

**The Impact of Demographic Shifts and Facilitating Technology Trends
on Future Customer Behavior**

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Abstract

As we approach the 21st century, the marketing function remains concerned with serving customers and consumers effectively. While developing better marketing processes and programs, we need to be aware that demographic shifts and emergence of facilitating technologies in production, distribution and personal use are affecting consumer behavior and therefore the marketing function. For example, demographically we are witnessing the following major trends -- aging of population, larger proportion of working women, decline of the middle class and increasing ethnic diversity. These trends are unique that they are occurring simultaneously, have long term impact and will effect society and the marketing function. The paper examines the changes in the demographics and evolving technologies that are leading to changes in consumption patterns. The effect of changing consumer behavior on the performance of firms and the marketing function are highlighted. Directions for future research and managerial implications are also drawn.

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Introduction

In the last decade, firms have been witnessing market fragmentation and constantly evolving products and services. These changes have put pressure on the marketing function to shift their strategies from stable markets to turbulent markets. In fact, due largely to the evolving market place, firms have started questioning the performance and productivity of the marketing function (Sheth and Sisodia 1993). As firms approach the 21st century, they need to be cognizant of and anticipate changes in customer behavior. The marketing function needs to convert anticipated customer behavior changes into opportunities for sustained competitive advantage (c.f., Ashley & Morrison 1997).

In this paper, we examine the impact of demographic trends on consumption behavior. Demographic factors have always been of interest to marketers. In an exhaustive examination of six major marketing journals, Pol (1991) found that 16.7% of the articles contained demographic components. For example, Murphy and Staples (1979) examined the family life cycle and its impact of consumption patterns. Similarly, Burnett (1981) used demographic information to discriminate between blood donors and non-donors; McCann and Reibstein (1985) used demographic trends to forecast change in product demand; and Kalyanam and Putler (1997) examined the effect of demographic variables on brand choice. In spite of the presence of demographic data in marketing research, researchers have called for a better technique and more expanded application (Pol 1991).

In the last decade there have been a rapid evolution of technologies in product and service design and manufacturing, distribution, and personal use that have facilitated changes in consumer behavior. For example, communication technologies such as the internet, personal computers, and wireless communications have changed shopping and consumption behavior. In the US automobile industry,

consumers (estimated at a quarter of buyers) peruse the Internet before they visit a dealer. This trend toward adopting new technologies is expected to grow. About half of the US population look forward to technology innovations (Fry 1994).

The purpose of our paper is to evaluate changes in demography and facilitating technologies and the impact of these changes on consumer behavior. The paper recommends methods to develop high performance marketing organizations for the next millennium. In the next section, we explicate the demographic shifts occurring in the US and the impact of these changes in customer and market behaviors. The subsequent section examines the technology evolution that has and will facilitate further customer changes. We then discuss the changes in the marketing process based on changes in consumer behavior grounded on the above mentioned trends.

Demographic Information

Demographic information has traditionally and extensively been utilized by marketing researchers. Factors such as age, income, gender, and social class are regarded as reasonably good predictors of buyer behavior and market related activities in macro and micro contexts (Pol 1991; Hansman and Schutjens 1993). Practitioners use demographic information very extensively and a large number of geodemographic data bases are available. In academic research, the focus of inquiry has been on a specific behavior or a specific demographic group. For example, Gupta and Chintagunta (1994) examined the impact of demographic variables on segment membership whereas Kalyanam and Putler (1997) examined the effect of demographic variables on brand choice. Retail location models (c.f., Ghosh and McLafferty 1987) and transportation mode choice models (Tybout and Hauser 1981) have also utilized demographic information. Regarding demographic groups, Murphy and Staples (1979) examined the family life cycle and its impact of consumption patterns.

In spite of the extensive use of demographic data in marketing research, there has been a very limited set of research that has examined the impact of demographic shifts on customer behavior at a

broader level. Marketers that understand the impact of demographic changes on their markets will have a sustainable competitive advantage (Mendes 1989; Pampel, Fost and O'Malley 1994). Demographic examination becomes more important as we approach the 21st century as change is taking place at a faster rate than is perceived by marketers (Pol and Thoma 1995). The primary reason is that there are four demographic shifts taking place at the same time -- an occurrence that is unprecedented. These four trends are: an aging but affluent population, the rise in working women households, increasing ethnic diversity, and decline of the middle class. The reasons for focussing on these trends are fourfold:

- The trends are occurring simultaneously and the impact will be synergistic.
- The impact of these trends will be long-term and may last two to three generations.
- The impact of these trends will be large for society in general and marketing in specific.
- The trends will create a discontinuity in the practice of marketing. This discontinuity will be similar to technologies that disrupt market places and place incumbents at a disadvantage (Bower and Christensen 1994; Christensen 1997).

