
Great expectations: Global executives respond to business disruption

Key insights from 2021 survey

Executive summary

Dear reader,

Even before COVID-19 there was a need for businesses to fundamentally restructure to succeed in a more digital and disruptive age. Many companies we work with were already implementing pre-pandemic “transformation” programs to adjust to rapid digitization, political, social, environmental and other changes. They were evolving their business models, cutting costs, divesting legacy assets and scaling up new technology-enabled business models for future profitable growth.

Results from a recent survey conducted by PwC’s Strategy& indicate that COVID-19 has become a supercharger for this type of restructuring. Companies are planning for growth and there is a significant acceleration in the importance of transformation on their agenda. Primary transformation focus is on building new business models and adapting the operating model to compete in the future with new digitally enabled capabilities. These changes imply jobless growth in some industries, as well as a significant shift in investments and cost allocations – cutting real estate, HR and marketing cost and investing in digital technology and cybersecurity.

In order to respond and emerge stronger from the crisis, survey results implicate three main actions: First, rethink your strategic priorities vs. expecting a rebound to the past. Second, leverage digitization to develop new business models in line with your revised strategy and to implement new ways of working. Keep pace with new cost benchmarks post-COVID-19 and look for areas where you can outperform. Third, engage your people proactively in the process of change – especially in light of the impacts on the workforce, the expansion of digitization and automated ways of working, as well as the transition to the “Office of the Future”.

I hope you enjoy reading the full survey results!

Mahadeva Matt Mani
Partner, Strategy& Netherlands

Strategy& conducted a global survey of senior executives regarding their business outlook and plans for renewal post-COVID-19

Survey objectives, scope and demographics

Objectives and Scope

- In the study, we asked ~250 senior executives across industries and geographies about their business outlook and specific plans for post Coronavirus pandemic restructuring, renewal and revision
- The survey was conducted to gain a better understanding of:
 - How top executives think about the economic outlook and the impact of COVID-19 on future revenue
 - The degree of change companies were confronted with during the pandemic and where companies stand in their transformation journey
 - The type of actions (cost reductions and investments) companies will undertake to emerge stronger from this crisis

Survey Demographics

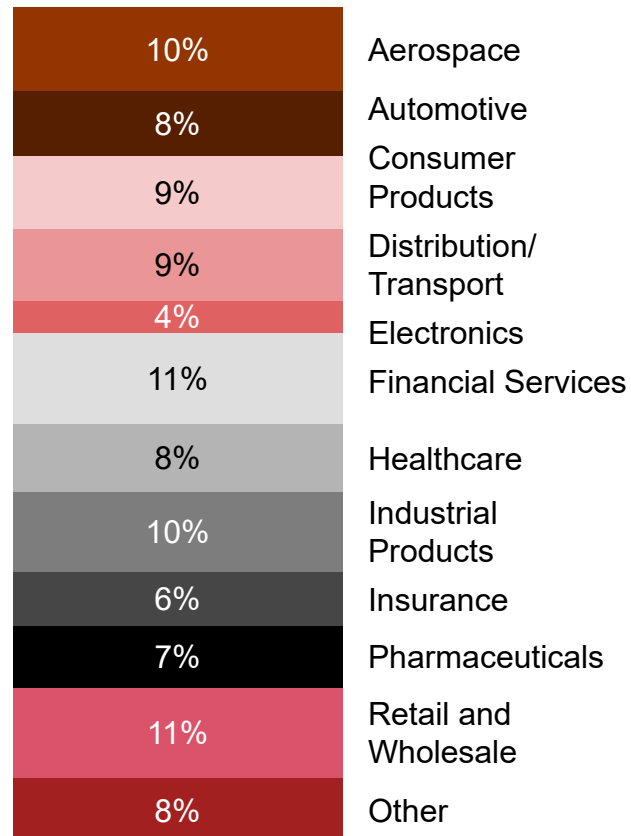
- Survey respondents are senior representatives of ~250 unique companies globally
- Survey respondents were well balanced across 11 industrial sectors in North America, EMEA and Asia Pacific
- 93% of respondents reported revenues of more than \$1bn, with 64% reporting that they have 10,000 or more employees

Role and nature of involvement of [APQC](#) and [Strategy&](#):
APQC managed the data collection process and provided logically and statistically validated survey raw data to Strategy&. Strategy& analyzed the survey raw data and developed key results and messages.

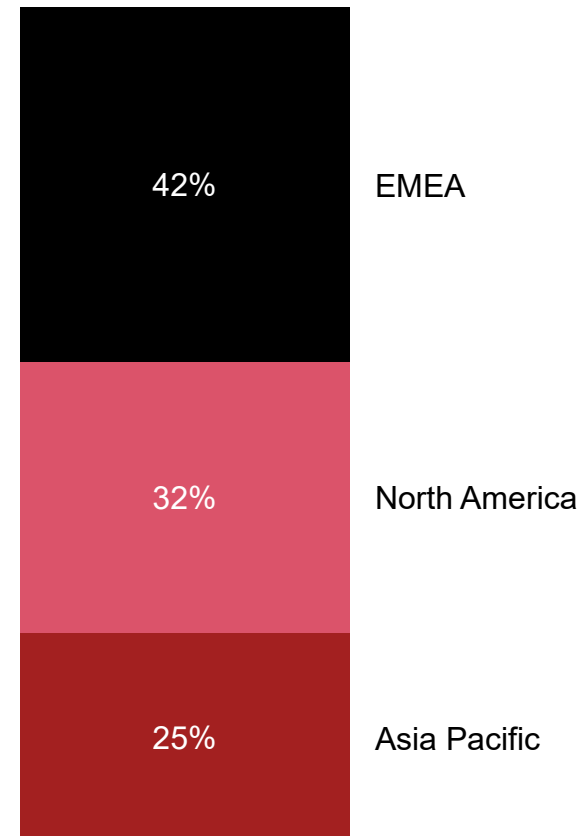
The survey drew on senior executives from large, global corporations across a variety of industries

Survey demographics

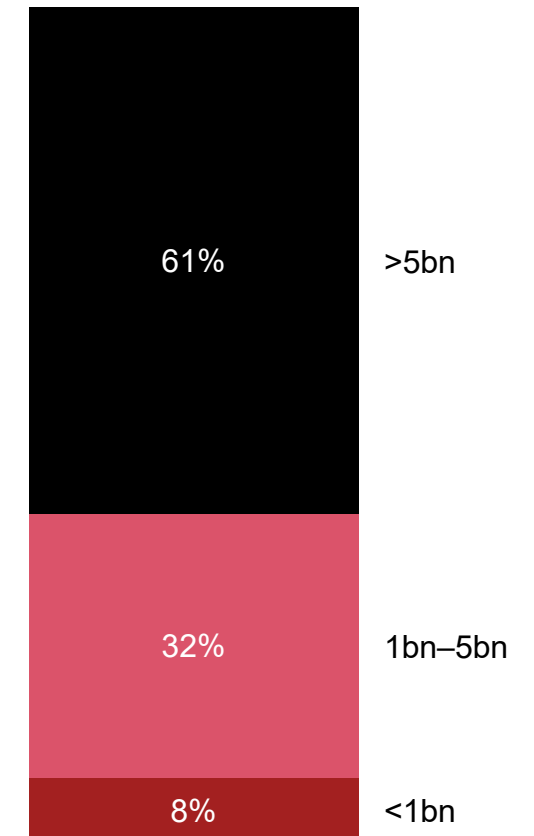
Breakdown by industry¹



Breakdown by region



Breakdown by annual revenue in USD



¹ Financial Services excludes insurance companies

Note: The survey was administered to executives, directors and managers from ~250 business entities in 2021. Participants were screened. Those who passed the screening were given a copy of the survey. Data were collected online. APQC managed the data collection process and performed logical and statistical validation.

