

# REPORT

## Trading Up and Down Around the World



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September 2008

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# Note to the Reader

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## Acknowledgments

This report is a product of BCG's Consumer practice and its Center for Consumer Insight (CCI), which provides world-class consumer-insight capabilities to the firm's clients. Established by the Consumer practice and the Marketing and Sales practice, the CCI leads BCG's proprietary research for publications on consumer trends and purchasing patterns. As an advisor to companies in many industries, BCG has long recognized the fundamental value of identifying and leveraging insights into consumer behavior, both for strategy development and as a key source of sustainable competitive advantage.

The authors would also like to acknowledge the contributions of their colleagues:

**Marcos Aguiar**, partner and managing director in the firm's São Paulo office and a core member of the Technology, Media & Telecommunications practice

**Rolf Bixner**, senior partner and managing director in BCG's Amsterdam office and node for the practice's Dutch Consumer Goods sector

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The authors would also like to thank Olga Bezrukova, Isabelle Börgel, Julie Gish, Boris Khvostichenko, Tomoko Kobayashi, Lucy Marinangeli, Sabine Maysen, Akmaral Omarova, Sergei Plykine, Berit Sande, Sebastian Stricker, and Karin Zimmermann for their research and support.

Finally, the authors would like to acknowledge Sally Seymour for helping to write this report and Gary Callahan, Angela DiBattista, Gina Goldstein, and Janice Willett for contributions to its editing, design, and production.

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# Preface

**I**t's been nearly eight years since we began talking with our consumer goods and retail clients about trading up. At that time, we noted that increasing numbers of middle-class consumers in the United States were selectively paying higher prices for goods and services that offered greater technical, functional, and emotional benefits. Our clients—along with a few other companies—took that insight and ran with it. In 2006, trading-up purchases accounted for about 21 percent of the \$3.5 trillion that U.S. consumers spent that year—some \$730 billion, up from \$670 billion the year before.

We also noticed that the same consumers who were trading up in some categories were trading down in others—especially when the economy started to look a little shaky. But they weren't simply scrimping or buying the cheapest products on the market. They were spending less in a few categories in order to spend more in others. Many consumers (even affluent ones) were making deliberate tradeoffs in their value calculations in order to maximize the benefits that counted to them the most. Consequently, the trading-down market grew from \$1.1 trillion in 2005 to \$1.2 trillion in 2006. It accounted for 33 percent of discretionary spending in 2006, up from 32 percent in 2005 and 31 percent in 2004.

The intensity of both trading-up and trading-down activity led to a bifurcation of markets, and many companies began to suffer a slow “death in the middle”: discretionary spending on traditional, undifferentiated middle-market products and services, such as certain jeans and cars at that time, started to spiral downward. In 2004, middle-market products accounted for 51 percent of consumer spending. That figure dropped to 48 percent in 2005 and to 46 percent in 2006.

Because markets are becoming increasingly global and economies everywhere are entering a turbulent period, we wanted to understand how trading up and trading down are affecting countries around the world, in both developed and developing regions. At the end of 2007 and into early 2008, we launched the first global survey on trading up and trading down. We surveyed consumers in Brazil, China, India, and Russia, as well as in Japan, the United States, and ten European countries (Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, and the United Kingdom). In all, we surveyed some 21,000 consumers on a total of 117 categories covering 19 product groups (grocery and nongrocery).<sup>1</sup> We asked about their attitudes toward spending and their feelings about environmental issues, housing and energy prices, and life in general. We also asked about their reasons for trading up and down and the emotional benefits they were seeking. Our findings, which this report details, will have powerful implications for consumer goods and retail companies doing business anywhere in the world.

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1. The survey of 21,000 consumers resulted in a database of 17,000 respondents; data were adjusted in all markets (except Brazil and India) to exclude consumers in the lowest income bracket in order to eliminate potential distortions caused by respondents under severe financial constraints. In Brazil and India, all respondents were from the “next billion”—households that are just above the poorest of the poor and just below those currently targeted by most commercial enterprises. Survey results from the five largest European markets, weighted by population, are reported as a summary for Europe. Not all product categories were surveyed in all markets.





# Introduction

**T**rading up and down is alive and well throughout the world, despite uncertain economic times in many markets. In fact, the cooling global economy presents an opportunity to take advantage of shifts in consumers' purchasing priorities. Now is the time to invest in meaningful innovation, to segment markets for the right combination of technical, functional, and emotional benefits, and to streamline cost structures, eliminating features that consumers care little about. It is also time to realize that higher levels of education, greater sophistication, and a new eagerness to experiment have permanently altered consumers' shopping behavior.

Although consumers are continuing to trade up and down everywhere, there is considerable variation by region in the consumer segments that are doing one or the other, the reasons cited, the categories chosen, and the benefits sought. Whereas consumers in emerging markets are beginning to use their growing discretionary funds to trade up to better goods and services, consumers in the developed world, who have been trading up for some time, are turning a watchful eye to the health of their economies and the prospects for their pocketbooks. Consumers in all income groups in mature markets report a slowdown and a greater focus (but not a halt) in their spending. Instead of trading up in four or five categories, they are choosing one or two categories in which to splurge—seeking relief from their stressful lives. At the same time, financial pressures are causing them to rethink their budgets, search out promotions and sales, and shop for bargains that provide the best value.

Meanwhile, undifferentiated middle-market products remain under pressure everywhere. Although the middle market in the developed world is far from dead, it has

become highly competitive as discounters and specialty retailers offer precisely targeted promotions to attract channel-shifting consumers.

Here is a summary of our key insights on trading up and down in both developed and developing economies:

- ◇ Trading up and down continues to be a powerful global trend, spanning all product categories, income brackets, and stages of life.
- ◇ Both trading up and trading down are driven by global shifts in sociodemographic and economic forces, including rising levels of wealth and education, the influx of women into the work force, and the boom in discount retailing.
- ◇ Strong and mainly positive emotions are also fueling this shopping behavior. Overall, consumers seek to take care of themselves and to express their personal style when they trade up, and they see themselves as spending wisely and sensibly when they trade down. By gravitating to the best value at the lowest price, they save as they consume. Only companies that continue to generate meaningful innovations will be able to maintain price premiums with these consumers.
- ◇ There are differences in consumer attitudes and priorities across regions. Consumers who trade down in Europe (especially in Germany), the United States, and India enjoy the thrill of getting a good deal, whereas consumers in other markets cited more practical reasons for spending less. And although the association of certain brands with status is common everywhere, it is more compelling for trading-up consumers in Russia and China than in mature markets.

- ◇ The market bifurcation that trading up and trading down bring about is not a static phenomenon but an evolving one that is influenced by a region's historical and economic characteristics.
- ◇ In many mature markets—especially Japan and Europe—trading down is still on the rise, and trading-up spending has become more selective and focused on a few categories that consumers find especially important. In emerging markets, however, there is an increasingly robust appetite for trading-up products and well-known brands in a broad range of categories.

Trading up and down offers new growth opportunities for companies that break consumer compromises along a ladder of increasing benefits and deliver differentiated value propositions. Although the opportunity is global, capturing it depends on understanding the economic dynamics of specific regions and categories. It requires deep insight into consumer preferences, along with targeted offerings, focused resources, and lean and agile capabilities. For a company with these assets—whether it operates in the premium, middle, or value segments—the reward will be solid growth, even in categories and countries traditionally viewed as mature.

# A Global Trend with Variations

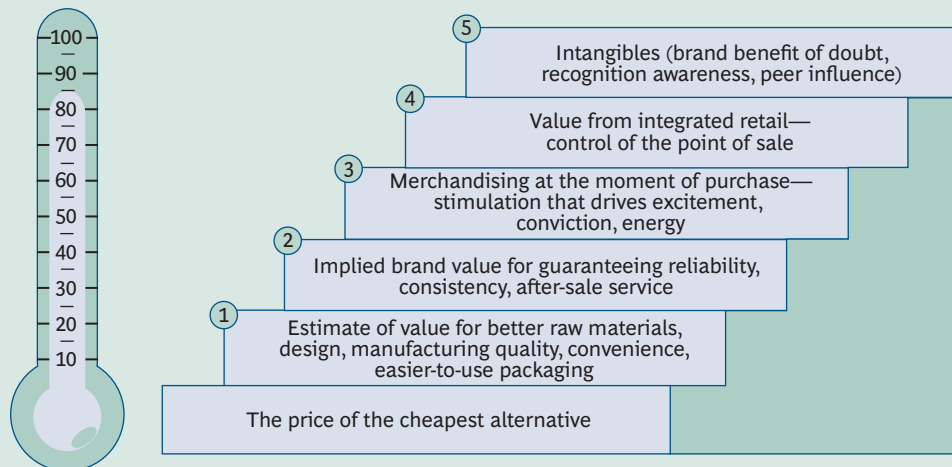
**T**rading up and down has had an enormous impact on the purchase patterns of consumers in the developed world over the past decade. Along with the Internet, this trend has transformed shopping behavior, destabilized competition, and created new winners and losers. In recent years, the trend has gained momentum in developing markets as well. Indeed, a solid majority of respondents to The Boston Consulting Group's global survey on trading up and trading down said that they regularly trade up or down in 5 to 15 product categories.