Aging but Affluent Population

The United States, and developed countries in general, are experiencing a well-documented aging of the population. In 1900, there were 3.1 million people over the age of 65 in the United States. That number increased to 12.4 million in 1950 and 25.5 million in 1980. It will be approximately 25 million in the year 2000. More interesting than the absolute numbers of elderly is the distribution. In a country such as India, the proportion of people over 65 has remained quite steady, between two and three percent of the population (Watkins 1994), while the corresponding figure in the United States is currently 13 percent, and will rise to 20 percent by the year 2030 (Cory 1995). Countries in Western Europe have experienced an even greater shift. As of 1992, 15 percent of Germans, 16 percent of Norwegians and 18 percent of Swedes were over the age of 65 (Gattuso 1998). Italy, Japan, Germany, United Kingdom, France and Canada are expected to have higher proportion of over 65 citizens when compared to the US (Pan and Roberts, 1999)

According to the U.S. Census Bureau, by the year 2020 more than 50 percent of all Americans will be older than 40, and one-third will be over 50 years old. In the last 25 years, the 50 plus population has increased by nearly 50 percent, while the population of Americans under 18 has declined (Adler 1996).

The variation among developed countries is quite significant. Japan will go from being the youngest of the G-7 in 1950 to the oldest in 2020, while United States will become the youngest. As the developed world ages rapidly, the developing world continues to increase in population. The world population, currently about six billion, is increasing at a rate of more than 90 million a year. It is projected to reach 8 billion by the year 2020. At this rate, the relative population weight on developed countries will decline from about 24 percent of the world's population to about 17 percent, with a similar decline in relative economic weight also anticipated (McRae 1996).

Even more important than the aging of the population may be the fact that the number and proportion of younger people is falling rapidly. In Japan for example, about it is only 1.5 births per woman of reproductive age; this would reduce the population to 50 million by the year 2100. Likewise Italy's population would go from 60 million to 20 million (Schendler 1998).

The fundamental characteristics of developed and developing countries will start to diverge in important ways. Older societies will have clearly different needs and values and younger ones. Thus, while globalization and communication technologies are pushing the world towards convergence, demographic factors are operating in the opposite direction, and are likely to lead to a fundamental divide between older and younger nations and richer and poorer customers.

There are some fundamental myths about the aging population. Chief among these is that older consumers are economically poorly off. The facts are quite different (c.f., Colvin 1997). The individuals with the highest incomes, largest savings and most valuable stock portfolios are aged between 50 and 85. In

fact, approximately 80 percent of U.S. savings are in the hands of people over 50, 77 percent of U.S. assets and 50 percent of discretionary spending in the economy (Corlett 1998).

Implications for Marketers: Companies that target youth markets will find themselves increasingly dependent upon the developing world. Since North America is aging at a slower rate than Western Europe and Japan, it will continue to be an attractive market for such companies. Most companies will have to specifically alter their products and marketing approaches to suit the needs and desires of an older market. Some of the changes will be straightforward, such as a shift toward saving rather than lending products for the financial services industry. Healthcare and passive recreation will be significant growth industries. Goods and services will have to be increasingly user-friendly. Older consumers are also much more receptive to relationship marketing approaches than younger ones. They want products that are durable and reliable, and are less subject to current fashions (McRae 1996).

Older consumers can and do spend heavily on products and services that are of interest to them. The 50 plus population includes many frequent travelers, and marketers such as Club Med have developed special offerings for them. They also represent an important market for children's products; while the typical parent today has two children, 50 percent of grandparents have five or more grandchildren, and 28 percent have eight or more (Adler 1996). The spending on grandchildren has led to the development of expensive children's clothing stores that caters to grandparents rather than parents.