Four major findings from global senior executive sentiment

Summary of key findings

1

Overall, companies are planning for growth, with some notable exceptions by industry

- Executives across industries have an optimistic outlook, with **60% expecting economic conditions to improve** in the next 12 months
- **~50% of respondents expect revenues to grow** in 2021, while ~25% expect to maintain stable revenue growth
- **Aerospace, Industrial Products and Non-Food Retail were the most pessimistic**, with 38% of respondents in these industries expecting declining revenue

2

Companies see the need to transform, with most planning to change how they operate

- Four out of five executives **expect their companies to change** in terms of **how they operate or what they do** to create value for clients
- **One-quarter** of companies **have started to reconfigure** their businesses; one-third are still focused on short-term recovery activities
- Primary focus is on changing operating models – with **most companies planning for new ways to work remotely**

3

Primary focus is on new business models and digital transformation

- Unlike in previous crises, **revenue growth measures are most critical**, with developing new business models and revising the strategy being the top priorities
- **Additional investments of 10%-15% go primarily into digitization, cyber and sales** to drive top-line growth
- **Digital investments are** primarily focused on new products and services that support **new business and value creation models**

4

Efficiency goals are limited – focused on people and business operations, enabled by technology

- Companies **cut costs** across functions up to an average of 11% per function; **deepest cuts were in Real Estate, R&D, Marketing and HR**
- **37% of companies plan headcount reductions**, primarily in the Industrial Products sector
- **40% of companies** with positive revenue outlook expect **growth without increasing headcount**, given increased digitization; highest share in Automotive, Distribution and Pharmaceuticals

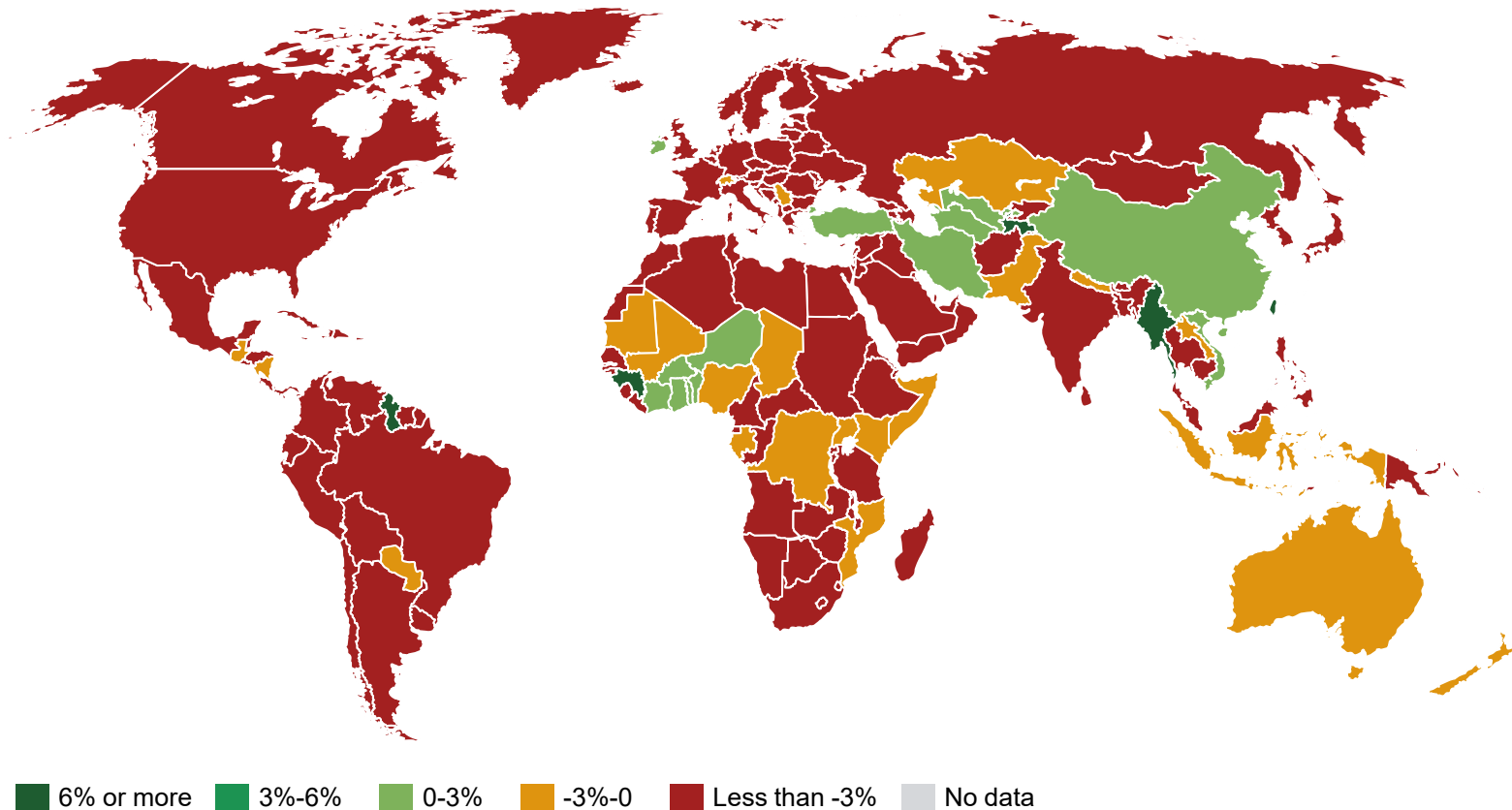
Key Findings

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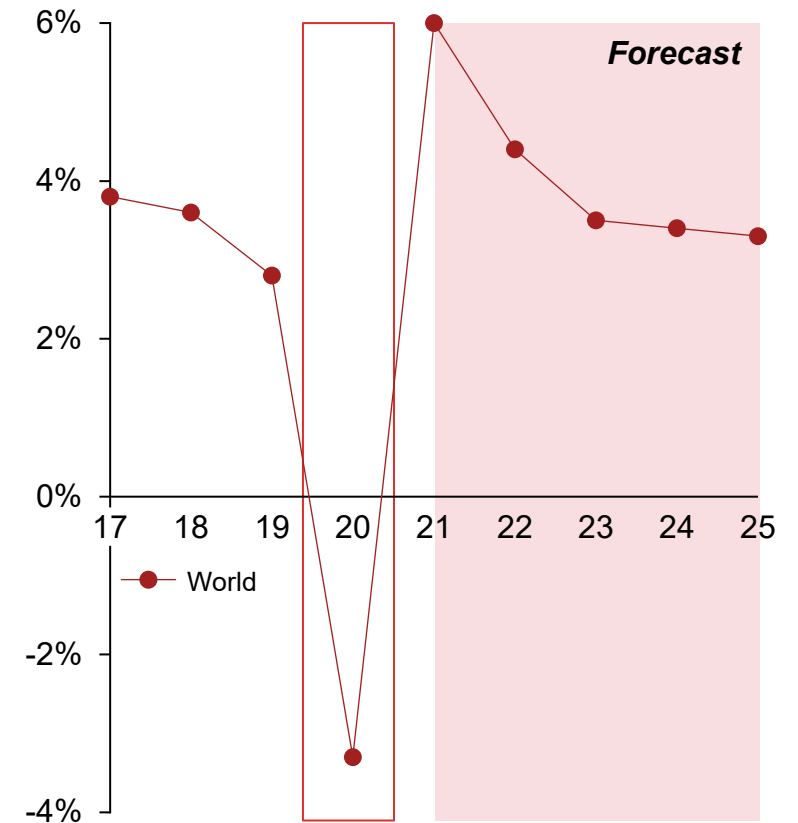
Economies in 2020 were hit hard across the globe by the economic fallout of the Coronavirus pandemic

IMF Real GDP Growth

Real GDP growth (2020)



Real GDP growth trend (annual % change)



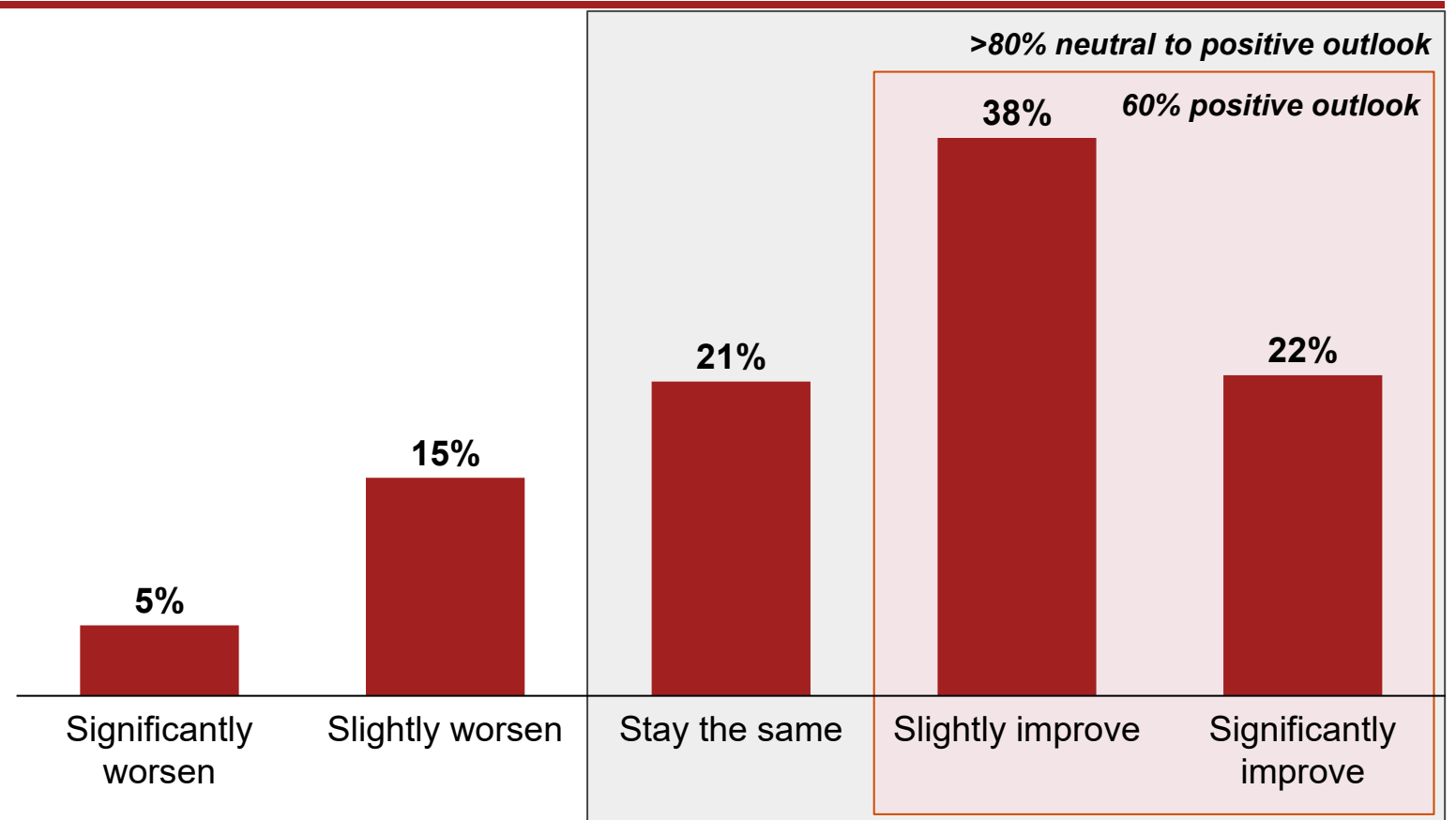
Executives now look optimistically to the future, with 60% expecting economic conditions to improve in the next 12 months