Although they may not always be conscious of their value calculations, consumers everywhere determine how much they are willing to pay for a particular product or service according to a ladder of increasing benefits. (See

Exhibit 1.) There are important differences, however, between mature and emerging markets in how these calculations play out, and thus in whether consumers trade up or trade down. (See Exhibit 2.) In the mature markets we surveyed—especially Japan—trading down is becoming more pervasive as trading up grows more focused and selective. But trading up is on the rise in emerging markets such as China, India, and Russia, where consumers are just beginning to be able to afford better brands, products, and services. Not only is the trend well entrenched across all regions, it has penetrated most product categories as well as most income brackets, generations, and life stages. (See Exhibit 3.)

Of course, the most popular categories for trading up and trading down vary from market to market, but there are

Exhibit 1. The Consumer Value Calculus Is Subtle and Often Unconscious



Source: *Treasure Hunt: Inside the Mind of the New Consumer*, Michael J. Silverstein (New York: Portfolio Books, 2006).

## Exhibit 2. Consumers in Mature and Emerging Markets Differ in Their Propensity to Trade Up and Down

		Percentage of respondents						
		United States	Europe <sup>1</sup>	Japan	China	Russia	India	Brazil
Trading down	Have at least 1 category in which they will try to save a little money by spending less	94	94	96	83	80	67	72
	Trade down in 5 or more categories	86	86	91	63	64	21	54
	Trade down in 15 or more categories	72	66	82	29	39	NA <sup>2</sup>	NA <sup>2</sup>
Trading up	Have at least 1 category in which they will pay more to get better products	90	79	55	97	84	92	48
	Trade up in 5 or more categories	78	58	32	91	75	68	25
	Trade up in 15 or more categories	57	29	13	72	56	NA <sup>2</sup>	NA <sup>2</sup>

Source: BCG Global Consumer Survey, 2007, 2008.

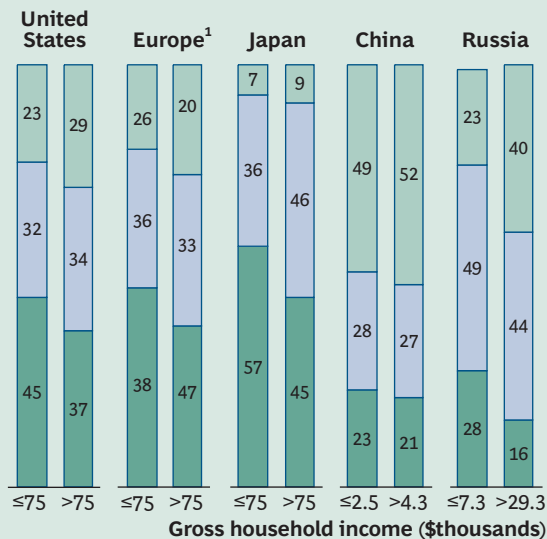
Note: Results are based on the following: United States, 108 categories rated; Europe, 60 categories rated (out of 97 total categories, rotated); Japan, 97 categories rated; China, 58 categories rated; Russia, 97 categories rated; India, 38 categories rated; Brazil, 17 categories rated.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

<sup>2</sup>Not applicable.

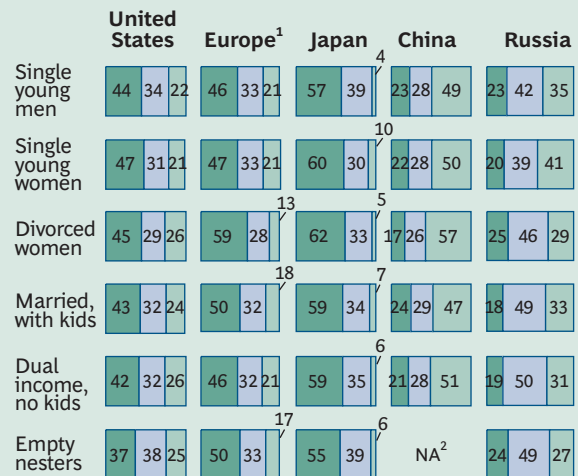
## Exhibit 3. Consumers of All Income Levels and Ages Trade Up and Down

### Trading up and down by income



Legend: Trade down (%) (dark green), Trade neither up nor down (%) (light green), Trade up (%) (medium green)

### Trading up and down across generations and life stages



Source: BCG Global Consumer Survey, 2007, 2008.

Note: Income numbers were converted into U.S. dollars using OECD data on purchasing power parity (PPP); income numbers for China and Russia represent second and fourth quartiles.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

<sup>2</sup>Respondents above the age of 50 were excluded from the Chinese survey.

some commonalities. In many regions, consumers are trading up to products and services that they see as good for their sense of well-being, such as high-quality fresh foods, vacations or travel, and items for the home. They trade down in categories that they view as undifferentiated, such as fast foods, snack foods, and basic dry goods. Some categories skew toward one pole or the other, while other categories are strongly bipolar, with roughly equal numbers of consumers trading up and trading down. Furthermore, just as trading up isn't the prerogative of the affluent (consumers new to the mass market trade up, too, but more selectively), trading down isn't confined to lower-income families.

**Consumers new to the mass market trade up, too, but more selectively.**

## Social and Economic Drivers

Powerful global forces are contributing to bifurcating markets. On the supply side, technology has made it possible for manufacturers to offer products of higher quality at lower cost and in greater variety. The Internet is providing consumers with instant information about products. Mass-market retailing, with its discount and private-label products, has enabled consumers to spend less in some categories in order to be able to spend more in others. And media role models, along with emotionally resonant advertising, are reinforcing and legitimizing purchases that help consumers live better and feel healthier.

But the strongest drivers are on the demand side. Higher levels of education and the increasing popularity of foreign travel have created more sophisticated tastes and a desire for products from outside of local markets. In some emerging economies, widely publicized product-safety scandals and easier access to credit have fueled the market for foreign and more expensive brands.

In addition, real incomes have risen considerably, allowing families greater discretionary spending. Incomes in India have increased more than 50 percent, and those in China and Russia have more than doubled. (See Exhibit 4.) Women are playing a large role in this growth by working outside the home and closing the pay-parity gap—especially in the United States and Europe, where women now earn more than 80 percent of the income of working men. And women also determine most household purchases. In Russia, for example, women make as many as

80 percent of the decisions concerning household purchases.

Home values and their effect on consumers' perception of their own wealth have also been a powerful driver of consumer spending. As housing prices escalated, especially in the United States and the United Kingdom, many consumers borrowed against their homes to finance remodeling projects and big-ticket purchases. The recent collapse of the subprime-loan industry and its effect on property values and consumer confidence (along with rising energy and food prices) will undoubtedly alter trading-up and trading-down patterns. For example, as U.S. housing prices plunged during the first

half of 2008, consumers reported that they were spending considerably less than they did in 2007. (See Exhibit 5.) Skyrocketing gasoline prices haven't helped. And more than 60 percent of respondents in Europe and Japan and 44 percent of respondents in Russia reported being worried about significant decreases in their purchasing power because of rising food and gas prices. The art of trading down—of searching out good value at low prices—is likely to become even more important for consumers coping with rising prices and eroding property values.

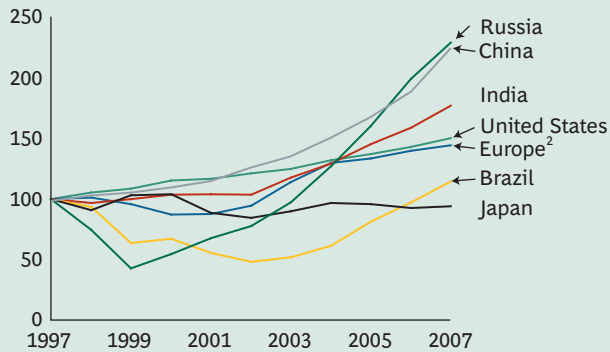
However, mechanisms for coping with price increases differ across regions. More than half (56 percent) of Japanese consumers in our survey said that they will reduce their spending in other categories to compensate for more costly food and energy. Approximately the same percentage of Europeans claimed that they will economize by switching to more energy-efficient home appliances and waiting to buy products on sale rather than paying full price. The majority of Russians in our survey said that they will make more trips to discount stores and opt more often for private-label or "value" products.

Although consumers everywhere feel stress and anxiety—about their health, the time available to spend with family, and the future in general—there is also broad optimism, especially in emerging markets. When asked whether they feel financially secure, 64 percent of respondents from China and 82 percent from India answered in the affirmative, whereas only 45 percent of U.S. consumers, 44 percent of European consumers, and 42 percent of Japanese consumers made that claim. (See Exhibit 6.)

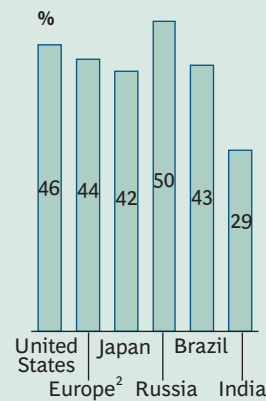
## Exhibit 4. Powerful Global Forces Drive Trading Up and Down

### Income growth over the past decade

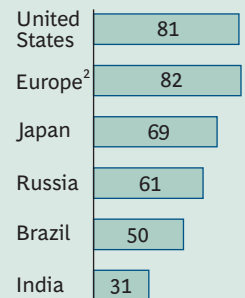
Annual disposable income<sup>1</sup> (indexed)



### Women in the work force



Pay-parity ratio, women versus men (%)



Sources: The Economist Intelligence Unit; Datamonitor; OECD; International Labour Organization; UNESCO; BCG analysis.

