

KANTAR CONSULTING




# COMING OF AGE

THE COMING E.R.A. OF VALUE & GROWTH  
IN THE THIRD AGE OF CONSUMPTION







# THE THIRD AGE OF CONSUMPTION

The three ages of consumption are the age of luxury, which ran from around 1700 to 1850, the age of acquisition, which ran from about 1850 to 2000, and the age of experience, which emerged around the turn of the century.

The Third Age of Consumption represents a turning point. Unlike the expansionism of the two previous ages, it is defined by challenges of **capacity**. These challenges are undermining the assumptions on which most of today's largest and most successful companies have been built, and they are changing the aspirations and expectations that consumers bring to the marketplace.

The challenges of capacity take different forms. Cognitive capacity is strained by a surfeit of information and the limits of attention. Economic capacity is checked by the deep structural elements that are slowing long-term growth while transforming the returns to scale. Resources are fast approaching the boundaries of planetary capacity, while in parallel there is a broader shift in environmental attitudes and lifestyle values.

But these challenges do not mean that value and growth are impossible. Instead, value and growth have shifted. Opportunities must be framed in innovative ways to turn capacity into potential. Understanding the different types of capacity and the ways of navigating them is central to business success in the Third Age of Consumption.

# THE FUTURE OF CONSUMPTION

The First Age of Consumption was enabled by the invention of new ships and navigation techniques that made it possible to ship goods from other continents. Scarcity and luxury went hand in hand. Fur, spices, coffee, tea, chocolate, tobacco, and china dishes elevated the quality of life for those who could afford them. Consumer goods moved from the world of the wealthy to the world of the upper middle-class.

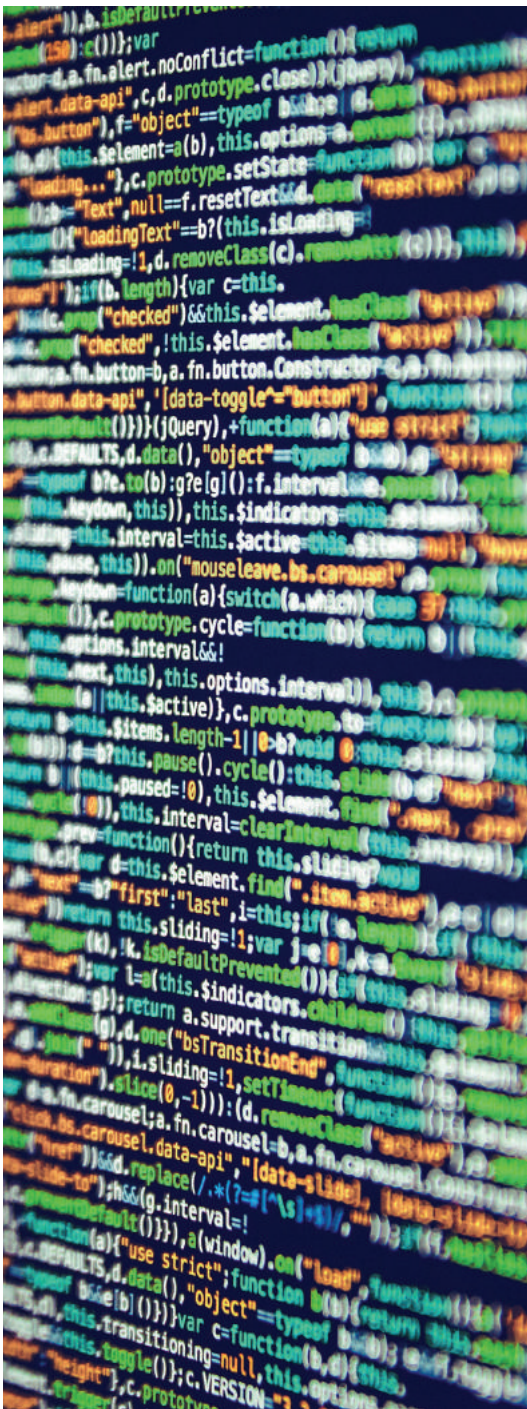
The Second Age of Consumption was marked by a new form of consumption represented by the department store, first pioneered in France. This was made possible by advances in manufacturing processes and improvements in transportation infrastructure. As this age unfolded, it became a time of acquisition in which households, certainly in rich markets, became ever more filled with the domestic capital of material possessions, notably during the post-war consumer boom of the 1950s and the 1960s. Conceptually, one can draw a straight line from Bon Marche to the big box store.

