security) or provide a regulatory framework for protecting individuals (e.g., the Food and Drug Administration [FDA] to check the safety of new foods and drugs). At an even more fundamental level, laws and the police protect against theft, bodily injury, and fraud, while the national defense system protects against external threats to life, property, and security.

Important private sector initiatives mitigate risk as well. The best example is the insurance industry, which accounts for more than 2% of GDP. Individuals pay into the insurance pool, and if something goes wrong, the insurance company covers the loss with money from the pool. Individuals can also protect themselves by entering contracts, by submitting claims through the law courts, and by joining local groups, such as AAA or the Kiwanis, that can provide some form of support. Even the family can be seen as a structure designed to support individuals against the myriad economic and social risks of having and raising children.

While mutual support against risk is a good thing in general, there are always costs involved. Government programs cost consumers money in the form of higher taxes, for example. Also, in its programs' various rules and regulations, the government sets boundaries on institutional and personal activity. To achieve good air quality, to name one simple example, companies must meet certain environmental standards at their own cost, and individuals must get their cars inspected, also at their own cost. Private insurance schemes impose premiums, and insurance companies can set rules (e.g., clients have to go to certain doctors, follow specific patterns of treatment, and stop indulging in risky behaviors). In the realm of law, contracts and litigation impose mutual responsibilities on the parties involved. Collective action almost always limits personal freedom.

Table 19
Examples of 20th-Century Society's Protection Against Personal Risk

	Risks	*Protections*
Life	Unexpected death	Monetary benefit
Safety	Disability	Monetary benefit
	Poor health	Health insurance
	Old age	Social Security and mandated company pensions
	Dangerous food	Food and drug regulation
	Harmful products	Product and safety regulation
Property	Natural catastrophe	Property insurance
	Theft or fraud	Law, police, and courts
	Wrongful action	Tort law
	Financial investment	Government regulation
	Intellectual property	Patents and copyrights
Position	Job security	Unemployment insurance
	Family disputes	Courts and family law
Social	Untrained workers	State-sponsored education
	Discrimination	Rights to access, such as public accommodations and the Americans with Disabilities Act
	Quality of life	Environmental protection agencies
	Privacy	Rules for gathering, storing, and using personal data

Source: Institute for the Future

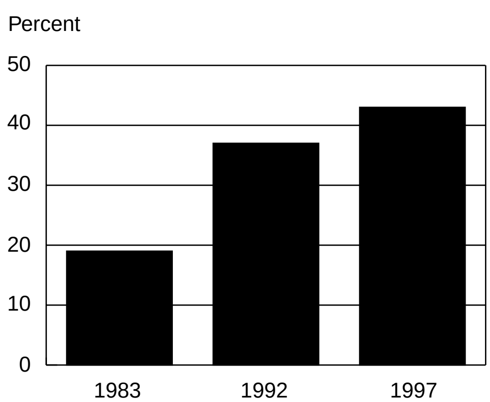
New Consumers Bring New Attitudes Toward Risk

With the greater confidence and resources that come with higher education and larger incomes, new consumers are less susceptible to some of life's risks. By definition, new consumers live in households with high earnings, often with two independent sources of income, and high levels of savings and investments. Their higher level of educational attainment than that of other consumers means that they have prospects for a wider selection of jobs, shorter periods of unemployment, and an increased likelihood of much higher lifelong earnings. They also have better access, by means of technology, to important information, and thus are better able to prepare for and to handle many risky situations.

As a result, the new consumer is moving away from traditional, collective forms of risk protection to assume risks for themselves. With higher levels of confidence in their ability to gather and utilize information effectively, new consumers appreciate—even demand—the benefits of a greater range of choices. They are willing to take more risks because they can see the potential rewards. They also see the benefits of keeping some important decisions in their own hands rather than putting them in the hands of others.

Although new consumers accept a wide network of individual risk, they are not giving up all collective protection. In fact, they may be more active in demanding protection for those programs that serve them well, such as Medicare, Social Security, and the Federal Reserve guarantees of the financial system. On the whole, however, there are an increasing number of cases where new consumers are gradually extending their own personal risk at the expense of social protection.

Figure 80
Much Wider Spread of Investment
(Percent of households with shares in public companies)



Source: Federal Reserve, Survey of Consumer Finances.

Where the Risk Boundaries Are Changing

We have identified five major areas where new consumers are extending the boundaries of risk:

- Personal investing
- Job security
- Paying for extra education
- Trading personal information for product information
- Speeding up the FDA

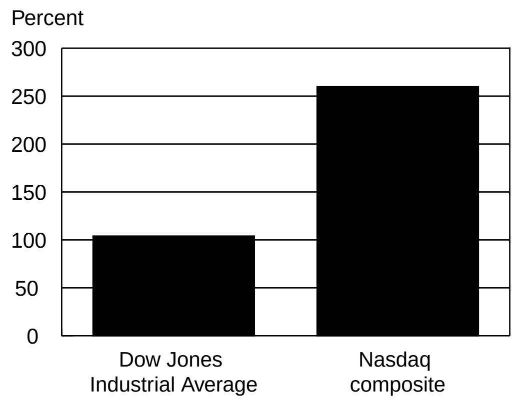
Personal Investing

In the past few decades, the character of individual investing has changed dramatically. For one thing, the percentage of families holding shares in public companies has grown enormously (see Figure 80). At the same time, the relative importance of shareholding in the mix of household savings has increased as well. In just the last decade, for example, the percent of household assets held in shares has risen from 20% to 33%. Households are much more willing to place a greater portion of their assets in these types of higher-risk/higher-reward holdings.

Even in the stock market, the new investors are much more willing to make riskier investments. An increasing amount of investment—both in individual shares and through mutual funds—are flowing into the riskier, technology-based start-ups. Indeed, the focus of much investment over the past five years has shifted from safer and slower-growing Dow blue chips to more speculative investments in newer companies on the Nasdaq (see Figure 81).

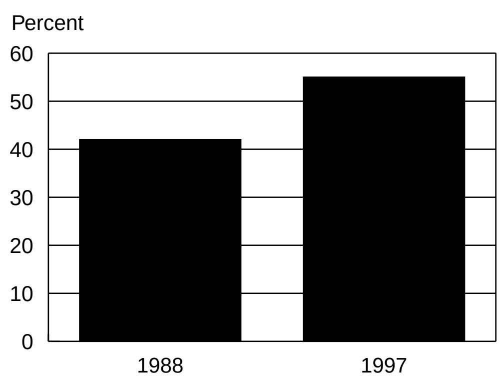
Another reason for the increase of investment in stocks and mutual funds is that new consumers are taking greater control of their retirement savings. During the 1990s, the share of adults who thought their prime source of retirement funding would come from Social Security fell from 49% to 29%. Indeed, new consumers regard their pension plans as the key to retirement income and have acted to gain greater control of them. The most common way is to shift their company pensions from defined-benefit plans (in which the company maintains control over the pension reserves) into defined-contribution plans (in which companies contribute funds into a pension program controlled by the worker) (see Figure 82). Though defined-benefit plans offer a set amount of future pension payments based on a percentage of current salary, defined-contribution plans put a set amount of money in the hands of the worker, with the possibility of much greater returns—and the risk of much greater losses. At the same time, the defined-contribution plan

Figure 81
Nasdaq Exchange Attracts More Funding
(Increase in share values, 1996–2000)



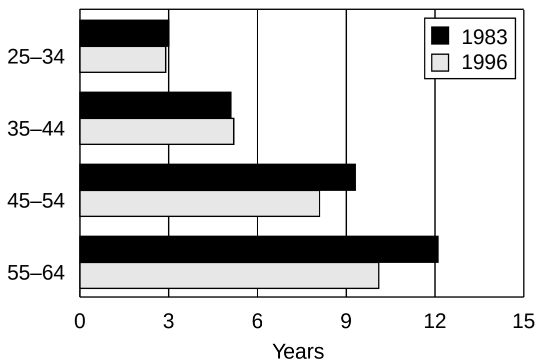
Source: Dow Jones

Figure 82
Consumers Take Control of Their Pensions
(Percent of pension plans in defined contribution plans)



Source: Federal Reserve, Flow of Funds Accounts.

