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Unlocking new sources of growth

How to find new value in new places

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New sources of growth

Growth and development are an overarching focus of business. This is true even for businesses that are not looking to expand; products and services that have prospered in the past will always start to decline, and business divisions which once seemed perfectly attuned to their markets find that their markets have changed. Inevitably, then, it is a tougher proposition in businesses with ambitious growth targets, where the size of the new opportunities needs to outstrip the losses from the fading markets, and in larger businesses, where opportunities must have some scale to have an impact on the business. The climate for growth in the 21st century is also changing, as resource pressures push up costs, and businesses are more closely scrutinized amid changing expectations about their public and social responsibilities.

And, of course, growth is harder to find in difficult economic conditions, which in turn create difficult market conditions. The result is often a vicious circle: sales fall, and as a result, margins fall. To restore margins, the company cuts its cost base, through closures and redundancies. But the intended effects of these actions take time to work through, and there are often unintended effects as well, such as the loss of corporate knowledge, which reduces the resilience of the business. In the meantime, of course, the share price is likely to be under pressure and investors nervous, or hawkish. The management's freedom to operate becomes increasingly constrained, and its choices narrow.

Although such responses seem rational, history tells us that it is better in hard times to actively seek out opportunities for growth. Recession is never uniform, and it always creates the potential for disruptive shifts in the structure of markets and the relative income of different groups of consumers. It often accelerates existing shifts in values. It encourages technological innovation. Recession is also a coiled spring, because recovery does come, sometimes helped by public investment or public intervention. Businesses can help by how they choose to innovate. One of the things we learn from the 1930s is that business has the power to create new dynamics of economic, social and technological change, to reshape people's views of the present and of the future.

In hard times it is better to seek out opportunities for growth

A prolonged period of economic stagnation, the kind currently experienced by the United States and much of Europe, is also a sign that the prevailing business and economic models (and sometimes social models) are broken, and that new models will have to be built. New models often run hand in hand with changes in values.

The purpose of this Future Perspective, *Unlocking new sources of growth*, is to focus on where such sources of growth are likely to be found, and how businesses can identify them in a structured and methodical manner.

Unlocking new sources of growth, therefore, explores the following sources of growth:

- New markets: people—mostly in emerging markets—who have reasonable amounts of disposable income for the first time. This group includes the "emerging middle classes" in these markets. Here, we go beyond the conventional wisdom; the opportunities in these markets are more complex—and perhaps less immediate—than is generally believed.
- Changing values: shifting social values and behaviors create new market spaces. Changes in the way we work have, for example, led to a boom in the high street (or main street) café and, combined with health concerns, created a multi-billion-dollar market in pre-packaged salad.
- Shifting money: within richer markets, money moves between different consumers, sometimes quite quickly. In the United States, for example, the financial crisis has created a new group of the "working old," who are still earning and spending.
- Emerging technologies: new technologies have long been identified as a source of new growth. Some foresee a boom in technology-based opportunities in the coming years. But the trick is always in the timing, for technology-led innovation can take decades to reach the market. There are techniques to help to get the timing right.
- New business models: the combination of changing values and changing technology platforms can create opportunities for new business models, which take value from existing players. Famously, iTunes has captured value that used to belong to high street/main street music retailers. Mobile and cell technology makes possible the pay-per-use car market.

> It is more valuable to take a broader view of your operating environment and look for growth platforms supported by several drivers of change

In the following pages, we will explore each of these in turn, together with some of the tools needed to identify them. If there is one message here, it is that focusing on a single area (betting, say, on technology or emerging markets) is not often a successful strategy. Instead, the new sources of growth that are likely to prove most durable are those where multiple trends combine. A change in values, for example, aligns with a change in economic structure, perhaps, while a technology platform has matured to create a new distribution platform or a different way of servicing the market. Taken together, they create new synergies on which the alert business can build.

This is to be welcomed, since such opportunities are more likely to be both substantial and sustained. But it also means that it is valuable, in doing such work, to take a broader, more holistic view of your operating environment and to look deliberately for growth platforms that are supported by multiple dimensions of change.

New Markets

Wherever you turn, you learn the conventional wisdom about growth: that new markets—the emerging markets of Asia and Latin America, and beyond that, Africa—are *the* future source of growth. The numbers presented to support this case are sizeable. And when the economic trends are combined with demographics and urbanization, it is not surprising that the world is now looking to the south and southeast. But this is a more complicated story than it appears.

By 2030, it is predicted, Asia's economy could be larger than that of the US and the European Union combined, with the region's share of world GDP swelling from a little under 30% to more than 40%. Latin America, which, like Asia, had its financial crisis earlier, is growing at speed as well. In breathless style, the consultancy McKinsey reports, *"The rapidly growing ranks of middle-class consumers span a dozen emerging nations, not just the fast-growing BRIC countries, and include almost two billion people, spending a total of $6.9 trillion annually. Our research suggests that this figure will rise to $20 trillion during the next decade—about twice the current consumption in the United States."* Jim O'Neill's book, *The Growth Map*, is similarly one-dimensional.

The message appears obvious: Go East!

Not so fast. We are in the middle of a long shift back towards Asia, as we discussed in our Future Perspectives report *The World in 2020*, published last year. In 1800, Asia had a share of the world economy that matched its population share of 60%. It still has a 60% share of world population, but its share of global income is now around half of that, because of the long shadow of 19th and 20th century colonialism.

But the short-term perspective is less certain. As the economist Tyler Cowen wrote in the *New York Times*, *"There is a more general worry that the grouping of disparate giants known as the BRIC nations—Brazil, Russia, India and China—has, for some reason, lost much of its previous momentum ... In the past, many countries engaged in catch-up growth have suddenly slowed and hit plateaus, although economists do not have firmly established theories as to when and why this happened."*

According to Michael Spence and Sandile Hlatshwayo, *"The evidence we have from the postwar history suggests that the majority of countries entering the middle-income transition have slowed significantly or even stalled. Of the sustained high-growth cases in the postwar period (thirteen, soon to be fifteen, with the addition of India and Vietnam), only five have maintained high growth rates through the middle-income transition and proceeded toward advanced country income levels of $20,000 per capita or above."*

In other words, the economics data might appear compelling, but they need to be read with care. It is even possible that the recent slowdown seen across the BRIC countries is a sign of a trend, not just a blip.

- The economic projections of the future growth of emerging economies tend to be over-reliant on past economic performance as a guide to future economic outcomes. But arithmetic alone dictates that as low-income countries become middle-income countries, their growth inevitably slows down. As noted above, some middle-income countries never make the transition to high-income, for reasons that are still poorly understood.

- The high growth rates seen in China and India have been significantly dependent on buoyant global export markets—and growth has slowed in the face of sluggish European and North American economies. A shift to a more internally focused consumer-led economy might remedy this, but the transition itself would have the effect of slowing growth as the economy adjusted.

- There are increasing internal barriers to growth, as we related in the case of China in our Future Perspective, *China's Challenges*, earlier this year. These include environmental factors such as water and air pollution, poor logistics and infrastructure, and inadequate institutional frameworks. Corruption is also a barrier to growth.

- The economic effect caused by the move from rural to urban areas is all but over. United Nations research suggests that future urban growth in emerging economies will come from migration from other cities and internal growth.

