AlixPartners

Disruption Index

Confronting the disruption paradox

When it really matters.

Contents

Simon Freakley
Chief Executive Officer

Letter from our CEO

What a year. If we ever needed evidence that disruption is the primary challenge facing business and the global economy today, the past year has provided it. Although few could have predicted the acute dislocations that COVID-19 would cause, the ensuing crisis has demonstrated how a single disruptive event can have a reverberating and amplifying effect across geographies, industries, and societies.

Disruption, of course, isn't new, but the pace at which it's forcing change is accelerating. The magnitude of its impact is growing, and the sheer complexity and cumulative impact of the interconnected forces confronting business leaders have never been greater.

The ebb and flow of the credit cycle once drove the fortunes of the economy and of industry, but policymakers and business leaders have become more adept at managing these cycles in recent years. Disruption, which displaces existing businesses, markets, and value networks in favor of newer models and relationships, has emerged as the new economic driver and the primary strategic challenge.

For 40 years, AlixPartners has been helping our clients navigate disruption. During this time, we've seen technological innovations enable new business models and ways of working at unprecedented speed. Consumers are empowered to demand what they want, when and how they want it, constructing and inhabiting self-curated digital ecosystems. In a hyperconnected world, more than a billion people, primarily in Asia, have emerged from poverty, shifting the dynamic center of the global economy eastward. Populations are aging. Inequality is rising. The climate is changing, and the list goes on.

Because of its impact on so many of our clients, we have embarked on a multiyear study of disruption, looking at the forces at work and how they are redefining business. This year, we add an additional layer, with the inaugural AlixPartners Disruption Index. From November 2020 to January 2021, we surveyed more than 3,000 executives around the globe in different industries to gauge their perspectives on disruption and the strategies that they are using to confront it.

With the AlixPartners Disruption Index, we hope to provide more perspective on these challenges and, most importantly, greater insight into what best-in-class leaders are doing to meet them.

Business leaders struggle with disruption not because they don't see it coming, but because the solutions are not simple. Leadership strategies, business processes, and operating models that served them well in the past break down in the face of disruptive change. And the speed and magnitude of approaching disruptions are often difficult to gauge. The tsunami looks like just another wave until it's almost on the shore.

At the heart of this leadership challenge is a clear paradox: companies must not only mitigate the effects of disruption but also take advantage of its opportunities. New and innovative technologies, products, services, and operating models will likely underperform established ones—until, of course, they don't. Justifying necessary investments based on traditional ROI measures can feel like a leap of faith. Juggling the competing priorities of managing incumbent businesses while positioning for the future becomes an existential challenge.

In confronting this paradox, doing nothing is the worst-possible choice. Given the pervasive and overwhelming nature of disruption across industries and geographies, our collective experience at AlixPartners in helping companies in their most critical moments provides perspective to otherwise healthy companies that are confronting disruption.

Leadership is paramount. It is imperative to prioritize what really matters, adopt a sense of urgency and speed, and communicate a vision for the future clearly, consistently, and frequently.

All of this starts with you, as a leader, taking control of your organization's future. How your business fares against disruption is partly down to the external environment—which is beyond your control. But success is also determined by the speed of your response and the quality of your leadership—which are absolutely within it.

I hope this report provides helpful insight into how to boldly tackle the challenges your business is facing and how to begin unraveling the disruption paradox.

All best,

Simon Freakley

Our Summary Findings

COVID-19 has demonstrated what we've already known: disruption is the new economic driver.

CEOs are confronted by disruption more than ever, and the pandemic isn't one of their top concerns

85%
Agree

Disruption is what keeps executives awake at night.

Disruption is the primary strategic challenge confronting business and society as a whole.

But surprisingly, COVID-19 wasn't the top concern for most businesses

Impact of disruptive forces on organizations

(Based on percentage selected very/extremely impacted)

- New or evolving competition or business models **34%**
- Technological advances in materials and processes **33%**
- Data privacy and security related issues **33%**
- Pervasive connective infrastructure **32%**
- Automation, Artificial intelligence, Robotics **32%**
- Regulation, policy or politics **31%**
- Major shifts in consumer demographics and income **30%**
- Expectations of personalized products, services & experiences **30%**
- Protectionism and tariffs **29%**
- Growth and growing importance of Asia **29%**
- Environmental and social concerns **27%**
- COVID-19 **25%**

COVID-19 is lower impact but has greater immediacy

But executives aren't sure they have what it takes

Confidence in ability to withstand disruptive forces
(Showing percentage selected "very confident")

- **34%** Senior
- **43%** C-suite
- **31%** Mid-senior

A talent gap presents a stubborn challenge

There is a talent gap in my organization that makes us vulnerable to effectively navigating disruption

(Showing percentage selected "agree")

- C-suite **59%**
- Senior **50%**
- Mid-senior **46%**

Top strategies and tactics organizations utilize in response to disruption

(Showing percentage selected)

- **53%** Investing in new technology
- **42%** Entering / Exiting a new market or region
- **39%** Reviewing operating costs for improved efficiency
- **38%** Entering / Exiting a new industry or field
- **35%** Updating your company's mission, values or policies
- **35%** Making strategic hiring decisions
- **31%** Engaging in strategic mergers and acquisitions
- **29%** Shifting to a more remote workforce
- **29%** Working with competitors and others in our industry

It's up to you to take control

Vigilance is essential, and it starts with leadership. It's less about what you do, and more about how you do it. It starts with you as a leader taking control over your organization's future.

- Prioritize what's important. Maintain focus, measure progress, and ensure accountability.
- Execute, execute, execute. A solid plan implemented at pace and with rigor will always outperform a perfect plan executed poorly.
- Communicate clearly, regularly, and consistently. A compelling vision of the future can inspire and guide the organization through difficult transitions.

The stakes are getting higher. In a volatile environment, clarity, control, and pace are necessities. The macro environment may not be in anyone's control, but how you respond and the speed at which you do so are.

DEFINE YOUR OWN FUTURE. BE BOLD.

AlixPartners

Disruption Index

This year's study

The COVID-19 crisis has laid bare the central economic reality of our times: disruption is the new economic driver.

Based on a survey of more than 3,000 senior executives around the globe, the 2021 AlixPartners Disruption Index reveals that cycles of disruption, which displace existing businesses, markets, and value networks in favor of newer ecosystems and relationships, have emerged as the central strategic challenge for business leaders today.

Survey methodology

8 Industries

- Aerospace & Defense
- Automotive
- Consumer Products
- Financial Services
- Media & Entertainment
- Retail
- Technology
- Telecom & Cable

3,149 Global Business Executives

394 per industry

100-400+ per country

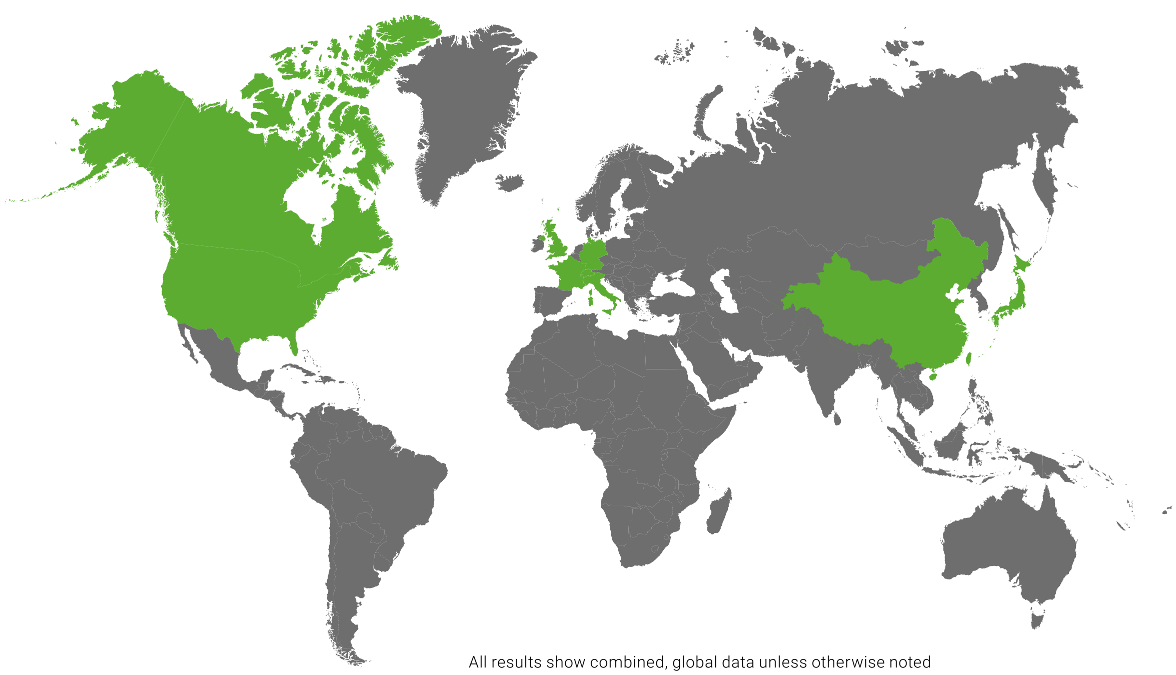
Defined As…

- Ages 25-65
- Employed in relevant country
- Director level or above
- Company revenue of $50 million+
- Have insight into disruption trends facing their industry

All fieldwork was conducted using multi-modal online and telephone interviews between November 16, 2020 and January 4, 2021

9 Countries

- Canada
- China
- France
- Germany
- Italy
- Japan
- Switzerland
- United States
- United Kingdom



All results show combined, global data unless otherwise noted

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, in particular, serve as catalysts to accelerate other disruptive forces.

New technologies accelerate the pace of change at a rate not previously experienced in history. Unburdened by the past, new business models and entrants upend the status quo. Empowered consumers, inhabiting their own self-curated digital worlds, demand what they want, when and how they want it. Those very forces that drive greater disparities between the top and bottom performers in industry also widen inequalities within society.

Connectivity, self-centrism, and uncertainty in the pandemic

In our Disruption Insights report last year, which was published before the full impact of COVID-19 was felt, we identified five unique but interrelated themes that were driving disruption across the industries we studied: connectivity, self-centrism, uncertainty, environmental awareness, and populism.

During the course of the past year, these trends played out in obvious and accelerated ways. The first three—connectivity, self-centrism, and uncertainty—were particularly apparent.

Connectivity—those technologies which are connecting people and processes—are the building blocks for and accelerant to much disruption today. Our mobile phones, the Internet of Things, and cloud networks all bring people and processes online and link them in historically unprecedented ways. And such technologies enabled the global response to the pandemic and proved effective in helping to mitigate its economic impact.

The tools and infrastructure for remote work proved remarkably resilient. Consumers embraced digital commerce, even in areas like grocery that had historically lagged. Zoom, which entered the lexicon last year, enabled both professional and personal connections that were otherwise impossible, while streaming entertainment and online gaming provided virtual escapes from imposed isolation.

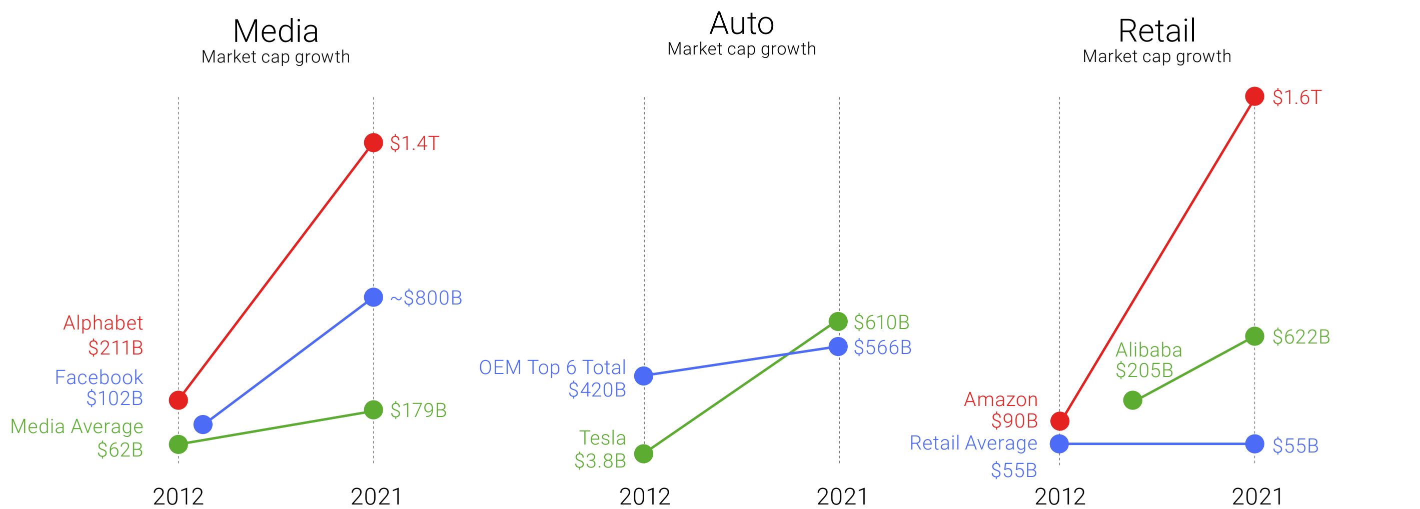
This connectivity also empowers individuals, in a process we call self-centrism, to change their behaviors and demand more from business. People increasingly place themselves at the center of their own ecosystems. No longer limited by geography, individuals can connect with communities, information sources, and brands around their shared values. New technologies also lead consumers to expect previously unachievable levels of personalized service and convenience.

For retailers, the pandemic has shown that omnichannel can no longer be an afterthought. Features such as curbside pickup, buy-online-pickup-in-store, and ship-from-store are now table stakes. Even cars can be picked out and financed on an app and delivered to the door, without the consumer ever entering a showroom.

All this connectivity not only empowers but also overwhelms through a deluge of data, opinions, products, and services, creating uncertainty. Trust in historical sources of truth from institutions such as the media and government is low across much of the world, and the lack of a sense of shared facts and understanding has become pervasive. People want clarity, ease, and certainty in their filtering of such an overload of choice. Trust, built through perceived shared values, becomes a prerequisite to the clarification of people's opinions, with people aligning with those brands, groups, or public figures that project those values. And increasingly, algorithms are playing a crucial role in this filtering process.

To combat uncertainty, social media companies have increased their efforts to police misinformation over the past year, but little consensus exists over what that constitutes. Divergent attitudes toward vaccines and social-distancing policies have shown this throughout the pandemic.

The lead at the top is growing

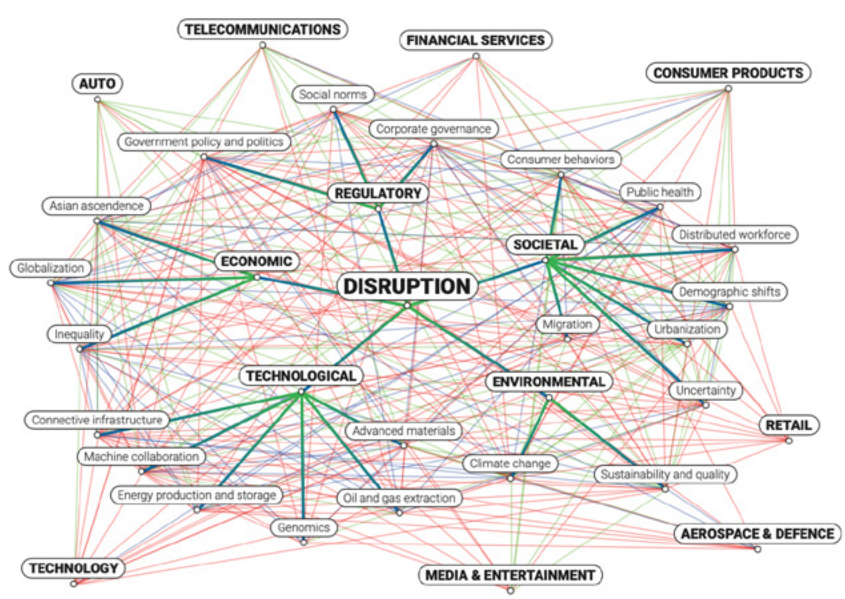


*Market cap calculated for ~April 1 of each calendar year

The disruption compass

Legacy businesses face an inherent paradox at the heart of disruption. They must protect and mitigate against the impact of disruption while at the same time capitalizing on its opportunity. This paradox is, in fact, compound. On the one hand, should their positioning be more reactive or proactive with regard to disruption? On the other, what is the frequency of disruptions that their business is facing? Are they more continuous or intermittent? Answers to these questions help inform what actions they should be taking.