Figure 83
More Workers Accepting Shorter Tenure on the Job
(Median years of tenure, by age)



Source: U.S. Bureau of Labor Statistics

reduces a firm's long-term commitments and eases its bookkeeping records and potential future liabilities.

Job Security

More workers today are interested in jobs that offer more immediate returns in the form of income or job satisfaction instead of the traditional security of long-term employment. As a result, workers are moving from job to job more than they used to.

One measure of this greater mobility is job tenure. The number of years workers stayed with a single firm fell substantially in the 1990s (see Figure 83). Another measure is entrepreneurial activity (i.e., the attempt to start a new business or to expand an existing one), which is currently very high in the United States. More than 8% of the workforce is involved in such activity, well over the average rate of 3% in other North Atlantic countries. Both of these measures suggest that new consumers are willing to take unprecedented risks upon themselves, in the hope of achieving unprecedented gains.

Paying for Extra Education

Given the value of education in the marketplace (see the "Higher Education, Higher Participation" article), more young people are willing to pay for their education themselves, whether public or private. This is especially true of graduate school; many students are willing to borrow money to pay for medical school, law school, business school, or education training today for the long-term payoffs tomorrow.

This means that many more young workers with college or graduate degrees are carrying sizable loans into the job market. Indeed, the amount of the federal portion of the student loan market jumped from an annual rate of $13 billion in 1990 to almost $33 billion in 1999 (see Figure 84). As a result, young workers—confident in their work abilities and the value of education—are entering their work lives with the clear need to generate high earnings; and they are willing to take risks early in their careers to make this happen.

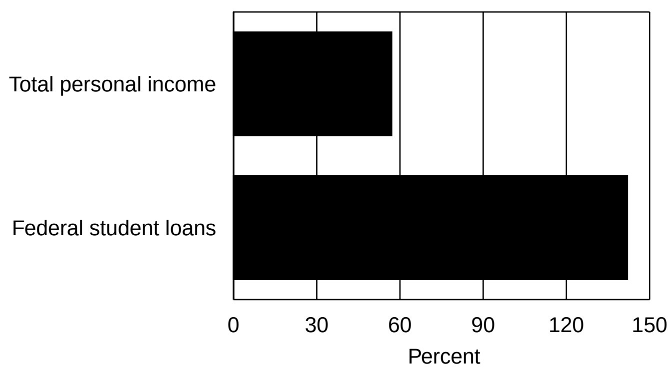
Trading Personal for Product Information

Although new consumers are worried about the security of their personal information—more than 80% say that they are concerned about threats to their personal privacy—they also appreciate the value of relevant information in making life's decisions, big and little. New consumers thus are willing to experiment with companies that want to gather and utilize personal information about their interests, inquiries, and transactions—if they can obtain information about more relevant products and services. Indeed, 65% of adults who have been to college or who live in households with more than $50,000 in income say that it's a good thing to exchange personal information for more relevant product information.

Speeding up the Food and Drug Administration

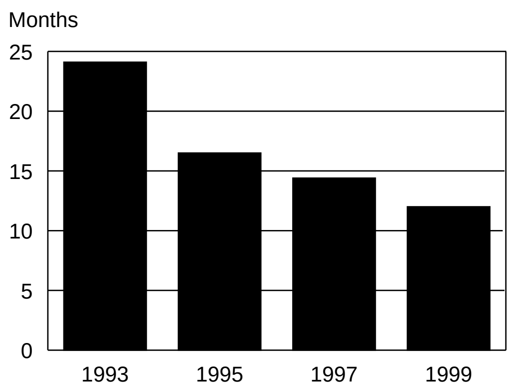
In recent years, there has been growing pressure to speed up the process of approving drugs through the FDA. Patients with AIDS and cancer have been especially active in pushing for quicker responses from the agency in getting new drugs into the market for people who want to take some personal risk. The FDA has responded by speeding up some of its approval processes (see Figure 85). The speeded-up process raises the risk of drugs reaching the market without the thoroughness

Figure 84
More Workers Take Bigger Risks on Their Future
(Percent increase, 1990–1999)



Source: U.S. Department of Education

Figure 85
FDA Moves to Increase Speed of Approval
(Median total approval time for new drugs, in months)



Source: U.S. Food and Drug Administration, Center for Drug Evaluation and Research, *CDER 1999 Report to the Nation: Improving Public Health Through Human Drugs*, 1999.

of the testing done in the past. But regulators—and the citizens pushing them—accept that the benefits of moving potentially important drugs through the process outweigh the increased risk.

Directions in the Next Decade: More Risk Taking

Such developments are a clear indication that numerous consumers—especially those with higher incomes and more education—are willing to explore ways of increasing their range of choice, even if it means accepting greater risk. Each example in the previous section suggests that well-educated, relatively well-to-do citizens are showing a willingness to increase the risks they take, in exchange for potential rewards. In each case, the reward provides a wider range of choices. As the number of new consumers grows and as new consumers become more accustomed to taking chances and accessing the rewards associated with such chances, we expect a greater percentage of people to accept increasing risk.

What Does It Mean?

Evidence abounds that new consumers are willing to take more risks than traditional consumers are. While these changes are significant, it is important to keep all this in perspective. Many risk-avoiding activities continue just as they always have. People still invest in insurance of all kinds—life, health, property, and casualty. People still support government insurance and other social programs. People still turn to the legal (or justice) system for protection against fraud in the new markets on the Internet, to name one example.

But overall, there has been a gradual movement toward accepting more risk. Across a broad range of activities, more citizens—especially new consumers, who have more income and more education than traditional consumers—are willing to put more at risk in exchange for choice and control.

For businesses, this pushing out of the boundaries of risk by their best customers will have some of the following consequences:

- *More experimentation by consumers.* Consumers are likely to be less loyal to brands and more willing to try new products and services. Look for a greater turnover of customers as retention becomes more difficult without constant product or service adaptation. On the bright side, it may be easier to convince new consumers to try a new product. As the dot-com experience shows, a lot of new consumers will flock to Web sites that offer new products in new ways, or with special bargains or discounts. Keeping those customers or getting them to come back is a much bigger challenge, however.

- *Privacy concerns make communication more difficult.* Consumers will want more responsiveness from businesses. As a result, they will be willing to give more information about themselves, but only to those businesses that utilize it effectively and respectfully. New consumers will become increasingly less tolerant of information that is irrelevant, and of companies that abuse or mishandle their personal information. Sending out unsolicited messages that aren't relevant may become more of a liability than a benefit.

• *Worker retention will be harder.* Tenure, especially that of workers with skills in great demand, will continue to shrink. Old-fashioned virtues, like job security, movement up a salary scale, and a nice pension, will carry less clout with the new risk takers. As members of the baby boom generation begin to retire over the next decade, the value of young people with skills and experience will go up in the marketplace. Look for the mobility of skilled workers to increase over the next decade.

• *Rethinking how to raise funds.* It will be trickier for companies to position their public shares in the face of investors who are looking for more options with better returns, even for companies with higher-risk/higher-reward profiles. Mature companies must be willing to take real risks to open new markets, but must also be ready to take big hits when things go wrong.

• *Less tolerance.* With more at risk, new consumers will be more attuned to the bottom line. Whether they are employees, or customers, or voters, they will be less likely to accept mistakes. Companies that introduce a bad product, or that have a failure of service at a key point, may lose those consumers for a long period of time. (It will be interesting to see how Ford and Bridgestone/Firestone emerge from their recent tire recall debacle.) As new consumers become greater risk takers, many companies may respond by becoming *more* reluctant to take risks—because of the dire consequences of failing. Companies shouldn't stop pushing the edge; they just have to make sure they do it right.

—Gregory Schmid

Intellectual Property Management in the New Economy

The U.S. Constitution grants Congress the power to encourage the right of invention by granting temporary exclusive use of a discovery to the inventor. Such rights to intellectual property (IP) have become extremely important to the financial health of many companies. But new consumers, empowered by open access to information of all types, are questioning some of the basic tenets of those protected rights. The result may be an interesting challenge to the profitability of many companies in the future.