In general, economists' growth models, usually based on the work of Robert Barro (see panel) tend to look at each economy in isolation, rather than as part of the overall international system, meaning they ignore or underplay the effect of global constraints on growth, such as resource shortages or energy prices being pushed up by competition for oil.

Overall then, while we expect growth to continue, it will be at a lower rate than in recent decades. Businesses looking for sources of growth in emerging markets need to take a more granular look at the opportunities.

One of the most interesting assessments of the next growth opportunities in the emerging markets has been done by the economists Willem Buiter and Ebrahim Rahbari of Citigroup. They used a number of indicators based on the economic development literature to identify the 11 countries that were likely to grow most quickly over the next 40 years. China and India are on the list, and so are Indonesia and Vietnam, but there are also some surprises. They include two African countries—Nigeria and Egypt—along with Iraq and Bangladesh. Buiter and Rahbari believe that these economies can achieve sustained per-capita growth of five percent (at PPP exchange rates) to 2050.

But they also have three important caveats. This growth won't be achieved without improvements in resource efficiency; as they say, "the growth we are predicting will either be "green" and sustainable, or it won't happen at all." The second is that sustained growth depends on finding ways to ensure food supplies to the whole population.

Their third caveat is the most important: that the richest countries in 2010, per capita, will still be the richest in 2050. The gap with poorer countries should narrow, but it won't close. "Even with another 40 years of superior growth, China's real per-capita GDP in 2050 will barely be 50% of that of the US." For new sources of growth, the challenge—for the next decade and for several to come—will be to find those sources of growth in the slower growing richer markets.

> Growth in emerging markets will either be "green" and sustainable, or it won't happen at all

Barro models

Most economic projections for countries are based on the work of the macro-economist Robert Barro. Based on data from 1960 to 1985, this uses the starting level of GDP per capita (since it is easier for poorer countries to grow faster than it is for richer ones) and assumptions about demographic trends, the quality of human capital and economic governance, to project a country's likely rate of economic growth over time.

Robert Barro
Image source: http://econwikis-mborg.wikispaces.com/Robert+Barro

What to do

- **Don’t assume that the next few years will be like the last few years.**
- **Make sure that your economics analysis pays attention to uncertainties caused by non-economic factors such as institutional and environmental constraints.**
- **Take a more granular view of emerging markets and the opportunities within them—the emerging middle class in São Paulo is different from that in Senegal.**
- **Look beyond the BRIC model. Investing mainly in emerging markets in search of growth is a one-horse bet which will leave you stranded if the horse falters.**

New Markets (continued)

China's tourism boom

The Chinese tourism sector is a good example of how growth in specific sectors of the emerging economies can outstrip national averages. With government support, the number of trips made internally in China each year almost doubled between 2005 and 2010.

The boom is bringing new income to some of China's most beautiful areas—such as Shannan prefecture in Tibet, Jiuzaighou National Park in Sichuan province, and the coastal towns of Hainan Island. The tourism boom is also creating new industries. The China Ski Association expects the number of domestic skiers to reach 20 million by 2014, up fourfold from 2005.

Internal tourist numbers will continue to increase as a result of substantial investment in transport infrastructure and rapid growth in the budget hotel sector. China Lodging Group, for example, launched its first Han Ting Hotel in 2005. By 2010, it had a network of 438 hotels in 65 cities. As disposable income and leisure time increase tourism is becoming a more desirable activity, while online bookings are also increasing quickly.

Outbound tourism is also increasing rapidly, offering opportunities for companies willing to meet the service challenge. According to a 2010 survey carried out by the Boston Consulting Group, 95% of Chinese tourists claim they are "poorly served on both the domestic and the international front." Any effort that is made to meet their needs when abroad is likely to exceed expectations.

International hotel companies have started to address this gap. In April 2011, French-owned Accor launched its China Optimum Service Standards initiative in Australia, focusing on Mandarin-speaking staff, culture training and food. Starwood Hotels and Resorts' "Personalized Travel" program made its debut in July 2011, offering Chinese tea, congee breakfast and Mandarin travel guides, while the Hilton Huanying (Hilton Welcome) was introduced in August 2011 in response to the growing number of Chinese tourists staying at Hilton hotels abroad. Participating hotels promise to provide a Mandarin speaker at the front desk, congee and Chinese utensils at breakfast, and room amenities such as Chinese tea and slippers and Mandarin TV channels.

Retailers are following suit, recognizing that shopping is an integral part of the Chinese travel experience. Many brands are 25% to 30% cheaper in Europe and the US than at home. Selfridges department store in London recently started to accept Chinese UnionPay cards, while Burberry is employing more Mandarin speakers to cope with demand from Chinese tourists. The upmarket London store Harrods, meanwhile, introduced 75 Chinese UnionPay terminals in its London and British airport stores in 2010, and has 70 Mandarin-speaking staff. The store estimates that Chinese shoppers spent an average of US$5,700 on each visit to Harrods during the first quarter of 2011. More generally, the World Luxury Association estimates that Chinese consumers accounted for more than 60% of Europe's luxury goods sales in 2011. Similar trends are now being seen in the US. There is an obvious point here: Chinese tourists abroad are typically high-end luxury consumers, which can help such businesses fill gaps created by declining spend by consumers from richer markets. *(TR)*

Changing Values

Deep social change takes time. We can sketch such changes out over decades and generations; the rise of individualism with the Boomer generation and their European equivalents, the *soixante-huitards*; the rise of working women, not just in rich markets but increasingly in the majority of countries; slow changes in behaviors prompted by environmental concern, such as recycling.

Such changes can set the context for the more rapid changes that open up innovation opportunities.

Typically, these more rapid changes occur as a result of the slower, longer change meeting a trend that is traveling more quickly, such as an economic change, a shift in technology, or sometimes, a sustained campaign by an NGO or by a government. The sharp changes in social values which lead to new sources of growth can also be accelerated by regulation or public policy. These "fast changes" make the longer change visible, but when we look back at the data, the direction of travel has typically been visible already to those who chose to look.

So, for example, many of the trends that sit behind the post-crisis idea of "considered consumption" have been evident in the data for several years. In the UK, for example, most indices of physical consumption have been declining since 2002. In the US, meat consumption has fallen six percent since 2007, and car mileage started to plateau in 2004 and has been lower since 2007. In Australia, peak car use was in 2004. The financial crisis, however, has accelerated these trends and made them more visible.

"A Good Man"

In our work researching an innovation opportunity in the Russian market, we identified a huge change in people's values towards integrity, honesty and how success is being defined. Perhaps this was not a surprise, given the present political context, but it was notable how far this had extended into people's everyday attitudes. As a result, we developed a brand philosophy for a new product—since launched—under the theme of "codes of a good man," capturing the zeitgeist of the Russian emerging middle class. *(YK)*

If we take the UK juice market in the 1990s, for example, the category was dominated by assumptions about value and convenience that had created a series of "me too" offers, based on driving price down, often at the expense of quality. This was heading in exactly the opposite direction of many food trends, which were about quality and authenticity. Tropicana, in response, created an offer that emphasized the raw materials. The Innocent brand later played off concerns about health, and leveraged the effective public health campaign about "five [pieces of fruit or vegetables] a day" to launch its own premium-plus juice brand. Without getting into a discussion here of whether this is just the expansion of a niche within a category, these changes created a growth opportunity by changing consumer perceptions of the benefits and the value of the category.

