ANTENNA ESSAY

BREWIN DOLPHIN

WELCOME

Welcome to a new-look Antenna – where we focus on the major trends that are shaping the world around us. In this issue we explore life after the pandemic – what changes will we see, and how will businesses adapt? It feels somewhat trite to note that it has changed our lives, but some of those changes are accelerations, ascents and declines which would have happened anyway. Other innovations may never have happened.

For business, this is a period of adaptation and opportunity across a number of areas. Some, such as technology, sustainability or employees' work/life balance, have been fashionable parts of companies' conversations in recent times; others have been less fashionable – such as resilience and an ability to deal with uncertainty. However, the pandemic has highlighted their importance. Taken together they provide opportunities for those businesses that are already well-prepared, or can adapt in short order.

From an investment perspective, there is a lot to consider. One thing remains clear, though – only by really understanding the choices in front of us will we be able to benefit from the opportunities they present.

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ANTENNA is published for Brewin Dolphin by Wardour

04 Reset published November 2020

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STARTING OVER

As the economy attempts to reset after the initial shock of COVID-19, what ingredients will companies of the future need to survive in this new business landscape?

Nine months into the pandemic, the economic picture is still a patchwork of companies struggling, failing, adapting, innovating and growing as they recalibrate their businesses to work in the new normal.

The International Monetary Fund says the global economy is starting to come back from the depths of its collapse in the first half of the year. But we are still at the beginning of the recovery in the UK. Even before the second wave of COVID-19 created another bump in the road, economists were asking how big the initial bounce back would be and how bad the economic scarring.

"Some parts of the economy are going to take quite a long time to recover," says Jonathan Gillham, Chief Economist at PwC. "If you look at the 2008/09 financial crisis, that recovery took about a decade."

The brunt of the economic impact is currently being felt by low-income workers and youth, through job losses or lack of opportunity, but this is likely to spread. "White-collar workers were initially more insulated, but it's starting to trickle up into higher skilled jobs as overall demand decreases. It'll become more like a traditional recession as business slows and workers get laid off," says Brad Hershbein, Senior Economist at the W.E. Upjohn Institute for Employment Research.

Changing consumer habits are feeding that problem in the UK. Where once people spent money in the office supply chain – coffee shops, gyms and cleaners, for example – many are now spending disposable income online via sites such as Amazon, which is expected to achieve an extra £2 billion in UK sales by the end of 2020. "One of the challenges for the UK economy is that the products people are buying online are quite often imported from overseas, whereas they were spending money that ultimately paid the wages of service sector workers before," says Gillham. "Wealthier office workers are spending less money on their commute and making their coffee and lunch at home, and they're very happy with that. But the underlying consequences are quite strong."

Against the bleak backdrop of dual economic and health crises there have been some bright spots. Across the public and private sectors, remarkable feats have been achieved. Among the most high-profile are the first NHS Nightingale hospital, which was built in just nine days, and the ventilator programme that saw mass production of medical devices begin in just four weeks thanks to a coalition of car manufacturers, suppliers and specialists. The speed with which vaccines have been developed and the rapid roll-out of telehealth services, which would have involved lengthy lead times in normal circumstances, also show what can be achieved with focus and cooperation between regulators and the private sector.

“THE TREND TOWARDS AUTOMATION APPEARS AS THE ECONOMY STARTS TO RECOVER”

On a smaller scale, there are endless examples of businesses succeeding against the odds, through sheer agility, by pivoting and innovating. Indeed, analysis by the Centre for Entrepreneurs shows there were 77,574 new companies registered in June, a 47% increase on the same month in 2019.

As this story of crisis and regeneration continues to unfold, two major trends stand out – digital transformation and long-term resilience. These two currents ran through conversations about business strategy before the crisis, manifesting themselves in debates about automation and sustainability. In the wake of the pandemic, digital transformation and resilience have taken on wider meanings and could shape how the economy reforms.

THE MARCH OF TECHNOLOGY

The technology necessary to work or learn from home, to shop online or attend events from the comfort of your living room existed before the pandemic began. While some were previously hesitant to embrace this technology, the pandemic has forced them into a giant digital experiment. There have been positives – many digital events have become more inclusive without barriers such as travel and ticket cost – and negatives; for instance, video calling a doctor might be more convenient, but we do not know whether it will result in the same health outcomes. But regardless of the sector, there is one common thread – people have become less afraid of digital transformation.

