Hi everyone. Welcome, or welcome back, to That Makes Cents. This is the podcast where we break down consumer industry trends and explore their impact on businesses and on all of us as consumers. In many of our episodes, we discuss topics that are driving disruption in the near term, or even at this very moment. However, in today's episode, we're going to do something a little bit different.

Today, we're going to look much further forward, discussing macro forces and their implications on the industry over the next decade. A famous Greek philosopher once said, “Change is the only constant in life.” And the consumer industry is just another example of this.

From the acceleration of digital technologies to the constant tinkering required to be customer-centric, the consumer industry has transformed itself repeatedly just in the last few years. So, what does the next decade really hold for the industry?

Is it more of the same, or are we facing a different horizon? What are the forces shaping the future of the consumer industry over this next decade? And finally, what role can consumer industry executives play in creating a better future for everyone?

To discuss these questions and the findings of an extensive yearlong study on the future of the consumer industry are two very special guests: Anthony Waelter, Deloitte's vice chair and US Consumer Industry lead, and Alisa Locricchio, senior manager with Deloitte Consulting. Thank you so much for joining this episode, welcome to the show.
Anthony: Thank you, Bobby, it’s great to join you today.

Alisa: Thanks, Bobby, really looking forward to our discussion.

Bobby: OK, great to hear from you guys, and as always, let’s just dive right in for our listeners, and Anthony, I’m going to start with you. Since you are a champion for this important research on behalf of our consumer industry team, I’d really like to start at the top. Why now? The consumer industry has always faced change, so what makes the change the industry faces right now different? And why have we decided to make the change the industry is facing right now? The consumer industry has always faced change, so what makes the change the industry faces right now different? And why have we decided to call this “buying into better”?

Anthony: Thanks, Bobby. Following the pandemic, we found that the number and pace of questions coming from our clients was increasing, and the degree of uncertainty they were experiencing was also growing, and we saw the same in our research of the consumer.

So, we started seeing signs that the changes we were feeling might be different than the changes our industry has faced over the past 20 years. So, our clients were asking relevant questions about what they needed to do to win their share of the consumer’s wallet. More important, what changes did they themselves need to make to position their brands above their competitors?

Now, these aren’t questions that we haven’t grappled with. We’ve grappled with these since our inception, but never before (at least, in my 30 years in the industry) have they been asked when the change around us has been so dramatic.

It was this hindsight that the pace of change and the outcomes expected continue to change at unprecedented speed and scale, which led us to explore the forces that will shape the next decade of the consumer industry.

So, we took on this challenge on not only behalf of our clients and consumers, but also ourselves. And Deloitte’s Office of the Future of the Consumer Industry team have developed a capability to explore the future through an unbiased lens and frame the challenges and opportunities facing consumer companies, their customers, society, and the planet in a way that allows for deeper consideration of how our clients might alter key decisions to their business to succeed in the future.

So, through our work, we concluded that the consumer industry is facing a once-in-a-century economic, social, and technological transition. To add complexity, this is all happening against the backdrop of a focus on climate change, inequality, declining trust in institutions, increasing political and social polarization, worsening financial conditions globally in a number of other really traumatic and damaging opportunities.

There’s no denying that the impact our consumers are having on the planet as well, and so, it’s estimated that the consumer industry produces about 60% of greenhouse gases. So, with another 2 billion consumers being added to the current 4 billion over the next decade, the situation is simply untenable.

So, in this time of significant transition, consumers are demanding companies to do more than just meet their basic needs and increase shareholder wealth. So, rather than just meet their basic needs, they expect something far greater, and it really breaks down to an unwavering commitment to people, purpose, the planet, in addition to prosperity. So, in short, consumers are buying into better, and buying into better will require us to make aspirational choices.

Bobby: So, you gave us a lot to think about there, and I think the “why now” was pretty clear to me, and the why this is an important undertaking into the future, given the points you made around climate change, just the size of the consumer population both in the US and abroad, kind of talks about the monumental nature of this.

And so, Alisa, maybe as someone with some hands-on experience with the study, can you just share a little bit more about how we went about this monumental effort?

Alisa: Yeah, absolutely. So, this was really important for us to be as thoughtful about and as dedicated and thorough in our research as possible. So, what we did is we spent the last 18 months working with Deloitte’s Office for the Future together—deep research where we drew insights from more than 800 people.

