Speciality Chemicals Magazine

Feature Article

Ageing boomers change demand patterns

Demographics are fundamentally changing the speciality chemicals market, says **Paul Hodges**, chairman of **International eChem**

Are you a typical speciality chemicals executive in your 30s or 40s? Have you been finding the past few years quite different from anything you had experienced before? Do you worry that your business may never return to the steady growth that seemed almost inevitable when you joined the industry? Then you may well have spotted something that has so far escaped those operating in financial markets, who still believe that everything will soon 'return to normal'.

The last few years have certainly been difficult for most companies. Raw materials have been volatile, while demand patterns have been even more uncertain. Complexity and ambiguity have also increased, leading Unilever CEO Paul Polman to coin the term 'VUCA' to describe the world: Volatile, Uncertain, Complex, Ambiguous. "It's very difficult for people to get a full picture," he said.

Data from the American Chemistry Council (ACC) on the critical US speciality chemicals market emphasises the problem. It shows that US volumes initially bounced back well, following the 2008-9 collapse. Since then, however, momentum has clearly slowed. 2012 volume showed only a 3.6% gain over 2011, compared to 5.1% in 2011 and 9.8% in 2010. Thus, the overall US volume has only just recovered to 2007 levels.

The data also shows that this recovery has been quite uneven. Adhesives and cosmetics have recently been doing well, as have areas such as coatings and plastic additives. Others, such as paper additives, rubber processing, oilfield chemicals and lubricant additives, have seen a decline in volumes. Outside the US, the picture is even more mixed, with Europe proving a very difficult market for many companies, while Asia has also been slowing recently.

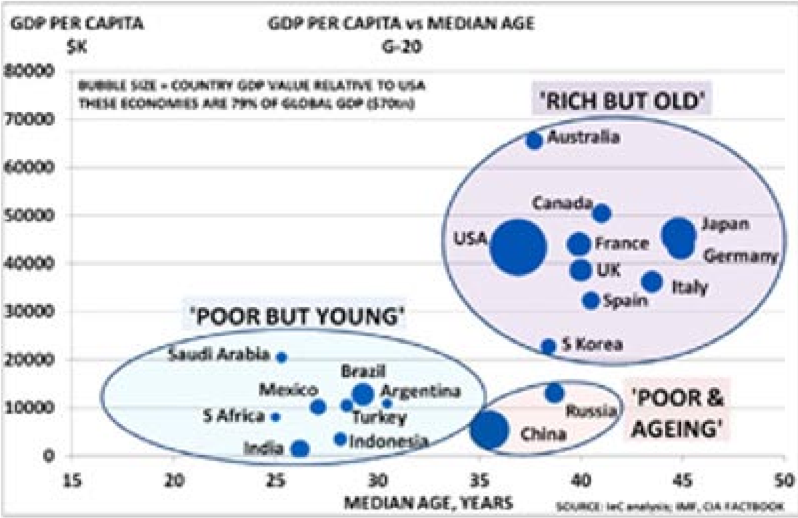

Figure 1 - Age v GDP in G20 countries

The key issue is that the Western world, which has historically driven chemical growth, is now becoming an ageing society for the first time in history. In turn, this is leading to slower growth, as household consumption is 60% of GDP in most Western countries. Our new eBook, 'Boom, Gloom & the New Normal' (www.new-normal.com), takes this new paradigm as its theme, and investigates how the ageing of the western baby boomers, defined as those born between 1946 and 1970, is changing global chemical demand patterns.

Figure1 highlights the position by looking at the G20 group of countries, which account for 79% of the global economy. The West, which is still 61% of global GDP, has now become 'Rich But Old'. Its GDP per capita is around $40,000/year, whilst the median age of its population is around 40. This makes it quite different from the emerging economies in the G20, which can be divided into two distinct groups:

- 'Poor And Ageing', comprising just China and Russia, with a combined 13% of global GDP. Their median age is above 35 - due to the 'one child' policy in China, and Russia's very low fertility rates - but GDP per capita is only around $10,000/year
- 'Poor But Young', a group accounts for 5% of global GDP, with GDP per capita also around $10,000/year but a median age of around 25

This ageing of the boomers matters enormously to speciality chemicals companies, because older populations spend much less on the products that drive the industry's sales. Official household expenditure surveys show that spending peaks in the 'wealth creator' 25-54 age group.

This is when people are typically setting up home, having children, and moving up the career ladder in their jobs. It then falls away as people join the 'new old' 55+ age group. Older people generally already own most of what they need and so represent mainly a replacement market. In addition, their incomes drop as they enter retirement.

Thus it is really no surprise to see that Western and global economic growth is now slowing very fast. 272 million westerners, 29% of the population, have already joined the 'new old' age group and their numbers are rising all the time. Moreover, 2013 marks the moment when the average baby boomer turns 55 years, so we can now expect spending declines to accelerate.