Today, business leaders confront an environment that is shaped not just by the magnitude and sheer number of different disruptive forces, but also the complexity of their interconnected impact. With the AlixPartners Disruption Index, we examine that cumulative impact globally and also in specific countries, industries, and sectors. Over time, this index will allow us to track the impact of disruption from year to year.



From November 2020 to January 2021, we surveyed 3,149 senior executives in 9 countries across 8 industries. We asked them questions on the degree to which their business is being disrupted, the various disruptive forces impacting them, the pace at which these disruptive forces are accelerating, and the strategies they're employing to confront them. Using these responses, the AlixPartners Disruption Index provides a measure of the magnitude and complexity of disruption organizations are facing, accounting for overall disruption levels as well as the number of disruptive forces confronting an organization.

The disruption index calculation

The Magnitude of Disruption
(Assessment of how disrupted organizations have been over the past year)

×

The Complexity of Disruption
(The number of simultaneous forces impacting organizations over the last year)

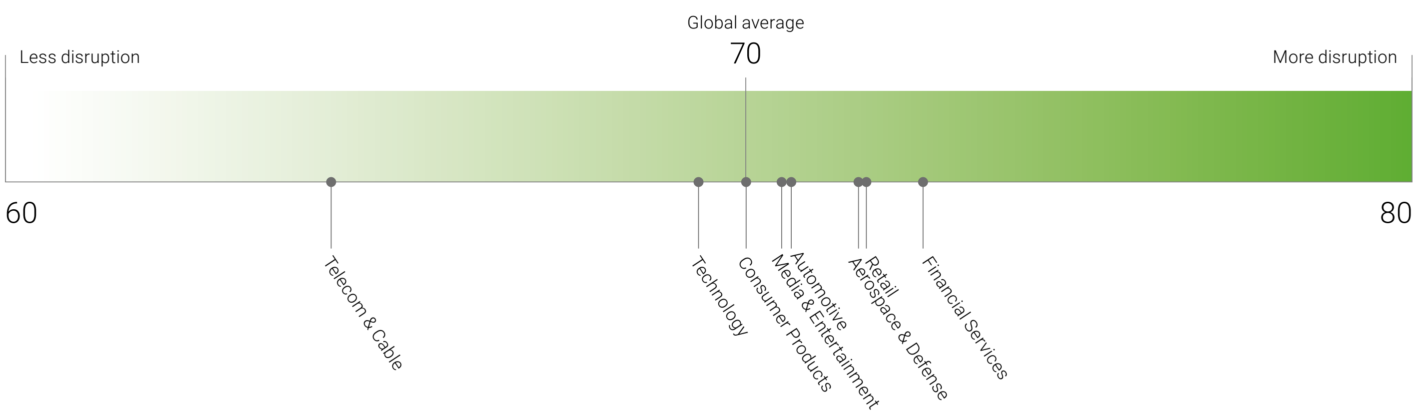
=

AlixPartners Disruption Index

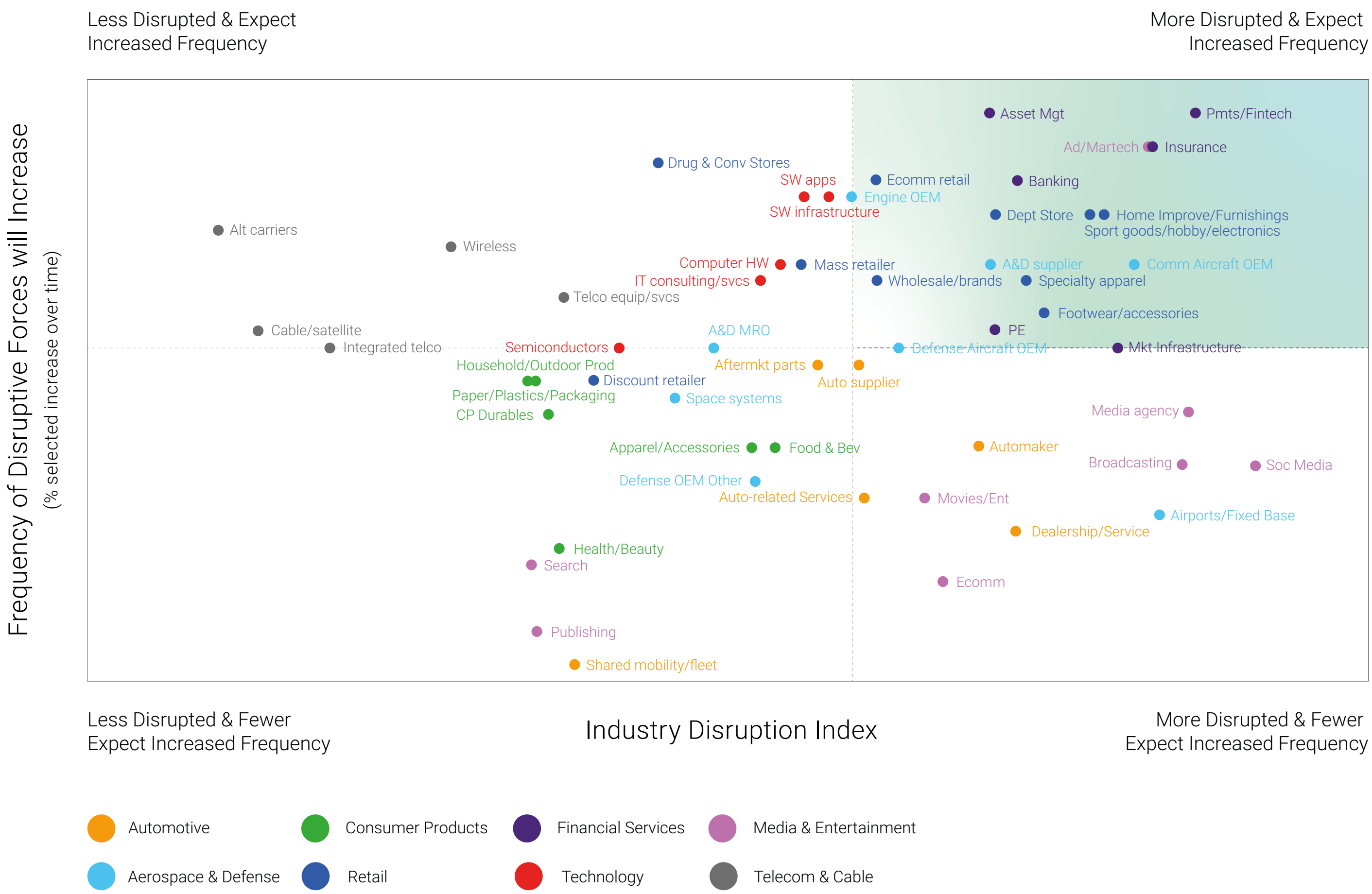
In 2020, a year in which COVID-19 forced business closures, upended supply chains, drove millions into unemployment or remote work, and accelerated disruptive trends across many dimensions, executives felt a high degree of disruption, with a score of 70.1 globally. Although there was some differentiation, all industries we surveyed report a high level of disruption during the past year. The nuances become more obvious when looking at each sector. For example, in the aerospace and defense industry, airlines and airport operators felt the highest degree of disruption last year, with space systems feeling the least.

Industry disruption overview

(0-100 point scale)



Frequency of disruption now and in the future



Examining these sectors more closely, this graph shows each industry sector plotted by the degree of current disruption (x-axis) and by the expectations for future disruption (y-axis). The upper-right quadrant is the most acute, where businesses are experiencing the highest disruption currently and expect more to come. This includes most of financial services, advertising technology, department stores, and airlines.

In the lower-right quadrant are those sectors that are currently being highly disrupted but do not expect the frequency of disruption to increase materially in the future. This includes sectors such as automotive manufacturers, movies and entertainment, and social media.

Companies that are currently experiencing less disruption but expect the frequency to increase are in the upper-left quadrant, with businesses such as wireless and cable providers, computer hardware and equipment, and pharmacies and convenience stores.

In the lower-left quadrant are those sectors that report lower, relative disruption currently and do not expect an increase in disruption frequency. These include sectors such as publishing and internet search, which have already seen significant disruption, as well as sectors which may be less prone to disruption for various reasons, such as discount retailers, space systems, and consumer durables.

For more detail on each industry and these sector differences, please refer to the individual industry briefs in the appendices.

Primary Challenge

Disruption is the primary strategic challenge confronting business and society as a whole

85%
Agree

Magnitude

The magnitude of disruptive forces impacting my organization will continue to increase over time

69%
Agree

Frequency

The frequency of disruptive forces impacting my organization will remain the same as today or continue to increase over time

82%
Agree

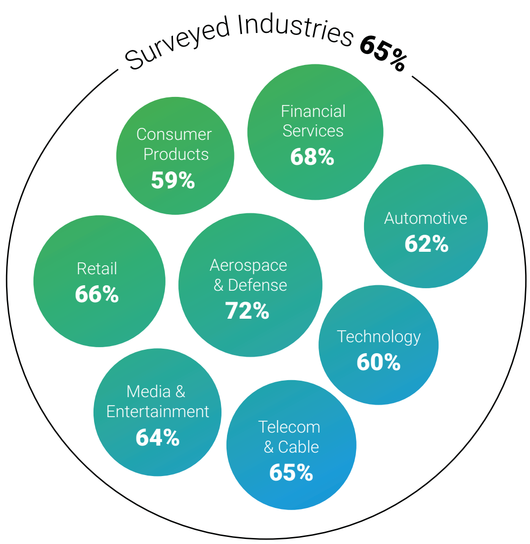
CEOs are confronted by disruption more than ever, and the pandemic isn't their top concern

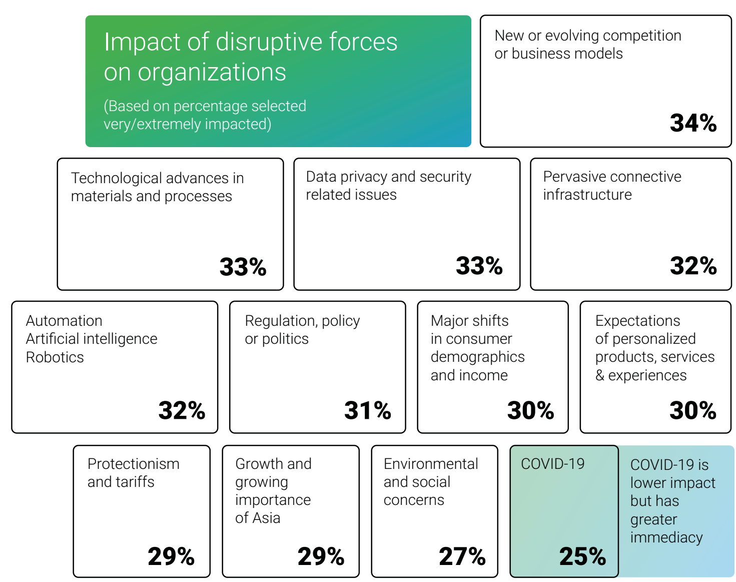
Disruption is what keeps executives awake at night. From technological advances to shifts in consumer behaviors to changing regulatory landscape, business leaders are grappling with multiple, concurrent forces that are upending how they do business. These forces are the new economic drivers, and their magnitude and frequency are increasing.

But surprisingly, the pandemic wasn't the top concern for most businesses. Despite the pandemic's immediate and pervasive dislocations, business leaders identified more than 10 disruptive forces that had higher magnitude and longer-term impact than COVID-19. These include factors such as new and evolving competition, technology-impacted processes, AI, and regulation. This underscores how far-ranging and dynamic the forces of disruption are in today's business climate.

Organizations highly impacted by two or more forces

(Based on percentage selected very/extremely impactful)





The reality is that it's not any one disruptive force confronting business. A multitude of interconnected and self-reinforcing factors are combining to challenge executives. This constant bombardment by disruptive forces leads to concern about losing control. Business models and strategies that have proven themselves successful over time are fast becoming obsolete.

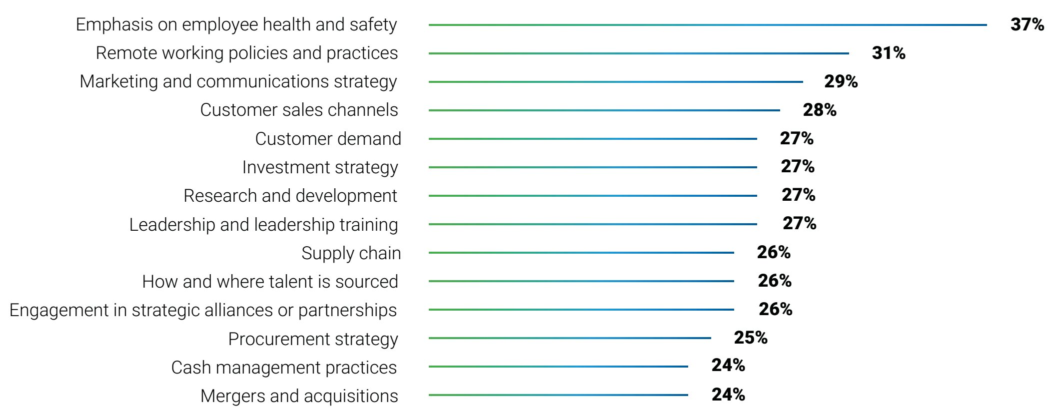
Executives say that changes from COVID-19 are permanent

In every industry, COVID-19 has changed the way business is done. From internal office policies to customer interactions to supply chain logistics, executives say they are permanently altering their strategies to succeed in this new normal. The businesses that have performed well amid the pandemic are those that have been able to anticipate long-term changes.

As vaccinations gather pace, there is reason to be optimistic about recovery and the prospects for a "new normal." However, this will still take longer than many companies may expect and will be uneven both across countries and within countries. Although China and the United States appear poised to drive global economic recovery this year, overall growth is expected to lag, with the OECD predicting that the global economy will still be 3% lower than its pre-pandemic predictions by the fourth quarter of 2021.[1] And, even after we have reached a "new normal," we will find that the pandemic has reshaped our lives in some fundamental ways.

Impact of COVID-19 has permanently altered...

(Showing percentage selected "permanently altered")



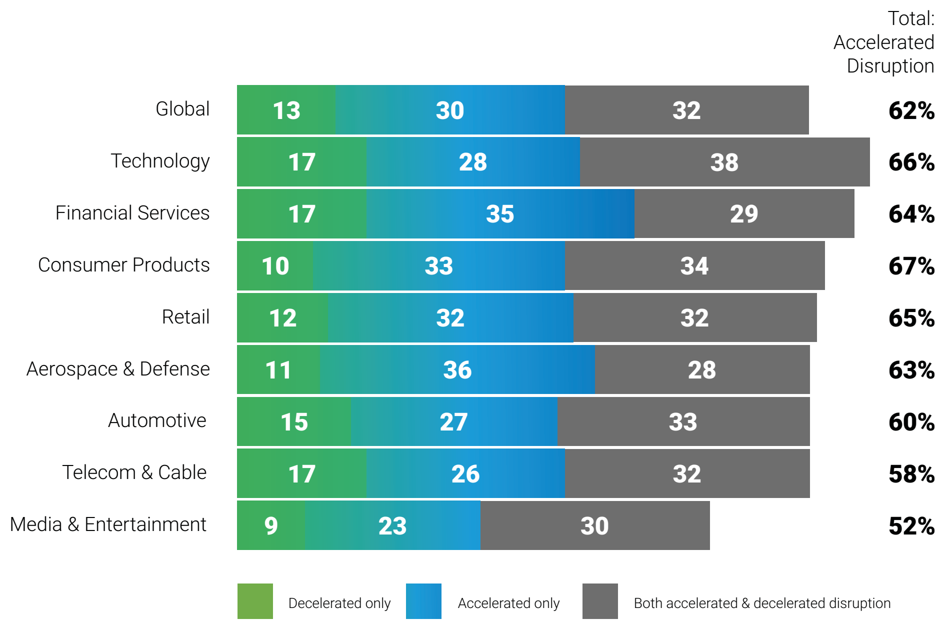
COVID-19 has accelerated existing, disruptive trends in meaningful ways. In the United States, digital commerce increased as much in the first five months of the pandemic as it did in the previous five years. Every company must now rethink its approach to remote work, which was already increasing as a result of new technologies and changing corporate cultures. Similarly, enforced isolation has given new impetus to telemedicine, remote learning, and online entertainment and gaming. Concerns over health and wellness have also taken on new urgency for many people.

