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Buying into better™

**The future of the consumer industry**

# Introduction

Statesman, scientist, and philosopher Sir Francis Bacon pioneered the scientific method in the early 17th century. Bacon emphasized the inductive method—humans hypothesizing, testing, and honing theories by scrutinizing, measuring, and experimenting. His emphasis on empirical observation and experimentation has been a driving force in the scientific revolution for the past 500 years.<sup>1</sup> Recently, however, there have been a series of breakthroughs that are catapulting humanity beyond the scientific revolution.

A recent study tested an artificial intelligence (AI) approach called “deep learning” for its ability to identify glaucoma in aging patients by analyzing retinal images.<sup>2</sup> The AI approach not only outperformed trained ophthalmologists in detecting glaucoma but also surprised researchers. It used the images to accurately identify patients’ biological sex, a relationship that was previously unknown to the ophthalmologists.<sup>3</sup> This discovery was significant because the AI approach didn’t require a human first to hypothesize it.

While it may seem minor, this step-change has the potential to unleash significant disruption in health, science, and humanity. But this breakthrough isn’t limited to scientific discovery. The scientific method is also a managerial method used by most organizations to make critical strategic and operational decisions. This innovation places all businesses on the precipice of a dramatic technology-fueled change.

Change is a staple of humanity, and nowhere is the velocity of change more evident than in the consumer industry, which has seen decades of dramatic transformation. But what this chronicle of change may obscure is that along with the breakthrough described above, a broad set of forces have placed the industry on the verge of an even more momentous paradigm.

**Simply put, the industry faces a once-in-a-century economic, social, and technological transition.**

To add complexity, this is happening against a backdrop of significant challenges, such as accelerated climate change, growing economic inequality, declining trust, increasing polarization, and worsening global financial conditions. Not only do companies need to navigate this once-in-a-century transition, but they must do it to address critical issues for society and the planet more broadly.

The forces driving transition have implications for consumer companies across all three primary business dimensions: **markets, models, and mechanics**.

Today's empowered consumers are using their dollars to effect the change they want to see in the world. At the same time, facing monumental transitions, companies are choosing to extend their mission beyond shareholder value to encompass broader ecological and societal issues. Together, they're **buying into better**. At Deloitte, we believe that the future isn't something to be predicted, but instead created. Forward-thinking organizations should act with agency and alter decisions concerning *markets, models, and mechanics* to be a valued brand of tomorrow. Ultimately, we will all need to buy into better.



**Markets**

- What is sold
- Who it is being sold to
- What products or services create value



**Models**

- How businesses organize and configure
- How materials and capabilities are sourced
- What new models create value



**Mechanics**

- How businesses execute work
- How businesses employ labor
- How businesses make strategic and operational decisions

# The six forces shaping the industry

Through an extensive, yearlong effort studying the future of the consumer industry, we have identified [six forces](#) that are critical to understanding the next decade of change:

- **The changing consumer**, becoming more diverse and transforming across multiple dimensions
- **An evolving society and culture**, with consumers breaking free of traditional anchors
- **Exponential xTech**, with advancements in infotech and a broad set of technologies, including biotech and material science, that will make progress of the past decade pale by comparison
- **Radical industry upheaval**, with the dynamics shaping the industry increasing in pace and intensity
- **Extreme climate change** and its economic impact, which will put pressure on the consumer industry to transform itself
- **Shifting economics, policy, and power** that are taking a hard pivot, becoming increasingly uncertain, and requiring a more flexible approach to management

These six forces are converging to pressure forward-thinking companies into leveraging new markets, models, and mechanics to thrive. Complicating matters, executives must do more than thrive—at least, in the traditional sense of the word. The mindset of executives in the next decade should expand beyond its current focus on increasing shareholder value to one that incorporates new dimensions of society and the planet. Charting a successful course will take clarity, vision, and courage.