For the past decade, many businesses, particularly those in the high-tech industry, have claimed rights to IP at an unprecedented rate. Firms are extracting enormous value from their IP. The boom in discovery during the 1990s created tremendous wealth for these innovators, but it also introduced new dangers. Specifically, these firms are becoming increasingly dependent on the temporary monopolies that IP law currently provides. While the value of knowledge will continue to increase, the way its ownership is regulated could change. Several forces could conspire to change the way IP is owned in the next decade, making reliance on IP monopolies for future profit a risky strategy.

One of the major forces for change could well be new consumers. While new consumers have enthusiastically embraced the discoveries that IP law has helped stimulate, they are becoming increasingly aware of the costs associated with the temporary monopolies granted by IP law. Widespread adoption of the Internet, and the easy and inexpensive exchange of information the Internet enables, has led consumers to experience firsthand the restrictive flip side of IP law. As consumers continue to encounter directly the social costs of IP law, they are finding ways to bypass some of the laws at such a large scale that they may begin to influence the way IP law is administered.

Who Pays and Who Benefits

Regulation of IP has long existed as a compromise between two conflicting social ends: providing an environment that stimulates innovation and enabling society to enjoy the fruits of that innovation. The founding fathers of the United States thought IP important enough to place legislative authority for its protection in the Constitution.

IP law comes in a variety of forms, including copyrights, trademarks, and patents. Copyrights protect forms of intellectual expression, and trademarks protect a firm's identity. With patents, governments grant inventors temporary monopoly power over their inventions so that inventors can recover the time and expense it took to reach their discoveries. This system of temporary monopolies provides rewards to encourage R&D that would otherwise be too expensive to undertake.

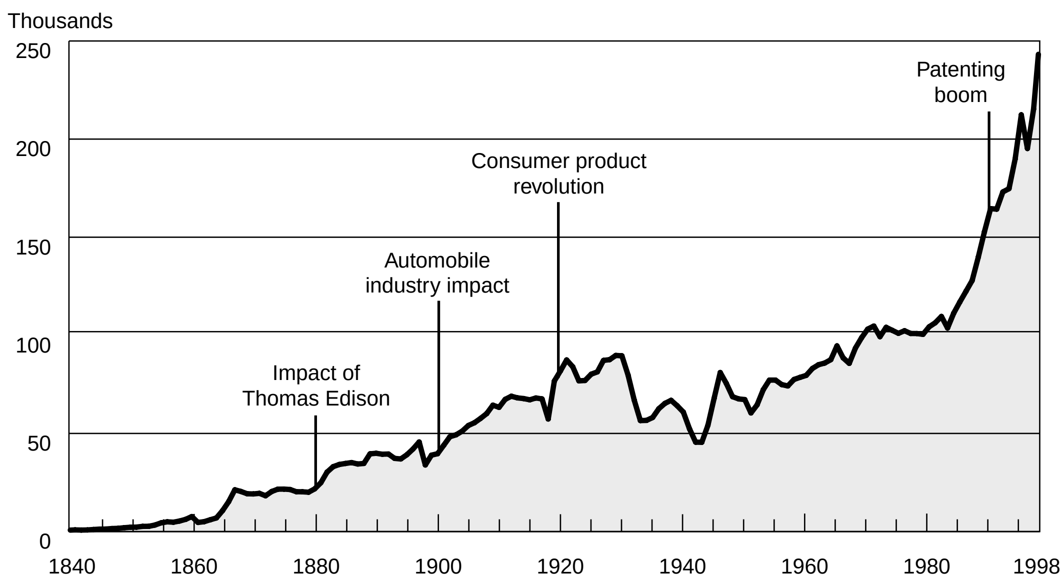
While consumers reap benefits from these innovations, they also incur costs associated with the temporary monopolies. In particular, they pay higher prices and may actually be prohibited from experiencing some aspects of the fruits of innovation that would otherwise be in the public domain. Recent developments—particularly the surge in patenting activity and the widespread consumer adoption of the Internet—are raising awareness that the cost to society of current IP law may, in certain cases, outweigh the benefits.

The Patenting Boom

Since Thomas Jefferson issued the first patent in the United States in 1790, the U.S. Patent and Trademark Office (PTO) has issued more than 6 million patents (see Figure 86). Recently, the issuance of patents has accelerated, such that one-third of all patents ever issued were granted in the 1980s and 1990s. While the rate of acceptances versus denials has remained roughly the same, the number of applications has grown rapidly. Patent applications grew by 45% in the 1990s, more than twice the rate of any other decade since World War I.

Two factors have contributed to this boom. First, the PTO has demonstrated an increasing bias toward granting, rather than rejecting, patents. The patent office was restructured in 1991 so that it is no longer funded by taxpayer dollars but rather by the fees of the patent applicants themselves. With these fees approaching $1 billion annually, patent applicants, not taxpayers, have become the office's customers. The office is now structured with incentives for examiners to increase the flow of applications. Indeed, the PTO states that two of its top goals are to reduce the time spent on each application and to improve customer

Figure 86
Patent Applications Are Booming
(Annual patent applications in the United States, 1840–1998)



Source: U.S. Patent and Trademark Office, 2000.

service. The lack of an opposition system, as exists in Europe, whereby competitors are given a chance to contest each patent, adds to this bias by making it much easier for the office to grant rather than reject a patent.

With shorter product life cycles, global markets, and tighter profit margins, a 20-year monopoly on an invention offers businesses a rare opportunity to set prices without regard for competitive pressures.

The second factor is that businesses have begun to recognize more fully the value of patents. With shorter product life cycles, global markets, and tighter profit margins, a 20-year monopoly on an invention offers businesses a rare opportunity to set prices without regard for competitive pressures. Businesses have taken full advantage of the system by greatly expanding the scope of what is considered patentable. Microsoft's Bill Gates observed in 1991: "I feel certain that some large company will patent some obvious thing related to interface, object orientation, algorithm, application extension, or other crucial technique." Gates's solution? "Patenting as much as we can." Patenting became a war in the 1990s, a war that had a dramatic impact on how IP is treated.

Profiting from Patents

In the 1990s, businesses began to exploit IP as a significant and direct generator of revenue. First, like Microsoft, these businesses became very aggressive in what they submitted for patents. Second, they began to treat IP as a liquid asset. Firms could either use their patents themselves or license that technology to the highest bidder. This further increased the value of their IP. Pharmaceutical firms, for example, now derive more than a third of their revenues by licensing technology to other firms. IBM, the holder of the most patents in the United States, collects more than $1 billion per year in royalties from patents licensed to other firms. And Texas Instruments derives more than half of its profit from licensing its patented technology to other companies.

New Types of Patents

The surge in patenting has pushed IP into new content areas. In recent years, companies have begun applying for more abstract patents, some of which cover the ways they conduct business. These so-called "business process" patents cover general management innovations, such as how Dell takes orders for its custom-built computers, or how Amazon's Web site allows return customers to make purchases with a single mouse-click. A landmark court case in 1998 upheld State Street Bank's right to patent its system of allocating investments within its mutual funds. Rejecting arguments that these types of patents were "obvious" and represented "basic tools" necessary for conducting such a business, this decision led the way to an even looser interpretation of what is patentable.

It is also important to note that it is not only patent law that is expanding. IP laws in general are expanding to cover areas like digital content, forcing all involved—from companies to the courts—to rethink what is covered by copyright and how such content can be used and shared.

In the current IP environment, holders of patents seem to be very adequately protected against infringement, yet consumers are becoming increasingly aware that such protection comes with a price to them. And history shows that when there is public sentiment that the price is too high, the interpretation of IP laws can shift.

Drivers of Change: Sophisticated Consumers with Powerful Tools

Access to new information technologies is making consumers more aware of the costs associated with IP law. Consumers have certainly benefited from the innovations of the 1990s. New treatments for diseases have improved health, communications devices have improved consumers' access to information, and improved manufacturing technologies have made many consumer products better, as well as cheaper. Despite the improvements in their lifestyles, however, some consumers are becoming more aware of the costs they incur as a result of temporary monopolies on such things as prescription drugs, music, movies, and written material. Better access to more information and frustrations with restricted access could lead to a backlash.

