Future Perspectives

the futures company

Quickening the Pace

What a Slow-Growth West Demands of Brands

Section 1:
Facts ...What's the situation?

- Storm Damage
- What Happened?!
- How Bad Was It?

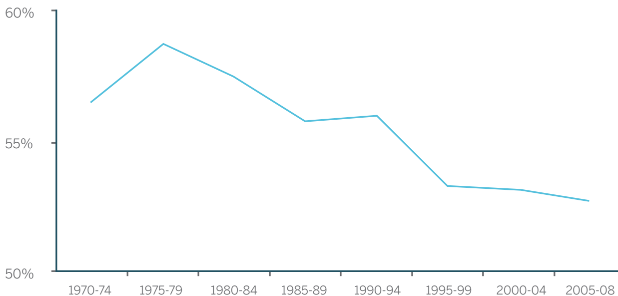
Storm Damage

The eight days of near-doom in September 2008 struck like a lightning bolt, cleaving the market in two along an already-weakening fissure largely hidden from view until laid bare by a direct hit from the financial crisis.

Across the developed world, most particularly the US, the UK and the Eurozone, decades of stagnant real wages, accumulating debt and flagging innovation had left the middle class acutely vulnerable to the financial storm that swept the globe. In the wake of the Great Recession, a sizable stratum of spent consumers has materialized where an aspirational middle used to be.

Overlooked—or just ignored—during the boom preceding the global recession was clear evidence that the position of the middle class in developed markets was increasingly fragile. The New York Times reported in early 2008 that "[t]he European dream is under assault, as the wave of inflation sweeping the globe mixes with this continent's long-stagnant wages." A recent report from the UK-based Resolution Foundation Commission on Living Standards documents the failure of wages in developed markets since the mid-1970s to keep pace with economic growth, as shown in Figure 1.

Figure 1: Wages as a Percentage of National Income for OECD Countries



Source: James Plunkett, *Growth Without Gain? The Faltering Living Standards of People on Low-to-Middle Incomes*, Resolution Foundation Commission on Living Standards, May 2011.

In the US, as Figure 2 reflects, inflation-adjusted wages for men dropped by double digits from 1969 to 2009, even for those with a college degree.

It's not just an issue of wages, though. More fundamentally, it's an issue of jobs. An analysis by MIT economist David Autor, summarized in the chart shown in Figure 3, shows that middle-income jobs in the US and the EU were in decline long before the financial crisis broke.

To sustain their financial position through these decades of stagnant wages and declining job opportunities, middle-class consumers in developed markets found a Midas touch in easy credit, asset bubbles in equities and housing, tax breaks, government transfers and pensions, two-income households and the so-called Wal-Mart effect. But in the aftermath of the Great Recession it has become painfully clear that all of that was little more than financial alchemy.

Hard on the heels of decades of decline, the financial crisis widened income divides in developed markets, splitting the global economy along another fissure by increasing the divide

Figure 2: Inflation-Adjusted Median Wages for US Men, 1969-2009

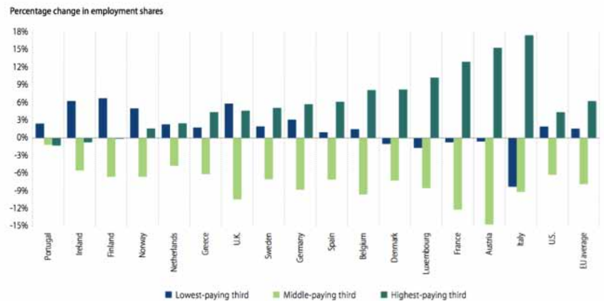
Change in male earnings and employment 1969-2009

	Mean Earnings (percent change)	Meadian Earnings (percent change)			Employment (percentage point change)		
	Weekly Earnings, Full-Time, Full-YearWorkers	Weekly Earnings, Full-Time, Full-Year Workers	Annual Earnings of All Workers	Annual Earnings of All Male Population	Working Full-Time	Working Part-Time	Not Working
Ages 25-64	13	-1	-14	-28	-16.5	4.7	11.8
Ages 30-50	9	-5	-16	-27	-15.5	5.3	10.2
By Education							
Less than High School	-29	-38	-47	-66	-31.8	8.4	23.4
High School Only	-20	-26	-34	-47	-26.2	8.5	17.8
Some College	-13	-17	-24	-33	-19.2	5.6	13.6
College Degree	11	-2	-7	-12	-6.6	0.7	6.0
By Marital Status							
Married	22	-1	-2	-13	-11.6	3.4	8.3
Not Married	12	-2	-14	-32	-11.0	2.1	8.9

Note: Adjusted for inflation using the CPI-U. Unless otherwise specified, values refer to men 25-64. "Full-Time, Full-Year Workers" includes men who works at least 35 hours per week for more than 50 weeks. "Working Full-Time" includes men who worked at least 35 hours per week for at least 40 weeks. "Not Working" is defined as having zero earnings in the previous year.

Source: Michael Greenstone and Adam Looney, "Trends: Men in Trouble," *The Milken Institute Review*, Third Quarter 2011.

Figure 3: Job Share Trends by Wage Tercile, 1993-2006, for the US and 16 EU Countries



David Autor, *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings*, The Center for American Progress & The Hamilton Project of the Brookings Institution, April 2010.

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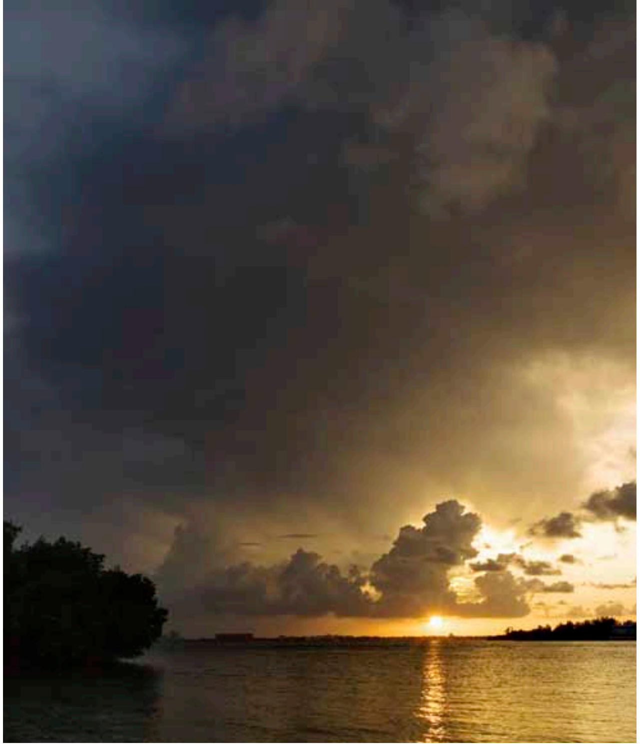
between beleaguered developed economies and booming emerging economies.

Looking to the future, the challenge for companies and brands is as simple as it is profound: What are the sources of growth in a global economy weighed down by a squeezed middle class in the developed West?

This Future Perspective will tackle this question with a baker's dozen of observations and foresights: six important *things to know* about the fallout from this downturn followed by seven key *imperatives* for follow-through by smart marketers and business strategists looking for growth opportunities.



What Happened?!

The Great Recession was what economist Richard Koo has famously characterized as a "balance sheet recession," only this one was a balance sheet recession on steroids that has left the US, the UK and the eurozone mired in its wreckage.

Balance sheet recessions are financial crises caused by plummeting values of assets like homes, stocks or currencies (or even tulips) that leave financial services firms, households and businesses with upside-down balance sheets, owing far more than they're worth.

Balance sheet recessions are not uncommon, as documented by economists Carmen Reinhart and Kenneth Rogoff in their serendipitously well-timed 2009 book that catalogued and dissected every financial crisis of the past 800 years. However, balance sheet recessions are not typical either. Inflation is the usual recessionary culprit. Inflation-driven downturns are precipitated by central banks raising interest rates to dampen demand, thereby lowering inflation.

In balance sheet recessions, demand drops because of the overhang of debt, not because of higher interest rates. Such recessions often follow financial bubbles in which speculation fueled by borrowing, or leverage, has pushed asset values to unreasonably and unsustainably high levels. When these bubbles burst, financial firms, consumers and businesses find that their underlying assets no longer cover their debt. Paying down debt assumes priority, so they quit spending, investing, borrowing, lending and hiring, spiraling the economy downward.

The problem to be cured in balance sheet recessions is too little demand, not, as in inflationary recessions, too much. So central banks respond by lowering interest rates in the hope of stimulating demand. But this often fails because the need to pay off debt overrides the appeal of cheap money. This is known as a liquidity trap, and in such a situation, government becomes the last resort of demand.

Even if government has the political and economic willingness to spend in order to jump-start an economy mired in debt, it must have the funds to do so, which is largely subject to its capacity to borrow. In such a moment, bondholders, whether sovereign or private, rule the day, and they won't lend or renegotiate terms without collateral guarantees and/or returns equal to the risk. If the interest rates or austerity demands required by these lenders are too severe, then government spending must be rationed, further contributing to weak, patchy demand.

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Ultimately, neither confidence nor spending will rebound until a slow, painful process of deleveraging, or debt reduction, has repaired balance sheets. It is exactly this sort of balance sheet conundrum that is puzzling economists and policymakers in the developed West right now. Business leaders, too, are equally confounded as they look for dynamic sources of demand and growth in an otherwise sluggish economic landscape.

