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The new world order

Eight trends to frame corporate strategy

The world looks a very different place after the tumultuous events of the last two years. Financial crises, recessions, banking bail outs, volatile asset prices and exchange rates and deficit reduction after fiscal stimulus have changed the trading landscape for almost every company in the industrialised world.

The challenge for organisations in the private and not-for-profit sectors is now to adapt to the evolving commercial environment by developing strategies encompassing the key drivers of change in their specific markets. Only then can real focus be made on opportunities, threats and strategic choices.

We list below eight trends which are likely to affect the markets of most (if not all) organisations trading in Europe and the Americas. These trends are intended to provide building blocks for the external analysis of marketing strategy. The conditions for these trends are in place and they are all but inexorable.

To ignore their market implications would be miss the opportunity to increase sales and profits by dominating one or more of these trends. As consumers, companies and state sectors adjust their behaviours to the new world conditions, it will be the more forward-looking and strategically adept organisations that will select the appropriate marketing strategies and tactical positions.

The trends are listed in no particular order.

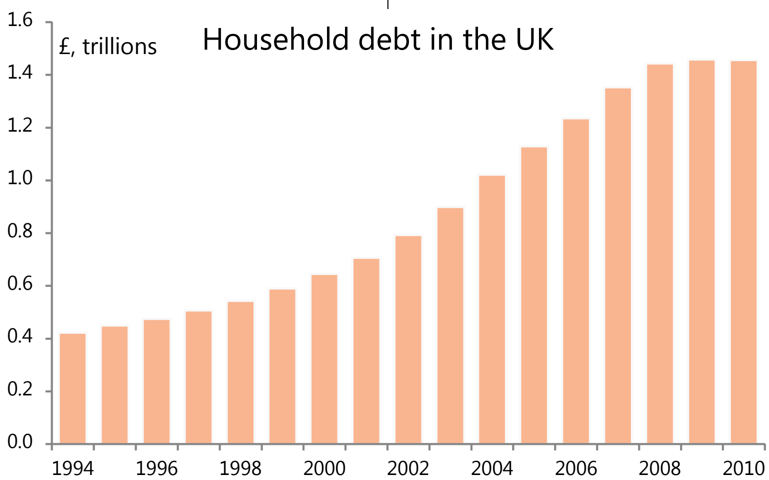
1 Debt has become dirtier

The compulsion among governments across the industrialised world to reduce their budget deficits will affect consumer attitudes to debt for some time.

The almost universal acceptance across the high public deficit economies for spending restraint marks a new era in fiscal policy. It seems that borrowing to maintain spending levels has become much less acceptable for governments of all colours.

Household borrowing in the UK began to fall when the credit crunch started to limit bank lending in late 2008. The debt reduction has been in unsecured debt, mostly on credit cards. Secured debt, mostly in mortgages, has actually increased.

The mantras of austerity and solvency will be repeated by



political leaders over the next few years as public spending is cut back. Consumers will continually be exposed to familiar voices expounding both the necessity for debt repayment and the dangers of unsustainable debt.

But consumer and government credit was a driving force behind the sixteen-year consumer spending cycle which ran aground in 2008. Over the next five years consumer markets across the industrialised world will have to learn how to live with much lower levels of unsecured credit.

Consumers have shown themselves to be myopic, though, especially in the UK and the US. Once the burden of fiscal consolidation has been carried, and the urgency in financial re-regulation has expired, expect consumers to return to their borrowing habits with a vengeance, creating another credit spiral in the second half of the decade.

Without heavy investment, productivity growth will struggle

2 The world keeps ageing

The average age of virtually every nation is increasing.