Consumption moved from the upper middle-class to most strata of society—from premium to mass. It was helped along by new techniques of marketing and business

operations, such as Procter & Gamble's brand management system and General Motors' innovation strategy of planned obsolescence, as well as by more sophisticated instruments of consumer credit.

The signs of the Third Age of Consumption have been around for a while. The early indicators included the writings of Daniel Bell and Alvin Toffler in the 1970s and the 1980s on the post-industrial society and the Third Wave, respectively. In 1999, consultants Joseph Pine and James Gilmore declared in their book, *The Experience Economy*, that they had identified experiences as a new category of spending. In the early 2000s, consumer started to show that they regarded an over-abundance of choice as a weight rather than a benefit. The work of social psychologist Barry Schwartz on the emotional costs of choice-maximizing appeared around this time.

Decades of slowing growth finally caught up with the world's more affluent economies in 2008. The financial crisis of that year was a decisive moment, when the worldwide credit boom that had shored up consumer spending during the last stages of the Second Age finally burst under the pressure.



# COGNITIVE CAPACITY

The amount of data that passes in front of U.S. consumers each day has increased over seven-fold since 1980, from the equivalent of 10 gigabytes then to more than 74 gigabytes today. There are similar research findings in other markets. Cognitive capacity has not increased in line with this; multi-tasking, research shows, is a story we tell ourselves that is at odds with what our brains are actually capable of doing.

Kantar's FragmentNation work finds that even though people are devoting more time and attention than ever to media, the number of ads and brands competing for that attention has grown much faster. In the U.S., for example, the number of ads more than doubled from 2008 to 2015; the number of brands increased by almost a third.

In response, consumers are rationalizing and compressing their horizons. In many markets, the number of retail brands shopped each month is falling; in the U.S., this has dropped by nearly a quarter between from 2008 to 2015. The proportion of TV ads consumers watch all the way through has plummeted from almost 100 percent in the late 1980s to less than one in five today. One-quarter of consumers say they have installed ad-blocking software. For news, advice and guidance, people are turning instead to 'smaller worlds' of influence and information that are more consonant with their existing preferences and beliefs.

# ECONOMIC CAPACITY

Economists have been arguing about whether the slowing global economy is in a short-term down cycle or a long-term reset. To put it more bluntly, economists are divided over the capacity of the global economy to rebound to historic levels of robust growth. At one end of this range of opinions, economist Robert Gordon has argued that the strong post-war growth rates seen in the U.S. (and by extension, other developed markets) were a one-off, exceptional period created by a unique set of domestic technologies that transformed household living patterns. In his view, the current slower growth is a return to long-run trends.

In contrast, Gordon's critics suggest that he underestimates the possible impact of many of the technologies now being developed that could potentially restore if not transform economic potential.

Global demographics offers another way into this debate. The 20<sup>th</sup> century saw strong, continuous growth in global population numbers. The 21<sup>st</sup> century is different. According to the World Bank, the global working age population peaked in 2012. While the global population is expected to expand

for at least another three generations, it is expanding far more slowly than before.

The global economy is likely to be significantly affected by slowing population growth. The McKinsey Global Institute has calculated that even if productivity growth over the next 50 years is the same as that of the past 50 years (an optimistic assumption), declining population growth means a 40 percent drop in annual GDP growth over the next half-century for the G19 markets plus Nigeria. The only way to avert this dramatic fall in economic growth would be for productivity to grow at a rate 80 percent higher than the past. Even Gordon's critics acknowledge that this is unlikely, hence, going forward, economic capacity will be much smaller.

