AlixPartners

Disruption Insights

OUR FINDINGS

Disruption is the new economic driver

When it really matters.

Simon Freakley
Chief Executive Officer

Letter from our CEO

Commerce has long been powered by the ebb and flow of the credit cycle. In a very short period of time, on the back of significant and rapid technological change, accelerating disruption cycles have emerged as the primary driving force in the economy and the main strategic challenge confronting business leaders.

In many ways, AlixPartners has been helping our clients manage disruption over the entire course of our 40-year history. Recently, the pace of this disruptive change has accelerated so significantly that we decided to take a step back and study why this is happening.

Our 2020 Disruption Insights is a result of this analysis, and with it, AlixPartners has embarked on an annual project to study the causes of disruption, to identify what leading organizations are doing to create, mitigate, and, in some cases, harness its effects. In the following, you will find our key findings.

As you will read, strategies and operating models that have served businesses well over many years can become obsolete seemingly overnight in this fast-changing environment. Agility and a willingness to disrupt one's own business become increasingly important leadership behaviors. Equally important is finding the right strategies to get from idea to execution at speed.

We hope that this study, and those in the years to come, will help provide insight into how best to respond to these challenges.

All best,

Simon Freakley

Our findings in brief

KEY THEMES

Five unique but interrelated themes emerged from our research as the main drivers of disruption across industries.

CONNECTIVITY

Technology connecting people and processes accelerates the pace of disruption.

SELF-CENTRISM

Connective technologies empower individuals, change consumer behaviors, and raise the bar for business.

UNCERTAINTY

Individuals are empowered, but they are also overwhelmed by a deluge of data, opinions, products, and services.

ENVIRONMENTAL AWARENESS

Evidence of environmental pressures mounts, raising concerns among the general population and impacting consumer behavior.

POPULISM

Rising populist politics and policies create an unstable geopolitical and business environment.

NAVIGATING A SEA OF DISRUPTION

Disruption has created a fast-changing and less-predictable environment for most industries, leaving many leaders feeling adrift. New realities require businesses and their leaders to address a different set of priorities and hone new skills.

In this year's study, we examine how disruptive factors are affecting industry and identify successful strategies that companies are employing to respond. Some paths are by their very nature specific to industries or industry subsectors or even geographies.

However, our research identified four broad strategies across industries that successful businesses are pursuing.

PLACE YOUR BETS

A focused approach can meet the expectations of the self-centric consumer, but limited resources preclude being all things to all people.

SECOND-MOVER ADVANTAGE

A considered and well-timed follower can create significant shareholder value.

BRANDS MATTER MORE

In a crowded and confused marketplace, the value of brands increases.

REBEL WITH A CAUSE

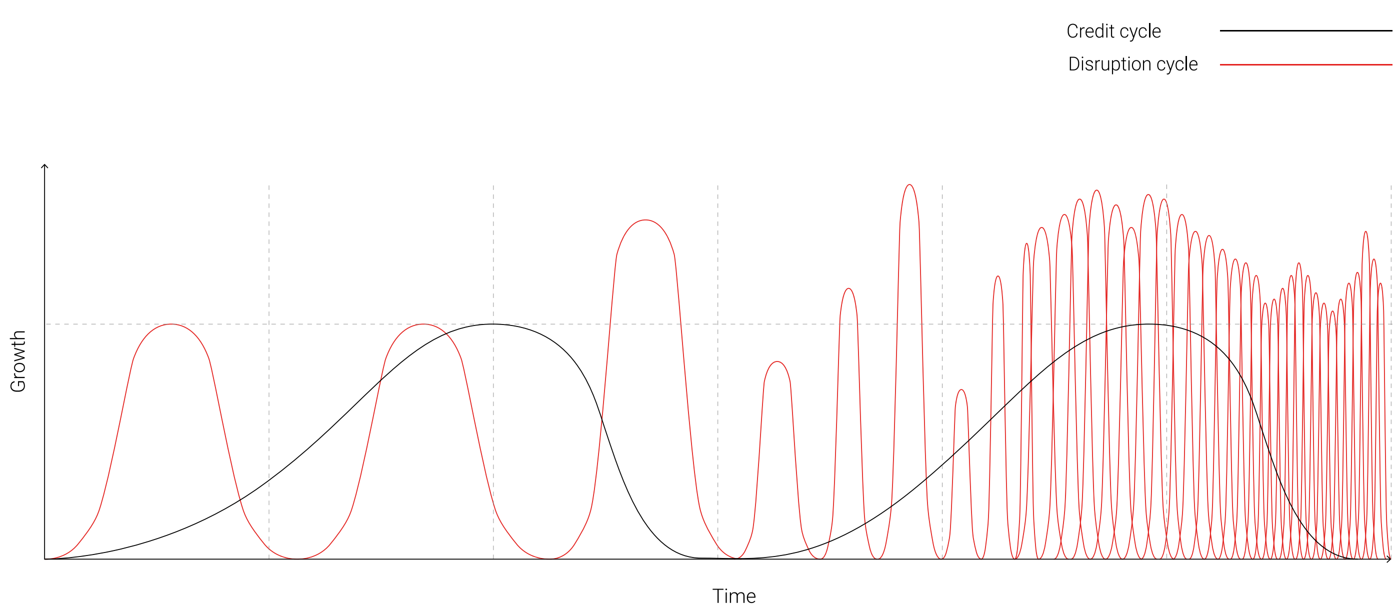
A contrarian position can still be profitable. Cash flow from declining businesses can be reinvested into areas of growth.

Today, disruption, across industries, is happening more frequently and with overlapping and additive impact, causing major dislocations of shareholder value, revenue, profit, and jobs. This study was undertaken to better understand what is driving change within five major industries and identify successful strategies that companies are pursuing to respond to disruption in their industries.

Disruption is the new economic driver

The driving force of the economy is changing. The recognized phenomenon of the economic cycle, with its boom and bust of credit expansion and contraction, has historically driven the fortunes of business and the economy at large. As we saw during the 2008 financial crisis and the recession that followed, these factors remain important. However, the gaps between economic cycles have been lengthening in recent decades, and governments and business alike have become ever more adept at managing their effects. At the same time, the pace of disruption has accelerated dramatically, and its impact has magnified.

TRADITIONAL CREDIT CYCLE VERSUS DISRUPTION CYCLE



Whether we're talking about the fourth industrial revolution, consumer self-centrism, climate change, or the rise of Asia, that accelerating pace and the cumulative impact of disruptive waves are the key driving forces in the economy and therefore represent the primary strategic challenges that both government and business leaders face today. Both the pace and the amplitude of the disruptive waves are increasing in frequency and overlapping to the point where disruption is becoming chronic. Whereas credit cycles will no doubt drive macroeconomic swings, the ability to manage disruption has become the critical commercial capability.