The sudden appetite for digital services could feed the broader economic trend towards automation. Hershbein has studied how demand in the labour market changes following recessions. “Increases in automation in businesses, as well as increases in skill demand, aren’t necessarily smooth and gradual. It’s after an economic shock, such as a recession, that businesses start investing in machinery, automation and computer software,” he says.

Hershbein’s research shows that the trend towards automation appears as the economy starts to recover, when leaders are more optimistic, but business is not booming so they have the time and capacity to retool and rethink how they operate. It is at this point they decide whether to hire back the same kind of workers as before.

Automation can mean substituting humans with machines. This has already been seen in the US food processing industry during the pandemic. However, Hershbein explains that the picture is more complex than machines taking human jobs. “Based on the previous recession I think there will be increases in demand for higher skilled positions, particularly in an office environment where analytical thinking, problem-solving, innovation and the idea of adaptability are going to become more valuable.”

Gillham agrees that the trend towards increasing technology will change the profile of work. “Businesses are looking increasingly at artificial intelligence (AI) and things like that, but we’ve not seen much evidence about getting rid of large swathes of staff and replacing them with automated technologies. It’s more about how we can use AI to improve work and productivity. Productivity is a critical question as you come out of a crisis like this and I think there will be quite a lot of investment in upskilling workers to better use technology. It’s not technology that is necessarily that radical or sometimes even that new, but it’s about getting more out of the technology platforms that we’ve got.”

Digital transformation is likely to have an impact on skillsets in most lines of work. People working in warehouses alongside increasingly autonomous systems will need some level of technological understanding, just as doctors and office workers will need a better grasp of data analysis to make the best use of automated systems.

BUSINESSES OF THE FUTURE

“Businesses need to increase their investment in technology by about 15% of their combined wage costs and profits, over and above what they’re already doing, to keep up with AI and tech-related changes and retain a leadership position,” says Gillham.

That can be difficult when there is a shortage of capital, but Gillham believes the more successful businesses in the future will be the ones that can maintain investments in systems upgrades. “Not everybody needs to be at the technology frontier, but to succeed, businesses need to be installing some of that lower hanging fruit from an AI and technology perspective.”

Gillham also cites a greater focus on sustainability as a long-term impact of the pandemic. “Businesses are going to think more around their resilience longer term. When you’re in economic peace time you think these shocks aren’t going to happen, but the pandemic has shown that they can. Some evidence suggests they may happen with more frequency in the future because of things like climate change.”

Regulation and taxation are also driving businesses to take a harder look at sustainability. The European Union, for example, is set to make big businesses declare their environmental and

SNAPSHOT:
DATA SURGE

COVID-19 has created the impetus to accelerate digital transformation and as we come out of the crisis investments in automation are expected to pick up. Technologies that improve productivity in particular are expected to be popular.

RELX is one example of a company that helps organisations to be more productive behind the scenes. Its Risk & Business Analytics division provides decision-making tools that enhance operational efficiency in sectors such as insurance, energy and chemicals, banking and the public sector. One of its solutions reportedly helped six Florida counties uncover more than US$16 million in new tax revenue in 2019 and place over US$140 million back on tax rolls.

Having seen what their organisations can achieve in a short period of time, executives are now more likely to have the confidence to roll out these kinds of technologies.

social impact. But Gillham says ethical considerations are also a factor, with companies looking to transform themselves as they come out of the pandemic. "A lot of our clients are saying they want to embed that much more seriously into their culture."

Even before the crisis, the idea of purpose-driven enterprise was taking root. In January, BlackRock's Larry Fink, in charge of more than US$7 trillion in assets under management, wrote to CEOs to say the firm would immediately stop investing in companies that present a high sustainability-related risk. A month earlier, the World Economic Forum updated its Davos Manifesto for the first time since 1973 to say that businesses should be stewards of the environment, uphold human rights in their supply chains and pursue shareholder returns that do not sacrifice the future for the present.

