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Conceptual Flypaper

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Headlines

Analysts Give a Positive Spin for Back – to-School Season

Julie Greenberg, WWD, July 05, 2007

The back-to-school shopping season is right around the corner and with teen spending up, analysts believe the age group will be in the stores well before they hit the books.

According to Christine Chen, specialty retail analyst at Needham & Co. LLC, a San Francisco-based investment firm, stores like Abercrombie & Fitch, Aéropostale and Hollister are stocked with trend-right merchandise that will entice teens.

"Last year it was really the more popular, fashion-oriented girls picking up the skinny jeans and baby-doll styles," Chen explained. "But this year it's everywhere and it seems to be the new uniform for teens."

Chen said that on the negative end, gas prices remain high, but with many of their parents paying to fill their tanks and minimum wages rising, teens will continue to have money to spend.

"The rise in minimum wage has a huge impact on the teen customer," she said. "I know that retailers aren't seeing this as a good thing since they have to pay their employees more money, but for teens, this will give them more money to spend on the three things they love to spend on — food, entertainment and clothing. I think that in the end, retailers will see that the minimum wage hike is a good thing."

That said, teens are consistently looking to buy affordable merchandise, hoping to stretch their money as far as it will go. But the cash is there. According to a survey conducted by MarketResearch.com, the teen population has a total income of \$80 billion, and parents spend an additional \$110 billion annually on their teen children.

A new survey done by Burson-Marsteller, a New York-based marketing and public relations firm, said teens are big spenders on everything from food and beverages to music and apparel. The company surveyed kids aged 10 to 18 — called "youth-fluentials," or the popular, influencing teens. The survey looked into where and why the age group makes certain purchases.

"Affordability is most important," said Ame Wadler, chief strategic officer at Burson-Marsteller. "Of course the fashion has to be there, but they are most likely to spend their money on items that fit within their own budgets."

Dana Telsey, of Telsey Advisory Group, predicts a challenging, but still profitable, b-t-s season, especially since teens have begun shopping earlier.

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"One of the most challenging things for retailers is the calendar shift that's happening," Telsey said. "They will need to serve those shopping in July, August and in September, which means they will need to have a lot of buy-now, wear-now product in the stores."

Telsey said stores like American Eagle Outfitters and Forever 21 are sure to have a good season because of their wide teen appeal. Abercrombie & Fitch will also have some "must-have items" for b-t-s and Kohl's has an array of reinvigorated lines ready for fall, she added.

"There is a place for everyone for back-to-school this year," Telsey said. "And that is very promising."

WWD's "Where America Shops" survey, which was completed on May 29 and surveyed 521 teens age 13 to 17, showed that teen spending is on the rise — another indication of a strong b-t-s season to come. The survey indicated that 69 percent of teens aged 13 to 17 said they buy more clothes now than they did last year, compared with 26 percent who said they buy less. Over the next six months, more than half said they will spend the same amount on clothes as they did during the first half of the year. Only 13 percent plan to spend less.

"Teens will always find ways to buy what they want," Chen said. "She will eat Ramen all month so that she can afford that new bag. And there are still plenty of teens who will go back-to-school shopping with mom, which pretty much guarantees new clothes."

Mass Merchants and Grocers Making Move to Smaller Areas

Molly Fergus, WWD, July 02, 2007

Mass retailers and grocers swiftly are migrating from large, retail-saturated cities to smaller urban areas for international growth, according to A.T. Kearney's 2007 Global Retail Development Index, an annual report on the most promising markets for retail expansion.

The study, which focuses on mass merchandisers and food retailers, ranks emerging nations according to 25 variables, including economic and political risk, retail market attractiveness, retail saturation levels and the difference between gross domestic product growth and retail growth.

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"India remains the most exciting retail opportunity out there," said Ram Kuppuswamy, an author of the study. "But...in the next year or two, it's no longer going to be as attractive because competition is going to come."

In countries with saturated big-city retail scenes, companies are spotting opportunity in second-tier cities, where competitive pressure is low and consumers seem ready for Western-style stores.

The trend is visible in China, which jumped two spots to number three from the 2006 GRDI: Carrefour looks to open stores in northern and northwestern China; Wal-Mart entered Weifang, Wuhu and Yueyang, and the Thailand-based Lotus Supercenter has expanded to Huai'an, Kunshan and Jiangmen.

Before, "the trend was more, 'I have a new opportunity if I go to one of these cities,'" Kuppuswamy said. "But it's come to a point this year that...we're starting to find a number of retailers who find it unprofitable to open up another store in some of these cities. Next year and the year after, you're going to start seeing a mass movement into some of these second-tier cities."

Some retailers are skipping the traditional tier-one entry points altogether and introducing themselves first in midsize cities such as China's Jiangmen.

"The competition would already be on in some of these cities," Kuppuswamy said. "They are already well entrenched, they're not going to be able to sustain the money that they pay for these locations. It probably makes sense to go to those cities first, start building a brand and then figure out one of the opportune moments to enter the large cities."

Positive Retail Trading Statements Plummet to Two Year Low

The Retail Bulletin, July 05, 2007

A review of all the retail trading statements issued on the London Stock Exchange (LSE) during the second quarter of 2007 has revealed that the number of positive trading statements issued plummeted to lows not seen for nearly two years.

In addition, the number of negative trading statements increased to levels not recorded for 15 months, suggesting that the sector's recent buoyant results may be over, according to new research issued today by Grant Thornton's retail services team.