In a globalized economy, disruptions are rarely limited to the markets in which they originate. Disruption in one industry can have wide-ranging and often unpredictable ripple effects in many other industries and geographies, with significant macroeconomic implications. Consider, for example, the massive impact the telecommunications industry has had on media or the impact that connected consumers have had on retail. Disruption is creating dramatic dislocations and redistributions of revenue growth and profit.

When industrial performance correlated tightly with the credit cycle, business planning could be driven by expectations around economic expansion or contraction. We are now in the tenth year of global economic growth, the longest on record. This should be the best of times, and for some, it is. However, businesses across most industries struggle to cope with chronic disruption.

We define disruption as the displacement of businesses, markets, and value networks as the result of economic, societal, environmental, political, regulatory, or technological changes. Technological innovations can, in addition, serve as catalysts to accelerate other disruptive forces.

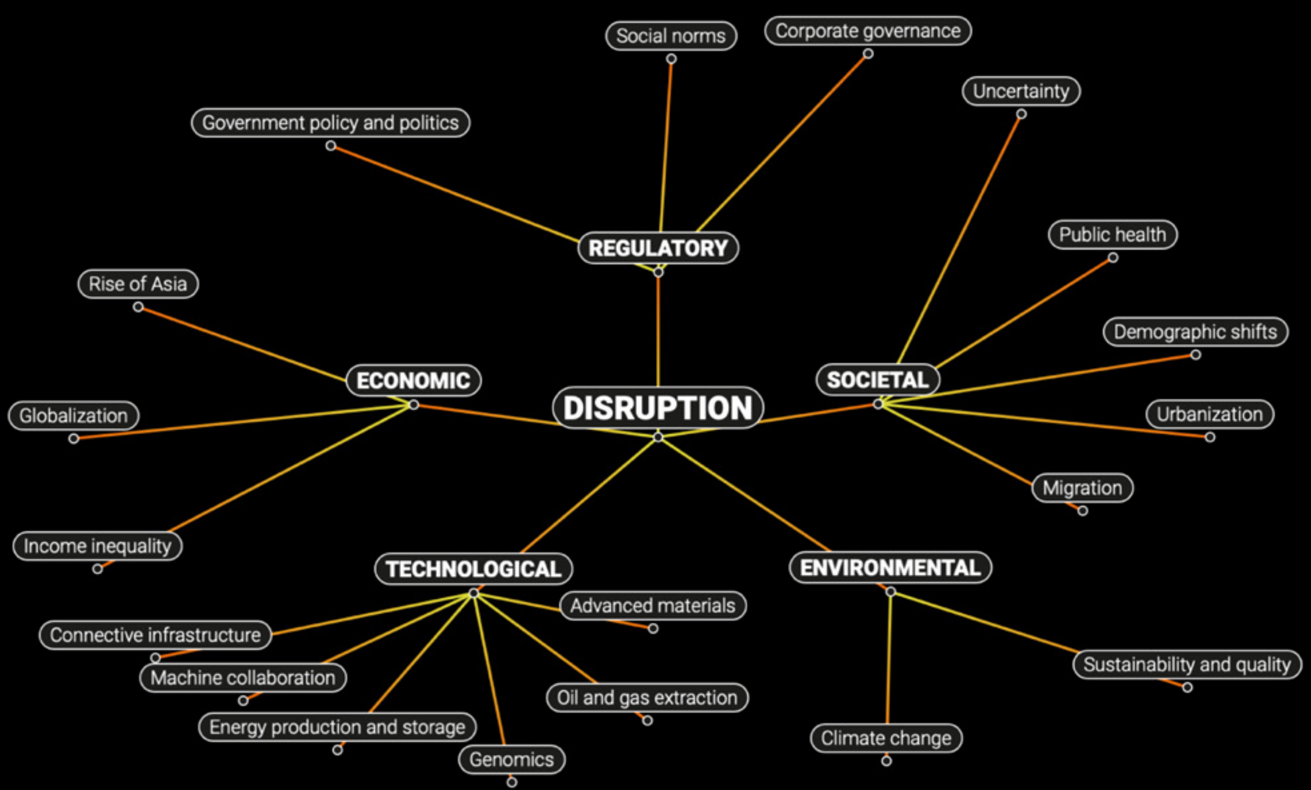
We know, of course, that disruption presents both opportunities and threats. But the now near-constant presence of disruption creates an even more pressing need for both private- and public-sector leaders to find new ways of anticipating, responding to and, where appropriate, creating these forces of change.

To understand this phenomenon in more detail, AlixPartners embarked on a project to study the causes of disruption in five industries–retail, consumer products, automotive, media, and telecommunications–to identify what leading organizations are doing to create, mitigate, and, in some cases, harness its effects.

Forces of disruption

When observed over the course of human history, the accelerating pace of change becomes clearly apparent. Advancing waves of technological progress that once occurred only over millions of years now take place over decades or less. Unrelenting and accelerating disruptive change is the lesson of that history, but because of a confluence of many factors, particularly technological innovation, the pace of that change—and the levels of complexity it presents to leaders who must confront it—is truly unprecedented.

