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THE COMPETITIVE BUSINESS ENVIRONMENT OF THE 21ST CENTURY

Synopsis of a recent keynote address delivered by Dr. Roger Selbert

Introduction

What will it take for businesses to succeed in the competitive environment of today and the future? It will take more than information and knowledge about marketplace trends; those are in ample supply. What's less common, but required, is an **understanding** of marketplace trends and their competitive implications. This is because **understanding** dictates **strategy**, and good strategy well executed dictates success.

There are 5 main components to the competitive business environment of the 21st century, centering on economic, demographic, geographic, consumer and workforce trends. Here's an overview.

1 – THE NEW ECONOMY

Speed

If there's one word that describes the new economy, it's **speed**, or specifically, the faster reallocation/rationalization of human, financial and physical resources. Due to the easy and affordable availability of more, better and more timely information, businesses must now act in hours, days and weeks – not months or years – to reverse bad decisions, correct mistakes, abandon bad investments. As evidence of this revolution, consider the thousands of businesses that now conduct inventory reports on an ongoing basis in real time, in contrast to the quarterly inventory reports that once were the norm.

The competitive pressures to act quickly come from myriad sources, including intra- and inter-

industry competitors, and those both domestic and foreign. For public companies, there are the added pressures of more widely held stock ownership, and more demanding boards of directors. All of these pressures put a premium on every business organization's flexibility, adaptability and responsiveness.

Productivity

Faster reallocation/rationalization of resources limits the frequency, severity and duration of recessions. This is good for the economy as a whole, and for each of us as consumers, but hard on us as companies and workers, because we all must be more **productive**. And we are: the annual rate of productivity growth in the US economy seems to have reached a new plateau at around 3% (especially impressive in conjunction with the lowest inflation and interest rates in a generation). Surprisingly, enhanced technologies account for only about half of our productivity improvement; the other half comes from working **smarter**: more skills, combined with more effective management, organization, and processes.

Intangible Assets

Part and parcel of an economy based on creativity is that economic value is increasingly derived from intangible assets: intellectual property; inventions, patents, copyrights; original business concepts; creative product; brand name recognition; goodwill; innovative concepts, ideas, techniques. Today and in the future, more and more companies will make most of their money from intangible assets.

According to Federal Reserve data, tangible assets such as real estate, equipment and inventories today represent only 53% of the assets of US non-financial corporations, vs. 78% some 50 years ago. But annual investment in intangible assets – including R&D, software purchases and

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advertising – rose from 4% of GDP in 1978 to almost 10% in 2000. This too represents a permanent, structural shift.

2 – THE NEW DEMOGRAPHY

American Exceptionalism

The biggest global demographic trend of the 21st century will be declining fertility and growth rates in all regions, and, in the second half of the century, declining populations in all of the Western, advanced, industrialized, first-world nations, save one: the United States. Thanks to relatively high fertility and relatively high levels of immigration, total US population will **grow** (from 283 million today to 397 million in 2050), and **not age as quickly** (median age increasing from 36 today to 41 in 2050, by which time the Western world's median age will have reached 49).

We are also, for the first time, becoming a truly **age-diverse** society. Our demographic profile once resembled a pyramid (with a large base of youth at the bottom and a small tip of elderly at the top). Today, and increasingly in the future, our demographic profile will resemble a rectangular pillar (with large and surprisingly equal numbers of all age groups). For example, there are today some 80 million Americans under the age of 18, more than at any previous time in history (even the peak of the post-World War II baby boom), but they are a far smaller share of total population than in the 1950s and '60s, and are equaled in number by Americans aged 50 and older.

Older, Richer, Wiser

The number of Americans aged 50 and older will grow from 80 million today to 120 million by 2020, a 50% jump. The share of the US population aged 65 and older will increase from 13% today to 20% by 2030. Seniors are today, and increasingly in the future, more active, more likely to work at least part-time, healthier, and wealthier. Americans over 50 today:

- are a third of the US consumer market, yet control 70% of the net worth of all US households;
- represent \$1 trillion in annual income;
- stand to inherit over \$10 trillion in coming decades.

Not just seniors but all Americans in general are wealthier. The median US household income is over \$41,000, a record high, and is projected to climb to \$50,000 by 2010. Over half of all American households (some 60 million) own two or more vehicles. The number of households with annual income over \$100,000 will reach 20 million by the end of this decade.

We're also a wiser society: 82% of adults have a high school diploma; 25% have a bachelor's degree, both record highs. Perhaps more importantly, we are more informed, aware, connected, savvy and sophisticated, thanks to hundreds of cable and satellite TV channels, the Internet, continuing education, and thousands of special interest organizations and publications.

More Female

Women's increased labor force participation was one of the most important economic and social trends of the 20th century, and will characterize the 21st as well. Women are now approximately half the American workforce, hold nearly half of all executive/administrative/managerial positions, comprise 30% of all professionals, and represent 12% of corporate officers and board of director members. Women currently earn more college degrees and MBAs than men, and outearn men in 31% of households with a working wife. Businesses ignore women at their peril.

More Ethnic

Ten percent of US residents (28.4 million) are foreign-born. 17.6% of US residents speak a language other than English at home (in California, the figure is 40%). Over the next

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5 years, while the number of white Americans grows 2% (to 220 million), the number of black Americans will grow 11.6% (to 40 million), the number of Hispanic Americans will grow 9% (to 42 million), and the number of Asian Americans will grow 27% (to 14 million).

