

The Global Outlook for the New Decade

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Chair: Mark Spelman, Global Head of Strategy, Accenture

The world economy has entered this new decade on unstable ground, with many organisations uncertain about what direction the economy may take. These challenges are putting continuous strain on corporate decision-making. This Criticaleye Discussion Group sought to help business leaders examine whether their organisations were prepared to embrace this new decade and the challenges they may face. Mark Spelman, Global Head of Strategy at Accenture, who chaired the event, brought the group through macro and micro level trends. He hoped that the participants would take an issue to their boardrooms.

Mark offered his take on the following mega-trends.

Background

Why look at the next decade? Are we going to spend the next four to five years trying to get back to 2008? Organisations are becoming obsessed with looking just one year ahead, it is as important to understand what could happen in the next 5 to 15 years. The pace of change is accelerating; however, Europe has yet to see the true pace of this change.

There is an interesting paradox emerging – the world is becoming more interdependent, in terms of trade and globalisation, but governments are becoming more nationalistic.

2008-2010

The recession is a defining moment in recent world history. The three successive crises, first the financial (credit), then the economic (trade) and finally, the social (unemployment) crisis which is still ongoing, almost crippled the world economic system and is still presenting challenges.

The much-anticipated recovery is unsynchronised, which is prolonging uncertainty. A slow recovery means that investment is being driven to countries that are recovering more quickly and out of those that are not.

Economies to watch

The three large economies to watch are the United States, China and Germany.

United States

They are responsible for a significant part of the world's GDP (US consumers account for 18–19 per cent). However, the US has other issues. It looks as if President Barack Obama may not have a second term, and there are questions about the impact of the stimulus plans past 2010.

China

China has many links to the US. They also have a growing middle class with more disposable income. However, the China economy is still savings and export driven and domestic consumption is a relatively small share of Chinese GDP.

Germany

Europe is in a mess. The countries that have huge government debt are facing tough financial challenges. It will be surprising how strong Germany is in 2014 and 2015. Germany also has a strong investment position in Asia and US.

However, the political reality of the EU is coming out - powerhouses such as Germany and the North are supporting the South of Europe. Why would countries that have strong exports want to be tied to economies such as Spain and Greece?

Africa

Africa did well before the downturn. However, there are two different 'Africas'. Nigeria and South Africa make up 50 per cent of the continent's entire GDP.

- Nigeria has the banking and mobile phone industry
- South Africa has growth but concerns with the rise of public spending

Problems in Africa

- Significant flow of people out of Africa
- Government corruption issues

Latin America

- Brazil and Colombia are doing well
- Mexico's fortunes are linked closely to the US
- Avoid Venezuela
- Argentina has major structural issues

Customer trends

Population and demographics:

- Growing middle class in emerging markets, especially in Asia
- Ageing in Western markets
- Immigration
 - Europe has let in a lot of unskilled people
 - US has more immigration from skilled people
- Urbanisation will also be a huge trend; there will be mass migration into cities. However, all cities have different issues, especially in the emerging markets.

Consumer products organisations need to understand changing demographics.

The reality for Gen Y is that they will not have pensions. This means that the population will have to work for longer. Will this drive economic efficiency?

Consumers are becoming more powerful. It is the start of a very fundamental correction phase; it is a global, generational correction. This reason for this correction is that consumers are paying down their debts, not borrowing and therefore have less disposal income, thus decreasing consumption.

Natural resources

Demand for fossil fuels will continue to increase as nuclear and CSS will not be available this decade. The 2020 targets are unlikely to be hit. This will have implications on the Middle East and other fuel producing countries.

For CCS to work, the price of carbon has to be clarified.

There is very little choice for consumers for electricity. Dynamic pricing is therefore needed, eg, smart metres. The UK is still behind on smart metres in contrast to China, which is installing 80 million of them over a two year period.

Water is a huge issue. There is a significant push for water segmentation, such as charging more for drinking water and less for industrial water. The UK has yet to look at this problem as she hasn't seen water stress.