NGOs often articulate changes in social values

The extent to which Innocent had to disrupt industry expectations to deliver its proposition was later recalled by one of its founders, Richard Reed:

"If I was a manufacturer, I would have done it differently, I would have used fruit concentrate, not just squeezed fruit; I would have added sugar; if I worked in logistics, I would have done it differently; I would have added preservatives; if it was done another way, it wouldn't be the same thing."

Sometimes second-order changes are more dramatic. Coming to the present, in the United States the beauty category has shown dramatic growth since the financial crisis, particularly in the nail category. This is sometimes described as the "lipstick effect," but Euromonitor's Irina Barbalova identified a more complex interaction between trends:

- The consumer perception—post-recession—of a "luxury" experience at a relatively affordable price
- A stronger preoccupation with nail art and customization, inspired by fashion shows and promoted by celebrities such as Rihanna and Adele
- New formats and formulations, such gel-textured formulas, and innovations such as magnetic polish and nail polish strips.

Understanding how values are shaping categories can also help to get an early warning of how consumers may be moving against a category.

One example we use with clients to show the dangers of bringing your own assumptions to a market is from an auto company executive: "In all our research with Millennials, we find that they still really want to own CDs." Millennials, of course, don't care much for compact discs, but from the auto company perspective, it should be more alarming that Millennials also seem less interested in cars. There are emerging signs that Millennials are the first generation in 50 years for whom cars do not afford social status, which for their generation comes more from ownership of technology devices.

Again, as we relate in our Future Perspectives report on *How to Sustain Sustainability?*, a combination of shifting social values and pressure from NGOs created a decisive shift away from the bottled water category in richer markets in the early 2000s.

One of the lessons from monitoring social values is how often NGOs articulate changes in these, through political or awareness campaigns. They represent an important sign of an intensification of a set of values within a particular group of consumers.

Many of the trends that contribute to the post-crisis idea of “considerate consumption” have been visible in the data for years

In our *Sustainability* report, we describe how the chocolate category was disrupted by Cadbury’s decision to source all of its cocoa through Fair Trade channels. The strategic decision was based on its long association with Green & Black’s, where it had moved from being a minority investor to full ownership over a number of years. But the signs of the social change had been seen already: in the growth of Fair Trade and the Rainforest Alliance, in the increasing visibility of Fair Trade products in stores with an ethical profile, and in the impact of activist campaigns such as Jubilee 2000 and Make Poverty History.

What to do

- When values change, the rules of the category often change as well, as seen in the way Cadbury's disrupted the chocolate category through Fair Trade sourcing. This can be game-changing. There are risks as well as opportunities when values change.
- Make sure that you have a clear view of the long-term underlying changes in values in your markets (they vary from market to market). Consumer data on attitudes and values help, such as those in our Global MONITOR service.
- Identify potential tipping points by asking how shifts in values might interact with the other sources of growth, such as technology or economic change.
- Test the values assumptions that lie beneath your views of your sector (and those of your competitors). There are often positioning and innovation opportunities here.
- When you see a potential opportunity, but are unsure of its likely scale, speed of change, or impact, take an "option" in it by investing in a smaller entrepreneurial player to build learning, capability and positioning.

Shifting Money

The growth category of Shifting Money is different from New Markets in that it refers to consumer change within markets rather than between them, and typically in richer markets rather than emerging ones. Recessions are spiky (see panel); there is dynamism even in slow-growth markets. Yet in our experience, such opportunities are under-analyzed by businesses. Slow-growth economies and recessions can often create disruptions within national economies, as we related in our recent Future Perspectives reports *The Future of the eurozone* and *Quickening the pace.*

In the *Future of the eurozone*, we wrote about how, in the medium-term, the economic shifts needed to stabilize the eurozone and resolve the euro crisis could create significant changes in earnings between different groups of workers and non-workers, and between different categories. In *Quickening the pace*, we discussed how in the US older people are working for longer, some out of choice, some out of necessity. Either way, the losers are younger people who are unable to enter the workforce as a result, and the outcome is a shift in consumption patterns.

Spiky business

Recessions are spiky. Downturns hurt a lot of people, but not everybody, because down economies are not all down. Instead, they are peaks and valleys—more valleys than peaks, of course, but not a flatland of stagnation. Finding the peaks to climb is the way to thrive, rather than just survive, during a recession.

The world is not flat. Discontinuities characterize everything, and it is in inefficiencies and breaks in the general pattern where exceptions can always be found. Recessions are notoriously selective in the industries they punish. Not every market is hard-hit in a recession; not all consumers lose jobs or income. Additionally, some sectors recover faster than others.

During the global recession that began in 2008, Apple, Facebook, Restoration Hardware, Hyundai and McDonald's, just to mention a few, racked up record performances, notwithstanding the fact that discretionary consumer spending in the US dropped a record 6.9%, the fastest decline since the 1930s. The well-worn list of innovative new companies that were launched successfully during downturns is proof aplenty that real breakthroughs always find a market no matter what.

Whether times are good or bad, the challenge for business strategists is exactly the same—find peaks to climb. *(JWS)*

It is worth unraveling the dynamics of such situations to understand why they represent new sources of growth. The full story on Italy is told in the Future Perspective on the eurozone, but it is worth a little development here, partly because conventional views of the Italian economy currently project forward the declines of the past few years, rather than considering the prospects of disruptive change.

The story, in brief, runs like this:

- As the euro crisis is resolved, whether by debt reduction or by restructuring of the economy, it will re-balance Europe's economies.
- If the Italian economy is to be more competitive (as it needs to be for the euro crisis to be resolved) it needs to be more productive.
- One of the few ways to do this is to increase participation rates by women in the workforce, which are very low by European standards.
- As a result, non-working women will get drawn into the workforce due to the likely rate of expansion of those economies in the aftermath of the crisis. The case for this is explained in the eurozone Future Perspective.

Such consumers will have different spending patterns, in clothes, in household (specifically kitchen) items, in personal care products, and in the type of foodstuffs they buy. There are some significant points here:

- Because these consumers are in developed economies, production facilities and distribution channels are already in place. The companies best placed to benefit are typically already present in these markets.
- These are familiar products and familiar services: once you identify the economic shift, it is relatively straightforward to understand and respond to changing demand patterns, although first movers are still likely to see an advantage.
- The sums of money involved can be substantial. Calculations by The Futures Company's market analysis and investment team on the size of the Italian opportunity suggest—on conservative assumptions—that it is

worth around €45 billion per year, or more than 2.5% of Italian GDP (see panel).

As well as specific category opportunities, there are also category patterns that tend to repeat. Some of that €45 billion will be spent on convenience products and services, some on premium, and some on treating and rewarding. There are likely to be new opportunities in the leisure sector as well.

This type of scale is not unusual. In their analysis of the so-called "silver economy"—older consumers and workers—Accenture/Oxford Economics calculated that this could create five million jobs and raise 2020 US GDP levels above current trajectories by 2.2%.

Valuing the feminization of the Italian labor force

Only 46% of Italian women are in paid work, which makes them significantly under-represented in their labor market in comparison to other European countries. Given the possible changes outlined in our report on the future of the euro and the eurozone, the need for more Italian women to work will increase. Using similar markets across Europe for guidance, we can mature the Italian market to 59%, or the same level as France. This increase means almost two and a half million women entering the labor force. That is of course only half the story; the question is about the economic impact of this.