Sophisticated and Informed Consumers

New consumers are using more information, from more sources, for decisions that are important to them. The Internet gives them access to a global base of instant information. That these consumers are relatively well educated also enables them to make sense of the complexities of IP law.

The Internet also provides a way for concerned consumers to organize and exchange knowledge on IP. Some of the most influential voices articulating the costs to consumers associated with IP law, such as the Electronic Frontier Foundation, depend on the Internet as a medium for discussion. That organizations such as these have become influential participants in the public debate suggests the degree to which this channel has moved into the mainstream.

Experiencing the Boundaries of Intellectual Property Directly

New tools are causing consumers to encounter the boundaries of IP law in their daily lives. The inconvenience of photocopying printed documents used to put a practical limit on how quickly copyrighted material could be replicated. Now that content is available digitally, electronic copies are as good as originals. E-mail allows easy distribution to a large number of interested recipients, taking the limits off the exchange of all forms of information, and making that exchange practically free. Further, many new home PCs now enable consumers to make copies of their music compact discs and DVD movies quickly and easily, and to share them with others. While the debate rages over whether these activities are legal, consumers are gaining a poignant understanding of IP law by experiencing its effects firsthand.

Circumventing Intellectual Property Law

This new understanding of IP regulations has led consumers to express their dissatisfaction by finding ways to circumvent IP law in several ways. Advances in communications technology—in particular, the widespread use of the Internet—have given consumers a way to exchange IP for free. The Internet and globalization are enabling consumers to bypass IP law.

Entertainment

The popularity of Napster—the software program that allows users to trade music files over the Internet—provides a stunning example of how willing individuals are to break the law. More than 30 million people use the service to avoid IP laws, in this case copyrights, that protect the files they trade. And while Napster and similar programs are unlikely to remain free, they are likely to break open the record industry's control of IP and bring down the price of music. In October 2000, Bertelsmann, one of the world's largest record companies, decided to drop its law suit and enter into a joint venture with Napster to create a membership-based music exchange service. This might be a good indication of the direction IP is likely to take, as consumers use technology to find ways to circumvent laws when the costs are high. Indeed, a similar service, called Scour, has emerged, and allows individuals to use their computers to exchange full-length movies.

Pharmaceuticals

Consumers are also using new tools to circumvent unsatisfactory laws in health care. Consumers are becoming particularly proactive with prescription drugs, for which they pay a much higher percentage of costs out of pocket relative to other health care items.

While a drug is under patent protection, pharmaceutical companies typically price very aggressively, routinely obtaining profit margins of more than 90%. Once the drug moves beyond its period of exclusivity, competitors can begin to manufacturer the same chemical compound generically, and consumers can purchase the drug at a price close to cost—which can make the price fall by up to 95%.

With the costs of discovering, developing, and testing a typical new drug totaling about $500 million, some period of exclusivity is certainly necessary to encourage firms to invest capital in promising therapies. That the pharmaceutical industry is among the world's most profitable industries, however, may indicate that monopoly prices are too high, or that the current period of exclusivity is too long.

The global economy is giving U.S. consumers a way to circumvent drug patents. Consumers are finding a way around existing IP law by purchasing drugs outside the United States, where they may not be protected. Developing countries such as India, Brazil, and Mexico have much looser IP protection for prescription drugs—in many cases, patents in these countries cover how a drug is manufactured rather than the chemical structure of the compound itself. This allows manufacturers to legally create copies of expensive patented drugs by tweaking a few steps in the manufacturing process. These manufacturers have also developed modern facilities that produce high-quality generic drugs very cheaply. AIDS and cancer patients have shown that people faced with fatal diseases will go to great extremes to find alternatives to high-priced restricted drug regimes—including looking in other countries. Even U.S. consumers with less serious conditions regularly cross into Mexico to buy medication at a fraction of the U.S. price.

Computer Code

A third example is the open-source movement among consumers of computer operating systems—the computer programming community. Frustrated by the limitations of

Microsoft's patented Window's operating system, a group of programmers created a competing system, called Linux, whose source code is completely open. Starting with a core kernel of code, the initial programmers opened up development of source code to the worldwide computer programming community. Individuals contribute chunks of code to the system, which a small team of computer scientists administers. There are no patents or copyrights on the technology, and the source code is free for all to see and use.

As a result, Linux is being increasingly adopted by businesses that cannot tolerate the tendency of Microsoft software to become unstable after lengthy, heavy use. This is a good example of how collaboration can circumvent IP law. Since IP law prevented them from improving on an existing product, they collaborated and built a new one, starting from scratch. The Linux community is essentially arguing that IP law stifles innovation. Interestingly, their archrival, Bill Gates, argued the same a decade earlier: "If people had understood how patents would be granted when most of today's ideas were invented, and had taken out patents, the industry would be at a complete standstill today."

A Shift in Consumer Attitudes Toward Intellectual Property

Some dismiss these aforementioned consumers as fringe law-breakers, involved in piracy of IP. But the quantity of individuals involved, and the broadening scope of IP circumvention, indicate that there is something more to it than that. These examples may represent signs of a shift in public sentiment regarding IP regulation—a shift from an attitude of uninformed indifference toward a recognition of the costs associated with IP law—and growth in the perception that, perhaps, there are too many patents, or that the period of temporary monopolies is too long. There is historical evidence that suggests that this type of attitude shift can affect the way IP law is interpreted.

These examples may represent signs of a shift in public sentiment regarding IP regulation—a shift from an attitude of uninformed indifference toward a recognition of the costs associated with IP law.

A Precedent: The Case of Thomas Edison

The last decades of the 19th century included a period of intense innovation, similar to the 1990s. Perhaps the embodiment of that age was Thomas Edison, the record-holder for patents by an individual. By the end of a truly inventive career, Edison held 1,093 patents, having made groundbreaking discoveries in electric lighting, phonographs, batteries, and telegraphs, among other things. Indeed, the last time that patent applications grew faster than they did in the 1990s was in the 1870s and 1880s, the peak of Edison's career.

But while the public embraced Edison as a folk hero and benefited tremendously from his inventions, at a certain point, public sentiment began to turn against him. Some in the press referred to him as a "patent shark," and the courts soon called into question whether IP law had gone too far (see text box on page 164). During the next 20 years, patent growth dropped from 22% per year to the single digits, and did not experience significant growth until the automobile industry began in earnest in the early 1900s. And though it is difficult to establish a direct causal link, such an extended lull in patenting activity suggests that the courts played a significant role.

While technology has evolved astonishingly since then, the U.S. legal system has remained remarkably stable. The courts, especially, are powerful conduits of public sentiment. As the ultimate arbiters of IP law, they may see current examples of circumvention of IP law more as an indication of broad public sentiment than as isolated examples of piracy. This could have significant implications on how IP is regulated in the next decade.

A Historical Precedent: The Supreme Court and Intellectual Property

In an 1882 case, Supreme Court Justice Bradley wrote: "The design of the patent laws is to reward those who make some substantial discovery or invention, which adds to our knowledge and makes a step in advance in the useful arts. Such inventors are worthy of all favor. It was never the object of those laws to grant a monopoly for every trifling device, every shadow of a shade of an idea, which would naturally and spontaneously occur to any skilled mechanic or operator in the ordinary progress of manufactures. Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention. It creates a class of speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the arts. It embarrasses the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith."

Source: *Atlantic Works v. Brady,* 1017 U.S. 192, 200 (1882).

Implications: The Future of Intellectual Property

The explosion of IP rights in the 1990s and the reactions of empowered consumers could force a rethinking of the ownership of IP in the next decade. Circumvention of IP laws is likely to continue and to expand into new areas. These changes will have profound implications on how businesses treat their intellectual assets.

Consumers Likely to Circumvent in Other Areas

Consumers' recent pattern of breaking through IP barriers is likely to expand into new areas in the next few years. Those instances when consumers encounter IP laws in their daily life are likely to be most vulnerable to change. The Internet itself, for example, is likely to see barriers fall. Companies such as Yahoo! and America Online increasingly filter their content to reward content providers that have paid for placement on these popular Web sites. Sophisticated consumers who have different criteria for what they are searching for—other than who paid the most for advertising—will find ways to access information with other, more objective, tools.