The Grant Thornton Quoted Retail Companies Index* has shown that nearly one third (31%) of retailers issued positive trading statements between April and June 2007 (down from 44% in the first quarter of the year). This is the lowest such figure since the third quarter of 2005, when only 22% of listed retailers

issued positive statements. Compounding this result is the increase in the number of negative trading statements issued, which increased to 19% (up from 10% in the first three months of 2007). This was the highest figure seen since the first quarter of 2006.

David Bush, Head of Grant Thornton's Retail Services team says: "While some may have predicted a slight downturn in results, only doom-mongers could have predicted such a dramatic decrease highlighted in this quarter. The past few years have been a rollercoaster ride in terms of results for UK retailers. We had definitely hoped that results were on the up and that retailers had managed to shake off the difficult trading conditions that they have experienced in the past. However, this quarter paints a very different picture, and the results are clear evidence that May's interest rate rise has begun to have an impact along with the cumulative impact of the other interest rate rises since last Summer."

"On a more positive note, a proportion of these negative results can be attributed to specific sectors such as music, clothing and consumer electronics," he continues.

Grant Thornton's Quoted Retail Companies Index also pointed to a fall in the number of retailers reporting increases in like-for-like and total sales. Increases in total sales fell to 78% of all retailers (down from 85% in quarter one) and, similarly, like for like sales fell to 65% (down from 74% in the first three months of this year).

Food vs non-food retailers

When delving further into the results and separating them into food and non-food retailers, an unmistakable dichotomy begins to emerge with the food sector head and shoulders ahead of its rivals.

Every listed food retailer on the LSE (100%) experienced an increase in like-for-like and total sales during the quarter. In addition, not a single profit warning was issued by food retailers.

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David Bush, Grant Thornton's Retail Services



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However, non-food retailers saw increases in like-for-like and total sales fall considerably and, to make things worse, profit warnings experienced were at similar levels to the previous quarter.

"Food and drink retailers continue to go from strength to strength in the UK and have benefited from strong consumer demand over the past quarter," says Bush. "A number have even managed to introduce some selling price increases over the past quarter. However, for non-food retailers, a stark contrast is emerging, with consumers evidently cutting back on big-ticket, discretionary spending," he continues.

"I believe that one further interest rate rise will be required to find the tipping point where consumer demand is sufficiently choked off to reduce pressure on overall government inflationary targets," says Bush. "For that reason, I anticipate that the MPC will increase interest rates tomorrow,"

A World of Retail

WWD, July 05, 2007

If retailers are interested in global expansion, where in the world should they begin looking for their next prime location? Management consulting firm A.T. Kearney has released its annual global retail development study, which ranks countries by risk (economic performance, debt indicators, political risk); market attractiveness (business efficiency, retail sales per capita, urban population); market saturation (size, number and performance of retailers already within the region), and time pressure (whether the retail sector is developing rapidly, and if the expansion opportunity is right). A score of 100 means the country is primed for retail expansion. "This study is a strategic predictor of where retailers should be going," said Mike Moriarty, a partner with A.T. Kearney. "The higher the score, the better the timing is for retailers to enter the country." — Cecily Hall

"The middle class is going to grow over the next 10 years to over half a billion people. The Chinese have a terrific fashion sense, and apparel manufacturers and retailers should gain real insight into what these consumers want."

Mike Moriarty, A. T. Kearney

INDIA

Global Retail Development Index Score: 92

"This is an exciting time for India," said Mike Moriarty of A.T. Kearney. "Relaxed retail laws are in place now, which allow single-brand retailers to own a 51 percent majority stake in a joint venture with a local partner." This is key for luxury goods and fashion brands, which are rushing into the market. Hermès is a classic example: The French luxury company said in June it had established a joint company to open stores in India, with a first unit expected in New Delhi. DLF City Centre, in nearby Gurgaon, has stores such as Lacoste, Tommy Hilfiger and Marks & Spencer.

RUSSIA

Score: 89

"Multilevel fashion malls and mixed-use centers are expected to be successful here," the A.T. Kearney study noted. An ideal example is Moscow's Slava center, expected to be completed by 2010. Luxury and fashion companies are flocking to Russia to capitalize on its growing wealth. Ralph Lauren opened two Moscow locations in May, including a flagship near Red Square; British department store Debenhams opened its flagship here in the fall, and jeweler Kieselstein-Cord is set to open in the fall. Last year, Alberta Ferretti opened its second Russian flagship, in Kaliningrad.

CHINA

Score: 86

Robust economic expansion in China and India is contributing to a strong global economy, WWD reported last week. Said Moriarty, "The middle class is going to grow over the next 10 years to over half a billion people. The Chinese have a terrific fashion sense, and apparel manufacturers and retailers should gain real insight into what these consumers want." Stuart Weitzman has revealed plans to expand into Beijing; Calvin Klein opened its first freestanding Collection store in Beijing, and in June, WWD reported that Coach plans to open at least 20 more stores in the region in the next three years.

VIETNAM

Score: 74

"Vietnam is much bigger than most people think," said Moriarty. "The region boasts 84 million people, per capita incomes are growing rapidly...if retailers study the cultural aspects and really learn this marketplace, Vietnam will be a real winner for many." WWD reported in April, "Vietnam is quickly becoming one of the new hot spots for retailers," noting that Gucci, Louis Vuitton, Burberry, Ermenegildo Zegna and Lacoste have all either lain down roots here or have plans to do so in the near future.