How do you expect global economic conditions to change in the next 12 months?

>80%

of survey respondents have a neutral or positive outlook for the future

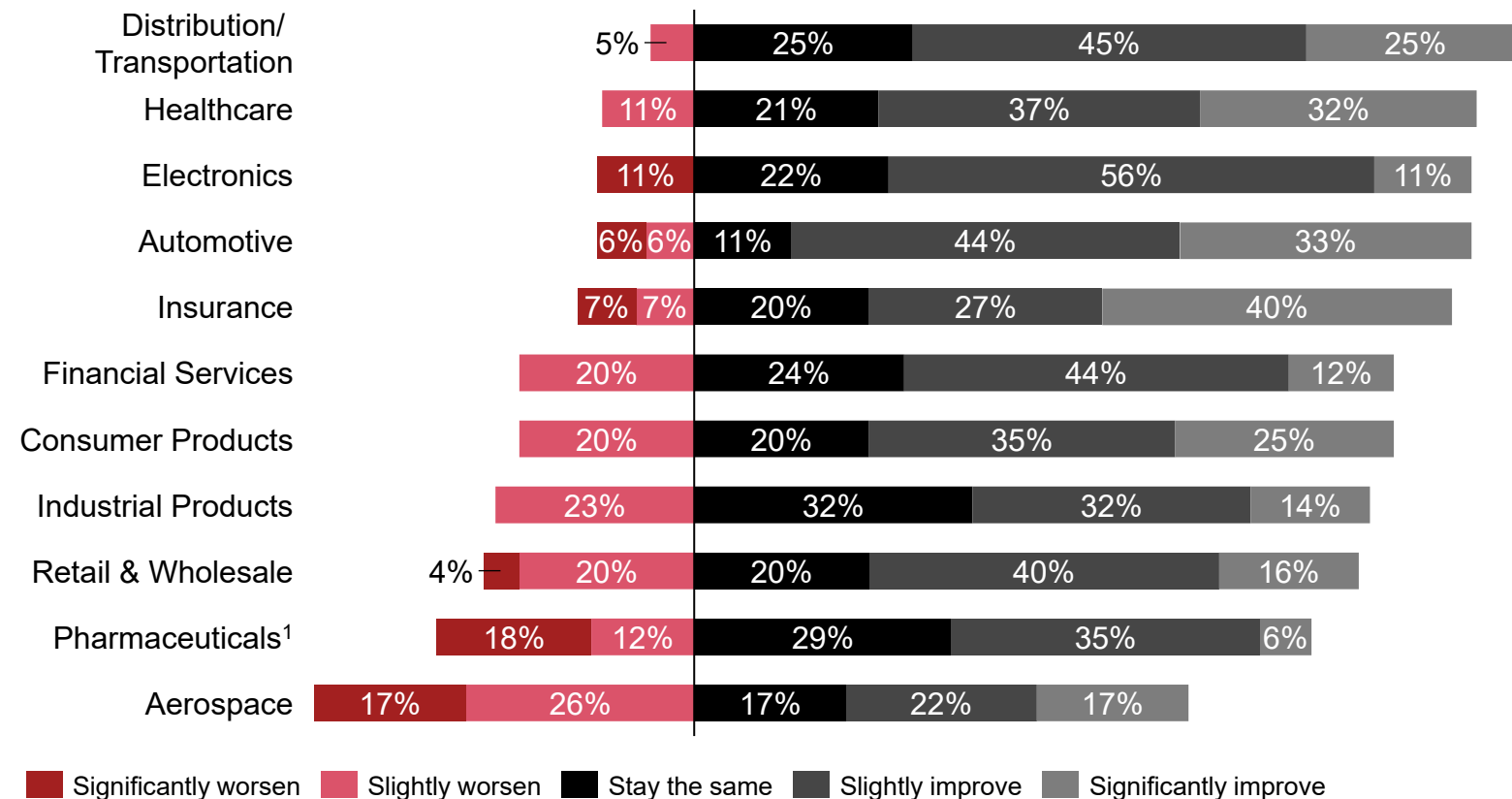
Expectations of global economic conditions in next 12 months (all respondents)



The picture holds true across all industries: most optimism in Distribution and Healthcare, least optimism in Aerospace and Pharma

Q: How do you expect global economic conditions to change in the next 12 months?

Expectations on global economic conditions in next 12 months (by industry)

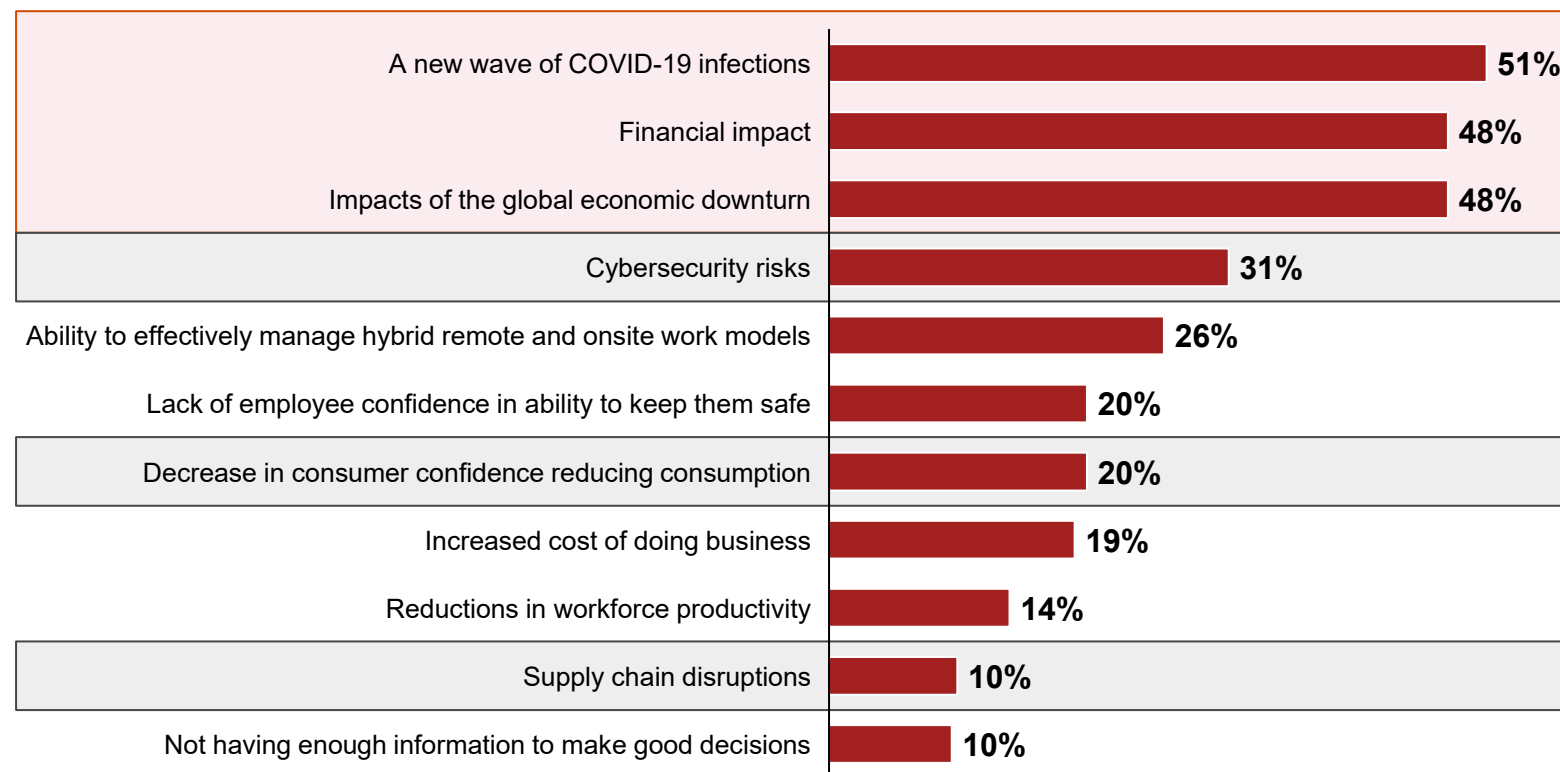


- In all industries, the majority of respondents are neutral to positive on the economic outlook
- Strong optimism in those industries that have experienced a strong push in the pandemic - for example, Distribution (selling via online channels) and Electronics (lack of alternatives in lockdown situations)
- Pessimism is visible in particular in those areas most affected by the crisis - for example, Aerospace and Retail & Wholesale (in particular Non-Food Retail)

Companies have adjusted thus far to the pandemic, but the uncertainty of additional infection waves weighs on future outlook

Q: Looking ahead, what are your top three concerns with respect to operating in a changed business environment?