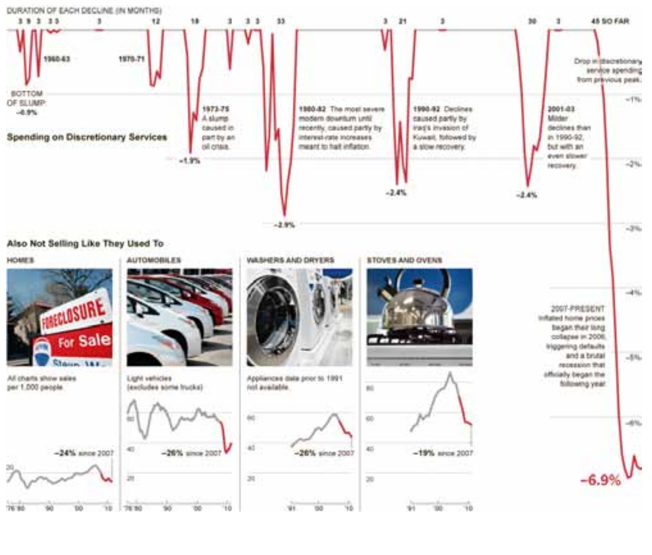
How Bad Was It?

The [consensus of leading economists] is that the downturn that gripped the world in 2009 was the worst since the 1930s. Credit markets froze, financial volatility went off the charts, unemployment skyrocketed and global trade dropped so low that idled container ships had trouble finding spots to drop anchor and wait it out in seaports jam-packed with them. Only timely intervention by governments around the world, including those in emerging economies like China and Brazil, kept the Great Recession from tipping over into another Great Depression.

One measure of the devastation wrought can be seen in Figure 4, a chart compiled by David Leonhardt of The New York Times showing a 6.9 percent drop in US discretionary consumer spending from its pre-recession peak to its recessionary trough. This drop is more than double the next-largest decline, which occurred during the second dip of the early 1980s double-dip recession.

International Monetary Fund (IMF) figures show that real GDP in the US dropped 3.6 percent in 2009. The euro area dropped 2.8 percent, the UK 4.3 percent. China grew 9.2 percent in 2009, which was good but well below its 14.2 percent growth in 2007 before the Great Recession and just over the threshold of 8 percent growth needed for Chinese job growth to stay even with population growth, thus keeping labor unrest at bay. The other BRIC countries were significantly affected, too. Brazil's GDP declined 0.6 percent in 2009, compared to 6.1 percent growth in 2007; Russia's dropped 7.8 percent, a huge reversal from its 8.5 percent growth in 2007; and while India's grew 6.8 percent in 2009, like China, that growth was well below its 2007 level of 10 percent.

Figure 4: Declines in Discretionary Consumer Spending in US Post-WW2 Recessions since 1960



David Leonhardt, "We're Spent," *The New York Times*, July 16, 2011, http://www.nytimes.com/2011/07/17/sunday-review/17economic.html?_r=1

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The impact was seen in unemployment. The International Labour Organization (ILO) tracked a jump in the unemployment rate of developed economies from 5.8 percent in 2007 to 8.3 percent in 2009. Unemployment grew again in 2010 to 8.8 percent before dropping slightly to 8.5 percent in 2011, the same as the ILO's preliminary estimate for 2012. The number of unemployed people in these areas rose from 29.1 million in 2007 to 42.5 million in 2009.

The challenge for businesses, marketers especially, is two-fold. The first is to find the enduring sources of growth that can reinvigorate business prospects. The second is for businesses to build their own momentum, not wait on government or consumers to gather speed first. Today's economy is tough, but tough times are no excuse for retrenchment or defeatism. Opportunities still abound, as this Future Perspective makes clear.

Section 2:
Fallout ...What are the ramifications?

- A Long and Winding Road
- The Incredible Shrinking Economy
- The Gini is Out of the Bottle
- Spooked
- To the Streets
- The World Over
- Summing Up

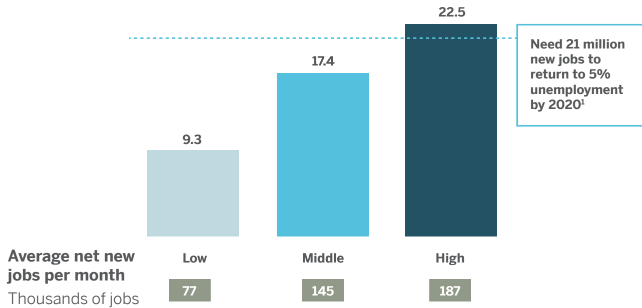
A Long and Winding Road

Don't expect a full recovery anytime soon. The hole is too deep and its sides too steep. When economists take a detailed look at what needs to happen for the developed West to get back on track, they foresee a long time horizon.

Perhaps most emblematic of the time it will take to recover fully is a McKinsey analysis published last year estimating 2020 employment levels in the US under three scenarios of economic performance. As shown by the chart in Figure 5, only the high-job-growth scenario based on highly optimistic economic assumptions reaches full employment (defined as 5 percent unemployment) by 2020. What's most sobering about this analysis is that this scenario requires a wholesale reversal of long-term, not just recent, US economic trends.

The Resolution Foundation came to a similar conclusion about average incomes in the UK in its 2011 *Squeezed Middle* report. It projects that low- to middle-income UK households will not get back to 2007 nominal income levels

Figure 5: US Job-Growth Scenarios to 2020



1 Based on our labor force force supply projections discussed in Chapter 3 of this report.

James Manyika, Susan Lund, Byron Auguste, Lenny Mendonca, Tim Welsh, and Sreenivas Ramaswamy, *An Economy That Works: Job Creation and America's Future*, McKinsey Global Institute, June 2011, http://mckinseyonsociety.com/an-economy-that-works-job-creation-and-americas-future/

until 2020 at the earliest, and even then, incomes would still be lower in real terms. Just to achieve this level would require income growth equal to that of 1997-2003. Even this would depend upon very favorable economic conditions.

The austerity measures being taken across the eurozone will delay a full recovery for years to come. As noted by the BBC in a 2011 year-end rundown of the financial and political turmoil in Europe, eurozone countries are facing "some of the deepest public sector cuts for a generation."

Not all indicators are negative, but the positive signs don't alter the basic picture of difficult times ahead. For example, the December 2011 Markit Economics Household Finance Index™ found UK consumers more upbeat about their finances year over year, largely because of lower

inflation perceptions. Yet reported income declined at the fastest rate ever measured in the three years the survey has been conducted, a period covering the worst months of the Great Recession.

News is better in the US, where the January jobs report from the Bureau of Labor Statistics showed a drop in the unemployment rate for the fifth month in a row. At 8.3 percent, it is now at its lowest level in three years. Initial estimates of fourth-quarter GDP from the Bureau of Economic Analysis show growth rates improving as well.

But as Cal-Berkeley economist Laura Tyson has noted, discouragingly, "[I]t's too early to celebrate ... Despite recent signs of strength, most forecasts for 2012 predict that [US] growth will fall short ... [T]here are considerable downside risks ... The output gaps are even larger in many European economies, some of which ... have fallen into another recession that is now spreading throughout Europe ... For all of these reasons, 2012 is likely to be another difficult and disappointing year for the United States economy."

Early in the Great Recession, it was hoped that the booming Chinese economy would bail out the global economy. It's clear now, though, that China can't fill a hole this big. BCG partners David Rhodes and Daniel Stelter worked through the numbers in their recent book, *Accelerating Out of the Great Recession*, concluding that "China is not a strong enough economic engine to pull the whole world back into a period of high growth ... There are just too many developed countries ... suffering ... for China to pull off a kind of indirect global bailout."

While China's economy is big in aggregate, it remains small per capita. As Rhodes and Stelter note, a 32 percent jump in private spending by Chinese consumers is needed to replace a mere 5 percent reduction by US consumers, which, they wrote, "is not going to happen." As a recent McKinsey consumer survey found, while Chinese consumers are avidly embracing consumerism, their spending remains "stubbornly low." Western developed economies are going to have to dig themselves out, and that means a slow journey down a long and winding road.

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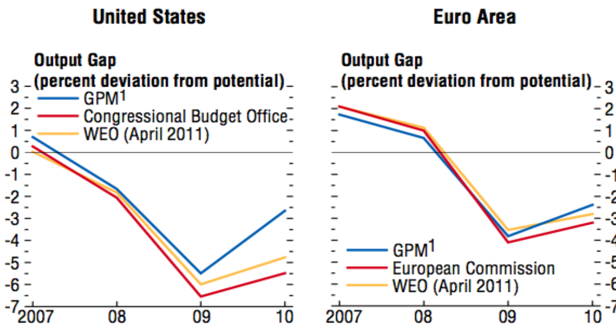
The Incredible Shrinking Economy

Economies in the developed West have shrunk. Some of these economies have been growing, but all are on trend lines well below their pre-recession trajectories. This gap between trend lines is known as a negative output gap and it represents the shrinkage in the size of an economy due to the downturn. More specifically, it is a measure of the unused capacity or unrealized potential of the economy—under-investment, idle plants and equipment, unemployed workers and so forth. The consequence is a critical deficiency of demand.

The charts from the IMF shown in Figure 6 plot the percentage deviation of actual GDP from potential GDP. Both the US and the euro area are in negative territory, and both are expected to stay there for a while.