DISRUPTION'S UNDERLYING FORCES



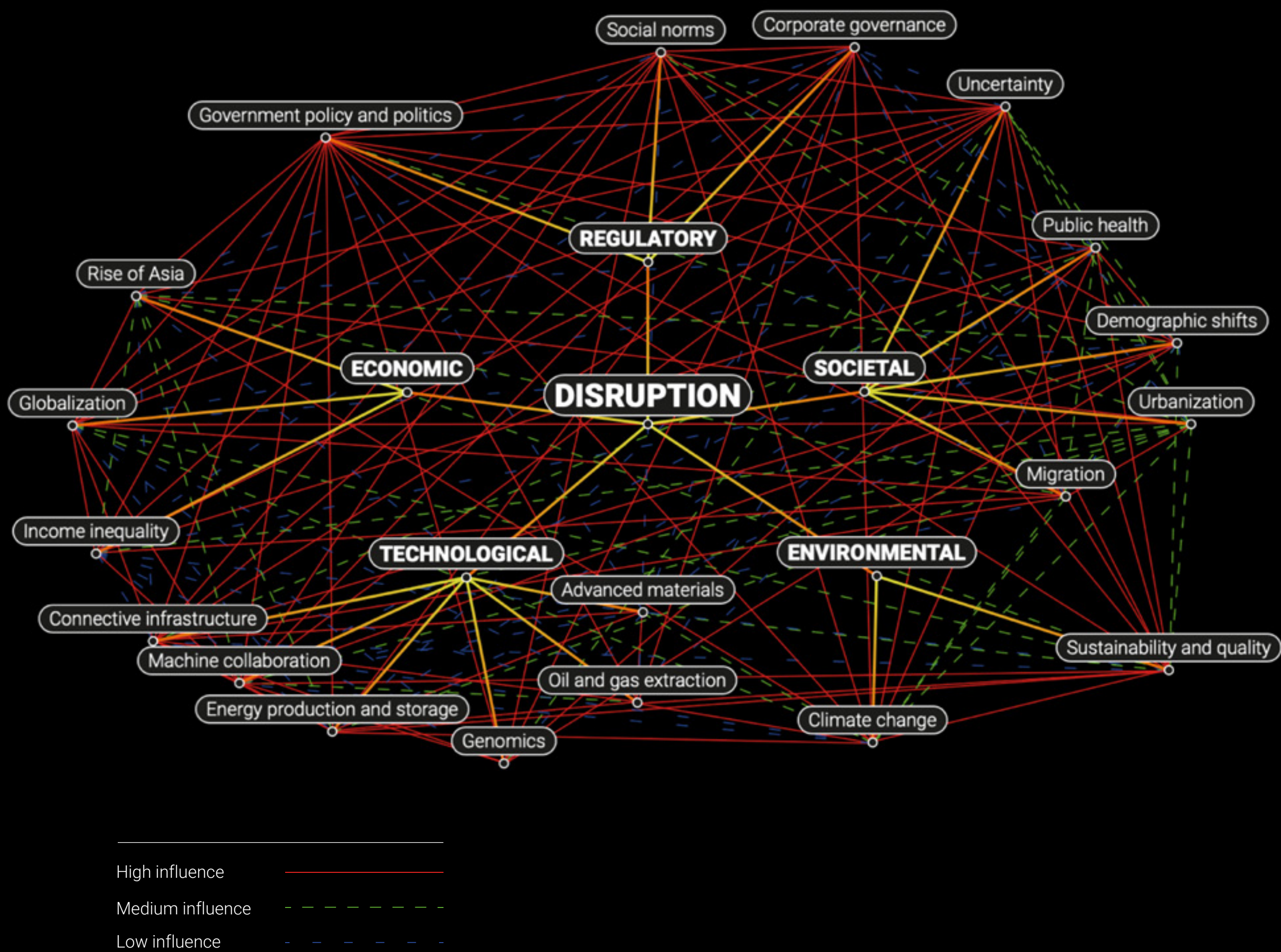
Connective infrastructure:

– Mobile technologies / 5G
– Internet of Things
– Cloud technologies
– Quantum computing

Machine collaboration:

– Artificial intelligence
– Robotics
– Autonomous vehicles
– 3D printing
– Augmented and virtual realities
– Enhanced processing speed and storage

INTERCONNECTEDNESS OF DISRUPTIVE FORCES



Societal, economic, and environmental disruptions

Many disparate yet interrelated forces are at the heart of disruptive change today. Tectonic shifts in the societal, economic, and environmental fabric are influencing broad swaths of humanity. These shifts include the rise of Asia, globalization, demographic changes, urbanization, income inequality, human migration, and climate change.

On the demographic front, several changes are occurring. People in much of the world are living longer today and are having fewer children. The International Monetary Fund predicts that in 2020, Asia will surpass the rest of the world combined in economic output for the first time since the nineteenth century. Additionally, the effect of climate change is already being felt in more extreme weather patterns in much of the world, with governments and many industries—including agriculture, insurance, tourism, and utilities—struggling to respond.

Regulatory and political disruptions

The ways governments, civil societies, corporations, and communities regulate themselves through either formal policies and laws or informal norms can cause disruptive change but also, at times, mute its impact.

In highly regulated industries such as financial services, telecommunications, and utilities, the influence of government policy is, unsurprisingly, the strongest. For telco operators, the radically different prospects for companies in the United States versus Europe are demonstrated dramatically in this year's report. Companies in both regions face relatively mature markets that have flat to slow-growing revenues and rising infrastructure costs, but regulators in, for example, Brussels have encouraged a higher degree of competition in Europe, resulting in lower prices for consumers and significant margin compression on the telcos there. Companies in the United States, where there is a larger, unified market and only four principal wireless providers, are under much less pressure.

Even less-regulated industries may see an increase in government oversight. After repeated revelations about the vulnerability of personal information, more people, from regulators to politicians to average consumers, are focusing on the ways their personal data is being used by big business. The technologies for gathering, storing, manipulating, and sharing personal information have moved far ahead of existing rules for what can and should be done with that data.

Technological disruptions

For all of these otherwise disparate forces noted above, technology acts as an accelerant to disruption, turbocharging the impacts of the other disruptors. News events can be communicated instantaneously around the world from multiple perspectives and with varying degrees of accuracy, leading to heightened levels of uncertainty and political instability. Technological advances in healthcare are enabling people to live longer, leading to an aging global population. Interconnected communities, spanning different parts of the world, are helping drive higher levels of immigration into developed countries. The vast amount of data now available to individuals is raising awareness in real time about sustainability issues, climate change, and human rights.

Many of the new technologies are already profoundly affecting the geopolitical environment. New extractive technologies for oil and gas have enabled the United States to emerge as the world's third-largest producer of crude oil, thereby reducing the country's reliance on oil imports to 11%—the lowest level since 1957.[1] The resulting changes in foreign policy priorities are readily apparent.

Genomic sequencing is advancing rapidly, becoming less expensive and more accessible. Scientists are making new discoveries in the ways genes influence specific traits and cause disease. The implications for the study of biology and healthcare could prove immense.

Key disruptive themes emerging from our research

Out of our research this year, five unique but interrelated themes emerged as the main drivers of disruption across the industries we studied: connectivity, self-centrism, uncertainty, environmental awareness, and populism. The mix and effect of those forces may differ from industry to industry, but the themes were consistently present.

CONNECTIVITY

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SELF-CENTRISM

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UNCERTAINTY

Individuals are empowered, but they are also overwhelmed by a deluge of data, opinions, products, and services.

ENVIRONMENTAL AWARENESS

Evidence of environmental pressures mounts, raising concerns among the general population and impacting consumer behavior.

POPULISM

Rising populist politics and policies create an unstable geopolitical and business environment.

