

**HSBC: more than 90% of the world's population to shift into consumer class by 2020**

*\*\* HSBC's Future of Consumer Demand draws on global surveys to explore future consumption trends\*\**

*\*\*Tastes and expectations to change as consumer class rapidly expands\*\**

With economic growth set to propel more than 90% of the world's population into the so-called consumer class by 2020, a new report from HSBC Commercial Banking suggests companies should start preparing today to meet the wants and needs of tomorrow's customer. It assesses how companies might need to re-think their strategies and evolve their offering to the consumers of the future. Compiled by futures consultancy Trajectory, Inc., who drew from in-depth interviews with business leaders plus surveys spanning 90,000 consumers, the report discusses four major trends that will shape the way businesses go to market:

- **A rapid increase in the number of middle income consumers** is being felt around the world, and particularly in **emerging markets**.
- Advances in **digital technology** are revolutionising the way people find, choose and pay for goods and services.
- The **different generations** are displaying increasingly distinctive consumption patterns.
- **Female purchasing power** is rising as more women join the workforce.

Noel Quinn, Chief Executive of HSBC Global Commercial Banking, said: "Businesses, wherever they are based in the world, need to be aware of how consumer tastes and expectations are changing so they can respond positively. The status quo won't last, so now is the time for companies to show customers and investors alike that they are alert, innovative and imaginative. Changes in consumer demand trends don't just affect retailers, but enterprises at every stage of a supply chain – from the smallest, specialist component manufacturer to the largest diversified conglomerate."

Institutions including the World Bank typically regard an income of USD2 per day as the tipping point when a person moves from subsistence living to becoming a consumer who can afford to buy goods and services. Based on UN population data, Trajectory, Inc. estimates the number of consumers globally will exceed 7bn by 2020 from fewer than 5bn in 2001.

**The rise of the middle income consumer**

Middle income consumers, defined as those earning USD10-20 per day<sup>1</sup>- currently account for one in seven of the global population. By 2020 this is forecast to grow to 3.2bn, rising to 4.9bn a decade later<sup>2</sup>. Other forecasts suggest that middle-income consumers will account for almost half of total consumer spending in 2020, with notable growth coming from emerging Asian economies. Businesses shifting emphasis to these consumers will need to consider the influence that cultural differences make on their buying preferences.

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<sup>1</sup> World Trade Organisation data

<sup>2</sup> World Trade Organisation data

### **Advances in digital technology**

Rapid growth in the number of people who are online, especially those with the mobile devices, means shoppers are enjoying greater choice, wider networks and the ability to be more discerning than ever before. By 2020 some 6.1 billion people<sup>3</sup> will use a smartphone. Members of Generation Z, born between the mid-1990s and the mid-2000s, have grown up as 'native' users of digital technologies. Studies show these members multi-task across at least five screens on a regular basis. Having access to real-time information about any topic that they want, they are becoming more sophisticated. Data is supporting greater levels of business insight into their needs, preferences and loyalties.

The behavioural shift to buying online, rather than in-store or by traditional means such as mail-order, can be seen in both advanced and emerging markets. In Russia, for example, 48% of consumers buy via the Internet at least once a month as e-shopping becomes a mainstream activity for the middle classes. In Brazil, China, Thailand and Turkey share of this kind of consumers accounts for more than 40% too<sup>4</sup>. However, there are still differences in the attitudes and needs of consumers between emerging and advanced markets. Consumers in emerging markets, for example, appear to place more importance on buying trusted and reliable brands than those in advanced markets.<sup>5</sup>

### **Female consumption power**

In most places around the world, the role and status of women is moving towards greater equality with men, partly due to their increasing role in the workforce. The World Economic Forum Gender Gap report 2015 found an extra 250 million women have joined the workforce since 2006. Today around 1.75 billion women have a job, with labour force participation growing across the board in high, medium and low-income countries. The economic power of women is increasing significantly around the world, with their earnings set to rise to USD18trn by 2018 from USD12trn in 2010<sup>6</sup>. In the automotive sector, women are now thought to make approximately 65% of all car purchase decisions globally<sup>7</sup>.

Businesses wanting to target this segment need to adopt an approach that reflects women's increasingly work-oriented lifestyles. Surveys show men and women demonstrate similar attitudes and values - they want to buy from trusted and reliable brands (70% vs 68%) and they put equal importance (91%) on leisure<sup>8</sup>. Moreover, over two thirds (67%)<sup>9</sup> of both genders are interested in consuming ethically, indicating that sustainable practices will increasingly influence purchasing choices.

### **Generational consumption**

According to the report, the purchasing power of the over-60s will keep rising, and that by 2020 this age group will outnumber the under-5s for the first time in human

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<sup>3</sup> Ericsson Mobility Report 2015

<sup>4</sup> We are Social – Digital in 2016 Report

<sup>5</sup> Trajectory's Global Foresight Survey

<sup>6</sup> Ernst & Young: 'Women – the next emerging market' (2013)

<sup>7</sup> Ad Week - STUDY: Advertisers Don't Understand Women (2015)

<sup>8</sup> Trajectory Global Foresight Survey

<sup>9</sup> Trajectory Global Foresight Survey

history<sup>10</sup>. For instance, in Russia income share of the over-60s will grow from 18.4% in 2005 to 26.7% in 2020, according to data by Euromonitor International, US Census Bureau; A.T. Kearney consulting company analysis.

Millennials may be less satisfied with their financial situation, but they are now approaching their prime working years and demonstrate relatively distinctive behaviours such as the prioritisation of experiences over possessions. They are the first to grow up in a technology-driven world and have experienced some of the lasting effects of the 2008 global recession, due to high unemployment when many were entering the job market.

The Boston Consulting Group estimates them to be the largest generation in terms of number, they also account for \$1.3 trillion in spending annually. Millennials have the largest number of university degrees per capita<sup>11</sup>. They are also one of the most diverse groups of people – less likely to own a home and more likely marry at an older age than earlier generations.

### **HSBC Commercial Banking**

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<sup>10</sup> United States Census Bureau – An Aging World: 2015 International Population Reports

<sup>11</sup> Nielsen Report - Millennials - Breaking the Myths