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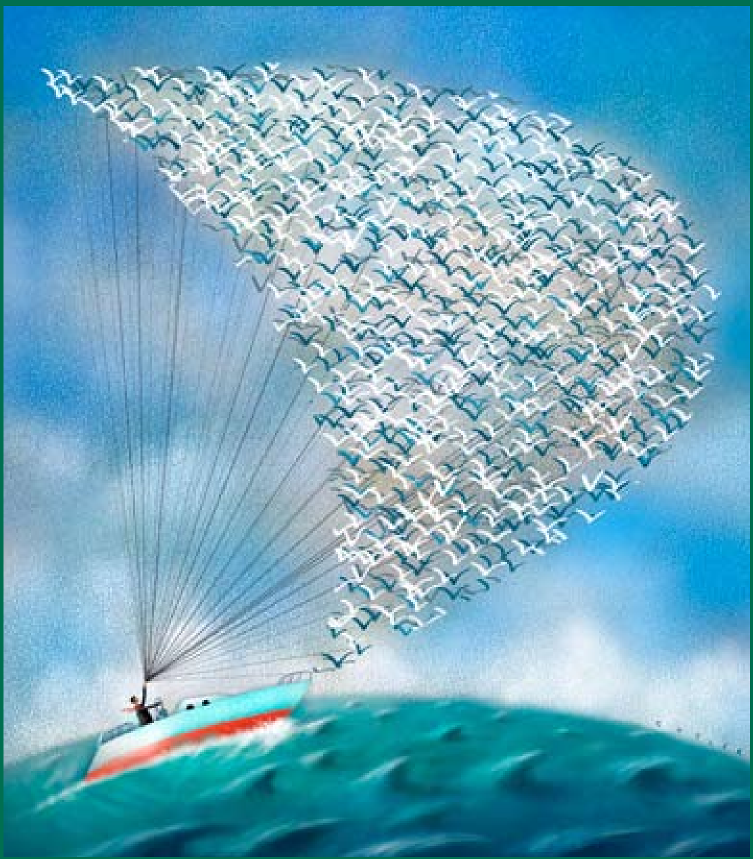
Megatrends

Tailwinds for Growth in a Low-Growth Environment



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Megatrends

Tailwinds for Growth in a Low-Growth Environment

It's time to grow again. During the last prolonged bear market, from 1966 to 1982, almost all of the 20 companies that most strongly outperformed their industry peers on the basis of total shareholder return did so through growth in sales rather than EBIT or dividends. However, sales growth in the current environment is harder to achieve than ever, so tailwinds are critical. They get you to your destination faster while saving on fuel. And what tailwinds are to transport, *megatrends* are to business. In fact, megatrends are more predictable and reliable, enabling executives to anticipate their impact and develop strategies for seizing the advantage.

Megatrends are major trends with the power to reshape the landscape of economic opportunity and risk—think urbanization or the rise of online communities. They can take decades to gather strength, and then they suddenly burst forth to rearrange the competitive environment. But because of the long buildup before takeoff, companies often underestimate the power of megatrends or assume that they have already accounted for them in their plans. This complacency can be dangerous—and the danger is compounded by the ways in which megatrends can shift over time, often as a result of interactions with other trends. It takes a concerted effort to avoid complacency, to track down megatrend opportunities, and to position your organization to benefit.

> Nearly 80 percent of the megatrends BCG has been tracking since 2005 continued to grow during the downturn.

The ability to spot a megatrend and its effect on markets usually requires mental if not physical distance from the trenches of day-to-day business. Companies that "get" megatrends are like expert hikers who, if lost in the woods, climb to the highest hill for a better perspective on where they are, where they need to go, and how the weather is shifting. In a similar way, tracking a megatrend requires a high-level view across topics, sectors, industries, and regions to gain perspective and find a clear path to growth through rough terrain. Too often, managers are caught up in fighting short-term battles—blinded by what they think they already know and too distracted by the demands of a challenging economy to give the issue of long-term growth the focus it deserves.