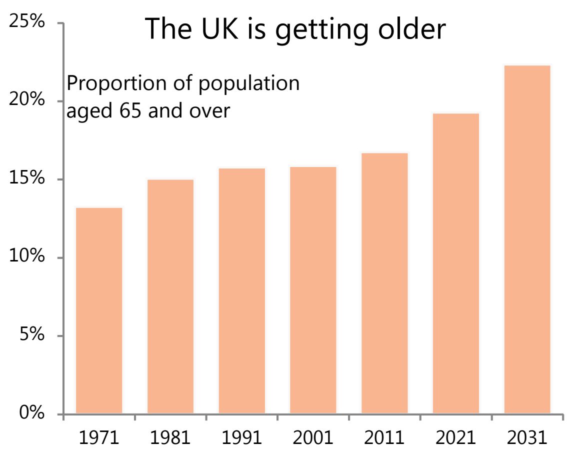
Populations have aged in the past. This has usually been down to diseases affecting young people (like Spanish 'flu in the late 1920s) and wars. This time, medical advances are reducing child mortality rates and increasing life expectancy. At the same time, higher work participation rates among women have led to families having fewer children.

As a population ages, the proportion that is economically active falls and the proportion that is dependent on the state increases. Living standards will fall without sterling productivity improvement.

But ageing populations tend to save less and spend past savings. And lower savings means lower investment levels. Without heavy investment, productivity growth will struggle. So while the workforce is shrinking, the increases in output per worker will slow.

So, inevitably living standards will suffer. Households are likely to increase in size as families take in dependents or recruit distant family members to help out. And households will be forced into unpalatable choices—notably between healthcare for the elderly or education for the children. For the first time in over a century, large numbers of young people will find that their living standards will have fallen behind those of their parents.

But the seniors provide enormous opportunities for busi-



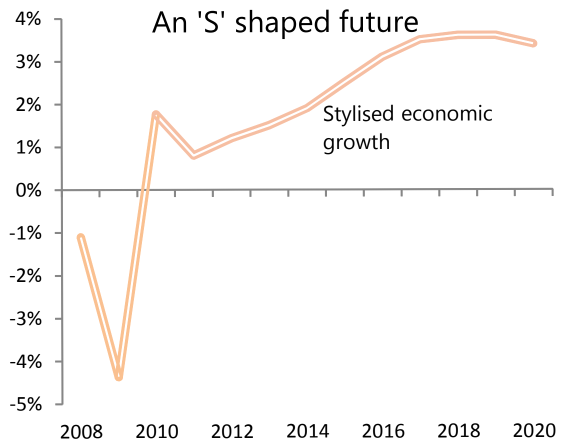
nesses. They are growing in number and spending power, they can form loyal customer bases and they are increasing their use of new media. Companies recognising their potential could gain a highly profitable first-mover advantage by developing relationships with this group.

3 The health boom drain

Economies across the world will be devoting an increasing proportion of their national incomes to health care. This is not just because of population ageing. Medical advances are converting life-threatening illnesses into chronic conditions which, with treatment, can last years.

Globalisation (see below) is not only opening up new markets for pharmaceutical companies but is also improving patent protection, increasing the returns to medical research investment. More companies are looking into the debilitating diseases. Each solution will extend life but will also cost in provision.

Governments across the world face potentially exponential liabilities in health care. The elderly will cost the most. But they also turn out in numbers for elections. Expect a global, long term boom in the health provision and maintenance industries, a boom that will drain the resources for other uses and force populations to question the financial value of life.



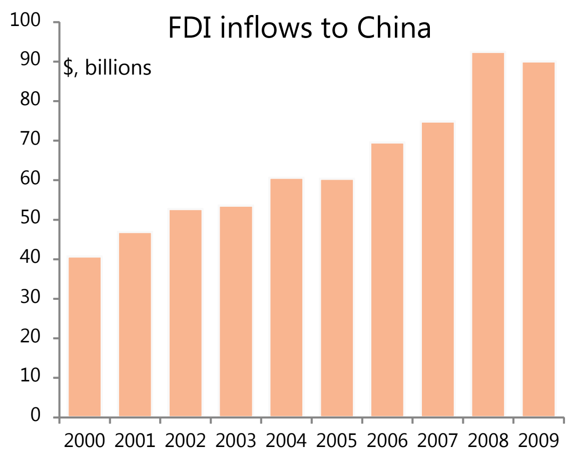
4 The 'S'-shaped decade

The 2010s will look quite different when compared to previous decades, at least in economic growth terms.

