

# The European Business Review

## **Dynamism and Discontinuity: Eight Trends in the Business Environment that will Shape Strategy**

By Mike Canning & Eamonn Kelly, Deloitte Consulting LLP

The need for bold strategies to capitalise on the dynamism of our times – combined with excellent, timely execution of evolving operational imperatives – has never been greater. In this article, Mike Canning and Eamonn Kelly outline eight trends that are shaping the competitive futures of firms.

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## Dynamism and Discontinuity: Eight Trends in the Business Environment that will Shape Strategy

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**A** CEO we were helping recently shared a disconcerting but all too frequent observation. It was clear to him that the success factors in his industry were shifting and that his firm's strategy needed to be reexamined. But it was hard to even begin that process. As he put it, 'Not only do I lack the right answers, my team and I can't even figure out the right questions!'

He's not alone; many executives worry that they don't have a good handle on the unfamiliar dynamics confronting them today – technology-driven transformations, new global contours, changing regulatory requirements and societal expectations – each creating wave upon wave of confounding new issues.

Had our client been familiar with leadership scholar Ron Heifetz's work, he might have described his current predicament as a 'Type Three' problem. Heifetz usefully outlines the three situations in which problem solvers find themselves. Sometimes the question is known, and the answer is clear, too (though its implementation might be technically challenging). This is the realm of best practices and, in Heifetz's terms, a Type One problem. Other times, the question is known, but the answer is not. For example, a firm might recognise that it must enhance its innovation capabilities, but

not know how to do so. And then there are the problems for which both the question *and* the answer are unknown. These are the situations where businesses are feeling pain or anxiety but can't diagnose the cause well enough to even begin the analysis that will point to a course of action. Type Three problems stymie companies until managers can find a way to frame them and tame them.

Having recently concluded an analysis of the major trends reshaping commerce, we are convinced that the global business environment is experiencing major discontinuities, generating an abundance of new Type Three challenges and opportunities. The need for bold strategies to capitalise on the dynamism of our times – combined with excellent, timely execution of evolving operational imperatives – has arguably never been greater.

### The Imperatives to Get Closer and Reach Further

In times like these, the ability to recognise long-term and large-scale trends comes to the fore. Major forces are constantly gathering strength that inevitably sweep over boundaries of industries and walls of firms. Identifying these is critical to understanding and addressing the new Type Three issues arising. This is why Deloitte tracks new phenomena in the business environment on an ongoing basis for our clients. And it's why, from the many trends in play today, we are drawing attention to a subset of eight. We have prioritised the ones contributing most powerfully to two overriding dynamics that will shape the competitive futures of firms.

Let's call the first of these dynamics 'Getting Closer'. It consists of all the new ways in which organisations are understanding, influencing, and often collaborating with key stakeholders, including customers, suppliers, partners, competitors, and governments. The nature and boundaries of 'the firm' have long been evolving. A hundred years ago Henry Ford acquired sand pits and rubber plantations to secure raw materials for windscreens and tires. Of course no automotive company today would feel the need for such vertical integration. Instead, we have constructed sophisticated supply chains, replacing ownership with *control*. But these are also now evolving – towards what is sometimes known as 'ecosystems' or 'value webs', within which multiple actors create value together with declining levels of formal control over one another's actions. Key to a firm's success here is the ability to effectively deploy and activate assets it neither owns nor controls, but over which it exerts increasing *influence* – something as dependent on knowledge, insights, and relationships as it is on contracts and rules. The first four trends we describe in the following section are, in our view, the most important 'Get Closer' trends.

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The other dynamic we consider to be fundamental is the radical broadening of the enterprise agenda as the next wave of globalisation unfolds and the role of the enterprise sector expands. Here again, we see history in motion. The rise of the less developed economies over the last twenty years is well documented – but the next wave of consequential disruption is less well understood. And the role and responsibilities of the corporation in a turbulent, interconnected, and increasingly transparent world are also changing

radically. These shifts, and the vital new opportunities they create, we characterise as 'Reaching Further' – the latter four trends described below.