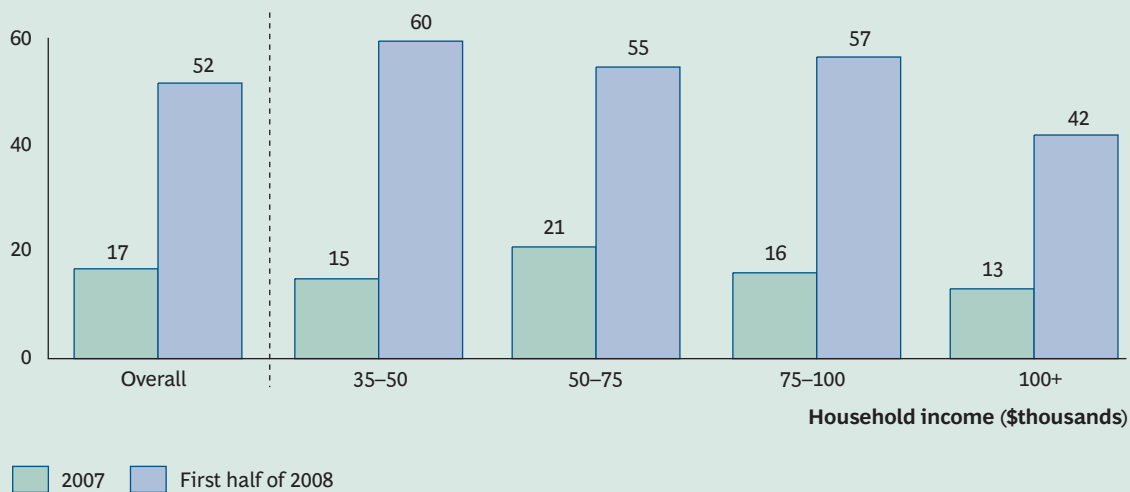
<sup>1</sup>Gross income minus personal taxes.

<sup>2</sup>France, Germany, Italy, Spain, and the United Kingdom.

## Exhibit 5. The Decrease in U.S. Housing Prices Significantly Altered Spending Habits in the First Half of 2008

### How have fluctuations in housing prices changed your spending habits this year?

Percentage of respondents who answered, "I am spending a lot less or a little less this year than I did last year."



Source: BCG Global Consumer Survey, 2007, 2008.

## Exhibit 6. Many Consumers Are Anxious and Stressed, but Optimism Remains Strong in Emerging Markets

Percentage of respondents who agreed with the statement:

	United States	Europe <sup>1</sup>	Japan	China	Russia	India
<b>Stress</b>						
I never have enough time	50	51	41	54	52	39
<b>Anxiety</b>						
I worry about my health	43	46	40	59	52	71
I am anxious about the future	41	40	53	41	59	80
<b>Financial security</b>						
I feel financially secure	45	44	42	64	45	82

Source: BCG Global Consumer Survey, 2007, 2008.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

### The Emotions Behind the Trends

The polarization of shopping patterns is fueled by emotions that are common to consumers all over the world. We've identified four particularly powerful drivers of trading up: the need to care for oneself, the desire to have a personal style, the need to connect with others, and the "questing" desire. (See Exhibit 7.) Of the four, taking care of oneself seems to be the number one priority everywhere, whereas the degree to which consumers cite other reasons for trading up tends to vary by region.

When it comes to trading down, emotions are surprisingly upbeat. Rather than describe it as a chore or a sacrifice, the consumers we surveyed used terms such as practical, clever, and knowledgeable when talking about how trading down makes them feel. (See Exhibit 8.) They described trading down as having less to do with compromising than with making deliberate choices in order to get the most out of a limited budget. What used to be seen as "getting by" is being reinterpreted as "spending smart." The satisfaction derived from trading down can come at least as much from searching out a real bargain as from the product itself. These consumers see themselves as experts in the "treasure hunt." Even high-income shoppers in developed countries treat treasure hunting as if it were an indoor sport.

### Different Rates of Evolution

One of the most important findings from our research is that the global bifurcation of markets is a dynamic rather

than a static trend that has been evolving at different rates over the years, depending on the product category and geographic region. For instance, our study of U.S. and European spending patterns between 2005 and 2007 in nearly 100 categories indicates that trading up is leveling off in both regions, except when it comes to high-quality fresh foods and home-related expenses. Rising awareness of organic foods and the increasing availability of these alternatives, as well as several well-publicized food-related health scares, are driving consumers to be more selective about what they eat.

Products related to the home continue to be important because many consumers experience their homes as a sanctuary from the pressures of the outside world and as an expression of their personal style. Hence, many consumers in our survey indicated a willingness to devote a greater portion of their household budgets to making their homes (whether a sprawling mansion or a tiny city apartment) as comfortable as possible.

But in many markets and categories, trading down is gaining momentum. In Europe, the growth of this trend has been particularly strong in staples, postal and shipping services, and mobile-phone and Internet-provider contracts. Interestingly, fashion accessories are also on the rise as an important trading-down category in Europe, as many consumers seek "disposable" fashion items to express their ever-changing personal styles. The exception to this pattern of growth is Germany, where levels of trading down have declined from their peak in 2005 to the overall European average.

## Exhibit 7. Trading Up Is Fueled by Four Needs or Emotions That Consumers Everywhere Experience



### Taking care of me

- Well-being: physical and spiritual health
- Beauty, youthfulness
- Making time



### Individual style

- Status and achievement
- Security and comfort
- Sophistication and success



### Connecting

- Attractiveness, romance
- Affiliation
- Membership: being part of the club



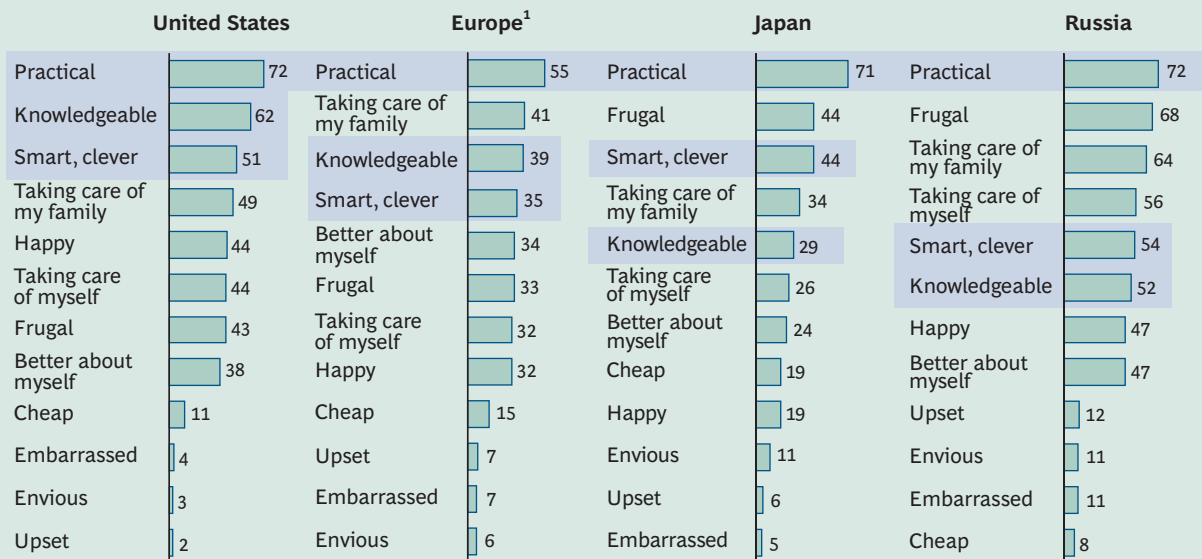
### Questing

- Taste and discernment
- Adventure
- Learning

Source: BCG analysis.

## Exhibit 8. Consumers Describe Trading Down in Positive Terms

### Percentage of respondents who agreed with these descriptions of how they feel when trading down



Source: BCG Global Consumer Survey, 2007, 2008.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.



Trading-down behavior in the United States has declined modestly since 2005, although in certain categories, such as bottled water, over-the-counter remedies, and prepared meals, already-high levels of trading down have increased further. (See Exhibit 9.) On average, there have been no huge shifts in overall trading-up and trading-down activity in the United States and Europe. However, we did find that there can be quite significant changes at the category level. Therefore, companies need to look at the category indicators for their individual markets.