It's not only the overall capacity of the global economy. It's the kind of capacity as well. Under pressure from digital marketing, digitized supply chains, flexible production techniques and increasingly sophisticated and demanding consumers, mass markets are giving way to specialized niches and personalization. The economics of opportunity are shifting from scaling mass markets into big brands to scaling small niches into big brands.







# RESOURCE CAPACITY

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

Of these nine boundaries, climate change and biosphere integrity are core boundaries, and both of these have been breached. Global warming will bring sea-level rise and extreme weather events, which will, at the very least, require significant investment in remedial infrastructure. Climate change and other

human effects have already contributed to the Sixth Great Extinction. Over 60 percent of all species of life have disappeared during the last 50 years, and the loss rate is accelerating.

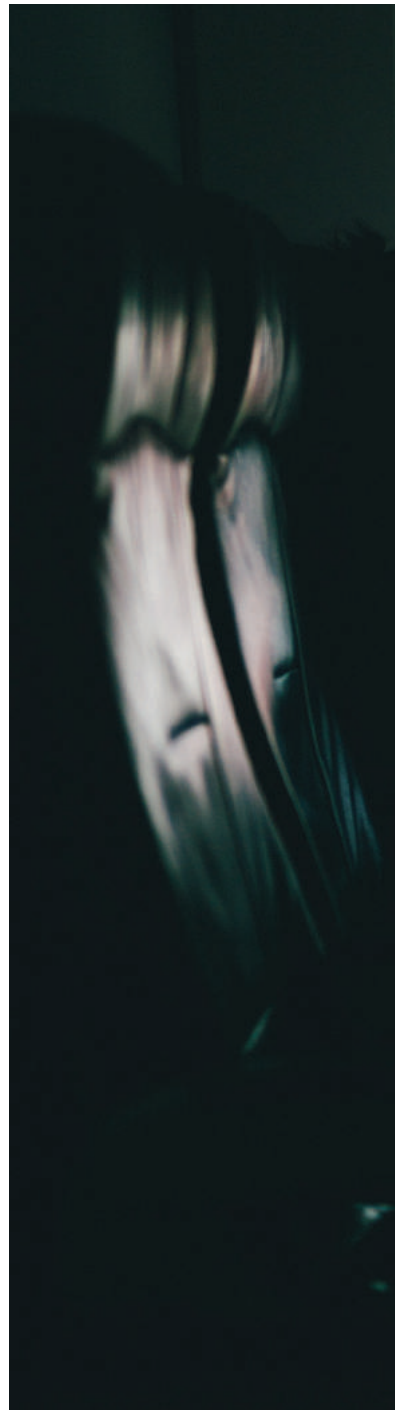
Resource capacity issues can be more immediate, especially more intense rainfall and longer periods of drought. Cape Town has come close to turning off the taps, but has avoided this so far through very strict water conservation. The water shortage threatening the megacity of Bangalore, India's technology hub, could be even more existential. A complex set of factors including drought, population growth, and urban development means that within a generation lack of water could make this city, once nicknamed the city of lakes, uninhabitable.

In the 1970s, the Club of Rome made headlines with an unsettling book that carried the self-explanatory title, *The Limits to Growth*. When Australian physicist Graham Turner revisited its projections in 2008 he found that the base case forecast remains on target.

Increasing resource pressure has encouraged businesses to introduce more energy efficient products, and people are starting to change their lifestyles to be less resource intensive. Volvo, for example, announced last year that beginning in 2019 it will no longer sell vehicles powered only by a conventional internal combustion engine—it will sell only EVs and hybrids.

At a consumer level, there is growing interest in vegetarianism and other less intensive forms of food consumption, in so-called lifetime goods, and in new ways of living and traveling more lightly, even though some of these shifts in preferences are not yet seen in the material flows data.