Key concerns with respect to operating in a changed business environment (all respondents)

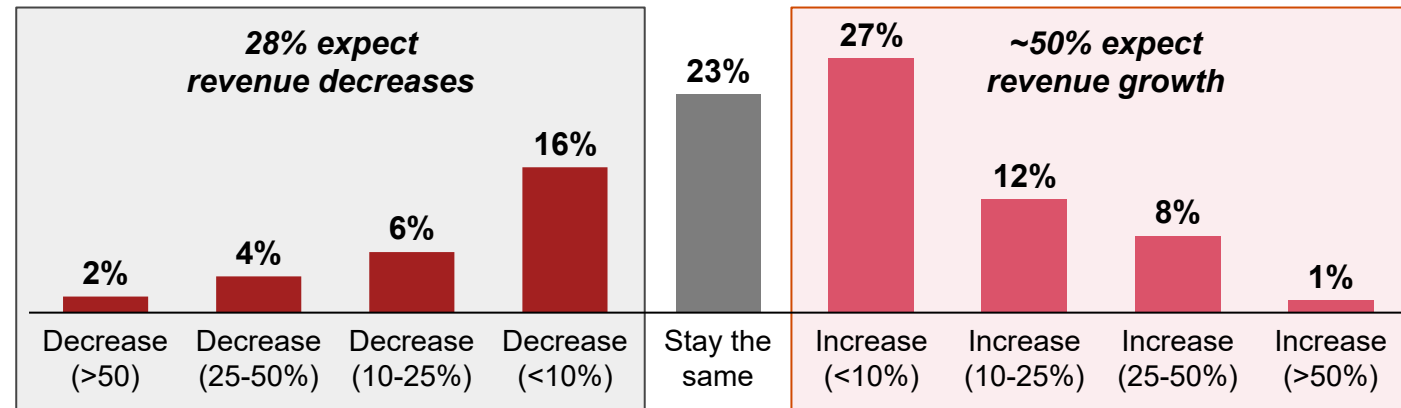


- Most companies have adjusted to pandemic realities by:
 - Increasing resilience in their supply chain and operations
 - Putting in place measures to keep employees safe
- However, **51% are concerned about the uncertainty of a new wave of infections and the resulting financial impact**
- Beyond financial concerns, the **number one operational risk is around cybersecurity** – well above concerns about less consumer demand or supply chain disruptions

The majority of companies are planning for a return to growth in the next 12 months, but some industries have been hit harder than others

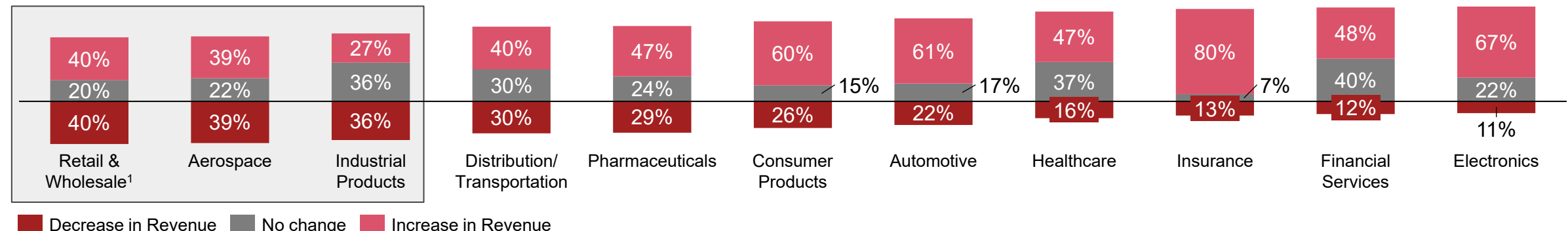
Q: What impact do you expect on your company's revenue this year as a result of COVID ('21 vs. '20)?

Expectations on company revenues (2021 vs. 2020) (all respondents)



- **72% of executives are expecting stable or growing revenue** indicating that many companies believe they have hit the bottom already and see a path forward
- Expected growth forecasted in **Consumer Products, Healthcare, Insurance and Financial Services** driven by strong financial markets
- Expected growth in **Automotive** fueled by rising demand for individual mobility after the pandemic