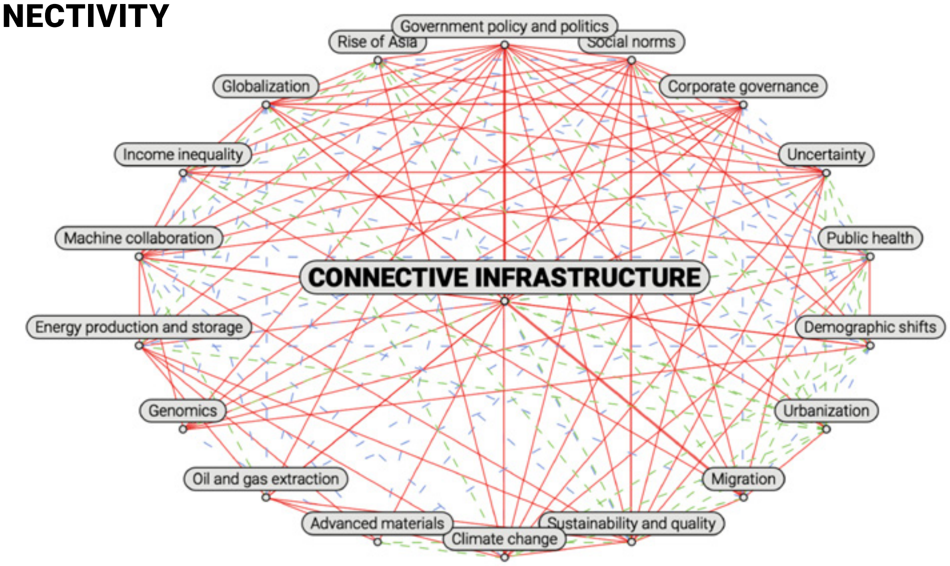
Connectivity

Technology connects people and processes and accelerates the pace of disruption.

The connective infrastructure—from mobile phones to the Internet of Things, to cloud networks—is bringing people and processes online and linking them in unprecedented ways. Of all the forces of disruption, these technologies are the primary accelerants of change in the industries we studied this year.

Innovations in connectivity have reshaped our personal lives and ways of working. It began with the rise of the Internet in the 1990s but has accelerated exponentially in recent years with the advent of new technologies. Cloud computing has already greatly decreased the costs and increased the speed and efficiency of Internet-based services. The Internet of Things is embedding connective technologies into seemingly every device—from microwaves to pacemakers, to assembly lines. These sensor-enabled devices can be controlled and monitored remotely, and they generate valuable insights from the data they provide. And augmented and virtual realities could, over time, replace current mobile devices.

ROLE OF CONNECTIVITY



But no single technology, aside from the Internet, has reshaped connectivity more than mobile phones. It is estimated that 5 billion people around the world have mobile phones, with over half of those being smartphones, keeping them constantly connected. According to the Pew Research Center, the average smartphone user spends almost three hours a day on the device.[2] Why? The sheer quantity and variety of data in the form of news articles, streaming entertainment, social media, online shopping, or the latest meme.

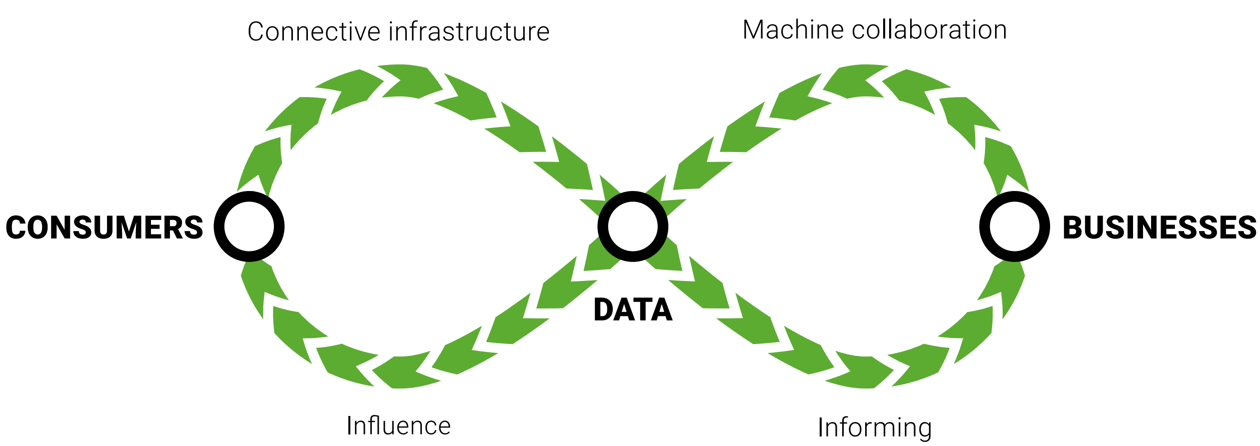
At the same time and unintentionally, individuals are creating a massive amount of data about themselves, which in turn becomes a commodity for companies to monetize. Advertisements can be sold that target specific consumer preferences. Streaming video can be suggested based on past viewing behavior. Dining options can be offered based on proximity, tastes, and availability. Health and wellness apps can track fitness levels and activity and remind people of their goals.

What is true for individuals is also true for business: unprecedented levels of data are now available to companies about their customers, suppliers, and internal operations. Digitization provides critical data throughout the value chain.

All of this data has in turn made possible a revolution in applications and processes for machine collaboration. Artificial intelligence (AI) systems can aggregate the data, filter it, identify patterns, and extract insights at speeds impossible for human beings to replicate. Furthermore, AI systems are "learning organisms" which become more and more effective over time. The opportunities presented by machine learning and other artificial-intelligence-based performance improvements are only now beginning to be used for advantage.

As the types and quantity of data proliferate, demand for greater and improved connectivity also increases. New industrial and business applications for, say, smart factories, mobile health, and autonomous vehicles will rest on faster, deeper, and more-reliable connectivity. Thus, the rollout of 5G technologies, the allocation of additional spectrum to wireless, and other enhancements to mobile technologies become crucial enablers to building the connective tissue this world requires.

INFINITE LOOP OF INTERDEPENDENCE IN A CONNECTED WORLD



Demand for connectivity expanded with the growth of the Internet, which exponentially multiplied the amount of information and data in the world. Consumer demand for access drove innovation and provided new connective technologies, like smartphones, which have accelerated this trend. In turn, these new technologies have multiplied the amount and types of data generated by consumers. This data informs businesses and through collaborative machine processes, like artificial intelligence, provides more insights and, therefore, more data, which both influences consumers and also increases demand for expanded and newer forms of connectivity (like augmented reality).

This creates a self-reinforcing and ever-expanding loop of connectivity, data, and automation.

Self-centrism

Connective technologies empower individuals, change behaviors, and raise the bar for business.