Currently the mean female working income in Italy is €30,000, but most of these new jobs will skew to the lower end of the income range. From published analysis, we took 60% of this, or €18,000, to be a reasonable estimate for average income level of the new entrants. The resulting increase to the spending power of Italian woman is just under €45bn, or circa 2.8% of current GDP. *(DT)*

What to do

- **Growth opportunities like this unfold in two stages—there are first-order and second-order effects, as with the nail beauty example above. Often the second-order effects are more interesting, certainly at a category level.**
- **Understand how economic trends are interacting with social trends, since this can be a key source of uncertainty, and therefore of new market spaces and new opportunities.**
- **Assess the total opportunity represented by the size of the change, to work out the scale of the potential. The box analyzing the potential size of the impact on the Italian economy of more women entering the labor market, developed by The Futures Company's market analysis and investment team, is an example.**
- **Identify the impact of the change on existing categories—and whether it will create new ones.**
- **Don't invent a new portfolio and strategy. Build from your existing portfolio and strategy, adapting what's required to capture the new source of growth with your current strengths and assets.**

New Technologies

New technologies are a familiar and well-researched source of growth; indeed, some economists have argued that they are the only sources of growth. This is a tougher question, however, from the perspective of a business, because the timescales on which new technologies move into the mainstream are unpredictable and often slow. Technology evolution can take decades rather than the few years of a typical corporate innovation cycle.

A second problem is that methods such as Technology Road Mapping, which businesses use to seek to address this issue, tend to be determinist. They portray technology as creating applications which consumers then adopt, rather than seeing the emergence of new products and applications as an interplay between social and consumer trends and technologies.

In practice, all technologies follow an S-curved pattern of diffusion, first developing slowly with small numbers of users, then accelerating as they reach the early majority, continuing an upwards trajectory as they work through the late majority, then slowing again as they reach peak penetration. The doyen of S-curve analysis, Theodore Modus, describes these as "Spring, Summer, Fall and Winter," which is a useful way to remember S-curve evolution. The speed at which it does this is largely a function of two things;

i. The extent to which the new technology is already sitting on an existing technology platform;

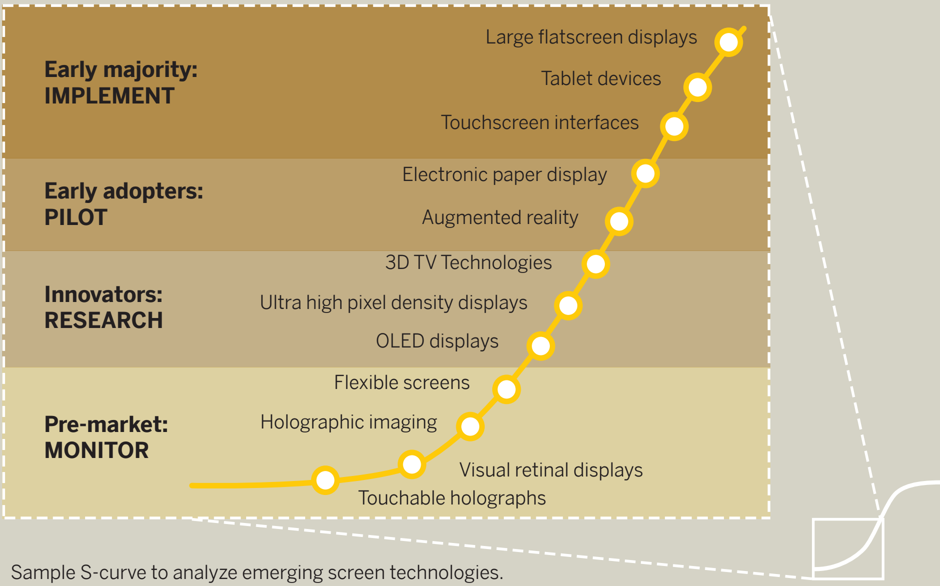
ii. The extent to which it fits within existing social and economic practice.

So, to take an example, the initial development of the internet was slow (it took more than a quarter of a century to get to 10% penetration in leading markets), but the World Wide Web—which piggy-backed existing internet use—took off much more rapidly. Similarly, personal computers were slow to diffuse into the market, but later versions, whether laptops and portables or tablets, took advantage of the patterns of use and behavior that had already been established by the PC, and merely extended this. Again, uptake of these devices was far faster. Analysis by The Futures Company suggests that even the very fastest "pioneer" technologies will reach only seven percent penetration in their first five years, whereas "follower" technologies, which sit on the platform created by the "pioneers," can reach 50% penetration in the same timeframe.

In other words, if you are looking at technology-based opportunities for growth over a timescale of less than a decade, it will come only through "follower" technologies which are already being deployed by lead users. This means that these

> Short-term opportunities for growth based on technologies come only from "follower" technologies which are already in the hands of lead users.

Anticipating technologies



Sample S-curve to analyze emerging screen technologies.
Source: The Futures Company

opportunities can be identified through appropriate future-facing research techniques.

There are also some classic tools to help businesses analyze the likely speed of uptake of an innovation. Everett Rogers is known mostly for his work on the diffusion curve and the two-step flow, but within his research are some important insights. In particular, most of the success of an innovation can be ascribed to its performance against five consumer-facing factors:

- *Relative advantage* (compared with what the user already does)
- *Compatibility* (consistency with values, experience and current practice of users)
- *Simplicity* (levels of perception of ease of use)
- *Trialability* (the degree to which an innovation can be tried out)
- *Observability* (the degree to which the results of an innovation, or the innovation itself, are visible to others).

Although the research that sits behind this work has stood the test of time, insights such as these are under-utilized in helping develop new brand propositions. But evidently this checklist can be used both to assess the likely rate of uptake of an innovation—and therefore how fast it will move along the S-curve—and as a tool to improve the chances of success.

Spotting the moment

The classic problem for businesses is identifying the right moment at which to invest. S-curve analysis is valuable here. In short, by closer monitoring and analysis of the "Spring and Summer" phases of the S-curve, it is possible to track technologies through a number of phases, until they arrive at the moment when they are about to reach market readiness. The S-curve analysis means that businesses are not taken by surprise.

As technologies move up the curve, tracking enables the business to respond by changing its behavior. At the earliest stages of the "Spring" phase, it is clearly a long way from market, and monitoring will be enough. Technologies can get stuck here for years; some never escape from it. Over-commitment is unwise.

As and when it moves into the second half of the "Spring' curve, it is moving to the point where it will start to be a candidate for future change, but is not yet at the point where it will have a business impact within the next innovation cycle. At this point, the correct response is a "deep dive" into the technology, to understand more clearly the contexts of use and the factors that may slow or accelerate its continuing growth.

As it continues on its trajectory up the S-curve, the technology starts to touch the mainstream market, although levels of take-up are still modest, and its protagonists and promoters are likely to be small- or medium-sized businesses with modest sales. At this point, the right response is a feasibility study, to understand the potential and impact of implementation.

This means that by the time the technology or application starts to reach the early majority—typically at around 8 to 10% penetration—the business is well placed to act. By way of a reminder, significant new technologies can take decades to reach this threshold. In the United States and the United Kingdom, both lead markets, it took more than 25 years for domestic internet access to reach this level.