“Active aging” has become an important phenomenon in developed countries. While there has been a trend toward longer retirements, there has been a greater trend toward a lengthening of working years (Blommestein, Hicks and Vanston 1998). Many healthy, active seniors keep on working into their 70s, 80s and even 90s. Peter Drucker has argued that the retirement age should be increased to about 79 to account for the changes in longevity and expected length of retirement since the early part of the century (Schendler 1998).

Most marketers do not explicitly address the senior market, relegating it to a niche rather than treating it as the emerging mainstream. As a result, consumers over 50 are spending less time and less money on traditional shopping. Instead, they are spending their money in industries that are specifically designing offerings for them, such as travel, recreation fitness and gardening. Many have little understanding of developmental psychology -- how consumers change over their life spans in terms of the values, attitudes etc. (Abdel-Ghany and Sharpe 1997). The reverse is also true as some marketers have not been able to break out of the elderly market. The average age of buyers of Detroit made cars is the late '50s to early '60s and Detroit is in danger of being virtually shut out of the Baby Boomer market (Russell 1998).

The three biggest concerns of aging consumers are health preservation, wealth preservation and safety/security. The healthcare sector, already close to 15 percent of GDP, will continue to grow in absolute as well as relative terms. The desire for health preservation extends to health consciousness in all things. Food and beverage producers will have to develop healthier products. The sales of nutraceuticals, or health enhancing foods, are expected to exceed in 100 billion dollars by 2000. This is consistent with the trend toward a holistic approach to health that has been gaining ground in recent years. Women are taking the lead in this movement; they have a higher rate of chronic disease, live longer and make most family healthcare decisions (Lofton 1999).

Older consumers want a variety of conveniences such as installation in-home services and home delivery (Cory 1995). For example, Anderson Consulting estimates that home delivery will become a \$130 billion per year market.

The Rise in Working Women Households

As of 1995, 77 percent of women aged 30-49 were in the workforce. The proportion of women in the workforce is nearing 50 percent, and women own almost 35 percent of all small businesses (Golterman and Hopkins 1997). Full-time working women now represent 56% of all women, and will rise to 65% by 2000.

Implications for Marketers: The consumer behavior of men and women is starting to converge. While men have traditionally been regarded as more hedonistic than women, they are now seen as exhibiting the trait of introspection, previously thought to be more characteristic of women. Many are struggling to become what Watts Wacker calls “SNAGs” or “sensitive New Age guys” (Francese 1995). At the same time, women are seen as becoming more hedonistic. As a result of these types of changes, traditional gender-oriented advertising approaches are no longer effective. More men are now doing grocery shopping. Traditionally, men have been known for fast shopping, high levels of brand loyalty, less attention to bargains and more impulse purchases. Now that is changing; men are becoming more sophisticated shoppers, and are increasingly concerned with the health benefits of the foods they purchase. At the same time women are becoming more harried shoppers focusing on convenience and meal solutions (Golterman and Hopkins 1997).

Greater time pressures brought on by the rise in working women are causing American families to seek new ways of reducing stress. The trends are toward healthy de-stressing: new ways of relaxing, becoming calmer without using alcohol or other vices. Massages, spa vacations, yoga, outdoor activities and even tea are replacing the happy hours of the 1980s (Francese 1995).

Working women have put tremendous pressure on the “traditional” family. The old model was that women would stop working when they decided to have kids. The new model is that most women must work if they want to have children. As a result of the loss of a full-time homemaker, the family as a unit of social and consumption analysis is changing. As single-person or dual-career households proliferate,

the need to define a separate existence or space will result in highly individualistic lifestyles and behaviors even within family units (c.f., Santi 1988). We will increasingly have to look at individual behavior as family members will exhibit more of a roommate lifestyle. This will increase the need for personalized attention to each household.

Also as a result of this trend, the majority of households are now relatively time-poor and money-rich. Marketers that impose a time or place constraint will be less successful. Time in particular will become the most precious commodity. As activities compete for time, consumers will redesign tasks that consume too much time, and embrace time-saving and time-shifting technologies. They will demand hassle-free (“get it right the first time”) service on demand. Also as consumers become more exposed to risk in their work lives, they become more risk averse in their consumption behavior, looking for money back guarantees and other forms of assurance (Francese 1995).