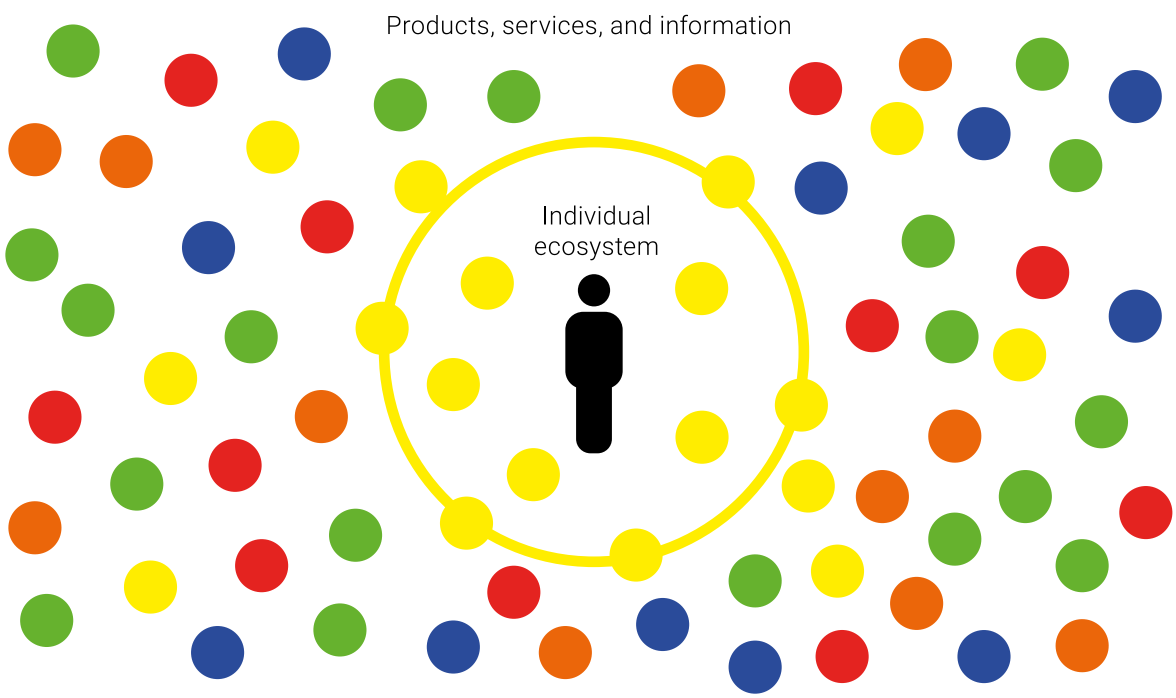
In the same way that data is at the center of self-reinforcing forces that drive technological change, people increasingly place themselves at the center of their own ecosystems, enabled by connectivity. We call this phenomenon the rise of "self-centrism."

No longer limited by geographic location, individuals can connect with communities, information sources, and brands around their shared values. Similarly, the new technologies lead consumers to expect previously unachievable levels of personalized service and convenience.

Businesses must now meet consumers on consumers' own terms and in consumers' own ecosystems. People expect to access products or services where, when, and how they want. In the automotive industry, for example, this expectation has led to the rise of ridesharing platforms and the potential for subscription models that enable consumers to meet their mobility needs by way of newly customized approaches. In retail and consumer products, this has meant rethinking how to reach consumers in a consistent way across many parallel channels anytime, anywhere. For the media and entertainment industry, it has meant developing content that can be consumed across multiple platforms for unique and targeted audiences.

Value chains, which have historically been largely linear and built to maximize operational efficiencies, must become more customer-centric. Critical rethinking is necessary to determine where in a value chain a business's competitive advantage lies and how and where the business should meet its customers.

RISE OF SELF-CENTRISM



Uncertainty

Connectivity empowers but also overwhelms through a deluge of data, opinions, products, and services.

People, generally, have a sense of unease about the future. A 2019 Gallup poll found that levels of sadness, anger, and fear around the world reached record highs for the second consecutive year.[3] The 2020 Edelman Trust Barometer found that only one in five individuals believes the system is working for them, and less than one in three people in developed markets believes they or their families will be better off in five years' time.[4]

The average person, digitally connected at all times, is constantly bombarded by an overwhelming amount of information, much of it conflicting and seemingly irreconcilable. People want clarity, ease, and certainty in their filtering of such an overload of choice.

Older generations are feeling overwhelmed by fast-moving cultural changes, and younger generations are concerned about declining economic opportunity. The rapid pace of disruptive change has been a key contributor to those societal insecurities. The potential impact of new technologies—particularly in the area of automation—the movement of jobs to lower-cost labor centers, increased levels of immigration, and the consequences of climate change and pollution serve as contributing factors. Heightening political instability and divisiveness in much of the world are both an outcome of and a contributor to the unease as well.

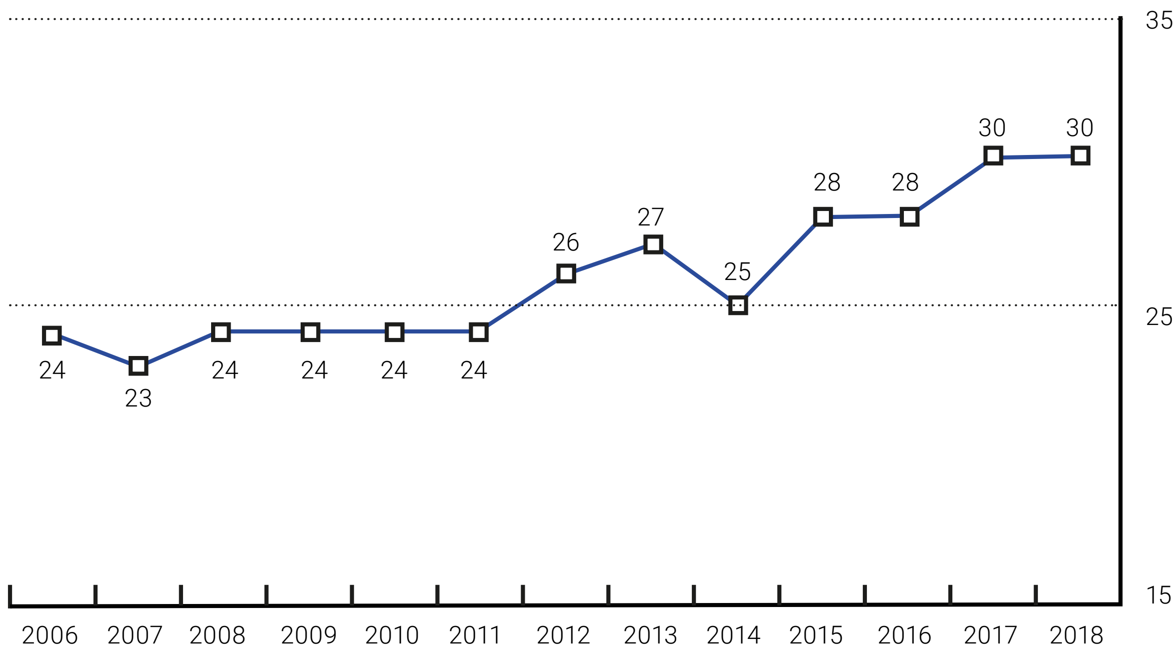
Connectivity lies at the center of all of that uncertainty. The average person, digitally connected at all times, is bombarded by an overwhelming amount of information, much of it conflicting and seemingly irreconcilable. Individuals want clarity, ease, and certainty in their filtering of that overload of choice. Trust, built through perceived shared values, becomes a prerequisite to the clarification of people's options. And, increasingly, algorithms are playing a crucial role in people's identification of those factors of trust and in their filtering out the factors that don't conform to historical patterns of behavior.