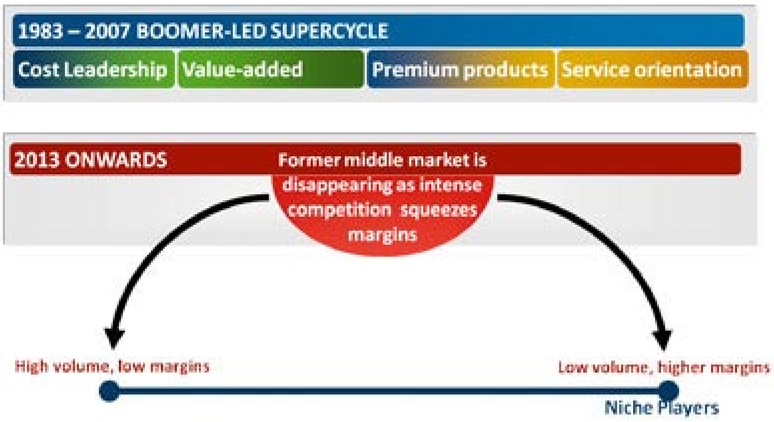

Figure 2 - Disappearance of the profitable middle ground

One of the great myths of our time is that we are seeing a population explosion due to a vast increase in the number of babies being born. In fact, fertility rates are declining quite dramatically in virtually every region and country in the world. What we are instead witnessing is the impact of a 'health explosion'. This lack of babies, and the increase in the size of the older population, has critical implications for the type of demand that companies are likely to encounter in the future.

The key issue is that the baby boomers are the largest and wealthiest generation that the world has ever seen. They also have the longest ever life expectancy. Improved public health and better lifestyles mean that average Western life expectancy has increased 60% over the past 100 years to around 80. It has also doubled in the emerging world to around 65 over the same period.

Two key conclusions can be drawn as a result. Firstly, as Figure 2 describes, the profitable middle ground of the baby boom years is fast disappearing. The ageing populations in the West have much less money to spend than when they were younger. In addition, the end of the credit boom means that they are now paying back debt, rather than borrowing more money. So, while they might well still want value-added products, they simply cannot afford them anymore.

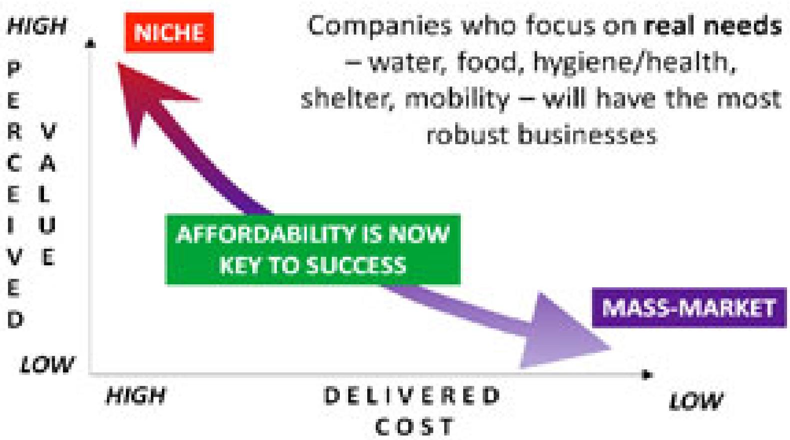

Figure 3 - Affordability the key to success

In turn, this means the emerging economies are now refocusing their economies away from the export-driven model of the past decades. Their demand will instead be increasingly based on their own population's needs. As the relative levels of GDP per capita show, these populations are very much poorer than in the West. Over 75% of Chinese, for example, earn less than $10/day; Indian data indicates only 1.27 million households earn over $18,000/year.

Thus as Figure 3 shows, affordability is now becoming the key driver for success. Unlike in previous recoveries, there has been no explosion of pent-up demand since the 2008-9 downturn. We are instead transitioning to a world where people now have to set priorities for their purchases. Previously, they would have happily confused 'needs' with 'wants'. Today, they can increasingly only afford to buy things that represent real needs, like food, water, healthcare, shelter and mobility.

This represents a major challenge for speciality chemicals companies, as well as an opportunity. The challenge comes from the need to refocus business models on meeting these real needs affordably. As Renault has shown with its low-cost Dacia range, which now accounts for 30% of their global car sales, this means adopting a 'design to cost' mentality. This is quite different from the value-added approach that served companies so well in the past.

The opportunity, meanwhile, comes from the ability to gain sustainable competitive advantage for decades to come. Very few companies have historically focused on providing products and services to this 'new old' 55+ generation, for the simple reason that it did not exist until very recently. Yet its numbers will grow by 34% over the next 15 years, the highest of any age group.

So the 'new old' represent a market where current competition is weak, and high growth is assured. There will certainly be some short-term pain involved in meeting the challenge of redesigning current offerings to meet their needs. But the opportunity seems well worth the effort, particularly if the alternative is to continue battling for survival in today's increasingly difficult VUCA market.

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