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UKRAINE

Score: 69

A.T. Kearney's study pointed out that although a majority of the Ukrainian retail market is still composed of family-owned shops, residents are beginning to prefer malls and supermarkets as their ideal shopping destinations. One of Kiev's most popular shopping and entertainment centers is Globus mall, which features shops like Swatch, Timberland, Adidas and Esprit. International retailers, such as Metro, Rewe and SPAR have entered the market, according to the study. A massive shopping center construction project in Lviv is under way and expects to open in 2008.

CHILE

Score: 69

Chile's gross domestic product growth was steady at 4 percent for 2006, while retail sales rose 5 percent. But competition remains tough: Because Chilean-based supermarkets and hypermarkets are considered the most successful formats, other international retailers have exited the region. However, "for global retailers willing to play hard," noted the study, "Chile remains an attractive but challenging investment opportunity." In Santiago, Parque Arauco is one of the area's best-known malls. A few shops housed here include Ferragamo, Versace, Polo, Valentino and Zara.

LATVIA

Score: 68

Thanks to impressive GDP growth of 12 percent in 2006, Latvia is expected to remain steady within the ranking during the next few years. "Riga is getting hipper by the minute," WWD Fast reported in 2005. "Cafes, designer hotels and boutiques of all sorts are racing to claim space on Riga's cobbled streets, lined with a mix of medieval architecture, wooded buildings and the highest percentage of Art Nouveau buildings in the world." Designer brands such as Armani, Gianfranco Ferré and MaxMara are all located here, along with fast-fashion shops including Zara, Mango and Benetton.

MALAYSIA

Score: 68

This Asian country continues to enjoy strong GDP growth (6 percent in 2006). Said Moriarty, "Because it is so near to Singapore, there is a terrific availability of talent, great training programs — the quicker retailers can hire local nationals to run these operations, the more quickly they'll turn a profit." Shoppers enjoy plenty of destinations in the region, including the Kuala Lumpur City Centre. The six-level, 1.5 million-square-foot mall, titled "Suria KLCC," is one of the largest in the world and houses many designer labels, including Chanel, Gucci, Hermès and Prada.

MEXICO

Score: 64

In March, WWD reported that Gucci opened a two-

"Because it is so near to Singapore, there is a terrific availability of talent, great training programs — the quicker retailers can hire local nationals to run these operations, the more quickly they'll turn a profit."

Mike Moriarty on Malaysia

story, 4,844-square-foot flagship on Presidente Mazaryk Street in Mexico City, "joining luxury retailers such as Louis Vuitton, Christian Dior, Chanel, Tiffany & Co. and Cartier in the tony neighborhood of Polanco." Another popular destination is The Central Plaza, part of the Ciudad de los Niños (City of Children), a theme park designed to teach a work ethic and brand loyalty at a young age. The Ciudad de los Niños is located inside Mexico City's Santa Fe shopping mall, which boasts 285 stores.

SAUDI ARABIA

Score: 64

Saudi Arabia advanced seven places to number 10. With an economy driven primarily by high oil prices and exports, the country's \$347 billion economy saw its GDP grow by 6 percent in 2006. "Tourism and a tax free status make Saudi Arabia a very attractive market," noted the study. Paris-based Carrefour plans to open 20 more hypermarkets in the region over the next 10 years, while Casino has plans to open 15 more stores over the next three years. Al Faisaliah Center, a popular shopping destination, houses stores such as Harvey Nichols, Nike, Zara, Mango and DKNY.

TUNISIA

Score: 64

There is definitely more to this North African country than the souks (colorful open markets that sell everything from spices to jewelry). Major cities, such as Tunis and Sousse, boast some of the country's largest shopping destinations. Located just outside of Tunis is the Berges du Lac commercial center, home to an upscale hotel and spa, along with nearby stores that include Gap and Carrefour, which opened its hypermarket in 2001.

BULGARIA

Score: 63

The central European country joined the European Union this year, "which opens up numerous opportunities for economic growth in this highly fragmented market," noted the study — which also pointed out that European giant Carrefour is reportedly attempting to jump into the region. The bustling capital Sofia is the most likely destination for expanding retailers. At City Center Sofia mall, retailers range from Nike, Puma and Geox to Sephora and Marks & Spencer. Another popular shopping street is Ivan Assen II, where lots of boutiques, small cafes and restaurants are located.

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Something(s) to think about

Excerpts from www.nowandnext.com

Imagine the societal consequences where phone connections rise from 5 million-180 million, where the number of television sets increases from 10 million-120 million or where the average traffic speed for freight doubles almost overnight.

Trends and predictions for India and China

Recent articles about trends influencing Asia over the coming years include the following predictions:

- 1. Indian companies will start to acquire global scale.** For example the telecom market in India was 5 million connections 15 years ago. It is now more than 180 million.
- 2. The spread of connectivity.** Imagine the societal consequences where phone connections rise from 5 million-180 million, where the number of television sets increases from 10 million-120 million or where the average traffic speed for freight doubles almost overnight.
- 3. The growth of the middle class.** Five years ago 61 million Indians earned more than Rs 200,00 per year. Last year this figure exceeded 100 million.
- 4. Problems of growth.** Like China, India is growing fast but this causes all kinds of environmental problems from falling groundwater levels to air pollution, all of which have the potential to trigger social unrest.
- 5. Openness to the outside world.** The number of US visas granted to Indians in 2006 doubled to 800,00 - a number second only to Mexico. About 55% of Indian GDP is now foreign trade and 25% of the Indian stock exchange is now owned by foreign investors.
- 6. The dominance of youth.** Half of India's population is aged under 25-years of age. The consequences of this include a more mobile society and potentially a more volatile one.