As demand for resources increase, the economies of countries with resources will increase, increasing their sovereign wealth funds.

Commodities

Commodity prices will trend up with volatility. But who owns the commodities? Local country governments or the international organisations that bring the expertise?

Money will flow to countries with commodities. Power is shifting owing to these commodities, but how will this power play out? There are usually problems with politics - Venezuela and Russia are examples of this. How will countries use their new economic freedom?

There is also a trend of countries buying up commodities in other nations. For example, China has done this in Africa. In fact, there has been increased investment by the US in Africa owing to commodities.

Climate change

Climate change is invisible but the cost is ever more apparent. We are leaving a legacy for the next generations. Sustainability has to be built into the supply chain. This generation wants transparency and to be offered significant change. SABMiller was used as an example - they are driving sustainability through the supply chain to help people, especially in sub-Saharan Africa.

There are no secrets anymore, governments and organisations haven't faced up to this. Trust is an outcome of transparency. Do you want to be part of the 'green' solution or the problem?

How do you get talent on board with trust and transparency, especially, if they are coming from different cultures? How do you have common values throughout the organisation? Have your boards looked at trust and building trust throughout the organisation? In countries like Russia and China will we see transparency and trust?

Technology

Three thousand times more data is produced from a smart grid. The problem is the ability to interpret this data. Organisations must be able to turn data into information that is relevant to their business.

Understand what risks are relevant to your stakeholders. Be responsive to changes. Move away from shareholder value to stakeholder value.

The cloud also proves to be problematic with respect to data security. The pace of change is fast - the data revolution will radically change the way business is done.

Increase in taxation

It is expected that there will be an increase in taxation. Owing to the global economy, organisations can take the money they earn in one country and invest it in different countries. Governments are trying to keep money in their countries.

The world is more politically and economically weighted equally and this needs to be considered. The formation of smaller businesses needs to be encouraged.

Big Business, Small Business, and Governments must work together in a virtuous circle. The public and private sector also must work together - this could bring transparency into taxes (businesses like to see where their taxes are going). But we are only scratching the surface of transparency.

Innovation

British organisations are too focused on the UK. Innovation comes from extending tentacles outside and networking with different organisations. You have to be global in your thinking - get networks 'out there' - not 'in here'.

How do you protect your IP when working in China? Do you go for open source or try to protect it? China is going through the same issues as the UK did during the industrial revolution. One solution is for organisations to have only 'bits' of the solution in China.

Leadership agenda

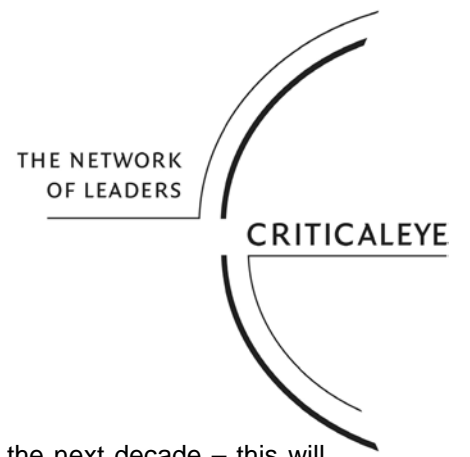
There is a significant increase in uncertainty and unpredictability. Owing to this, fundamental planning is needed, increasing pressure on business and the need to make business more agile. You need to be a multi-tasker to be successful. You need to see the trajectory and see how you can accelerate to that point: don't get locked into planning cycles.

Companies want more growth and less cost – how do we get the balance right?

How do you run your organisation – globally, locally, or super locally? – the trick is to bring it all together. How do you adjust the local and not put too much stress on the global? You need to deal with local populations but not build too much complexity into the business.

Where will growth happen going forward?

- Green issues
- Healthcare
- Entertainment services



Organisations need strategic clarity and agility to steer their way through the next decade – this will lead to competitive advantage.