Similarly, the field of genomics, an epicenter of recent patenting activity, has the potential to be broken wide open by sophisticated consumers. At present, genomics firms are patenting human genes that include hereditary predilections to specific illnesses. The implications of using human genetic profiles to devise tests, to prevent disease, and to design therapies are far reaching. These technologies, however, will be vulnerable to consumer circumvention. First, because these technologies are closely related to personal health, we should expect consumers to become highly aware of developments in this field. Second, the potential impacts on personal privacy make the issue very sensitive and will raise further concerns. Finally, that the IP at issue consists of data, and is therefore very inexpensive to reproduce, makes circumvention a real possibility. Already, one company, Celera Genomics, has made some of its genetic sequencing data available for free, in part due to demands from sophisticated consumers and government threats that some of its patents would be declared invalid.

Tougher to Get Patents

One highly likely outcome of these trends is tougher scrutiny on what is patentable. Limits on business process patents will probably come first. The Business Method Improvement Act of 2000 will be debated in the next session of Congress, and may indicate a change in direction already. Further, the efforts to create a worldwide patent organization could bring European ideas, such as the opposition system, to the United States. This system allows competing firms to argue against granting a patent before the patent is granted. At present in the United States, the opposition process takes place in court, after a patent has been granted, and can be prohibitively expensive for opponents.

A second likely outcome is the creation of varying exclusivity periods based on the cost involved in discovering and developing each product. A pharmaceutical product that costs $500 million and takes nine years to bring to market requires a much longer period of exclusivity than does a 6-month-old Internet start-up's system for online shopping. The United States is likely to follow the example set by France, which grants patents of various lengths. When combined with tougher scrutiny, granting patents of varying lengths is likely to result in a system of generally shorter temporary-monopoly periods than today.

Maximizing the Value of Intellectual Assets

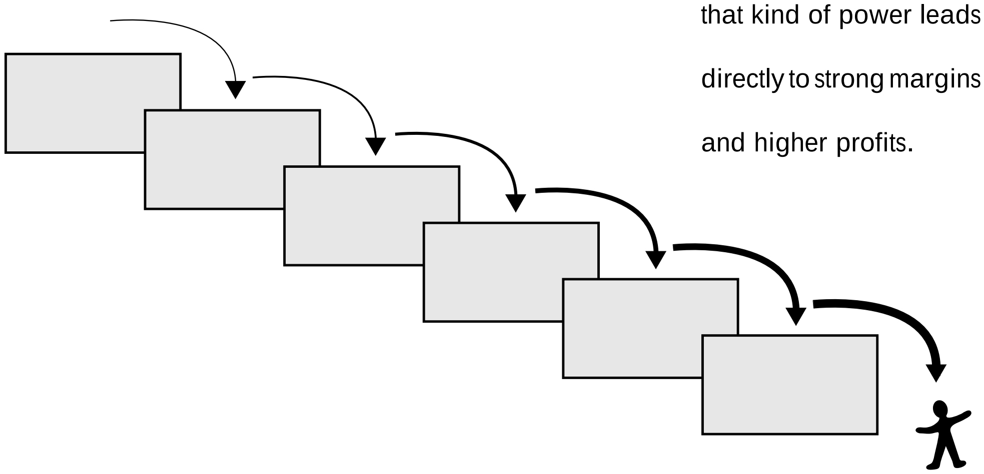
The potential changes in IP regulation in the next decade could have a profound effect on businesses—especially those that generate a large proportion of their profits based on the temporary monopolies associated with their discoveries. In no way do these changes imply that intellectual assets will become less important. Rather, increased competition and further advances in technology will make innovations and intellectual capital even more important. But the way those intellectual assets are managed will require change. Blanket strategies, such as Microsoft's "patenting as much as we can," will become less effective as IP regulation becomes more stringent. Defensive strategies—such as patenting work that blocks the incremental innovations of competitors—will represent a waste of a firm's resources as well. As the speed of innovation accelerates, and product cycles shorten, innovations covered by patents will increasingly become obsolete before their exclusivity period expires.

Strategies that fully exploit firms' intellectual capital will create value beyond the monopoly profits that the current system provides. As firms begin to tackle the looming R&D challenges of the next decade, such as those in genomics, they may find that the costs of development reach a new scale—a scale so large that even a firm with a trillion-dollar market capitalization and a 20-year patent can't afford to undertake a project and bring a product to market. These new breakthroughs will require the collaboration of many players with various intellectual assets and capabilities. It is perhaps in the way that groups of firms find novel methods of exchanging their intellectual assets—or building new types of partnerships—so they can each build incrementally on the assets of the others, that each firm can optimize the value of its intellectual capital.

—Greg Nemet

Consumers Are Revolutionizing the Supply Chain

The new consumers will have their greatest impact on the supply chain. Not just in their traditional role at the end of the chain where the retailers distribute products and services to the consumers, but all the way up and down the chain, influencing every decision that's made by every player. This is truly a momentous revolution—it could change the locus of decision making for every key economic activity. Like most revolutions, this one is about power, the power to make the important economic decisions about what is produced, when it is produced, and how much is produced. This decision-making power is what all players along the supply chain struggle for, since that kind of power leads directly to strong margins and higher profits.



The Traditional Supply Chain

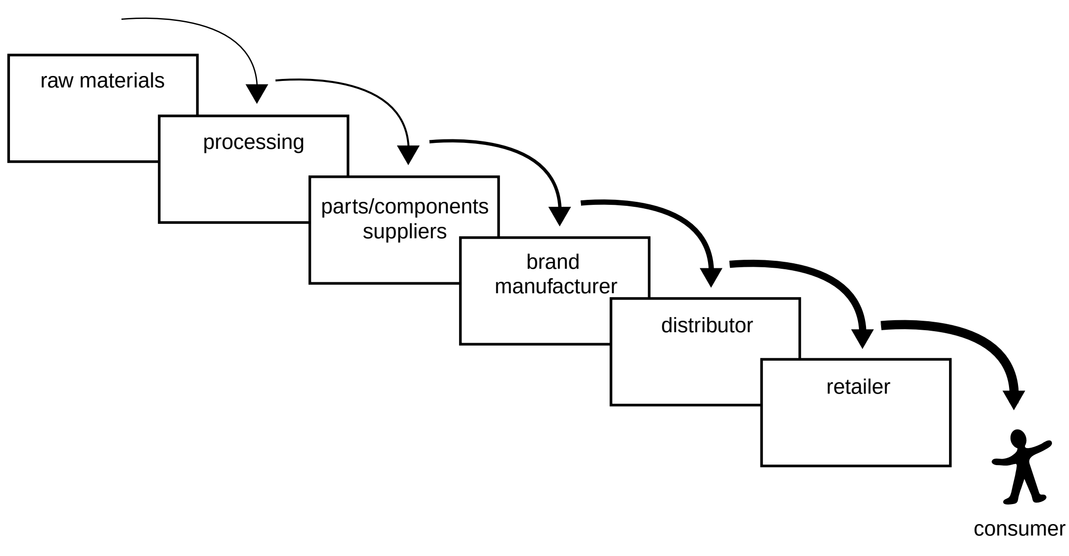
The supply chain is the traditional means of tracking the flow of goods through the production process to the final consumer. In the broadest view, the supply chain begins with the growing or collecting of raw materials, moves on to the early steps of processing, then to the manufacturing of parts, and to the assembly of the final product. Once the product is finished, it's shipped to the wholesaler, who moves it to the retailer, who distributes it to the final consumer (see Figure 87).

A number of organizations have grown up along the supply chain to help each link of the chain function more effectively. R&D groups contribute ideas that evolve into new products, for example. Telecommunications and infrastructure firms provide equipment that speeds the exchange of ideas. Consulting firms design new processes. Lawyers and accountants help ease the burden of running complex systems. Advertisers build brands and alert consumers to a range of choices. Bankers provide needed capital. And logistics and transportation firms link the movement of products along the chain. Although all of these components add complexity to the process, all are necessary to ensure that the chain runs smoothly (see Figure 88).