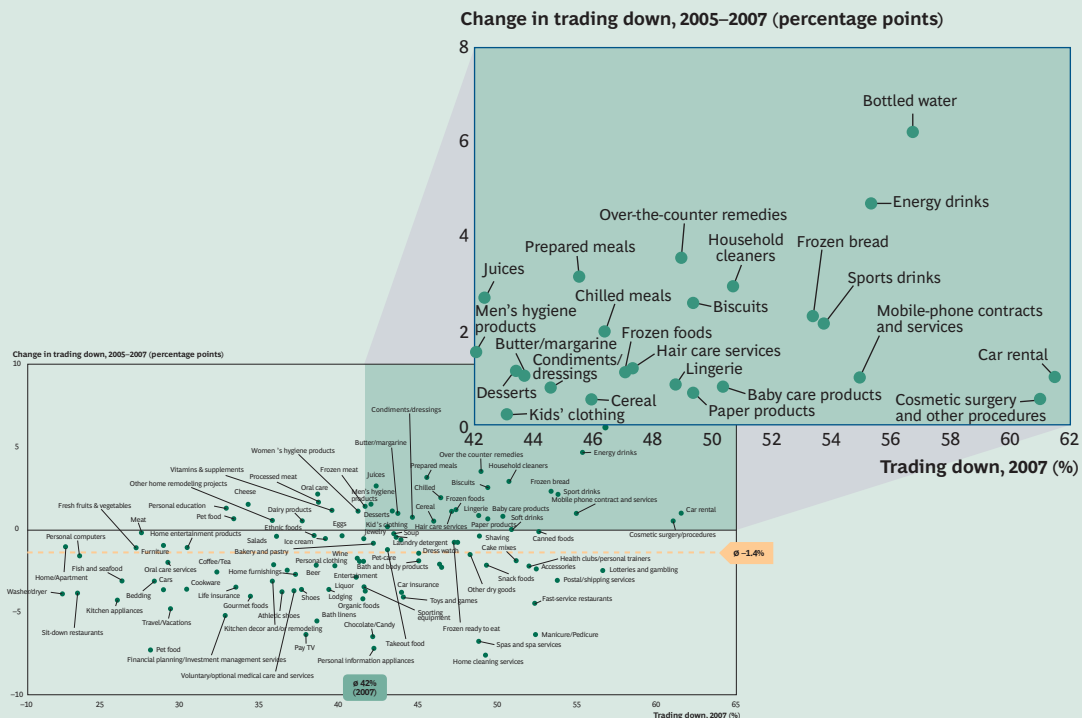
Worldwide, the most significant differences across markets are the result of different starting points in consumption patterns. (See Exhibit 10.) Although spending is considerably higher in the mature markets of Europe, Japan, and the United States, rapidly rising wealth and optimism in the developing markets of China, India, and Russia are turning these countries into trading-up frontiers. In China, for example, more than seven times as many consumers plan to spend more over the next year as plan to spend less. And in India that factor jumps to nine times. In sharp contrast, in the face of recession worries, approximately

five times more U.S. consumers said that they plan to spend less next year than plan to spend more, and in Europe the number of consumers who plan to spend less is double the number who plan to increase their spending.

Both trading up and trading down are still powerful trends in mature markets, but trading down has become more pervasive as consumers—particularly those in Europe and Japan—focus their trading-up spending on a narrower set of categories that especially matter to them. In the United States, Europe, and Japan, the percentage of consumers who trade down far exceeds the percentage who trade up. (See Exhibit 11.) Consumers in emerging markets, on the other hand, have a huge appetite for trading up to well-known brands in a very broad range of categories. Only Brazil, among the emerging markets, demonstrates a more focused and selective trading-up pattern.

The intensity of trading up and down in mature markets has led to a significant downward spiral in discretionary spending on traditional undifferentiated middle-market

### Exhibit 9. In the United States, Trading Down Is Still Strong and Growing in Many Categories



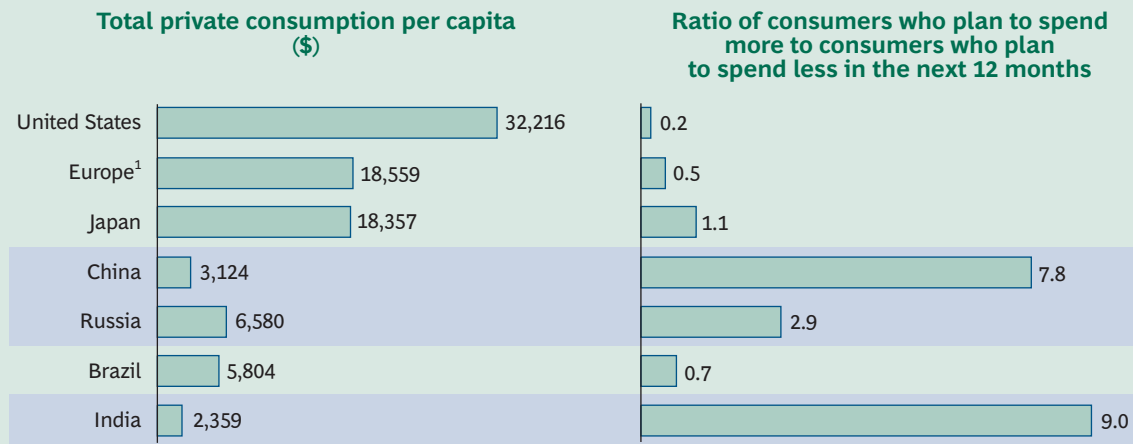
Source: BCG Consumer Survey in the United States, 2005, 2006, 2007.

products and services. Companies with offerings that are neither particularly good nor particularly cheap are struggling in what consumers see as a wasteland of mediocrity. Yet the middle ground is far from dead—it remains a large and important source of scale in most categories. Some companies that offer quality and value at middle-market prices are doing quite well and are successfully combating focused attackers from both the discount and premium ends.

## Attitudes Across Markets

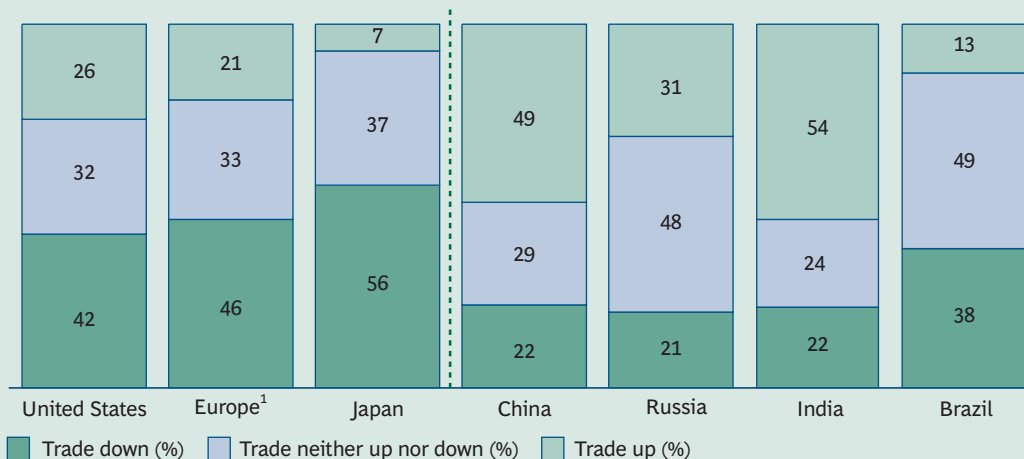
Like differences in spending levels, consumers' attitudes toward spending vary with the economic starting point of the market. For example, when we asked Chinese consumers their reasons for trading up, brands and the status associated with them were mentioned often. (See Exhibit 12.) In Europe, the United States, and Japan, however, where name brands are common, consumers are less

**Exhibit 10. Differences in Spending Patterns Are Partly the Result of Different Economic Starting Points**



Sources: The Economist Intelligence Unit; BCG Global Consumer Survey, 2007, 2008.  
<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