## 'Getting Closer'

### *Trend 1: The Rewired Customer*

Let's begin with the shift in consumer behavior, enabled by an astonishing stream of technology innovations. Recent years have brought real-time price checking, daily deals, self-designed rewards programs, mobile phone-based payment systems, ubiquitous rating sites, and all that social media has to offer. Before long, we'll see leaps forward in same-day delivery, social shopping, and the use of augmented reality. The technological breakthroughs are only part of this story, however. Most surprising is what they reveal about the plasticity of buying behavior. Neuroscientists often marvel at the human brain's ability to 'rewire' itself in response to injury or new inputs. This neuroplasticity turns out to be an apt metaphor for markets. Consumers don't only make use of a changing toolkit; on a deeper behavioral level, the tools are changing them.

Three attitudinal changes are especially pronounced. Empowered customers are gravitating toward

*Do-it-Yourself* or self-service options. They now expect to be able to transact business with sellers *Anywhere, Anytime* and with a seamless experience as they cross channels. And they increasingly draw on the wisdom of the crowd – and more particularly, thanks to social media, a crowd that is really *My Tribe*. As just one indicator of the momentum of this trend, the average number of daily visitors on social networking sites increased from 46 million per month in 2007 to 90 million per month in 2011, while the percentage of the

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typical user's day spent on social media increased from 7.4 percent in 2007 to 14.4 percent in 2010.

### *Trend 2: The Scale Paradox*

A second trend underway is the growth of a new layer of infrastructural service, which effectively nullifies the traditional advantages held by large versus small firms.

Large firms have classically profited from scale efficiencies. Small firms, on the other hand, have enjoyed much greater agility. As firms came to compete on the basis of information, those advantages showed up in the area of data analytics. The big firms could afford the analytical firepower to produce more valuable insights. The small firms, however, could translate such insights into action more quickly. With the emergence of open-source and cloud options that can cost 80 percent less than traditional systems, advanced analytics solutions are now attainable without extraordinary IT investments. Online platforms such as Kaggle, meanwhile, make highly capable data scientists available in a bidding-style format, so that a firm's investment in talent can flex with demand. With the infrastructure requirements of the past removed, the result is a seeming paradox: large firms capitalising on these new resources to compete on agility, and small firms using them to achieve virtual scale.

### *Trend 3: Reengineered Business Intelligence*

Strategic decision making used to rely on leaders' experience and intuition; more recently, it has drawn on more objective analysis of enterprise and market data. But managers executing strategies are still frustrated with their business intelligence systems' inability



sympathies and the desire to create reputational goodwill, has now become integral to firm strategy, supply chain operations, talent management, and more. Expect, then, to see more executives leading in the mode of Howard Schultz at Starbucks, and more organisations shifting priorities in the way that Nike's Considered Design Initiative does. Under that banner, Nike has recycled 82 million plastic bottles into high-performance sportswear, reduced waste by 19 percent in its footwear business, increased the use of environmentally preferred materials by 20 percent, and achieved a 95 percent reduction in volatile organic compounds. In a recent Deloitte survey of 250 business executives, an overwhelming majority concurred that the impact of environmental, social and governance issues on their strategies, products and services, and operations would grow in the next two years. Perhaps even more telling, another Deloitte survey found that two thirds of global CFOs expect their role in ESG-related strategies to increase over the next two years. Al Iannuzzi of Johnson & Johnson, for example, told us: 'Back then, we did it simply because it was the right thing to do. Now, we're seeing growing interest in sustainability from virtually every market sector'.

#### *Trend 6: Manufacturing beyond China*

A more surprising trend, even for many manufacturing executives, may be this one: China is steadily losing its standing as the default choice for offshore manufacturing. That's a dramatic development given that, for at least two decades, businesses have tended to go to this self-proclaimed workshop of the world without even seriously considering other countries.

What's driving the change? Rising production costs and increasing

to flag changes in progress – such as competitor moves, new investment patterns, and changing stakeholder behaviors – that call for timely responses. A new trend promises to change that. It is the growing practice of monitoring external and internal data sets in tandem to sense developments in the market as they emerge.

An example is a tool called Grid IQ Insight, designed by GE to mine social data including geotag data and attachments such as photos for mentions of electrical outages. The tool helps electrical utilities quickly identify and validate service problems, determine the resources needed to address them, and accelerate the repair process. The exciting prospect is that, by developing such next-generation business intelligence capabilities, companies of all kinds could move from decision making aligned with traditional budget cycles to decision making in near-real-time.