Across industries, executives in our survey saw COVID-19 as accelerating disruption, with technology and consumer products companies leading the way.

Some aspects of the pandemic may have slowed disruption, as well. The financial impact on many companies made less capital available for necessary investments in areas such as automation and artificial intelligence. In addition, certain consumer trends—such as attitudes toward the sharing economy—also decelerated. Mobility revenues at Uber, for example, fell 52% last year. Airbnb reported 30% lower revenues for the year, while WeWork reduced its new leases by 93% in the fourth quarter.

Effect of COVID-19 on Rate of Organizational Disruption

(Showing percentage selected response)



Covid-19 accelerated disruption across industries by quickly shifting consumer habits and changing the way we work

Our online world accelerates privacy concerns

A year spent online—working, learning, shopping, and being entertained—has raised new concerns over security risks, as well as over how companies use our personal data.

Online fraud reached all time highs in 2020, with individuals, companies, and governments all proving themselves susceptible to attack. As employees moved quickly and at scale to work from home, new vectors for malicious attacks increased. Online shopping, similarly, provided additional opportunities, with the US Federal Trade Commission, for example, reporting a record 350,000 instances of online scams last year, totaling $245 million[5].

Even legal collection of personal data is receiving greater scrutiny. Regulators are moving to codify and contain how and what companies gather. Starting May 1, 2021, Chinese regulators will ban “excessive” data collecting by mobile apps, and a new federal privacy bill is under consideration in the US House of Representatives.

Executives in our survey cited data security and privacy concerns as the second-highest disruptive force affecting them. One-third of respondents said it was very or extremely impactful to their business.

Consumer behavior is also shifting. Spending patterns have been one of the most difficult trends to predict during the past year. Many of the supply chain disruptions that we've seen have stemmed from the inability of manufacturers to accurately forecast demand. Despite the global recession, aided by significant state support across many countries, consumers have maintained or even increased spending across many types of products and services, from home improvement to online gaming to automobiles. And around the world, behaviors were forced to change because of lockdowns, social distancing policies, and health concerns.

Our Changing Consumer Priorities Study suggests that new dimensions to consumer segmentations are emerging as a result of the pandemic, and behaviors learned during this period will have long-term implications across demographic categories and geographies. About half of consumers we surveyed say that their habits have been changed permanently, despite overwhelming optimism about vaccines. For more information on these findings, please visit our Changing Consumer Priorities home page.

COVID-19 anxieties drive significant changes in consumer behavior

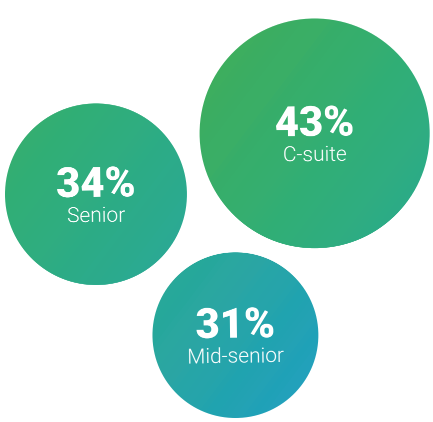
As the world prepares to emerge from the pandemic's profound disruption to normal life, our collective experience during the past year has imprinted on how we will behave going forward. Restrictions prompted by COVID-19 differed across the globe in their scope and severity. But consumers across the board have had to learn new behaviors and adopt new habits in their everyday lives.

Our ongoing study of changing consumer priorities has found that two-thirds of consumers are optimistic about a vaccine. But while many will go back to spending through familiar pre-pandemic mechanisms, others will not abandon behaviors learned during this period anytime soon. It is imperative for consumer companies to understand what has caused and is continuing to support these permanent shifts.

People have been riddled with anxieties about finances and physical as well as mental health during the last year. Our study found that consumers who have felt the most vulnerable are more likely to exhibit permanently changed habits. Significantly, the survey found that these consumers span all age groups, genders, income levels, and locations.

Confidence in ability to withstand disruptive forces

(Showing percentage selected "very confident")



Executives aren't sure they have what it takes

Executives lack confidence in their company's ability to withstand disruption, and the more junior the employee, the lower that confidence falls. This misalignment in perceptions between the C-suite and their next levels of management may create conditions in which leaders "talk past" the rest of their organization or fail to grasp the potential disruptive impact of new trends. Executives run a very real risk of misjudging their middle managers' confidence in the future, potentially impacting the ability to engage and retain the employee base. Almost half of all executives worry that their company is not taking the necessary steps today to ensure that they are well-positioned to navigate disruption.

I worry about losing my job due to the disruption facing my industry

Globally

45%

Agree

C-Suite Executives

51%

Agree

This vulnerability also translates into job insecurity amongst executives themselves, which is highest among the most senior executives. A lack of control over the future and a lack of predictability are acute sources of anxiety

The issue isn't that executives can't effectively predict disruptive forces facing their organization or industry. In our survey, 83% of executives say they can do so. But even though they can sense disruption coming, many don't know how to respond.

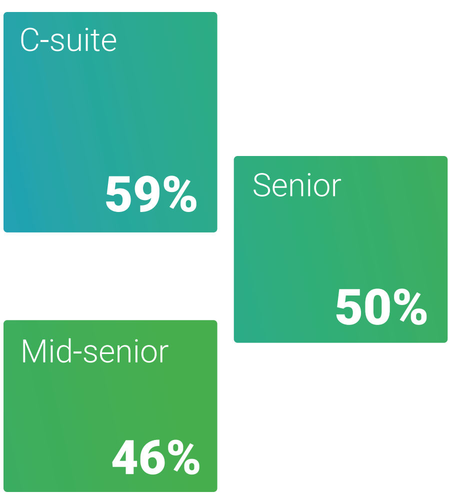
A number of factors make many established companies ill-equipped to confront disruption. The timing may be unclear—and being too early in a disruptive trend can be worse than being too late. The magnitude is also difficult to judge, given the non-linear and exponential nature of disruptive growth.

There are more prosaic factors, as well, including an inability to prioritize, the lack of a sense of urgency, and the failure to organize properly to support riding the wave of disruption.

> "When disruption happens, there's always fear."
>
> – Masato Inoue, lead designer of Nissan's Leaf electric vehicle[2]

There is a talent gap in my organization that make us vulnerable to effectively navigating disruption

(Showing percentage selected "agree")



A talent gap presents a stubborn challenge

At the center of concerns over confronting disruption is a perceived talent gap. More than half of all executives think that this talent gap makes their organization vulnerable to disruption, rising to almost 60% in the C-suite. A skills gap may explain some of this concern: a lack of trained software engineers, digital marketers, or cybersecurity experts.

In our experience, ways of thinking and approaching disruption are a more prevalent issue. A lack of urgency, agility, and innovation in the face of repeated disruptions weigh on the minds of many in the C-suite. Transforming the corporate culture to become more forward-looking, agile and resilient, therefore, becomes a critical leadership task.

Executives worry that their colleagues and teams don't have the right skillset to meet the speed and intensity of disruptions and that their culture will be too slow to respond. Getting out ahead of disruptions requires leaders who are agile and resilient—who see change as an opportunity and not a threat. And, of course, when a firm's leaders demonstrate these values, the requisite culture follows.

The risks of inertia and complacency have never been higher. Taking control of destiny and confronting the challenges from disruption are the critical tasks of business leaders today.

The disruption paradox is a complex problem

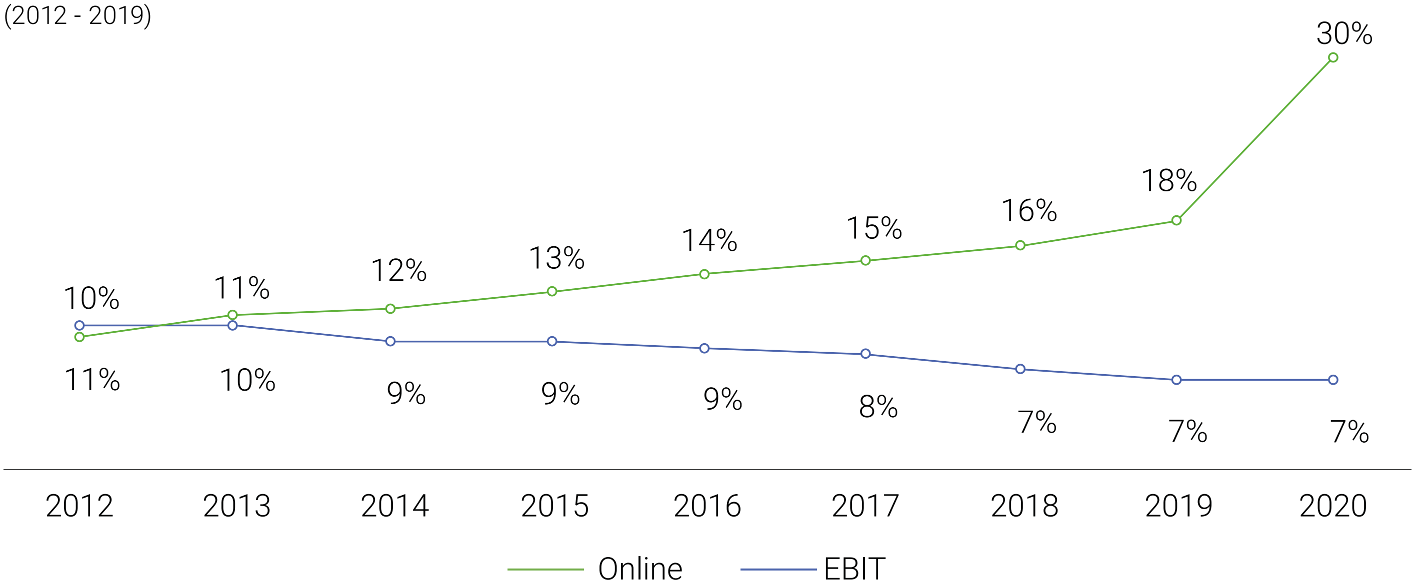
There are no easy answers to disruption. Being too early with a new technology or business model can be worse than being too late. However, given the exponential growth and economies of scale associated with successful disruption, delay has its own challenges. Traditional ROI measures frequently fail to capture the true present value of today's investments. Necessary steps to protect and mitigate the impact of disruption on legacy businesses are often at odds with the requisite actions needed to proactively navigate the disruptive environment.

"AT&T has to continue to innovate and disrupt itself. We have to figure out in a sense what is the pace you cannibalize yourself. There is a lot of attention in the business headlines these days about how the Silicon Valley giants are disrupting legacy businesses. There is not as much attention being paid to how legacy businesses have to disrupt themselves."

– Bill Kennard, Chairman, AT&T [3]

This paradox is presented starkly in retail. As online penetration increases, profitability decreases across the industry. The costs of providing a smooth omnichannel experience for consumers are high, but the pandemic has shown that not having those capabilities is an equal liability. In many instances, retailers are left with only bad and worse options.

Average US Retailer Online Penetration % vs. EBIT Margin %
(2012 - 2019)



My organization can effectively predict disruptive forces facing our industry

83%

Agree

I worry that my company is not taking the necessary steps today to ensure we are well positioned to navigate disruption

48%

Agree

For incumbent automakers, this paradox can be seen in their transition from internal combustion engine (ICE) power to zero emissions electric propulsion. Companies need profits generated by ICE products to fund electrification development (which are estimated in the hundreds of billions of dollars) and offset per-unit losses until electric vehicle (EV) costs come down and volumes increase. Some automakers—such as General Motors, Volkswagen, and Jaguar/Land Rover—have set firm deadlines to achieve fully electric product lines while others are mapping a more gradual path that may include hybrid technologies. The challenge for these will be deciding when (and where) to cannibalize ICE sales with their own EVs. Regardless of the approach, incumbent automakers will face stiff competition from electric-only carmakers and new entrants, all of which are fighting for market share in an environment of global overcapacity.

In effect, companies have to orient themselves around the compound paradox of disruption. On the one hand, how do they react to disruption's impact on their existing businesses, while also proactively preparing to capitalize on these same disruptive trends? On the other hand, what is the nature of those disruptions and their expected frequency and magnitude in the future?

Across industries, executives in our survey felt confident in their ability to see disruptions coming. But identifying and acting on them are not the same. And too often, the default choice is to do nothing but to wait and see. In a world where disruption is accelerating, its magnitude is increasing, and the gaps between the winners and the losers is growing, such complacency can quickly lead to disaster.

Vigilance in the face of disruption is essential. Nearly 40% of respondents said that their organization is better off today than a year ago, and those executives were more likely to see the opportunity afforded by disruption. In contrast, those who said their organization was worse off were much more likely to view disruption as a threat alone.

Disruption as opportunity or threat to organizations

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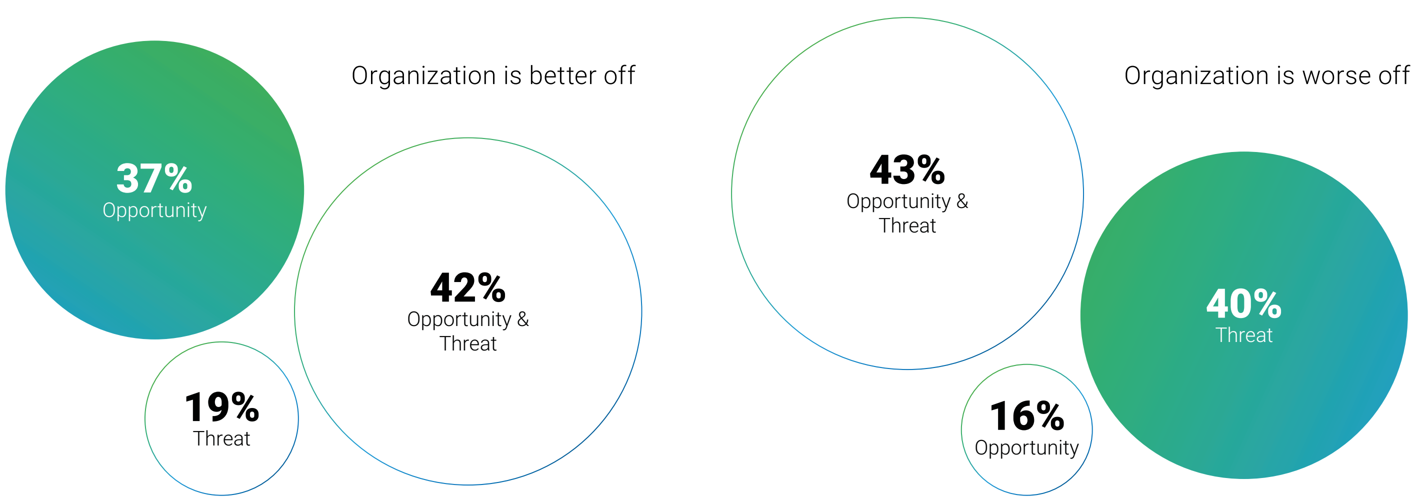


Take back control: confront the disruption paradox

The best-performing companies respond to disruption by focusing on the acceleration of their organization's transformation and the rigorous execution of their strategies. They disrupted and reinvented themselves before others did it to them.

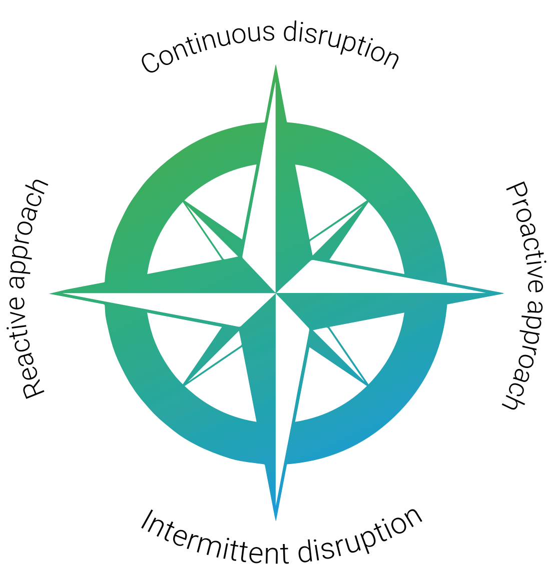
Our 40 years of experience helping companies in turnaround and restructuring situations mirrors this: it is essential to take required and immediate action to course correct. For many distressed companies, the threat is genuinely existential—either a perpetuation of an enterprise or its liquidation. For otherwise healthy companies, as disruption continues to widen the gap between winners and losers, that existential threat also looms, every day.