In Japan, minimalists reduce radically the number of possessions they own because they see it as a gateway to a better state of mind. Beauty vloggers known as antihauls are making waves with lists of products not to buy as a reaction to product proliferation and over-consumption. All of these trends, and more, represent early signs of new ways of consuming in the Third Age of Consumption.







# LIVE LARGE- CARRY LITTLE

One of the hallmarks of the Second Age was a shared presumption of no limits. Martin Albrow wrote in his book, *The Global Age*, that the dominant feature of modernity was that it was always expanding. Another historian, Christopher Lasch, characterized it as an “ideology of progress” and argued that this belief in “[p]rogressive optimism rests, at bottom, on a denial of the natural limits on human power and freedom.” Limitless accumulation was both the end-point and the engine.

A core assumption of this age was that advances in engineering and technology would unfailingly create greater abundance. For close to 200 years, this assumption worked well as economies of scale and demand, together with cheap energy, propelled discovery and invention. Now, as capacity is closing in, this assumption is no longer a good guide. Growth through unlimited consumption is giving way to an age of growth through mindful consumption.

The current age is best summarized as ‘Live Large–Carry Little.’ Consumers still want the good life, but they want it with less of the baggage that used to come with it. They want as much enjoyment, convenience and enrichment, but without the accumulation, possession and debt. This means that for consumers, ownership is increasingly disconnected from consumption. They no longer assume they need to own things to access the benefits they provide. An age of access instead of ownership, first prefigured by social theorist Jeremy Rifkin in 2001, is coming to pass, with all that it entails. For consumers, it means they can live large with big ambitions and aspirations while carrying little to do so.

This shift in mindset is not just a phenomenon of developed economies. While developing markets and the emerging middle-class are still in an accumulation phase of development, consumers in these markets will go through this phase in a global context of capacity, not one of no limits—which is to say that they are

coming up in the Third Age not the Second Age. Kantar Consulting's Global MONITOR® research shows that Asian consumers are more aware of capacity constraints than their counterparts in Europe and North America. A new model is needed everywhere and for everyone.





# EXPERIENCES RELATIONSHIPS ALGORITHMS

Modern brands were invented in the Second Age, when population boomed along with the consumption of energy and domestic goods. So it is not surprising that business strategy must change as the marketplace starts to run up against capacity. The brands that will win in the Third Age will be those that can master innovative ways of aligning with the new imperatives of value and growth.

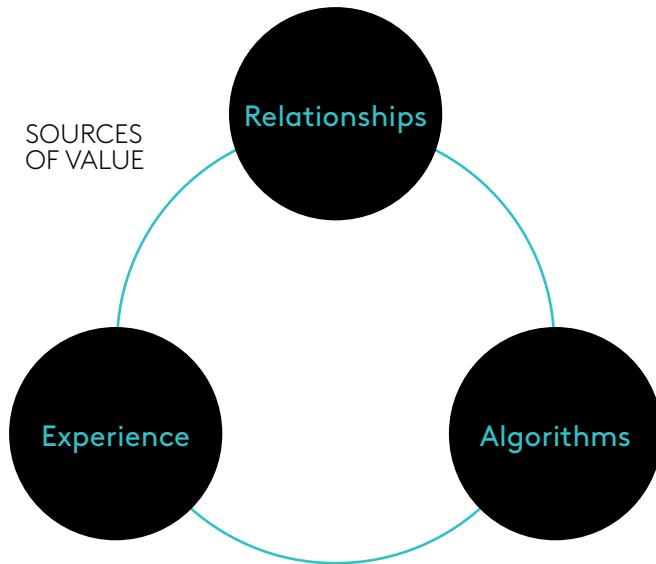
In addition to the new realities of capacity, there are several large global shifts that can be anticipated as well. These include ubiquitous digital technologies, a global shift in household

structures, greater diversity of demographics and culture, and the handoff of societal leadership from Baby Boomers to Millennials and Centennials. While these things are not the locus of future value and growth, they provide important clues about how value will be shaped and growth will be realized.