To this list Business Week adds another five trends of which I think two are worthy of comment.

The first is social unrest in China. A report by the China Academy for Social Sciences last December said that 20% of China's poorest people received 4.7% of total income versus the top 20% that received 50%. Not surprisingly 37% of government officials cite keeping a lid on social unrest as the top problem facing China.

The second trend is inflation in India. Wholesale and consumer price inflation rose by 5% last year but wages in services and manufacturing increased by 14% with a forecast of 12-15% for 2007.

China Syndrome

China is at something of a cross roads when it comes to future growth. It has enjoyed double-digit growth for almost a decade but there is a school of opinion that says this cannot continue hand in glove with the country's resolutely communist regime.

The argument against China becoming a sustainable power is based on the fact that most of its economic growth presumes state investment in huge infrastructure projects under pinned by cheap labour. Out of a total Chinese workforce of 760 million, 260 million are migrant peasants with no secure property rights (until last week) or the right to strike.

The economy is also based upon exports, which some people argue must have a ceiling and surely Western markets will eventually defend themselves with economic protectionism? Some Chinese mandarins would dearly love to restrain the growth rate but many of the tools available to other nations are simply not available - raising taxes, cutting expenditure or lifting interest rates, it is argued, are not options within a system based on Leninist Corporatism. We'll see.

Then there's the argument that inequality will produce rural revolt or that environmental destruction will limit growth. Again time will tell.

In defence of China the policy of over-saving and under-consumption is not unique. Japan and South Korea were both built using a similar model. Moreover, while China is growing at 10.4% year-on-year with 44% savings as a percentage of GDP, India isn't that far behind (8% growth and a 25% savings rate). The Chinese banking sector is being reformed - slowly - and capitalism does not necessarily need democratic institutions to succeed.

Today the countries that everyone seems to be worried about are China and India. Tomorrow they could be Kenya and Ghana. China's strength is not proof positive of the West's weakness either and to some extent both are economically interdependent. If one fails it is highly likely that the other will fail with it.

Moreover, China's insatiable appetite for energy and raw materials and its fondness of dictatorships that can supply these resources is hardly new. The West has been engaging in these activities for well over a century.



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Factoids

Top Trends in Retail, Shopping & Leisure

What's Next, June 2007

Self serve

Customer service costs money and is notoriously difficult to do well, so why not get customers to do it themselves? Everyone saves money and your customers think they're in charge. Current examples include self check-in kiosks in airports, self-scanning machines in supermarkets and DIY check out services in hotels. Similarly, expect to see a boom in very intelligent vending machines very soon. If you prefer your service delivered by someone else, there's even a car dealership in Japan that 'employs' robots as salesmen.

Cost polarisation

By 2015 the middle class will have disappeared in most developed countries taking mid-price retailers with them. Hence most consumer markets are already polarising between economy and premium sectors (low price versus luxury). However, customers can happily live in both segments buying \$15 T-shirts one minute and \$500 jeans the next.

Blurring of sectors

Bookshops selling coffee, coffee shops selling music, supermarkets selling loans, Ralph Lauren selling white paint and water companies selling gas. Just how far can you stretch a brand these days before it snaps?

High speed retail

'24-hour banking, who's got time for that?' Like most good jokes this one, from US comedian Steve Wright, is close to the truth. People are leading increasingly hectic lives. Back in 1900 people slept for 9.0 hours every night. Now it's just 6.9 hours. This is driving trends like drive-by dining, mobile banking and it's also killing giant malls, which take too much time to shop. Equally, people are getting increasingly bored with the same brands in the same places, which in turn is driving 'pop-up' retail and 'limited time only' products and offers. Also links with the 'Zara effect'.

Brand experience

A significant number of (lucky) people have got all the 'stuff' they need, so they are now, increasingly, looking for experiences not products. Research suggests that this is especially true for women. Examples include WHSmith (a UK stationer) selling cooking courses, hot air balloon lessons and Ferrari drive days. In theory this trend should benefit flagship retail, but the jury is still out on whether these temples of brand experience are really anything more than expensive poster sites.

RFID

Radio Frequency Identification Devices (RFIDs) are essentially glorified barcodes - tiny microchips with an antenna attached which retailers can use remotely to manage inventory and stop theft. They can also be used to trigger promotional messages when you pick up a product in store (like in the Prada store in New York). In the future RFID readers could scan your bags as you leave a store

Women are the biggest market on earth but they are largely ignored - because most of the world is run by men.

and automatically take the money from a suitably enabled mobile phone (or a tiny chip located in your forearm or teeth) which is linked to your bank or credit card. RFIDs have a myriad of other uses too, such as remote monitoring (healthcare) and baggage tracking (transport). In Japan a school even used RFID readers to tell parents that their children have arrived safely at school. Expect a major surge in RFID adoption in 2006+

Brand politics

We've already got sweat-shop-free clothing brands, the return of neighbourhood retail and anti-supermarket sentiments, but we still haven't seen anything yet. In the future customers will be interrogating brands online and scanning products in supermarkets with mobile phones to check on the ethical policy of brands (you can already do this in Japan). Ethically based retail concepts (think Body Shop or fair trade coffee) will grow in the future although customers' willingness to pay high prices or suffer inconvenience will naturally limit growth in this area.