Another measure of economic contraction, and one of greater concern for businesses, is the diminution in the size and spending power of the middle class. A spirited debate about this erupted in the US following a January speech by Alan Krueger, head of the Council of Economic Advisors, in which he warned of a US middle class that was shrinking in size.

Figure 6: GDP Output Gaps



International Monetary Fund, *World Economic Outlook*, "Slowing Growth, Rising Risks," September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

Economic analyses across the eurozone have shown that both in numbers and spending power, the middle class is under suffocating pressure. A 2008 analysis by the German Institute for Economic Research documented steady declines since 2000 in the percentage of German middle-class consumers. Analyses in Spain, France and Greece point to continuing declines in real wages and job opportunities for middle-class consumers.

Middle-class consumers feel these financial pressures acutely. An early 2010 ABC World News survey in the US found that 60 percent of those in the middle-income group were "concerned about maintaining [their] living standard[s]." Perhaps most telling was that 55 percent of those in the higher-income group felt the same way.

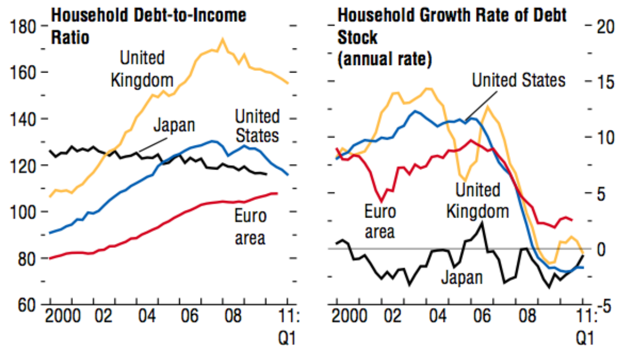
It's no surprise that so many US consumers are worried. An analysis of the 2009 TNS Global Economic Crisis Survey found that 46.5 percent of Americans, including, in the authors words, "a sizable fraction of seemingly 'middle

class' Americans," fit the definition of "financially fragile," meaning that, short of extreme measures, they could not come up with $2,000 in 30 days to cover an emergency. Similarly, a 2011 survey found that one-third of Americans could not pay their mortgage beyond one month if they lost their job; three-fifths could not pay their mortgage past five months.

The middle class faces similar pressures in the UK. The recession led to a 10 percent jump in homelessness there during 2009/2010, the first rise since 2003/2004. In the first quarter of 2011, requests for council housing jumped 23 percent over the previous year. With the added pressure of cuts in government welfare benefits, the housing charity Crisis foresees many more middle-class UK families losing their homes.

The austerity programs now being implemented across the eurozone have hit the middle class especially hard. Public cuts have cost jobs, reduced pensions and slashed benefits, all of which make their economies smaller as fewer people can afford to sustain their middle class lifestyles. A statement signed by the leaders of the IMF, the World Bank, the World Trade Organization (WTO) and eight other international economic groups ahead of the 2012 World Economic Forum warned that the austerity programs now being undertaken worldwide threaten the global economy and are likely to prolong the weakness of the recovery.

Figure 7: Household Debt Metrics



International Monetary Fund, *World Economic Outlook*, "Slowing Growth, Rising Risks," September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

Public sector cuts could potentially affect eurozone consumers in more ways than just their pocketbooks. A 2011 Pew study surveyed people in Germany, France, Spain, the UK and the US about a number of values, one of which was whether success in life is determined by "forces outside our control." Agreement in the US was by far the lowest at 36 percent. By contrast, it was 72 percent in Germany, 57 percent in France and 50 percent in Spain. (The UK was close to the US, at 41 percent.) To the extent that government cutbacks exacerbate a sense of incapacity among eurozone consumers, recovery will be that much harder.

Debt is the other pressure facing consumers in the developed West. Household debt metrics like the IMF charts in Figure 7 show that while debt-to-income ratios have fallen in the developed West, debt levels still remain well above those of 2000,

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which at the time were thought to be too high.

Some economists now believe that debt levels in the US have come down enough for consumers to start spending more robustly. But this view is not shared by most economists, or by consumers themselves. One survey last year found that only 27 percent of US consumers say the Great Recession had no impact on their attitudes toward debt. Debt concerns were highest among middle-class respondents. One-third of those interviewed said that their views had been affected to the point that they plan to pay down debt this year, and half of this third don't even think their debt is too high; they just want it down.

Even with less debt, though, doubts remain that Western developed economies will ever get back to pre-recession trend lines because those trajectories were artificially inflated to begin with. *New Yorker* economics columnist James Surowiecki has pointed out that there is a strong correlation in the US between home values and consumer spending. When home values are rising, consumers spend five to seven percent of the increase. But now that home values have cratered, consumers no longer have that money to spend, and assuming that the housing market has experienced a long-lasting correction, consumers will never have that money again. The math works out to at least $400 billion less in consumer spending, which is the biggest chunk of the US output gap.

In short, even if all goes right along the way, the economies of the US and other Western developed nations are going to be smaller for a long time to come, presenting business strategists and marketers with continuing difficulties sourcing demand, as illustrated by a recent Bloomberg story. It reported that "[P&G] rolled back prices after an 8 percent price increase [on Cascade dishwashing detergent] after the firm lost 7 percentage points of market share. Kimberly-Clark Corp. started offering coupons on Huggies after resistance to the diapers' cost. Darden Restaurants Inc. raised prices at less than the inflation rate as patrons order more of Olive Gardens' discounted stuffed rigatoni than it anticipated." As Nobel-prize winning economist and *New York Times* columnist Paul Krugman noted about this particular bit of news, this transcends ideological battles because it is nothing but "basic economics." When demand is weak, prices always fall, and that means companies will have to think outside the box to grow their brands in shrinking economies.

The Gini is Out of the Bottle

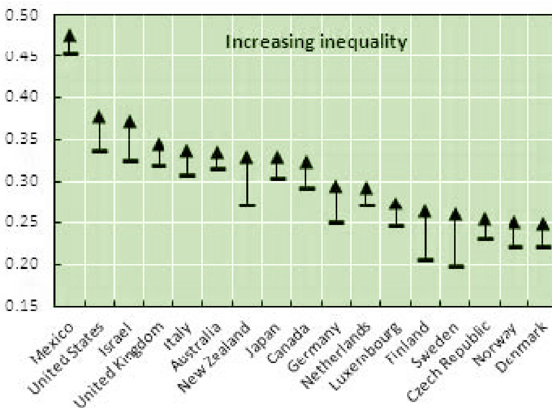
What middle-income consumers have lost over the past few decades, higher-income consumers have gained. The result has been an intensification of income polarization and wealth inequality.

A common measure of inequality is a statistic called the gini coefficient, a measure of income dispersion developed by Italian economist Corrado Gini in 1912 that ranges from zero, no inequality, to one, maximal inequality. The gini index is a simple translation of these values to a 100-point scale.

The Organization of Economic Co-operation and Development (OECD) tracks gini indices for its 34 member countries, most of which are Western developed economies. The OECD chart in Figure 8 shows that income inequality has been growing in Western developed countries for decades.

Some readers may object, correctly, that the chart in Figure 8 does not reflect the redistributive impact of tax policies or transfer payments. In fact, in its report, the OECD praised such programs

Figure 8: Income Inequality Trends Across OECD Countries



OECD, *Growing Income Inequality in OECD Countries: What Drives It and How Can Policy Tackle It?* May 2, 1011, http://www.oecd.org/dataoecd/32/20/47723414.pdf

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Figure 9: Income Distribution Trends Across OECD Countries for Top vs. Bottom Deciles

Trends in real household income by income group, mid-1980s to late 2000s

	Average annual change, in percentages		
	Total population	Bottom decile	Top decile
Australia	3.6	3.0	4.5
Austria	1.4	0.4	1.6
Belgium	1.0	1.7	1.5
Canada	1.1	0.9	1.6
Chile	1.5	2.5	1.0
Czech Republic	2.7	1.8	3.0
Denmark	1.0	0.7	1.5
Finland	1.8	1.3	2.7
France	1.2	1.6	1.3
Germany	0.9	0.1	1.6
Greece	2.1	3.4	1.8
Hungary	0.6	0.4	0.6
Ireland	4.7	4.5	3.7
Israel	1.7	-1.1	2.4
Italy	0.8	0.2	1.1
Japan	0.3	-0.5	0.3
Luxembourg	2.3	1.8	2.8
Mexico	1.4	0.8	1.7
Netherlands	1.4	0.5	1.6
New Zealand	1.5	1.1	2.5
Norway	2.3	1.4	2.7
Portugal	2.2	2.4	2.3
Spain	3.7	6.0	3.0
Sweden	1.8	0.4	2.4
Turkey	0.5	0.8	0.1
United Kingdom	1.9	0.9	2.1
United States	1.3	0.5	1.9
OECD-29	**1.7**	**1.4**	**2.0**

OECD, *Growing Income Inequality in OECD Countries: What Drives It and How Can Policy Tackle It?* May 2, 1011, http://www.oecd.org/dataoecd/32/20/47723414.pdf, http://www.oecd.org/dataoecd/32/20/47723414.pdf

for lowering the measured inequality shown in the chart by about one-fifth on average. It recommended stronger tax and benefit programs as "the most direct and powerful instrument to increase redistributive effects." Yet these are the very programs being slashed in the current wave of austerity in the eurozone and the UK, thus setting the stage for greater inequality in the years ahead.