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



SOURCES  
OF VALUE



**Experiences** are what people seek from products, and there will be more decoupling of the benefit of the experience from the artifact that provides it. The ride without the car is the first such disruption. Consumers want to be experience-rich, and this makes it both acceptable and smart to be ownership-poor. The premium lies in the quality of the moment. For objects that are used only intermittently, paying for access when needed is more economical and more effective than the expense of ownership.

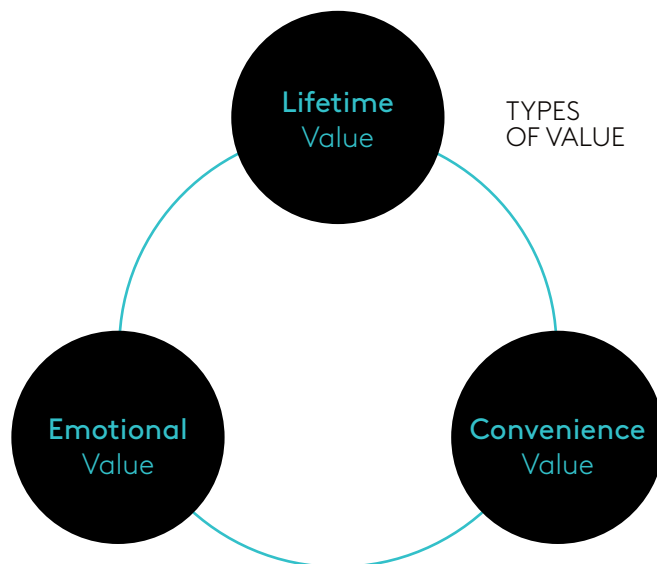
**Relationships** are what people seek from their lifestyles, and there is an on-going shift underway from time spent with the marketplace to time spent with other people. Social media are a part of this, but the broader phenomenon of connections with others is finding expression in the redesign of city spaces, the sharing of goods and experiences, the growth of peer networks, the rise of group experiences, and the priority now placed on things with human scale that are invested with communal significance.

**Algorithms** refer broadly to the technology platform now essential to all aspects of people's lifestyles. But more specifically, algorithms are what people seek from marketing, and there is a growing adoption of AI-powered technologies to manage engagement with advertising and retail. Consumers want value with as little expenditure as possible of time, attention, effort and headspace. Algorithms offer unparalleled convenience and efficiency, especially for low-involvement categories. Consumers can get what they need in more effortless ways so that they can spend more time with other people.

Algorithms change the relationship between brands and consumers. The focus shifts to using data to maximize consumer experiences, not simply to boost the visibility of any particular brand. This is a challenge that brands are facing already with online retailers, and it will be an even bigger challenge ahead.

# NEW METRICS

In an age of experiences, relationships and algorithms, both consumer value and business value must be measured in different ways. Experiences are associated with emotional value—those premium moments of delight or assurance tied to consumer interests and passions.



Relationships are associated with lifetime value—the engagement of customers, formerly just with brands but now also with one another, that leads to enduring loyalty and the migration from products to services.

Algorithms are associated with the value of convenience—of time or money saved, or a reduced cognitive load in acquiring and using a product or a service. There is a deeper truth here: the algorithm should increase the value that the consumer gets from experiences and relationships. In some categories this is about getting things done more effortlessly; in others it is about deepening experiences or relationships. In general, algorithms tend to commoditize old business models, forcing brands to move outside the comfort zone of business as usual to create value and growth.



# E-R-A AS STRATEGY

In most categories today, companies tend to focus on just one aspect of E-R-A as a core business idea and then manage for the others. Patagonia, the clothing company, has focused deeply on the idea of relationships as a community of shared values undergirded by lifetime guarantees and repair roadshows. At the other end of the spectrum, Supreme,

the surf and skate clothing brand, has concentrated on experiences. It has broken category rules by introducing weekly drops of new products that are available only until supply runs out, which creates a weekly spike for items that have high social status with peers.