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The changing  
consumer



An evolving  
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Exponential  
xTech



Radical industry  
upheaval



Extreme climate  
change



Shifting economics,  
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# Industry implications: Markets, models, and mechanics

To harness the opportunities brought on by the six forces of change and boldly lead their organizations through the next decade, executives will need to understand the implications of the forces along three dimensions of business: markets, models, and mechanics.



## Markets

Over the past 20 years, the consumer industry has experienced a dramatic increase in customer empowerment in terms of choice and accessibility. The coming decade will see an exponential surge in personal choice and an accelerated shift from a traditional supply-driven model to one that is demand-driven. Radically expanded optionality for consumers means achieving relevancy and suitability at the individual level are the new competitive battleground.

While suitability speaks to the relevancy of products or services—meaning an increase in localized, personalized, or even customized offerings—it doesn't stop there. With expanded optionality also comes greater complexity. The shift to greater customer choice will continue to be accompanied by an increase in new channels, brands, service models, and formats to meet increasingly diverse consumer demands. Consumer companies built in a time of mass production, mass distribution, and mass marketing must recognize a shift from **mass to micro**, and acknowledge they are not optimally built for these new requirements.

The six forces signal an evolution of what goods and services will capture an increasing share of consumers' wallets and drive company growth. For example, the coming decade will likely see dramatic growth of **digital goods and services**. In defining digital goods and services we are not referring to digital access to physical goods and services. We are talking about actual digital goods and services, or hybrid offerings where physical products come with digital features or subscriptions (e.g., to a digital mental health service, home fitness subscription, new weapons for an in-game character, digital video and content, personal finance app, non-fungible tokens). This area of consumer spending will likely grow disproportionately and displace spending on traditional physical categories as a percentage of the consumer wallet.

Digital goods and services are already material and rapidly growing in specific sectors. The potential widespread adoption of augmented reality or virtual reality and the growth in connected health and wellness over the next decade will only accelerate what are already significant growth opportunities.

As impacts (or externalities) of businesses on society and the planet become more apparent, the importance of **corporate responsibility** will shift from what today is often treated as a regulatory matter to one of a clear value proposition in the market. For example, as ecological damage accelerates, and the impact on the individual and the economy becomes tangible, consumers are likely to seek products and services that contribute to reversing this trend. Further, trust, privacy, equity, and advocacy will also become essential to the consumer and capital markets.

Companies can no longer stand on the sidelines: As younger generations, who place a higher priority on these corporate values,<sup>4</sup> mature and take on a more significant economic role in the market, expectations on companies as leaders and citizens will grow, and leading companies will need to engage in this changing role.

### Digital goods and services

Deloitte estimates that in the United States, 2.9% of the consumer wallet is now spent on digital goods and services, a category that is primed to grow dramatically.<sup>6</sup> By comparison, apparel constituted 3.8% of the consumer wallet during the same period. Spending on digital goods and services is much higher for the younger consumer, reaching as high as 3.2% for Gen Z.



## Models

To thrive in the future, the consumer industry will continue **accelerating convergence** with other industry segments. For example, the continued acceleration of the infotech and biotech revolutions has the potential to create massive market upheaval and opportunity. As the population ages, health care is likely to converge and increasingly become a consumer market, shifting from treatment-related spending toward well-being-focused spending. Discretionary dollars will progressively fund this shift. By 2033, we expect well-being-focused spending will eclipse traditional treatment-related expenses, growing from a \$700 million market in 2019 to a \$3.5 trillion market by 2033.<sup>5</sup> Additionally, advances in food production methods, consumer tech, battery capacity, and material science will drive the reengineering of old products and the development of new markets, products, and services.

Meanwhile, the next decade will see a **seismic shift in the supply chain**. Consumer organizations that today depend on physical supply chains may need to introduce and develop a supply chain for digital goods and services. The move from mass to micro implies a potentially broader, more complex assortment flowing through the traditional supply chain. Meanwhile, organizations may need to diversify sourcing to increase agility and resiliency and address mounting geopolitical and disruption risks. Finally, the coming decade will likely see increased automation, robotics, drones, and other more efficient ways to address last-mile issues. Delivering on the complexity that accompanies these innovations more efficiently while continuing to face margin pressure will be a critical success factor. Together, these new requirements demand a rethinking of how organizations build, operate, and source their supply chain.