The relevance of this for business strategists and marketers is apparent in Figure 9. These OECD figures show the contrast in income growth for the top decile versus the bottom decile of earners. People at the top are enjoying much stronger rates of growth, thus accumulating an ever-greater share of income and wealth. Brands follow the money, and that path leads to a smaller number of consumers with a greater concentration of income and wealth.

This concentration of spending power is likely to grow over time. In the speech mentioned above, Alan Krueger presented The Great Gatsby Curve (based on work by University of Ottawa economist Miles Corak) showing that for countries around the world, the greater the inequality as measured by the gini coefficient, the lower the level of economic mobility from one generation to the next. To put it simply, for countries with high inequality, parents' income predicts that of their children. Lack of mobility makes inequality hard to reverse and thus the marketplace in Western developed economies is likely to see a concentration of discretionary income in the hands of fewer and fewer consumers.

A 2010 report from Moody's Analytics found that 37 percent of consumer spending in the US is now accounted for by just 5 percent of consumers. The shift over the last two decades has been sharp. In 1990, the top 5 percent accounted for 25 percent of US consumer

spending. While it makes sense that rich consumers have more economic clout, the US marketplace is now disproportionately dependent on the spending habits of top earners.

Robert Reich, Secretary of Labor under President Clinton, has pointedly bemoaned US inequality trends, noting that, "[d]uring periods when the very rich took home a much smaller proportion of total income—as in the Great Prosperity between 1947 and 1977—the nation as a whole grew faster and median wages surged. We created a virtuous cycle in which an ever-growing middle class had the ability to consume more goods and services, which created more and better jobs, thereby stoking demand."

These patterns of inequality in the US and their impact on consumer spending have direct parallels in other Western developed markets. Irrespective of ideology, the marketing ramifications of inequality go to the heart of targeting and brand-building.

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Spooked

Consumers have lost their cheer. Confidence and economic sentiment have rebounded from the record depths seen during the Great Recession, but consumers remain anxious. As is clear from the two charts shown in Figure 10, consumer attitudes have settled into a baseline lower than that before the Great Recession, fluctuating from month to month but never breaking through to a higher level of economic optimism.

There is more to it than just economic anxiety, and here The Futures Company's research adds helpful texture. The sixth and latest wave of the Feeling The Pinch survey conducted among UK consumers in January 2012 found 43 percent saying the UK economy would get worse over the next 12 months, up from 32 percent saying so in September 2010. Just over two-thirds lack confidence that "the current government can bring about an improvement in the economy." Consumers see a crisis of trust as much as a crisis of the economy, and this mistrust extends to financial services companies, retailers and business in general. One result is a retreat from community, with nearly half of UK consumers disagreeing that they are now more engaged with neighbors and community than before the economic downturn.

Similarly, results from the 2011 US MONITOR show a loss of faith in the American dream. Seventy-one percent agree that the American dream is "more of a dream than a real possibility for most people" and two-thirds agree that the recession and stagnant recovery have had a "negative impact" on their "optimism for the future." But consumers have not given up their aspirations to the good life. Rather, they feel betrayed by the process of getting there. People see that even those playing by the rules had their finances upended by the downturn. Revelations since the downturn suggest to many that the system is unfair and cannot be trusted.

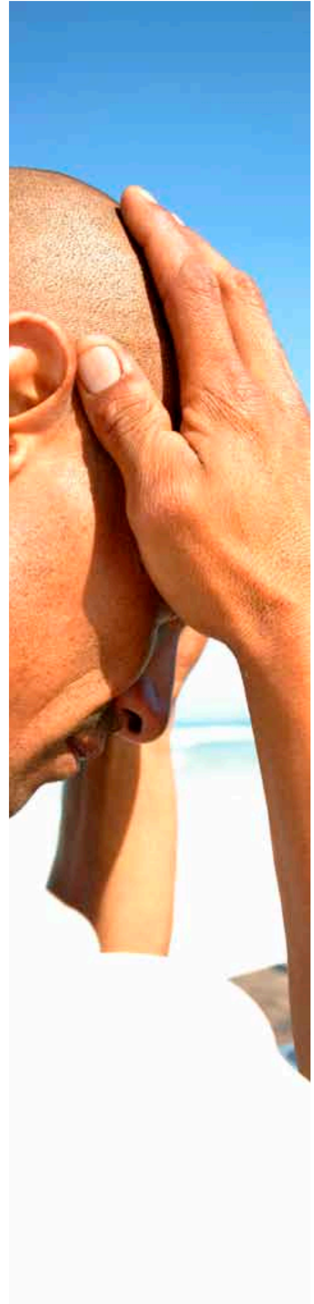
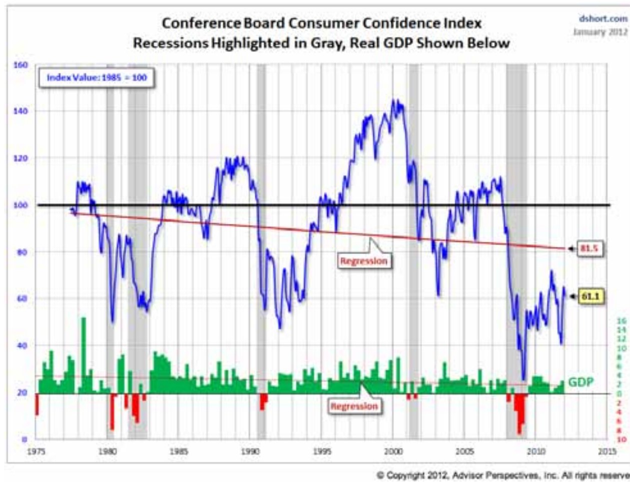


Figure 10: Consumer Economic Attitudes for Euro Area and the US

http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/2012/bcs_2012_01_en.pdf



http://advisorperspectives.com/dshort/updates/Conference-Board-Consumer-Confidence-Index.php

The 2011 Global MONITOR results show similar concerns across the developed world. For example, the percentage agreeing that "things are going well financially" in their country is just 24 percent in the US, 18 percent in the UK and France, and 9 percent in Spain. Germany is higher at 44 percent, but pales next to China, India and Brazil at 92 percent, 80 percent and 70 percent, respectively. This is matched by the mistrust people express regarding financial institutions—52 percent in the US, 60 percent in the UK, 62 percent in France and 56 percent in Spain, compared to 35 percent in China, 33 percent in India and 42 percent in Brazil.

In short, the hidden story of this downturn is its impact on trust. People can weather volatile situations when they trust the institutions and leaders responsible for the common good. What has people spooked is the fear that more has been lost than just their money.

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To the Streets

The double whammy of weak finances and lost faith has stirred up a prickly brew of discontent across the ideological spectrum, with people throughout developed markets in the West taking to the streets.

Conservative backlash in the US was the first to bubble up with the rise of the Tea Party following a February 19, 2009 televised rant by CNBC Business News editor Rick Santelli on the floor of the Chicago Mercantile Exchange about a pending proposal to provide government help for what Santelli called "losers' mortgages." The video went viral and Santelli's call for a modern-day tea party to dump derivatives securities in the Chicago River in protest over government bailouts "promoting bad behavior" struck a chord with conservatives, some of whom had been using the tea party moniker already for other anti-government protests. The Tea Party movement has become an important part of the Republican Party, helping to restore its majority in the House of Representatives in the 2010 elections. (Its appeal has eroded, though, since Tea Party House members, bucking a routine effort to raise the debt ceiling, brought the US to the brink of defaulting on its bonds in mid-2011.)

Around the time of the debt-ceiling debate in the US, austerity measures in Europe were sparking the first round of violent street demonstrations that have continued off and on ever since. In May 2010, a nationwide strike and deadly riots in Greece were followed by similar actions in Belgium, Ireland, Italy and Spain in September, in France in October and by students in the UK in November and December, to mention just a few. Demonstrations continued to rage across Europe throughout 2011, often on a much larger scale, especially in Greece, France, Italy, Spain and the UK. The riots that surged across England in August 2011 were especially unnerving. Their immediate cause was unrelated to austerity but frustrations over unemployment, spending cuts and financial hardship contributed to their spread and fierceness.

In late 2011, the political left vented its anger and frustrations in the Occupy movement that found inspiration in the Arab Spring uprisings of early 2011. The idea of a peaceful occupation of Wall Street caught fire with activist groups, culminating in the September 17, 2011 occupation of Zuccotti Park in New York, soon followed by hundreds of sympathetic Occupy encampments in cities across the US and around the world. By early 2012, police had closed down occupations in most locations, but like the Tea Party, Occupy remains influential as a symbol of grievances shared by many people.

Occupy has eschewed specific talking points or proposals, yet its tagline, "We are the 99%," put the spotlight on income inequality, and that message has been heard. Dylan Byers at Politico.com tracked a quintupling of mentions of income inequality in print, broadcast and Web media from the start of the Zuccotti Park Wall Street encampment to the end of October 2011.

Not just income inequality, but capitalism itself—at least the free market model of globalization known colloquially as Anglo-Saxon capitalism—has been put under the microscope by the economic downturn. That free market bastion, *The Economist* magazine, echoed this critical sensibility in an October 22, 2011 cover story with a red-letter headline, "Rage Against the Machine: Capitalism and Its Critics." As if to suggest this debate is now over in developing economies, its January 21, 2012 issue cover featured an ink drawing of Lenin jabbing a cigar at block letters reading, "The Rise of State Capitalism: The Emerging World's New Model."