Executives increasingly acknowledge the need to be their own disruptors, but successful transformation is easier said than done. You can't bottle creativity, and there's no secret formula to unlock innovation. In our experience, the answer is more straightforward, but no less challenging.

Vigilance is key, and it starts with leadership. It's less about what you do, and more about how you do it. It's about building the right executive team, the right corporate structures and especially the right culture to enable effective coordination, communication, and agility. And it's about making the right technology investments while recognizing that technology has its limits. Ultimately, it starts with you taking control of your organization's future.

Orient yourself on the disruption compass

One of the first steps is considering the challenges your business faces relative to the compound paradox of disruption. What are the magnitudes and frequencies of disruptions to your business now and in the near future? During which aspects of disruption can you afford to be in a more reactive mode? When should you be more proactive in positioning yourself?



Answers to these questions not only give you a sense of their urgency, but also begin to answer what types of investments you should be making for the future. An environment of chronically high disruption may require an entirely different organizational model. It certainly demands more from leaders and a more adaptive and risk-taking culture.

The first step is recognizing and acknowledge the paradox. Orient yourself. Plan for it. Then you can begin making decisions that will position your company for future success.

Top strategies and tactics organizations utilize in response to disruption

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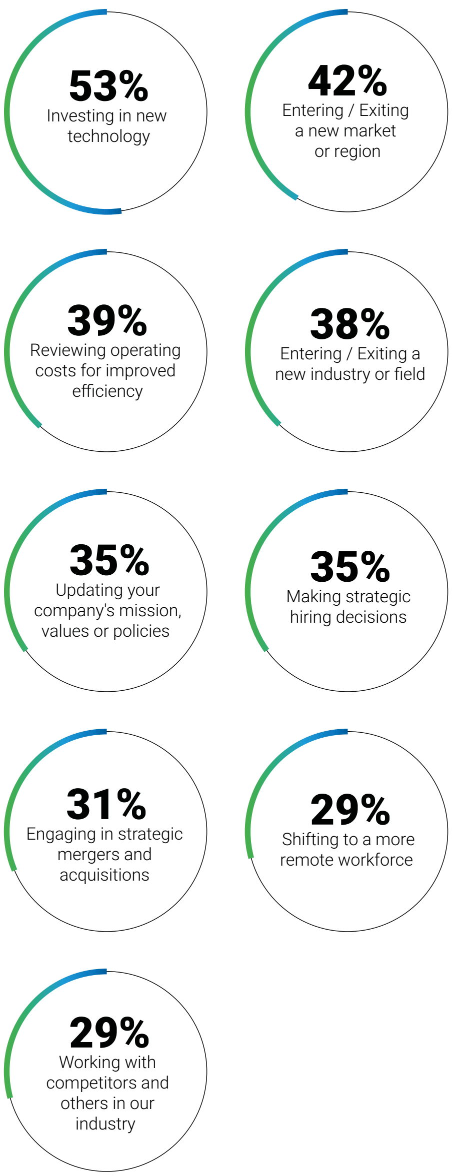


Technology is essential but can't solve everything

The leading strategy in confronting disruption is the investment in new technology. Unsurprisingly, given their stronger balance sheets, this trend is even more pronounced for larger companies (those with $5 billion or more in revenues) and those companies that view themselves as better off today than a year ago. Amongst these technology investments, bringing data and analytics to the center of all activities has become an urgent task across all industries. For consumer-facing businesses, using these technologies to recalibrate in the face of rapidly shifting and unpredictable behaviors is essential.

Many companies are rich in data, but poor in insights from it. Systems don't speak to each other, and there are challenges in effectively pulling usable data from those systems. In the absence of actionable insights, the data becomes useless in helping make decisions. Costly data system implementations that can take years to roll out are not an ideal solution in this environment. The focus must be on zeroing in on usable insights that prioritize the consumer and can anticipate future needs. This means investing in predictive modeling, artificial intelligence, and consumer insights.

However, for some companies and even entire industries, necessary technology investments are formidable. Economic realities have stretched out the timelines for investments in automation and other critical processes in both the automotive and aerospace industries. As governments manage the fallout from economic stimulus and budget shortfalls, future spending on defense may be impacted. Necessary digitization and data migration in financial services will run into the hundreds of billions of dollars globally.

In addition, the scale of the leadership and cultural challenges is equally formidable. Simply pouring money into technology will not resolve the human obstacles to transformation that frequently prove the most stubborn and daunting.

Structure your organization to confront disruption

Organization design needs to promote better communication and adaptability. Communication and organizational barriers come in various forms and are widespread. Regardless of the form they take, however, these barriers grind efficiency to a halt and are the antithesis of flexibility. Silos are rigid, impermeable, and, by definition, disconnected. These characteristics make it very difficult—if not impossible—for unconnected teams to work quickly and collaboratively toward a common goal. Silos may come from misaligned incentives and unclear accountabilities or from a lack of trust and partnership between internal or external teams.

Organizational structures need to be tested for the nature of work performed, accountability, and design. Are some functions better centralized or localized? Metrics can provide insights into the desired endstate, including organizational (e.g., span-of-control, use of low cost locations) and financial (expense-to-revenue) considerations. And managerial structures must be aligned to provide optimal oversight.

When incentives are shared and aligned, organizations are flatter and more fluid, teams talk to each other openly, and customer feedback is frequent, decisions can be made quickly and smartly. A cross-functional team that is able to react rapidly to shifting market winds and consumer preferences is more apt to make the right decisions the first time.

Most high-performance organizations not only focus on flat, agile structures and cultures, but they have mastered the role of feedback processes—especially involving clients—to make real-time changes possible. Feedback-rich cultures are dedicated to constant learning and flexibility.

All of this begins with strong leadership at the top. The CEO and the executive team are culture carriers who must model the behavior they wish to see throughout the organization. This means having leaders who can meet disruption effectively through personal flexibility, resilience, and emotional intelligence. Leading transformation begins with senior executives who model the values and behaviors that need to be seen throughout the organization and that strengthen the culture. Effective leaders break down those silos that are possible, but to the extent they're not, they make sure the walls are permeable.

Align enterprise functions, like finance and human resources, closely to the business, creating leaner organizations where possible. And banish any notion that technology is something that happens in an IT department. Technology imbues every part of businesses today and plays a crucial role in defining organizations and their value proposition to customers.

Focus in the face of disruption

In January 2021, one of the leading camera manufacturers for the past 80 years, Olympus, finalized the sale of its imaging business to private equity fund Japan Industrial Partners. In recent years, the company had taken various steps to improve the cost structure and efficiency of its imaging busines, but the division had recorded operating losses for the three consecutive fiscal years leading up to March 2020.

The company was faced with a fundamental disruption to this business, which has been felt across the industry. As smartphone cameras have improved and their usage has grown nearly universal, demand for personal cameras has plummeted. According to the Camera & Imaging Products Association of Japan, in 2019, 15 million digital cameras were shipped by Japanese manufacturers—just 12% of the number of cameras shipped in 2010.

“If we were to keep the current operation or business model ...we would hit a dead end at some point,” said Olympus Chief Financial Officer Chikashi Takeda.

Going forward, Olympus will focus on its medical instruments and scientific divisions, which have made the bulk of its profits. Away from the distractions of its loss-making imaging business, the company, and its management team, could be more focused, compact, and efficient.

Focus on a few priorities that actually matter

Leaders must always set priorities with limited resources. Questions to consider include: Which business lines promise the highest growth potential in the future? Which are essential revenue generators that can help fund that growth? Which investments offer the highest potential ROI? Which are essential fixes to keep things from going awry?

The ability of individuals and the organization as a whole to focus on multiple priorities is limited. Keep it simple. Not making the hard choices and failing to limit to a few essential priorities is where many leaders and business transformations go wrong.

When transforming a business to meet the challenges of disruption, maintaining a focus, measuring progress, and ensuring accountability on these priorities is essential.

This means:

- Never compromise on the "must-haves." Develop priorities to ensure that focus and attention are always on the most important levers. Do not get distracted by the nice-to-have wish list.
- Make evidence-based decisions. Challenge assumptions and ensure there are no "sacred cows." Be willing to take bold actions in support of where the company needs to go.
- Remember that cash is king. Focus on free cash flow, not just P&L benefit.
- Provide sponsorship, ownership, and accountability. Visible senior-level sponsorship is key to galvanizing the broader team into action. Transformation leaders at all levels must be responsible and accountable. Programs should be actively tracked, benefits measured, and milestones reported upon.

One of the leading causes of companies entering bankruptcy a second time is that they failed to fix their underlying operational problems the first time around. Short-term fixes—like a new capital structure—masked these fundamental problems. Focusing on these fundamentals and not compromising on priorities is essential.

Prioritizing through M&A for a sustainable future

Last year, Unilever abandoned its Anglo-Dutch structure to become a UK-domiciled business, positioning it to become more agile in divestitures and acquisitions and to focus on faster-growing sectors and markets. While its financial performance held up through the pandemic, driving faster revenue growth—the challenge for most large consumer products companies—has proven more challenging.

CEO Alan Jupe is placing sustainability at the center of its strategy to ignite growth, looking "to prove incontrovertibly that sustainable business does drive superior financial performance."[6] In addition to setting for themselves ambitious climate and social goals, sustainability has been a central focus of its brand and acquisition strategy. Unilever has acquired companies such as Seventh Generation and the Laundress, two eco-friendly laundry groups. The company has said that its sustainable brands grow almost 50% faster than the rest of its portfolio and deliver 70% of sales growth.

Execute, execute, execute

It's impossible to overstate the importance of execution. All the best-laid plans will come to naught if they're never implemented or implemented too slowly.

Because the acceleration of disruption is exponential, it's easy to become lulled into a false sense of complacency—thinking that there is plenty of time to respond. Cultural barriers to change and concerns over the adoption of new technologies or business models can seem insurmountable. However, we know that change at speed is possible. Throughout the pandemic, we've seen company after company move with speed and a sense of urgency to fix supply chains, expand into new sales channels, and ensure worker safety.

Confronting disruption requires bringing the same momentum and resolve that was applied to the pandemic or to a turnaround and restructuring situation.

This means:

– Maintain pace over perfection. A solid plan to respond to disruption that is implemented at pace and with rigor will always outperform a perfect plan executed poorly. Low-hanging fruit can provide momentum for longer-term transformation. Incremental benefits must be balanced with the team's execution capabilities.

– Keep a relentless focus. Maintain a laser-like focus on tackling the tasks that will get you to the end goal. Stay focused on the prioritized actions and desired outcomes. Quickly find workarounds and creative solutions to any roadblocks.

Disruption across industry after industry is accelerating and relentless. Without an equally relentless focus on speed to execution, you may never be able to build the sustainable future that your business requires.

Meeting the challenge—at speed—to disruptions in the supply chain

The past year made two things clear: global supply chains are more fragile than many had previously understood, and companies have proven remarkably adept at responding to the challenges this created.

Outside of China, much of the world first experienced the COVID-19 crisis in the form of component shortages, resulting from critical factory closures around Wuhan. Even after a year of disruption and change, supply chains have yet to fully recover. Raw material shortages continue to exist in certain markets, and transportation costs have skyrocketed. Critical components, like semiconductors, remain in short supply. Adding to these supply challenges is the continued volatility of consumer demand and the difficulty in accurately predicting it.

What's remarkable, however, is just how little disrupted consumers have been. Yes, initial (and sometimes intermittent) shortages of products like toilet paper and disinfectant products caused some headaches.

But, by and large, consumers have found their supermarkets stocked, their gas stations flowing, and their doorbells ringing with online deliveries.

For this, we can thank the speed and adaptability of companies across the supply chain—from suppliers to manufacturers, from retailers to transportation and logistics. Manufacturers expanded their capacity where needed, taking into account the impact of shutdowns in differing geographies. They also examined the resilience of their supplier network and explored ways to shorten supply chains where possible.

Retailers, in turn, had to handle store closures and social-distancing requirements, while finding ways of meeting omnichannel demand. Walmart, for example, hired more than 157,000 personal shoppers in the United States this past holiday season to handle pickup and delivery orders.

The adaptability and resilience of all these various components, particularly the tireless efforts of the many "essential workers" who labored to keep these supply chains functioning, is a true success story of the pandemic.

Overcommunicate what is needed to meet the challenges of disruption

CEOs often feel that the available tools to set the direction of their firm are limited. You recruit, place, and retain the best senior talent, who can execute on your strategic vision. You can also incentivize and hold them accountable to these goals and broadly control where resources are allocated. However, many day-to-day decisions, particularly in larger organizations, may be out of your control.

But CEOs also have a powerful megaphone. Using communication effectively is a crucial step in leadership, cultural change, and confronting disruption. Compelling communication that really connects with employees can be an effective antidote to the confusing force of disruption.

The point of any transformation program is not the transformation itself, but rather the path on which it sets your company. A clear and compelling vision of that future is only useful if it is shared and if it inspires others. The entire organization, at all levels, needs to believe in the change and understand the benefits that will accrue, collectively and individually, over time.

That means:

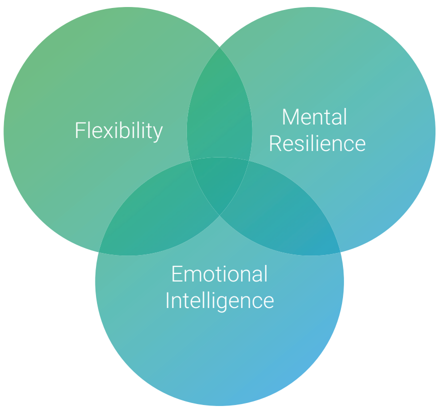
- Communicate clearly, regularly, and consistently. CEOs must be their own chief communications officer and clearly set out the desired end state. It is not until leaders are tired of delivering the message that a critical mass of stakeholders has heard it.
- Be compassionate but candid. Communicate the truth, even if doing so results in difficult discussions. Delaying those hard conversations is human nature but can create significant obstacles to implementing needed reform.
- Lead, follow, or get out of the way. Ensure the management team is aligned on the prioritized actions and desired outcomes. Remove any barriers and invest in change agents at all levels.

Leadership, by definition, requires followership. If you're not bringing others along on your journey—inspiring and guiding them—then any transformation is doomed to fail.

Become the transformative leader that your organization needs

Effectively executing on these action steps is dependent on two things: leadership and culture. And of course, the latter derives from the former. But what are the leadership qualities that are required to transform an organization to successfully confront disruption?

The three critical skills



Three skills are essential: flexibility, mental resilience, and emotional intelligence. And, this must begin with CEOs—how they lead, the types of leaders that they hire and promote, and the processes and results that they reward. Transformative leaders know how to catalyze profound and enduring change in those around them to confront the challenges of disruption.

Satya Nadella described this task when he was named CEO at Microsoft in 2014: "Innovation was being replaced by bureaucracy. Teamwork was being replaced by internal politics. We were falling behind."[4] Culture change became his number one goal. Through his leadership, Microsoft transformed itself into an organization that meets disruption as an opportunity through collaboration and risk taking.

Flexibility in thinking must be promoted and rewarded. Linear solutions cannot solve complex problems. Businesses need leaders who promote collaboration in fluid and nonhierarchical environments and who demonstrate a growth mindset. Flexible leaders, who are intent on learning quickly, adapt to meet the needs of a rapidly-evolving, disruptive environment.

Linear thinking, which does not take into account changing dynamics and whole system solutions, can create new problems with unintended consequences. For example, using guaranteed bonuses to attract and reward the best talent may disincentivize top performers who want rewards based on merit.

Leadership when it really mattered

Early missteps by many governments and scientific experts, coupled with an explosion of misinformation, fueled increased uncertainty and lack of trust in established institutions during the pandemic. People increasingly looked to CEOs for leadership during this crisis, with the 2021 Edelman Trust Barometer showing that business is the now the only trusted institution globally.

In the United Kingdom, as lockdowns were established and panic-buying of staples surged, national grocery chains emerged as early exemplars of strong leadership and effective communication. They provided clear guidance on protocols undertaken to ensure the health and safety of both customers and staff.

