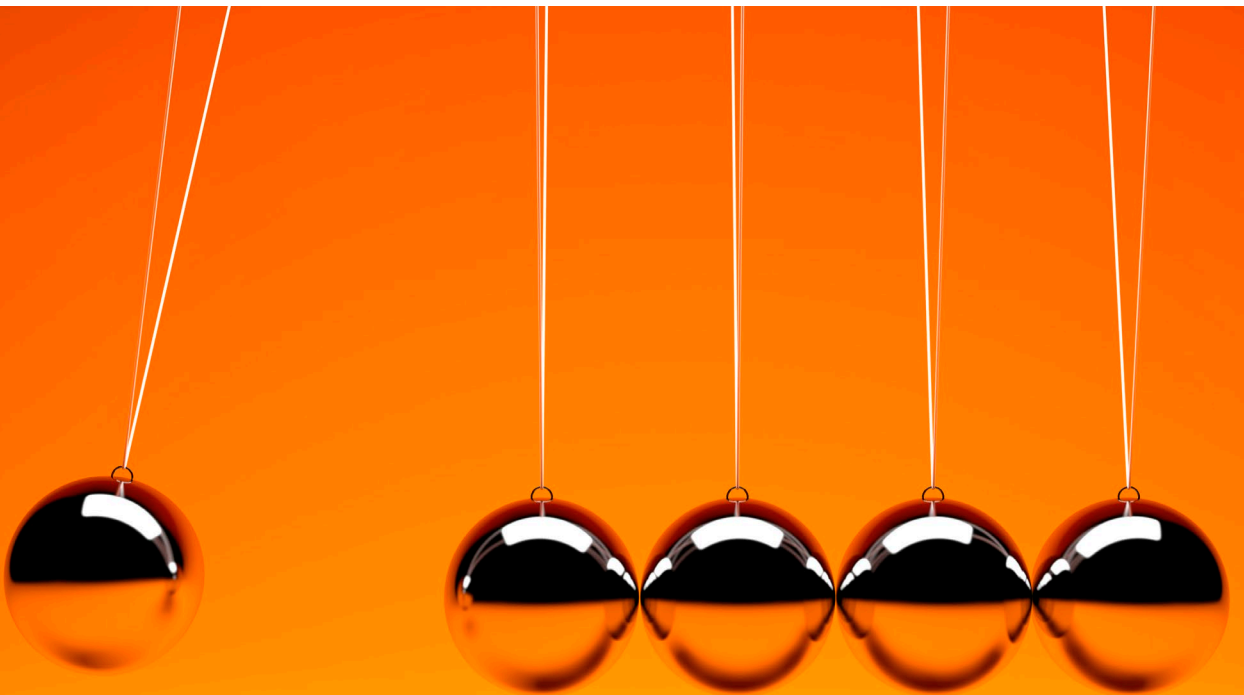


# Five Themes Shaping the Global Business Environment

In a world of constant change, shifting dynamics can quickly hinder corporate strategy. Such a world demands that companies focus on the big picture.



*ATKearney*

Although a considerable amount of literature is available on emerging and future trends, we at A.T. Kearney believe such insights only deliver true value when used to capture immediate impact and growing advantage. In other words, insights into the macro environment must be translated into actions that companies can take to improve their operations now and benefit their strategic positions in the future.

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## As governments worldwide face new demands and new constraints, **a wholesale reevaluation of the social contract is taking place.**

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Using our Global Drivers framework, we have identified five key trends that business leaders need to understand to succeed. Presented briefly here, we invite you to explore additional trends on our website.<sup>1</sup>

### 1. Shift in the locus of power from North to South

The locus of global economic, political, and demographic power has been shifting from the Global North (broadly speaking, developed countries) to the Global South (developing countries). Although this shift has been taking place for decades, the new intensity with which it is occurring and the changing implications that it has for business will shape the global business environment in the coming years.

For businesses, supply chain structures are less likely to follow the “make in developing, sell in developed” paradigm. Additionally, in a globalized talent pool, educated workers are coming from new places, so companies must raise the bar or get left behind. Furthermore, the entrance of new competitors means that some threats may not even be on the radar.

While most companies know these shifts are taking place, few are fully prepared to adapt to them. Companies can gain immediate impact with the following strategies:

- **Examine supply chains.** Are your sourcing locations still the correct ones?
- **Rethink expansion strategies.** Have you properly accounted for all of the growth markets, or are you relying on conventional wisdom?