**Exhibit 11. Trading Down Is More Pervasive Than Trading Up in Developed Markets**



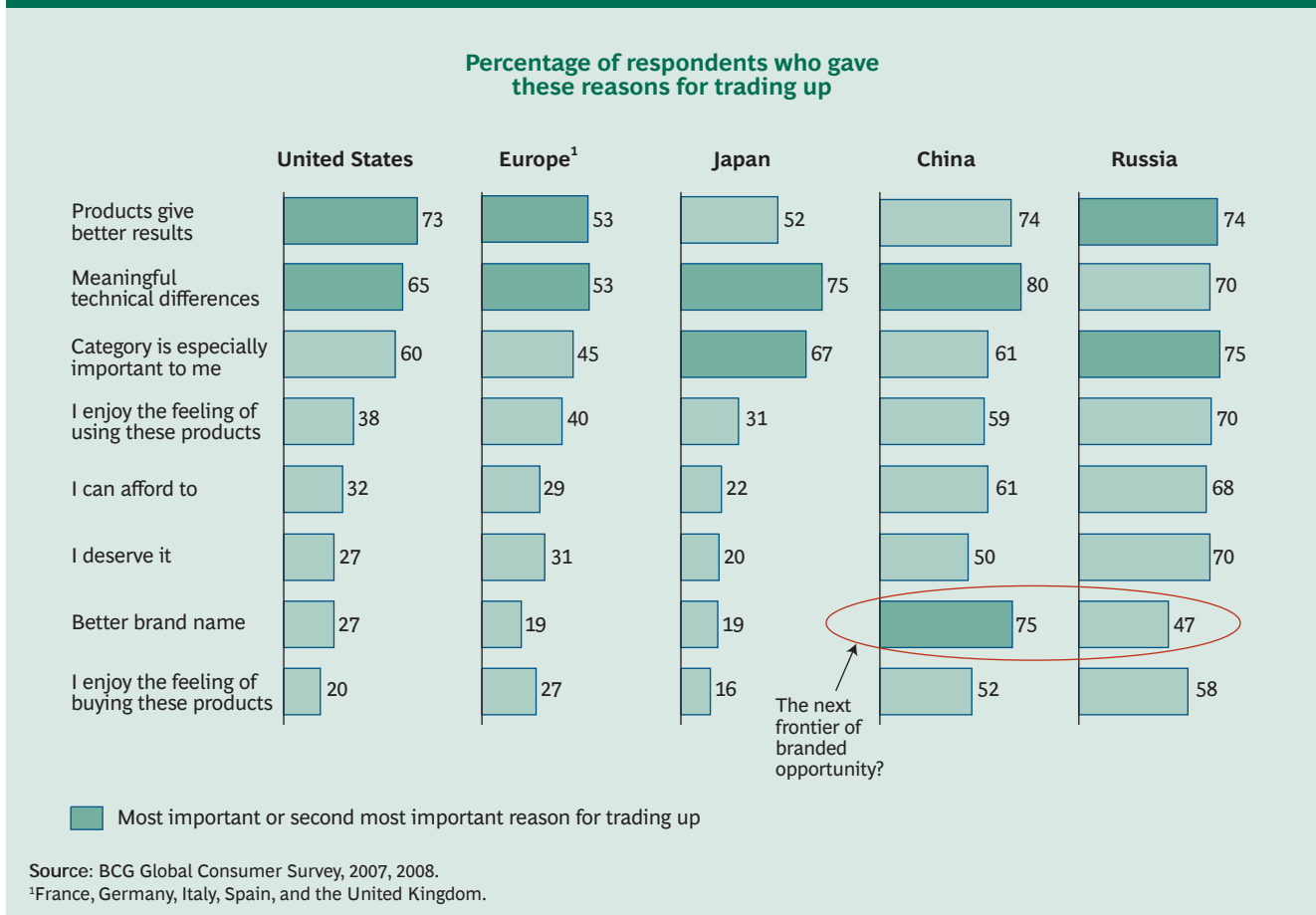
Source: BCG Global Consumer Survey, 2007, 2008.  
<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

impressed with brand status and therefore present a tougher market for big brands. Trading-up consumers in Europe and the United States are willing to spend more on products that make their homes more comfortable and attractive, whereas consumers in China and Russia put more emphasis on personal appearance. (See Exhibit 13.)

When trading down, it's the pleasure of getting a good deal that appeals to consumers in the United States and Europe (Germans, especially, enjoy "saving a little money"), whereas consumers in Japan, China, and Russia are more inclined to cite budget concerns and the need to economize. (See Exhibit 14.) From a product category standpoint, consumers in Japan, China, and Russia rate fast foods or snack foods high on their lists of trading-down products. (See Exhibit 15.) In the United States and Europe (and in Japan, as well), consumers are especially

likely to trade down in postal, shipping, and mobile-phone services.

**Exhibit 12. Reasons for Trading Up Differ by Region**



## Exhibit 13. Chinese and Russian Consumers Put More Emphasis on Personal Appearance in Their Top-Ten Lists of Trading-Up Products

Rank	United States	Europe <sup>1</sup>	Japan	China	Russia
1	Personal computers	Fresh fruits and vegetables	Personal computers	Mobile phones	Shoes <sup>2</sup>
2	Travel/vacations	Meat	Salads	Personal computers	Personal clothing
3	Bedding	Vacations	Travel	Hair care products	Oral-care services
4	Meat	Fish and seafood	Home entertainment products	MP3/MP4 players	Fresh fruits and vegetables
5	Sit-down restaurants	Home/apartment	Fresh fruits and vegetables	Bath and body products	Meat
6	Home/apartment	Travel	Shoes <sup>2</sup>	Dairy products	Fragrances and perfumes
7	Home entertainment products	Home décor and modeling projects	Fish and seafood	Shoes <sup>2</sup>	Fish and seafood
8	Kitchen appliances	Shoes <sup>2</sup>	Bedding	Washing machines	Hair care products
9	Washer/dryers	Bedding	Meat	Refrigerators	Processed meat
10	Cars	Oral-care services	Organic food	TVs	Vacations

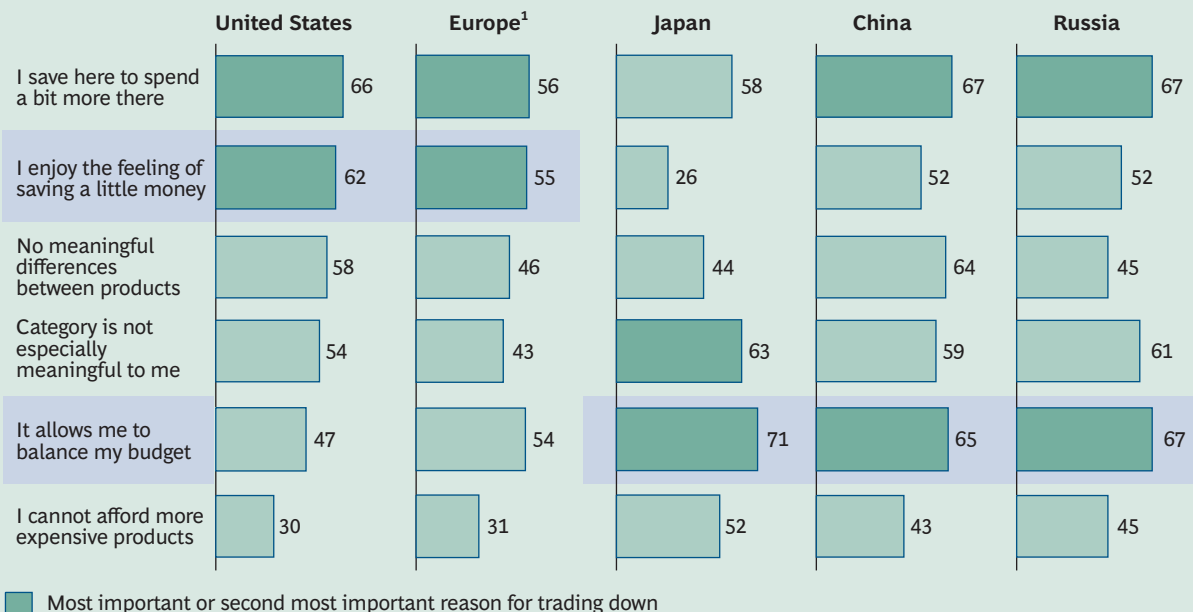
Source: BCG Global Consumer Survey, 2007, 2008.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

<sup>2</sup>Not including athletic shoes.

## Exhibit 14. Consumers Trade Down for Different Reasons

Percentage of respondents who gave these reasons for trading down



Source: BCG Global Consumer Survey, 2007, 2008.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.

## Exhibit 15. Consumers Trade Down in Different Products by Region

Rank	United States	Europe <sup>1</sup>	Japan	China	Russia
1	Postal/shipping services	Mobile-phone contracts and services	Mobile-phone contracts and services	Biscuits	Fashion accessories
2	Canned foods	Car insurance	Snack foods	Fast foods	Snack foods
3	Mobile-phone contracts and services	Postal/shipping services	Fast foods	Desserts	Ice cream
4	Household cleaners	Internet service providers	Fine dining	Fine dining	Canned foods
5	Paper products	Mobile phones	Fashion accessories	Chocolate and other candy	Soft drinks
6	Fast foods	Fashion accessories	Lingerie	Bottled water	Paper products
7	Fashion accessories	Paper products	Soft drinks	Soft drinks	Bedding
8	Snack foods	Household cleaners	Mobile phones	Snack foods	Home furnishings
9	Over-the-counter health remedies	Snack foods	Chocolate and other candy	Energy drinks	Athletic shoes
10	Other dry goods	Fast foods	Biscuits	Fruit and vegetable juices	Jewelry

Source: BCG Global Consumer Survey, 2007, 2008.

<sup>1</sup>France, Germany, Italy, Spain, and the United Kingdom.



# A Country-by-Country Perspective

**A**lthough markets are bifurcating everywhere—in developed as well as developing countries—each region’s distinctive socioeconomic and cultural history makes for differences in how the trend is playing out.

## Trading Up and Down in Mature Markets

Consumers in the developed world continue to spend large portions of their budgets trading both up and down. Although trading up isn’t growing as fast as it did in the past or as fast as it is in emerging markets, it still offers tremendous opportunities. And the middle market is also holding strong and can be a source of competitive advantage for companies that offer good quality at low prices.

**The United States.** Market bifurcation has created enormous opportunities in the United States for both trading up and trading down. The country’s large population, great wealth, and high consumption levels have long made it fertile ground for both incumbents and new attackers to launch products at both ends of the price spectrum. From 2005 to 2007, U.S. consumers traded up in a much wider variety of categories than their European or Japanese counterparts.

Today, amid warnings of a possible recession and a looming credit crunch, the question on everyone’s mind is how the economy will affect shopping behavior. Clearly, providers of higher-end and higher-ticket goods are concerned that U.S. consumers might actually make good on their stated intention to spend a lot less in 2008 (and perhaps beyond). Yet the unemployment rate in the United States is still below 2 percent for middle-income and upper-middle-income consumers, most of whom have stable

cash incomes and a net worth of more than \$140,000. The homeowners in this segment purchased their homes more than seven years ago, on average, and have one-to-one debt-to-equity ratios. These consumers will continue to trade up and down for goods that offer the technical, functional, and emotional benefits that they seek—although they will likely be more selective about the categories in which they choose to “rocket” their spending. There may be less appetite (at the moment) for outsize houses, but categories such as consumer electronics, vacations and travel, high-quality fresh foods, and items for the home will continue to attract the more cautious trading-up consumers.