Some thought that purpose-driven enterprise would falter at the first sign of economic turmoil. But instead it has become more entrenched as the interconnected relationship between business, society and nature has been laid bare during the pandemic.

Companies that put profit ahead of safety have been called out publicly during the crisis, while those that responded with purpose, such as Unilever, are expected to benefit from consumer goodwill. The strong cashflow and balance sheet of the world's fourth-largest consumer goods company enabled it to extend £462 million of financial support to its suppliers and retail customers early in the crisis, while also donating £93 million in hygiene products. CEO Alan Jope framed the relief package in moral terms, saying Unilever "should" provide the support because of its healthy finances. Unilever is an exemplar of purpose-driven enterprise, as it has long operated according to a set of values. Indeed, Jope warned in 2019 that the company would drop any brands that were not purpose-driven.

Gillham says there is opportunity in sustainability: "A sector that we think is going to do quite well in the future will be businesses that offer greener solutions." Unilever has certainly found this to be the case. It has been measuring the impact of sustainability on business success for several years and has found that brands that can demonstrate they are improving society or the planet see dramatically better growth. That result is partly because the sustainable message carries emotional resonance, making the brand more memorable.

However, the trend towards purpose-driven enterprise is not purely a result of consumer behaviour, it is also about resilience. Companies that operate with a purpose bigger than profit and growth, that count community and the environment as stakeholders, tend to be more resistant to shocks. During the financial crisis, B Corps – companies that meet the highest standards of social and environmental performance – were 63% more likely than businesses of a similar size without B Corp accreditation to survive the recession. That was partly because their relationships with workers, customers and supply chains were stronger.

SNAPSHOT: GREEN RECOVERY

With pressure mounting over the need to build sustainability into the economic recovery, green opportunities look even more attractive.

Opportunities exist in almost every sector. In the realm of financial services, for example, Legal & General has been positioning itself as a leader on climate action for several years through its inclusive capitalism strategy. Its holistic vision sees the company contributing to a decarbonised, prosperous and inclusive society while also creating shareholder value.

One example of how the company plans to achieve its aim comes from its homebuilding division. From 2030, all new homes built by Legal & General's housing business will be capable of operating at net zero carbon emissions. In other areas of the business it is targeting green infrastructure and hopes to provide capital for up to 5% of the UK clean energy market by 2021.

Companies that have existing green credentials are well positioned to benefit from increased concern over the climate emergency but there are also opportunities for laggards to catch up. Green stocks are in vogue, valuations can be demanding and green credentials can be overstated, but there are still companies for whom climate change is part of their purpose.

Regardless of whether they embed sustainable values into their operations, successful companies will need to be resilient to the shocks created by externalities such as global heating.

BUILDING RESILIENCE

For a long time prior to the crisis, business culture centred on the idea of efficiency, typified by optimising shareholder returns and operating with minimal stock to maximise short-term profits, with little regard for the long-term picture. The pandemic quickly highlighted the shortcomings of this culture, as companies struggled with cashflow in the face of a sudden contraction in business and just-in-time

"COVID-19 WOKE A GENERATION OF BUSINESS LEADERS UP TO THE NATURE OF UNCERTAINTY"

production models left supermarket shelves bare at the slightest change in consumer demand. It is fair to say COVID-19 woke a generation of business leaders up to the true nature of uncertainty.

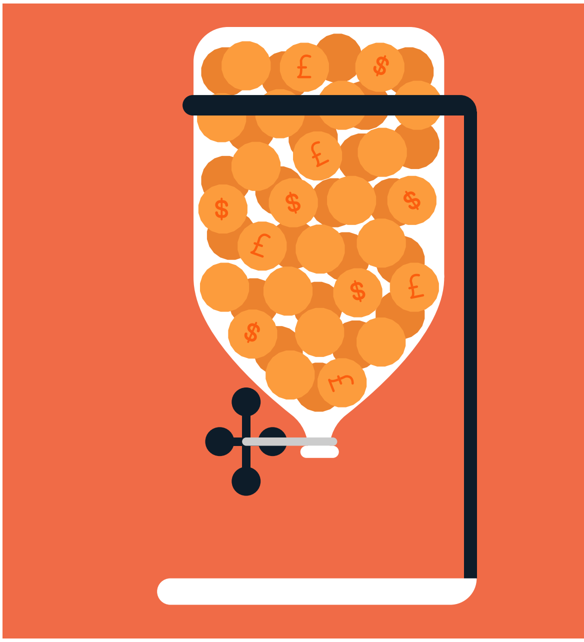
"There's no question that resilience is now recognised as a strategic imperative," says Julian Birkinshaw, Professor of Strategy and Entrepreneurship at London Business School. "If I'm a corporate executive today, my first priority is to ensure that I've got enough cash available in case something bad happens, and indeed in case a good opportunity arises. That means fewer share buy backs, expanding my equity and to some degree reducing my debt because there's a risk that if things go badly wrong, I can't service my debt."