As government's across the industrialised world look to reduce their spending deficits, bloated by fiscal indiscipline and/or stimulus measures to offset the effects of the financial crisis, they will extract demand from their domestic economies.

Growth over the next few years will be some way below trend in Europe and the Americas. The recovery path expected for these economies will be slow.

The fiscal reconstruction process is broadly expected to last into the second half of the decade. From then, growth in these economies should accelerate as the drain on resources is lifted and, inevitably, another borrowing cycle starts. The rate of economic growth should accelerate toward 2018 or so, completing the 'S' shaped growth trajectory.



5 Irresistable globalisation

Globalisation, the movement of capital, production processes and technology from industrialised to developing economies, is not over yet. Arguably, it is just starting. Its effects on jobs, incomes, asset prices and productivity growth in the UK, Europe, the US and Japan will continue for decades.

So far, globalisation has mostly transformed the manufacturing sectors of the industrialised world. Educated and skilled workers from China, India and Brazil, and more lately Ghana, Romania and Bangladesh, have attracted investment from many of the world's major corporations. This has left in its wake angry, disillusioned and often politically agitated former employees who have struggled to adjust.

The beneficiary emergent economies have gained through job creation, the establishment of a modern manufacturing base and, perhaps most importantly, a technology transfer which in time will spread across industries. These recipients of globalisation are accelerating decades of industrialisation into years.

But the next stage will disturb large numbers of workers in the industrialised world. For globalisation's second act will be the large scale transfer of services to emergent economies. Actually, it is already happening.

> The recipients of globalisation are accelerating decades of industrialisation into years

Services account for around 80% of the output of most industrialised nations. Service provision requires education, training and language and communication skills. These necessities have provided some protection from globalisation over the past forty years. But information technology and language education in emergent economies are removing these barriers.

Call centres, service centres and back office services have moved from New York, London and Tokyo to Shanghai, Mumbai and Mexico City. As more service functions are relocated, the industrialised economies will act as control centres, focussing on strategy, marketing, finance and distribution. They will house the headquarters of global companies, offering fewer but (compared to going rates) highly paid jobs.

But for many middle-income earners in the industrialised world, this will mean long-distance competition for their services. They will experience minimal increases in their real wages, and even reductions, if they cannot demonstrate unique, proprietary skills.

Middle-income America has seen remarkably little improvement in living standards over the last decade. This is one explanation. And the same will happen to its UK and European counterparts.

6 Inevitable inequality

A feature of political economy over the last decade has been the inability of governments throughout the industrialised world (and most of the developing world) to prevent inequality. The rich have become richer while the middle and poor have not shared in the proceeds of economic growth.

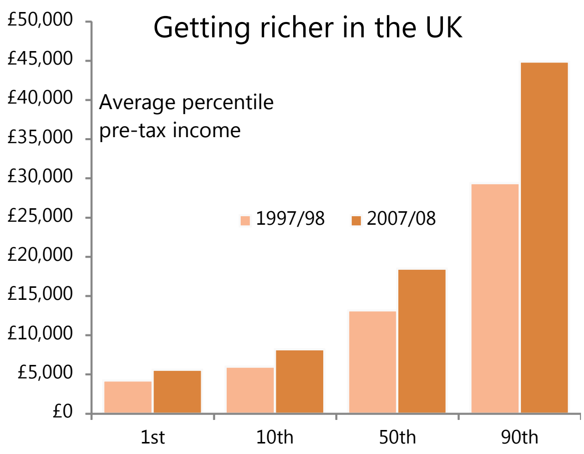
Europe's leaders have tried and failed to address this trend. Whether through the tax system or levies on bankers, the answer to inequality seems as elusive as ever. This is because governments cannot stand individually in the way of two almighty forces.