Consumers will also seek out smaller indulgences as a way to lift their spirits without emptying their pocketbooks. For example, a woman might treat herself to the best lipstick money can buy instead of splurging on a whole new outfit for a special evening. Or she might update the drawer pulls on her kitchen cabinets rather than renovate the whole kitchen.

As in Europe and Japan, trading down in the United States remains more pervasive than trading up, though it, too, has declined slightly since 2005. U.S. consumers are trading down in fast foods and basic household items (such as cleaning and paper products), but they are not yet as open as Europeans are to trading down in services such as Internet providers and car insurance. The thrill of the treasure hunt remains a major part of the attraction for many U.S. trading-down shoppers. (See the sidebar “Lisa in the United States.”)

**Europe.** Trading down is even more pervasive in Europe than in the United States, and it’s still gaining momentum in many markets and categories. More than 80 per-

cent of consumers in the European markets in our survey indicated that they regularly trade down in five or more product categories (and more than 90 percent of Spanish consumers made that claim). The top trading-down categories in Europe include services such as mobile-phone and Internet-provider contracts, along with household staples, such as cleaning and paper products. However, trading down is also on the rise in Europe in some fashion categories, such as accessories. The thrill of finding a bargain is a key emotional driver for European treasure hunters, especially in Germany.

Trading up in Europe is also a powerful trend, although the practice is more focused than what we've seen in the United States since 2005. European consumers are much more selective about the number of categories in which they are willing to trade up, with high-quality foods, home-related items, and vacations and travel making it onto their shortlists. Overall consumption and consumer-debt levels have historically been lower in Europe than

in the United States, but taking care of oneself and one's family remains an area in which consumers are willing to spend more money. As might be expected, there is no "average" European when it comes to trading up (or down), and there are big differences from country to country. (See the sidebar "Elke in Germany.")

**Japan.** Japan has long been a well-established market for luxury goods. Although the market for trading up is far from saturated, Japan's highly educated consumers are becoming more selective than their U.S. or even their European counterparts when it comes to the categories in which they will trade up. In our survey, only 32 percent of Japanese consumers indicated a willingness to trade up in five or more categories, whereas 78 percent of U.S. consumers and 58 percent of Europeans said they would do so.

Many luxury-goods categories have recently shown signs of weakening in Japan, in part because of rising concerns

## Lisa in the United States\*



Tucked away next to a Just Tires and a FedEx Kinko's, on the road that leads from the expressway to Lisa's suburban home in the Midwest, is a small, one-off convenience store set far back from the road. Lisa refers to it as a "moms' network" secret source of inexpensive deli products. This is a suburb where homes are being knocked down and rebuilt bigger—beyond what a middle-class family could ever hope to afford. So folks take advantage of every nickel they can squeeze.

Lisa is married to a high-school math and science teacher and has three daughters. Her house is cozy and well kept, but the boxy, closed-off rooms reflect its age. The family used to live in a newer, developing suburb, where they had a much nicer house that cost less than they paid for this one. They traded down in order to send their daughters to a better school. But Lisa doesn't regret that decision. And while she knows that her husband will never earn a huge salary, she is grateful for his job security and health benefits. When she explains that she buys her family's clothes at Target and their shoes at Payless, it's not a complaint but a simple statement of fact.

For now, she substitute teaches two days a week and contributes to the household finances by bargain hunting.

Lisa can quote prices on produce and meat from all the local stores. Grapes are out of season now, and therefore far too expensive. When steak goes on sale for \$6 a pound, Lisa fills up the extra freezer bought for this purpose. Although her husband is the breadwinner, she is the one who is always finding ways to cut back.

Right now Lisa is excited about a minivacation she's taking by herself: a trip to Las Vegas for a friend's bachelorette party. It's quite a splurge—and to pay for it, Lisa won't be going to Starbucks or out to lunch for quite some time. She has a lot of dreams that seem far off right now, but Lisa does not feel hopeless. She is well aware of the challenges that the future holds. She confesses to feeling anxious about pending college expenses for her eldest daughter and for her twin girls later on, but she hasn't given up on the idea that her children will graduate free from college debt. It is going to be hard, but one gets the sense from talking with Lisa that she will make it work somehow. Those necessary dollars saved on every purchase will make a big difference for this family.

\* Lisa is not the real name of this respondent to our survey.

about energy and food prices and the general economic outlook. As many as 61 percent of Japanese consumers in our survey indicated that they expect rising prices to have a significant impact on their purchasing power. Indeed, trading down is even more pervasive in Japan than in the United States and Europe. It's not so much the love of finding a good deal, however, as budget concerns and a desire for security in an uncertain future that fuel this practice for Japanese consumers.

However, there are specific categories in which Japanese consumers are simply unwilling to cut back, such as consumer electronics, automobiles, travel, and high-quality fresh foods. Segments with the highest levels of household disposable income, especially single young women, are most inclined to trade up in Japan. Single young women often live with their parents rent-free, and therefore

have more money to treat themselves to luxury accessories and beauty products.

## Trading Up and Down in Emerging Markets

Companies that are already doing business in Brazil, China, India, or Russia, or that are contemplating doing so, will encounter consumers hungry for new products and services and—in most cases—eager to trade up. These consumers are just beginning to enjoy discretionary spending and their budgets are still tight. Companies can capture early loyalty by offering financing packages and intelligent pricing that fit consumers' pocketbooks without compromising on quality. Now is the time to build strong branded relationships with these customers and establish trust, credibility, and brand recognition.

### Elke in Germany\*

Elke is 55 years old and has been married for 33 years. She has two boys, aged 20 and 15, and works part-time as a travel agent; her husband works full-time. Financially secure, with two household incomes and only one child still at home, she feels that her family is finally living the good life.

Elke spends more than her peers on insurance and pension plans and recently splurged on a chic jacket. "It was horribly expensive, so I waited until I could get it on sale," she explains. Elke checks the prices of commodities at discount stores—either in person if she happens to be walking by or on the Internet. She has some favorite stores that feature low prices, where she buys gifts, sports equipment, and even lingerie, and has found their products to be of surprisingly good quality. For Elke, going to the discount store is fun rather than a chore. She'll also check out eBay if there's something specific that she can't find elsewhere. Elke considers herself to be a careful shopper—especially when it comes to healthy and environmentally safe products. Her sons have made her more aware of the environment, so she doesn't use any harsh detergents or fabric softeners and prefers natural products for gardening.

Elke takes great pride in being very practical and organized, and she delights in a good bargain. In fact, she is so thrilled when she finds certain household essentials on sale that she will buy considerably more than she needs, stockpiling boxes and bottles all over the house. But she

hastens to add that she's not as bad as her mother-in-law, who hasn't forgotten the deprivations and shortages of postwar Berlin and accumulates much more than Elke does. Elke doesn't see herself as fanatical about thrift, and she certainly wouldn't drive all over town looking to save a few pennies.

Elke enjoys her beautiful and well-kept home but avoids the pervasive pressure to be *die perfekte Hausfrau*. She allows herself small indulgences—and although she is willing to pay for quality and convenience, she trades down regularly for items that cost significantly less, as long as the quality is still good.

Elke traces many of her shopping habits to her family history. Her mother ran a busy bed-and-breakfast but still managed to find a lot of time for her family, which took a great deal of organization. Elke has followed suit, organizing one-stop shopping trips as much as possible. She'll visit specialty stores only if she can't find an item she needs at her local supermarket. Since she insists on freshness, she will make a special trip to the open-air market on Fridays. And probably because her favorite grandmother spoiled her with homemade cake and fresh foods from the farm, Elke favors "guilty pleasures," such as a good glass of wine in the evening or fresh pasta from the Italian delicatessen.

\* Elke is not the real name of this respondent to our survey.



Consumers in emerging economies put a lot of faith in the recommendations of friends, so anything a company can do to encourage positive word of mouth—by offering free samples, for instance—will pay off in the end.

Consumers in the developing world present a different profile, one that companies accustomed to doing business in developed countries may be unfamiliar with. To succeed here, companies must go out of their way to understand these new consumers and tailor products to their particular sociodemographic characteristics and lifestyles and to the differences among generations and social classes. This may require redefining and actively shaping the market. For instance, a company might establish an educational marketing program to encourage first-time purchases. Or it could experiment with credit programs to relieve consumers' financial constraints. On the supply side, companies should look to lower costs by reducing breakeven volumes and creating partnerships with third parties to leverage assets. Finally, they should be prepared to work around infrastructure constraints—for example, by using nongrocery retail channels for grocery items.

**Brazil.** Nearly two-thirds of Brazil's 53 million households are on the brink of economic viability and eager to join the consuming classes. While most global retailers and consumer goods companies have been concentrating on the wealthiest top third of Brazil's consumers, this huge segment of potential customers—the country's "next billion"—has gone largely undiscovered. These consumers generate roughly one-third of the country's total income, but they are responsible for almost half of its total spending—more than \$100 billion a year. And as they become increasingly sophisticated, so do their purchases, which include branded shampoos and detergents, and even an occasional bar of chocolate. Best of all, Brazil's next billion are young, with some 40 years of consuming ahead of them.