Generational crossover

It's someone's 50th birthday every 8 seconds in the US, but retailers are still obsessively focussed on young people. A study by Credit Suisse First Boston, for example, found that in the US there 7,700 clothing chains selling to the teen market (with a theoretical sales of US \$5.8m per store) but only 1,800 (with theoretical sales of US \$19.2m per store) targeting baby boomers. As populations age more people will want to spend more time at home and they will want to make their lives as comfortable as possible. The implications of this demographic shift include everything from a boom in gardening to employing seniors (B&Q) and designing food packaging that people with old hands and poor eyesight can actually open.

Women

Women are the biggest market on earth but they are largely ignored - because most of the world is run by men. Nevertheless, we've already got women only floors in hotels, women only nightclubs, women only gyms and women only department stores. Given that women buy 65% of cars and make 81% of financial decisions, how long before we see women only garages and women only banks?

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Mass customisation

As we have already noted, we are moving out of the era of mass and cheap into the age of luxury and 'made for me'. For the fortunate few this means bespoke (tailor-made) products (sold in brand experience stores with concierge level service), while for others it means limited run products or mass customisation (products created for specific niches or groups, often with the help of the customers themselves). Mass customisation is a trend created by commodification, which has in turn been created by globalisation. segment may counteract this effect.

2007 Global Trends

What's Next, June 2007

According to the Worldwatch Institute rapid urbanisation and natural risks are among the key trends to look out for in 2007 and beyond.

Over the last 50 years the world's urban population has grown by 400% from 732 million in 1950 to 3.2 billion plus in 2006.

Africa now has more people living in cities than the US and Canada combined (and now has less wilderness than the US) and by far the greatest increase in global population between now and 2030 will occur in cities.

On the risk front, the number of individuals directly affected by natural disasters has increased from 177 million in the late 1980s to roughly 270 million today and this is likely to increase still further.

Eight of the world's ten largest cities lie on or near earthquake faults and 60% are also highly vulnerable to storm surges.

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Top 4 consumer electronics trends

What's Next, June 2007

If you were one of the 150,000 people that meandered through the Consumer Electronics Show in Las Vegas (US) earlier this year, read no further. But if you missed it and want to know what the next big thing will be, here are the top four trends that ought to set the direction for the US \$140 billion US consumer electronics market over the next few years:

- 1. Internet protocol TV (IPTV).** The IPTV market is already worth US \$500 million in Europe according to IDC Research and this should grow to US\$4.3 billion by 2010. As a result telecom carriers and Internet service providers (ISPs) are rushing into this area. This is potentially significant because ISPs and telcos will henceforth be in the media distribution business. Expect more mergers between content creators and distributors as a result.
- 2. WiMax.** It's been a long time coming but Wi-Fi may finally make the transition to Wi-Max in 2007. This means faster Internet access - especially mobile access - and this will drive all kinds of new devices and applications.
- 3. Mobile TV.** Mobile TV or video-on-demand (essentially phone TV) is still a hot trend. Lehmann Brothers predicts that 50 million configured handsets will be sold by 2009 and the mobile TV market will be worth US\$15 billion by 2009 (yes, but will anyone be using them?)
- 4. Next generation TV technologies.** Amazingly boring. The shift to digital TV will drive the adoption of plasma and LCD screens but these technologies have their problems. Expect a bunch of new flat screen technologies and acronyms anytime during 2007-8.

Statistics

What's Next, June 2007

Society & culture

There were 77 serious accidents involving humans and robots in the UK last year

In 1990 12% of new homes in the UK were apartments. Now the figure is 50%

In 1998 there were approximately 12 pro-terrorism websites worldwide. The figure is now around 4,700

In the mid-1950s 9% of adults in the US were single. The figure is now 44%

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Government & politics

33% of Spaniards think that General Franco was correct to overthrow the Republican government in the 1930s

50% of Latin Americans would accept a dictator if the result was a higher standard of living

33% of French citizens describe themselves as "racist" or "a bit racist"

71% of 13-17 year olds have "about the same" political views as their parents

Science & Technology

In 2004 there were 610,000 robots in domestic service globally. By 2007 this figure is expected to be 6,100,000

70% of the antibiotics used in the US are used on animals

Over 60% of the world's population has never heard a ring tone

Media & Communications

Almost 80% of 16-18 year olds in the US cannot name the 4 largest TV networks

67% of people claim they would be 'lost' without a computer versus 46% without a TV

25% of kids aged between 6-months and 2-years in the US have a TV beside their bed

17% of Sony PlayStation owners in the US are aged 50+

In 1892 there were 14 evening newspapers in London. Now there is just 1

Money & Financial Services

10 million households in the US don't have a bank account

31% of African-American families in the US have either nil or negative net worth

There was a 60% increase in the use of the term 'private equity' in the financial media between April '03 and '05

Healthcare & Well-being

75% of doctors practising in the UK were born somewhere else

40% of teenage girls and 17% of teenage boys in the UK have thought about having plastic surgery

90% of drugs don't work for 30% of people

50% of pharmaceutical products launched in the US now come from companies that are less than ten years old

Transport & Automotive

40% of new cars sold in the UK during 2003 were silver

70% of new cars sold in the US in 2007 will offer iPod connectivity

Worldwide 3,000 people are killed every day by automobiles

China will account for 37% of the increase in new car sales

between 2002-2012

Sales of Aston Martins and Ferraris increased by roughly 100% in Australia during 2006