They quickly shifted channels to provide more options for shoppers, including online ordering, curbside pickup, and delivery with a strong focus on accessibility for priority or disadvantaged groups. Grocers also eased fears about possible shortages through their effective logistical handling of supply chain disruptions, limitations on bulk purchases of certain staples, and calm and measured communications to the public.

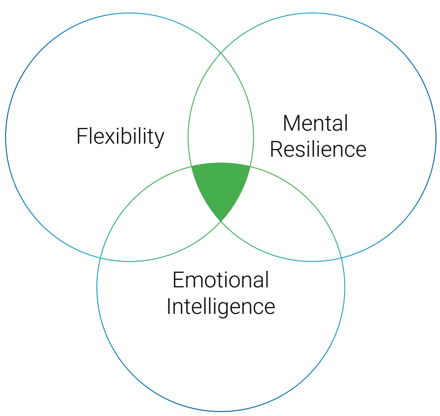
With restaurants closed for large portions of the past year, consumers relied on their grocers more than ever. December 2020 was the busiest month ever for British supermarkets. Their leadership and agility through the pandemic – as embodied by former Tesco CEO Dave Lewis' "ten years of change in a few weeks" quote to media at the height of the UK's first wave—filled a void and demonstrated how effective direct and clear communication can be.

Mental resilience is key. Leaders must be able to deal constructively with ambiguity and uncertainty. They must have the fortitude to focus on a few key priorities, stick to those despite the many distractions that come with running a complex organization, and have the confidence and know-how to pivot when facts or circumstances change.

This past year has tested our collective mental resilience. Lockdowns, new ways of working, health and safety concerns, shifting consumer demand and channels, and dislocated supply chains have become the daily reality for business leaders around the world. Our survey this year shows that those companies that tackled these problems head on and embraced the challenges as an opportunity performed better than those that saw disruption only as a threat.

Increasingly, emotional intelligence (EQ) is a skill demanded of leaders—and it's still in short supply. We have long known that the skills that get leaders to the top jobs are not necessarily the ones that make them good leaders. Revenue generation, sales acumen, or technical know-how may all be critical traits in the rise through an organization. And vision and experience are critical to any leadership role. However, the ability to comprehend and control personal feelings, while understanding and managing others, is perhaps the most important skill in managing an organization. As the variety of stakeholders expands, along with their expectations from leaders, EQ has become an even more critical skill.

Truly transformative leaders



Truly transformative leaders are at the center of the Venn diagram of flexibility, mental resilience, and EQ. Transformative leaders are authentic, meaning they live in alignment with their mission and purpose, and inspire others to do the same. Transformative leaders are best suited to deal with disruption because they simultaneously serve as strong role models and culture carriers while creating the inclusive environments employees demand. The best leaders communicate clearly, consistently, and frequently. They are role models and cultural change agents who create organizations that attract and retain the very best talent.

Disruption demands leaders who can display all these skills, lead their organizations in meeting the challenges of disruption, and create the vision for a brighter and more sustainable future.

Take control

In the midst of one of the most profound public health and economic crises the world has ever experienced, we saw just how quickly business could transform when necessary. New platforms for remote working and digital commerce, which had been slated to take years, were adopted within weeks. Supply chains and distribution channels were adjusted to maintain the delivery of critical products and services. And the heroic efforts by pharmaceutical companies to develop, test, manufacture, and distribute vaccines at a record pace, will help ensure an eventual end to this crisis.

If businesses can transform quickly and effectively in the face of COVID-19, they can also do so when confronted with the challenges from disruption.

The stakes are getting higher. In a volatile environment, clarity, control, and pace are a necessity. The macro environment may not be in anyone's control, but how you respond and the speed at which you do so are.

Define your own future.

Be bold.

History shows that if you do not, someone will step in to do it for you.

Notes

1. OECD (2021), OECD Economic Outlook, Interim Report March 2021.

2. New York Times, March 9, 2021.

3. Fortune Magazine, March 23, 2021.

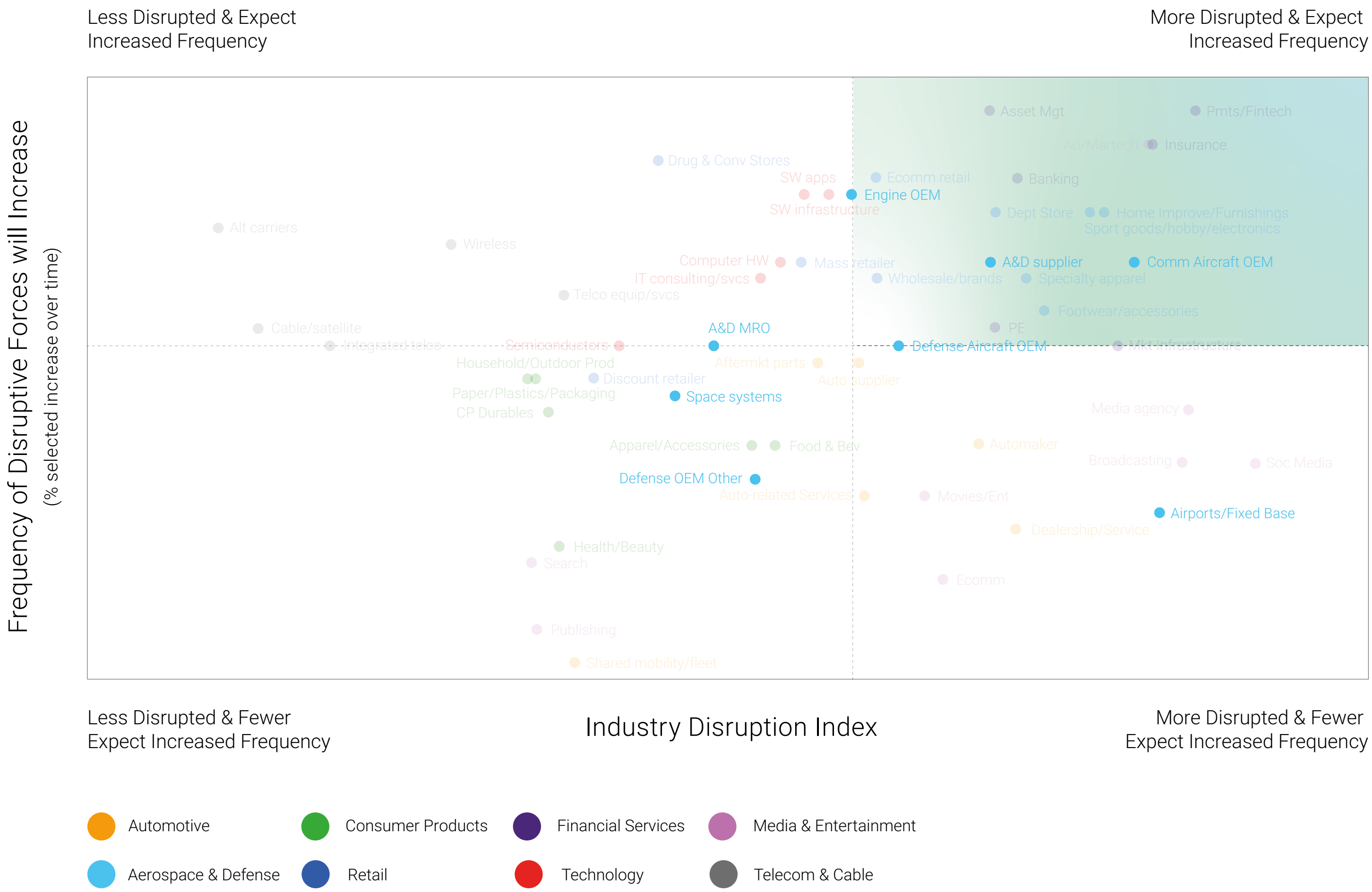
4. Nadella, S. Hit Refresh: The Quest to Rediscover Microsoft's Soul and Imagine a Better Future for Everyone (2017) Harper Business.

5. https://www.consumer.ftc.gov/blog/2021/02/top-frauds-2020

6. Evans, J. "The shackles are off: Unilever goes for growth after UK move." Financial Times. February 5, 2021.

Industry briefs

Aerospace and defense



The aerospace and defense industry in 2020 was a tale of two sectors: civilian and military. Already reeling from the ripple effects of the grounding of 737-MAX aircraft, civilian aircraft original equipment manufacturers (OEMs)—Boeing and Airbus—saw new orders fall by more than 300 units for Boeing and more than 30 for Airbus. The reason: commercial airline demand plunged as stay-at-home orders and other travel restrictions were imposed across much of the world. Traffic plummeted 61% for the full year, and passenger volume fell by 2.7 billion travelers. The number of flights fell to 16 million from 39 million in 2020, driving cumulative annual losses for the industry to $112 billion.

While demand for leisure travel appears poised for a strong return as more of the population is vaccinated, recovery to pre-COVID-19 levels will be measured in years. The long-term profitability outlook hinges on the future of business travel, which may well see a permanent decline. Some of the more financially precarious carriers may seek bankruptcy court protection, and the OEMs may well require additional government assistance.

The picture is much different on the defense side of the industry, which has remained stable despite the COVID-19 pandemic. Most countries maintained or even boosted their defense budgets in 2020 despite the overall plunge in economic activity, with total global spending rising to $1.8 trillion, up almost 4% in real terms from 2019. Increases in government outlays in defense were driven by intractable geopolitical tensions that in some cases have been exacerbated by the COVID-19 pandemic and population movements. That said, the defense sectors could feel greater disruption in time if governments need to prioritize funding for economic stimulus and health and welfare programs in future budget years.

The economic impact of COVID-19 on future prospects throws into question the timing of investments in new technologies, like autonomous aircraft, likely delaying many programs by years.

This year, our executive survey found that:

- Nearly 1 in 4 of aerospace and defense executives say 10 or more forces have highly impacted their organization—the highest across 8 industries (23% vs. 17% global).
- Despite this tumultuous year, aerospace and defense executives are among the most confident—45% are highly confident in their organization's ability to withstand disruption (37% global).
- Maintenance, repair and overhaul providers are the most confident sector—55% are highly confident.

Aerospace and defense organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

33%

of aerospace and defense executives[2]

- Higher revenue organizations ($1B+)*
- Exhibit an opportunity mindset toward disruption
- Are more proactive in response to disruption*
- Maintain a sense of urgency regarding disruption preparedness
- Impacted less by COVID-19 and expect a shorter* recovery period

Worse Off [1]

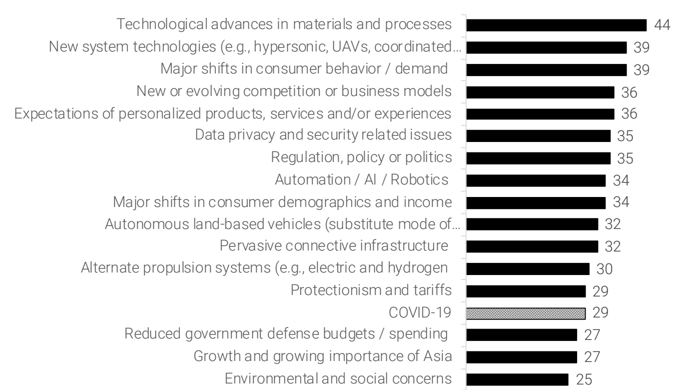
17%

of aerospace and defense executives[2]

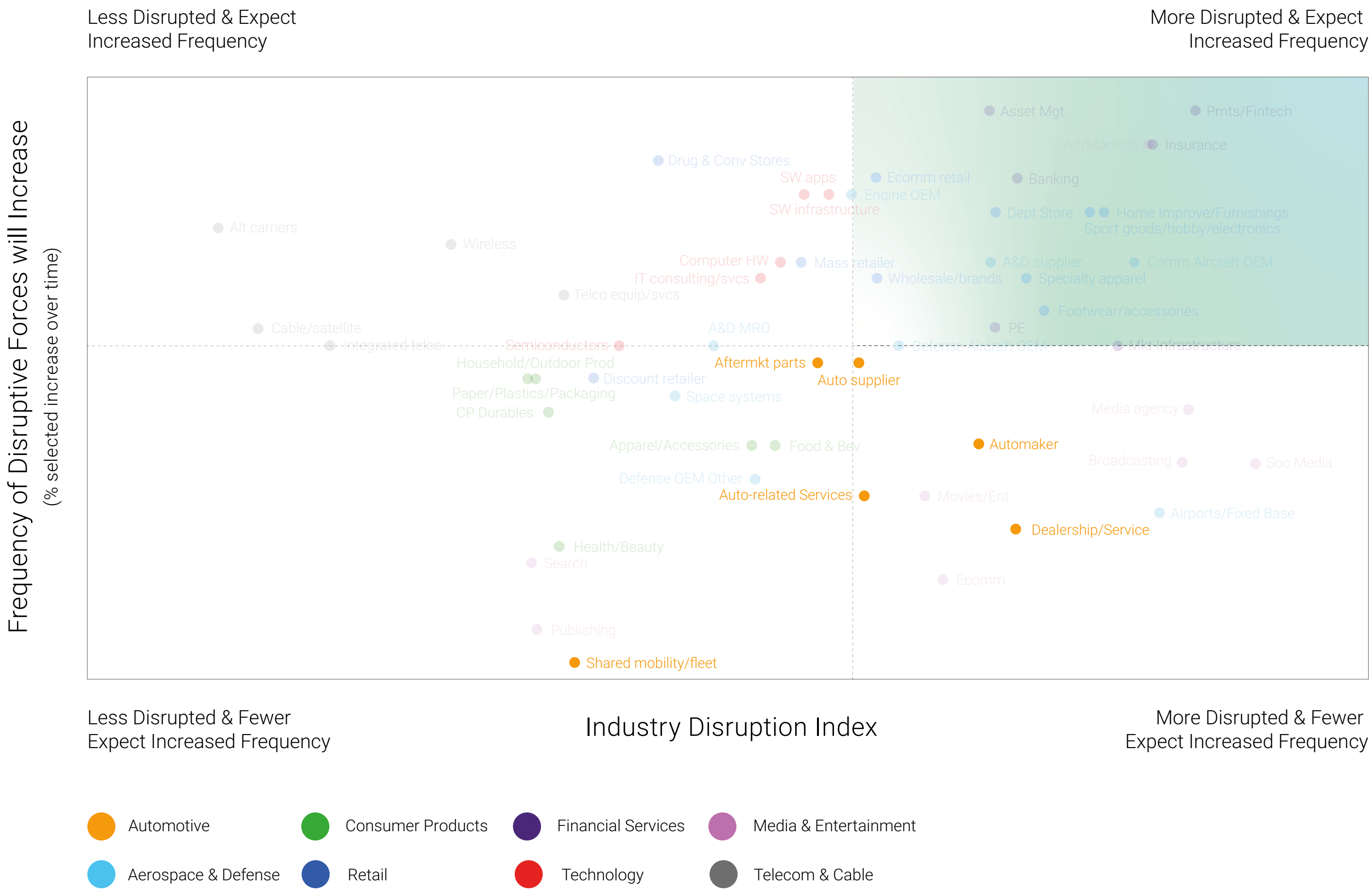
- Lower revenue organizations (>$1B)*
- Exhibit a negative or threatened mindset toward disruption
- Are more reactive in response to disruption*
- Show less urgency regarding disruption preparedness
- Hit harder by COVID-19 and expect a longer recovery period*

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)



Automotive



Automakers and suppliers were among the first to feel the impacts of the pandemic in 2020, as consumers stayed away from dealer showrooms and supply chains were disrupted by factory shutdowns in China. Even after reopening idled factories, global automakers were slow to return to full production due to muted demand. Sales recovered in the second half of the year, but shipping constraints and shortages of vital semiconductors forced sporadic shutdowns.

Renewed customer demand was especially strong at the higher end of the market, as more affluent buyers redirected spending that in other years might have gone to travel and entertainment toward big-ticket automobiles. Thus, while the volume of passenger vehicle sales fell about 1% globally in 2020—further contracting after 2019's 4% decline—mix improved. US sales of vehicles priced $100,000 or more surged 63% in the fourth quarter of 2020, while those of vehicles priced $20,000 or less dropped 7%. Sales of electric vehicles (EVs) were another bright spot in the market, soaring to over 3.2 million units globally in 2020 from 2.3 million the previous year. Europe led the way, where EV's claimed 10% of the market in 2020, up from 3% in 2019. China's share edged up to 6%.