The E-R-A framework also acts as a guide to positioning. For example, Ryanair transformed the European aviation market by focusing on algorithms that manage pricing for customers and yield for the airline itself. It has extended that by digitizing as much of the customer experience as it could, and thus was early to introduce e-ticketing.





Other airlines have focused instead on the quality of the experience, charging more to remove customer pain points such as check-in and boarding, as well as upgrading the in-flight experience. The competition between Virgin Airlines and Singapore Airlines plays out almost completely in terms of experiences. It is striking that the dimension of relationships barely extends beyond loyalty points and some modest traveler privileges. This suggests that there is space in this category for innovation around this dimension of the E-R-A framework for value and growth.

Similarly, in a different category, one of the overlooked insights that Dollar Shave Club

had about the razor market was that it was not just the in-store consumer experience that was lacking. The experience with the products also had room to improve. By innovating around the quality of the experience, a Dollar Shave Club pack has become, quite literally, something consumers welcome into their homes, which stands in dramatic contrast to the functional plastic cases of mainstream competition. Of course, while the convenience of regular delivery to the home is at the heart of its proposition, the algorithms that drive its business model offer an opportunity for future innovation.

# THE E-R-A FLYWHEEL

Although most brands tend to focus on a single element of the E-R-A framework, some do more. The E-R-A value and growth equation is best thought of as a strategic flywheel in which each element can and should reinforce the other two.

## THE STRATEGIC FLYWHEEL

The concept of the strategic flywheel was developed by the management expert Jim Collins. It describes a business strategy aligned around a set of executional priorities and operations that reinforce one another such that they create a virtuous circle. It can take a while for a strategic flywheel to pick up speed, but once it gets going, it accelerates, making it much harder for competitors to match a brand's performance.

Amazon has been most successful in bringing all three elements of E-R-A together, which is one of the reasons why it is such a formidable competitor. Amazon uses algorithms to aid consumer choice, to keep prices low and to manage its supply chain and logistics, thereby ensuring rapid and reliable delivery, which is at the core of the customer experience. These two feed a sense of shared community and deeper engagement with the brand that gives customers the confidence to sign up for Amazon Prime, which in turn improves the quality and reliability of the information that algorithms draw on.

But all kinds of companies other than Amazon have also succeeded in this way.

British-based bicycle sportswear firm Rapha has made use of a similar flywheel to consolidate its position as the leading premium brand in its market—largely by not talking about clothing.

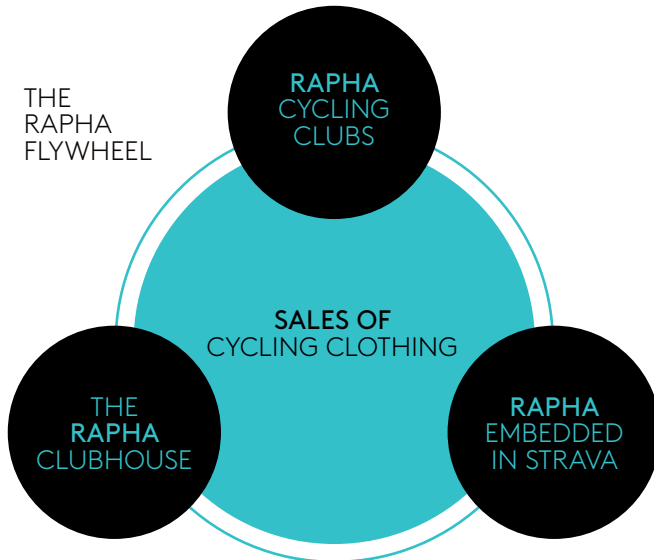
Considered as a fully integrated, self-reinforcing flywheel, the E-R-A framework can also be used as a diagnostic tool. Consider the financial services sector as an illustration. Almost universally, banks are withdrawing from expensive provisioning through physical retail branches and redesigning their services for delivery through smart handheld devices. This reduces costs, so banks will continue to wrestle their legacy IT systems into submission in order to make banking services even more simplified and automated. But this will transform and reduce touchpoints, which can affect trust and depth of engagement. Automating the simple stuff can sometimes mean that the business is less top-of-mind when customers are in the marketplace for a more complex product that requires greater consideration and explanation.