This has implications both for society and for business. At a time when everyone watched the evening news with Walter Cronkite or listened to the BBC, people might have disagreed on certain material issues but held a common acceptance of certain base facts. More and more today, though, no common forum exists to establish accepted facts. Information discovery frequently takes place within communities of like-minded individuals (or bots), which can become echo chambers for the same opinions.

To cut through the noise and reduce uncertainty, empowered consumers use shared values–in such areas as wellness, sustainability, lifestyle, and social and political affiliation–in making purchasing decisions, connecting with brands, and conducting their lives. Individuals' expectations around authenticity and purpose are core to those changing behaviors. And though consumers may have long held certain points of view, the combination of unlimited access to information, expanded direct connections to brands, and the multiplication of convenient channels to purchase have empowered those consumers.

As one example of how this plays out in business, individuals increasingly want to live a healthier lifestyle and purchase healthier products. But there is a great deal of information out there, much of which is unclear and often contradictory. Product labels compound this by being unclear. The uncertainty this creates is an impediment to consumers purchasing healthier-for-you products. Companies that want to sell these products need to build trust with consumers, simplify the choices, and connect with people on these values.

NEGATIVE EXPERIENCE INDEX



Gallup's Negative Experience Index is a compilation of responses related to worry, sadness, stress, anger, and physical pain. In 2019, it was based on interviews with 151,000 people in over 140 countries.

Source: Gallup Global Emotions 2019

Environmental awareness

Evidence of mounting environmental pressures raises concerns among the general population and impacts consumer behavior.

Environmental issues such as climate change, environmental quality, and sustainability comprise a core set of values that consumers increasingly demand companies address in their mission and evidence in their day-to-day operations. And consumers are holding companies that fail to live up to those standards accountable through both vocal activism and their purchase decisions.

The global business community is responding. For example, in articulating an expanded standard for a corporation's purpose, the US Business Roundtable stated in 2019, for the first time, that its members must commit to "protect the environment by embracing sustainable practices across our businesses."

In the auto industry, Corporate Average Fuel Economy (CAFE) and tailpipe emissions standards, alongside heightened environmental worries on the parts of consumers and the industry, are driving much of the investment into electric cars in the United States, with similar regulations and trends having even more impactful outcomes in Europe and China.

In what has been dubbed the "Blue Planet" effect, consumer product and retail companies in the United Kingdom have been scrambling to respond to vocal consumer concerns over product packaging since the 2017 broadcast of the BBC's nature documentary Blue Planet II, which detailed the consequences of plastic waste for sea life and the environment.[5]

Many different—and sometimes competing—considerations factor into consumers' buying behaviors. Cost and convenience frequently outweigh other aspects, and the same is true when it comes to environmental issues. However, our analysis shows that consumer expectations and patterns of consumption are changing; albeit faster in some industries than others, including automotive and premium consumer products sectors. Companies that do not proactively decide how to respond to these changing attitudes may find themselves at a competitive disadvantage.

Populism

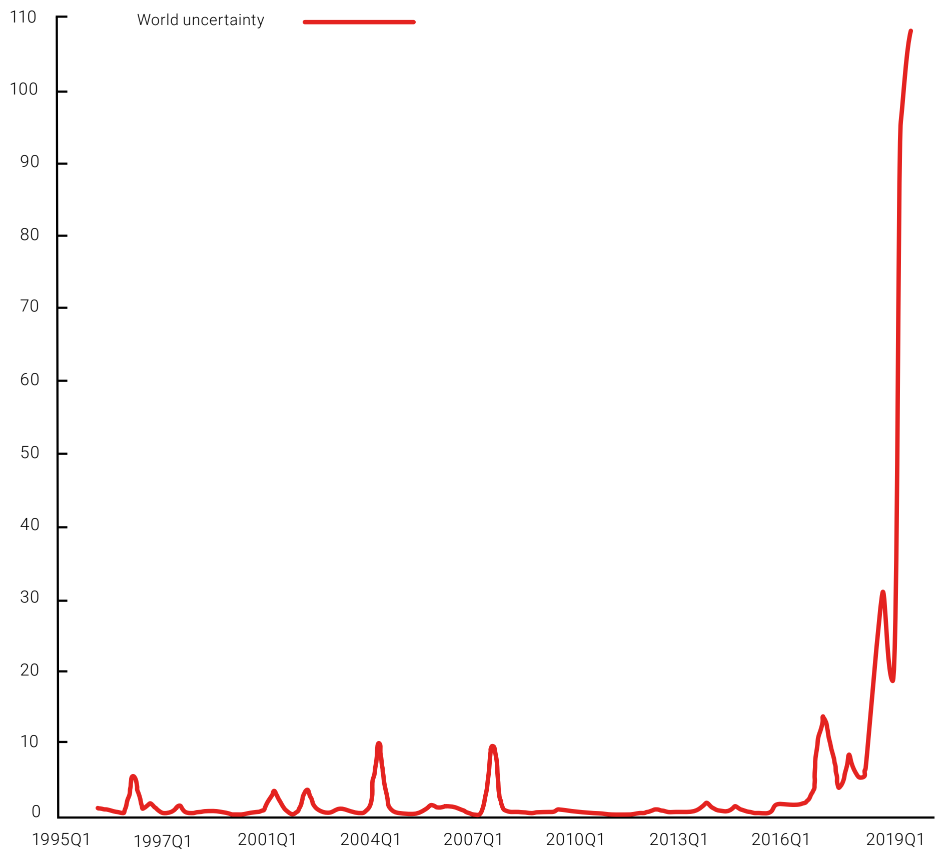
Rising populist politics and policies create an unstable geopolitical and business environment.