#### *Trend 4: Partnerships for the Future*

Traditionally, government and business have operated in different spheres, tackling very different classes of

problems. The rare exceptions were large infrastructure projects considered too costly or risky for one side to take on alone. Recent years have brought a growing sense that many social issues – from global warming to terrorism, from waging war to rebuilding post-conflict, from reforming healthcare to improving education – would be better addressed by their working in concert. For example, after Hurricane Katrina hit the US gulf coast, government agencies recognised the strengths the private sector had developed in disaster response and recovery. Since then, it has forged partnerships with businesses to develop better solutions to information collection and relief efforts which not only draw on both sides' knowledge but enable a coordinated response when the next disaster strikes.

#### **'Reaching Further'**

##### *Trend 5: The Responsible Enterprise*

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competition for talent, along with intellectual property risk and dwindling government incentives. These were exactly the trends that led a US heavy equipment manufacturer recently to consider alternative locations for a new factory. To management's surprise, a careful study found *several* other countries able to support an operation of the proposed scale (\$60 million in capital investment and 250–300 employees) which offered savings over China ranging from 7 to 22 percent. Beyond the cost differences in labor, utilities, real estate, and freight, these countries offered relative advantages in talent pools, infrastructure, and the risk environment. According to Deborah Wince-Smith, who heads the Council on Competitiveness, 'Global manufacturers are taking notice—and are increasingly thinking about alternatives for manufacturing beyond China, including the United States'.

**Addressing these growing meta challenges is an increasingly critical role for senior executives of global firms - and success in doing so will help determine future winners and losers.**

#### *Trend 7: The Battle for Talent in Emerging Economies*

It is a well-established and often discussed trend that the center of gravity in the global economy is shifting to the high-growth emerging economies. An interesting trend for management follows: the war for talent is moving to these parts of the world as well. We saw this first in R&D and operations, but the same shift is happening in other managerial functions such as marketing, finance, and HR. In part, this is due to the growth of emerging market-based companies, which present more choices for prospective employees.

Many global companies are responding by developing country-specific talent strategies and HR programs. This marks a real change – one that we have seen even in our own organisation. Our colleague Parag Saigaonkar, Regional Managing Director of Deloitte Touche Tohmatsu India Private Limited's consulting services in India, admits that at first, 'we viewed the new organisation as separate and subordinate relative to our existing operations, and adopted talent management strategies and programs that were serving us well in more established economies—almost as if we were setting up an 'American embassy' environment'. Today, like other multinationals succeeding in emerging markets, Deloitte adapts to the attributes of local talent markets.

#### *Trend 8: Building on the BRICs*

The economies of Brazil, Russia, India, and China (the BRICs) have commanded significant attention in recent years as they transcended emerging market status and became global players. Now, as their growth pace decelerates, focus is shifting to a new tier of emerging markets,

including Indonesia, Malaysia, the Philippines, South Africa, Thailand, Turkey, and Vietnam.

Looking ahead, these new emerging markets could become significant B2B and B2C growth opportunities for multinationals from developed countries. But they are also producing new competitors, sometimes playing by different rules. For the world's largest beer makers, for example, a rival like Turkey's Anadolu Efes is surprisingly formidable, and not only because of its aggressive growth strategy and proximity to home markets. It also employs novel practices to hedge risks, manage operations, and build brand loyalty.

### **Trends to Strategy to Execution**

Monitoring trends in the business environment is interesting, but only valuable if it informs strategy and results in action. To return to Ron Heifetz's language, the key is to turn those confusing Type Three issues, where the question and answer are both unknown, into Type Two problems that management teams can engage with. In an era of dynamism and discontinuity, this is a growing imperative for firms. And because many patterns are best spotted across industries and by an 'external eye', consulting firms will also have to evolve in order to help.

After all, bringing clarity to Type Three business problems was the core value of the new discipline of 'strategy' fifty years ago, when firms had limited access to data, few analytic tools, and none of the now familiar frameworks for identifying opportunities, assessing options, and determining priorities. Today, firms come up against different limits: insufficient cognitive bandwidth to make sense of the remarkable and rapid shifts occurring around the world, and too-scarce skills in translating those shifts to executable strategies. Addressing these growing challenges is an increasingly critical role for senior executives who are committed to acting with confidence and conviction as industry leaders – and success in doing so will help determine the future winners and losers. That requires us to keep one eye always focused on the next wave of trends that matter most. We hope that those described here help with that growing imperative.

For more information please visit <http://dupress.com/collection/business-trends-2013/>

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