

# Pandemic redraws the map

Chemical companies have entered a new landscape where the coronavirus has accelerated major paradigm shifts that were already underway

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2020 is one of those years when time seems to speed up. The pandemic has been the catalyst for a range of paradigm shifts, which are accelerating the world's move into the New Normal. As I noted here in June (ICB 28 June), "companies only have two choices - they can either cross their fingers and hope, or they can start thinking 'out of the box' about how they will compete in today's New Normal".

Of course, all change is uncomfortable. But in reality, these are exciting times. CEOs have the once-in-a-lifetime opportunity to back their judgement and create the basis for major revenue and profit growth over the next decades. The move into New Normal is not about gaining an extra few points of market share via the introduction of a clever new product or application. It instead creates the opportunity to completely change the basis of competition.

Simply summarising the key paradigm changes highlights the nature of the opportunity:

- Energy abundance means that 'cost-advantaged feedstock' is no longer critical for success, freeing companies to focus on the opportunities created by changing demand patterns
- The key opportunity is to gain first-mover advantage by evolving from yesterday's product focus to tomorrow's solution orientation, based on deep techno-commercial capability
- Reshoring is already offering the perfect opportunity to pilot the new skills that will be essential for success, given the fragility of existing supply changes during the pandemic
- Advanced manufacturing will be key to future success, as digital, continuous and bio-tech-enabled technology will create a safer, greener, cheaper and more flexible footprint
- And these paradigm shifts will also enable rapid moves towards a more circular economy, based on new business models that prioritise local rather than global operations

Of course, we all know that dangers lurk all around us for the unwary. The paradigm shifts mean that we are transitioning between the legacy of the past and the opportunities of the future. We therefore cannot ignore the risks



created by continuing oil price volatility, geopolitics or even domestic politics such as Brexit. But as well as looking over our shoulder, we have to look forward and start to understand the nature of the transformation now underway. Unless, of course, we want to risk being caught in the middle.

### Speed of change

The global smartphone market provides an excellent example of the speed of change in consumer markets. As the chart shows, Samsung has already lost its once-dominant position, going from a third of the market in 2013 to just

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a fifth today, as the profitable middle market of the BabyBoomer SuperCycle disappears. Instead, markets are going back to a world where companies compete on the basis of being either low-cost or of providing high perceived value.

Thus Apple remains one of the most profitable companies in the world, despite having a market share of just 15%. But Samsung are seeing their revenues and profits squeezed by the emergence of low-cost Chinese competitors such as Huawei, who now have over a third of the market. This highlights the challenge and the opportunity for chemical companies:

- They can no longer assume that all markets will see similar prices for their products, and that growth will be a multiple of an IMF GDP forecast
- Instead, they have to decide where to focus their business - and choose either the lower-volume value-added segment, or the higher-volume, low cost area
- Failing to make a choice, and instead hoping that the middle ground of mass customi-

sation will return, is likely to replicate Samsung's experience of seeing volumes and margins decline

### Why is this happening?

The answer, of course, is today's changing demographics. Even the IMF have finally begun to wake up to the fact that today's ageing populations are dramatically changing the economic landscape. Just as we have argued in the past, they have now accepted in a new study that: "Fiscal policy isn't as effective in boosting growth in economies with older populations, compared to economies with younger populations." This is a critically important realisation for the development of the New Normal, given that Western population growth over the next decade will be dominated by the Perennials 55+ generation.

Their numbers will grow from 415m today to 458 million by 2030. Over the same period, the Wealth Creator 25-54 generation will decline from 505m to 478m. In other words, the largest and wealthiest generation that the world has ever seen, is now getting old. Thanks to the marvel of increasing life expectancy, the

Boomers no longer die around pension age – as happened as recently as 1950. Instead, they can expect another 15+ years of life. But from a consumption viewpoint, they are a replacement economy, as they already own most of what they need, and their incomes typically decline as they enter retirement.

It is therefore no great surprise to find that sustainability is replacing globalisation as the key driver for the economy and our businesses. We no longer have vast numbers of Wealth Creators needing to buy more a more "stuff" as they settle down, have children, buy homes and autos - and earn more as they move ahead in their careers. Instead, the Perennials need to "do more with less", as do their children given their struggle to repay tuition fees and afford record levels of house prices.