This furor over capitalism is reflective of a deeper, more elemental angst gnawing at people that perhaps everything they have taken for granted is bankrupt. These misgivings find some validation in the bewildering welter of proposals being put forward to fix the economy. But more than beliefs about the economy are up for grabs. Old rules and presumptions of every sort have been discredited. Yet with no good alternatives at hand, people feel they have permission to question everything, brands included, and to try out fresh approaches, even if doing so means standing one's ground against conventional wisdom to the contrary.

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The World Over

The economic troubles of the developed West also threaten the global economy, including booming markets in China, India, Brazil and elsewhere. These remain tightly coupled to the economic welfare of their trading partners in Western developed markets.

In its June 2011 "spillover" report on China, the IMF noted that China's economy remains very dependent on exporting goods, not importing them. In other words, it sells stuff to other countries more than it buys from them. If China's trade partners cannot buy from it—either because they are weak as in the US, the EU and Japan or because there may be a bubble waiting to burst as in Latin America—China will feel the effects. Indeed, China has already reported slowing growth, due in no small part to diminished demand from the EU.

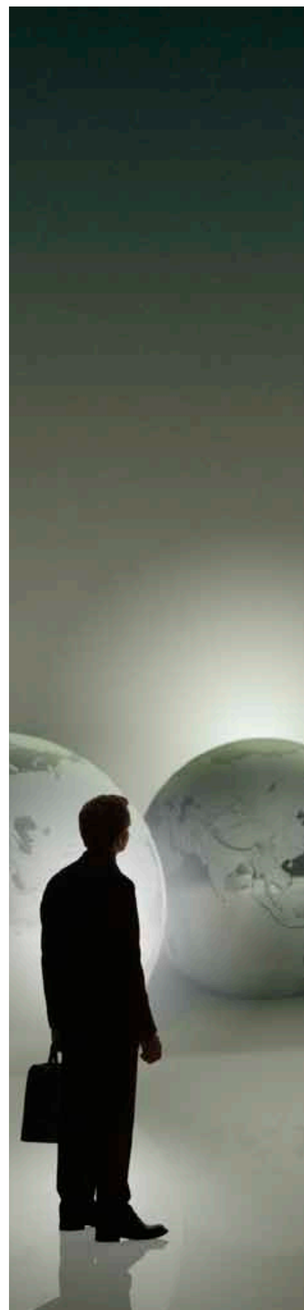
In that vein, WTO chief Pascal Lamy warned in January that global trade in 2012 was likely to be smaller than in 2011. His explanation was blunt: in 2012 the economy will be "taking a nosedive globally."

The weak economic performance of the EU also plays a big part in the ongoing maneuvering to preserve the euro. The US dollar and the euro are the reserve currencies relied on by companies, financial firms and central banks around the world to orchestrate global trade flows. But currencies hold appeal as reserves only if their underlying economies are strong. In the words of Cal-Berkeley economist Barry Eichengreen, the current situation is one in which "[b]y process of elimination, the world is left with the dollar and the euro as the only instruments capable of supporting current levels of international transactions.

If doubts about the stability of these currencies deepen further ... central banks will have less capacity to intervene in financial markets ... In response, governments are likely to limit those flows via capital controls ... Trade credit would become more costly ... [a] situation [that] would resemble the wake of the failure of Lehman Brothers ... when dollar credits became scarce and international trade declined precipitously." But this worst-case scenario is not needed to spark a global economic slowdown. Even a moderate shift in holdings of reserve currencies would affect some portion of the global trade on which emerging economies rely.

Another risk that arises during global economic slowdowns is trade protectionism. Such measures rose during the depths of the Great Recession in 2009, as hard-hit developed countries used trade barriers as a lifeline for their sinking domestic economies.

But trade protectionism works the other way, too, with emerging economies now looking to insulate themselves from economic troubles elsewhere by ramping up their domestic capacities while preserving favorable exchange rates. World Bank officials warned of this late last year, citing recent protectionist moves by each of the BRIC countries. The threat to Western developed markets is that, as their economies worsen, trade barriers in developing markets will make it harder for them to export their way out of trouble. If this happens, the cycle of decline in the developed West will worsen, creating even more challenges for businesses trying to sustain their brands in these markets.



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Summing Up

With these facts in hand, the state of the marketplace for brands is clear. Five bullet points sum it up.

- Consumers—especially the middle class—in developed Western markets have been hard hit. The economic slowdown has put a big squeeze on household budgets. As a result, the marketplace has shrunk.

- Despite evidence of modest economic improvement of late in some markets, particularly the US, a full recovery will take years. Weak Western markets will be the norm for the foreseeable future.

- A lack of demand is the principal challenge facing both the economy at large and marketers in particular. The middle class is the traditional reservoir of consumer demand in developed markets. But the middle class has been particularly hard hit both by the Great Recession and the stagnant recovery. A long-term trend of growing inequality adds to the financial pressures affecting the middle class.

- Consumer confidence has been battered to the point that people are staging large-scale, often violent demonstrations all around the world in protest of an economic system that no longer works for them. Economic models are being questioned, trust has been eroded and people are more open than ever to alternatives.

- Emerging economies are watching the developed West with bated breath because they are not immune to economic troubles in the rest of the world. As a result, they are more than willing to take whatever steps might be needed to protect themselves. This would only worsen the economic prospects for developed markets in the West.

A difficult situation faces business strategists and marketers in developed markets, difficulties that touch emerging markets as well. But even in these difficult times, there are opportunities for smart companies. Not every brand has failed or shrunk during these tough economic circumstances; in fact, some have thrived. There remain sources of growth for savvy brands able to follow through. In the next section, we explain how.

Section 3:
Follow-Through ...What does it mean for marketers?

- The Best Thing for the Business
- The Power of Repulsion
- A Culture of Contentment and Kinship
- Trading Off
- Dis-Ownership
- Curation
- Owe Not Earn
- Age-Appropriate
- Closing Thoughts

The Best Thing for the Business

P&G made headlines late last year with news that in mid-2009 it had reinvented its approach to selling to the US middle class. From its beginning, P&G's core strategy had been to sell innovative, higher-priced staples to a broad, aspirational middle. But in the wake of the financial crisis and with particular attention to the US gini index of income polarization, P&G scrapped its established approach in favor of a two-tier strategy, selling value-add to higher-income consumers and low price to lower-income consumers.

This new strategy forced P&G to change almost every element of its business model. Selling up means lower volume lines for a company used to high-volume efficiencies. Selling down means protecting margins through cost reductions rather than price premiums. In particular, P&G's two-tiered approach means a wholly different way of managing retail assortments, shelf placements, promotional targeting and advertising messages.

P&G has received a lot of press for its change in strategy, but the new circumstances precipitating its shift affect all companies and brands. Yet today's business leaders have limited—if any—experience with a financially weakened, slow-growth marketplace split down the middle. To get the running room needed to quicken their pace, brands must be managed and marketed in new ways. P&G's recent experience offers useful guidance, but there is more to be done.

The first reaction of many companies to this changed marketplace has been to try harder at tactical execution. But business leaders are best served by first understanding the strategic imperatives of a slow-growth marketplace, many of which conflict with the rules of thumb with which business strategists and marketers have grown up. Seven such strategic insights are highlighted here:

The Power of Repulsion
- Aspiring to stay in place
  ... Rather than to move up

The Culture of Contentment and Kinship
- Make people happy by treating them like family
  ... Without any material trade-offs

Trading Off
- Sell to consumers prioritizing, not doing without
  ... Trading down on lots of things to trade up on some

Dis-Ownership
- Sell benefits without selling the product
  ... A new transaction model

Curation
- Networked self-reliance
  ...Bottom-up authority

Owe Not Earn
- Targeting consumers by debt
  ...Not by income

Age-Appropriate
- Go gray
  ...Shifting franchise consumers from younger to older

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The Power of Repulsion

Well-being is relative. People do not evaluate their station in life in absolute terms but relative to others. Social psychologists call this "social comparison." For example, happiness researchers have found repeatedly that the satisfaction people derive from something unambiguously positive, like a large sum of money, depends largely on how it compares to the amount held by others.

Most of time the comparisons are upward, that is, relative to people with more. Upward social comparisons tend to create a sense of relative deprivation that breeds the frustration marketers use to motivate people to buy. Humans are social creatures, so looking to others, or social proof, is the primary way people know how to act and react. In other words, people use reference groups to calibrate and guide emotions, opinions and actions. The Great Recession changed the reference groups people are using these days. In particular, social comparisons are no longer upward but downward.

What consumers fear most nowadays is not failing to reach the top but tumbling down to rock bottom. The possibility of losing everything is a real peril in a slow-growth economy. Most consumers have little if anything to fall back on should the worst happen so it's hardly surprising that they are thinking more about avoiding the worst than getting the best.

It wasn't too long ago that consumers compared their personal situations to those with more, and worried about how they stacked up. This pull and tug of the top fueled the frenzy of trading up. Marketers both fed the sense of relative deprivation and sold mass affluence or affordable luxury brands that offered more. These brands had a powerful attraction.

Lately, surrounded by others who have lost it all, many consumers now compare their individual situations to those with less, not to those with more, and they worry about how to avoid winding up in their position. As a result, the context of the marketplace has refocused almost everybody

Key Takeaway:

Reference groups have changed. Consumers are now engaging in downward not upward social comparisons, so quit trying to close an upward gap. Instead, help people put distance between themselves and the downward reference groups defining their aspirational point of comparison.

on looking down with dread rather than looking up with aspiration. What shapes consumer behavior nowadays is the repulsion of the bottom, not the attraction of the top.