Food & Drink

15% of 13-15 year olds in the UK have their own fridge

Ikea is the 19th most visited food retailer in the world

By 2020 almost 75% of people in the UK will be overweight

The average home contains over 1,000 recipes but only uses 7

The market for organic food in the US is worth around US \$30 billion

30% of food in Britain is eaten outside the home compared to 20% 15 years ago

Travel & Tourism

More people have visited a Disney theme park than live in China

Tourism is the first, second or third largest industry in 29 American states

China is now the largest domestic tourist market in the world

25% of Americans never take a vacation

Retail & Leisure

Wal-Mart hires 600,000 employees every year. Staff turnover is 44%

There was a 307% increase in the number of music CDs sold by Starbucks in 2005

10% of the world's population has now shopped online

Work & Business

In 2001 US companies spent more on civil litigation than R&D

The amount of information held by a large corporation doubles annually

China uses 55% of the world's cement

40% of people have experienced verbal abuse at work

The number of people working more than 48 hours per week has increased by over 50% over the last five years

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Transitions

Ten Trends for 2007

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Simplicity

A trend that's sweeping through the technology industry is simplicity. The idea is starting to make its presence felt in other areas too. Business tends to make things complicated because it's easier that way. Hence many products are over-engineered and feature a myriad of functions that most ordinary people will never need or use. A recent survey by the Consumer Electronics Association in the US found that 87% of people (customers) cite ease of use as the most important feature of any new product. Another survey claims that 50% of the products that are returned as 'faulty' are in fact in perfect working order – it's just that people don't have the time to figure them out. So what's the solution? Making products simple is actually very complicated. First you need to make your company simple. This means simplifying not only structure and process, but also culture and mission. A good example of a company that's been 'simplified' is Philips. The company now runs just seventy businesses instead of five hundred and there are five divisions instead of fifty. There's even a Simplicity Advisory Board to ensure that things are made simple but not simpler.

Implications

Life is complicated enough already so anyone that makes peoples' lives more complicated will not be thanked. This applies to the makers of products but it also applies to the providers of services including government.

Opportunities

Stripped down versions of existing products. For example, who really needs a washing machine that can wash your clothes 136 different ways? Also communicating in plain English. If your mother can't understand instructions from Ikea, neither can anyone else.

Threats

It is always easier to add than to take away. Every organisation should therefore appoint a Head of No to offset the excesses of the yes men.

My way

Ever since Henry Ford invented mass production, companies have pursued a strategy of standardisation. Given globalisation, you'd think that standardisation would be intensifying but you'd be wrong. First, consumer markets are fragmenting. In the 1970s, the US population was typically segmented into 40 lifestyle groups. Nowadays, the number has increased to 66. This diversity comes in many forms; lifestyle, beliefs, values, income, ethnicity, family structures and so on, but all of these groups have one thing in common – they dislike homogenisation. A second problem is that standardisation stifles innovation. Making things the same reduces points of difference and leads towards commoditisation. Mass customisation and localisation, on the other hand,

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encourage experimentation, which drives innovation. Local customisation is also very difficult for competitors to track, let alone copy. As a result, retailers are starting to customise store formats, products and even service offers according to local, even individual, tastes.

Equally, manufacturers are formulating specific products for specific regions or groups. For example, Coca-Cola has created four different canned coffee drinks for the Japanese market, each one targeting a particular region, while Wal-Mart varies selections of canned chilli peppers according to store location. Too much localisation or customisation can obviously breed logistical chaos and dilute the brand so changes are usually clustered using local geographic or lifestyle data. So what, apart from customer fragmentation, is driving this trend? The answer is information. Customer data can pinpoint not only who is buying what, but also when and why. For instance, data can identify need-states based on the time of day, so an inner city store can change both the mood of the store (lighting and music for instance) and the products on sale according to specific time segments. This is hardly rocket science, but companies are finding that localising stores or changing what gets sold when can result in significant sales increases.

Implications

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Opportunities

Allowing individual stores or groups of stores to customise their offers based upon local tastes and demand.

Also allowing customers to design it or personalise it their way.

Threats

Logistical chaos. Conflict with the need for simplicity.

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Conceptual Flypaper

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People are now getting so used to doing it for themselves – and so used to how dreadful the experience can be when they don't – that some of them are unplugging themselves and really doing everything for themselves.

Self-reliance

Companies (and governments) are telling people to do it for themselves. The theory is that this will save you and me time and money, although the reality is that more often than not this DIY trend is actually saving the company (or the government) money. Thus we have self check-in at airports and hotels. You can book your own tickets online and even calculate your own tax assessment. Customer service costs money too and is notoriously difficult to do well. So why not ask people to do that for themselves too? Customers can then no longer complain about lousy service. Other examples of the burgeoning self-service industry include scanning your own products, cleaning your own shopping trolley and slicing your own bread in supermarkets and assembling your own furniture.

However, this particular trend is about to turn around and bite companies and governments on the bottom. People are now getting so used to doing it for themselves – and so used to how dreadful the experience can be when they don't – that some of them are unplugging themselves and really doing everything for themselves. Examples of this include people that are bypassing doctors and hospitals to treat themselves (thanks to information openly available on the Internet), people that are moving to semi-remote locations to escape the rat race and people that have given up on the mainstream media preferring to create their own information and entertainment instead.

Implications

People are still anxious about everything from the economy to climate and terrorism. One survival mechanism is self-sufficiency: ensuring that you are not reliant on anything or anyone else for the basic things you need.

This principle also applies to countries so expect a rise in protectionism and anti-free trade as the West tries to defend itself against the growth of countries like China and India.