Birkinshaw breaks resilience down into three components: strategic, operational and behavioural. Strategic resilience is about adapting to a changing business context. "As customers' needs evolve, as behaviours change, are we sufficiently resilient to adapt our product and service offerings to those changing needs?" he explains.

At a practical level, strategic resilience can be enhanced through exercises such as scenario planning and real options thinking, which help to manage uncertainty. Techniques such as these encourage leaders to consider how their organisation would respond in certain situations, helping them identify weaknesses and opportunities.

Birkinshaw explains how London Business School used scenario planning to inform its investment in digital learning capacity over the past four years. "It was a no-brainer to invest in online training because when we looked at the macro trends, one of them was towards greater digitalisation, one was towards unpredictability around face-to-face learning. So digital capabilities were a rock-solid investment."

The second tier of resilience, operational, is about survival and continuity, about having enough money to pay staff, a supply of goods and a means of reaching customers. As companies reflect on the issues they had in the spring, they need to think about the



culture behind their operations. “When there’s a trade-off between efficiency and reliability – for example whether you have big back-up stocks – companies have got to start favouring reliability. They’ve got to put a little bit of extra money on their balance sheets, be prepared to accept that there’s going to be idle cash sitting around because it’s necessary to save for the rainy day,” says Birkinshaw.

Finally, behavioural resilience is the capacity of the people in an organisation to work effectively for a sustained period, under difficult circumstances. “People working from home, sometimes without the necessary levels of technology support, often in difficult circumstances, can do that quite effectively for a few weeks, but to do it for months and even years does take a psychological toll and creates challenges, not just in terms of doing our day jobs, but in continuing to develop and stay motivated,” explains Birkinshaw.

While businesses need to be more financially conservative to build up their strategic, operational and behavioural resilience, a London Business School study cautions against rowing back on investment in research and development and stakeholder management, including sustainability and staff development. The study shows that following the global financial crisis, companies that continued to invest in these activities performed better than those who stopped.

TO NEAR-SHORE OR NOT TO NEAR-SHORE?

A resilience problem many companies are now grappling with relates to the fragility of global just-in-time supply chains. Following the hard lesson they learnt at the start of the crisis, businesses are now asking whether they should near-shore their production.

Yet the drivers behind this debate are not entirely COVID-19-related. Indeed, some companies have been considering near-shoring for several years. The recent geo-political trend towards protectionism, particularly in the US, has created concerns over tariffs. While shorter lead times, lower shipping costs and carbon emissions, and the ability to respond quickly to shifting consumer demand, have also made near-shoring attractive. But it is advances in technology collectively known as ‘Supply Chain 4.0’ that have made near-shoring a serious option recently. It is no coincidence that the term sounds similar to the ‘Fourth Industrial Revolution’, as it is part of that broader trend towards automation. Big data, the internet of things, the Cloud, autonomous systems, augmented reality and 3D printing collectively reduce the number of employees manufacturers need in order to produce goods. Taking high labour costs out of the equation means high-tech, small-footprint manufacturing can feasibly take place close to end markets.

In 2017, Nike announced a new high-tech near-shore factory in Mexico and the ambition to near-shore the production of tens of millions of shoes by 2023, while also deploying 1,200 automated machines in Asia. “They want to produce everything locally, using

SNAPSHOT:
HEALTH IN A PANDEMIC

The healthcare market is one area where demand is clearly booming in some sub-sectors. Companies producing vaccines, such as GSK, have captured the public’s imagination and have seen governments pour unprecedented amounts of money at drugs that are still in development.