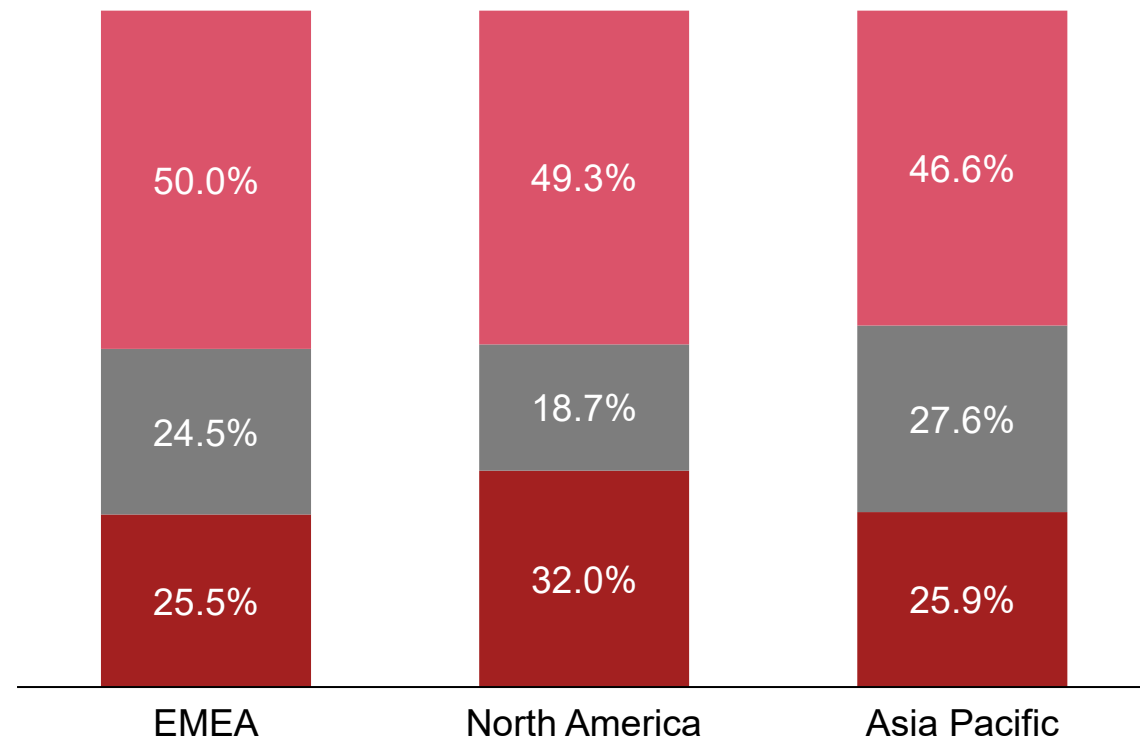
All respondents, by industry



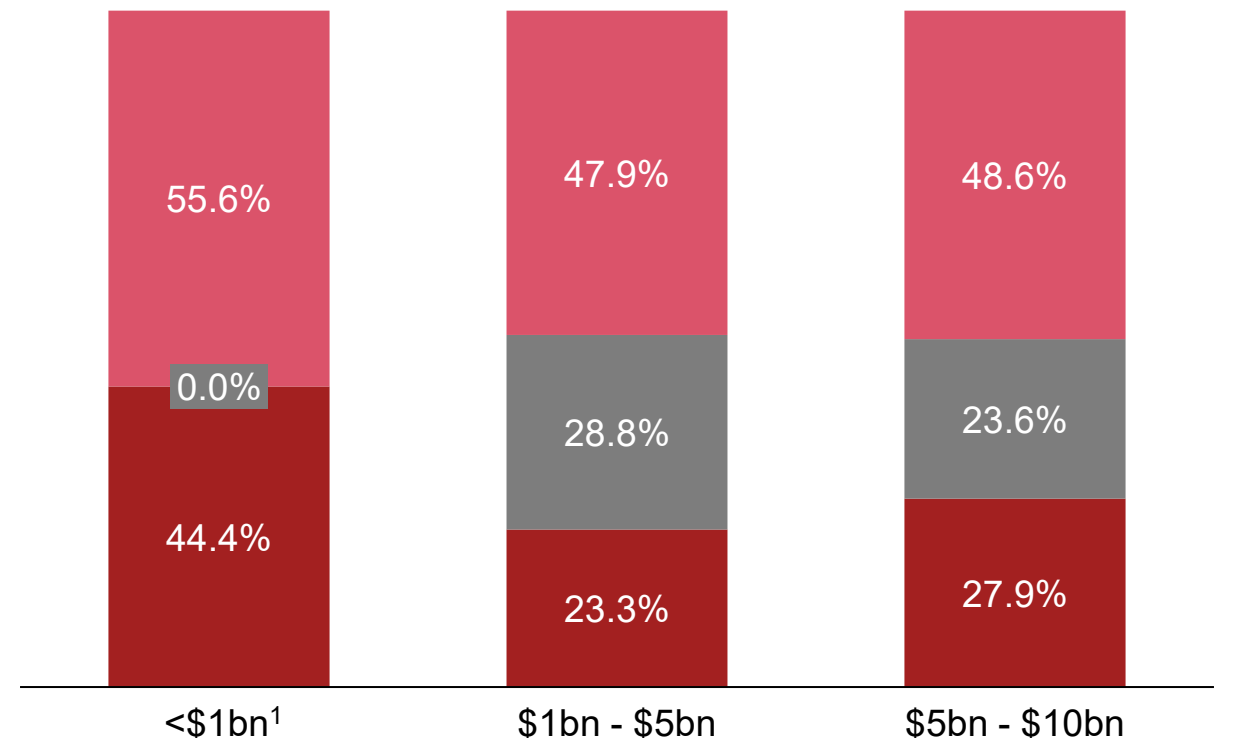
Revenue expectations are similar across regions and company size

Q: What impact do you expect on your company's revenue this year as a result of COVID-19 ('21 vs. '20)?

Revenue expectation of respondents by region (all respondents)



Revenue expectation of respondents by company size (all respondents)



■ Companies with negative revenue outlook ■ Companies with neutral revenue outlook ■ Companies with positive revenue outlook

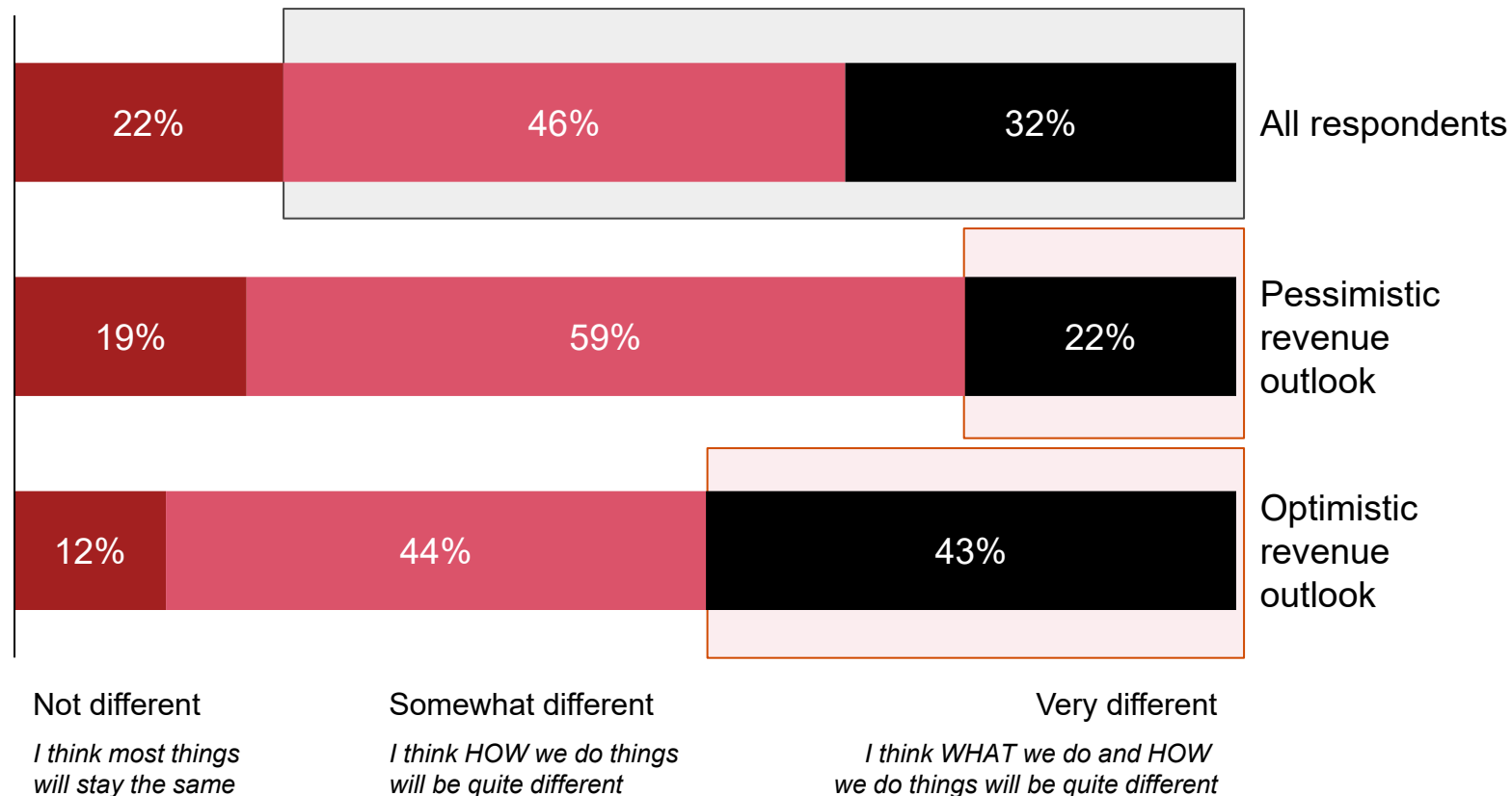
Key Findings

1. Overall, companies are planning for growth, with some notable exceptions by industry
2. **Companies see the need to transform, with most planning to change how they operate**
3. Primary focus is on new business models and digital transformation
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~80% of executives expect their companies to look different within three years' time; ~30% expect to change *what* they do and *how* they do it

Q: How different do you expect your company to be 3 years from today compared to pre-COVID times?

Degree of difference of companies three years from today compared to pre-pandemic times

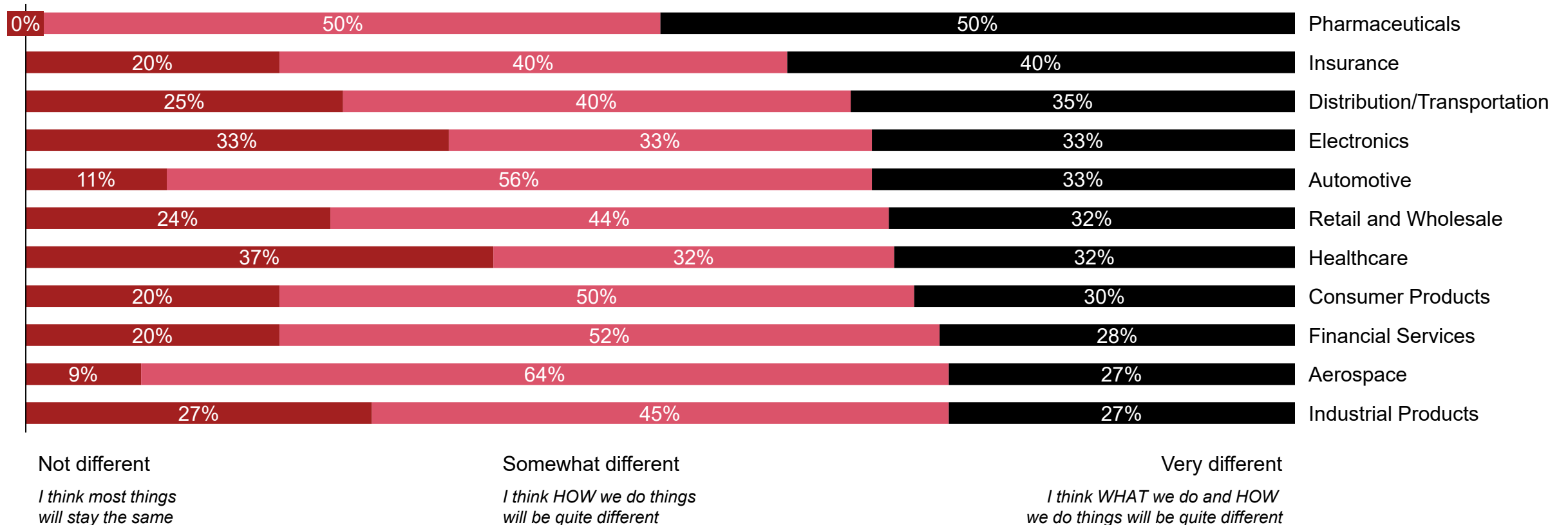


- The vast majority of executives **expect their companies to transform in the next three years** in terms of **how they operate or what they do** to create value for customers
- Companies with a **pessimistic revenue outlook** primarily expect changes in how they work, with only a **minority forecasting fundamental transformation** of their business
- By contrast, **companies that foresee growth also expect a fundamental business transformation by a factor of 2:1**

Transformation is expected across all industries – Pharmaceuticals and Insurance are expecting the most fundamental change

Q: How different do you expect your company to be 3 years from today compared to pre-COVID-19 times?