Power Along the Chain

There were three important shifts in economic decision-making power in the 20th century. We define this power as the ability to make the critical production decisions—what gets produced, where it is produced, how

Figure 87
The Traditional Supply Chain



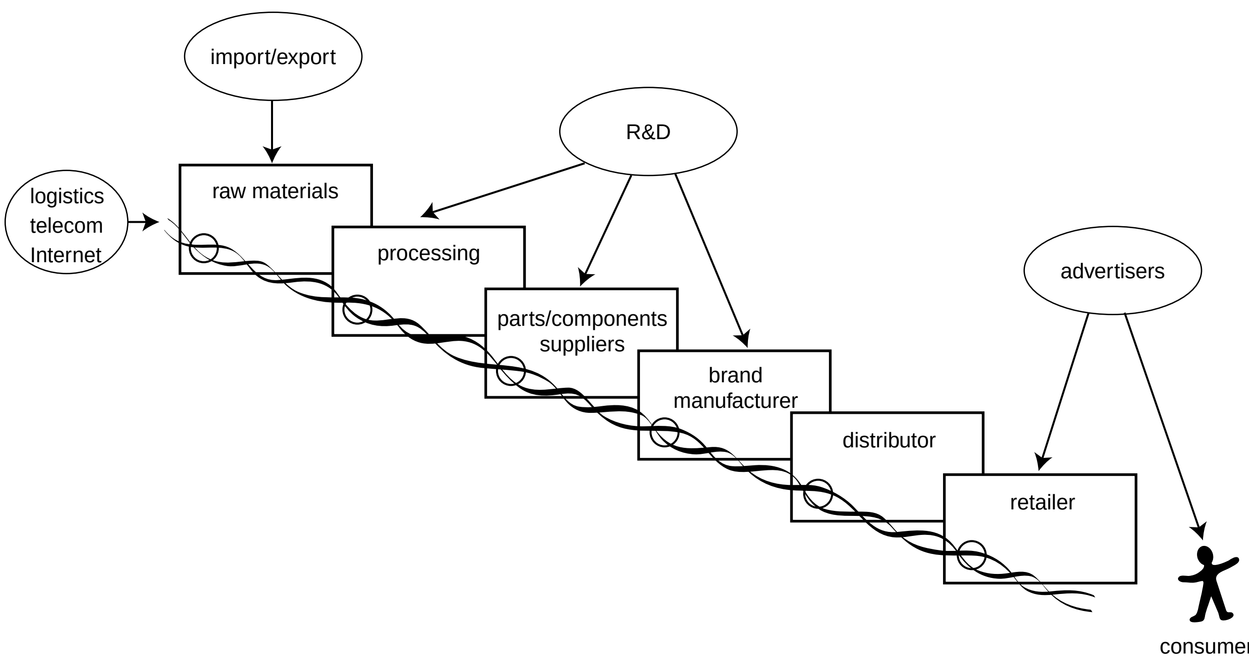
Source: Institute for the Future

much it costs to make, when it gets replaced, how it is distributed to customers, and at what price it is sold.

Early in the 20th century, real power lay with the raw material producers, the suppliers of basic materials, and the basic transportation infrastructure that could deliver bulky goods to market. The titans of industry included Standard Oil, U.S. Steel, Amalgamated Copper, U.S. Rubber, and the New York Central Railroad. By mid-century, however, with the emergence of the mass-consumer market in the 1920s and the post–World War II boom, the large makers of branded consumer products—General Motors, Ford, DuPont, Procter & Gamble, and Coca-Cola—came to dominate decisions along the supply chain. Toward the end of the century, as retailers began using information they gathered from consumers to respond quickly to product demand, to control inventory, and to manage their own shelves, the role of the retailer in making and influencing those key decisions grew tremendously (see Figure 89 on page 170).

Player by player, each of these supply chain power shifts moved decision making closer to the end goal—the consumer. As a result, today's consumers are coming to affect more decisions along the supply chain, more directly. What drivers will take consumers to the next level of power along the chain?

Figure 88
The Real Complexity of the Supply Chain



Source: Institute for the Future

The Drivers of Consumer Empowerment

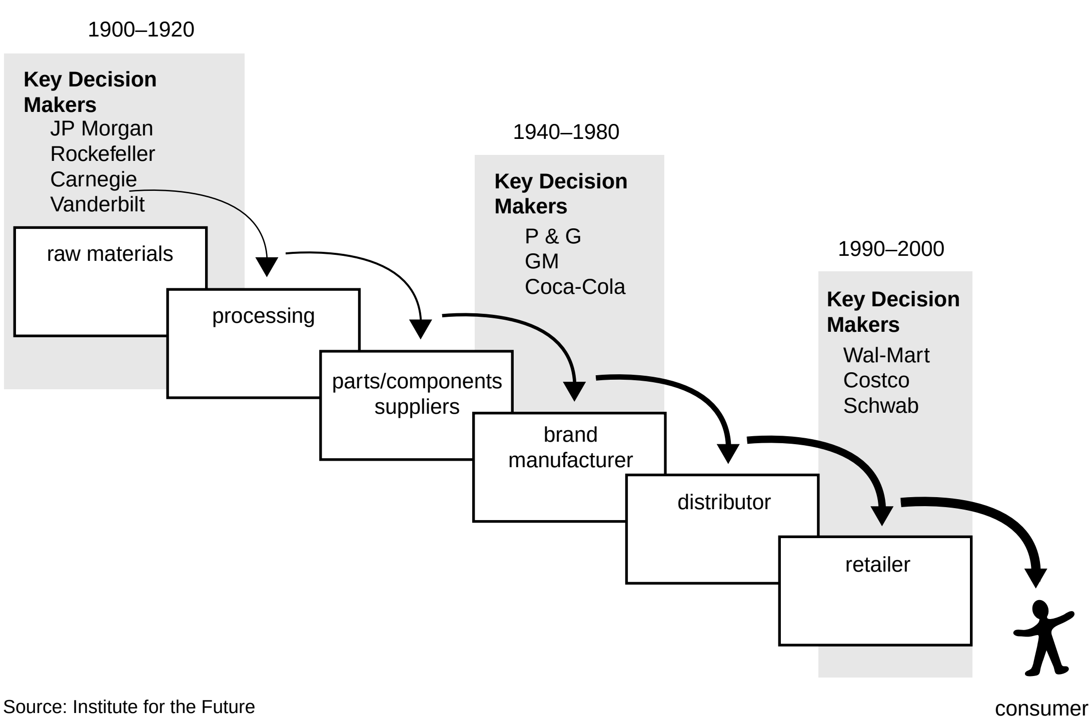
A number of factors are contributing to a new, more direct role for the consumer along the supply chain. They are familiar from earlier chapters in this *Ten-Year Forecast*—and from earlier *Ten-Year Forecasts* as well.

The New Consumer

New consumers—more educated, more affluent, more infotech savvy—are shaking up the power structure of the supply chain with their particular interests and concerns. These new consumers are interested in more choices, more control, better value, wider accessibility, and greater comfort. They are learning to use a variety of information resources to increase their ability to influence the system. Indeed, they are able to utilize new information technologies such as the Web to search across much wider selections for the particular goods they want. They can bypass local stores to search for brands and products on a national or international scale. They can readily find a greater variety of information describing characteristics of products they like, and the best ways to acquire them.

As workers, new consumers are learning the power of information to help make decisions at the office. They are bringing these lessons to the decisions they make as consumers. Thus, a growing portion of consumers is going beyond the product selection they get

Figure 89
Power Shifted Toward the Retailer



Source: Institute for the Future

from their favorite stores to search for products all over the world. Not every new consumer conducts this type of intensive search for every product, but for the items that are most important to them, consumers will go far afield for information that will help them find what they want at a price they can accept.