Globally, OEM margins continued to tighten. The combined EBITDA of the top 25 global OEMs fell by 3% year-over-year, extending 2019's 11% decline. OEMs will be under pressure to cut costs further to fund the investments necessary to shift from the internal combustion engine to electric propulsion. But these companies have set ambitious goals for themselves, with Volkswagen predicting that 70% of its sales in Europe will be electric by 2030 and General Motors pledging to eliminate light-duty tailpipe emissions by 2035.

This year, our executive survey found that:

- Automotive executives are less confident than the global average in their organization's ability to withstand disruptive forces (29% vs. 37% global highly confident).
- US and Canadian automotive executives are more likely to view disruption as a threat alone rather than viewing it as an opportunity—44% vs. 23% average for the industry globally.

Automotive executives in Japan exhibit a heightened sense of worry toward disruption and are more likely to say:

- There is a talent gap which makes them vulnerable to disruption (83% vs. 56% global automotive).
- I worry about losing my job due to the disruption facing my industry (77% vs. 48% global automotive).
- I worry that my company is not taking the necessary steps today to ensure we are well positioned to navigate disruption (77% vs. 52% global automotive).

Automotive organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off[1]

33%

of automotive executives[2]

- Higher revenue organizations ($1B+)*
- Exhibit an opportunity mindset toward disruption
- Are more proactive in response to disruption*
- Maintain a sense of urgency regarding disruption preparedness
- Impacted less by COVID-19 and expect a shorter recovery period

Worse Off[1]

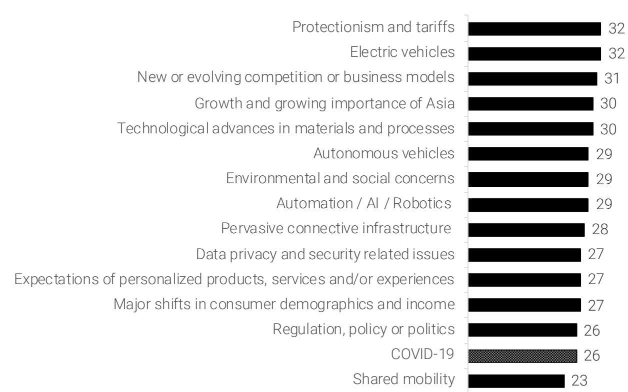
19%

of automotive executives[2]

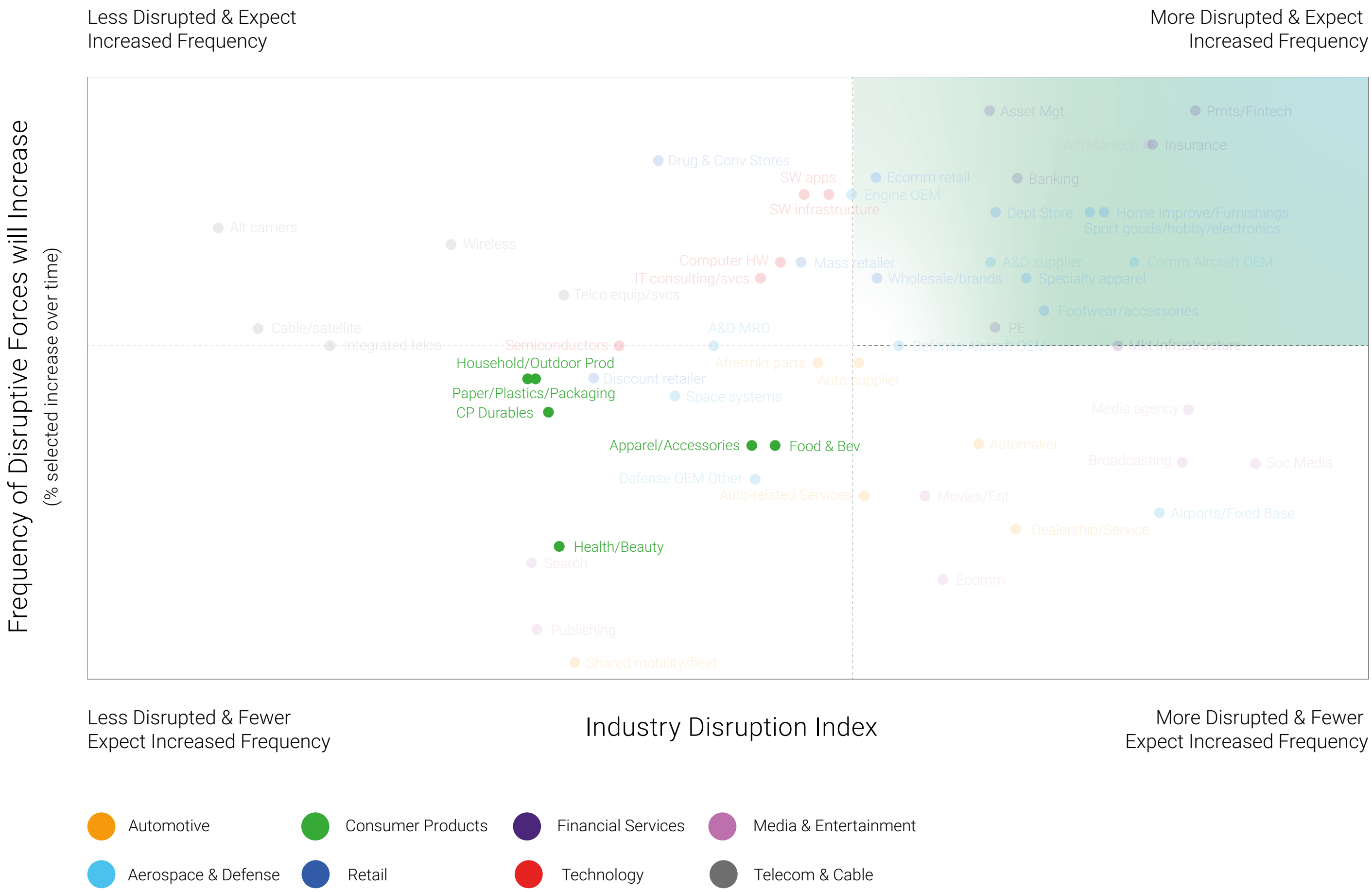
- Lower revenue organizations (>$1B)*
- Exhibit a negative or threatened mindset toward disruption
- Are more reactive in response to disruption*
- Show less urgency regarding disruption preparedness
- Hit harder by COVID-19 and expect a longer recovery period

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)



Consumer products



Pandemic-driven lockdowns and social distancing drove a redirection of consumer spending last year from services—like movies, restaurants, and travels—to products such as home hardware, electronics, and food for homecooked meals. In more normal times, about 67 cents of every dollar of consumer outlay typically goes toward services, with the remainder to goods. In 2020, though, the split was more like 60-40. Uncertain about their future finances, consumers pulled back on discretionary spending on many items, but maintained their spending on essentials such as grocery staples, packaged foods, and personal hygiene products.

The shift in channels was equally striking as many consumers sought out alternatives to in-store shopping, such as e-commerce, grocery delivery services, and BOPUS (buy online, pick up in store). Sensing the change, and betting that the turn toward remote work, at-home shopping and e-commerce will endure beyond the pandemic, many consumer products (CP) companies invested in shoring up their digital operations and building out their direct-to-consumer channels. In many cases, that investment was focused on personalization technology, which, when properly applied, can serve as a functional substitute for a helpful salesperson, tailoring offers and product information for each shopper based on browsing patterns, purchasing history, demographic trends, and other data. Research shows that 48% of consumers spend more when their shopping experience is personalized.

CP companies also invested in their supply chains as the pandemic revealed major vulnerabilities. As companies explore their options for re-shoring, near-shoring, and alternative inputs, many are prioritizing resilience over efficiency and deliberately building redundancies into their supply strategies. In a related move, many CP companies, burned by stockouts and inventory shortfalls, moved to rationalize their SKUs, jettisoning slow-moving and hard-to-source items in favor of popular staples.

The list of consumer products whose demand patterns deviated sharply from the norm make up a sort of symbolic portrait of life during lockdown. The boom in at-home cooking drove a 33% year-over-year increase in sales of herbs and spices. Ice cream sales jumped 17% as consumers sought out simple pleasures and familiar comforts. Hand sanitizer sales increased by more than 600%, for reasons that need no explanation, while deodorant sales fell 3% as Zoom meetings replaced office interactions. Sales of vitamins promising to boost the immune system climbed nearly 100%. Bleach sales improved by 37%.

This year, our survey found that:

- Just 37% of consumer products executives are highly confident in their organization's ability to withstand disruption.
- This confidence is greatest in China at 60%.

Top disruptive forces impacting consumer products organizations include:

- New or evolving competition or business models (32%).
- Technological advances in materials and processes (31%).
- Health and wellness trends among consumers (30%).

Executives working in paper, plastics, and packaging are more likely to say:

- I worry that my company is not taking the necessary steps to ensure we are well positioned to navigate disruption (70% vs. 48% global CP average).
- There is a talent gap in my organization that makes us vulnerable to effectively navigating disruption (77% vs. 53% global CP average).
- I worry about losing my job due to the disruption facing my industry (69% vs. 46% global CP average).

Consumer products organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

36%

of consumer products executives[2]

- Higher revenue organizations ($1B+)
- Exhibit an opportunity mindset toward disruption
- Are more proactive in response to disruption
- Maintain a sense of urgency regarding disruption preparedness
- Impacted less by COVID-19 and expect a shorter recovery period

Worse Off [1]

18%

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Impact of Disruptive Forces On Organizations

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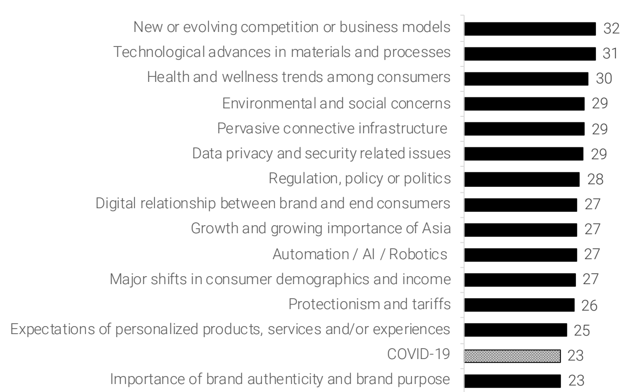
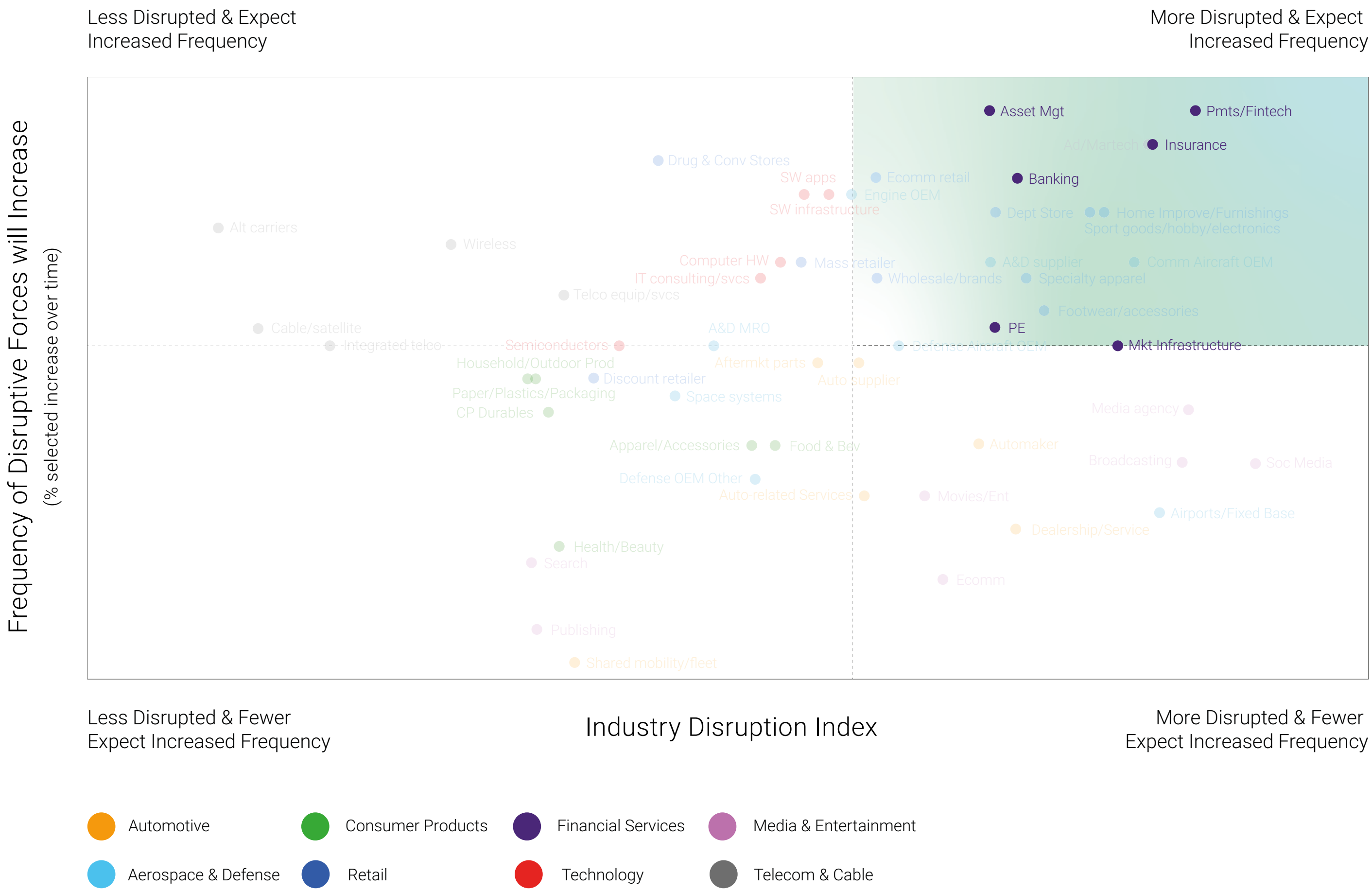


Financial services



While the financial performance of financial services firms generally held up under the stresses of 2020, disruptive trends accelerated rapidly across the industry. Legacy players alternately fought off and allied with fintech upstarts, companies continued to invest heavily in customer experience (CX) technologies such as CRM platforms and analytics engines, and household-name nonfinancial players (like Walmart) continued their forays into market segments such as credit cards and payment services. The only difference from other years is that all those trends and changes occurred at hyper-speed, delivered by financial professionals working from home.

This industry has weathered the pandemic and resulting economic downturn better than many other industries, as rocketing trading revenues and wealth management fees offset sharp contractions in loan volume growth and payments. But enduring low interest rates and evolving business models continue to challenge financial services companies, as do distressed loans, particularly in credit cards, commercial real estate, and small business loans.

Financial services companies suffered sharp declines in return on equity in 2020, falling an estimated 3 percentage points to just under 7%. Continued low interest rates exerted downward pressure on net interest margins, challenging banks and other players to maintain the income growth needed to fund investment in the sector's ongoing digital transformation.

Such investment proved a crucial competitive differentiator in 2020, as banks with strong online presences experienced a steep uptick in digital adoption by their customers. Research from JPMorgan Chase reveals that 54% of retail banking customers reported using their digital banking apps more often in 2022. That growth drove many financial services providers to redouble programs to boost data security and platform stability.

The shift to online also highlights the industry's continued struggles to deliver a satisfying customer experience (CX), with research showing that in the United States, Canada, and Australia, consumers' satisfaction tended to decline as their online and mobile banking engagement increased.

Even as financial services companies are challenged to maintain profitability and deliver more satisfying customer experience, they are under social and regulatory pressure to demonstrate a sense of purpose greater than simply making money. Facing expectations to do their part to address climate change, social injustice, and income inequality, banks are rethinking their support of extraction industries, such as mining and oil exploration and production, and stepping up sustainable investing. The World Economic Forum and global accounting firms have partnered to develop a set of common metrics to monitor progress in stakeholder capitalism, including efforts to mitigate the potential ravages of climate change.

This year, our survey found that:

- Financial services executives report some of the highest disruption rates of any industry.
- Financial services executives in the US and Canada are more likely to view disruption as a threat alone (36% vs. 19% financial services global).