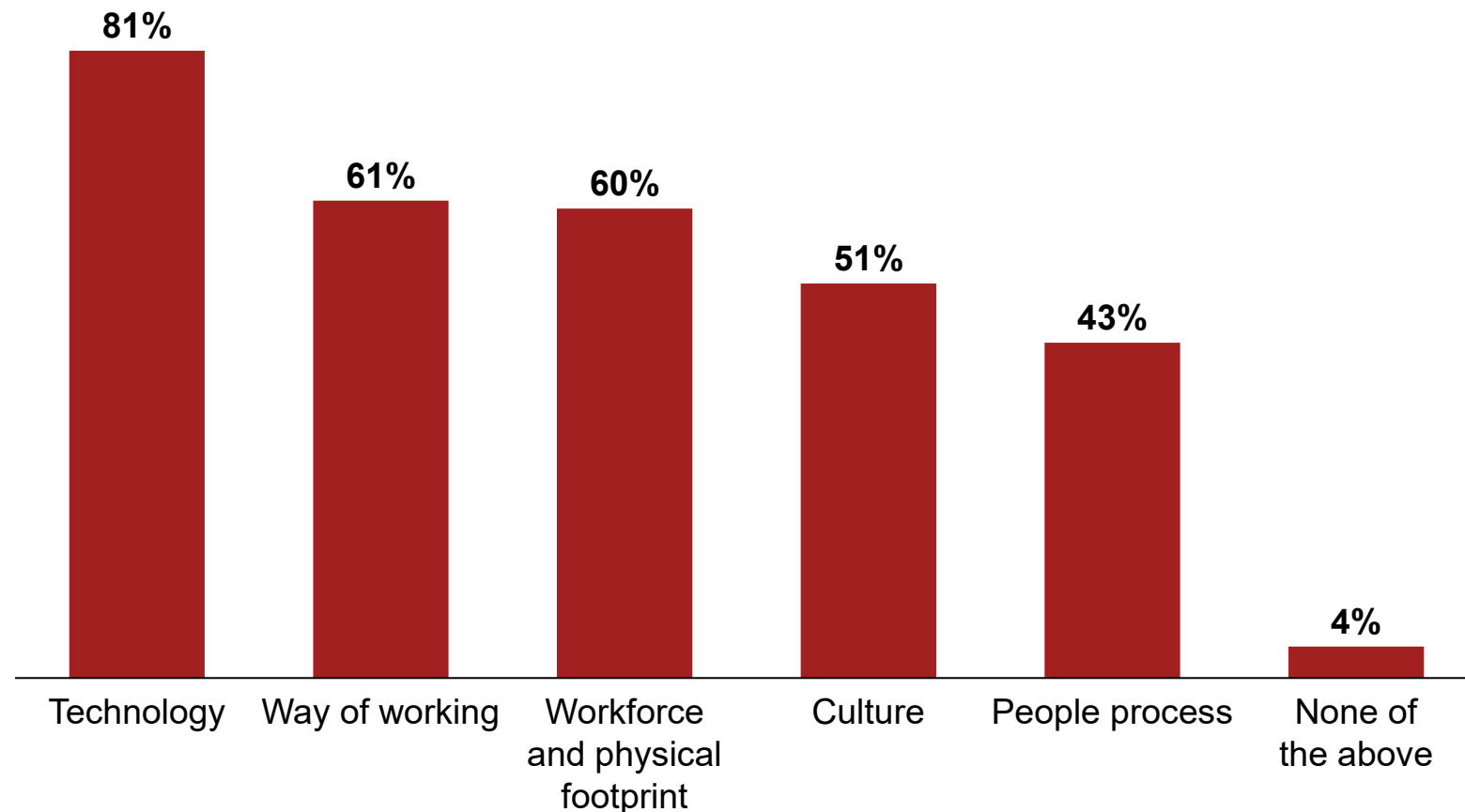
Degree of difference of companies three years from today compared to pre-pandemic times by industry (all respondents)



In addition to business changes, most companies are in transition to an “Office of the Future,” enabling new ways of working

Q: Does your company plan/implement specific activities to transition to an “Office of the Future”?

Planned or ongoing activities around transitioning to an “Office of the Future” (all respondents)

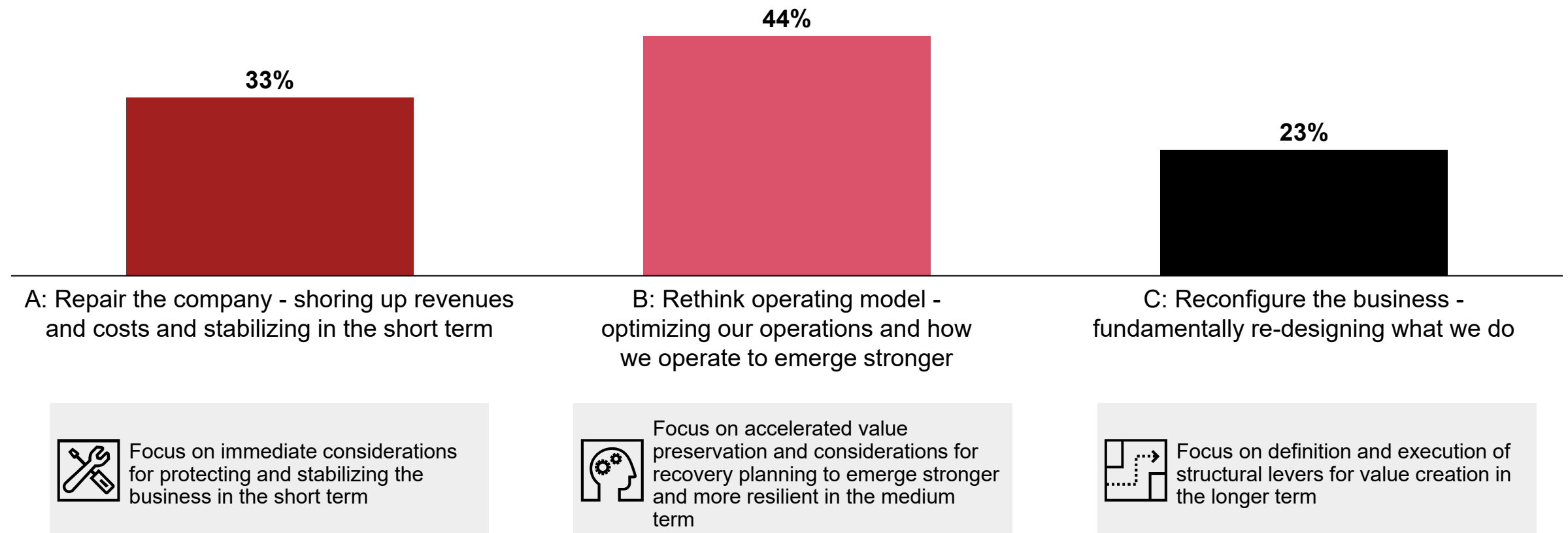


- 96% of companies are currently working on their transition to an “Office of the Future” to enable new ways of working during and beyond the pandemic
- Companies push related activities at different speeds, with a great focus on enabling the right technology
- Some of the steps are supposed to lead to a different (smaller) physical footprint, resulting in lower costs

However, only 25% of companies are as yet reconfiguring for growth – most are still focused on repair and realigning to the new reality

Q: What's your company's focus this year to manage the effects of COVID-19?