There are some exceptions: people routinely point to the speed at which Facebook has emerged as a dominant social media platform. But the use of tools to analyze the take-up of technologies would also have identified that there would be far more rapid development of products and services in the social media space. The Well–the world's first online community—was launched in San Francisco in 1985 (and still survives). Usenet provided a whole range of community and shared-interest groups on the internet before the Web developed, while communities such as Geocities, Tripod, and Theglobe.com emerged in the 1990s, but battled with the poor online tools and interfaces then available.

> The classic problem for businesses is knowing when to invest in a technology opportunity. S-curve analysis means that business is not taken by surprise

What to do

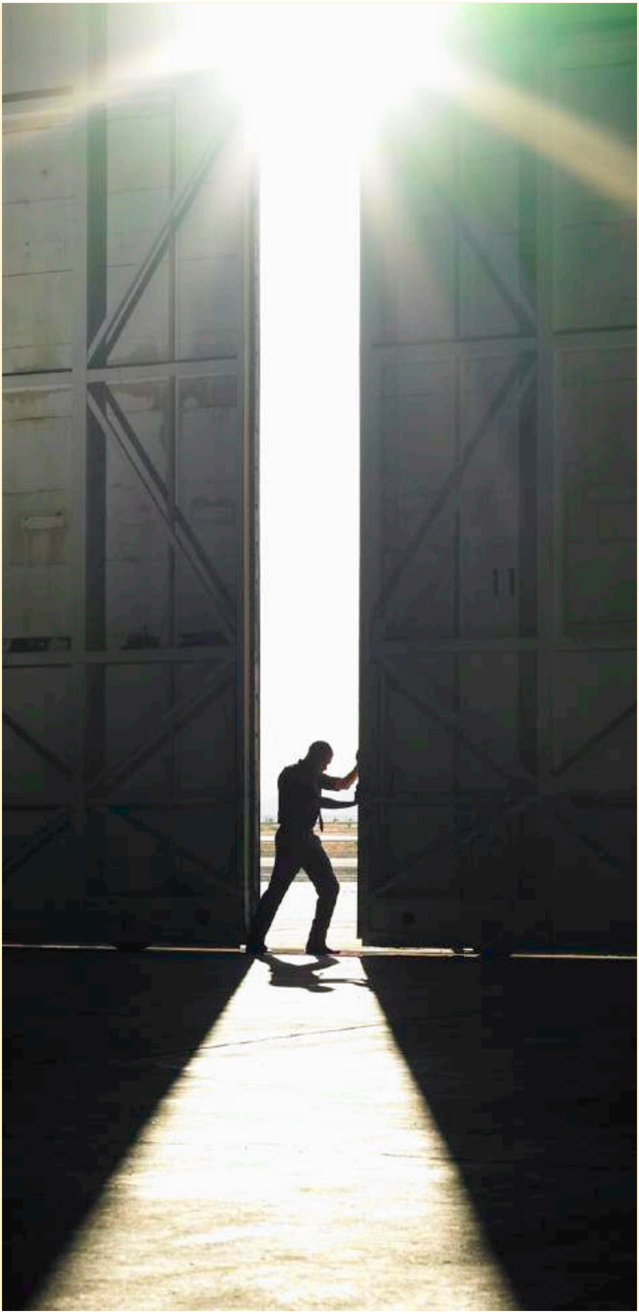
- **Don't follow the crowd. There is more groupthink in the technology space than anywhere else.**
- **Make sure that you understand the S-curve for your sector, in terms of the different technologies that you will be using and those that your consumers will be using.**
- **Scan regularly for changes in the position of technologies on the S-curve, to make sure you know how quickly it could affect your business. Some technologies will move up the S-curve faster than others. Some will fall off the curve completely.**
- **Test your assumptions about technology change against your social assumptions—about social attitudes, economic change, the rate of institutional change and so on.**
- **Analyze emerging technologies against current consumer behaviors to see how strongly future technologies perform on Everett Rogers' five success factors. You can also use this framework to improve the design of your innovations.**

Future Industries

Spotting the next big thing is a tricky art. Organizational ecologists—who study the conditions under which organizations emerge, grow and die—have a term for the way in which organizations risk a growing mismatch with their external environment. They call it "the liability of obsolescence." Conversely, organizations that anticipate change actively in their external environment are more likely both to adapt effectively and to identify new potential sources of growth.

The management theorist Peter Drucker first identified seven areas of change in the external environment that could be systematically monitored for innovation opportunities. He devised them in the 1980s, and they remain a useful guide. You will certainly recognize in them many of the ways in which organizations (and consultancies) structure their processes to identify new sources of growth.

The unexpected: The "brilliant accidents" based on chance events, such as the discovery of penicillin



that led to the development of antibiotics. They cannot be forecast, and they are difficult to engineer or mass-produce (although brainstorming was invented to try to do this).

Incongruities: The gaps between what your customers want and what you think they want. These are close to the classic notion of the "unmet consumer need," and they are the domain of much traditional observational research. For example, "People always trip over their shoelaces. That means they need shorter shoelaces."

Process needs: Improvements in internal processes that allow a job to be done more efficiently or with better outcomes, for example the invention of just-in-time logistics, or the Agile (iterative, collaborative) software development movement.

Industry and market change: New industries and new markets created by exogenous changes in the market structure, often driven by changes in the regulatory environment. For example, the deregulation of the European airline industry in the late 1980s created opportunities for entrepreneurial airlines with innovative business models such as Ryanair.

> Growth opportunities come from many places and it is poor strategy to place your business bets too narrowly

Demographics: This is an obvious one. Changes in the overall demographic make-up of the population create opportunities for new products and services, such as cosmetics with "anti-aging" benefits to target an increasing population of older consumers.

Changes in perception: Changes in assumptions, attitudes and beliefs, such as the changing perceptions of nutrition as part of health that created opportunity for the development of "vitamin waters" towards the end of the 1990s. These are hard to track (people don't tell you reliably how their attitudes and beliefs are changing), but can be identified through a combination of longitudinal quantitative tracking and observational qualitative research.

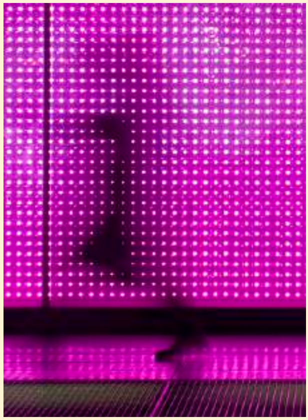
New knowledge: Advances in science and technology can open up the opportunity for innovation, such as the basic research into algorithms for ranking the importance of Web pages that led to the development of Google. We can track and forecast this, and gain a good sense of what's coming next, as described earlier in this Future Perspective.

It is clear from this list that growth opportunities come from many places, and it is therefore poor strategy to bet on only one of these areas of change. This is why any futures project we do starts with a thorough process of scanning for the drivers of change in the wider environment, including the operating environment. Most innovations, whether vitamin water or internet search engines, emerge in response to multiple changes across these different areas.

The most valuable futures work seeks to consider the interaction between trends and their combined impact. Yet lists about "the next big thing" or "industries of the next decade" often seem to be devised by looking at Drucker's sources of innovation separately. As a result, the growth spaces that turn up repeatedly on such lists—a growing retirement and pension planning industry for an older population, or growth in a new area such as nanotechnology or sustainability—are credible, but usually too broad to enable the opportunity space to be defined sufficiently.