Unless the experience is designed carefully, banking customers can be left hanging when they need help or support, turning what ought to be a trusted, convenience-driven experience into a frustrating one. Sustainability consultants David Boyle and Lindsay Mackie offered a warning in a recent white paper that the trend toward digital automation is leading to the phenomenon of “the absent corporation,” with all of the attendant vulnerabilities.

But it's not just doing too little. Companies must also diagnosis the risks of doing too much. In particular, it's critical to align the cost of delivering the emotional value in

Rapha is a cycling sportswear and lifestyle company begun in 2004, with a controlling interest acquired in 2017 for \$260 million by an investment fund run by members of the Walton family. Its flywheel starts with experiences. Its shops in large cities across the world are light on retail and long on coffee and cycling memorabilia. Each location acts as a hub for Rapha club rides, which enable Rapha to build a community of loyal riders, even those who don't buy their clothing.

The cycling clubs are managed by Rapha through the athletes' site Strava, which means that Rapha is able to sit on top of the investment Strava has made in the algorithms that drive its system as well as position itself as being at the heart of the community of serious cyclists who already use Strava. The final element of the flywheel is the experience-driven Rapha Challenge, an endurance race for which cyclists use their Strava data as proof, all curated and celebrated by Rapha on its Web site.



customer experiences with the likely long-term value of the relationship. The decision of U.K. supermarket Waitrose to give a free coffee each day to club members as part of a loyalty package, regardless of whether they spend anything, was inexpensive to deliver—margins on coffee are high—but attracted too many consumers with little long-term potential. Similarly, following Starbucks' initial announcement that as one element of its response to a racial incident its stores would

be open for anyone to stay as long as they like regardless of whether they bought anything, it had to walk that back a little bit after several stores quickly filled with homeless people taking shelter.

In short, the power of E-R-A as a framework for future planning is the ability to foresee how actions in one part of the flywheel will amplify or dampen the potential for value and growth offered by other elements.







# OUTSIDE THE COMFORT ZONE

The challenge of the Third Age of Consumption is that it requires that companies master the paradox of finding more opportunities in a world of less capacity. The way to solve this puzzle is get outside the comfort zone of business as usual.

Companies that make products must find ways to monetize experiences. Companies that deliver experiences must elevate their game for a marketplace in which experiences are the new normal. Brands must deepen relationships without requiring more time and headspace. Consumers looking for social engagement must be able to find it through brands. Technology must be the platform for all of this, and more. Scale, and thus profitability, will come from aggregating niches not from aggregations of universal tastes and lifestyles.

The motive force of tomorrow is capacity. This feels uncomfortable to many incumbent market leaders, but it is the starting point for emerging companies and thus an environment in which they feel at home. Building value and growth from E-R-A is the path to success for all.

**Kantar Consulting** is driven to switch on growth. With over 1,000 analysts, thought leaders, software developers and expert consultants we help clients develop and execute brand, marketing, retail, sales and shopper strategies to get growth delivered. Kantar Consulting owns market leading assets including PowerRanking, GrowthFinder, Global Monitor, Retail IQ, RichMix, XTEL and Marketing, Insights and Purpose 2020. We track 1200 retailers globally, have purchase data on over 200 million shoppers and forecast social, cultural and consumer trends across the world.

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Information and Follow-up:  
[switchon@kantarconsulting.com](mailto:switchon@kantarconsulting.com)

[www.kantarconsulting.com](http://www.kantarconsulting.com)



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was developed by  
Kantar Consulting.

It was written by  
Andrew Curry, Director,  
and J. Walker Smith, Chief  
Knowledge Officer, Brand  
& Marketing. Production  
was by John Catlett and  
design by Kelley Zeller.