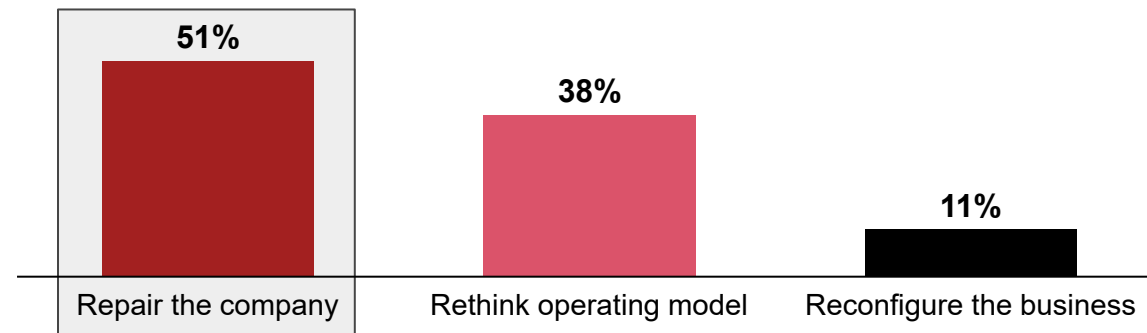
Company focus this year to manage the effects of COVID-19 (all respondents)



In particular, companies with a pessimistic revenue outlook and those in the Retail and Industrial Products sectors are still in recovery mode

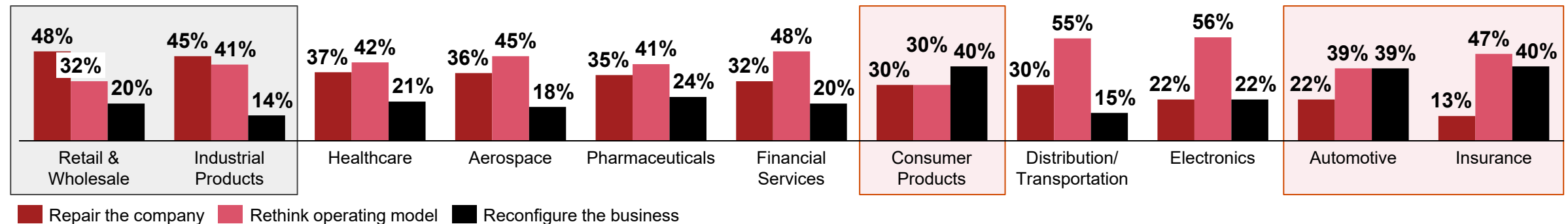
Q: What's your company's focus this year to manage the effects of COVID-19?

Company focus this year to manage the effects of COVID-19 – Respondents with pessimistic revenue outlook



- Industries hit hard by the pandemic, such as Industrial Products and Non-Food Retail, are primarily focused on recovery activities
- Companies in the Insurance, Automotive and Consumer Products sectors have started to fundamentally reconfigure their operations towards future growth, potentially accelerating pre-pandemic efforts

All respondents, by industry



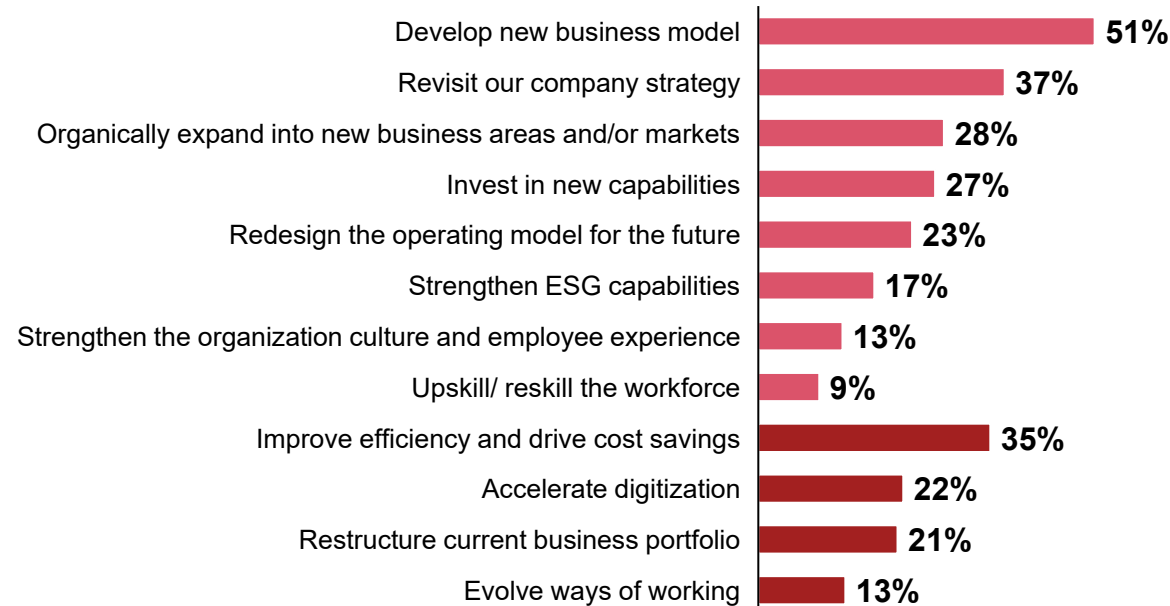
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Unlike in previous crises, revenue growth measures are most critical, with new business models and revised strategy being top priorities

Q: What are the primary objectives of your company's strategic initiatives in 2021 and the years ahead?

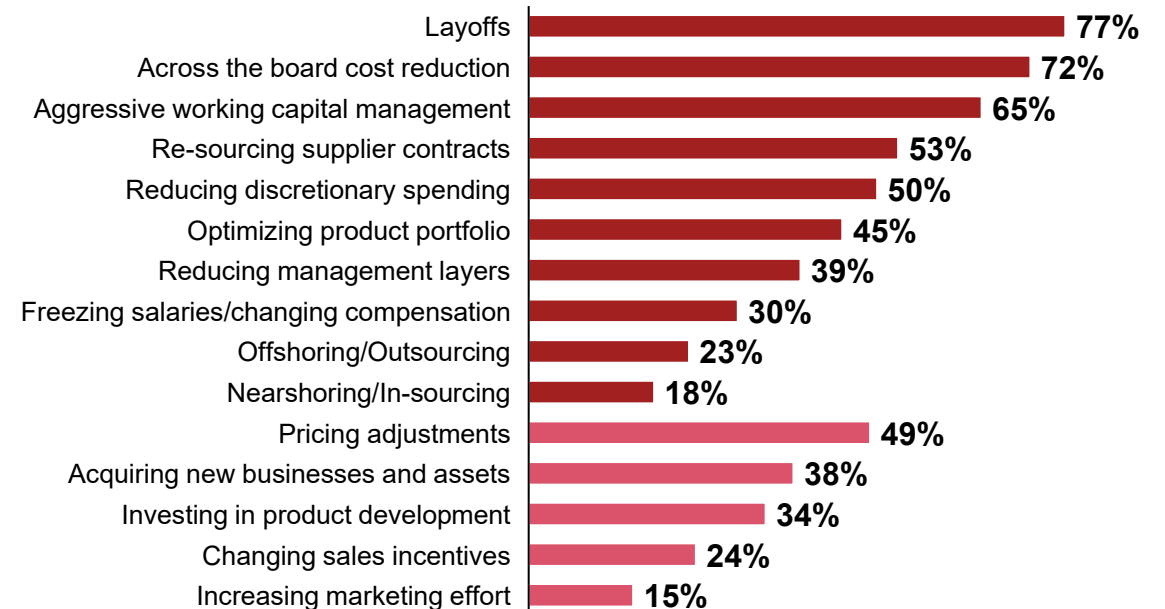
Strategic priorities in 2021 and beyond (all respondents)



■ Revenue growth measures ■ Cost-cutting measures

Crisis context: Pandemic accelerating the need to fundamentally transform the business to respond to a “new normal” → driver for investments into digital business models and ways of working

Strategic priorities from 2009 recession response survey¹ (all respondents)



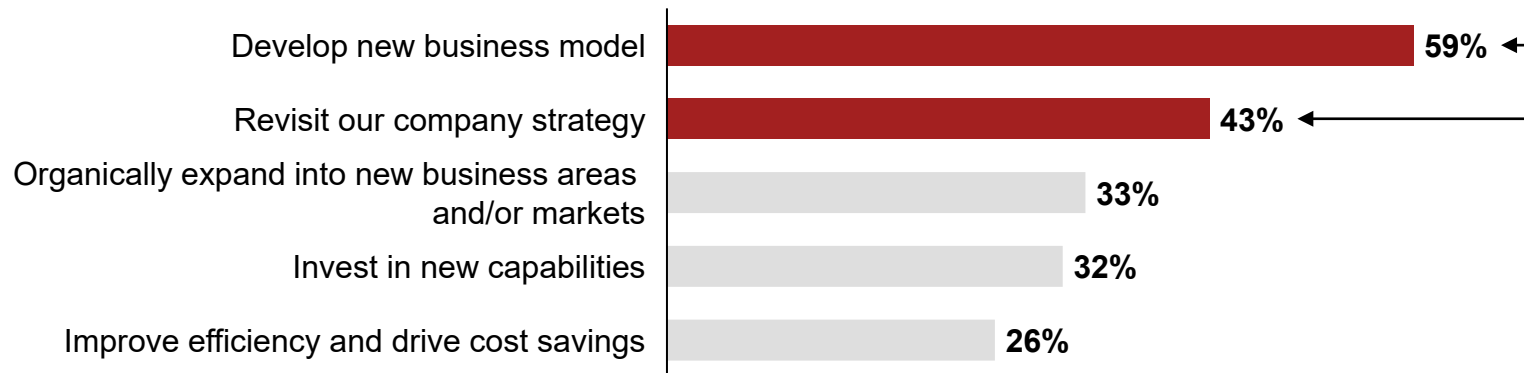
Crisis context: Housing / debt bubble leading to plunge in consumption and tightening access to capital → driver for restructuring and cost cutting