The emergence and growth of capability-as-a-service coupled with the advancement of digital technologies (e.g., natural processing language, robotics, AI) will also drive the **reconfiguration of an industry** that largely owns its capabilities, technology, and infrastructure today. The industry's fast pivot to cloud computing speaks to the shift. Very few traditional consumer companies are building data centers; instead, they are looking to third-party service providers and ecosystem partners. The choice to leverage a third-party service provider and adopt disruptive enabling digital has democratized capabilities that enable greater agility and reduce barriers to entry. This democratization is apparent in small and midsize consumer companies that can improve their speed to market by abandoning the physical limitations created by traditional do-it-yourself models.

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## Mechanics

Executing what amounts to a potentially more complex, costly operating model requires a different approach to value-chain execution. A good deal of decision-making and operations that today are human-driven will be displaced in the next decade, ushering in the **age of AI and automation**. Automation will rapidly move from displacing physical duties to addressing more cognitive and creative tasks. These technology and analytics capabilities will enable greater precision, granularity, efficiency, and effectiveness of operations and customer experiences and will connect consumer companies closer to real-time customer demand signals.

On the back of this move to automation will be an increase in visible **workforce extremes**. It's estimated that in the coming decade, 45 million jobs<sup>7</sup> in the United States will vanish via automation. At one end of the spectrum, we will likely continue to have certain jobs and skills in incredibly high-demand fields (e.g., data science, technology, material science, biotech, automation technologies), but at the other extreme will be jobs that are permanently displaced. Though, we'll likely see the emergence of new job categories as well, sometimes called 'new collar' jobs.

Failure to address this potential outcome could have serious consequences, as these aren't just workers, *they are customers*. A healthy economy needs a healthy job market, and a healthy industry requires a healthy, well-trained, agile workforce.

Over the past 10 years, consumer spending has grown by 3.7% CAGR;<sup>8</sup> yet our analysis of the average growth of a broad collection of traditional consumer companies fails to meet that benchmark. While there is growth in the market, spending is shifting to different types of organizations and categories (e.g., technology platforms, consumer tech, services, consumer health care, digital natives). The same is true for EBITDA, where the same collection of companies fails to meet the S&P500 benchmark.<sup>9</sup>

The mechanics of financial health in the industry are worsening. There is financial strength; however, new categories, competitors, and markets signal the industry's **new centers of financial gravity**. In the coming decade, consumer companies will need to evaluate their financial mechanics as consumer spending continues to shift to address skyrocketing nondiscretionary costs (e.g., housing, health care, education) and from traditional consumer categories to new and emerging areas.

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# Agency and choice

The good news is that we are not powerless—we have agency. Human beings are not merely passive beneficiaries of the future but can actively create their future world through their actions.

That is not to say they have all the tools needed to navigate the paradigm shift consumer companies will experience in the coming decade. Consumer industry executives need information, clarity, and expertise to harness the opportunities to match up with the broad, rapidly advancing, converging forces.

At Deloitte, we believe the future isn't something to be predicted but instead created. The future isn't preordained but is constructed choice by choice. We have the influence, agency, and power to choose where we are going and to shape the future for the better. What future do we want—and more importantly, what future do we have the courage to forge?

Recognizing, monitoring, and assessing the six forces and using that information for effective scenario planning against an ever-changing landscape will be critical. The future will require companies to understand the implications and will compel continued examination of markets, models, and mechanics as they chart their paths to *Buying into better*.

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## Acknowledgments

The authors want to thank their colleagues Gabriella Boros, Jenna Bresadola, Ren Bromage, Anna Conger, Eamonn Kelly, Shrey Maheshwari, Martha McCoy, Diptoroo Mukherjee, Stephen Rogers, Office for the Future team, and other Deloitte Consumer Industry professionals who provided input, analysis, insights, and perspectives in the development of this research.

# Endnotes

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