And our goal in doing that was really to be as broad, inclusive, and thorough as possible, because we believe the more perspectives and input we could get, the better foundation we’d have for a truer understanding of the forces shaping the future. And in doing that, we went to internal practitioners across all levels. So, we went from analysts all the way up to PMD, we went to clients, we went to industry luminaries and experts. But we didn’t stop there; we also looked outside the industry. So, we went to economists, sociologists, policymakers, authors, academia, we even went to Wall Street analysts. And again, we did that to make sure that we’d have as diverse and thorough of an understanding as possible.

Bobby: So, all of that research uncovered (and I’ve had a chance to read it) more than a hundred different drivers of change. And when you go that broad, I think with your research and for that length of period of time, it’s no surprise that it was so thorough and with that many drivers of change, but that feels like a lot.

So, what I appreciated also was that you were able to categorize these into six forces that make it a little more palatable. These six forces that will shape the industry as a whole over the next decade. So, Anthony, maybe you could shed a little light on these six forces for us?

Anthony: Yeah, thanks, and it was a lot. One hundred drivers of change is significant, but it was, as you mentioned, equally significant that we were able to classify these under six primary forces. And these are the forces that will place the great pressure on markets, models, and mechanics.
The mindset of the executives in the next decade has to expand beyond its current focus on shareholder value to one that incorporates new dimensions of society and the planet. And the forces that I’ll talk about include the changing consumer, evolving society and culture, exponential technology, radical upheaval of the industry, extreme climate change, and the shifting economics policy, and power. So, I’ll use one of the forces (radical industry upheaval) to illustrate.

So, most traditional companies still focus on physical goods and services. And we estimate at Deloitte that in the United States, approximately 3% of the consumer wallet is now spent on digital goods and services, a category that is primed to grow dramatically.

So, for example, in 2022, the app economy grew by roughly 21%, while the digital health market has been projected to grow by nearly 18% year over year, over the next decade. So, 3% may not seem like much, but when you realize that the apparel industry constituted 3.8% of the consumer wallet, and the consumer electronics industry is approximately 3% over the same period, spending on digital goods and services is significant.

And we expect that spending on digital services will continue to grow. In particular, it’s much higher for younger consumers, reaching as high as 3.2% for Gen Z. So, the younger consumers [are] clearly investing more in that type of good.

So, I used radical industry upheaval as an example, but it’s important to note that as you mentioned, we identified more than 100 drivers of change that make up the six forces. And what’s really important that our clients and your audience understand, and what makes them different than the change we’ve seen in the past decades, is that the six forces and 100-plus trends are acting together at scale to create unprecedented pressure on the consumer industry.

This is where our work becomes extremely valuable for our clients. Understanding the relationships of the six forces and how they might act together and at scale to challenge the aspirations of our clients is critically important. And then, to help our clients determine which strategic levers to pull—those three M’s (the markets, models, and mechanics)—to use that change to their advantage.

Bobby: Got it. So, your example of digital goods and services, I think, brought it to life. For me, specifically as a retail guy, a market that is as big as apparel or consumer electronics, which think about the holidays, that pretty much dominates the holidays—and here’s a whole new category that’s sort of come along in the last 10, 15 years that’s starting to crowd out or create its own space, which is fascinating.

And then the second part of your statement I thought was really good and just helped us get to another question is really those forces working together, what are the implications of these six forces? In other words, how can companies, whether they be consumer companies or other industry companies that rely on consumers, take advantage of opportunities brought on by the collective nature of the six forces of change?

Maybe Alisa, you could share your thoughts on this one.

Alisa: So, to really harness opportunities that come out of these forces, it is important, and you said it—executives first need to really understand the implications, which Anthony touched on. We frame those as markets, models, and mechanics. So, truly understanding what do those mean? What are the implications? What are the choices to be made by our clients coming out of those?

So, if we think about them: First, we have markets, so what’s being sold, who’s it being sold to, how are we creating value, and so forth. So, you can really think about that as a conversation about changing value proposition.

Now, the second component is models, which is really business models. So, how do you organize and configure a business? What capabilities are clients choosing to own themselves versus what are they going to access the ecosystem for? And what new models are being developed to create value?

And then finally, you have mechanics. So, if we need to rethink our value proposition and the business model, then you naturally need to rethink your operating model, which is what we see as mechanics. So, how do you operate? What role does labor play? How do you execute work, and how do you prioritize the operational decisions coming out of this?

And the one thing that I’d say is that these three categories of implications, they aren’t necessarily exclusive. In fact, most of them actually cut across and influence each one of the other dimensions of implications I mentioned. And really thinking about that interplay is key to not only be able to avoid the potential threats that start to appear, but to more importantly begin to fully unlock the opportunities that are also fully emerging over the next decade.