Executives in Japan are more likely to say:

- There is a talent gap in my organization that makes us vulnerable to effectively navigating disruption (75% vs. 54% financial services global average)
- I worry about losing my job due to the disruption facing my industry (59% vs. 40% financial services global average)
- I worry that my company is not taking the necessary steps today to ensure we are well positioned to navigate disruption (68% vs. 48% financial services global average)

Some sectors more likely to say they worry their company is not taking the necessary steps today to ensure they are well positioned to navigate disruption, including:

- Insurance (67% vs. 48% financial services global average)
- Payments and fintech (61% vs. 48% financial services global average)

Financial Services organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

40%

of financial services executives[2]

- Higher revenue organizations ($1B+)*
- Exhibit an opportunity mindset toward disruption
- Are more proactive in response to disruption*
- Impacted less by COVID-19 and expect a shorter recovery period

Worse Off [1]

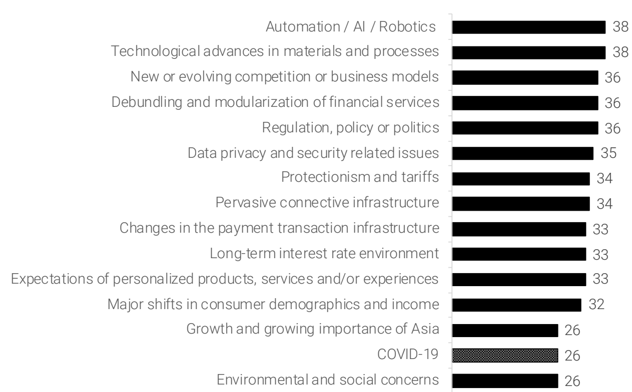
20%

of financial services executives

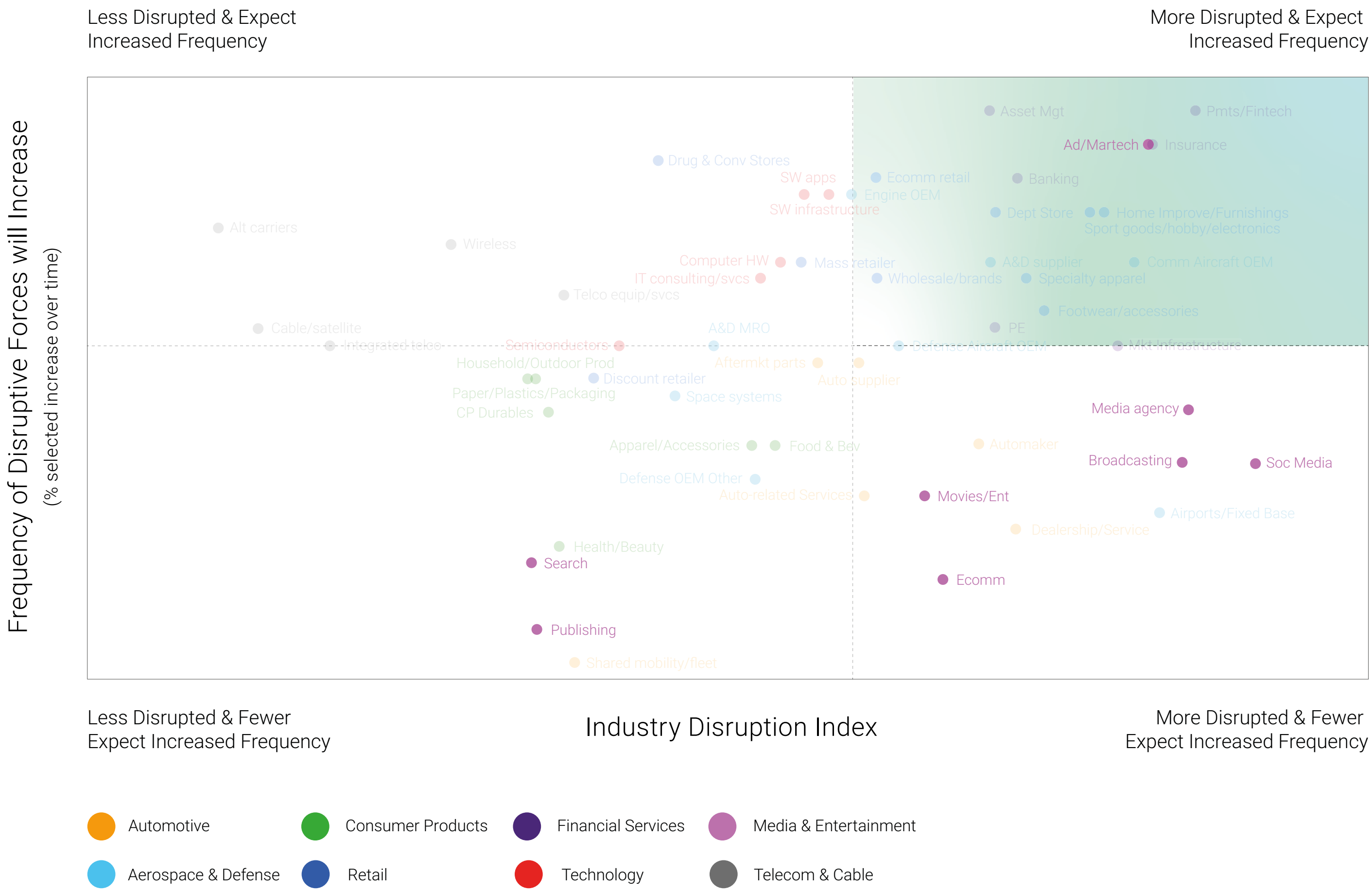
- Lower revenue organizations (>$1B)*
- Exhibit a negative or threatened mindset toward disruption
- Are more reactive in response to disruption*
- Hit harder by COVID-19 and expect a longer recovery period

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)



Media and entertainment



The pandemic year of 2020 cemented in place a trend that had been building for years: a decisive shift away from advertising-supported broadcast and cable television and movies theaters to streaming services. A few data points confirm the move: Netflix added a stunning 36 million new subscribers to its rolls, as consumers flocked to watch original content such as The Queen's Gambit and The Crown. Disney's Hotstar and SonyLIV enjoyed strong subscription growth, and Apple TV+, Amazon Prime, Google, and Facebook aggressively acquired or produced new content and expanded their global reach.

News media experienced a good-news, bad-news year, with readership and viewership exploding as stay-at-home consumers sought the latest developments in the pandemic and the tumultuous US presidential campaign. Those extra readers and viewers, however, in many cases did not translate into meaningful revenue growth, as advertising revenues plummeted. News media with strong paywall strategies—such as The New York Times, The Wall Street Journal, the Washington Post, Atlantic Media, and Bloomberg—managed to buck that trend, with strong growth in subscriptions offsetting in part disappearing advertising sales. The New York Times, for example, added a staggering 669,000 subscribers in the second quarter of 2020 alone.

An explosion of content has created choice, as well as uncertainty, for consumers, whose behavior in 2020 bore out Netflix founder Reed Hastings's confident declaration that "subscription fatigue" does not exist and that consumers will always flock to compelling content, no matter how much they are already paying for streaming services. But it remains to be seen whether consumers will maintain their current number of subscriptions as the pandemic eases and they sum the costs of subscribing to multiple entertainment outlets, news media, music-streaming services such as Spotify and Apple Music, and premium social media such as LinkedIn.

Advertising had a deceptively strong year, as digital advertising surpassed more than 50% of ad spend in 2020. However, spending was highly concentrated, with Google, Amazon, and Facebook capturing two-thirds of all ad revenue, according to one estimate. That development poses big questions for advertising-dependent publications, most of which saw sizable declines in revenue. Many publications will be forced to erect paywalls and hope that consumers will find the quality of their content worth an annual fee.

This year, our executive survey found that:

- About 2 in 5 media and entertainment executives say they are highly confident in their organization's ability to withstand disruption (36%) and about the same believe their organization is better off compared to one year ago (39%).
- Media and entertainment executives in China are more confident than other regions—60% highly confident.
- Social media executives are more likely to say their organization is better off than one year ago—55% better off.
- 64% of media and entertainment executives say their organization has been highly impacted by two or more forces (65% global).
- More than 8 in 10 (84%) media and entertainment executives expect the frequency of disruptive forces facing their organization to increase or stay the same in the next two to three years.

Media and entertainment organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off[1]

39%

of media and entertainment executives[2]

- Higher revenue organizations ($1B+)
- Exhibit an opportunity mindset toward disruption
- Are more proactive in response to disruption
- Maintain a sense of urgency regarding disruption preparedness*
- Impacted less by COVID-19* and expect a shorter recovery period

Worse Off[1]

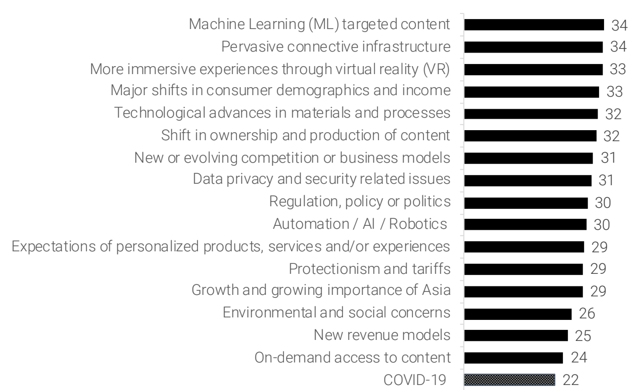
10%

of media and entertainment executives[2]

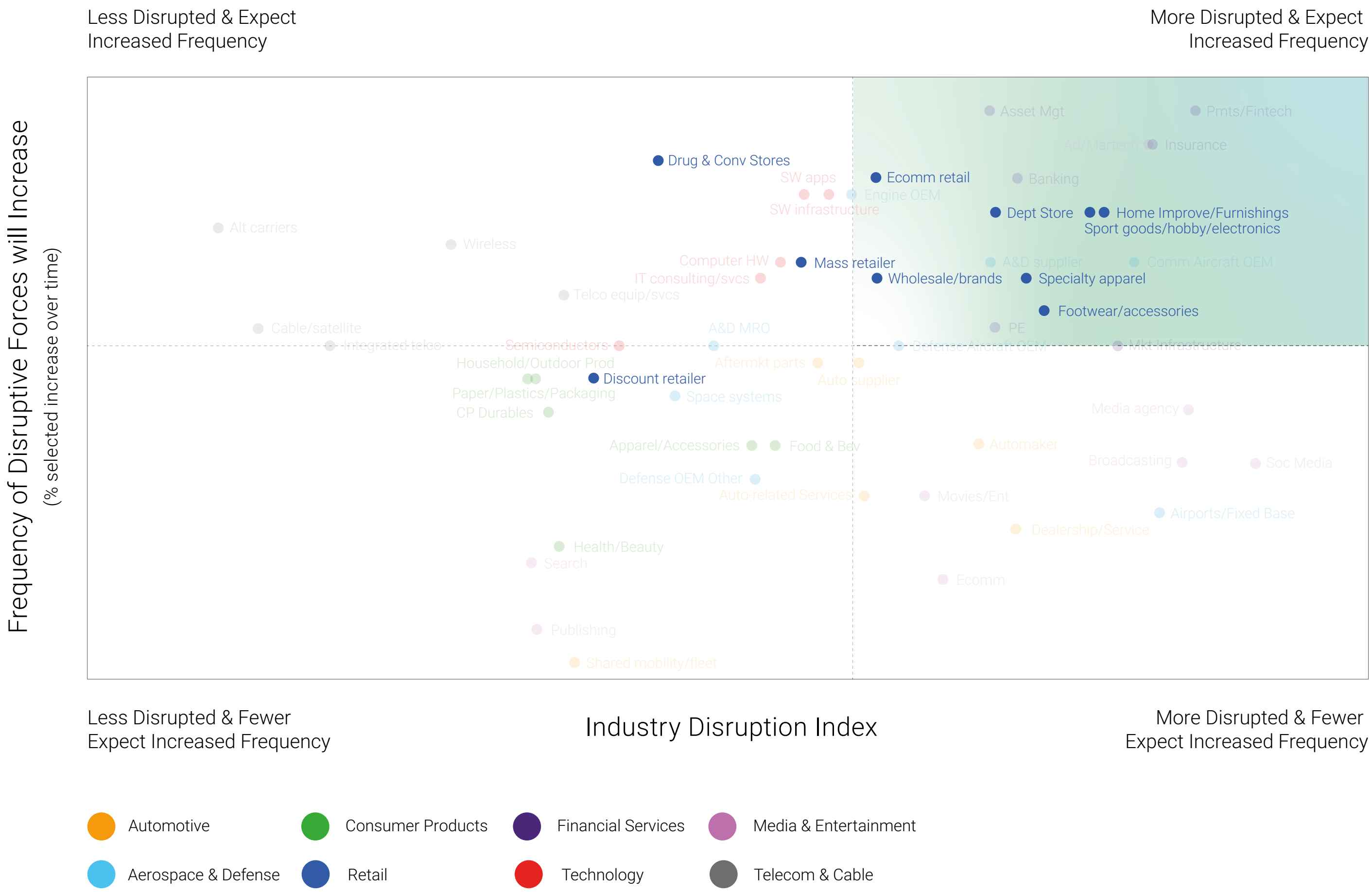
- Lower revenue organizations (>$1B)
- Exhibit a negative or threatened mindset toward disruption
- Are more reactive in response to disruption
- Show less urgency regarding disruption preparedness*
- Hit harder by COVID-19 and expect a longer recovery period*

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)



Retail



The 2020 retail mega-story is pandemic-driven acceleration in the shift away from physical stores toward omnichannel offerings. Global retail spend totaled roughly $25 trillion in 2020 (down about $550 billion from the year earlier), of which e-commerce sales were $3.9 trillion, or 16% share of the total market. China remained the leader in e-commerce activity, with digital channels accounting for approximately 63% of the country's total retail sales.

Despite the drop in overall retail turnover, the leading e-retailers continued to increase their share of the global retail wallet, with Amazon cementing its dominance of the category. Its website drew over 12 billion visitors in the fourth quarter of 2020 alone, up from 10 billion a year earlier. Some 220 million new users downloaded the Amazon shopping app in the fourth quarter, far outpacing the next most-downloaded app, that of Shopee, an e-retailer popular in Southeast Asia, with 50 million downloads.

This growth forced the industry to make quick operational improvements and deliver on the product, access, service, price, and experience its consumers demanded. However, we believe that consumer behavior has changed forever. This means that retail will have to adopt many of its ad hoc adaptations permanently.

Increasingly, this means that consumers call all the shots. Omnichannel has stopped being an afterthought. Profitability for retailers, rather than growth at all expenses, has become a top priority.

This year, our executive survey found that:

– Eight in ten retail executives believe the frequency of disruptive forces impacting their industry will increase or stay the same over the next two to three years. Just 38% are highly confident in their ability to withstand these disruptive forces.

– Two in three retail executives say their organization has been highly impacted by two or more forces.

–Department stores; footwear, accessories, and jewelry retailers; and sporting goods, hobbies, and electronics retailers are among the sectors experiencing high disruption from multiple forces. Each says two or more forces have been highly disruptive to their organizations, which is more than the global retail average (80% respectively vs. 66% global industry average).