Helping people feel better about their situations by changing their reference points from looking up to looking down is a technique taught by psychologists. However, looking down only makes people feel better if they also feel secure in their situations. When people feel stalked by the risk of hitting bottom, looking down paralyzes them with dread.

The good life beckons; it gets people coming. The worst repulses; it sends people running.

It's as if brand magnetism has been turned on end. Rather than pulling consumers in by the force of attraction, consumers are being pushed away by the force of repulsion.

Avoidance has emerged as the bigger motive force in this economy. First and foremost, it's avoidance of the worst that motivates consumers. Even when they are open to a premium offer, they first want reassurance that they're not putting their finances at risk.

Anger adds to avoidance. As people grow more frustrated, impatient and anxious, they don't just take to the streets; they take it out on brands they believe have crossed the line and put them at risk. In the US, Bank of America was forced to rescind, at least temporarily, a proposed $5 monthly fee on debit cards after an online petition drive sparked national outrage. Anger, not aspirations, is what many consumers feel about brands these days. Mistrust feeds suspicions and worry about risks makes people edgy, not aspirational.

This means that safe havens are in demand. Consumers don't want cheap brands so much as they want safe ones. But safety comes wrapped in paradox. The cheapest brand may, in fact, be the riskiest. Poor quality or bad service could make it more expensive. So, within reason, that might mean paying more for a premium brand, yet many of these have been tarnished by the boom, for they are the very brands that got consumers in over their heads in debt during the run-up to the recession.

In short, the power of repulsion is front and center in today's marketplace, and it affects every sort of brand, not just the sorts of loser brands that have always failed. Attraction no longer predominates as a brand motive because, nowadays, consumers are oriented more to the bottom than to the top.

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A Culture of Contentment and Kinship

The geometry of desire in the consumer marketplace of the developed West is shifting from a pyramid of accumulation to a circle of self-contained contentment. This is recognized but misunderstood. People are not renouncing material well-being; they just want more contentment.

With so many people unable to afford the material lifestyles they'd like, some pundits have concluded mistakenly that people no longer want these lifestyles. Certainly, people have had to look beyond materialism to validate their choices and lifestyles, but that doesn't mean that material things have lost all appeal.

Frugality is a coping mechanism, not a lifestyle aspiration. People don't hunger to downscale their lives. Rather, they are yearning for contentment. Materialism, while still important, no longer defines the overarching context of life. Instead, materialism is being defined in the context of contentment. Global MONITOR research of The Futures Company documents the persistence of material ambitions. The countries highlighted in Figure 11 show that, as the economy has struggled, people have become less—not more—likely to feel that they can do without. The pattern in Western developed markets is the same as in emerging markets. Materialism is an enduring priority everywhere.

The biggest manifestation of this rising interest in contentment is a focus on happiness. A *New York Times*

Key Takeaway:

Make people happy by treating them like family. Use contentment metrics to track success. Let relationships dictate business models, not the other way around.

Figure 11: Attitudes about Materialism for Selected Countries

	UK		France		Italy		China		Brazil	
	2007	2011	2008	2011	2008	2011	2008	2011	2008	2011
I've got all the material things I need	60%	52%	58%	51%	55%	50%	34%	24%	41%	34%

The Futures Company Global MONITOR

story in late 2008 had a telling headline, “Even if You Can’t Buy It, Happiness Is Big Business.” Happiness may seem faddish, but it’s utterly serious. Social psychologists, macroeconomists and national governments the world over are working to devise new metrics that add quality of life to economic outcomes like GDP. There is strong potential in making happiness the business of brands, as explored in greater detail in our Future Perspective on this topic.

Contentment is more than happiness. Other values are a bigger part of the consumer decision calculus, too, including individual improvement, personal freedom, the environment, social responsibility and intangibles like design, spirituality, relationships and self-expression.

Maybe bliss is too much to ask of brands, but brands can certainly do more than settle for mere customer satisfaction. Consumers are giving brands permission to tackle happiness, and so that’s what Coke, Zappo’s and UK retailer John Lewis are doing. Happy consumers make for loyal customers, not the other way around, a swap of priorities that defines the new zeitgeist of consumer connection.

The biggest predictor of happiness is relationships with others. So it is only to be expected that, in their search for contentment, people are embedding their lives in circles of intimacy, one manifestation of which is the mushrooming of social networks.

It’s not relationships with brands that matter; it’s relationships with other people, so the brands that matter are those that facilitate and celebrate these circles of intimate connections. Indeed, because people are putting a high priority on interpersonal relationships, they are also redefining their expectations about brand interactions. Consumers want brand interactions to be less like commerce and more like family. Contentment has given rise to kinship as a dynamic in the consumer marketplace.

In turn, this has refocused consumers from ‘what’ they get to ‘how’ they get it. Consumers care much more about how marketers

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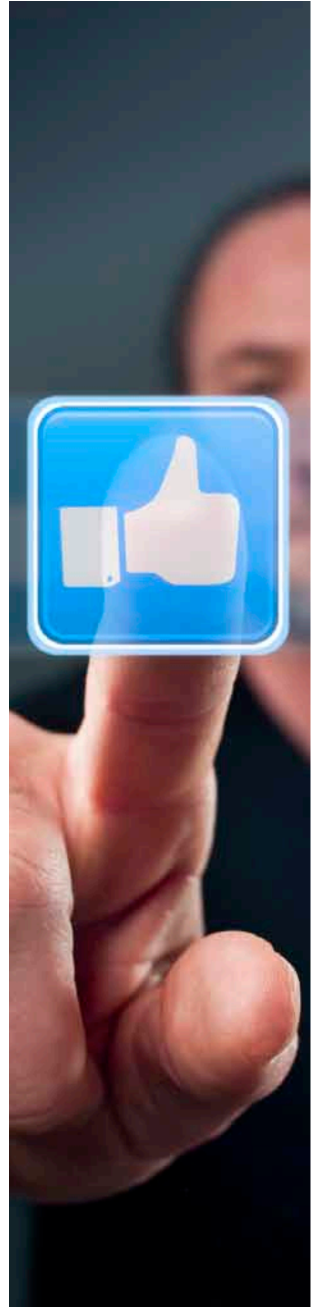
treat them than the treats marketers sell them. This is not a change in what consumers think about products; rather, it is a shift in balance from the product to the process of getting it. In this context, the standard of excellence for brands is the highest form of relationships, and that's family. Treating consumers like family is where value now lies in the marketplace, which means, in effect, that the marketplace is one in which consumers have begun thinking in terms of kinship. The future is a "kinship economy," a business and innovation concept we first explored in our MONITOR LIVE teleconference in December 2011.

Consider new product development. The traditional approach is to find a needs gap and then launch the most cost-effective solution, which becomes the basis for establishing a product-based relationship with consumers. But what if marketers were to first enable relationships among consumers and only then introduce a new product? Marketers might, say, host forums in which consumers interact with one another to debate what marketers should do or offer.

This is exactly the approach taken by WestMill Capital, the developers of an H Street neighborhood in Washington, D.C. They created a Web site called Popularise.com where local residents can debate and decide what types of shops should occupy empty storefronts. It's relationships first, product later, a process-based approach that brings the product in last to fit relationships rather than bringing the product in first to create relationships.

The priority of contentment, process, relationships and kinship answers the question of value often asked about social media. Social media are all about relationships, and that's the future. From a product standpoint, the value of social media is hard to discern. But the new measure of success is the strength of relationships. Media must be used to facilitate relationships as well as move to goods off the shelf. Social media come to the fore because they are uniquely grounded in relationships and interactions.



Trading Off

Part of the challenge in making sense of the new consumer marketplace is getting a proper understanding of the end of trading up as the archetypal shopping style. In particular, the opposite of trading up is not trading down, as illustrated in Figure 12.

When shopping hit the skids after the financial crisis, there was much talk about a new normal of frugality. The proper issue is not whether consumers are cutting back, but in what way. One way in particular is under-appreciated.

Consumers are trading off more than they are trading down. Although squeezed by tighter finances, most consumers are not walking away from the things that matter. Instead, they are prioritizing those things, then trading off everything else to afford them. Brands suffering from trading down have simply done a poor job of making themselves a priority worth trading off for.

What's at work here is the undaunted desire of consumers to win and achieve the good life. People may be spending less, but they still want more. Consumers remain aspirational; they are just finding new ways to win what's important to them.

Trading off is a different path to purchase, one in which buying is more episodic, with the constancy of consumer reserve

Key Takeaway:

It's no longer enough to just be considered, so get out of 'consideration set' mindset. That's an incomplete marketing metric nowadays. A brand must be at the top of the list when consumers are trading down on most things in order to trade up on their top priorities.

Figure 12: Consumer Shopping Styles

	Trading Up	Trading Down	Trading Off
Mindset	Trying to win big	Already lost	Trying to win
	Indulgence	Thrift	Vigilance
	Treadmill	Tread water	Tread carefully
	Ignore the consequences	Suffer the consequences	Attend to the consequences
Motivation	Offensive	Defeated	Defensive
	Accumulation	Frugality	Prioritization
	Striving	Struggling	Scrambling
	More than enough	Not enough	Just enough
Shopping	Maximizing	Satisficing	Optimizing
	Go for it!	Forget about it	Wait and see
	Act fast	Don't act	Act slow

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interrupted periodically by bouts of spending to seize opportunities. Just look at the 2011 holiday season in the US—bursts at the beginning and the end with a lull in the middle that nearly panicked anxious marketers. Acting slow then fast then slow again is what trading off looks like.