The increased numbers and visibility of women in the workplace has led to a gradual blurring of gender distinctions as jewelry, cosmetics, personal care items and plastic surgery are all growth markets for men. One of the impacts of demographics is on food away from home (Pol and Pak 1995). For example, cooking is fast becoming a dying art as a third of our meals are eaten out now that will rise to two thirds. Of the remaining, 50% are not cooked by us at all. The kitchen is increasingly the communication center of the house rather than the food center.

Increasing Ethnic Diversity

The United States is rapidly moving towards ethnic pluralism, as minority groups grow rapidly in population (Cory 1995). The proportion of African-Americans in the population is rising only slowly; it was 11.7 percent in 1918 and is projected to rise to 12.8 percent in the year 2000. On the other hand, Spanish speakers were nine percent of the population in 1990 and are projected to be 11.2 percent in the

year 2000, rising to almost a quarter of the population by the year 2050 (Cory 1995). The Asian population has also been growing at a rate faster than the white majority. Already, 29 percent of the workforce is some kind of minority. One-third of all children in the U.S. in 1995 were either Asian African-American or Hispanic (Francese 1995).

These trends are especially important for some states, because Hispanics and Asians are more geographically concentrated than African-Americans. Approximately two-thirds of U.S. Hispanics live in Florida, Texas and California. 56 percent of Asians live in California, New York and Hawaii. As a result of such concentration, minority marketing becomes a subset of regional marketing (Francese 1995). Many markets are impacted disproportionately by the growth in ethnic diversity. Minorities now account for nearly 30% of all homeownership growth; home sales to minority buyers rose 27.7% in 1997, compared with a decline of 1.3% among white buyers (Herron and Sullivan 1998).

A second dimension to increasing ethnic diversity and is the resurgence in the celebration of distinct cultural backgrounds. Consumers are celebrating their heritage with their own clothing foiled entertainment greeting cards and other reflections of their past (Watkins 1994).

Implications for Marketers: As a result of the changing ethnic make-up of U.S. society, several changes are underway. First and foremost, marketing organizations will be more diverse and new internal strategies will need to be developed (Allison and Herlocker 1994). In many sector, neglected ethnic markets are becoming lead markets as salsa and other Mexican sauces now sell more than ketchup. The local grocery store is now a world bazaar; something that requires extraordinary logistic systems to make possible. Increasing cultural diversity is leading to a clash of value systems: the Protestant work ethic versus other values. There are also increasing linguistic problems, especially in schools and the workplace.

Product positioning will be different based on markets. For example, Honda Civic is promoted as a "first car" for young adults in the English speaking markets but as a "family car" for small families in the

Spanish speaking market. Similarly, labeling will also be multi-lingual to cater to different languages. Early examples of this phenomenon is Certs nutritional information that is both in English and Spanish.

Finally, media will be segmented further along ethnicity. Spanish language stations are the most watched TV stations in cities such as Miami. With the advent of digital satellite television networks (e.g., Direct TV), we are already witnessing channels from 32 different countries.

The Decline of the Middle Class

U.S. society is increasingly polarized in terms of income levels. Whereas the middle 60 percent of households on 52 percent of aggregate household income in 1973, the share declined to 48 percent by 1995. During the same period, the share of the top 20 percent rose from 44 percent of 48 percent. Thus, the top 20 percent of U.S. households now aren't the same as the middle 60 percent. The bottom 20 percent earns only four percent of household income (Francese 1995).

Implications for Marketers: Consumer behavior clearly reflects these trends; for example, we now see a far greater dispersion in prices than in the past. As a result of such polarization, we will see simultaneous growth at the extremes: more and more premium products (e.g., luxury cars), and more economical ones as well (e.g., value meals). Price ranges in product categories are getting ever wider; for example, in 1960, soups ranged from 19 cents to 59 cents per serving, while in 1990, they ranged from 39 cents to \$4.00.

Technology Evolution

Technological change has been extremely rapid during the past two decades, and indications are that this rate of change will continue. The prices of most technologies will continue to come down and the

capabilities will continue to expand. Many technologies that have already been developed will start to have a significant impact on society (McRae 1996).

Alsop (1998) describes how technology will personalize marketing, customer service and other areas of daily life by the year 2004. His additions include road signs that change for each viewer, personalize electronic trading of securities, monthly account statements from the IRS and periodicals customized for each reader.