Opportunities

Products and services that reduce the amount of work to be done but leave enough undone so that people feel

they've achieved something by themselves. Also products, technologies and brands that deliver empowerment.

Threats

Self-reliance can mean the erosion of trust. At the extreme this links with anti-government activism and the 'back to the woods' survivalist movement in the US.

Carbon

Are you leading a carbon neutral life? The desire to be green (or, at least, to be seen as green) is trickling down from countries, through companies and organisations to individuals. First organisations like the National Football League in the US jumped on the bandwagon by saying that they would plant trees to counter emissions from Superbowl XL. In the UK HSBC bank is playing the tree planting game and even Bristol City Council says it will plant trees along its bus routes to counter emissions from buses. We've seen rock bands planting trees to offset concert emissions and HollyWood is getting in on the act too with celebrities like Brad and Leonardo queuing up to declare themselves carbon-neutral. There's even a car finance company operating in Australia that links your loan rate to how green your new car is and plants trees to soak up any likely emissions. Also in the US, eight US States have begun a federal action against five of the largest power companies in the US for not cutting carbon dioxide (CO₂) emissions and pollution trading is set to be one of the fastest growing markets of the future worth US \$35 billion by 2008 according to the UN.

That's right, there is a market for trading pollution whereby one company can buy and sell the right to pollute the earth's atmosphere. Goldman Sachs, Merrill Lynch and Morgan Stanley are all active in this new market

But is an exchange for polluters and non-polluters a good idea? You'd think not. According to one think tank the existence of this market stifles energy innovation and promotes the idea of pollution. Still, something needs to be done and fast. We currently release 300% more CO₂ than our oceans can absorb. India's CO₂ emissions are likely to rise by 70% by 2025 and between now and 2030 emissions from China will probably equal that of the rest of the industrialised world.

Implications

Governments will jump onto this faster than you can say tax break and farmers will be encouraged to grow trees purely to trade carbon credits.

Opportunities

Green energy schemes, land use projects, individualised carbon footprints and local carbon audits.

Threats

The BRIC nations, especially China, refusing to enter into agreements.



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Water

It takes 11,000 litres of water to make a hamburger and 83,000 to make a medium-sized family car.

The average person uses 135 litres every day, most of which is wasted. Water, or more precisely the lack of it, will be everywhere in the future. The scarcity of H₂O is being caused by growing populations in countries like India and China, but it's also being caused by consumerism and development in regions like North America and Europe. Urbanisation and climate change are also major factors and in many cases the problem won't be a lack of water but water in the wrong places.

In China some areas are already taking legal action against other regions whom they accuse of stealing 'their' rain through cloud seeding, while in other countries the problem is too much rain rather than not enough. The pollution of rivers and lakes will move center stage and local dams will become global issues and peoples' attitudes and behavior towards water will change significantly. Every industry from agriculture to fashion will come into the spotlight with regard to water use and customers will select one product or brand over another based upon the company's water policy.

Implications

A water crisis has the potential to dwarf any forthcoming energy crisis. Countries, companies and individuals will come under increasing scrutiny and legislation regarding the amount of water they are consuming - and especially the amount they are wasting. So goodbye green grass and hello water metering, Astroturf and grey water recycling.

Opportunities

The good news is this is all solvable through prudent use. We will see major engineering projects aimed at reducing leaks in old pipe networks and we will see new desalination plants. Also water grids and 'water futures' markets to distribute water nationally and internationally and the creation of new 'waterless' products.

Threats

Only 2.5% of the world's water is fresh so water will be the new oil. Water will shape foreign policy and wars will be fought to obtain access to supplies. There will be fights about who owns underground aquifers. A long drought, possibly caused by El Nino, could also devastate continents such as Australia and Africa.

Open

A recent issue of Business 2.0 magazine printed a list called 50 People Who Matter Now. In number one place was you. This is cheeky and provocative in equal measure but it's also 100% correct. Not so long ago, companies created departments to create innovation. But the result was often that innovation was turned into a state secret. The only people who knew what was going on - and therefore the only people who could really contribute - were the Chosen Ones inside the

innovation department. Not surprisingly, this approach limited both the quantity and quality of ideas so companies started searching for new ways of developing new ideas. One new idea is distributed or open source innovation in which customers (or anyone else for that matter) are the co-creators of the products and services that they consume. The idea began in software when developers posted code on the Internet and asked other programmers to fix the bugs. This was networked innovation and the original motive was altruistic because the final product was often given away for free.

Then some bright sparks started to apply the principle of asking you and me to invent or develop all manner of products. There are now open source encyclopedias, open source cola recipes, open source newspapers, open source computer games and open source beer. There's even an open source Hollywood film script. The open idea is even making its presence felt in the pharmaceuticals industry with sufferers grouping together to fund everything from information databases to biotech start-ups.

Implications

The customer really is in charge now. And it's not just customers that companies need to connect with either. Employees, ex-employees and even people that actively reject your products are now all part of the innovation process.

Opportunities

The creation of networks to hold conversations and exchange ideas with customers - especially enthusiasts that are using products and services in strange or unusual ways.

Threats

To have a good idea you need lots of ideas, but there is a danger of being flooded with so many suggestions that companies become paralyzed. There is also the emerging issue of who owns the intellectual property surrounding co-created content and ideas.