Most importantly, there is not enough to go around in an era characterized by lower spending, a smaller economy and consumer prioritization. Some brands will lose. Growth in the developed West will be a tooth-and-claw fight for share, and not just within a brand's own category. The consumer consideration set now crosses category boundaries. For example, vacation travel may rise to the top by trading off against a down payment on a new car or a kitchen renovation or dinners out for half the year. Just being in the consideration set is no longer enough nowadays. To secure their fair share, marketers must rearticulate their value propositions with trading off in mind, giving consumers good reasons to put a brand at the very top of the list.

Dis-Ownership

Financial pressures dictate that business strategists and marketers need to design more affordable ways for consumers to shop and buy. This may mean cheaper goods and services, but it can also mean changing the transaction model to enable consumers to enjoy the benefits without owning the product. This is "dis-ownership."

This is not a new idea. Social critic Jeremy Rifkin first broached this idea at the height of the dot-com boom in his 2000 book, *The Age of Access*, arguing that the digital economy would obviate the need for ownership and companies would become network managers rather than product manufacturers. This idea was reprised a decade later by Internet entrepreneur Lisa Gansky in her 2010 book, *The Mesh*, in which she argued that sharing was replacing owning as the preferred form of consumption.

The concept of dis-ownership is a similar but broader idea, first discussed in our 2006 Year-End MONITOR LIVE teleconference. Dis-ownership is more than digital and more than just sharing. It is a shift in the transaction model such that ownership is immaterial. It may be replaced virtually or collaboratively, or in one of several other ways, too.

This shift toward alternative transactional relationships preceded the Great Recession, but the downturn has intensified interest in dis-ownership. Consumers need more accessible, more affordable alternatives, which could range from fractional ownership to auctions to swapping to leasing to borrowing to bartering to sharing to user fees to recycling to 'freecycling' to digitization to just plain piracy, and more. All of these forms of dis-ownership are familiar, of course. What's changed is their revitalized appeal in lieu of ownership and all of its expenses and obligations. Not owning something has never looked better.

Consumers are reinventing their styles of consumption to satisfy their lifestyle ambitions in the context of a smaller economy. Businesses should invest in innovative transactional models that confer legitimacy on these ways of acquiring benefits without having to acquire the products that deliver those benefits.

Key Takeaway:

Take the fixed costs and hassles of ownership to zero. Adopt flexible pricing tied to usage. Then sell the experience, not the product, and build volume through loyalty. Track uses, not facings.

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Curation

Volatility, mistrust and anxiety have made people suspicious of authority and of established ways of doing things. Tight household budgets and frayed safety nets have thrown people back on their own resources. People have been forced to become more self-reliant than ever before.

But this is a new type of self-reliance. What people want now is networked self-reliance, meaning individual autonomy augmented by intimate networks of homegrown support and resources.

People have always looked around for guidance and direction. What's changed is the context of advice. The downturn provided a receptive audience for the mushrooming of the social Web since the tipping point of 2006-2007. The biggest infrastructure-building of this downturn has been the nexus of networked self-reliance.

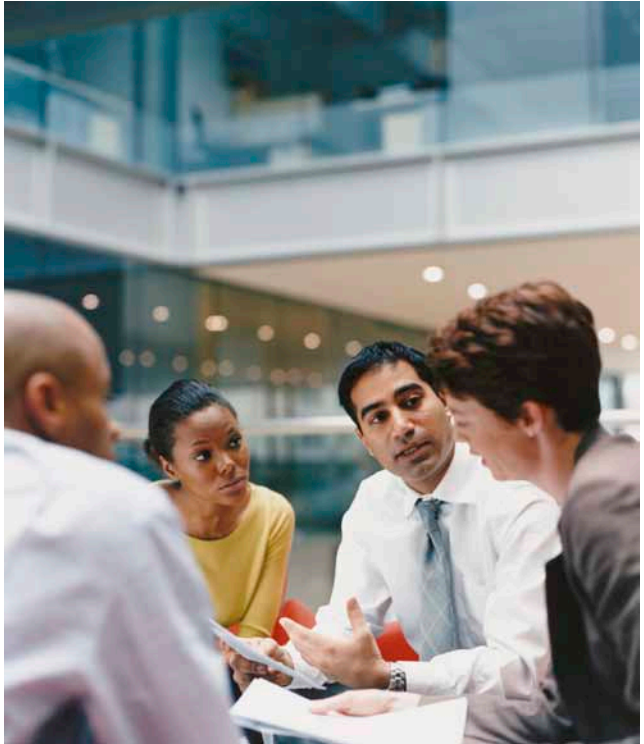
With traditional authorities in decline and financial needs pressing, people have tuned into the advice and counsel of friends and family for recommendations about where to look and what to do. Such lifestyle and information curation has utterly transformed the way marketing reaches and affects consumers.

A study completed a few years ago by Columbia University sociologists, including Duncan Watts of Yahoo! Research, illustrates the impact of curation on consumer decision-making. These researchers conducted an experiment in which respondents were asked to listen to and rate songs they had never heard before, after which they were given the opportunity to download for free all of the songs they liked. One group made download choices independently, without knowing what others downloaded. The other group made download choices only after being informed of the download choices of previous respondents. The findings showed unambiguously that the influence of others matters a lot, completely overriding personal preferences. To put it another way, once respondents knew what

Key Takeaway:

Target conversations, not individuals. Get your message into the mix and gauge your success by retweets, not by recall. Help people become more self-sufficient by contributing to and supporting the networks on which people rely.

others had downloaded, they downloaded the same songs (even songs they didn't like). The Columbia researchers added that the traditional way of approaching consumer decisions as if they are context-free is inherently flawed "because when individual decisions are subject to social influence, markets do not simply aggregate pre-existing individual preferences." In other words, networked curation, not individual preference, matters most.



With consumers embracing curation, marketers will have to influence decisions by getting others to talk about their brands, not by advertising their brands themselves. Just getting consumers to listen to an ad is going to be harder because, increasingly, they are listening only to one another. Every marketing message now reaches people as part of a conversation. The new world of consumers no longer fits any marketing concept of old—it is not one-to-many or one-to-one or, indeed, one-to-anything. It swims in a social sea. It is networked and curated. Old metrics such as share of voice must give way to more relevant metrics such as share of conversation.

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Owe Not Earn

For consumers in the developed West, the better measure of spending power and confidence is debt, not income. The downturn flipped balance sheets upside-down, leaving people across the range of income strata buried in debt. For many people, debt has now become an unrelenting source of anxiety. Tight credit markets have compounded this by making it harder to borrow, even for people with solid credit ratings. Income still matters when it comes to identifying high-prospect target consumers, but until deleveraging has worked its way through the economy, what people owe, not what they earn, will be a far better predictor of spending potential.

Little or no debt has become the new marker of financial savvy because it means greater insulation from risk and greater control. Debt prevents people from accumulating a sufficient cushion against the unexpected, depriving them of a safety net at a time when public safety nets are being weakened.

Much of the middle class feels disconnected from opportunities that before the downturn they could easily unlock by borrowing what they needed. The irony is that the borrowing that promised greater security, especially for housing, has become the greatest source of insecurity and anxiety.

The relative importance of debt over income can be seen in the two charts shown in Figure 13, which are taken from The Futures Company's January 2012 Feeling the Pinch survey among UK consumers. Three segments were identified in this research on the basis of financial anxiety and obligations. All Hands on Deck is the most distressed. Plain Sailing is the least distressed.

Key Takeaway:

Debt is the newest demographic, standing alongside income as a key measure of financial wherewithal. Even net worth is not a good measure of household finances if monthly expenses for debt service are onerous. So include debt in every study and use debt, where possible, for targeting media, Web and in-store initiatives.

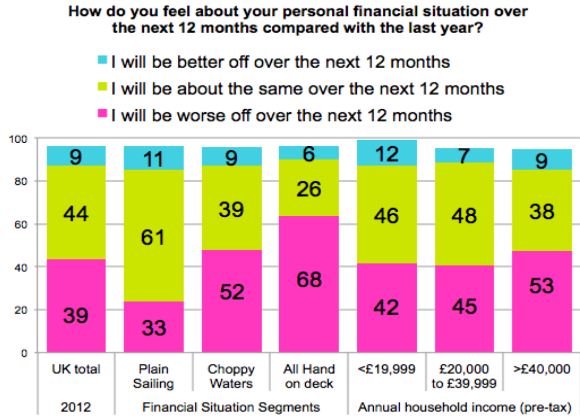
The first chart in Figure 13 shows the income distribution across the three segments. The middle-income stratum is roughly the same for each segment, with a skew in the upper-income segment for the Plain Sailing group. What differentiates these groups is debt more than income, and that is relevant to the results seen in the second chart showing personal financial evaluations.