The chart showing US household spend confirms that spend peaks around the age of 55, and then nearly halves by the age of 75. Spending patterns also change significantly as people get older. Areas such as transport, clothing and education see larger declines than the average. But housing declines less than the average, and health spend actually

### What next?

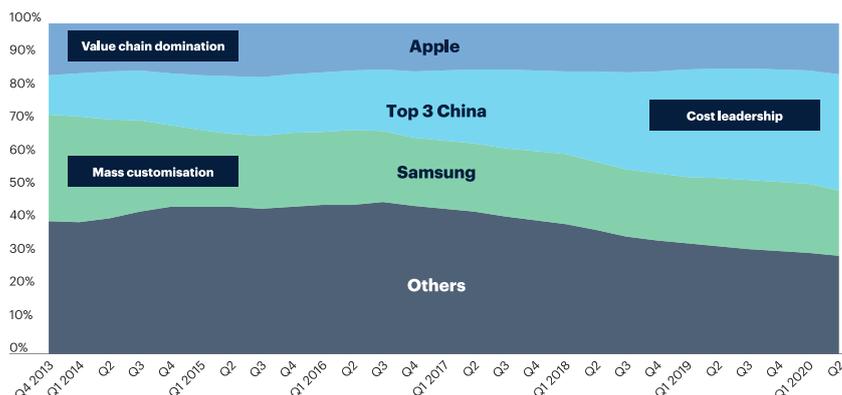
Companies and investors need to focus on the changes taking place in the industry's Critical Success Factors, and the implications for their business. Critical Success Factors in the SuperCycle were based on being supply-driven and product-orientated, with managements rewarded for meeting key metrics:

- **Integration** - access to competitive feedstocks, with plants all on one site
- **Location** - coastal or major waterway access with good logistics
- **Size** - World-scale with lowest possible unit costs
- **Technology** - reliable, robust, low cost
- **Global reach** - able to move product to the major regional markets

Today, these Critical Success Factors are being replaced by a new business model, based on being demand-led and solution-orientated, with managements rewarded for leadership skills:

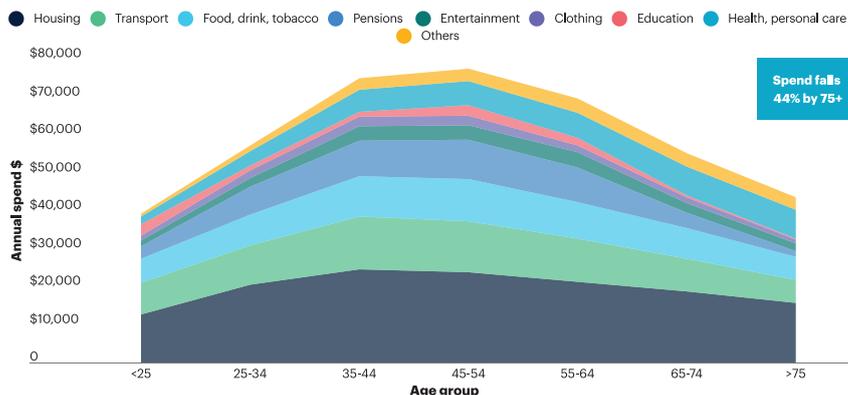
- **Flexibility** - Able to adjust to changing circumstances
- **Demand-led** - plants aligned with end-user markets
- **Scale** - managing market risk by being close to customers
- **Advanced manufacturing** - digital, continuous and biotech-enabled
- **Sustainability** - enabling end-users "to do more with less"

### Global smartphone market shares %, 2013-2020



Source: pH report, Strategy Analytics

### US household consumer spending by age group and category, 2020



Source: The pH Report, US Household Consumer Expenditure Survey 2020, Bureau of Labor Statistics

increases in the US as it lacks a European-style welfare state.

Mining this type of data for insights into future spending trends will be a new area of activity for many companies. And it will be doubly important due to the likely nature of the paradigm shifts in key areas of current petrochemical demand such as housing, autos and electronics. We will not only need to relearn these skills, which went rusty during the SuperCycle, but also need to recognise the pace of change caused by the maturing of the paradigm shifts, and the uncertainties this creates.

All change is uncomfortable, but we also all know it is inevitable. Instead of looking backwards, we now need to develop the leadership skills that will enable us to develop and implement the new business models that will drive our future success. ■



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