The first is globalisation. As we note above, globalisation drives down wage costs, reducing the share of national income going to workers, even when productivity is improving. As these costs are kept low, so profits (or dividends to shareholders) increase.

The second is the rise of the intangible asset. Ideas and relationships have replaced physical assets as the prime driver of economic activity and growth. Two-thirds of the book value of the top US companies are in intangible assets (patents, copyrights, branding and human capital); twenty years ago it was just a quarter.

It has been managers, professionals and shareholders only who have gained from the proceeds of these intangible assets. Employees disenfranchised from these assets are finding it difficult to maintain living standards, especially in the US and Europe.

Unbound by globalisation, these two market forces will continue to stretch the income and wealth distributions across



both the industrialised and developing worlds. The skills of the top 10% of workers will command an increasing premium at the expense of the rest. And the rising numbers of pensioners will add to the inequality.

7 Higher energy prices

As the Chinese and Indian economies continue to develop they will become them most energy-intensive in the world. And, as their consumers gain in affluence, they will constitute the largest national car markets.

Oil prices will increase in real terms over the next decade. This will matter less in the UK and Europe because of the high levels of petrol taxes. But the US, African and Asian economies will have to absorb much higher petrol prices. Car travel will change for billions of households.

This will spur research into alternatives beyond the current hybrid technology. Hydrogen fuel cells and nanotechnology-based solar energy are possibilities. The gathering acceptance by governments in the industrialised world of global warming could lead to more state involvement and sponsorship of new fuels.

But in the meantime the world will run on oil. The US and EU will have to improve its relations in the Middle East to secure long term commitments will oil suppliers in the way that China has with Iran, Russia, Nigeria and Venezuela.

8 The cold war thaw

The fall of the Soviet Union has had some lasting effects on the world. It left the US as the sole economic and military superpower. It created the space for China to embark on free-market reforms necessary for inward investment. And it allowed some new institutions — WTO, WIPO, APEC and the old IMF — to extend their influence over most of Asia and Central Europe.

Russia's economic prospects are not altogether encouraging, despite its 'BRICs' inclusion. Its population is falling (along with life expectancy among young men in some regions), it is dependent on energy exports for economic growth and its manufacturing sector needs vast amounts of inward investment to compete globally.

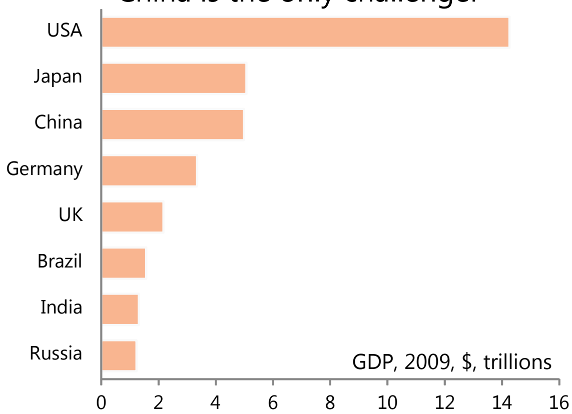
This will leave China as the only emerging threat to US dominance of world geopolitics. China and the US will have to compete and cooperate. They will compete for energy and other resources as well as jobs and markets. And they will have to work together to reduce the US's current account deficit which is inflated by imports from China subsidised by an undervalued yuan.

Currency realignment will be the first step to avoid a dollar collapse which could undermine global economic growth. Further cooperation between China and the US on counter-terrorism and protection of internet architecture will strengthen ties, at least in the short term.

But this focus on US-China relations will mean further diminution of the EU in global politics. The EU's introverted tendencies will have to be reversed if it is to avoid becoming a side-issue in global economic terms.

The only route to preserving its voice in world affairs would be for the EU to re-engage with the US on matters of economic development. This seems unlikely with the current rhetoric from the EU's national leaders. But an alliance with fellow democracy US is much more likely than one with China. ©

China is the only challenger



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