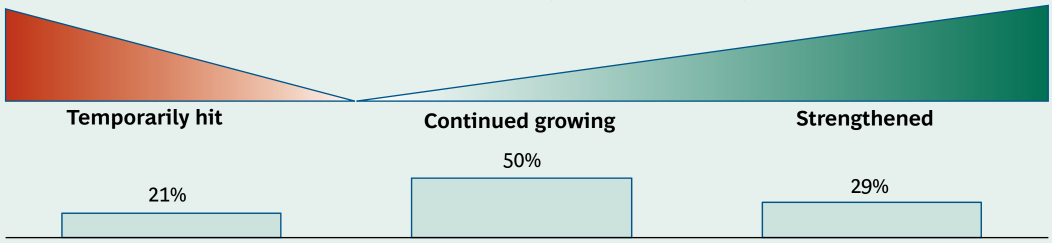
Megatrends in the Downturn

The recent recession offered a powerful reality test for megatrends. The ones that survived the downturn and even grew in spite of it will be worth paying attention to as the economy recovers. BCG has been tracking the development and interaction of 78 megatrends since 2005. We have found that nearly 80 percent of these trends continued to grow during the downturn, with 23 actually strengthening in importance. (See Exhibit 1.) This behavior during the recession underscores the value of megatrends as tailwinds. Of the 16 trends (21 percent) that lost momentum—among them trading up, increasing mergers and acquisitions, and a growing wealthy global elite—many are linked to prosperity and are therefore expected to regain their importance once the economy rebounds.

Megatrends That Kept Growing. The group of trends that kept their momentum includes demographic trends—for example, the aging of the population, the rise in obesity and dieting, and urbanization. Futurists rely on demographic trends be-

Exhibit 1. Most Megatrends Continued Growing Through the Downturn—and Nearly 30 Percent Strengthened in Importance

Representative trends and how they were affected by the downturn



Temporarily hit

Trends tied directly to economic activity
- Trade flows
- War for talent
- Mergers and acquisitions
- Financial innovation

Wealth-related trends
- Trading up
- Wealth disparities

Continued growing

The rise of RDE consumers
- The rise of the middle class
- Next-billion consumers

Demographic trends
- Aging population
- Obesity and dieting

Urbanization

Resource constraints
- Corporate social responsibility
- Water and waste management

Technology
- Nanotechnology
- Cloud computing
- Smart devices

Health and wellness trends
- Organic products
- Sports and fitness
- Biotechnology
- Nutraceuticals

Strengthened

The rise of RDE companies as competitors and partners
- Outsourcing and offshoring
- Capital flows to RDEs
- The rise of RDE challengers

Online migration
- E-commerce
- The rise of online communities
- New media

Trading down

Technology
- Mobile communications
- Bandwidth and access
- Convergence

Anxiety
- Identity theft
- The rise of counterfeit brands
- Loss of trust in institutions

Source: BCG analysis.

cause of their steadiness and imperviousness to economic cycles or changes. Yet some companies are slow to incorporate demographic trends into their growth strategies because they seem like old news. Such a summary dismissal leaves a lot of money on the table. For example, the "silver market" (goods and services for consumers over 60), now worth more than $700 billion globally, is fast becoming a valuable source of growth for companies in sectors as diverse as cosmetics and financial services.

Aside from demographics, many other trends continued to grow during the recession. These trends are likely to gain new momentum after the downturn and offer powerful growth opportunities. This group includes health and wellness, nanotechnology, the rise of India, and the proliferation of smart devices. Of the trends that kept growing, we estimate that 44 percent represent opportunities with a global market size greater than $500 million.

Megatrends That Strengthened. The trends in this group had growth rates that were especially strong or that even significantly increased during the downturn—and our analysis suggests that their underlying drivers will conspire to sustain this level of growth for the foreseeable future. Thus, we consider these trends to have undergone a structural shift in their influence on markets. They include trading down, product commoditization, capital flows to developing countries, the dominance of "new media," the increase in wireless communications, and the rise of China, among others. Because the shift is structural, not temporary, these trends open up new strategic landscapes for companies that move quickly to leverage them. Consequently, companies that assume they have been tracking these trends all along would do well to take a second look.

Consider trading down, one of the significant megatrends in this group. Before the downturn, both trading up to premium products and trading down to no-frills products were going strong—at the expense of products in the middle. But as the recession's grip on the economy tightened, trading up receded and trading down shot forward with the reinforcing support of other megatrends, such as the increased mainstreaming of private-label products. As a result, low-price retailers such as Wal-Mart were among the few retailers that came out winners. Wal-Mart is using the cash flow from its success to position itself for the next wave of growth in China, where it has already expanded to serve 89 cities with 146 stores.