Regis McKenna (1997) points out that current technologies produce instantaneous response at the touch of a mouse. Consumers have changed their reference regarding sense of time and instant satisfaction leading to an evolutionary change in judging good and bad service. Customer expectations and satisfaction are now hyper accelerated if not immediate for organizational response

The speed at which technologies are getting adopted has been increasing in recent years it took 46 years for a quarter of American homes to be wired for electricity. It took 35 years to get phones to a quarter of the population and 55 years to get cars. Recent innovations such as the PC (16 years), cellular phones (13 years) and the Internet (7 years) have penetrated much more rapidly (Cox and Alm 1997).

The relationship between consumer behavior and technology is a fascinating one, but has not been examined in great detail. As Mick and Fournier (1998) point out, less than one-fifth of one percent of studies on technology have consigned themselves with consumer behavior. Mick and Fournier (1998) point out that technology is often paradoxical in that it can simultaneously help and hinder customer behavior.

Facilitating Technologies and Consumer Behavior

The change in consumer behavior due to demographic trends on will be facilitated by emerging technologies in production, distribution and personal use. Undoubtedly, the pace of technological

evolution has and will continue to have a great impact on the lives of consumers. The new technologies are disruptive in that they are changing consumer behavior and marketing practices at a pace not seen earlier (Bower and Christensen 1994; Christensen 1997). Particularly, they make incumbents vulnerable due to the impact of technology on production, distribution and technologies for personal use.

Production Technology

Breakthroughs in production technology, such as CAD-CAM, flexible manufacturing systems, and just-in-time production are impacting competitive marketing in a number of ways. Other significant technologies in this area include photorealistic visualization, groupware (e.g. conferencing systems across design functions and across design, manufacturing and sales), virtual reality, Design-for-Manufacturability-and-Assembly databases, component performance history databases, and 3-D physical modeling technologies such as stereolithography. These technologies are increasing quality, reducing prices for many products, enabling a higher level of customization and providing customers with a greater of variety.

Distribution Technology

Distribution technologies have rapidly changed in the last two decades (Ross 1996). Recent innovations in distribution technology include computer-assisted logistics (CALs), the refinement of scanner and other product identification and tracking technologies, electronic data interchange (EDI), point-of-sale (POS) terminals linked to vendors, expert systems, satellite-based locational systems, automated retail and warehouse ordering, and flow-through logistics. The benefits of these technologies include reduced damages, reduced supplier and distributor wholesale inventories, warehousing, transportation, administrative and manufacturing efficiencies, reduced “forward buying”, better market

coverage, fewer stockouts and distress sales, more refined target marketing and faster response to market trends.

Technologies for Personal Use

The technologies with the fastest gains in price-performance are those intended for personal rather than institutional use. Personal information devices have been and will continue to ride a steep experience curve based on the unique “economics of electronics.” One of the fundamental properties of such technologies is their inverse economies of scale; the smaller the unit, the greater the price-performance. This is due to the fact that smaller units can be produced in mass quantities with very low (sometimes near-zero) variable costs. Large units, on the other hand, tend to be produced in small volumes and retain a significant proportion of variable costs. Thus, today’s personal computers offer far more by way of “MIPS per dollar” than do today’s mainframes or supercomputers; video games and other lower end consumer devices tend to offer even better price-performance than that.

Consumers will rely heavily on small unit technologies, while producers will rely on a mix of personal and institutionally-oriented technologies. As the power and pervasiveness of the technologies at their command grow, consumers will be in the unique and unaccustomed position of controlling a far greater share of the information and communication flow between the buyer and seller than ever before. In other words, customers can and will have more information about product providers in most cases than providers will have about customers. Far from being passive “targets” of marketing activity, customers will dictate the timing and modality of communications, and they will determine the time and place of the resulting transaction.

The Impact on Consumer Behavior

In the previous sections, we have highlighted the changes in customer and market behaviors. As people start to change the way they work, communicate and spend their leisure time, they will seek companies that will do business in the manner that they prefer. Accustomed to always being within electronic reach of their family and colleagues, they will seek marketers who do not demand adherence to rigidly defined modes of commerce. Used to instantaneous response to their requirements for information and entertainment, they will seek similar responses from marketers. With constantly improving technology, they will seek avenues that will allow them to acquire goods and services that require less time and effort.