Bobby: Love it. I’m definitely going to remember markets, models, and mechanics today, which I think is great because I love that sort of line of thinking, and I’m a sucker for alliteration also.

And so, playing off that third one of mechanics, something I heard in there is the role of partnerships, and what will the role of partnerships and different ecosystems play in the evolution of the industry and how we respond to these forces.

Alisa, maybe given your background in M&A, what unique capabilities do you see consumer companies seeking from others? Like, how are they going to partner? How are they going to look outside their four walls to go after this part of it?

Alisa: So, if you look to the future, companies are really going to need to rethink things like the data, technology, the talent, and the capabilities that they’re going to need to be able to achieve their long-term goals. And as they do that, they’re going to have to figure out how are they going to
And what we’ve seen related to the ecosystem is that there’s really this water line that’s out there, and that water line is starting to rapidly rise in terms of what capabilities are available. So, the possibilities of what clients or companies can access from others in the future is going to be endless.

Bobby: That makes a lot of sense. I really like that “both sides of the coin” analogy there. And Anthony, I wanted to come back to you, given the view of the future we’re taking. I heard you mention things in the forces that are important, not just to the bottom line but are important more broadly—to society, to humanity, to sort of bigger concerns, but of course, impact the consumer industry because we’re all humans in it, whether it’s extreme climate change or evolving society and culture.

So, given that, what other role should consumer companies think about playing in shaping this future beyond just the primary role of creating shareholder value for their companies?

Anthony: Yeah, we talked about this, and I mentioned it earlier that consumer companies play a significant and increasing role beyond shareholder wealth. And we talked about values and increasingly, companies are moving beyond a shareholder view to a broader stakeholder view in incorporating externalities of their operation into other thinking. So, consumers are increasing their expectations of companies, and so companies are responding.

Edelman Trust Barometer found that consumers globally by a factor of six-and-a-half times believe that businesses are not doing enough on the topic of climate change, on the topic of economic inequality, energy, and health care.

So, from our work, we believe that the forces will put additional pressure on companies to look beyond shareholder value as a sole measurement of value, and we believe our clients are already on that path. Now, it’s just about how to take advantage of that, how to make that a competitive advantage and, frankly, make an impact.

Bobby: OK. I love that, and this has been really insightful. I suspect we’ll have more conversations about these forces, these trends on potentially subsequent episodes. It’s such a big deal that I don’t think we can fit it all into one episode.

But for those of you who have listened know that I always ask some sort of either personal or forward-looking question on these. I’m not overly personal, but since this has been such a forward-looking episode, I do want to get more on a personal note here.

So, you spoke a lot about how we must ultimately buy into better—for the better of the planet, for the better of society, for the better of our neighbors, etc. So, on a personal note, what are you doing or have you done to better yourself for those around you? Alisa, maybe we start with you.

Alisa: So, for me, buying into better honestly starts at home. It shows up in the conversations I’m having with my husband, it shows up in the decisions we’re making about the purchases we’re making for ourselves and our children. It’s also showing up in the issues that are most important for us to think about and grapple with really concerning our community and what we can do to better impact the community, better support it, and really create that better future for us all.

Bobby: Love that. Anthony, anything you’d be willing to share?

Anthony: Sure, yeah. I would say it’s an emphasis that I have with my children on aligning their purchases with their values.

So, finding the right companies that really they feel aligned with their beliefs and values and using their dollars to help those companies succeed.

Bobby: I love that. I mean, we’ll keep the theme of children going here. I actually take inspiration from my children. They’re very young (four and seven), but especially the seven-year-old, already the awareness of the impact on the environment, the impact on those around her, of what we buy, what we use, what we waste is really, really impressive.

And I hope to draw on some of that and help to continue to be a positive impact on the environment and my community and make her proud. So, I think that’s all great examples from the three of us here, and hopefully, listeners, you’ve got things that came to mind as well.

So, we have reached the end of the episode. We talked about a lot in a short period of time. We talked about a hundred different pieces that are kind of driving this change down into six really distinct forces, which I thought Anthony did a great job of summarizing and even bringing to light with an example.

We really talked about the three M’s (markets, models, mechanics) and how important it is to sort of think about and break down these changes and how companies, especially consumer companies, can react to, prepare for, and hopefully, ultimately, help create a better future. And so, thank you Anthony and Alisa, once again for sharing your views on the future of the consumer industry.

For our listeners, you can dive into the full report on Deloitte.com. Just go ahead there and search “future of consumer” or connect with any of us on LinkedIn. As always, thanks for listening, and see you on the next episode of That Makes Cents.