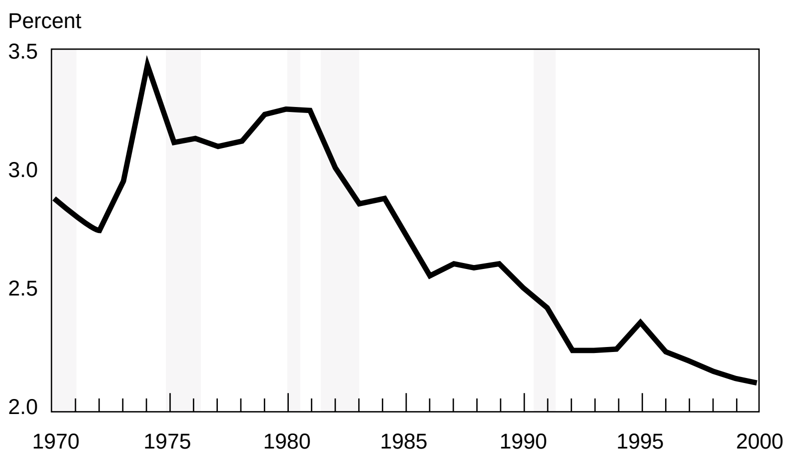
Empowerment from Information

Today, information is more readily available than ever before, and to more people. Information technologies enable information to be gathered and processed more quickly, and sent instantaneously along the supply chain. In this way, information about what is sold in the stores moves immediately down the supply chain to the producers and their suppliers. A few decades ago, such information was power. Firms that had the market information tended to hold onto it to increase their influence and control. However, it has become increasingly evident these days that sharing information is more valuable and useful for all concerned. When information is shared, it gives product manufacturers and their entire network of suppliers early indicators of change, and thus increases the chance for rapid and quick responses up and down the chain. Sharing information has helped logistics firms plan more efficient delivery patterns and has cut back dramatically on the need for large inventories. In fact, inventories in the United States have fallen by more than one-third in the past 20 years (see Figure 90).

Newer Production Technologies

Production technologies have changed as well. The most important improvement in the last century has been the building of scale economies in the production process. Large production runs have permitted a series of major economic benefits—standardization of labor

Figure 90
Dramatic Fall in Inventories
(Inventories as a share of GDP)

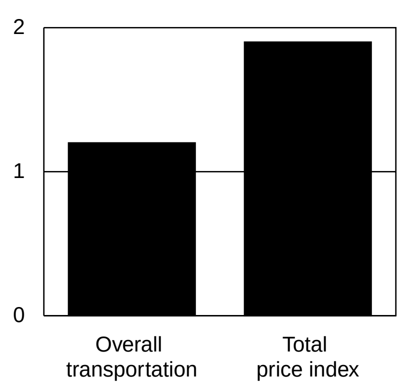


Source: Institute for the Future; U.S. Bureau of Economic Analysis.

tasks, large capital investments, building up of large inventories of goods so that continuous production could proceed, and rapid flow-through of product.

In recent years, we have seen technical improvements that have permitted more efficient, shorter runs. Computer-controlled assembly lines have increased the ability to change production lines quickly; more efficient power generators have allowed electricity generation in smaller units and smaller production plants closer to the consumer; smaller trucks and automated warehousing have enabled the delivery of small orders quickly; and the assembling of goods from a set of variable stations inside a single plant has allowed more customizing of products without losing all the advantages of scale. All of these trends have increased the ability of producers to deliver different options on final products, such as variations on operating and application systems on new computers.

Figure 91
Slow Growth in Domestic Transportation Costs
(Annual average fall in costs of moving goods by air, rail, or highway, and warehousing costs, 1990s)



Source: Institute for the Future; U.S. Bureau of Labor Statistics.

Improvements in Delivery

We are also in the midst of a transportation revolution. Newer transportation technologies, better information systems, and deregulation have all acted to open up the transportation market to new players, to lower the cost of moving goods, and to speed up the time it takes to move goods.

The cost of moving goods has been relatively steady for a long time. If we look at the 1990s, for example, transportation costs of all types have been growing at a very slow pace, almost 40% slower than the overall rate of inflation (see Figure 91).

In addition to the decline in the costs of transportation, there has been an explosion of new players and new financing in the logistics field. In the past year, we have seen successful IPOs by UPS and Deutsche Post, each raising more than $5 billion for growth and expansion. There has also been a series of combinations of freight and logistics players building up firms large enough to afford complex international support systems. Two examples are the Dutch Post buying international logistics firm TNT and Deutsche Post taking over control of DHL.

Each of these driving forces—the emergence of the aggressive buying habits of the new consumer, the empowerment by information, the movement of production efficiencies toward smaller runs, and major improvements in delivery options—is fueling the growing influence of the consumer along the supply chain. The results are transforming the way business is conducted the world over.

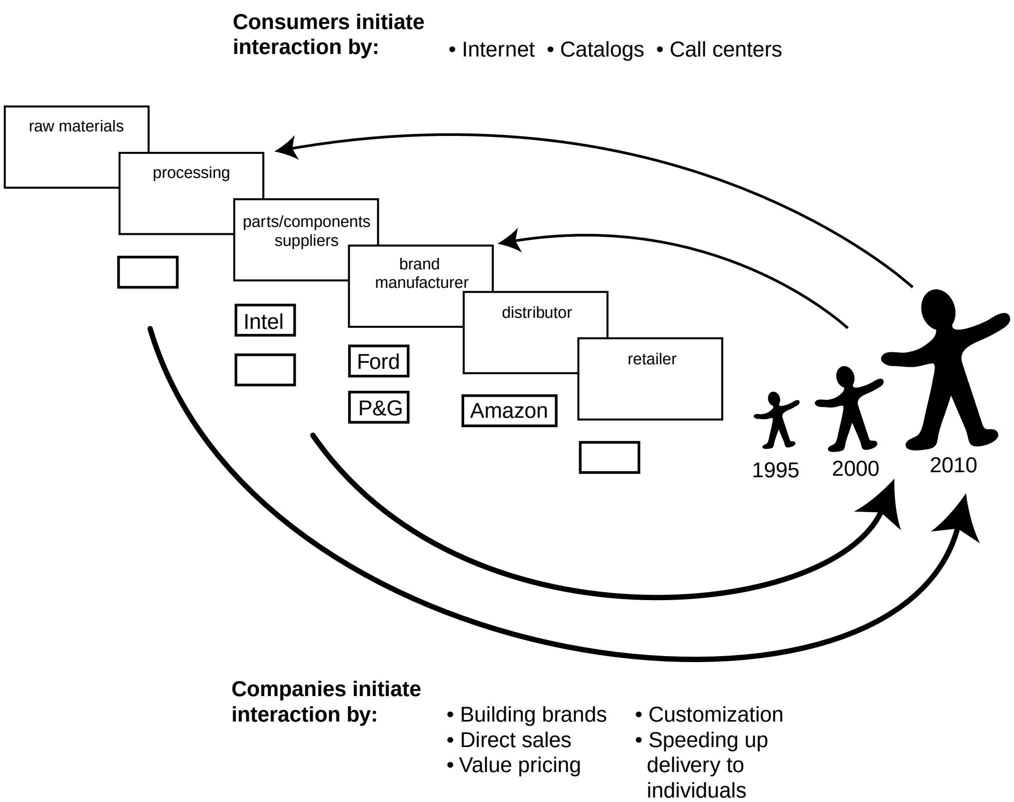
Consumers Emerging Along the Chain

The direct influence of the new consumer is appearing at more places along the supply chain. In turn, players along the supply chain are looking for ways to contact these new power brokers more directly (see Figure 92).

Making Direct Contact

One trend that's helping to transform the supply chain is that consumers are buying more goods outside stores—that is, by means of consumer direct channels. In the past few decades, the share of total sales outside stores has accounted for about 4% of all sales of retail

Figure 92
The Revolutionized Supply Chain



Source: Institute for the Future

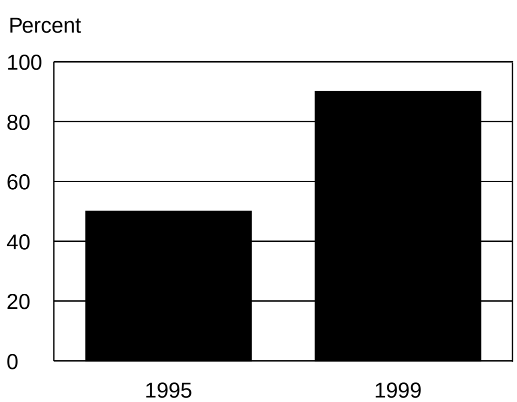
goods, mostly through mail orders and mailed ads, but also through vending machines. That share of total sales stayed relatively flat for decades. In recent years, however, with the rapid growth of e-commerce conducted over the Internet, the share of consumer direct sales has grown. The consumer direct share of total retail sales reached nearly 5% in 2000, and it could be as high as 8% by 2005.