Retail organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

38%

of retail executives[2]

– Higher revenue organizations ($1B+)

– Exhibit an opportunity mindset toward disruption

– Are more proactive in response to disruption*

– Maintain a sense of urgency regarding disruption preparedness*

– Impacted less by COVID-19 and expect a shorter recovery period

Worse Off [1]

16%

of retail executives

– Lower revenue organizations (>$1B)

– Exhibit a negative or threatened mindset toward disruption

– Are more reactive in response to disruption*

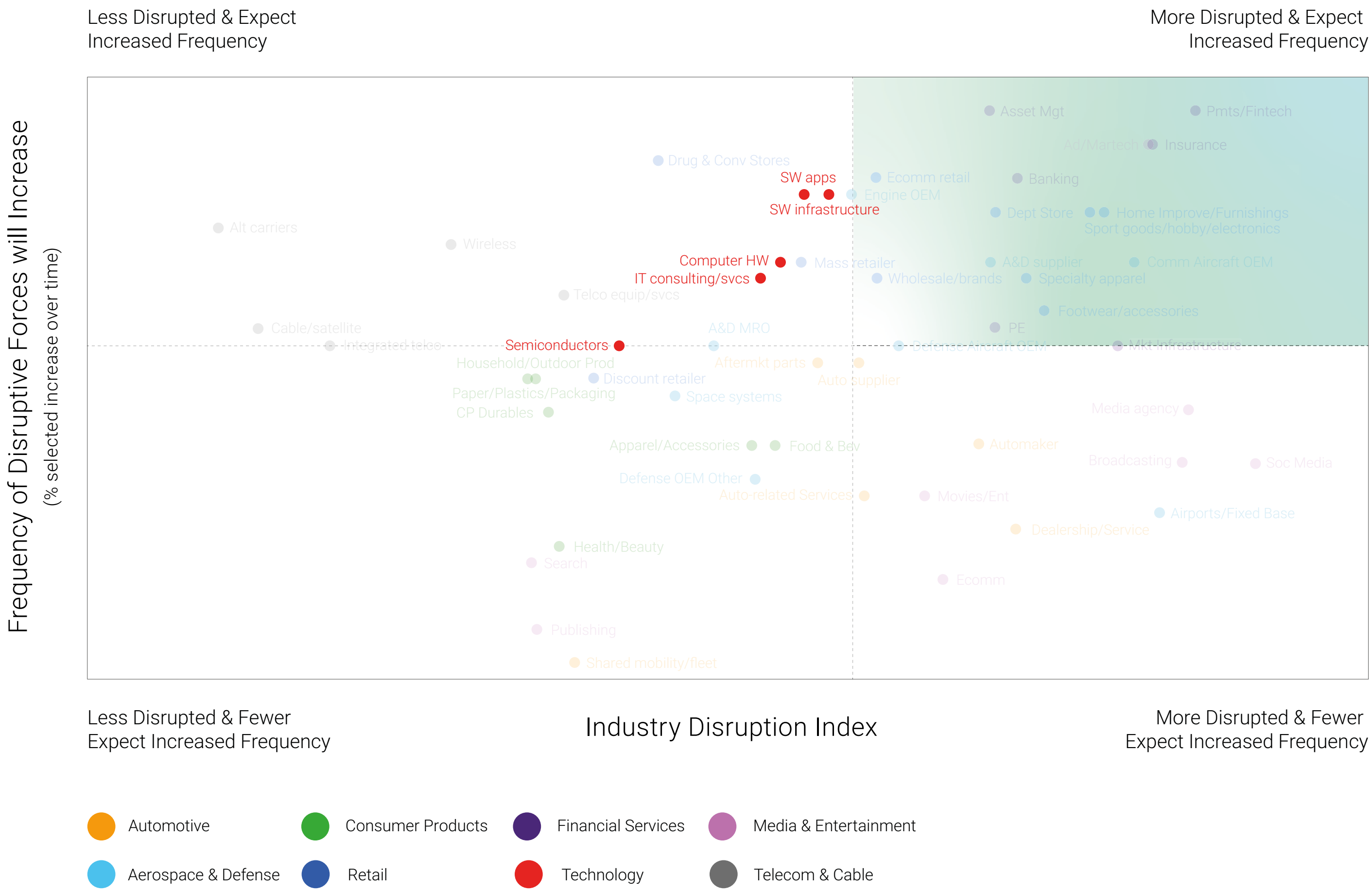
– Show less urgency regarding disruption preparedness *

– Hit harder by COVID-19 and expect a longer recovery period

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)

Technology



The story of the tech industry in 2020 is one in which the innovators grew richer and the laggards fell further behind. The pandemic drove huge increases in consumer applications of digital technology, such as online grocery shopping, video and music streaming, and gaming. Video meeting apps, from Zoom to Webex to Microsoft Teams, saw surges in downloads and usage. Daily average users of Teams, for example, climbed from 13 million at the beginning of November 2019 to 120 million at the beginning of October 2020. Spending on video games rose about 40% from a year earlier and Netflix memberships climbed some 23%.

The stay-at-home lifestyle that consumers adopted during lockdown drove growth in many other online services, with DoorDash orders expanding 237% in 2020, Walmart e-commerce sales up 79%, and Chromebook shipments climbing 123%.

The pandemic's tide did not lift all boats, however: trips via Uber fell 35%, for example, as consumers curtailed travel and avoided lengthy interactions with strangers.

The leading tech platforms tightened their grip on the market on 2020, as evidenced by the fact that 7 of the 10 largest public companies by market value are all tech platforms: Apple, Microsoft, Alphabet (Google's parent), Amazon, Facebook, Alibaba, and Tencent.

Meanwhile, 2020 was a significant year in tech infrastructure, as enterprise spending on cloud infrastructure grew 35% to a shade less than $130 billion. Sales of on-premises infrastructure, by contrast, fell 6% to less than $90 billion. Here again, the rich grew richer, with cloud services from Amazon, Microsoft, Google, and IBM claiming the bulk of the market.

This year, our executive survey found that:

– Technology executives feel positive about how their organization has performed over the past year—nearly half (46%) say their organization is better off compared to one year ago (vs. 39% global average).

– Despite a positive outlook, just 38% of executives in technology are highly confident in their organization's ability to withstand disruption.

– Technology executives in the United States and Canada are significantly more confident in their ability to withstand disruptive forces than other regions (64%).

Despite this confidence, most US and Canadian executives say:

– There is a talent gap in my organization that makes us vulnerable to effectively navigating disruption (72% vs. 54% global industry average).

– They worry their company is not taking the necessary steps today to ensure they are well positioned to navigate disruption (65% vs. 49% global industry average).

Technology organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

46%

of technology executives[2]

– Exhibit an opportunity mindset toward disruption*

– Are more proactive in response to disruption*

– Impacted less by COVID-19 and expect a shorter recovery period

Worse Off [1]

9%

of technology executives[2]

– Exhibit a negative or threatened mindset toward disruption*

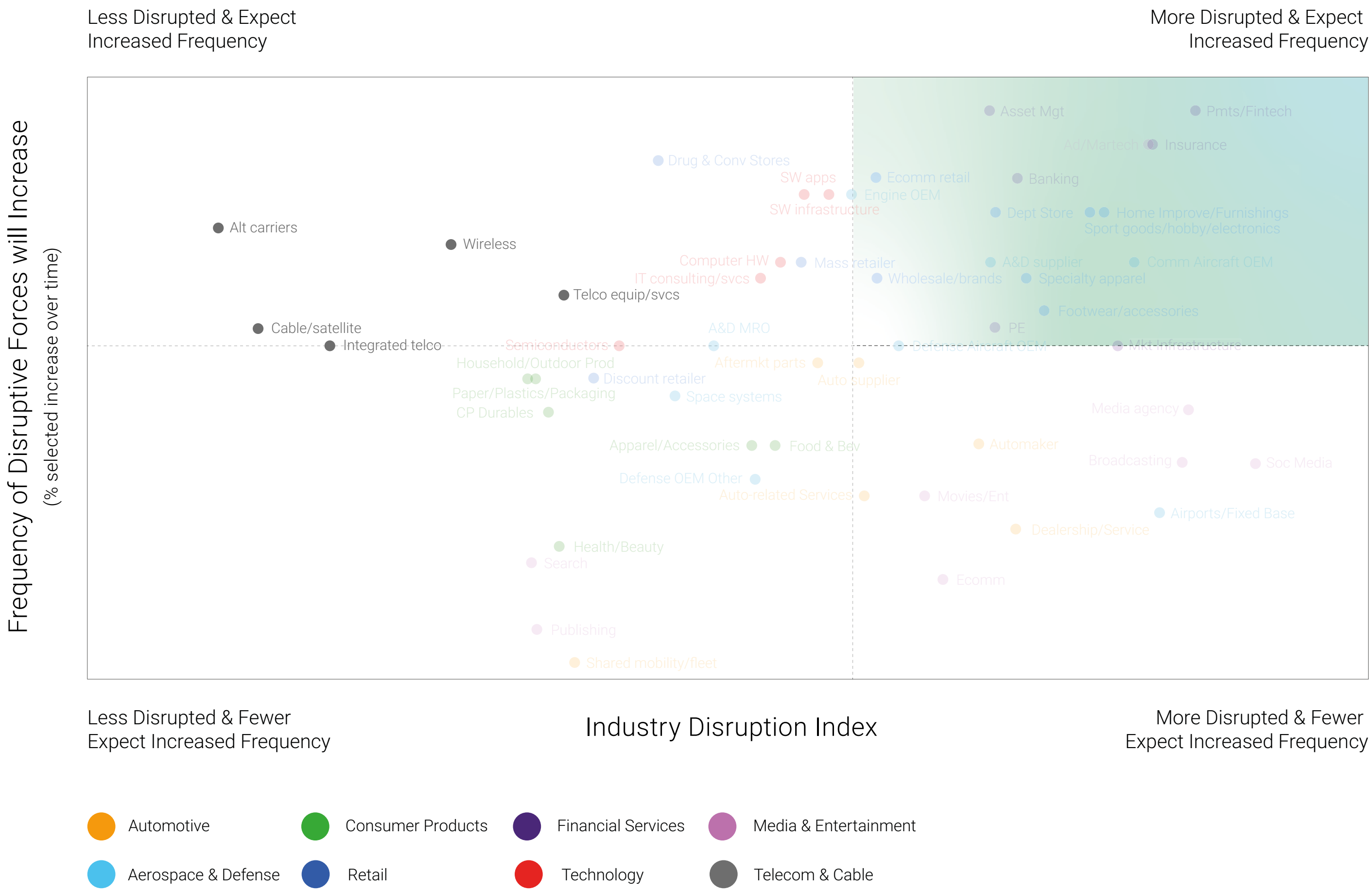
– Are more reactive in response to disruption*

– Hit harder by COVID-19 and expect a longer recovery period

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)

Telecommunications and cable



Telecommunications and cable providers proved their worth in 2020, keeping families and friends connected and enabling people to practice social distancing and work remotely through the pandemic. Many US companies, in response to urging from the Federal Communications Commission, waived late fees and extended grace periods to allow their financially pressed customers to maintain service and stay in touch. Some of the biggest providers also sought and obtained regulators' permission to use additional mobile spectrum to maintain broadband services in the face of an explosion in remote working.

However, intense competition, ongoing infrastructure investments, and constrained growth rates continue to challenge this industry. Several trend that either emerged or confirmed themselves in 2020 highlight where telecom players have had to invest.

Those trends include the growth of the Internet of Things, which requires significant additions to connecting capacity to handle the explosion in IoT devices. Further investment was required to monitor telecom data centers remotely to prevent data disruptions while maintaining worker safety.

The rollout of 5G technology was another significant development in 2020—and another area demanding massive investment by telecom incumbents. Consumers have eagerly awaited access to the technology, which allows greater online speed, more data to move, connections to more devices, and far higher-quality video delivery than previously available.

As security and privacy concerns come to the fore, telecoms also made strides in developing biometric technology to protect secure access to devices. The use of fingerprint recognition technology is advancing at many service providers, while others are making strides in retinal scanning, voice printing, and facial recognition.

Telecom companies benefited from the proliferation of low Earth orbit satellites to enable people and businesses in remote areas access to broadband technology. The deployment of the satellites, controversial in the scientific community because the satellites interfere with astronomical research, is proceeding despite protests, driven by concerted pushes by Tesla and Amazon.

Cable operators had a surprisingly strong 2020, as their broadband business grew and business services emerged as a major contributor to revenue, offsetting in part the continuing exodus of cord-cutting cable-TV subscribers. For example, Comcast, the largest multiservice operator in the United States, reported that revenue from business services accounted for almost 15% of cable revenue. All the same, the acceleration in cord-cutting and the rise of streaming services loaded with appealing content have further weakened the cable-TV industry, and a future of managed decline may be the best providers can achieve.

This year, our executive survey found that:

- About half of telecom & cable executives believe their company is better off compared to one year ago (48% vs. 39% global average).
- Alternative carriers (62%) and Cable and satellite companies (61%) are among the sectors most likely to say their organization is better off compared to one year ago.
- Just 38% of executives in this industry are highly confident in their organization's ability to withstand disruption.

Sectors more likely to feel highly confident are:

- Cable and satellite (58%)
- Alternative carriers (53%)

Regions more likely to feel highly confident:

- United States and Canada (56%)

Telecom and cable organizations identifying as "better off" than one year ago tend to differ from those who are "worse off" in several key areas

Better Off [1]

48%

of telecom and cable executives[2]

- Higher revenue organizations ($1B+)*
- Exhibit an opportunity mindset toward disruption*
- Are more proactive in response to disruption*
- Maintain a sense of urgency regarding disruption preparedness*
- Expect a shorter recovery period

Worse Off [1]

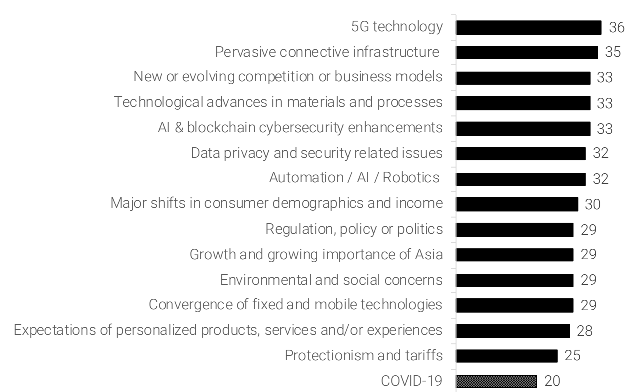
12%

of telecom and cable executives[2]

- Lower revenue organizations (>$1B)*
- Exhibit a negative or threatened mindset toward disruption*
- Are more reactive in response to disruption*
- Show less urgency regarding disruption preparedness*
- Expect a longer recovery period

Impact of Disruptive Forces On Organizations

(Showing percentage selected very or extremely impactful)



Notes

All

* — Results are directional

Technology

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 46% of executives selected “About the Same”

Telecom & Cable

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 40% of executives selected “About the Same”

Retail

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 46% of executives selected “About the Same”

Media & entertainment

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 51% of executives selected “About the Same”

Automotive

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 48% of executives selected “About the Same”

Financial services

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 40% of executives selected “About the Same”

Consumer products

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 47% of executives selected “About the Same”

Aerospace & defense

(1) Better Off used as a proxy for higher performance organizations, Worse Off used as a proxy for lower performance

(2) 50% of executives selected “About the Same”

Index methodology

The AlixPartners Disruption Index (ADI) measures the state of disruption across major industries

Disruption within industries and organizations is quantified by multiplying the magnitude of disruption organizations are experiencing with the complexity impacting organizations within industries.

The magnitude of disruption is first measured on a nine-point scale, where 1 is 'not disrupted at all', 5 is 'moderately disrupted', and 9 is 'extremely disrupted'. The complexity of disruption is calculated by counting the times respondents rank a disruptor at least somewhat impactful as a proportion of disruptors seen. The square root of this calculation is taken to model diminishing returns on additional, future disruptive forces.

The AlixPartners Disruption Index modifies these calculations to fall within a 0-100 scale for ease of analysis and understanding.

The Magnitude of Disruption

(Assessment of how disrupted organizations have been over the past year)

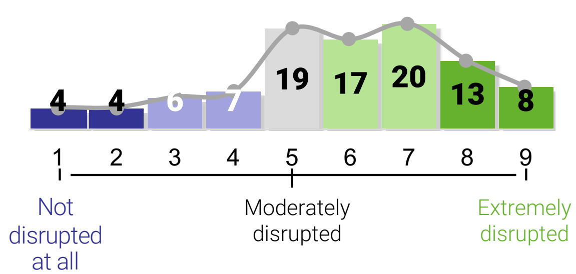
×

The Complexity of Disruption

(The number of simultaneous forces impacting organizations over the last year)

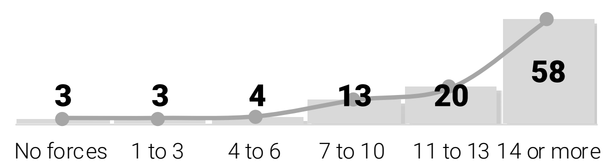
"How disrupted would you say your organization has been over the past year?"

(% selected response, global)



"How strongly has your organization been impacted by each of the following disruptive forces?"

(% at least somewhat impactful, global)



$$\text{AlixPartners Disruption Index} = \sqrt{\left(10 * \sqrt{\text{Complexity}}\right) * \text{Magnitude}}$$

Notes:

(1) Magnitude based upon responses to the question, "How disrupted would you say your organization has been over the past year?" (1-9-point scale, 1='not disrupted at all', 5='moderately disrupted', 9='extremely disrupted')

(2) Complexity based upon responses to the question, "How strongly has your organization been impacted by each of the following disruptive forces?" ('Not impacted at all to 'extremely impacted' across ~15 disruptive forces)

About us

For over 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.

For more information, contact us at disruption@alixpartners.com

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