The United States is becoming a multiethnic society, although the degree to which ethnic populations are internally diverse in all measures and categories is still under-appreciated. Hispanics are the biggest story: in raw numbers, 50 million by 2015; in population share, one of every 4 Americans by 2050. Hispanic middle class growth is expansive; like the mainstream American market of the 1950s and '60s, the Hispanic middle class is young, suburban, family-oriented, working, acquisitive and aspirational. But Hispanics are redefining acculturation and assimilation: retaining their culture, values and language even as they adapt, adopt and *change the mainstream in the process*.

3 – THE NEW GEOGRAPHY

The Ten States Imperative

A major trend transforming American society is underway: we are separating into two nations. One nation is comprised of the ten states that contain the country's engines of population growth, economic growth, demographic diversity, cultural dynamism, political power and market opportunity. The other nation is comprised of the remaining 40 states.

Which are the Ten States? They are the 6 mega-states (CA, TX, FL, NY, NJ, IL) plus the 4 other states where the Hispanic population is growing rapidly (AZ, NM, NV, CO). Within the foreseeable future, these Ten States (in reality, their metropolitan regions) will contain half the American population, half the US economy, and 80% of the 270 Electoral College votes needed to win the Presidency. And oh yes, they'll also dominate American popular culture.

The Ten States are, and are increasingly, more diverse, younger and more dynamic than the other 40. They are richer, more urban, and dominate the cultural industries such as technology, design, entertainment and media.

Best Places, Next Frontiers

Now, this is not to say the other 40 states are in decline (well, some are), or that they don't have great places to live and great business opportunities (they do). Every year business magazines compile lists of these best places to live and do business; some are in the Ten States, some in the other 40. But all have:

- numerous institutions of higher education and research;
- access to adequate labor, capital and transportation;
- sound infrastructure plus appealing lifestyle amenities;
- business-friendly environments (re: taxes, regulations, zoning, etc.);
- a small-town/community/neighborhood feel.

The New Suburbanization

The overall pattern of US population growth has shifted, for the first time in generations, toward smaller communities. During the 1990s, for every three suburban households that moved to the city, five urban households departed for the suburbs. This trend will continue due to baby boomers "aging in place" (15% of Americans moved last year, down from 20% in 1970), and attitudinal shifts desirous of closer family and community connections.

According to demographer William Frey, thirteen fast-growing states comprise the new suburbia, where successful native-born whites and blacks are moving to get away from the urban melting pot states. The 13 are AZ, CO, NV, UT, ID, OR, WA, NC, SC, GA, TN, VA and DE.

4 – THE NEW WORKFORCE

Skilled Worker Shortage to Persist

Don't be misled by the current spike in unemployment – the trend over the next 20 years is one of worker shortage, particularly of skilled workers. A slower-growing workforce makes this future probable: less than 20 million new workers will be added to payrolls over the next 20 years, compared with the 38 million that have been added over the past 20 years. As soon as 2006, according to the Bureau of Labor Statistics, there will be 151 million jobs in the US economy, but only 141 million workers in the labor force.

True Diversity

What this means is that 70% to 80% of new workforce entrants will be women, minorities and/or immigrants. Organizations that fail to embrace diversity as an effective competitive tool will experience dysfunction, increased turnover, litigation, absenteeism, poor communication and low productivity. They will need to recruit from all available pools of labor and train, train, and retrain.

Fortunately, the No. 1 goal of workers under 35 is skill acquisition. Ten different employers, or three different careers over a working life, won't be unusual. Self-management – taking care of your own health care, retirement planning, skills acquisition, career planning – will be common. What employers will have to provide is a workplace in which employees' strengths are fully utilized, recognized and fairly rewarded (only 15% of workers say that's the case now).

5 – THE NEW CONSUMER

End of the Trade-Off Game

Today's consumers want it all: low price, high quality, convenience, a wide range of options. They have learned to expect it all, and manufacturers, retailers and service provider are learning to supply it all. These changes are structural and permanent, underpinned and reinforced by other major trends such as more highly educated

consumers (from mass markets to mass savvy), and the mainstreaming of affluence (as evidenced by the huge and growing markets for cell phones, plastic surgery, sushi, good coffee, good wine, etc.).

The Ultimate Market Fragment

An explosion of consumer market fragments has characterized the past 20 years; the next 20 will be characterized by individualization, or markets of one (also known as mass customization). Companies that use technology to segment their own markets, and to customize their offerings to individuals, will thrive. The goal is to identify and reach best customers and best prospects. Best customers because loyal, repeat customers account for a disproportionate share of incomes and profits; best prospects to establish relationships and move them up the loyalty ladder.

Conclusion and Implications

Businesses that understand these trends will be able to exploit them, to base their strategies, plans and actions upon a future whose components are already visible. To succeed in the competitive environment of the 21st century, they know they will be required to:

- respond to marketplace conditions more quickly, structuring their enterprises for maximum effectiveness and productivity;
- design products and services that will be in demand by growing markets;
- know where economic and population growth will occur and why;
- recruit and retain skilled employees who will enhance their company's productivity, income, profit, ROI and long-range viability;
- meet and surpass the expectations of consumers, to turn them into repeat, loyal, profitable customers.