Rapidly evolving—and increasingly polarized—political views are causing instability and uncertainty worldwide. Income inequality and stagnating median wages are causing material harm and anxiety among the middle and working classes in the United States and Europe. When combined with rising levels of immigration into these countries, this has led to the rise of populist and nationalist politics. Related trends are occurring in some developing countries as well, including India, Mexico, and the Philippines.

These trends make the business environment more challenging for many companies. For decades, a stable, liberalizing world economic order laid a stable foundation for international commerce, and it facilitated an integrated global economy. Nowadays instability and political fluctuation proliferate.

TRADE UNCERTAINTY SURGES AFTER 20 YEARS OF STABILITY

In the past year, the World Trade Uncertainty Index jumped 10-fold from previously recorded highs as the US-China trade war escalated.
(WTU index, GDP weighted average)



Source: World Trade Uncertainty Index. Ahir, Bloom, Furceri (2018). The source for the data on key dates in the US-China trade negotiations comes from the World Trade Uncertainty Index. (2019).

Higher tariffs and growing uncertainties with regard to ongoing trade disputes have become facts of life for multinational companies, throwing their business planning into a state of upheaval and putting significant margin pressure on many corporations. Similarly, businesses in the United Kingdom have struggled to develop long-term plans in the face of Brexit indecision. Meanwhile, throughout the world, increasing levels of populist nationalism put in doubt the future of the liberal world economic order.

China has emerged, by some measures, as a force for stability in the global economic system. As the world's second-largest economy and largest exporter, China has become a more vocal advocate for international law and lower tariffs, when these align with their broader interests. But the 2019 protests in Hong Kong, driven in part by a lack of democratic accountability and rising economic inequality, are a source of political instability in the region.

Navigating a sea of disruption

Disruption has created a fast-changing and less-predictable environment for most industries, leaving many leaders feeling adrift in uncharted waters. The strategies and operating models that served to generate growth and profitable returns in the past are no longer reliable.

Across industries, new and complex realities require businesses to have different sets of priorities and skills. Historically, the key to success involved executing on a strategy to maximize a set of core competitive advantages that remained fairly static over time. Today, though, those competitive advantages are in flux more often than not. Therefore, agility and the ability to change direction in real time become more important for all organizations.

In particular, **leadership behavior** is a crucial component to responding to disruption. It requires skills like pattern recognition across silos and industries, the ability to deal with ambiguity, and rapid reaction. The pace and magnitude of disruption also require a different composition to management teams and boards of directors. Increased diversity of thought, perspective, age, and background become more critical.

Ultimately, to successfully manage disruption, business leaders must be prepared and willing to disrupt their own businesses and even their own thinking by learning these skills and surrounding themselves with individuals who can think, act, and execute in line with today's disrupted environment. As we continue our research, we will explore these leadership issues in more detail.

In this year's study, we examined in more detail the ways companies respond to the specific, disruptive factors that affect our five focus industries. Our aim is to provide insights into how companies plot their courses through this volatile environment. Some paths are by their very nature specific to industries or industry subsectors or even geographies. That can hardly be surprising. However, our research identified four broad strategies across industries that we believe businesses should bear in mind.

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Vertically-integrated operating models increasingly appear anachronistic. By focusing on their key value propositions, companies can retain the parts of the value chain most important to their customers and tailor their business models to meet consumers' self-centric demands.

True personalization, for example, can set some companies apart. Customers of subscription fashion service Rent the Runway have a constantly rotating closet of luxury items at a fraction of the cost of ownership, in effect converting capital costs to operating expenses. The company is growing at 21 times the rate of the retail industry as a whole.

For some companies, value may be an alternative core proposition. Discount retailers like Dollar General, the TJX Companies, and B&M European Value Retail were top-quartile performers in our analysis. By offering lower prices to cost-conscious buyers, discount retailers are bucking trends in the retail industry by expanding their brick-and-mortar locations to meet their core customers' needs, while maintaining only a basic online commerce presence.

Dollar General already has more stores (some 16,000) in the United States than Walmart does globally and is on track to open another 1,000 in 2020.[6] Revenues at the company have grown, on average, 8% per year for the past three years.

In automotive, physical powertrain systems are unlikely to continue as core differentiators for automakers once propulsion systems transition from internal combustion to electric. Meanwhile, performance software and battery management will be critical. Electric motors are likely to become components provided by suppliers. Given this landscape, what is the value proposition for original equipment manufacturers going forward?

Data can be helpful.

Critically, data and artificial-intelligence-enabled analytics now enable companies to capture, analyze, and respond to changing consumer demands faster than before. Designer-clothing retailer Revolve, for example, continuously tests products online, studies customer feedback, and incorporates its findings into products within weeks, using artificial intelligence to model demand. Media companies like Netflix are using data from streaming services to inform and personalize content development and delivery.

The investments needed, however, to respond to those demands and incorporate new technologies require that, in many industries, companies be selective in their approach. For instance, automakers will invest $85 billion in autonomous vehicles by 2025, but the rate of adoption and the best technological applications remain unclear.

In a streaming arms race, media companies are expected to spend $35 billion on content in 2020, but in a more fragmented market, no one company is likely to be a one-stop shop for all consumers' entertainment needs.

Mobile operators are expected to spend $1 trillion, globally, over the next five years to roll out 5G technologies. In an environment of largely flat revenues in Europe and the Americas, telcos are looking for new ways of partnering and sharing costs. In the United States, one of the rationales for the Sprint/T-Mobile merger is that the combined entity can more effectively deliver 5G coverage, particularly in underserved, rural areas.

There may be more innovative ways to share infrastructure, as well, particularly given antitrust concerns over further consolidation in many markets. In the United Kingdom, O2 and Vodafone announced a plan last year to share equipment to do just that.

Second-mover advantage

A considered and well-timed follower can create significant shareholder value.

New entrants are investing enormous sums in order to develop new technologies and operating models and purchase market share. Investors are more and more questioning this model and expecting clear paths to profitability.

Tesla is building a loyal customer base and is innovating by means of new technologies and manufacturing practices, but the firm has yet to demonstrate a business model that will lead to sustained profitability. Similarly, we see a challenging path to profitability—under their current pricing models and expense rates—for many of the ridesharing companies.

Netflix cannot continue to invest 75 cents out of every dollar of revenue into content. It will have to either raise prices or reduce the amount it's spending on content—or both.

One thing businesses can do is pursue a measured approach. This can have significant benefits such as learning from early movers' missteps or developing a market.

Just look at Apple Computer, which built its business not by being first with a product but by designing it better, with the end user in mind. That includes personal computers, music downloads, and mp3 players. Its current success derives from its early recognition of the imminent centrality of mobile connectivity, which led them to design not the first, but nevertheless superior, smartphone product.