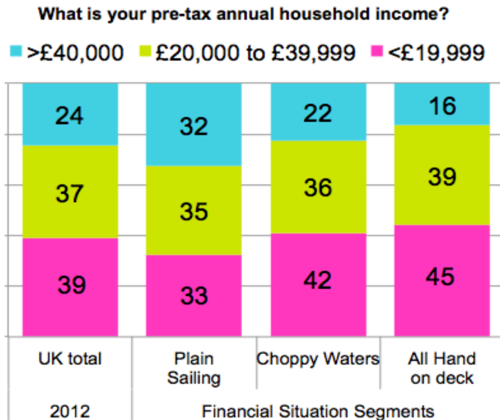
The second chart in Figure 13 aligns the three financial segments with three income groups. In terms of financial worries, the income groups are basically the same, thus income has little impact on financial worries. However, the debt-driven segments differ a lot, with the highest debt group, All Hands on Deck, expressing the highest anxiety of any group.

The contrast of income groups versus debt segments in terms of financial worries demonstrates that debt is a much more differentiating factor than income. Other research confirms this, including a [mid-2011 survey of UK youth aged 16 to 25 conducted by the online charity YouthNet](). It found that debt is the thing young people fear most about the future, mentioned by 28 percent, well above death, mentioned by a mere 4 percent. By contrast, in 2008, death was at the top of their list.

Until consumers in the developed West get household debt back down to manageable levels, it will be the most important financial dimension around which to organize business planning and consumer targeting.

Figure 13: Debt vs. Income





The Futures Company, UK Feeling the Pinch Study, 6th Wave, January 2012.

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Age-Appropriate

The long-standing attention that brands have given to young consumers has been upended by a generation of young people unable to start their lives because they can't find work. In particular, this means that contrary to conventional marketing wisdom, older people will be a better source of growth than younger people.

Young people have borne far more of the brunt of this recession than older people, especially in terms of jobs. In the US, the UK and Europe, the deep recession and stagnant recovery have been particularly brutal to the job prospects of twenty-somethings, a cohort that some pundits have started characterizing by the disheartening tag of Generation Jobless.

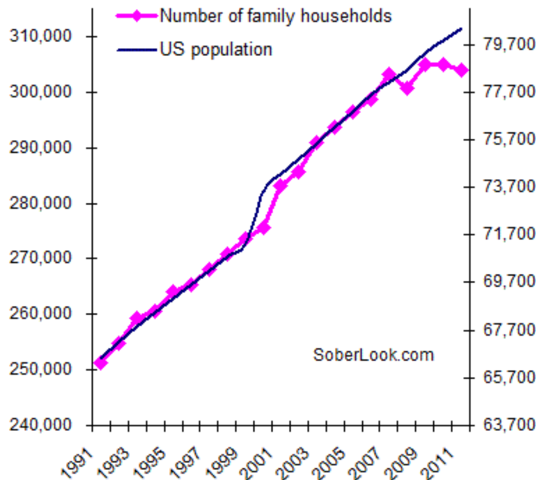
Youth unemployment is roughly 50 percent in Spain and Greece, over one-third in Ireland and almost one-quarter in the US and UK. News from the 2012 World Economic Forum in Davos reported that business leaders there described the level of joblessness among young people was "not a crisis, but a disaster," indeed, a "cancer in society," that left the world "sitting on a social and economic time bomb." The depth of these struggles was explored in detail in two Future Perspectives from The Futures Company, *Unmasking Millennials* and *Millennials in Crisis*.

One illustration of how these struggles affect young people is shown in Figure 14. This chart plots US population

Key Takeaway:

Learn the lifestages of life after 50, for these will plot the arc of greatest revenue opportunity in the future. Twenty-somethings are late starters, having been stalled by the dearth of jobs during the downturn. The revenue potential of the traditional target of 18-49 year-olds has been materially diminished.

Figure 14:



SoberLook.com, "The Story of Household Formation Weakness is About Families," January 16, 2012, http://soberlook.com/2012/01/story-of-household-formation-is-about.html

and number of family households. Historically, the two are strongly related. But since 2008, they have decoupled. The US population has continued to grow on its previous trajectory, while the number of family households has stalled, and even declined. Young people are stuck because of unemployment and, thus have been unable to start their own family households.

Young people have also been affected by the financial woes of older people. As young people have struggled with jobs, older people have struggled with savings, investments and pensions. This has left many older people with no choice but to change their retirement plans and work longer. The longer they work, the fewer the replacement job opportunities for young people.

The good news, though, is that working longer will extend the peak consumption years of older people and, in a remarkable reversal of traditional marketing presumptions, makes them a more attractive source of growth than young people.

Harvard economist Edward Glaeser argues that the past 70 years were a "retirement boom" we're unlikely to see again. The dramatic fall in the number of workers over 65 is turning around, driven by financial necessity and abetted by medical advances creating a new class of consumers. In an optimistic view of what this might mean for young people, Glaeser advises them to bootstrap their own employment prospects by developing innovative new products for older consumers.

Accenture and Oxford Economics have pointed to older consumers, or the silver economy, as a robust source of future growth. Much of the developed world continues to age, making older consumers the center of gravity for the consumer marketplace. With adjustments in tax and wage incentives and in systems to house and transport older people, along with the use of technology to enhance and supplement mental and physical capacities, older people can continue to be a significant part of the economy for decades to come. There are immediate growth opportunities in the silver economy that range from training and education to experiential offerings to everything to do with health care to financial services for people living longer lives to "age-inclusive consumer goods."

Older people are also key to economic recovery. Accenture and Oxford Economics calculate that a combination of increased workforce participation rates by older people and "productivity-enhancing human-capital investments" could raise 2020 GDP levels above current trajectories by 2.2 percent in the US, 2.5 percent in the UK and 2.1 percent in Germany. This would create additional jobs of 5 million, 1.3 million and 1.5 million, respectively.

The potential in older consumers is no excuse to overlook the critical employment needs of younger people. But it is a silver lining of growth opportunities in an otherwise dark generational cloud.

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Closing Thoughts

The declining relative importance of middle-class consumers in developed Western countries was recognized long before the financial crisis tipped them over from aspiration to anxiety. The two charts in Figure 15 show global projections by the OECD of the size and spending of the middle class immediately before the downturn. The relative size of the middle class in North America and Europe was projected to drop from 54 percent of the world's total in 2009 to 21 percent in 2030; spending from 64 percent to 30 percent.

Before the downturn, chasing the global middle class meant heading East to the Asia-Pacific region, where the OECD projected that 66 percent of middle-class consumers and 50 percent of middle-class spending would be located in 2030. After the downturn, this shift of geographical orientation is an even bigger imperative.

Capturing the potential that exists in these emerging middle-class markets requires

Figure 15: Global Middle-Class Growth Projections by Region (pre-financial crisis)

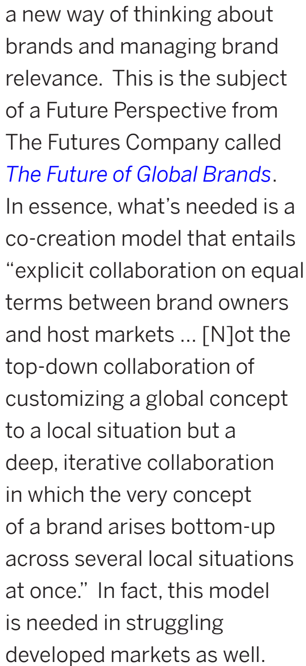
Share of the Global Middle Class

	2009	2020	2030
North America	18%	10%	7%
Europe	36%	22%	14%
Central & South America	10%	8%	6%
Asia Pacific	28%	54%	66%
Sub-Saharan Africa	2%	2%	2%
Middle East & North Africa	6%	5%	5%
World	100%	100%	100%

Share of Global middle class spending

	2009	2020	2030
North America	26%	17%	10%
Europe	38%	29%	20%
Central & South America	7%	7%	6%
Asia Pacific	23%	42%	59%
Sub-Saharan Africa	1%	1%	1%
Middle East & North Africa	4%	4%	4%
World	100%	100%	100%

Homi Kharas, *The Emerging Middle Class in Developing Countries*, OECD Development Centre, Working Paper No. 285, January 2010, http://www.oecd.org/dataoecd/12/52/44457738.pdf


a new way of thinking about brands and managing brand relevance. This is the subject of a Future Perspective from The Futures Company called *The Future of Global Brands*. In essence, what's needed is a co-creation model that entails "explicit collaboration on equal terms between brand owners and host markets ... [N]ot the top-down collaboration of customizing a global concept to a local situation but a deep, iterative collaboration in which the very concept of a brand arises bottom-up across several local situations at once." In fact, this model is needed in struggling developed markets as well.

The deep truth is that the brands we know today were developed and deployed for a global economy that no longer exists. The old global economy that was dominated by prosperous developed markets filled with aspirational, free-spending middle-class consumers who got their information and entertainment from mass media is a fast-fading memory. Few brands have an optimal fit with any sort of marketplace anymore.

Brands will fail if they don't adapt quickly to this new world of a slow-growth West and fast-moving emerging markets. While brand strategists and marketers are now beginning to fathom the needs of the emerging markets, the new markets that surround them in the richer economies are a mystery. In both places, remaking brands from the bottom-up in explicit collaboration with local consumers is a universal imperative. This is what it means to say that brands must yield power and control to consumers if they are to survive, much less succeed, in the years ahead.

For companies, too, the old rules are up for grabs. Reinvention doesn't come easily, but if it doesn't come, things will get impossibly hard. That's the bad news. The good news is that, in a marketplace in which the rules are being rewritten, every brand has a shot at success. This race will go not to the biggest, the oldest or the most established, but to the fleetest innovators who can surge forward by quickening their pace.

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

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