By way of an example, here are three industries we think offer long-term growth potential that can be identified only by looking at a combinations of factors. These particular examples are taken from workshops where we were exploring possible long-term sources of economic growth for a particular set of industries, but the process is repeatable for any industry. A recurring thread throughout this report has been the importance of thinking about new sources of growth in terms of interactions, connections and synergies between trends and market changes—rather than narrowly pursuing the same opportunities as everyone else. Thinking more expansively about the interaction between social values, technologies, institutional changes and economics throws up some more unusual opportunities.

1. Lighting everywhere



Suddenly, low-energy lighting, based on organic LEDs that are lower-cost, more efficient, and can be printed on or wrapped around large surfaces are likely to change the category, and others. Lighting can be integrated into clothing, furniture and even packaging.

While the technology, or "new knowledge" is important, one of the reasons why this will grow as an opportunity will be the "industry or market change" of pressure to remove existing higher-energy lighting from the market through a combination of regulation and institutionally encouraged behavior change.

Finally, as part of a long-term trend in which developed economies have shown a greater preference for spending money on experiences rather than accumulating possessions, new forms of lighting that facilitate rich sensorial interactions with everyday objects—be it a t-shirt, a domestic interior or a cereal pack—will become more highly valued.

Change drivers:
New knowledge: Development of OLEDs and plastic electronics

Industry and market change: Investment and regulation to encourage smart energy usage

Changes in perception: Shifting desire for experiences over material possessions

2. Urban mining

More than half of humanity now lives in cities. The world's population will grow by around 600 million by the end of the decade: most of those will live in cities, mostly in Asia. Rather than being a constraint, urbanization could help solve many pressing problems. One of these is the need to find new sources of materials, such as rare metals used in electronics.

As resource scarcity becomes sharper, so incentives will grow for developing technologies and business models for the recovery, reuse, repair and recycling of these materials from urban waste streams. Already, Japan's urban mines exceed 10% of world reserves of many metals, including gold (16%), silver (22%), indium (61%) and tin (11%).
There is already evidence that consumer values are changing towards greater reuse and recycling of materials: by 2020 it may be the case that you are regarded as socially responsible only if your phone or tablet is made from 50% recycled materials.

Change drivers:
Demographics: Urbanization and the development of megacities

Process needs: Development of processes and technologies for reuse and recycling of raw materials

Changes in perception: Growing awareness of need to reuse and recycle materials

3. In-home patient care

Over the past century we have seen what demographers have called the "rectangularization of the survival curve": as more people in developed countries live longer, a larger proportion survive into their 70s, 80s and 90s, pushing the conventional "survival curve" outwards.

We have also witnessed a steady rise in the cost of healthcare over the past 30 years, something which will be felt acutely in the coming years by governments juggling with tax revenues and public expenditure. Pressure to reduce healthcare expenditures will create large incentives to implement technologies that can help reduce healthcare costs while providing less labor-intensive ways to care for the elderly. One example: the substitution of traditional in-patient care models with a hybrid model that combines health visits with remote monitoring and aftercare. In this context, domestic robots could act both as in-home helpers and monitors.

Change drivers:
Demographics: Aging population

Industry and market change: Long-term squeeze on healthcare budgets

New knowledge: Advances in robotics and remote monitoring systems

“The market a company dominates today is likely to change substantially over the next ten years.

There’s no such thing as “sustaining” leadership: it must be regenerated again and again.”

(Gary Hamel and C.K.Prahalad)

New Business Models

Business models describe the ways in which materials and information are transformed into value, for companies and for their customers. They are sometimes hard to discern, even by experts. In commoditized markets, competitors tend to be competing around the same business model. It can take a new business model to reach new sources of value and new sources of growth. Seeing through the existing assumptions about the market to make this leap can be hard. But when a company does change the business model in a category, it seems very obvious with hindsight. Think: Walmart in the US retail sector, IKEA in furniture retailing; or Dell selling PCs or Apple and the music business.

And it is possible to identify the characteristics of sectors or categories that are ripe for business model shift before the moment. Typically they combine a number of recognizable factors:

- **A shift in underlying consumer attitudes, values and behaviors**
  How are consumers' attitudes, values and behaviors changing? And why?
- **A technology that has matured to the point where it has achieved reasonable levels of penetration in an interested consumer segment**
  What are the relevant technologies? (This isn't always obvious.) What are their penetration levels among likely customers (actual and potential)?
- **Signs of "new practices" in related sectors or at the edge of the existing sector**
  What are leading-edge users, communities of interest, and entrepreneurs doing that is different from the mainstream?
- **Evidence of pain points in the practice of leading-edge users**
  What do leading-edge users find costly, difficult or time-consuming about these new practices?
- **A set of existing institutions, regulations, or business models that are under strain**
  Do industry critics, or experts or analysts, see problems with the way the sector works at present?
- **Business models that advantage suppliers significantly compared to their customers**
  Who benefits most from the current business model?

If most or all of these factors can be seen in the sector, then it suggests it is almost certainly primed for business model change. It is worth spelling out why this is. Taken together, they identify the following issues:

- Is there a deep shift going on in the underlying conditions which shape the sector or category?
- Is the sector or category already being primed for change by entrepreneurs and users?
- Do users have sufficient motivation to change habits and practices? The cost of "unlearning" existing behavior is often one of the biggest barriers to change.

Taken together, in a systematic way, they make you look at your markets and categories through the eyes of others, asking new questions about them, rather than bringing your current assumptions to bear.

To demonstrate this, in the table on the following pages we have evaluated a number of innovations against these six criteria—The Futures Company's Pressure Gauge℠ tool for gauging the likelihood of disruption in a category or a sector.

The way in which iTunes reshaped the music market by capturing the market in downloads from the industry majors is well-known, but is usually told as a strategy case study. The music industry itself, rightly, is portrayed as being stuck in a failing business model that it was reluctant to abandon. But there is more to the story. The clues that this was an emerging model had been clear enough. Napster and other download sites such as Gnutella had attracted significant numbers of users, even though set-up was sometimes quite complex and the whole thing was shrouded by the veil of piracy. The industry itself treated this as a legal issue rather than as a clue for innovation.

By 2002, enough consumers were online to make the category viable, and the music

Waiting for the Next Big Thing

In his book *Good Strategy Bad Strategy*, Richard Rumelt describes interviewing Steve Jobs in 1998, shortly after Jobs had returned to Apple as interim CEO. When he returned, Apple was in a desperate state, only months from bankruptcy. Jobs had since simplified product lines and distribution ruthlessly, to bring costs into line with revenues. But, as Rumelt writes, "His survival strategy for Apple, for all its skill and drama, was not going to propel Apple into the future. At that moment in time, Apple had less than 4 percent of the personal computer market. ... There seemed no way for Apple to do more than just hang on to a tiny niche."

When Rumelt met Jobs in the summer of 1998, he rehearsed the industry view of Apple's predicament: that it was locked out of the dominant computing standard of the time, the "Wintel" system that connected the Microsoft operating system and Intel's chips. Jobs listened.

"He did not attack my argument," recalls Rumelt in the book. "He didn't agree with it, either. He just smiled and said, "I am going to wait for the next big thing"."

Although this is a story from the technology sector, it is not unique to it. Windows of opportunity emerge in all sectors. The trick is in spotting such changes early enough to act on them, and acting on them late enough that they have real market value.