Over time, these insights can be leveraged for competitive advantage by peering ahead of the curve at growth markets. Nearly every global company is targeting the BRIC countries (Brazil, Russia, India, and China), so finding relatively untapped markets will be one key to longer-term growth. Also, ensuring that supply chains are sufficiently flexible will enable organizations to capitalize on global developments. Remember, just because a supply or demand location is attractive now does not mean it will be in the future.

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<sup>1</sup> The Global Drivers framework is available at <http://www.atkearney.com/index.php/Our-expertise/global-business-policy-council-newsletter-2011.html>.

## 2. New models of consumer engagement

With ubiquitous connectivity, universal access to knowledge, and an increasingly global consumer environment, companies are being forced to redefine how they engage with consumers. These trends can be double-edged swords. Connectivity in social media, online mobility, mobile payments, and augmented reality offer new ways to market products and services to consumers, but they also add complexity and competition. Access to knowledge and broader globalization can create consumer opportunities, but the former creates intense price pressures, and the latter can cause organizational complexity—both of which combine to squeeze profitability.

For businesses, this means less control over messaging. Consumers are more self-selecting (they'll tune you out and listen to one another), can more easily verify product claims through online research and reviews (even though these are sometimes faulty), and are more difficult to reach because of proliferating media. Additionally, a faster pace of change in consumer preferences and tastes necessitates faster product redesign. Because traditional marketing and customer relationship management channels are no longer sufficient, businesses are finding new ways to connect with their customers. Social media is an important element in engaging the new consumer, but it is most successful when combined with a larger strategy that addresses how today's consumers view shopping and products.

Many companies are already at the forefront of engaging the new consumer, while others are still lagging behind, or worse, attempting to shoehorn outmoded concepts for consumer engagement into electronic avenues. Companies can gain an immediate advantage with the following strategies:

- **Invest in electronic and social media-based consumer engagement.** This applies not only to consumer products companies and retailers but also to businesses in other industries.
- **Establish a digital strategy** and determine how it can optimize your current customer base and product portfolio.

Adjusting to new consumer engagement models now can help build advantage over time by embedding a culture of agility and receptiveness to new and emerging trends. Consumer engagement tools are not only useful in responding to what customers are saying today, but also in shaping opinions and anticipating future preferences.

## 3. New paradigms, changing business models, and constant innovation

From research and development (R&D) and consumer engagement to product design, manufacturing, and corporate governance, the paradigms that have defined business are changing. Technology-enabled global operations transformed R&D functions during the information technology revolution; now, educational achievements in developing countries and aging populations in established markets are changing them again. Technological advances on the horizon, such as three-dimensional printing, will change established manufacturing methods just as computer-aided design and automation did 20 years ago. Governments are strapped for cash and can no longer be counted on as sources of basic research, even in national defense. In addition to these supply-side shifts, the basic model for engaging consumers is

fundamentally changing as it moves online and becomes mobile and interactive. In addition, the sustainability challenge, motivated by greater awareness and fluctuating costs, is affecting the ways in which companies think about their resource inputs.

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## A faster pace of change in consumer preferences and tastes necessitates faster product redesign.

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Innovation and R&D that has traditionally run through government-driven or government-funded channels must now originate elsewhere. This implies that innovation will be at an even larger premium—and that companies that are able to harness it efficiently and nimbly will have an even greater competitive advantage. In addition, changes in several stakeholder relationships, from governments to suppliers to consumers, may require profound changes in corporate structures.

Although harnessing innovation and adapting to change are notoriously difficult for even the best organizations, companies can achieve nearly instantaneous results with the following strategies:

- **Examine product development lifecycles.** Are they exposed to potential cutbacks or contractions? Are they in danger of being outdated?
- **Invest in talent on the recruitment and professional development fronts.** Only the best companies will attract and retain high-value employees.

The nature of a constantly fluctuating environment is such that no single innovation or silver bullet will suffice. Rather, creating a culture of innovation by properly structuring incentives and rewarding the right behaviors will reap lasting rewards.

