



An aging population in mature economies will have profound effects on demand for chemicals

The challenges of the 'New Normal'

The first chapter of a new eBook considers the impact of an aging baby boom generation and the need for a new approach by many chemical companies

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Consumer spending is the key driver for chemical demand. The past 30 years have therefore been a “golden age” for the global chemical industry, as the Western baby boom generation approached its peak spending and consumption years. But now, these baby boomers are getting older. They are starting to save more and spend less.

These are the challenges at the heart of our new eBook: *Boom, Gloom And The New Normal: How Western Baby Boomers Are Changing Global Chemical Demand Patterns, Again.*

The key issue is simple. As the chart shows, there was a sustained surge in the number of babies born in the G7 Group of the world's richest countries after the Second World War (Canada, France, Germany, Italy, Japan, UK and the US). Their numbers rose by 33m, or 15%, from 1946 to 1970, in comparison with the 1921–1945 period. Then the numbers fell again as 38m fewer babies were born between 1971 and 1995.

These baby boomers were, and are, the largest and richest generation in history, especially if one includes those born in the other Western European economies. By 1980, they had started to enter the critical 25–54 age range in large

numbers. This is the period when consumption is at its maximum, as people marry, settle down, and have children. Not surprisingly, consumption began to soar as people bought houses, cars and all the other items that drive chemical demand.

By 1995, the entire baby boom generation was in the 25–54 age range. Demand growth had become so strong, that companies were being forced to find new sources of supply, going first to Eastern Europe, after the fall of the Berlin Wall in 1989, and then to the BRIC countries (Brazil, Russia, India, China). Outsourcing became part of business language. Yet neither the word, or even the concept, had

» existed in 1980. At that time, exports accounted for just 5% of China's GDP. Today, they are nearly 40% of the economy.

Yet in 2001, as China's expansion of its export factories was accelerating, the oldest baby boomer reached the age of 55. This age represents the beginning of a new period in most people's lives, when they start to spend less and save more. And today, of course, the majority are approaching this milestone, with the oldest baby boomer now 65 years old, and the average at 53 years old.

Equally, this change in spending patterns is being reinforced by an increase in life expectancy. Baby boomers can expect to live around a decade longer than their parents' generation. So they need to save more for the future, and spend less today. Thus it should be no surprise that previous core areas of Western chemical demand, such as housing and cars, are struggling. The demographics suggest they will not recover for many years to come.

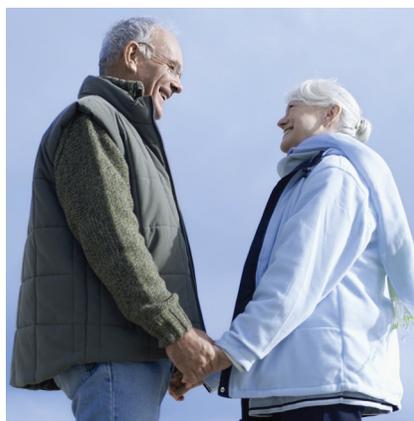
GROWTH DRIVERS FOR CHEMICALS

Of course, this does not mean the end of all chemical demand. But it means we are entering into a "New Normal". The G7 accounts for 50% of the global economy. So a downturn in Western demand cannot be simply replaced by an increase in the emerging economies. After all, Canada's GDP is larger than India's at \$1.6 trillion (€1.1 trillion), even though its population is only 34m versus India's 1.2bn.

In India only 11m households are expected to be in the "affluent segment" in 2013, out of a total of 231m. And even this definition exaggerates the potential demand, being based on a minimum income of just \$5,000/year.

Equally in China, for example, disposable income in the urban areas is only around \$2,500/year, and less than \$1,000/year in rural areas. In the US, by comparison, a standard definition of middle class means a household income of \$25,000–100,000/year.

Thus, far-sighted companies are already



Older people spend less and save more

starting to target the real growth areas for the future, such as the "aspirers segment". This is expected to grow in India from just 46m households in 2003 to 124m in 2013. Although this segment will have lower incomes of \$1,000–5,000/year, they represent a genuinely new potential mass-market for chemical products and services.

Hindustan Lever, part of the Unilever consumer products group, is one example of how companies are moving forward. Their innovative Project Shakti involves the creation of a new distribution channel to reach this segment. And in the process they are helping women in rural areas set up small businesses as direct-to-consumer retailers, thus fulfilling their mission

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statement of "Doing well by doing good".

This example highlights how companies need to shift their mindsets as we go through the transition to the New Normal. Over the past 30 years, they have benefited from steady growth in Western demand for most types of chemicals and polymers.

They could afford to ignore minor slow-downs, which would simply create "pent-up demand", and instead set "stretch targets" for business units and managers.

These dynamics of market growth meant it made perfect sense for companies to focus their sales activities on affluent Western baby-boomers. And as time went on, they were able to further boost sales by focusing on similarly affluent segments of the population in emerging economies.

But in the New Normal, few of these dynamics still apply. Demand is instead becoming much more volatile and unpredictable.

External events, up and down the value chain, are having an increased impact. Yet

many companies are still primarily focused on monitoring developments down their own vertical silos.

THE NEW NORMAL IS ARRIVING NOW

The post-baby boom generation, those born between 1971–1995, contains 38m fewer babies. So they cannot sustain the level of demand of their parents. And as we have seen, this gap cannot be simply replaced by increasing the focus on the middle class in the emerging economies. Instead, companies will need to redirect their product development into new areas of innovation. Consumers' spending power will be lower in many major markets globally.

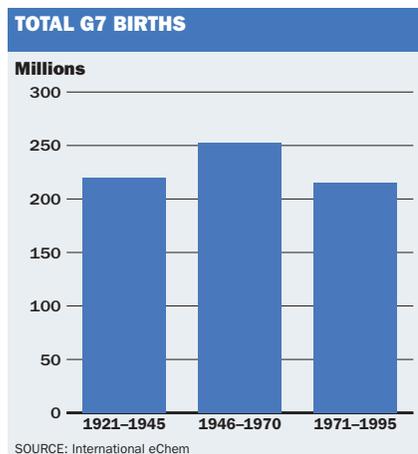
Successful new products will therefore often be lower-cost. But the opportunities are still endless. In emerging economies, for example, there is already a growing demand for plastic-wrapped single-serve food portions in urban areas, and for single-use shampoo in rural areas.

This is why we are now publishing via ICIS our major new eBook. We believe it is vitally important that companies fully appreciate the demographic changes now under way, so that they can adjust their focus to profit from the new opportunities ahead.

Our research for the eBook shows that the transition to the New Normal will require a complete change in approach for many companies. The level of Western housing and automobile demand seen in the golden age cannot be sustained as baby boomers enter the 55 plus age group.

Instead, we believe that demand growth will come from new megatrends such as increasing food production and life expectancy, improving water availability, and reducing carbon footprint. These represent major challenges, and major opportunities, for those companies able and willing to exploit them.

We hope the eBook will help you, and your company, to become a winner in the New Normal. ■



NEW NORMAL EBOOK AND TRAINING

Our free new normal ebook begins publication this week, with a new chapter released once a month. Download free at icis.com/NewNormalEbook. It has been co-written by Paul Hodges, chairman of International eChem and author of the ICIS Chemicals and the Economy blog and John Richardson, director, ICIS training Asia, author of the Asian Chemical Connections blog.

ICIS and International eChem are running regular new normal training seminars to equip you with essential skills and knowledge. Visit icis.com/NewNormalSeminars