As it happened, Rumelt had just come off an assignment in which he had interviewed the leaders of Europe's electronics and telecoms companies on their market strategies. Generally, his interviewees were able to describe the successful strategy of their leading competitor. "The standard story was that ... a "window of opportunity" had opened—and the current leader had been the first one to leap through that window and take advantage of it." But when they turned to their own strategies, identifying such windows of opportunity was invariably missing from the stories they told him.

The Futures Company's Pressure Gauge^{SM}

The six questions which identify whether your category is set for disruption

	Attitudes and behaviors: How are values, attitudes and behaviors changing?	**Technology:** What are the relevant technologies?	**New practices:** What are leading-edge users doing?
iTunes	▪ Downloading content becoming widespread among particular groups ▪ More sharing and remixing of content ▪ A shift in interest from the album to the song	▪ PC penetration reaches 20 to 25% in leading markets ▪ Emergence of broadband	▪ Rise of online downloading start-ups (e.g., Napster, Gnutella) ▪ Rise of branded file-sharing businesses
Innocent	▪ Authenticity, well-being, desire for healthier options in non-alcoholic drinks markets, growth in premium food categories	▪ Cost-effective production technology	▪ Juice bars established in New York ▪ Rise of the organic food movement, farmers' markets
Nespresso	▪ Rise of coffee house culture ▪ Connoisseurship	▪ Falling cost of equipment used in professional catering	▪ Professionalization of the (affluent) home
Zipcar	▪ Past the point of "peak car," driving in decline, especially among young people in cities ▪ Attitudes to cars and car ownership are changing ▪ Shift towards access rather than ownership. ▪ Increase in pro-environmental attitudes	▪ Increasing internet access ▪ High levels of mobile/cell phone access ▪ Development of remote access technology	▪ Development of small non-profit car-sharing schemes across Europe and parts of the US ▪ Bicycle-sharing schemes such as Velib in Paris

When exploring this with a client, much of the necessary expertise is already within the business, but spread across different departments or divisions. But it is also useful to get an external perspective to ensure that the business is not missing things that are clearer to outsiders than to insiders.

Pain points: What do leading-edge consumers find difficult?	**Institutions under strain:** Do people see problems with the way the sector works?	**Business models:** Who benefits from the current business model?
■ Some technical expertise required ■ Complexity (fragmented marketplace) ■ Threat of prosecution, even for legitimate users	■ Record companies suing customers ■ Aging customer base	■ CDs an expensive "bulk packaged" product
■ Costly and time-consuming to produce home-made smoothies	■ Decline in differentiation, declining margins in sector	■ Concentrates designed to maximize for the suppliers the benefits of their supply chains and logistics
■ A complex and fragmented consumer experience ■ Either high-cost equipment, or "ordinary" filter coffee	■ Declining market for "traditional" in-home instant coffee	■ High margins on take-away coffee
■ Underlying desire for personal transport ■ But borrowing cars restricted by circles of friends and relatives, rigidities of insurance market, etc.	■ Increasing costs of car ownership, especially "ancillary" costs such as fuel, parking, taxation and insurance	■ Finance lock-in to car purchase

Source: The Futures Company

(Continued from page 31)

industry's legal fights with consumers had ensured that—for some—there was a stigma, if not actual liability, to downloading music without paying for it. This battle had alienated the music industry from its customers. As the editor of the British New Musical Express put it in 2000, "Do you really care if Sony gets their cut? Thought not."

At the same time, though, there was evidence that consumers would be willing to pay, although this was disputed: evidence of a willingness to pay tended to be filtered through existing views. Simply put, the major players in the music industry thought consumers were lying. Only Apple saw it as an indicator of a market opportunity, partly because it was looking at the music industry from the outside.

There were some deeper shifts too. The LP had been a technology innovation before it was a cultural innovation, and the industry had enjoyed fat margins as consumers moved from LPs to CDs.

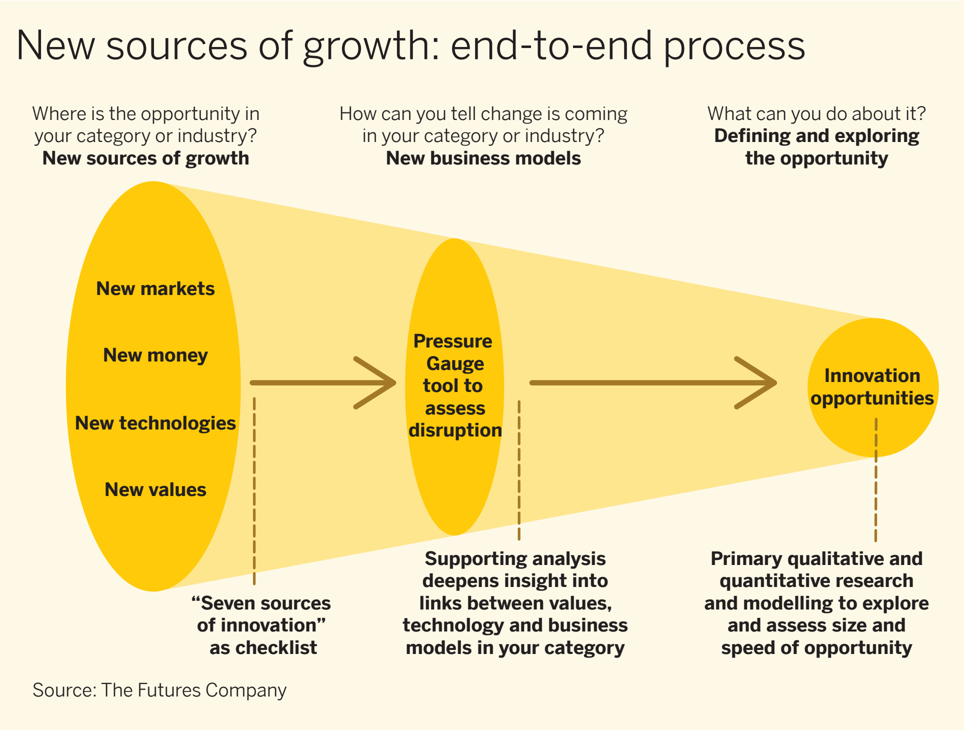
But even at the time, those margins disguised an aging customer base and a deeper cultural shift. In 1999, in a short column about the Rio MP3 player, the music entrepreneur and founder of Factory Records, Tony Wilson, had written that "for the music industry, the future is upon us and one juicy and radical part of it is taking us straight back to the past." The past he referred to was a world before the invention of the "record album" when the popular music business was driven by the song (by the 45, the 78, the cylinder, and the song-sheet, going backwards in time).

Deeper patterns of change

If you need to look further below the surface to get a deeper analysis of potential market change, there are recurring patterns of business model change that can be explored through deep dives.

- **Prior emergence of model in B2B sector:** Does the new model already exist in the professional or business-to-business sector? The Zipcar notion of renting or leasing a service was already well-established in the business-to-business sector. Ryder transformed the US logistics sector in this way.
- **Evidence of experimentation:** Have entrepreneurs tried (and failed) to launch such models? Failure is often seen as a reason not to test a new business model. But the detailed story usually shows the entrepreneur has got most of the proposition right—and a successful innovator will be able to correct their mistakes or improve on their timing.
- **Technological change:** Has a core technology seen a rapid decline in price or a significant increase in performance? The former Intel boss Andy Grove had a rule of thumb that every time costs or performance changed by an order of magnitude (i.e., a factor of 10), disruptive change would follow in the market. In other sectors, it may take a smaller fall in costs. Solar PV is going through this type of transition at present.
- **Parallel patterns of change:** Is the sector following a familiar pattern of change? Researchers using the TRIZ model, based on analysis of hundreds of thousands of patents, suggest—simplifying a complex approach hugely—that products (and services) tend to move over time from rigid to modular to programmable to autonomous.

