



# A road map for success

As the global economy transforms, chemical companies need to take tough decisions and be prepared to move in new directions

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**T**he penultimate chapter of our free *Boom, Gloom and the New Normal* ebook sets out a road map to success for companies in the New Normal of changing demand patterns caused by an aging Western population.

Its aim is to highlight the key challenges and opportunities. It also identifies four key areas where major change is already underway. We start by looking at the history of success within the chemical industry. It is the world's third-largest industry (the others are agriculture and energy), and has a history of adapting to major change over the past two centuries. However, we cannot underestimate the challenges ahead. They will create winners and losers.

#### FOUR ELEMENTS FOR SUCCESS

■ **Demand-driven** Markets have essentially been supply-driven in recent decades, with growth being forecast on the basis of ratios to expected GDP growth. Companies have focused on increasing their efficiency via a one-size-fits-all business model. As we transition to the New Normal, they will need to refocus

on being effective. Robust strategies, flexible implementation planning, plus a commitment to local techno-commercial support and long-term research and development will be required.

■ **Market focus** New world-scale plants will still be needed during the transition. But these opportunities will be mainly in the few countries where good growth can still be expected in the size of the 25–54 year-old “Wealth-Creator” cohort. Companies operating in the West will instead need to reposition their businesses to focus on the needs of the aging 55+ “New Old” generation if they wish to drive future growth. Those operating in the emerging countries will need to develop mechanisms to sustain growth in the domestic economy, particularly in the rural areas.

■ **Affordability** The focus on needs rather than wants is a different way of looking at the world. It requires the development of new offerings based on the megatrends of food, water, shelter, mobility and health. These products must be affordable, as they are aimed at meeting basic needs rather than mere wants. Consumers have less money to spend, and so the highly profitable middle ground of the past couple of decades is disappearing.

■ **Shared Value** Consumer values are also changing quite dramatically, away from the materialism of the recent past. Concerns about sustainability and carbon footprint are rising. Equally, companies in the emerging economies of the Middle East, Asia and Latin America no longer see profit as the only driver for business. Social stability is becoming equally, if not more important. The former focus on purely financial metrics needs to change.

#### THE “VUCA” ENVIRONMENT

The transition to the New Normal is a sea-change for the global economy. Its full impact will take years, if not decades, to become clear. Meanwhile, the world will face much greater uncertainty, as conflicting views of the world play out on a day-to-day basis. Companies therefore need to plan for a VUCA environment: Volatility, Uncertainty, Complexity and Ambiguity will be the order of the day.

GDP growth will once again become more volatile and uncertain as we transition to the New Normal. Those who have joined the industry since the 1980s have grown up in an economic Supercycle where the US suffered just 16 months of recession in the 25 years between 1982–2007. But now, with the aging of



This move to more of a needs-driven approach will require a change of mind-set within the industry. The key shift required is to move from a product focus towards more of a market focus.

Taking this new approach may prove uncomfortable at first, because of its unfamiliarity. But as companies become more used to it, they will find it is a powerful tool for capturing new growth opportunities. They can map these onto their own capabilities and aspirations, and develop a comprehensive program for future profit.

Our suggestion is that companies should focus on developing new product offerings for the new major demographic opportunities we have identified: the New Old 55+ generation in the West, and the Wealth-Creator 25 – 54

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age-group in emerging economies. These offerings should be based on core needs – water, food, health, shelter and mobility – and developed with sustainability in mind.

This approach will enable companies and consumers to do more with less. It will help to reduce carbon footprint, and maximize the affordability of new products. It will also require us to relearn old skills that were largely forgotten during the Supercycle.

But as we show in the chapter, our discomfort can be minimized by utilizing the lessons learnt by the major consumer products companies.

the Western baby boomers, we are returning to the pre-1982 environment. Recessions every four to five years will add more complexity to business and increase ambiguity.

A straight-line approach to planning will no longer work. Instead, a more demand-driven methodology is now required.

This is particularly true of the two high-potential growth sectors that we have identified.

Both the New Old 55+ generation in the West, and those emerging from poverty in the emerging economies, are relatively unknown markets.

Their demand patterns are unlikely to mimic those of the Western baby boomers as they entered their Wealth-Creator phase.

A more proactive approach, based on understanding their potential needs, therefore seems to be essential because:

- The New Old hardly existed as a commercial proposition until recently. People over the age of 54 were instead assumed to ‘drop off the map’ as they entered their so-called declining years.

- In the emerging economies, the focus during the Supercycle was on the few relatively affluent people. Little is known about the more than 90% who earn less than \$20/day.



How will you plan for the New Normal?

They are ahead of us in this journey, and their experience can provide valuable pointers for what we need to do. Equally, there is little we can do to avoid the transition now underway. Demographics drive demand, and the aging of the boomers is taking us down a new road.

**SEEKING A NEW SET OF VALUES**

Volatility, Uncertainty, Complexity and Ambiguity are clearly increasing as we transition to a new set of values in the New Normal. A key cause is that consumers’ value structures are also going through a major change. Increasingly, they refuse to define themselves any more by the size of their car, house or new kitchen. Instead, their focus is in 5 key areas:

- Value for money – they are price sensitive
- Simplicity – they are looking for less complex lifestyles
- People, not things – family and friends are increasingly important
- Values – they value trust, and are concerned about carbon footprint
- Convenience – they want products to last, and to be available locally

Another cause is that companies themselves, and governments, are confused about what is happening. Many still expect government stimulus programs to return us to the Supercycle world. This also makes it harder for the world to move forward in a new direction, when such powerful forces are still trying vainly to turn back the clock.

This VUCA landscape is creating winners and losers. No longer will the rising tide of affluent Boomers provide an effortless route to increased sales and revenues. Instead, companies need to create their own VUCA as they develop strategies and implementation plans. Vision, Understanding, Clarity and Agility will be their road map to success. ■

**THE NEW NORMAL**

Chapter 11 of *Boom, Gloom and the New Normal – How Western Baby Boomers are Changing Global Chemical Demand Patterns, Again* is now available free to download at [icis.com/NewNormalBook](http://icis.com/NewNormalBook). It is co-authored by Paul Hodges, chairman of International eChem, and John Richardson, director, ICIS training Asia, who both blog for ICIS at [icis.com/blog](http://icis.com/blog)