Yet in terms of its patterns of trading up and down, Brazil is an outlier among the emerging economies in our survey. Trading up is much more focused in Brazil than in other developing markets, with only 23 percent of the consumers we surveyed there indicating a willingness to trade up in 15 percent or more of the categories we asked them about (compared with 56 percent of Russians and

72 percent of Chinese consumers being willing to trade up in a comparable percentage of categories). On the trading-down side, fully 50 percent of Brazilians indicated a willingness to trade down in the same percentage of categories. The greater relative appeal of trading down in Brazil seems to be driven primarily by perceived financial constraints and concerns about macroeconomic instability, as well as by a deeply ingrained preference for buying on promotion.

### Consumers in China have a huge appetite for quality.

**China.** Over the past 15 years, disposable income in China has risen three to five times faster than in the developed world, bringing better living conditions and more sophisticated tastes. Our survey indicates that most Chinese households plan to increase their spending in the near future. Much of this wealth will go toward furnishings and appliances, upgraded consumer electronics, and better personal-care products.

On the whole, consumers in China have a huge appetite for quality, which has made trading up much more pervasive than trading down. Strong growth in wealth, optimism, and education, coupled with concerns over the quality of lower-priced products, is driving the trend. Brand names mean a lot to the Chinese, particularly when it comes to personal electronics (mobile phones and personal computers), grooming products, and fresh foods. As in a few other regions, trading down in China seems to be in the service of trading up: Chinese consumers will pay less for some products in order to spend more on others. Products popular for trading down are basic packaged and fast foods and fine dining. (See the sidebar "Wang Le in China.")

**India.** India is the eleventh-largest economy in the world and growing second fastest among the larger economies, outpaced only by China. On average, its gross domestic product has increased more than 6 percent annually for the past ten years, with no year showing less than 4 percent growth. All of this growth has led to a rapid rise in domestic consumption and the emergence of a middle class larger than the total population of the United States. Unlike China, where the presence of multinational companies is a fairly new phenomenon, India has been host to consumer multinationals for several decades. Indeed, many Indians think of Unilever, Nestlé, and Philips Electronics as native companies.

India's next billion consumers have just begun to spend discretionary funds in nonfood categories. They are primarily interested in practical benefits, such as higher quality and better functionality, rather than emotional gratification or the status provided by brands. Durables, communication and financial services, and apparel lead the trading-up rankings. When Indians trade down, however, practical reasons such as perceived budget constraints take a backseat to the "thrill of the deal."

**Russia.** Our research in Russia found an emerging class of young, educated consumers eager to experiment with new products. Easy access to affordable housing and public transportation has resulted in higher levels of spending on discretionary items. But in order to afford the highly visible Western brands that they favor, as well as travel and good food, young Russian shoppers are becoming very adept at making tradeoffs. They can be extremely frugal and careful about their purchases in one

category while spending lavishly on a conspicuous brand with status appeal in another category. Above all, Russia's consumers are focused on the success and better days that they see ahead for themselves and their country.

Like the Chinese (though to a lesser degree), Russians seem to be more interested in trading up than in trading down, especially in those categories that offer luxury products to enhance one's style, appearance, and status. They are also very attracted to luxury automobiles and consumer electronics. Yet the middle market thrives as well in Russia, especially for household products, health and nutritional products, and beverages. When they do trade down, Russian consumers focus on fashion accessories, snack foods, basic grocery items, and certain home-related items, such as bedding and furniture. (See the sidebar "Irina in Russia.")

## Wang Le in China



In the course of our survey, we encountered many instances of a discriminating attitude toward spending, but Wang Le exemplifies it particularly well. A typical 31-year-old mother, she works as a nurse and lives with her husband and infant son in Shanghai. She also manages the household income and has given considerable thought to how she budgets it:

I shop a lot in my spare time. It's my hobby, and I enjoy getting a good deal. But shopping is my responsibility as well. I have to consider my family's financial status, determine our budget, decide which products to buy, and choose between something expensive or cheap. It's rarely an easy tradeoff. In fact, I consider shopping to be one of my two jobs. My first job at the hospital is to make money, and my second job at home is to shop in ways that will save money and provide good value.

Well-known brands are important to Wang Le because she trusts their quality. She has a Whirlpool washing machine, a Sanyo TV, a Panasonic refrigerator, and a Nikon digital camera. She favors cosmetics from Nivea and Avon. But she's not particularly loyal to any brand; if there's another that offers better quality or a lower price, she'll try

it. Wang Le says that foreign brands tend to have a better reputation for quality, but she feels that some local brands are more appealing to Chinese tastes and often provide better value for the money.

"I have more choices nowadays in products and brands," Wang Le explains. "But I can always find the best value for my money by searching out promotions, seasonal discounts, bulk purchases, and the like." Wang Le recalls the time she bought an expensive dress and afterward found the same dress in another store on sale at a 40 percent discount. That was a big lesson for her. "Since then, I always look through ads and brochures to get an idea of the price before I go shopping for a particular item," she says. She also compares prices at different stores to get the best deal. Wang Le explains that it makes her really happy when she finds something nice at a price lower than she had expected to pay. "It feels like winning the lottery, and I love to tell my friends."

Wang Le is happy with her life, and her living standard is steadily improving. Still, she is anxious about her son's prospects. She wants to give him the best possible education, and it's her dream to send him abroad to study. So she carefully follows her budget, looks for the best bargains, and saves for his future.

## Irina in Russia



Irina, a 53-year-old physician at a private diagnostic center, is enjoying a cappuccino after work at a cozy café in downtown Voronezh, a large city in southwestern Russia. Such places—which offer many varieties of hard-to-find teas and coffees, along with alcoholic drinks—are becoming popular in Russia, especially with the younger generation. “My job is very challenging,” Irina notes, “because the people who go to a private center—rather than a state-funded clinic—are usually very difficult cases.” But she much prefers her current situation to her previous job.

Irina spent almost 20 years as a leading doctor in a large state hospital for emergency medicine. The work was extremely stressful and the responsibility enormous, yet the salary was very low. Since starting at the clinic, she has been able to afford vacations at chic resorts in Turkey and to upgrade her Lada to a Toyota Corolla. She can also splurge on small items that give her pleasure without worrying about keeping to a strict budget. Divorced with two adult children and a grandson, Irina lives alone in an older house but looks forward to moving into a modern apartment in the city.

Now that her children are on their own, Irina can please herself when she shops for groceries. She likes to visit the new Western-style supermarkets, such as Perekrestok, or discounters, such as Pyaterochka, three or four times a week, spending as much as 1,000 rubles (\$43) per trip on cereal, butter, dairy products, dry goods, cleaners, and paper products. But she will bypass well-known Western brands, such as Danone and Persil, for less expensive local brands as long as the quality meets her standards. “Western-brand cereals can be twice, maybe three times the price of Lyubyatovo, yet I don’t see the difference in

quality,” she explains. “Even if Western products are locally produced in joint ventures, the companies spend too much on advertising. Why should I have to pay for it?”

Only a few years ago, most Russians shopped at local markets for both grocery and nongrocery items, but today there are many new shopping centers offering greater variety and convenient parking. As much as Irina likes the shopping center for most purchases, she will seek out her favorite specialty stores and pay a premium for fresh meats as well as for items she is particularly fond of, such as coffee, tea, and chocolate.

Like many Russians, Irina gets fresh fruit and vegetables (such as apples, cherries, raspberries, tomatoes, carrots, and onions) in season from the garden of her *dacha* (country house). Homegrown produce counts for only 10 percent of her total consumption, but she enjoys gardening as a hobby—and her harvest is an organic alternative to mass-market produce.

Irina also shops for her 80-year-old mother, who lives nearby, as well as for her grandson, for whom she will spare no trouble or expense. Since he is her only grandchild, she loves pampering him with everything he wants: sweets and dairy products, as well as clothes, books, and toys. Irina’s Motorola RAZR phone has a recording of the two-year-old dancing and singing off-key. She took the recording with her on a recent holiday and listened to it whenever she missed her grandson.

Of all her possessions, Irina is probably proudest of her fine jewelry—and her new car, which has made life in the city so much easier. But she is also grateful that she can trade up to better cosmetics and perfumes, as well as consumer electronics—a large LG flat-screen television and, of course, the loneliness-banishing mobile phone.



# Implications for Businesses

**C**ooling economies often create new dynamics. Leading value retailers around the globe are introducing important innovations, rethinking their cost structures, targeting their best customers, and experimenting with new lines of merchandise to satisfy consumer needs and tastes. Some department stores are shrinking space devoted to general merchandise and focusing on specialty areas. And manufacturers are investing in product lines that yield more technical, functional, and emotional benefits.

Although both trading up and trading down—as well as the vast middle market, which remains important in many categories—are commanding the attention of all consumer businesses, there's no one-size-fits-all approach. As we've noted, the degree to which markets are bifurcating, how rapidly, and in which direction—trading up winning out over trading down or vice versa—vary significantly depending on local economic and sociodemographic conditions as well as on deeply rooted consumer attitudes and traditions. In order to make these trends work for them, companies must adopt a tailored approach for each market on the basis of consumers' needs and the dynamics of the product category.

