The Global Outlook for 2010

The Next Decade: Key global trends and implications for business

By Mark Spelman

We are now beginning to turn the corner of the global economic downturn. In 2010, says **Accenture's Global Head of Strategy, Mark Spelman**, *business leaders will have to balance short-term cash and cost imperatives with a renewed focus on the longer-term trends that will drive the recovery and shape the next phase of growth. This is the first in a series of articles on the global outlook for the new decade and beyond.*

What do you think the next decade is all about? 2009 was an all-consuming year as business navigated the threat of a collapse in the financial system and a synchronised economic downturn. 2010 heralds a new decade and the opportunity to consider life beyond the credit crisis. The pace of change continues, uncertainty still exists but new economic and commercial realities are emerging, which are reshaping the way business leaders are thinking about the future. What are the long-term trends that will affect your business? Who will be your customer of the future? What are the drivers of the competitive dynamics in your industry and where do the prospects for growth lie? Once the answers to these questions have been worked out, leaders must then look at the implications of balancing the need for international scale with local market proximity.

2010's economic reality is of a multi-polar world operating at multi-speeds. Asian GDP growth will be stronger than in North America and Europe but the dagger clouds of uncertainty will remain – have all the toxic loans been flushed out of the financial system? What happens to demand when the fiscal stimulus packages unwind? Will the trade imbalances remain? And will the spectre of commodity price rises and inflation grow throughout the year? The benign growth of 2002 – 2007 has disappeared; the future will be more uncertain, more volatile and more risky.

In the last two years, we have witnessed the first synchronised global recession, with negative or sharply slower growth in all of the world's major economies. The downturn has bottomed out and the key questions for 2010 will be all about growth prospects for countries – and the degrees of freedom for their governments. Many of the countries that were hardest hit by the downturn were those most open to globalisation (South Korea, Singapore, and Germany). Yet these are also the countries that have the capacity to rebound most strongly and prosper in the recovery.

Brazil and Canada are well positioned for the upturn based on a strong resource base and a financial sector that was well capitalised going into the downturn. India and China have strong domestic demand to counterbalance the fall in global GDP. The countries in Europe with high government and personal debt will be slower to turn the corner. The US will remain the world's consumer of last resort but higher domestic unemployment, and the need to increase savings will make recovery patchy in 2010.

Policymakers, businesses and investors need to understand that it is the absolute levels of income, debt, wealth and employment, not just rates of change, that matter today. The patterns seen in the global economy have occurred alongside shifting political power.

International institutions are evolving to reflect the shifting economic landscape and there is an increasing realisation that global issues, such as climate change and trade, require global solutions. The G7 has been superseded by the G20, and momentum will build in 2010 for further restructuring of the World Bank, International Monetary Fund, and the World Trade Organization. International cooperation will be put to the test as efforts to avoid protectionism, advance the trade agenda and conclude a climate change treaty proceed throughout the year.

But leaders need to balance the long-term with the short-term; to look across multiple time horizons; to continue to drive short-term results without forgetting the rapidly changing landscape. As we head into 2010 after a year heavily laden with short-termism, it is even more important to grasp the drivers of change and apply them carefully to the business decisions that will ensure winners pull away from the rest of the field as the upturn comes.

This article turns to the five longer-term drivers of change that should matter to business leaders as a new decade dawns.

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POPULATION AND DEMOGRAPHICS

The first key driver is change in demographics – population growth, a rise in the middle classes and a rapidly ageing population. All three trends will bring profound change. Between 2010 and 2050, the world's population is expected to increase from 6.7 billion to 9.1 billion and, within that, the middle-classes are going to double in the course of the next 10 to 15 years from about 1.7 billion to about 3.5 billion people. This has enormous implications for consumption patterns across all markets.

It is also important to remember that 85 per cent of the world's population sits in emerging markets. North America, Europe and Japan are a small component of the world's population and this trend will not change. In 'developed economies' the dominant trend is ageing. Between 1950 and 2050, the number of people over 60 is going to move from about 8 per cent of the world's population to 22 per cent; in Germany and Japan the working populations will shrink by 15 per cent. Taken together, these trends mean huge implications in terms of the number of people that the remaining working population will have to support. It also means healthcare and pension provision need to be reconfigured and, from a public finances point of view, it will change who and where people are going to spend money. Businesses will have to be able to target an ageing population, particularly in the West, and a very rapidly rising emerging population, particularly in the East.

The changes in population size will be complemented by ongoing urbanisation as people move from rural areas to cities. If you compare Europe, which has 35 cities with a million people today, with China, which will have 221 cities of that size in just 15 years (seven times the number in Europe) you can see the scale of change approaching. Growth of populations, the rise of the middle class, ageing and urbanisation combine into a heady mix of trends, which will change the way markets behave and consume goods and services.

ENERGY AND NATURAL RESOURCES

All the forecasts show that demand for fossil fuels will continue to rise unless clean energy and energy efficiency can be scaled at speed. The downturn means that the short-term pressure on oil and gas capacity and commodity prices has eased but the long-term trend is towards higher prices as growth recovers across multiple geographies.

