

FEATURES THE NEW NORMAL



When I'm Sixty-Four

As a large section of the population in western economies hits retirement age, it is imperative that chemical companies plan for the changes this will bring

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Will you still need me? Will you still feed me? The Beatles asked the right questions back in 1967, when singing When I'm Sixty-Four on their iconic *Sgt. Pepper's Lonely Hearts Club Band* album. What would happen to the Western baby boomers when they became 64? Would they be about to die, as had previous generations? Or would their future be different? The boomers strongly believed they were different, and they hoped this would lead to a longer life expectancy.

Today, we know this hope has come true, thanks to scientific advances driven by chemicals and pharmaceutical companies. We're now starting to discover the answer to The Beatles' questions, as the oldest boomer reached the age of 64 last year. Chapter five in the free ICIS/International eChem eBook: "Boom, gloom and the new normal: How Western baby boomers are changing chemical demand patterns, again," describes how companies need to adapt their business models to

this new normal. One measure of the change underway is that two-thirds of all those who have ever reached the age of 65 years in the world are alive today. This is the demographic time bomb that faces us. The boomers have been the richest and largest generation the world has ever seen. However since 2001 they have been entering the 55+ age range, when people typically spend less and save more. By 2020, an unprecedented 33% of the developed world population will be over 55.

It is not surprising, therefore, that recent recoveries have proven relatively weak, in spite of unprecedented amounts of stimulus. The boomers simply don't need more housing or new cars. Equally, they are becoming uncomfortably aware that their pension funds may have to support them for one or more decades, rather than just a few months or years.

Western women are particularly likely to become more cautious in their spending, as equal pay for equal work remains elusive for many. While women have longer life expectancies than men, 25% are only in part-time employment, according to figures from the Organisation for Economic Co-operation and Development. So their prospective pensions are even smaller. Thus, we must assume that demand growth will be slower. We also must plan for a world where regular and deeper recessions are likely to become a feature of the global economy once more, in contrast to the relatively smooth growth seen during the boomer-led Super Cycle. The key question is therefore one of mindset. Successful

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Chairman, US Federal Reserve

companies will be those prepared to venture into the unknown, as until recently the 55+ generation had no real existence as a separate economic unit. Advertisers ignored it, for the simple reason that once people reached the age of 55, their needs usually began to reduce quite sharply, and often became primarily focused on health-related issues.

If we are going to venture into the unknown, it seems sensible to avoid being too prescriptive about what we might expect to see over the next 20 years. Instead, we might sensibly try to construct some potential scenarios (see box) to highlight the key variables that need to be considered as we approach this brave new world.

CRITICAL SUCCESS FACTORS

These scenarios give us valuable insight into the challenges ahead for companies and individuals. They also suggest some critical success factors for achieving a successful transition to the New Normal, as set out below:

- **Flexibility:** This involves adapting to new circumstances and being willing to compromise rather than battling for an impossible nirvana.
- **Change management:** The next 20 years will

likely see rapid and unpredictable change in the business environment in contrast to the remarkable stability of recent decades.

■ **Scenario planning:** Companies need to adapt their planning processes to cope with the greater uncertainty that will come from operating in a more events-driven world.

■ **Real needs:** Over the past 20 years, Westerners have often confused “wants” with “needs.” In the New Normal, mere “wants” are unlikely to be reliable market drivers for the future.

■ **Action orientation:** Uncertainty can breed a loss of energy, and so companies will need to encourage their employees to experiment creatively if they are to move forward.

The positive news is that most Boomers are likely to lead active and healthy lives well into their 60s and 70s. So the opportunities to capture their interest and their business are still very large indeed. We will highlight some valuable case studies to help with this process in chapter 7. Companies focusing on the emerging economies face similar challenges, as we will discuss in chapter 6 next month.

Their core market will also consist of a currently underserved demographic – those just moving out of poverty and able to afford a bar of soap, or a bra and pair of panties, for the first time. However, The Beatles provide a reliable guide – if we are prepared to listen to their message from When I'm Sixty-Four. The megatrends such as an aging population and the need for improved food production provide the key to future success. ■

DYNAMICS

POTENTIAL SCENARIOS

■ **All's well that ends well**
In this scenario, the key dynamic is that there is a rapid adaptation to the new normal. This may be driven by the observation of the major pain being suffered in countries already at the sharp end of some most unwelcome restructuring – Greece, Portugal, Ireland and Spain, for example. This gives Western politicians the courage to talk seriously about the issues that society faces, while the wider population becomes prepared to listen to their messages and to accept that major changes need to be made.

■ **Muddle through**
In this scenario, there is no rapid adaptation to the new normal, and although a

higher quality of dialogue takes place between policy-makers and the electorate than in the past, no firm agreements are reached on key policies and objectives. However, social cohesion is retained, and so society does not fragment into warring groups.

■ **If you don't where you're going, any road will do**
A third scenario is based on the potential for politicians to remain more focused on sound bites than on formulating policies that will drive long-term success for their populations. In this scenario, the current dysfunctional state of many Western political systems, and their alienation from the wider electorate, is not a temporary phenomenon, but a sign of the future.

■ **Don't worry, everything will be fine**
This is the scenario under which the West had been effectively operating for the past few years, ignoring the demographic changes that are taking us in a new direction. It is characterized by an increasingly desperate belief that everything is just about to “return to normal” – that is, the former Super Cycle – via the magic elixir of either tax cuts or yet more stimulus.

The challenge facing us, however, has been summed up by Ben Bernanke, chairman of the US Federal Reserve, who has warned that “We cannot reasonably expect to grow our way out of our fiscal imbalances, but a more productive economy will ease the trade-offs that we face.”

THE NEW NORMAL

Chapter 5 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 www.icis.com/NewNormalBook. 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 www.icis.com/NewNormalSeminars.

