

The Issue

There will be a tripling of the global middle class¹ by 2030. Each year, at least 70 million people will be entering this income bracket in purchasing power parity terms. If this projection plays out, almost two billion people will have joined the global middle class by 2030, bringing almost 80% of the world's population into a middle income bracket.²

On the other hand, three planets Earth would be required were everyone to adopt the historic consumption patterns and lifestyles of the average citizen in the United Kingdom; and five planets if they were to live like the average North American.³

This conundrum creates a systemic challenge to our world economic system and the business community: **how is it possible to create wealth for tomorrow's consumer and value for tomorrow's businesses in an environmentally sustainable manner?**

The Dialogue in 2008

This question inspired chief executives of the Consumer Industry community at the World Economic Forum Annual Meeting 2008, to launch a 12-month discussion: What does sustainability for tomorrow's consumer mean? What is the business case to start meeting tomorrow's consumer demands today? The discussion set out four hypotheses for consumer industry executives and experts to challenge:

1. Global consumption patterns are out of balance, with demand for resources and commodities growing more rapidly than supply despite the current recession
2. Resource use intensity of the consumer industries and associated supply chains is commensurate with underpricing of natural resources, and not reflective of true resource costs
3. The financial sensitivity of consumer industry companies to resource volatility and constraints is severe
4. New business opportunities will emerge through a fundamental rethinking of what successful business models may look like in the future

Over the course of 2008, a series of workshops was held in the US and India to explore these themes. **Over 100 consumer industry executives and experts in**

sustainability, business strategy and product design took part in the discussions.

During the 12 months of discussion, the financial crisis took hold and the threat of economic slowdown became a reality. Executives remain convinced of the underlying growth potential of consumption from the new middle class, but felt that the financial crisis held critical lessons for the sustainability agenda:

1. There is a need to address systemic risks (financial, social, environmental) before they fracture the imperfect institutions and governance that currently restrain them;
2. The crisis creates an opportunity to build back new and different business management approaches;
3. In today's global system, wider collaboration, although difficult, is the only effective way to address a systemic crisis.

Findings

Four business imperatives for a more sustainable tomorrow emerged from the dialogue:

- **Meaningfully engage consumers** – Consumers are confused about sustainability, and new ways to reshape the role of consumers will be required to proactively engage them in an experiential relationship, beyond the purchase of a product. As consumers remain price sensitive, the onus will be on business innovation to meet tomorrow's demands.
- **Innovation is the only way forward** – There is a long-term need to dematerialize the economy and shift to new value-driven relationships which focus on meeting consumer needs, and selling value rather than just selling more "stuff". Incremental improvements will not be adequate to meet the challenge of sustainability.
- **Rethink core business models** – With more value placed on externalities, a change from a build, buy, bury mentality is inevitable. There will be no "going back to normal" as the relationship between product, service and consumer irreversibly evolves.
- **Collaborate along the value chain and close the loop** – New forms of collaboration such as open sourcing will be required with supply chain partners and consumers, based around resource efficiency, product take-back, and reverse logistics. Information sharing will become more common, for example, through standardization of packaging materials to boost recyclability.

In addition, shaping the policy to support and align incentives acts as a fifth imperative and a catalyst for these four.

¹ Middle class here refers to those with an annual income between US\$6,000 and US\$30,000

² WBCSD Sustainable Consumption Facts and Trends, 2008

³ WWF Living Planet Report 2006 American

Next Steps

The implications of these findings are clear: there are systemic risks to sustainability which are embedded in the current economic structure, which will need to be addressed in a breakthrough manner rather than through incremental improvements. It is up to the consumer facing industries to be proactive, and they will need to engage with their entire markets and supply networks. New forms of collaboration will be required to create a competitive commercial environment that enables room for innovation and value creation for all.

During the World Economic Forum Annual Meeting 2009, the Project Board which has led this work is discussing its implications with a wider group of chief executives in the Consumer Industries. The aim is to gain feedback and support to design and launch a major new initiative for the Forum, centred on the business innovations that will be required to meet the demands of tomorrow's consumer and tomorrow's stakeholders in a sustainable manner.

A further session at the Annual Meeting 2009 is inviting executives from other industries to discuss this issue, exploring whether these imperatives resonate with leaders from consumer facing industries such as automotives, aviation, ITC, media; and from industries within the supply chain such as chemicals, mining and metals, logistics and transport. Is there appetite from other companies in the value chain to help build such an initiative?

A working proposition for 2009

- What does a good future look like? Create a normative vision of a sustainable world in 2030, and the systems that will enable it, building on economic and environmental trends to challenge current assumptions
- Explore in depth the new business models that will be needed to deliver this breakthrough system, the new collaborations required, the new types of consumer relationship to develop, especially in different cultural contexts
- Engage key stakeholders (business, government, investors, consumers) to illustrate how this new system will create wealth for tomorrow's consumer, value for tomorrow's company and lower systemic risks in tomorrow's economy
- Based on the evidence above, use the collaborative power of collective stakeholders to pull the structural levers which will change industry, financial sector and governmental agendas to prepare for tomorrow's needs

Companies that take the lead on sustainability will be market makers rather than market takers. By showing the consumer that there is no need to sacrifice price and quality for sustainability, tomorrow's successful businesses will meaningfully engage the next two billion consumers, the largest new market the world has ever known. In doing so, they will secure stronger markets and a better business tomorrow. Politicians and governments are looking for ways to regulate a better world and price externalities without compromising development or living standards. If business can build sustainability without compromise to the consumer and voter, they will pave the way for better and more welcome regulation.

"This is not the same old sustainability challenge. This is not a fringe discussion any more about using soft power. We're beyond that. Sustainability is no longer a 'nice to have'. It has become a human security and survival issue. We need a progressive risk management agenda to help improve the lives of everyone who participates in tomorrow's global economy."

Environmental and sustainability cluster summary report
(incorporating the viewpoints of 120 international sustainability experts from public, private and academic sector), Inaugural Meeting on the Global Agenda, Dubai, November 2008

Who Is Involved

- The Sustainability for Tomorrow's Consumers initiative is managed by the World Economic Forum and led by a Project Board chaired by Nike Inc., which currently includes Best Buy, Estee Lauder Companies Inc., Nestlé SA, PepsiCo, S.C. Johnson & Son Inc., Sealed Air Corp., The Coca-Cola Company and Unilever.
- An Advisory Board of leading experts and global institutions provides additional guidance.

Getting involved

As this initiative expands through 2009, interested partners should please contact:

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