Future consumers will be more demanding, more time-driven, more information intensive, and highly individualistic. A combination of a ubiquitous broadband digital communications network and high definition display terminals will further accelerate changes in consumer behavior. With targeted, interactive digital media in the future, advertisers will be able to “mass customize” their messages as well as allow for user interaction and input. Shopping will also change. Buyers will have immediate access to a variety of independent buying services, providing distributed expertise on demand. Because of interactive advertising, buyers will be much more active in seeking even marketer-provided information.

From Time and Location Bound to Time-Free and Location-Free Marketing

Commerce today, for the most part, tends to be time and location bound. That is, transactions are constrained to occur at particular times, and/or at particular locations (e.g., the retail store model). If the consumer is unable to transact at those times or those locations, the transaction either does not occur at all, or occurs between the consumer and an alternative supplier. Even if the transaction does occur, i.e., the consumer is able to comply with the time and place requirements placed by the supplier, it often forces undesirable tradeoffs upon the customer (e.g., higher prices at convenience stores). For most consumers,

there are alternative uses to which they might put the same time, and the location constraint imposes an additional burden of the time, effort and expense of making oneself physically available to transact.

Time and place constraints are slowly giving way, under the pressure of increasingly hectic consumer lifestyles, heightened competition and myriad enabling technologies. Behavioral barriers to the adoption of alternative modes of interacting, be they based on engrained habits or perceived risks (Ram and Sheth 1989; Ram and Jung 1994), have become increasingly porous and less rigid. We believe that this forward momentum will result in a positive-feedback loop that will accelerate the rate of consumer migration toward alternative modes of transacting. While no positive-feedback loop can persist forever, we believe that a period of rapid, even explosive growth lies ahead in this arena. It will subside only as a large majority of consumers have been converted to the new model of commerce. Early examples of this phenomena are Amazon.com and Peapod, a grocery delivery service.

We are, then, in the midst of a change from gravitational commerce (demarcated by its time and location constraints upon customers) to an era of digital commerce, which will be almost entirely free of those constraints. The future will see “anytime, anywhere procurement” coupled with “anytime, anywhere consumption;” more and more products and services will be purchased and consumed anytime, anywhere. Consumers will demand and receive advertising and other forms of information “on demand.”

The crucial importance of increased time and place utility is nowhere more evident than in the banking industry. Banks face a massive dislocation in the near future, as their vast and expensive time and location-bound distribution networks (branches) may become obsolete. For example, Wells Fargo announced in the fall of 1995 that it planned to move 72 percent of its existing branch network into in-store (supermarket) locations. Since in-store branches are only 20 percent to 25 percent of the cost of conventional branches, this represents a substantial cost saving, as well as a way to expand market coverage in terms of time as well as geography. The more major shift, of course, is the move toward home

or remote banking. This trend, still in its early infancy, will take time and place utility to a much higher level.

With regard to supermarket retailing, the impact of increased emphasis on time and place utility will be even greater. Already, supermarkets can offer electronic ordering and home delivery services for relatively low start-up costs. A recent survey indicates that over 25% of chains offer home delivery, representing more than 40% of the population. Significant barriers to a broader adoption of home shopping are delivery charges, which run from \$7 to \$10 an order. Survey research by Management Horizons shows significant consumer resistance to any delivery charge. What is needed is a business model that is optimized for home shopping, rather than one in which the service is added on as an ancillary to traditional retailing. Analysis by Management Horizons indicates substantial savings in operating a “delivery depot” compared to a supermarket. On a typical \$100 order, home delivery will cost a typical supermarket operator an extra \$10 to process, pick, check out and deliver from the supermarket. A delivery depot can process and deliver the same order for about \$10 to \$12 less in total cost than the supermarket can.

To summarize, the success of marketers in the future will be predicated upon their ability to deliver “total customer convenience.” This includes hassle free search (advertising-on-demand), hassle free acquisition (home delivery), hassle free consumption (for example, products with built-in expert systems to enable maximal value extraction) and hassle free disposal.

Personalization: From Aggregation to Disaggregation and Reaggregation

The emergence of a relative homogenous “mass market” earlier in this century led to the development of various mass marketing approaches that continue to define and dominate the marketing function today. For some time now, we have recognized that the mass market is fragmenting (even

atomizing) into ever-smaller segments. Strategies of “segment of one” and “mass customization” are becoming more prominent (Gilmore and Pine1997).