## 4. Redefinition of the social contract

In both developed and developing countries, citizens are demanding more from their governments, and governments are facing challenges in meeting their needs. The events in the Middle East illustrate citizens demanding greater representation and accountability from their governments, enabled by ever-present connectivity. The forms of government that are—or were—in place are proving to be unequal to the task. In the developed world, constituents are insisting on more protection from various forms of volatility, be it economic, health, or security. Governments in these countries, however, are constrained by rising debt, changing global governance models, and a talent deficit. Some countries, such as China, are struggling with both sets of problems. As governments worldwide face new demands and new constraints, a wholesale reevaluation of the social contract is taking place.

For businesses, now is the time to account for the services and benefits received from government in terms of direct services, tax preferences, benefits support, education, and more and to assess the likelihood and impact of their elimination. This is especially crucial in government-supported sectors in the developed world, such as agriculture, defense, and renewable energy. Costs will rise from replacing lost government services or from the higher taxes necessary to maintain them, resulting in a more challenging profit climate. In addition, as

emboldened and connected citizens face either the loss or higher cost of retaining their social safety nets, they will become increasingly critical and vocal against those perceived to be insufficiently contributing to society. Sustainability and corporate social responsibility programs will become vastly more important.

Companies can successfully respond to these trends in two ways:

- **Evaluate the corporate footprint** against government fiscal positions to assess near-term implications for government support.
- **Examine the corporate portfolio** for exposure to government-supported sectors.

Over time, smart investments in sustainability and corporate social responsibility programs will prove beneficial. The best investments are those integrated within a firm's strategic planning process and targeted at areas or issues that deliver the biggest impact. Strategic, targeted investments are more effective, carry a lower long-term price tag, and are more authentic reflections of a firm's culture and values. The alternative—non-strategic, scattershot donations, sponsorships, and programs—will be exposed by digitally empowered activist groups as window dressing.

## 5. The global war for talent

Changing global demographics (aging North versus youthful South) combined with governments' disparate ability to invest in education have caused a shift in the composition of global talent. Talent is increasingly located in developing markets, both in numbers (younger, growing populations) and in skill sets (more university degrees, especially in science and engineering). The global recession has accelerated this trend, with many developed countries reporting a reverse brain drain—highly skilled emigrants leaving their host countries to return home, where capital is more plentiful and growth rates higher, to find work or start businesses.

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The result of these **new and accelerating trends is a global war for talent** that will determine which companies—and governments—are able to innovate and prosper and which ones will simply follow.

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At the same time, technology has made global collaboration more prevalent, and changing business models and business needs have made knowledge workers more valuable. Product cycles are becoming shorter and technological competition more intense, placing greater pressure on companies to keep pace by identifying and cultivating the best minds.

The result of these new and accelerating trends is a global war for talent that will determine which companies—and governments—are able to innovate and prosper and which ones will simply follow.

This situation presents risks and opportunities. Highly networked companies are able to take advantage of a growing pool of global talent and, by doing so, raise the bar for their competitors, including the less well-networked. This heightened level of competition means that all companies, including today's innovators, need to be alert to changes in the competitive landscape for talent. In addition to locating and connecting with the most talented people, companies will face greater pressure to retain the most talented employees. Retention mechanisms and core human resources skills will become increasingly important to keeping high-value, high-performing workers. The policies of various geographic locations will have to be scrutinized to choose countries that offer fewer restrictions on the migration of highly skilled workers.

Companies can act immediately in two ways:

- **Re-examine human resources, recruiting, and compensation models** to ensure they are best in class relative to competitors.
- **Align the organizational model** to maximize cross-geographic synergies.

Today's high-value knowledge workers, often called the "creative class," are more mobile, more willing to switch jobs, and more likely to identify with the mission and values of their employers. While compensation-based retention programs are important in the battle for talent, winning the war for talent requires hiring employees who share the company's culture and values.

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## About the Global Business Policy Council

A.T. Kearney's Global Business Policy Council (GBPC), established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through regular publications, strategic advisory services (global foresight, boardroom briefings, scenario planning, and strategy), and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that affect business and governments around the globe. The GBPC's extended network of faculty and conference participants includes some of the world's top executives, government officials, and other thought leaders.

A.T. Kearney is a global team of forward-thinking, collaborative partners that delivers immediate, meaningful results and long-term transformative advantage to clients. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading organizations across all major industries and sectors. A.T. Kearney's offices are located in major business centers in 39 countries.

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