Consumer direct is playing a dramatic role in inserting the consumer into every link of the supply chain. When consumers buy through consumer direct channels, they can dictate where they want to receive products: at the retail store, home, work, or, in the future, a pickup location. Consumers can also dictate delivery time, ranging from a standard of three to seven days, an express of one to two days, next day, or even immediate delivery, by means of new home delivery services like Kozmo and dNet.

These remote ordering and delivery systems that bypass the retail link in the supply chain open up the possibility of direct contacts between the producers and the consumers. That's not what's really happening, however. In actuality, new sets of intermediaries are appearing in place of the old ones. New e-commerce Web sites, Web sites controlled by existing retail chains, and new service delivery firms are all emerging to provide the link between the consumers and the products they buy.

Still, these new players and their new relationships with the consumers are making many of the players further along the chain—brand manufacturers, suppliers, logistics firms, and information database firms—more sensitive to how and when consumers order their goods, and where they expect delivery. This growing awareness of the needs and activities of consumers is transforming the supply chain from top to bottom.

Figure 93
More New Consumers in Discount Stores
(Percent of new consumers who shop in discount stores on a regular basis)



Source: Institute for the Future/Princeton Survey Research Associates, U.S. Brands Survey, 1998; Solomon.

Seeking Value

The most prominent way that players along the chain indicate they are adapting to consumer influences is in their sensitivity to price and value. The value revolution was launched when Wal-Mart introduced everyday low prices on well-known brands in their stores in the 1980s. This strategy was meant to attract a broad base of middle-class shoppers who traditionally shopped for low prices. But by emphasizing the quality of nationally popular brands, Wal-Mart was able to attract a broad range of shoppers. The new consumers soon learned that they could get a selection of branded products at low prices at discount stores like Wal-Mart, Target, and Toys 'R' Us (see Figure 93).

The ability to understand and respond to consumers' search for value has repercussions along the value chain. By using direct and immediate transaction data from the consumers themselves, these discount players forced a shift in power along the chain. Now it is the players closest to the consumer, the ones that can interpret their needs and desires most effectively, that are in the best position to dictate both product ordering and delivery down the chain.

Large discounters, like Wal-Mart and Kroger, which have learned to use transaction data effectively to control their own product placement and inventory control, have caused a general shift in influence from the branded product manufacturers to the huge retailers that can attract a large portion of the consumer market by giving them brand choice at the lowest possible prices.

Those retailers that attract large numbers of consumers through low prices can then use the power of scale to negotiate even better terms with manufacturers. This has led to not only the growing influence of those closest to the consumer but also to a growing consolidation in many retail businesses. Recent consolidations in the grocery industry, for example, have left four big players—Wal-Mart, Safeway, Kroger, and Albertson's—controlling 20% of the market and the top 10 grocers controlling 40%, both up dramatically from a decade ago (see Figure 94).

Getting the Timing Right

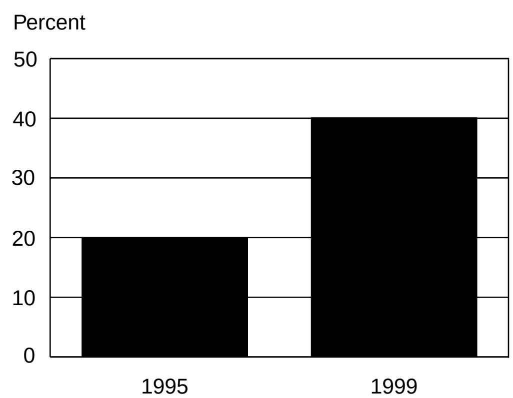
In addition to getting value, consumers are interested in getting the products they want when they want them. Players along the chain that can bring products to market quickly will increase their market share, especially in the areas where styles change quickly and can make a difference—such as clothes and accessories—or when timing is essential—such as pharmaceuticals and gifts for special occasions.

The desire of the consumer for quick responses often forces producers to adjust production throughout the chain. Producers of final branded products must fit intricate new timing patterns into their deliveries by a host of suppliers. To meet consumer demand for speed requires rethinking entire assembly and production processes and establishing the just-in-time logistics that will make it all work.

Tailoring to the Consumer

Once manufacturers can make cost-efficient changes in production runs, companies can begin to tailor products to the particular needs of their customers. For small extra charges,

Figure 94
The Great Grocery Consolidation
(Ten largest players' share of total grocery sales)



Source: Fortune 500

clothes can be custom made, for example, the number of furniture patterns can be increased, and options can be added to automobiles. Companies like Levi's, Dell, Pirelli Tires, Creo Interactive, Digitoe, Interactive Custom Clothes, GetCUSTOM, and Customatix are taking advantage of shorter runs to begin to allow customers a degree of customization of the actual products, putting the consumer in control of important decisions along the actual manufacturing part of the chain. Customization is also occurring in financial services, with companies like BUYandHOLD, FOLIOfn, Sharebuilder, and eInvesting, all of which have programs that enable clients to build their own mutual funds.

In the longer run, companies are likely to use customization not only to increase customer satisfaction but also to help eliminate fixed goods inventory, since built-to-order production decreases cycle order times.

Where Could This Take Us?

The supply chain revolution has only just begun. The increasing influence of new consumers at every link of the supply chain is sure to grow as the revolution gathers momentum. Look for:

- *Shorter product runs*. Shorter product runs will allow a greater degree of specialization around a set number of variables. More of the clothes people buy will be fitted to their specifications, for example, and more of the food people buy (or have delivered) will meet consumers' individual tastes and nutrition requirements.

- *Local assembly*. More of the final assembly will take place closer to the consumer so that information from the consumer can reach the assemblers directly and tailored products can get back to the consumer more quickly.

- *Smaller batches of raw materials*. As supplies are prepared for shipping along the supply chain, orders are likely to get smaller. With greater variation in colors, styles, and designs, there will be more movement of smaller amounts of raw materials and, initially, processed goods to local manufacturing plants (including varieties of foods to stores, patterned cloth to cut-and-sew shops, and furnishings to showrooms).

- *Efficient delivery systems*. The need to get small batches along the supply chain more quickly will lead to the growth of new delivery systems that can operate quickly in response to consumer information and deliver small batches of goods just in time for final assembly and delivery. This will come from building up an efficient information network that will allow small trucks to conduct multiple pickups from a set of customers on regular routes, multiple times a day.

- *Materials choices by customers.* When consumers move past designing products to dictating what types of materials are to be used, and which suppliers are to take part in the production of those goods, the next supply chain revolution will begin. Imagine, for example, consumers demanding that only recyclable materials be used in the products they buy, or that only suppliers that employ environmentally friendly practices, or that have strong family-friendly labor policies, should be signed on. Although consumers might not pay a premium for such a right, meeting these demands may very well become a competitive advantage that will differentiate companies from their competitors.

The entire supply chain is adjusting to the growing power of consumers. Not all of the old supply chain will disappear, however. Most production processes will still give a cost advantage to scale. Where customization is not important to the customers, they will always be able to get something cheaper as a standard product. As a result, standardized products that people need and like—Coke and paper towels—will continue to attract mass-market buyers. Meanwhile, many consumers will find that mass-customization—a few variations around a standard—is nice, but not worth a great deal of extra money. Many mass-customized products will be quickly commoditized, bringing only small margins.

There's an interesting drawback that might arise from this revolution. The complex web of companies and the growing complexity of running a just-in-time system may actually slow the course of innovation. As a result, it may be harder for really new and innovative products to find a niche when all the players along the chain are committed to meeting just-in-time deadlines. There will be little incentive to introduce new or unusual products, let alone give them the time to catch on.

Does the consumer revolution mean that shakeouts of the supply chain are over for the near future? Not quite. The one link in the chain that still has room for extensive development is the service component of product delivery. This ultimate value-added component may again shift the supply chain in a dramatic way—all the way into the consumer's home.

—Gregory Schmid

APPENDIX: LIST OF FIGURES AND TABLES

Figures

Tables