The future may be a balance of mass customization and mass market products and services for two reasons. First, customers are not always looking for customized products and they may be content in many cases with a well-designed standardized product. Thus, the price, advertising message and/or the distribution mode may be customized, even if the product is not. Second, new forms of aggregation of demand will undoubtedly occur. In the past, these were driven entirely by producers. In the future, it will become increasingly facile for the aggregation to be driven by customers. For examples, customers who individually purchase small quantities of a product will find it very easy to band together and pool their purchases to enjoy better terms.

Consumers as Co-Producers

In many facets of consumption, consumers will take on increasingly active roles. For example, they will become directly involved in the design and customization of the products they purchase (Gilmore and Pine 1997). They will take over some of the support and service functions that are normally performed by companies; this trend is akin to the one toward self-service in retailing. For example, FedEx now enable its customers to track their own packages via the Internet, bypassing the customer service department altogether.

From Insourcing to Outsourcing

Somewhat paradoxically, we believe that as customers take more control over certain commercial relationships, they will also relinquish a measure of control in other areas. This is not as contradictory as it might first appear as consumers have a limited amount of time and effort that they are willing to expend,

necessitating tradeoffs. As a result of escalating time pressures and growing economic resources, consumers will begin to “outsource” household functions. The reasons are very similar to the one that drive outsourcing in the business context. Specialist vendors will be optimized to deliver far better price-performance value than consumers can create in-house. In other words, the “make-versus-buy” question will increasingly be resolved in favor of “buy.” Many services (such as lawncare, house cleaning, child care etc.) are already outsourced to a significant degree. Many new areas will be added in the future. For example, in-home dining may be outsourced to restaurants who will deliver prepared food daily to the consumer’s home.

Greater Value Consciousness

With increased information and choice, customer expectations for value received will soar (c.f., Higgins and Shanklin 1992). Consumers will demand and receive more value in exchange for the four primary resources at their disposal:

Money: Consumers will expect to pay less for most products. They will willingly pay more, provided that the additional value offered exceeds the incremental price. Based on their recent experience with major product categories such as computers and consumer electronics, consumers have come to expect as a given the proposition that products get better and cheaper over time. We believe (and many economists concur) that an era of negative inflation will characterize many more product categories.

Time: For many consumers, especially those in two-income households, time is a more valuable currency than money. Many consumers will gladly make a trade-off, paying a higher price if they can save time in the process. Marketers must be extremely wary of placing heavy time demands upon customers.

Effort: As life gets ever more complex in so many dimensions, consumers are looking for convenience and simplicity wherever they can find it. Therefore, we will see more "fully assembled" or "close to assembled" products.

Space: Given a choice, consumers would rather not warehouse large quantities of products in their basements in order to benefit from lower prices. Heavy users will get advantages of scale economy; without holding inventory.

Value buying will become paramount, as consumers better educated about offerings. Given the efficiency with which information will be shared between customers and between customers and companies, it will be difficult for companies to survive without delivering peak value.

Barriers to consumption will increasingly disappear, due more creative pricing approaches (leasing, metering) and the separation of form from function (e.g., cellular phones). Given the right value marketing, the limits to consumption will be revealed as being far greater than believed possible; for example, it is now commonplace for households to have numerous radios, telephones, calculators, and even computers. Many consumers own three or more watches. Similarly, for a two-job family, the family may have four phone lines (two wireless, one main and one for the computer).

Greater competitive pressures on pricing coupled with an enhanced ability to easily locate the best price will impact marketing in three major ways. First, successful manufacturers will increasingly seek to control their prices at retail as a way of minimizing intra-brand price competition. Second, the primary drivers of profitability will be mostly on the cost side and companies with highly efficient production and marketing systems will prosper. Third, strong customer relationships will give companies an opportunity to broaden that relationship through the provision of an ever-expanding array of products and services. In essence, we believe, that many successful producers of a product will become "retailers" of a multitude of other products for the same customer.