Bringing It All Together



If there has been a theme to this report, it is that looking for new sources of growth is a structured process that requires you to look beyond the boundaries of your existing business to your wider operating environment, to make the connections between what you find, and then to understand the opportunities this creates for you. The diagram above gives a sense of how this works in practice.

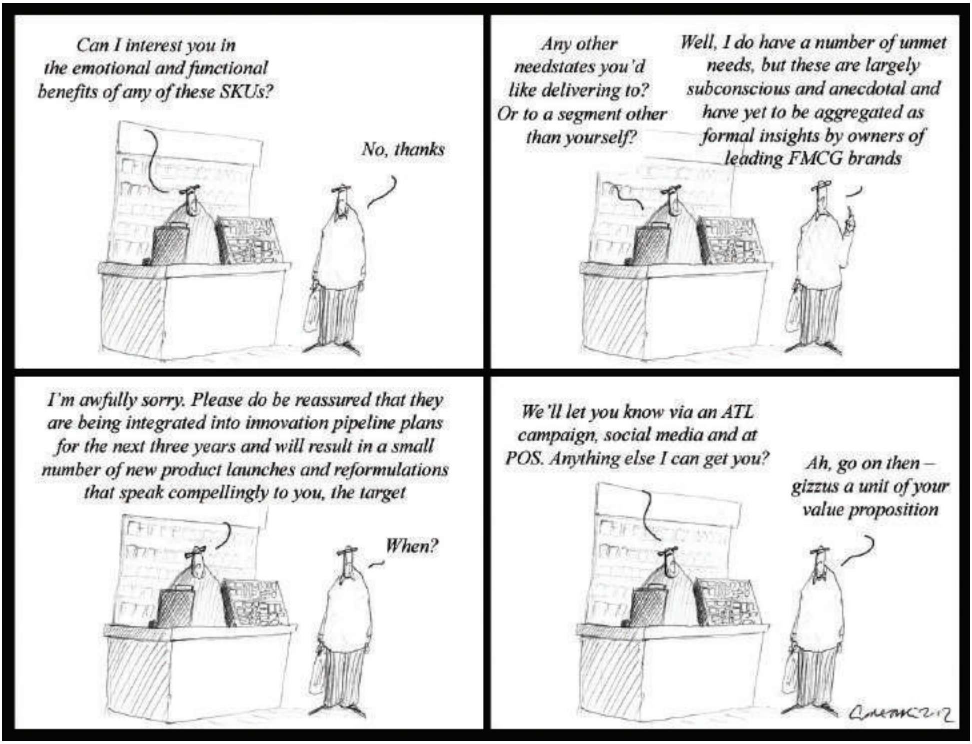
> To find new sources of growth, you need to be systematic–and to look beyond the boundaries of your business

At one end of the funnel, a structured scan of issues helps build a picture of the landscape, and more particularly, helps to identify the wrinkles in the landscape where opportunities might lie.

The second phase looks at those opportunities through a lens that allows you to assess how large they are, and how imminent they might be, using the Pressure Gauge model and other tools.

Finally, this connects with a more typical phase in which you define and explore the opportunity, using primary research and modeling to assess softer and harder aspects of the opportunity.

It is also possible to use the Pressure Gauge tool to wind-tunnel innovation ideas that are already in your pipeline.



Source: Jake Goretzki – www.grtzk.com

What to do

- **Develop a 360-degree view of your business environment, scanning it and monitoring it for change in a holistic way—rather than compartmentalizing change in silos (such as consumer, economics, supply chain, risk analysis, etc.).**
- **Take a future-facing view of how social values, technologies, applications, along with systems, infrastructure and regulation are likely to change as your category develops, and how these are likely to interact. There are a number of well-known futures methods designed for this purpose.**
- **Identify and talk to your consumers who are most open to change, and understand how their attitudes, behaviors and motivations are changing. As we discovered in our Cultural Frequencies analysis, these are not just your younger consumers.**
- **Identify the pain points in your consumers' product or service journeys—not just to point-of-sale but in their "whole life" journey, including use, maintenance, management and replacement of the product or service.**
- **Understand the changes in your supply chain and cost base—are competitors likely to borrow innovations from other sectors and disrupt yours?**
- **Locate the next "window of opportunity" in your sector. Make sure that you are able to identify your opportunity spaces before your competitors do.**

Conclusion

The co-founder and former Chief Executive of Intel, Andy Grove, tells a story about walking into the office of his chairman, Gordon Moore (of Moore's Law fame), and asking him, "If we got kicked out and the board brought in a new CEO, what do you think he would do?" It wasn't an idle question. Intel was losing money at the time because prices on its main product had been undercut by its Japanese competitors. Moore spelled out the likely strategy of a successor. After a while, Grove recalls, he said to Moore, "Why shouldn't you and I walk out the door and come back and do it ourselves?"

It's a famous story, and it is not coincidence that Grove's autobiography, where he relates this, is called *Only the Paranoid Survive*. Grove and Moore killed their own product—indeed, their biggest product—before it killed them.

Most new sources of growth require less courage than this; they don't require you to kill your main product. But they do require you to be alert to shifts in sources of value, shifts which often come about when several factors in different parts of your business landscape change at the same time.

To take advantage of growth opportunities, though, you do need to think like an outsider, to step outside of the received wisdom of your colleagues and your competitors and look differently at your marketplace. As this Future Perspective shows, that can mean looking at it through the eyes of consumers (and not just your existing customers), or of lead users, who may be reinventing your products and how they are used without your being fully aware of it, or of a start-up, or of a new entrant from another sector. The trick is to spot the waves and swells that look as if they are going to build enough to take you all the way to the beach.

We were once working with a board to help them apply the outcomes of a scenarios project to the future of their business. The company had just lost a large long-term contract from their biggest customer, and the mood was somber. After we had looked at the scenarios, the chairman turned to his colleagues and asked, "If we each left this business today, and started a new one tomorrow, what would it be doing?" As they went round the table, it became clear that one business unit of their company, their services unit, was an unpolished gem, doing valuable work that people were paying a premium for in a part of the category that was growing rapidly in size and complexity. The heritage of the main business had obscured this.

There are always new sources of growth out there. They can be identified in a systematic and organized manner. And—almost always—you can approach them successfully as long as you approach them carefully. Commit enough resources to create a platform. Learn about the capabilities required. Then assess the full potential. Unlike Andy Grove, you won't need to bet the whole business. But you will gain a fresh perspective on what you do and, along the way, where your business can find new sources of growth.

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About The Futures Company

The Futures Company is an award-winning, global strategic insight and innovation consultancy. Unparalleled global expertise in foresight and futures enables The Futures Company to unlock new sources of growth through consultancy, global insight and a range of subscription solutions.

The Futures Company was formed through the integration of The Henley Centre, HeadlightVision, Yankelovich and most recently, TRU.

The Futures Company is a Kantar company within WPP with teams in Europe, North America, Latin America and Asia.

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