Some of the megatrends in this group strengthened because the recession provided companies and consumers an opportunity to accelerate changes that they would inevitably have had to make at some point down the road. For example, the growth of wireless communications increased during the downturn because cell phone users gave up their landlines in order to economize. This shift was clearly a negative development for landline businesses—and interestingly, it also created problems for companies whose customer databases contain mostly landline numbers. Executives not only need to keep on top of megatrends, they should also anticipate the second- and third-level implications for R&D, marketing, sourcing, manufacturing, distribution, and strategy.

Megatrends that strengthened in the recession open up new strategic landscapes for those that move quickly.

Challenges to Complacency

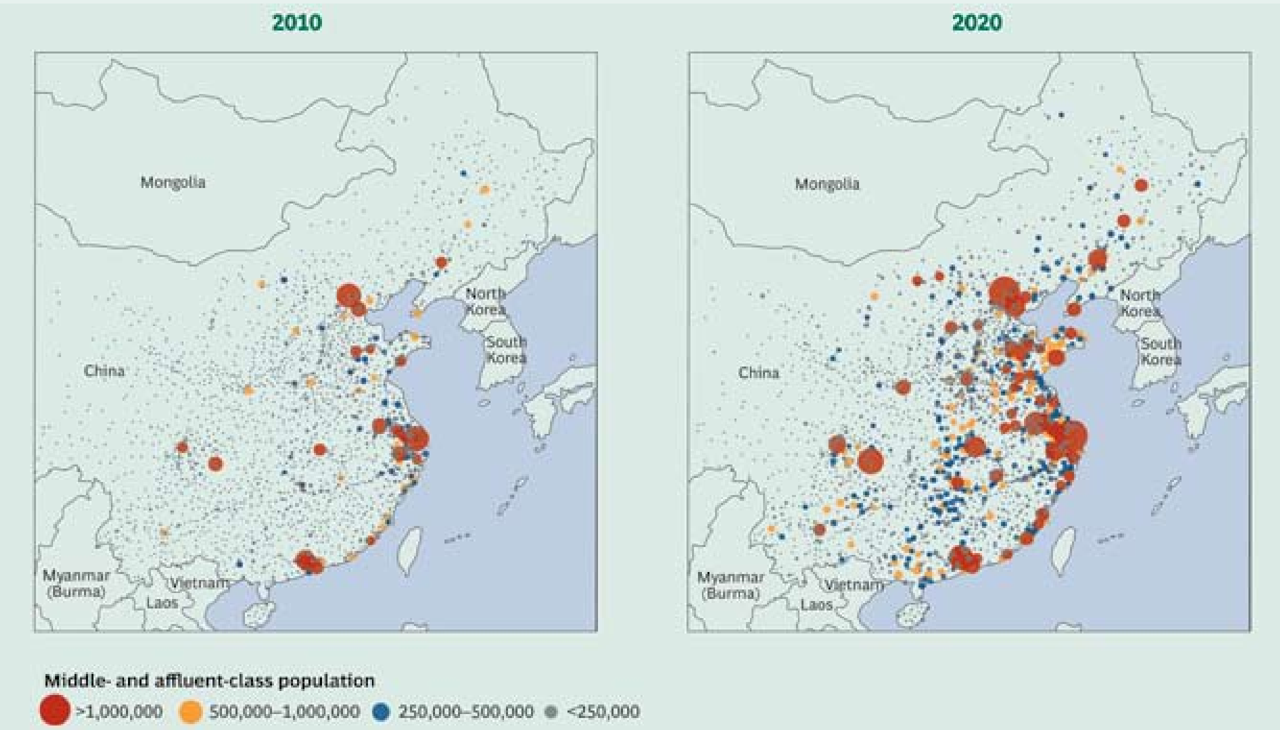
As megatrends evolve, they form what we call trend clusters—groups of mutually reinforcing trends that come together in ways that spur their momentum and rearrange the competitive landscape. Perhaps the biggest trend cluster today is the "Asian ascent"—the growth of China and India. Of course, most major global companies already have China strategies, but few have taken into account the fast pace at which the middle and affluent classes in China are expanding beyond the coastal cities thanks to other economic and demographic trends. (See Exhibit 2.) In 2005, for instance, a consumer company doing business in 70 locations in China could reach 70 percent of consumers in the middle and affluent classes. To achieve the same coverage today, a company must be in nearly 240 locations. By 2020, that number will exceed 400.

The rapid changes in China's market have implications for companies at all levels and positions. Companies currently enjoying growth need to ensure that their economic model will enable them to stay ahead of rapidly accelerating trends. Laggards can capitalize on market dynamics and catch up to the leaders by winning in newly important locations. Knowing where, when, and how to move will require rigorous market analysis based on the latest data. Getting it wrong could mean incurring huge costs in a land where local scale is king.