Blurring Between Consumer and Business Markets

The lines between the home and the workplace are rapidly blurring. More and more people work at least part time in their homes, while a growing number of people undertake some of their personal tasks from the office. As this trend continues, many consumer decisions will become more like business decisions. Many technology applications traditionally seen as home-based will be important to businesses as well. For example, video shopping has great potential in a business environment; an automobile mechanic will be able to see a picture before ordering a part. For repairs he or she has not done in a long time, the worker will be able to view a video clip.

This movement of home-based services to business and vice versa can already be observed. Typical home-bound applications such as TV and VCRs are now “trickling up” into business applications. Telephone answering machines trickled up to businesses as voice mail. Business applications such as E-mail are trickling down into home market. Dual-purpose applications include video shopping, distance learning, travel planning, news on demand, legal/financial advice, information services/on-line databases, etc. Some applications will remain geared to one or the other market, though even here, analogous applications may be developed.

Power Shift From Marketers to Consumers

Inevitably, increased competition and greater access to more powerful information tools will put greater power in the hands of savvy customers. As a result, it is possible that “buyers” will increasingly be viewed as “marketers” and sellers as “prospects” in the marketplace. Some consumers will no longer be “targets” of marketing activity; they will be knowledgeable and demanding drivers of it. Consumers will demand content-rich information and demonstrable product innovations (c.f., Manu and Sriram 1996).

Customer managers will be explicitly charged with identifying, retaining and growing profitable customer relationships.

Market activity will be driven almost entirely by buyer demand as marketing management will essentially become demand management and will entail the task of influencing the level, timing and composition of demand in a way that will help the organization achieve its objectives (c.f., Cahill, Thach and Warshawsky 1994). Customer knowledge will become the cornerstone of effective marketing, and that knowledge will become a highly valued corporate resource (c.f., Kohli and Jaworski 1990; Ram and Jung 1990).

Consumers can already do product research online, log onto bulletin boards and interact with other customers, provide and receive helpful hints about the product, its use, acquisition etc. In this environment, “information invitations” may become common; companies will have to seek permission to present their case to consumers by inducing interest, unlike the “message clutter” of today. As communication between marketers and customers becomes increasingly interactive, relationship marketing will become the rule rather than the exception. Buyers and sellers will interact in “real time.” Time and place constraints on purchase (and even consumption of many products and services) will become obsolete. The nearly instant gratification of customer needs will be common and lead times (e.g., for product development, or between order placement and shipment) will have to shrink dramatically.

The Automation of Consumption

Time poverty and an abundance of information technology in their hands will lead to a greatly increased level of automated transactions between consumers and marketers (Lach 1998). Akin to “automatic replenishment” as practiced in the business-to-business marketing arena today, such arrangements will become increasingly commonplace in the future. They may happen directly between

consumers and manufacturers for larger purchases, and through intermediaries for smaller purchases. As discussed earlier, suppliers of large items or major services will have the opportunity to become the supplier of choice for an ever-widening array of goods and services (the concept of customer equity).

One important development will be that savvy consumers will increasingly demand that corporations share the benefits of cost cutting with them. Just as Wal-Mart demands that P&G lower its costs and then share the benefit with it, so too will customers with a high lifetime value demand and receive similar consideration. Smart companies will do this without being forced; they will proactively invest resources in those relationships with the greatest long term value. Currently, investment in customers usually stops after they have become customers; spending on customer retention activity is much less than on acquisition. Further, loyal customers tend to subsidize those that are less loyal, as well as the acquisition of new ones. Overall, the economics of customer acquisition and retention require and will receive much more understanding and attention than they do currently. Examples of successful strategies are airline frequent flyer miles and the special consideration given to elite members.

The Concept of a “Personal Marketplace”

The “Personal Marketplace” (PM) is a hypothetical mechanism to make effective use of the vast amounts of consumer and transaction data generated today. This or a similar type of mechanism is expected to develop in the future. It is a repository where participating marketers prepare and offer custom-tailored offerings directly to a consumer. By selecting a particular category, the customer alerts the market that he/she is a potential customer, and offers begin to flow in. The customer voluntarily provides as much customizing information as needed. Participating companies agree not to sell the data they collect outside the PM, and not to use it to market in any other channel.

Conclusion

The paper presented data on demographic trends and facilitating manufacturing, distribution and personal use technologies. The changes in consumer behavior, markets and marketing function were discussed. We conclude by restating that market and consumer behaviors in the 21st century will fundamentally change the marketing function.

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