The trend towards the low carbon economy will accelerate – creating green jobs and reducing the hydrocarbon dependency of many economies. One set of solutions which will receive more prominence is smart energy – introducing new forms of smaller scale energy provision to cities, rolling out smart grids, smarting up commercial buildings through better heating and cooling systems and rolling out smart meters in residential areas to improve load balancing at peak times during the day.

In many emerging markets, the discussion will be about smart water and new solutions to deliver water to larger and growing populations. New financing models will be required to fund the investments in water infrastructure and to ensure new solutions such as linking concentrated solar power and desalination together will come to fruition.

The era of cheap commodities from oil to raw materials to water is rapidly coming to an end. Companies will need to think more carefully about their sourcing strategies and how they will have to adapt their business models to a low carbon world.

THE ENVIRONMENT AND CLIMATE CHANGE

Thirdly, the environment and climate change will remain a key driver for business. Rising commodity prices are stoking concerns about energy security and dependency. Natural disasters and freak weather events are becoming increasingly visible reminders of the human and physical impact of climate change. Governments are looking to massive investments in infrastructure to reduce emissions and stimulate new growth opportunities. All at a time when the capacity of governments to find a practical and workable solution to climate change involving targets, financial transfers and measurement is still very much a work in progress.

The big challenge for the next decade will be how to achieve sustainable economic growth without ecosystem degradation. Achieving a sustainable environment with a world population of nine billion people throws into focus food productivity, which will need to increase at the rate of 2 per cent per annum to meet global demand. The Chinese have started to buy land abroad for food production and the propensity for food wars or unrest will increase if food productivity cannot keep pace with demand.

There will be a dramatic change in the West where we have got used to using the environment for free. In the future, this will not be the case. We will pay to emit carbon – in other words carbon is going to become like wages. So in the way that we pay salaries for people to be employed, we will pay for businesses to be able to emit carbon.

TECHNOLOGY

Technology is a key dimension in shaping the future. Nokia predict that, by 2015, five billion people on the planet will have mobile phones. In Africa and the developing world this will have a transformational impact on lifestyles and patterns of demand. Intel anticipates that the number of mobile devices connected to the internet will explode in the coming three years.

Soon it will be possible to conduct a whole range of activities through mobile phones, with the mobile network becoming seen as a key pillar of a company's infrastructure in emerging markets. It also means profound changes to fundamental services such as banking - why do you need a retail-banking network when you have got the opportunity to pay and transfer funds through a mobile phone? Further technical advances to microchip design will dramatically increase the power and scope of mobile phones , PCs and other machine to machine wireless devices.

If we then apply the power of chips to the revolution that is occurring in sensors you can see an explosion in real time data – remote diagnostics becomes more practical and analytic tools become very important. A company's assets and buildings will increasingly be run by remote diagnostics thereby fundamentally changing the way you monitor, evaluate and predict the consumption patterns of your consumers and the productivity of your assets.

FINANCIAL SYSTEM

The reasons why the world's largest financial institutions hit the buffers were down to over leverage and incorrectly focused regulation, which led to a need for recapitalisation and restrictions on credit. Credit has dried up in many financial markets. No matter how much analysis we do of the reasons why banks overextended themselves, the business issue that remains in many developed markets is the lack of credit. As banks recapitalise in order to feel confident enough to lend again, governments have become involved in securing their debts. The interesting question this generates is, what will be the relationship between governments and business going forward? When the 'crisis' is over, will governments leave a more stringent regulatory regime or will they retreat away from the interventions of the last 18 months? It is clear that banks will need to be more capitalised in the future; companies will find credit more difficult to secure and financial markets will have to operate with much more transparency.

The problems of the banks and the need for more infrastructure spending will lead to many more public/private partnerships, and that will mean businesses needing to work with a much broader and extended range of stakeholders than they have in the past. More dialogue with governments and NGOs will necessitate greater creativity about how business cases are going to work as costs and benefits do not always flow to the same stakeholders in the same proportions.

CONCLUSIONS

Short-term uncertainty and rapid change driven by some game-changing trends makes for a fluid and dynamic start to the new decade. The pressures to use cash and capital wisely will remain – the need to make the tough restructuring calls to create new more competitive cost structures will not have disappeared and the relentless drive on holding market share through focusing on the most valuable customers will remain a necessary condition for future success. But for leaders with the bandwidth and vision the new decade offers multiple opportunities . We can expect to see acquisitions increase as strong companies look to reposition their portfolios with new competitively priced assets. The low carbon economy offers a great driver for innovation and growth in both developed and emerging markets.

The world of 2009 was very different from the world of 2000. We can expect the pace of change driven by technology to accelerate rather than slow down over the next few years. The challenge is to combine short-term necessity with the vision and leadership required to grow in the medium term. What is clear is that those companies that invest wisely in the downturn accelerate away from their peers in the upturn. 2010 will see a patchy recovery led primarily off the back of what happens in US and China. Be careful not to underestimate Germany; ten states in the US have Germany as their largest foreign direct investor. Germany invests more in China than the UK, France and Italy put together. As the US and China increasingly work together, it will be Germany who will be well placed to win off the back of that collaboration.

Historic success is no predictor of the future – now is a good time for business leaders to reassess their assumptions and test whether they are ready for the ups and downs of the next decade.

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