However, the pharmaceutical supply chain is complex and opportunities to support the development of COVID drugs can be found in lesser-known companies too. British specialty chemicals company Croda, for example, is reprioritising its resources in order to focus on delivering a vital ingredient for Pfizer’s promising COVID-19 vaccine.

Through the lens of COVID-19 we have also been reminded of the many ways the study of genes is transforming healthcare. Genomics is helping us to understand the virus, how it spreads and mutates and how to fight it. When the virus has receded the transformation of healthcare through genomics can only speed up and companies such as Novartis that develop innovative cell and gene therapies will be there to lead the way.

"WIDESPREAD NEAR-SHORING COULD HAVE A SERIOUS IMPACT ON DEVELOPING COUNTRIES"

small-footprint manufacturing," says Richard Wilding OBE, Professor of Supply Chain Strategy at Cranfield School of Management. "They were saying this is good because it's going to reduce our shipping expenses, import duties and over-production risks, it's going to reduce our lead times by 60 days to ten days."

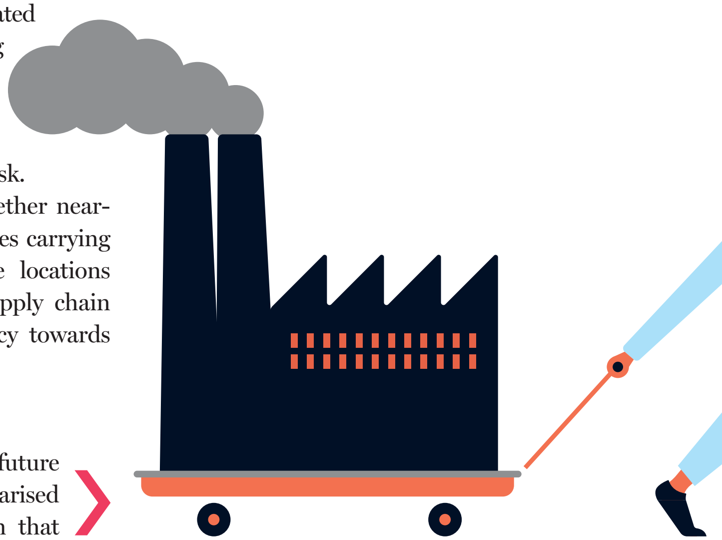
COVID-19 has added another weight to the scales for high-tech near-shoring by highlighting the vulnerability of staff and long supply chains. "We moved into 2020 with near-shoring already seen as a way forward over the next two to three years. COVID-19 has just put a massive burning platform under all of this and because of that we're finding this is happening much quicker," says Wilding.

However, there are implications to redesigning supply chains in this way. Wilding notes that Nike's 2017 press release said 50% less labour would be needed to make shoe uppers where advanced robotics and digitisation were deployed. "That's a lot of people losing their jobs, probably not in the West, but in Asia," says Wilding.

With manufacturing a key rung in the development ladder, widespread near-shoring could have a serious impact on developing countries. And in the context of Supply Chain 4.0, large-scale job creation cannot be expected in the West either. "One particular supply chain, which employed 120,000 people in Asia, built one of these highly automated manufacturing facilities and that only needed 2,000 workers," explains Wilding.

But in the apparel sector near-shoring has not been a smooth process, with Nike terminating the contract with its supplier in Mexico in 2019 after failing to reach a commercial agreement. In the same year, Adidas ceased production at two highly automated 'Speedfactories' it set up in Germany and the US, saying that it would redeploy the technology to its Asian factories. Wilding also cautions that while automation may protect supply chains from human pathogens, it is not a silver bullet for resilience as it makes computer viruses a bigger risk.

The debate is now ranging in board rooms as to whether near-shoring is the way forward, or whether bigger warehouses carrying more stock close to market and factories in diverse locations are a better way of building resilience. Either way, supply chain management is moving from procurement for efficiency towards procurement for resilience.



WORK-LIFE REBALANCE

Debate is also fierce in board rooms around the long-term future of home working. You do not need to look far for polarised opinions. Twitter announced in the wake of lockdown that employees could work from home "forever", whereas Netflix founder Reed Hastings says working from home is a "pure negative".