## Moving Up or Down to Compete

Bifurcating markets continue to offer opportunities in both the premium and value segments of many categories. Often those opportunities are captured first by focused attackers—newcomers to a market that spot attractive segments early and cherry-pick them effectively. Examples of this phenomenon abound: retail discounters Lidl and ALDI attacking the grocery business in Germany, clothing retailer Zara creating a rapidly refreshed ap-

proach to fashion at a value price tag, luxury baby-buggy brands inventing a market for more stylish (and pricey) infant transport, and agile microbreweries and distillers carving out premium positions in the beer and vodka categories in many markets.

How can incumbent players with established middle-market positions mobilize to capture the trading up and down opportunity? We've identified four pathways to escaping the middle.

**Become lean and nimble.** Transform your business to become a low-cost competitor without compromising on quality or speed to market. Ruthlessly cut all costs that don't translate into value for consumers. In value-priced home appliances, for example, this would involve understanding how consumers rank different product features. One leading appliance maker, whose own feature-laden value brand was cannibalizing its midpriced products, removed the noise-reduction technology and electronic controls that value consumers didn't care about and focused instead on compactness, energy efficiency, and ease of use—which they did care about. By delivering more of the features that really mattered and stripping out others, the company increased both its overall market share and its profitability in the value segment, while better differentiating those products from its midpriced product line.

The same logic works in other categories as well. With its new low-priced Nano, India's Tata Motors is seeking to capture a large segment of new consumers by reducing unnecessary product features and providing a compelling offer on what matters most in getting from place to place: a safe, affordable, all-weather form of transportation for the whole family.

**Leverage and separate.** Create an organization capable of executing both trading-up and trading-down strategies simultaneously, and leverage that capability to pursue multiple segments of your market. A leading global airline, for example, took this approach when low-cost carriers began popping up in markets around the world. Rather than waiting to be attacked, the airline responded by creating its own low-cost carrier, thereby “surrounding” any potential attackers. The strategy has paid off, with the parent airline and its low-cost offspring continuing to outcompete new entrants in both segments. It maintains a strong market position several years after the initial launch.

**Address consumers’ hopes and dreams and gain word-of-mouth apostles.** Understand consumers’ value calculus, uncover latent dissatisfactions, and introduce technical, functional, and emotional benefits that address them. The appeal of emotional benefits, in particular, is likely to remain strong (and may even intensify) in troubled economic times, as consumers defer big-ticket purchases and embrace affordable luxuries in place of luxuries they can no longer afford. Our study indicates that trading-up consumers will look for products that improve their health and sense of well-being, that offer what they see as “safe” care for themselves and their families, or that help to provide an attractive and comfortable home environment.

An all-natural beverage sold in Europe provides a good model for combining emotional benefits (in this case, a sense of health and well-being) with the functional and technical benefits of excellent taste and product presentation. The maker of this product successfully sought word-of-mouth recommendations to build brand awareness early on, rather than investing in expensive marketing. And the results have been impressive: an increase in annual sales volume from around 2 million bottles in 2002 to nearly 200 million bottles projected for 2008, with significant expansion into new markets.

**Refresh segmentation.** When economies slow down, companies in the middle market need to de-average their consumer base and look at the segments between segments (such as the nearly rich and those at the top of the low-income segment). But segmentations based on demographics alone are often inadequate for predicting con-

sumer behavior, since two people of the same age, race, income, and birthplace will often make very different choices about when and where to splurge or economize in a given product category. Instead, companies should go beyond the demographics and focus on category involvement and segment profitability in order to discover where future growth will come from and how they can refocus their efforts to capture it.

**Consumers defer big-ticket purchases and embrace affordable luxuries.**

One leading European food retailer uses its highly successful loyalty card to track shopping patterns across its many formats and channels, segmenting customers according to lifestyle, average spending, type of consumption, and receptiveness to promotions. And a hotel chain focuses on un-

derstanding which customers are more or less likely to respond to promotional offers in order to customize its promotions by type of customer and occasion.

## Thriving in the Middle Market

Not all companies can—or should—aspire to fully escape the middle. Although the middle market is narrowing as consumers seeking meaningful differentiation gravitate toward the poles, it remains quite significant in most categories and is an important source of operating scale. What’s more, it can still be very lucrative for companies that compete there effectively. We recommend three ways for companies to avoid death in the middle.

**Focus on high-value segments.** Carefully target the market segments you want to serve, understand what matters most to these consumers, and invest in over-delivering on those key elements. In scores of categories, the top 30 percent of customers generate from 50 to 80 percent of the revenues—and an even greater portion of the profits. Many companies are beginning to act on this insight by focusing on their heavy spenders. A consumer electronics store, for example, identified five segments of heavy spenders and designated specific stores in its chain to target one or more of them. And a do-it-yourself retailer upgraded some of its departments in a direct appeal to its most profitable customers. Service providers are also actively seeking out high-value customers; for example, leading telecommunications players are working to measure the current and potential value of their customers in order to focus on the heavy spenders.

**De-average go-to-market investments.** The traditional “butter smear” approach—spreading investments evenly across all products, channels, and media types—is increasingly proving unviable in today’s world of bifurcating markets. Companies that want to thrive in a midmarket position need to ensure high returns on their often-huge investments, first by understanding the current impact of their many promotional, advertising, and trade-incentive vehicles and then by determining how to optimize that mix.

Furthermore, as nontraditional media options come onto the world stage, companies need to be open to new ways of capturing consumers’ attention. For example, a recent advertisement for a personal-care product posted on YouTube generated well over 1.7 million viewings and drove three times more hits to the product’s Web site than an earlier ad aired during the U.S. Super Bowl broadcast (and at a small fraction of the cost).

**Establish lean and agile capabilities.** Middle-market incumbents should fight complacency and drive it out of all parts of their business. To think and act like attackers, they need the capabilities that successful attackers possess. The first of these—described broadly as leanness—really means making the most of the resources at your disposal. That philosophy must extend beyond ensuring high returns on media and trade spending to the rest of a company’s operations—product design, procurement, logistics, and manufacturing—in order to rid products and services of all non-value-adding fat.

Agility is the second critical capability for success in the middle. Companies need to accelerate innovation pipe-

lines and time to market and become early movers (rather than late followers) on key trends. Global retailer Wal-Mart has long been a proponent of the lean and agile philosophy, and it has invested heavily over the years in building capabilities that allow it to pass along considerable value to its customers. The company is now turning that mindset into a “green” one. For example, it recently collaborated with its private-label suppliers to reduce packaging (and related costs), benefiting both consumers and the environment. This and many related initiatives have secured the established incumbent an early-mover position in the expanding green-business trend.

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**T**rading up and trading down are positive forces, evolving at different rates in different regions but benefiting consumers at all income levels. The challenge for businesses is to understand who their customers are, how they plan to spend in the future, and what they will need to keep their spirits up and their families healthy in an increasingly uncertain and complex world.

Down cycles are real opportunities: for consumers to hone their skills as expert shoppers and for companies to invest in moving up the ladder of product benefits as they reposition themselves to catch a fresh wind and sail out of the doldrums. Consumers may make more of an effort to spend carefully and wisely, but they will continue to trade up and down everywhere in the world.



# For Further Reading

The Boston Consulting Group publishes other reports and articles on the topic of trading up and trading down that may be of interest to senior executives. Recent examples include:

**Foreign or Local Brands in China? Rationalism Trumps Nationalism**

A Focus by The Boston Consulting Group, June 2008

**“Trading Up, Updated”**

Opportunities for Action in Consumer Markets, March 2008

**“Decoding the Next Billion Consumers”**

Opportunities for Action in Consumer Markets, November 2007

**Winning the Hearts and Minds of China’s Consumers**

A Focus by The Boston Consulting Group, September 2007

**“Looking for Patterns”**

Opportunities for Action in Consumer Markets, November 2006

**“What Women Want (in Financial Services)”**

Opportunities for Action in Financial Services, November 2006

**“Cheap Is Good (*Geiz Ist Geil*)”**

Opportunities for Action in Consumer Markets, May 2006

**“Treasure Hunt”**

BCG Perspectives, May 2006

**“The Three Faces of Eve: Women Seeking Harmony, Value, and Connection”**

Opportunities for Action in Consumer Markets, April 2006

**“Trading Down: Living Large on \$150 a Day”**

Opportunities for Action in Consumer Markets, May 2005

**“New Luxury Creators and the Forces That Support Them”**

Opportunities for Action in Consumer Markets, April 2004

**“Trading Up: An Open Space in Financial Services”**

Opportunities for Action in Financial Services, December 2003

**“Trading Up to New Luxury”**

Opportunities for Action in Consumer Markets, October 2003

**“Trading Up: The New Luxury and Why We Need It”**

Opportunities for Action in Consumer Markets, April 2002

**“The New Luxury: Trading Up and Trading Down”**

Opportunities for Action in Consumer Markets, December 2002

**Books by Michael J. Silverstein**

**Treasure Hunt: Inside the Mind of the New Consumer**

(New York: Portfolio, 2006)

**Trading Up: Why Consumers Want New Luxury Goods—and How Companies Create Them**

Neil Fiske, coauthor  
(New York: Portfolio, 2003, 2005; paperback, 2008)

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