Rex Features

Aging consumers are moving away from flashy designer labels and more toward creature comforts

Baby boomers change markets

In today's environment the time has come for companies to move from a narrow definition of success to one that embraces shared value

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Consumption dominates chemical demand. Chapter seven of our new *Boom, Gloom and the New Normal* eBook therefore looks at the changes taking place in consumer markets. They provide vital insight into how chemical markets are likely to develop in the New Normal. The key point is that companies are re-adapting their business models.

The focus on purely financial metrics and shareholder value was successful in its day, but has now become a dead end. Instead, the great companies of tomorrow will build their businesses by learning to provide products that are of genuine benefit to society.

We start by analyzing how the arrival of the baby boomers created a structural change in Western demand patterns. They were the largest and wealthiest generation that the world has ever seen. Their entry into the 25–54 age group when consumption typically peaks, helped to create a new middle ground. The previous division between providing either luxury goods with high perceived value, or functional products with a low delivered cost, became less important.

Consumer companies instead saw the opportunity to refocus on the middle ground of the value versus cost spectrum, via a process of "mass-customization." This meant that consumers were provided with extra value on

a cost-conscious basis – often due to the benign influence of the outsourcing model that we discussed in Chapter five.

Some companies went even further, as in the case of those auto manufacturers who got into the habit of adding "Go Faster" stripes to their cars, as a means of increasing the perceived value of the product. In essence, these companies developed what became known as lifestyle brands, which promoted a feel-good mentality among customers, but had nothing tangible behind them. This move proved extremely popular, and many boomers wore their new status with pride.

A luxury suit from Savile Row, or a Dior dress, had always been immediately obvious to those whom it aimed to impress. The label was hidden discreetly inside the garment, and acted simply as a reminder to the owner from the manufacturer. But for many boomers, the label instead became their own advertisement to the rest of the world, helping to define their own status. Thus even the simple T-shirt became worthy of a logo.

The boomers were the consumer generation when they were in their peak consumption years in the 25–54 age range. But since 2000, they have been entering the 55+ group in increasing numbers. Their values are now changing quite dramatically. Equally, they are not following in the path of previous generations for whom 55+ was assumed to be an end-of-life period.

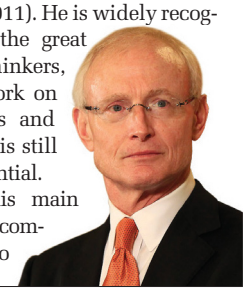
This major change requires companies to operate in new ways, if they are to be successful in the future. Shareholder value has recently been described as a "dumb idea" by its inventor, former GE CEO Jack Welch. But this message has not got through to many in the financial community, who still believe that a spreadsheet and a few good PowerPoint slides are all that is required to run a successful business.

We therefore highlight three case studies to help companies develop their thinking in this critical area. These build on the Scenarios and Critical Success Factors that we developed in Chapter 5. They provide concrete examples of the changes already being made by far-sighted companies in different regions.

- Procter & Gamble, the world's largest consumer products company, is now following a "white space strategy" to reposition itself for future growth.
- We also look at the lessons to be learned from the launch by India's Tata Motors of the world's cheapest car, the Nano.
- Plus we highlight the new business and technical innovation models being successfully developed by the Bill Gates-funded Meningitis Vaccine Project in sub-Saharan Africa.

The case studies are not only directly relevant to the chemical industry itself. They also represent new ways of doing business that will impact everyone who supplies products into these customer industries. All three examples highlight the opportunity for companies to grow sustainably and profitably as we enter the New Normal.

They also support the new concept of Shared Value that has been developed by Professor Michael Porter in the *Harvard Business Review* (January 2011). He is widely recognized as one of the great management thinkers, and his earlier work on competitive forces and company strategy is still enormously influential.



He takes as his main theme the idea that companies "continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success."

"This will drive the next wave of innovation and productivity growth in the global economy"

PROFESSOR MICHAEL PORTER
Harvard University

This leads him to propose a purpose statement for corporations that is "redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy." He also discusses whether taking a more societal approach might in some way damage companies' ability to operate. One argument put forward in recent years by the supporters of the Shareholder Value concept has been that companies should only exist to maximize shareholder return. In other words, they should aim to reduce costs to a minimum and so maximize profits. But as we now see all too clearly, this approach is also a prime cause of today's growing social inequality and unrest in the West.

As Porter summarizes the position, "Firms have focused on enticing consumers to buy more and more of their products. Facing growing competition and shorter-term performance measures from shareholders, managers resorted to waves of restructuring, personnel reductions and relocating to lower-cost regions, while leveraging balance sheets to return capital to investors. The results were often commoditization, price competition, little true innovation, and no clear competitive advantage… Companies have overlooked opportunities to meet fundamental societal needs… Our field of vision has simply been too narrow."

We demonstrate in chapter seven that companies can instead create great economic and societal value by becoming aware of the "white space" around their current operations. They can also reinvigorate their growth models by reconfiguring value chains to develop affordable products for today's currently unserved or under-served markets.

The two major examples of new opportunities are the 55+ generation in the West, and the millions of people emerging from poverty in the emerging economies. They also highlight the full power of the megatrend concept.

Meeting the needs of the aging Western population, improving water quality, increasing food production, and reducing carbon footprint are all profit opportunities that rely for their power on creating societal value as well as financial gain.

We argue that doing nothing, and hoping that yesterday's consumer-led boom will reappear, is no longer the low-risk option for companies, faced with today's slowdown in profits and growth levels.

Those who shut their eyes, and hope that things might one day return to the 'old normal' are likely to be disappointed.

"Who dares, wins" might instead be a good motto to post on every boardroom wall.

This, after all, is how today's great companies built their franchises in the past, through world wars, depressions and many other equally uncertain times. ■

THE NEW NORMAL

Chapter seven 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/NewNormaleBook**. It is co-authored by Paul Hodges, chairman of International eChem, who writes the ICIS Chemicals and the Economy blog, and John Richardson, director, ICIS training Asia, who writes the Asian Chemical Connections blog. ICIS and International eChem have also launched a training course, aiming at helping companies to become a winner in the New Normal. Visit **icis.com/newnormalseminars**