Walmart is another example of a second mover. Finding itself impacted by the growth of Amazon, Walmart has taken a deliberate approach to building its online business, leaning into its strength in grocery where it has a significant advantage. Today, it is now the second-largest online retailer in the United States, growing its e-commerce by 41% in the third quarter of 2019.

In the entertainment industry, Disney entered into direct competition with Netflix in November 2019, leveraging the strength of its library of content and strong brands to sign up 10 million customers on the first day of its streaming service. Barclays Bank already estimates the market value of that new business at $100 billion.[7]

Brands matter more

In a crowded and confused marketplace, the value of brands increases.

Barriers to entry have fallen in many industries. Startups can more easily build a brand through social media. New manufacturing and supply chain innovations mean new products can be brought to market faster and more responsively to consumer demands than in the past.

However, there is still strength in brands that are aligned with consumers' values. In an uncertain world, brands that connect directly with consumers through authenticity, purpose, and shared values can build trust and retain customer loyalty.

Wellness, for example, is an area in which many beauty, food, and beverage companies are differentiating themselves, providing clarity for consumers who remain unsure which products really are better for them. Environmental considerations are increasingly informing consumers' purchasing decisions, impacting sourcing, packaging, and transparency for many companies.

Many established consumer products companies have leveraged their size and cash flows from existing businesses to acquire smaller, faster-growing brands to ignite growth and spark innovation. Unilever, for example, has made 29 acquisitions since 2015. Sustainability has been a central focus, with the acquisitions of companies like Seventh Generation and the Laundress, two eco-friendly laundry groups. The company said in 2018 that its sustainable brands grew 46% faster and delivered 70% of sales growth.

News publishing has been massively disrupted first by the rise of the Internet and then by Facebook and Google. There is an ocean of content available, and consumers don't want to pay for it. Premium news organizations like the Economist, the New York Times, and Dow Jones are all growing online subscriptions, partially replacing lost advertising revenue, on the strength of their product quality and value alignment with their customers.

In what has been termed the "Trump Bump," the New York Times has added approximately 200,000 paid subscribers per quarter since Donald Trump's election in 2016. The New York Times now has approximately 4.7 million paid digital subscribers and hopes to have 10 million by 2025. It has grown subscriptions through its news reporting but also through incremental access to its unique cooking and crossword content.

Rebel with a cause

A contrarian position can still be profitable. Cash flow from declining businesses can be reinvested into areas of growth.

While their revenue streams may decline over time, frequently that time horizon may be longer than predicted due to consumers' resistance to change or the cost of newer technologies. Instead of being mere impediments, these legacy businesses can finance investment into new technologies and faster-growing products or services.

For example, even though cord cutting has accelerated, millions of consumers have cable and will continue to have cable. In North America, pay TV subscribers were expected to fall by some 3 million in 2019 to 88 million, but the rate of decline is diminishing.[8] Distribution to this channel will remain an important source of revenue for many traditional media and entertainment companies and will help finance their moves into streaming.

General Motors is expanding its offerings of large trucks and sport utility vehicles (SUVs), in part to help finance investment into electric and autonomous vehicles. Margins on SUVs can be as high as 30%, and continued, strong demand has led GM to invest $1.4 billion in expanding its manufacturing capabilities for these vehicles.

A run-off business plan can also be a successful strategy for some. Because of the long tail on many declining businesses and the lack of a need to invest in the latest technologies, declining businesses may provide profits to investors for many years to come. The internal combustion engine will not disappear in most of our lifetimes, and suppliers of its components can continue to generate significant profits for some time.

Finally, disruptive trends matter only if they matter. Health and wellness may be an area of growth, but alcohol, tobacco, and junk food still do well. Some of the top-performing companies in this year's analysis were companies such as Anheuser-Busch InBev, Hershey, Japan Tobacco, and Monster Beverage. They produce products that many consumers still demand.

Examining disruption across industries uncovers learnings from which all businesses can benefit. In a world where the pace of disruption continues to accelerate, leaders must take note.

Methodology

5

Industries

- Automotive
- Consumer products
- Media and entertainment
- Retail
- Telecommunications

65

Global exchanges

635

Public companies

Weighted business performance metrics including:

- Profit margins
- Net income to revenue
- Return on capital employed
- Multi-year revenue and profit growth
- Valuation metrics

QUALITATIVE QUESTIONS ANALYZED

- What are top-performing companies doing to cause disruption or mitigate its impact?
- What factors affect companies in the lowest segment?
- Do these forces disrupt all companies equally?
- What do anomalies tell us about the industry?

Insights from the data

AUTOMOTIVE

- 25 of the top 32 companies in our analysis were automotive suppliers, which historically have higher profitability than automakers.
- Those automakers in the top quartile were driven by strong revenue growth.

CONSUMER PRODUCTS

- Luxury fashion and beauty brands were 36% of top quartile performers.
- Alcohol and tobacco companies constituted another 26% of the top quartile.
- Bottom-performing companies tended to offer products that have fallen out of favor with consumers, particularly in food.

MEDIA AND ENTERTAINMENT

- Social media, gaming, and top-branded entertainment companies constituted 65% of top-performing companies in this industry.
- Advertising, print publishers, and television and radio broadcasters were in the bottom quartile.

RETAIL

- 18% of top-performing companies in our study were primarily, or exclusively, online retailers.
- 16% of the top group were discount retailers, with little or no online presence.
- Bottom performers tended to be multiline, brick-and-mortar retailers and grocery chains.

TELECOMMUNICATIONS

- US and Canadian telcos constituted the majority of top-quartile performers, as did certain Chinese operators.
- European telco operators struggle, in particular, with limited growth potential or pricing flexibility.

View each industry-specific report at alixpartners.com/disruption.

Notes

1. US Energy Information Administration.

2. Pew Research Center, “Global Attitudes Survey,” Spring 2018.

3. https://www.gallup.com/analytics/248906/gallup-global-emotions-report-2019.aspx.

4. https://www.edelman.com/trustbarometer.

5. Leila Abboud, “Can we break our addiction to plastic? The future of packaging,” Financial Times, October 31, 2019; https://www.ft.com/content/27cf9734-faa7-11e9-98fd-4d6c20050229.

6. https://www.nbcnews.com/business/consumer/thousands-retail-stores-are-closing-so-how-dollar-general-opening-n1095791.

7. https://www.cnbc.com/2020/01/06/disneys-streaming-services-worth-over-100-billion-investors-believe.html.

8. “North America Pay TV Forecasts,” ResearchAndMarkets.com, April 2019.

About us

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges–circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring, and risk mitigation.

These are the moments when everything is on the line: a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference; it's how we do it.

Tackling situations when time is of the essence is part of our DNA, so we take an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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