"Virtual working has existed in various forms for probably 20-odd years," says Birkinshaw. "But it was often senior executives telling their employees to work at home while not actually doing it themselves. In fact, one study showed sending people home to work increased their productivity but decreased their likelihood of getting promoted. COVID-19 has forced us to do a huge social experiment about virtual working which affects everyone from the chief executive down. It has proven once and for all that the technology works pretty well."

Research by the London Business School shows that, for the most part, productivity of knowledge workers goes up in a home-working environment because there are fewer distractions and there is less monitoring of behaviour. However, there are limitations. The innovation and creativity that comes from collaboration is harder remotely, which might explain why Reed Hastings, in the creative sector, has found it so difficult. Leadership and management are also more challenging at a distance. "If you are a boss, your ability to get the best out of your people is somewhat compromised by not being able to ever see them," says Birkinshaw.

Some of these issues will be worked out over time, but activities such as brainstorming and innovating simply work better in person. "We're going to have to start using our relatively limited amount of time in the office to focus on these collaborative endeavours," says Birkinshaw.

It is impossible to say what shape work will take in the future, but surveys suggest flexible working is here to stay, with employees spending part of the week in the office, part at home.

CITY LIFE, BUT NOT AS WE KNOW IT

The longer the pandemic goes on, the more ingrained working from home will become, with big implications for city life. Working from their cramped accommodation, with little green space and without access to most of the things that make cities so appealing, such as theatres, many city dwellers are searching property websites for homes in the countryside.

"People are definitely considering moving to the countryside, but we don't know yet whether they're just playing with the idea or whether they are actually moving out of the cities," says Elena Magrini, Senior Analyst at the Centre for Cities. If city folk do move to greener pastures, it is unlikely they will go far. "If one or two days a week you still need to go into the office, it might not be feasible to live in the Lake District. But we could expect people in London to go and live in the countryside just outside London," says Magrini.

However, smaller towns away from London could benefit. "Northern towns in particular, such as Wigan, Blackpool, Bolton and Bradford in the medium term might do quite well out of this, particularly as people are commuting less into the big metropolitan hubs," says PwC's Gillham.

"That's partly because of office workers, but also this pent-up supply of large corporates building more regional offices," he explains. "There's still going to be economic activity in city centres, but I think more of it will start to be stretched into regional towns. Particularly in the service industries, such as business and legal services, financial services, tech and communication. More of that is starting to move into regional hubs rather than the main metropolitan areas."

As for the cities, many companies will still want a base there. "Businesses are in cities because they can access benefits they can't find anywhere else," says Magrini. "The shared infrastructure, the many other businesses in the same sectors that create innovation and a large pool of workers." Big cities are also excellent for building networks, which is particularly important for young people early in their careers.

The popularity of cities has always been cyclical, and not just because of pandemics. During the Industrial Revolution people flocked to cities; they left during the Second World War, and returned again in the 1980s. "If we still value cities and why they're there, we will find ways to adapt and make them work in this new COVID-19 world, just as the Victorians built the sewer systems to deal with the cholera epidemic," adds Magrini.

"THE POPULARITY OF CITIES HAS ALWAYS BEEN CYCLICAL"

The challenge, then, is for city planners and developers to transform the transport, office and housing infrastructure into cleaner, greener models fit for a post-COVID-19 world.

TIMES ARE CHANGING

As the economy resets from the crisis, it is reforming around models of digital transformation, sustainability and a greater emphasis on quality of life, which existed before the crisis but have now been accelerated and amplified.

It took a jolt from nature to convince incumbent business leaders to look beyond the horizon of short-term profit. But younger generations had been slowly changing business culture before the crisis, making it clear that they want to work for and shop from companies that have a purpose beyond profit. This swell of idealism might be familiar to baby boomers who lived through the 1960s, when a cultural revolution pushed through change to entrenched systems.

There is undoubtedly a hard road ahead, with immediate economic hurdles to surmount, but there is also opportunity as we build the new normal, both to make profit and to shape a digitally enabled, greener future that might just be better than what we had before. ■

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ESSAY