General Electric, recognizing that rapidly developing economies (RDEs) represented not only a major source of growth but also a critical battleground for future market leadership, has embraced the Asian ascent in truly transformative ways. In a recent article in *Harvard Business Review,* CEO Jeff Immelt described GE's realization that building a leading position in China and other RDEs would require capturing not just the top of the market but also its heart, and that the organizational processes and policies that have made GE a global leader in established markets were likely to work against it in RDEs.[1] So GE's management team moved the company's center of gravity closer to the economic and geographic locus of the sources of growth. They pioneered a "local growth team" model that gives select local operations the entrepreneurial autonomy across the value chain to design RDE-specific products and the business models needed to bring them to market suc-

1. Jeffrey Immelt, Vijay Govindarajan, and Chris Trimble, "How GE Is Disrupting Itself," *Harvard Business Review,* October 2009.

Exhibit 2. The Middle and Affluent Classes in China Are Rapidly Expanding Beyond the Coastal Cities



Source: BCG analysis.

cessfully. This approach has ramped up GE's RDE growth—and has yielded a series of innovative, low-cost products that have opened up new applications in the developed world as well.

Another powerful cluster of megatrends reshaping the strategic landscape is "e-migration"—the movement of customers and companies to online channels. This trend cluster is growing faster now than before the downturn. A new generation of Web applications that allow dynamic user participation, social interaction, and collaboration has been growing, and innovative business models are starting to emerge. It took only five years, for example, for more than 50 percent of the North American travel market to move online. Players are entering the field with low-cost online options for stock trades, books, banking, and even education.

The pace at which this trend is accelerating—replacing old business models with new ones—has surprised even the leading technology companies, which are in the business of tracking e-migration. The ability of businesses to manage multichannel complexity will increasingly define winners in the new frontier. And when you consider e-migration in the context of the rapid growth of mobile connectivity, it raises even more challenges for retailers. In a world where GPS-equipped mobile phones can read bar codes and provide instant comparison shopping, for example, retail stores risk becoming unwitting and uncompensated "showrooms" for lower-overhead, low-price online rivals—or for savvier, more tech-enabled brick-and-mortar competitors that may be offering a better price that day.

Skating to Where the Puck Will Be

The best companies develop a clear vision of the sources of future growth and competitive advantage and then decisively deploy their resources to seize the best opportunities. Or in the words of hockey great Wayne Gretzky, they get their team to "skate to where the puck *will be.*"

Best Practices for Leveraging Megatrends

Foresight

Treat every megatrend as a new phenomenon, even if it has been around for a while. The question isn't whether it is new but whether your plans have kept up with its growth and development.

Develop a network of experts on critical trends who can challenge your thinking and keep you up-to-date on the latest developments—and give you an information advantage over your rivals.

Explore emerging megatrends, even if they seem too small to move the dial. They will get bigger.

Strategy

Explore the business model implications of key megatrends. Which companies and products are well positioned? Can your current business model capture the opportunity either as is or with no more than modest changes? Or is an entirely new model required?

Alignment

Go see for yourself. "Learning journeys" that bring your key managers face-to-face with customers, markets, and trend experts foster a visceral understanding of and alignment around the strategic implications of megatrends.

Look across categories and industries to get a holistic view of a megatrend's influence. Know your organization's blind spots.

Action

Act quickly once you've spotted a megatrend that promises opportunity. The exponential growth of these trends shortens the window for response time.

The winners in the twenty-first century will be those companies that can align around a powerful and accurate vision of the future and that have the agility to act on it. We've helped scores of companies in a variety of industries to design and manage a process for identifying, tracking, and understanding the megatrends with the most important implications for their customers, products, and markets. Looking at their markets through the megatrend lens has helped them see multibillion-dollar opportunities that more traditional approaches had failed to reveal. From those experiences, we've distilled some best practices for riding a megatrend tailwind to create your company's future. (See the sidebar.)

Spotting the megatrends that will sweep through your markets over the next decade is the first step in reigniting growth. But the effort isn't worth much unless you take the next steps and mobilize your organization around a strategic vision of the future. Achieving breakthrough growth is still hard work that demands real strategic creativity and flawless execution, but megatrends offer the assurance that when you go for growth, you'll have the wind at your back.

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BCG's Strategy practice sponsored this publication. For inquiries about the Strategy practice or BCG's research on megatrends, please contact any of the authors.

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