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Private equity

According to The Economist magazine there was a 60% growth in the use of the words private equity in the financial media between April 2003 and April 2005. Looking back over the past decade the phrase has seen a 1,000% increase in useage. So what's going on? The answer, in a nutshell, is that short-term institutional thinking (pension companies and such like) is undervaluing assets. More specifically, certain public companies need to be re-structured but senior executives are afraid of making any substantial decisions that will pay back over the longer term because the share price of their company will suffer in the short-term.

In many cases things have also become very comfortable which is the last thing you need for innovation and change and public companies are being strangled by legislation and compliance. In other words, there is a significant disconnect between what a company is theoretically worth and how much it is being valued at by public equity markets. A solution, and a very profitable one, is private equity that taps into what is effectively the almost unlimited amount of low-cost credit that is currently available. Of course, for people with long memories this is essentially the same as asset stripping, which was in vogue in the 1970s and early 1980s. The difference is that the asset-strippers came a cropper due to high interest rates which, of course, we don't have – yet.

So for the moment private equity has its place in the sun, along with financial engineers some of whom have built empires on foundations of sand.

Implications

Expect more public companies and 'public' assets to come under the private equity spell. Also expect major problems due to the networked nature of private equity deals.

Opportunities

Whilst there are downsides (like job losses) there is also the opportunity to radically reshape companies and even entire markets.

Threats

High interest rates. Also private equity firms poaching the best staff from public companies which makes the public companies even weaker.

Low cost

Markets used to consist of a broad range of offers ranging from the cheap and nasty at the one end through 'everyday' to luxury. Mass markets generally sat somewhere in the middle. Not any more.

As people have become richer markets have started to polarize between the top and bottom segments. In other words the middle market has all but disappeared, with people either trading up to premium products or happily accepting low cost (value driven) products that have become increasingly well made.

In other words, metaphorically speaking, everyone is either flying with a low-cost airline or upgrading to business class. Actually that is highly misleading because in many cases people buy into both segments depending on what mood they are in or who's paying. Hence people will buy \$20 T-shirts one minute and \$500 jeans the next.

However the strangest thing is perhaps the fact that next to nobody is complaining about the ultimate price we all pay for the availability of low cost goods. Shoes at £5 a pair have to come from somewhere and one wonders what the factory conditions and the environmental damage behind such products really are. Or perhaps we don't – it just looks like a bargain and ethical concerns take a back seat to convenience.

Implications

Is low-cost simply a temporary condition brought about by globalisation? What will happen when resources start to run out or wages and conditions start to equalise across the world? Will we all be flying low-cost with oil at \$150 a barrel?

Opportunities

Focussing on the bottom or top ends of a market and avoiding the middle.

Threats

Resource scarcity, protectionism, collapse of one or more major producer or consumer countries. Also, can a single brand stretch from one end of a market to another?

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Luxury

As low cost services spread across the world, so too does the appeal of the opposite: high-cost, high touch exclusivity and personal pampering.

To use the travel analogy once again, for some people low cost fares leave extra cash to splash out on expensive hotels. But as more travellers get used to luxury, the more of it they want, which leaves people with something of a dilemma: How to set themselves apart from everyone else when almost everyone else seems to have exactly the same idea?

The thirst for luxury travel and other premium services is also creating what I'd call a convergence of expectations. What I mean by this is that people are getting used to being treated well and expect it all the time – no matter what they're paying. For example, travelers to developing countries are beginning to expect first world conditions – even in the middle of nowhere – and seem to be incapable of suffering any form of temporary hardship.

On a more mundane level convergence of expectations means that customers flying business or visiting a Lexus showroom expect exactly the same speed of service and quality of coffee that they get in a top restaurant or hotel. After all, if Starbuck's can keep me happy for \$3.50 by giving me a decent cup of coffee in a china mug why can't everyone else?

Implications

Customers will become increasingly demanding. They will benchmark quality and levels of service against the best in the world, not merely best in class or best locally.

Opportunities

Learning from world-class organisations, not simply the people in your industry or the people down the road.

Also partnering with other companies when customer expectations fall outside your ability to deliver.

Threats

Customers will be less constrained by location in the future so if banks aren't delivering superior service locally customers may move their banking to another country.

Meaning

Back in 1943 Abraham Maslow produced a paper called A Theory of Human Motivation in which he contended that once an individual's basic biological needs (food, water, sleep etc) have been met he/she would seek to satisfy a number of progressively higher needs. These range from safety through love and belonging to status and self-esteem.

At the very top of Maslow's hierarchy of needs was

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actualisation. Now I'm no psychologist but it occurs to me that one of the things that might be going on right now is that more and more of us have reached the peak of this pyramid and we are now searching for something more meaningful. For example, most people of a certain age (in certain countries) have now got enough stuff and buying even more stuff (no matter how new or wonderful) just doesn't have the same effect that it once did. Hence people are shifting away from buying products towards seeking experiences.

This explains everything from the boom in 'holidays that help' to the interest in spirituality. As I say, I am no psychologist and perhaps this is way off target but the more I speak to people the more I think it's true. There's even a theory that the reason we are all in so much of a hurry is that we are in a rush to find happiness – and when we don't find it we just run faster.

Implications

Money, increasingly, won't make the world go around. This has profound consequences for companies that think they can buy your enthusiasm and governments that think that tax cuts will keep voters happy.

Opportunities

Added value is a dead end concept because the value is often fleeting and insubstantial.

What people really want is added meaning, things that make a difference in some way.

Threats

Most companies just don't get it and neither do the media. More glossy supplements about the lifestyles of the rich and famous? No thanks.