Companies focus on developing new business models; some miss a strong connection with their revised company strategy post-pandemic

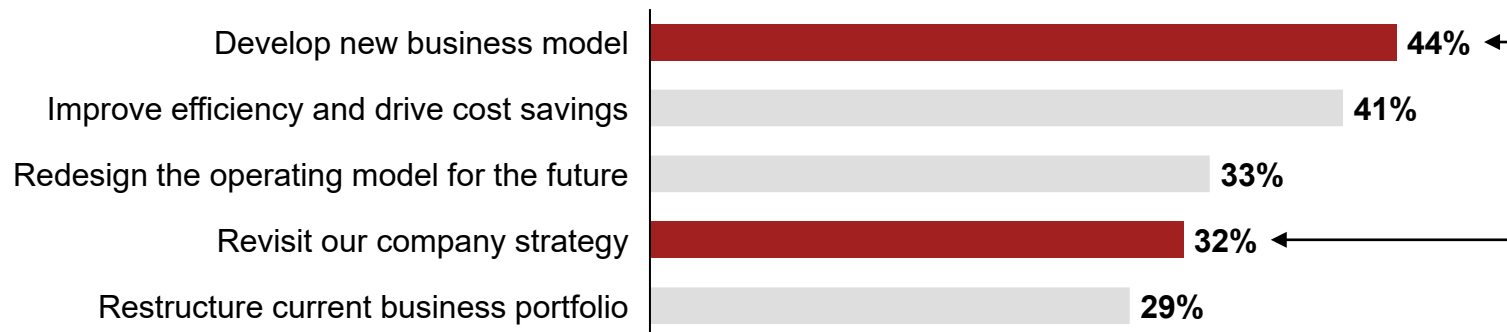
Q: What are the primary objectives of your company's strategic initiatives in 2021 and the years ahead?

Top 5 strategic priorities in 2021 and beyond

Respondents with optimistic revenue outlook



Respondents with pessimistic revenue outlook



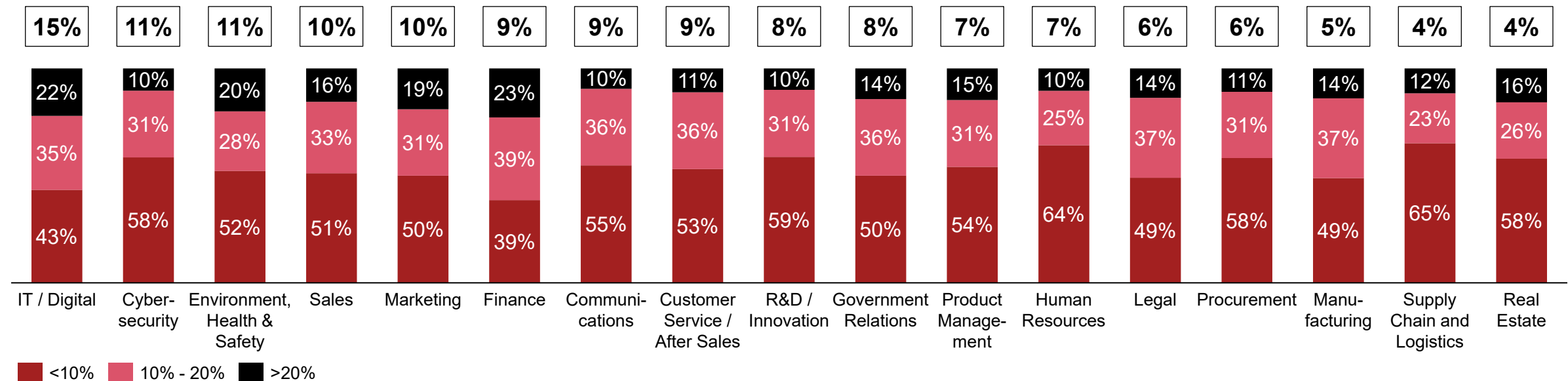
- Overall, the number one priority is developing new business models to get out of the crisis and drive future growth
- However, some companies seem to have a disconnect between new growth initiatives and revising the existing strategy: To successfully grow new business models, companies need to revisit their company first or at least in parallel
- Even more concerning, companies with a pessimistic revenue outlook are not yet addressing the fundamental levers, focusing more on driving efficiencies by cutting costs and restructuring the portfolio

Companies that invest do so with 4%-15% additional investments per function; highest additional investments are in IT / Digital

Q: In which functions / areas is your company considering additional investments and by how much?

Degree of additional investments (all respondents)

Average additional investment

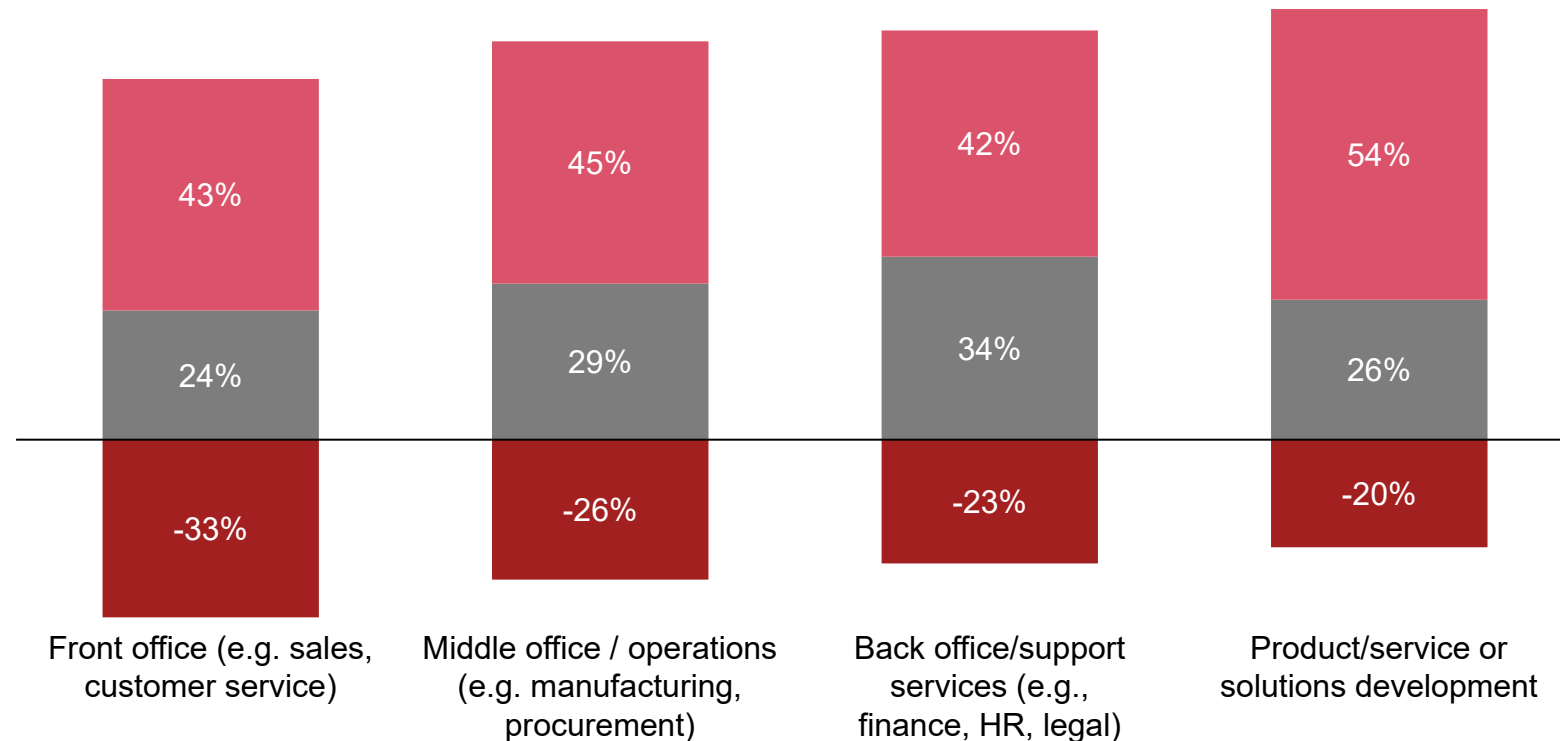


- Investments in IT/Digital and Sales are top ranked and support the companies' revenue growth measures – especially the development of new business models.
- At the same time, companies invest in strengthening their IT/Digital infrastructure by mitigating cybersecurity risks – the number one operational risk identified
- Surprisingly, companies are also planning to increase investments on back-office functions such as finance

Digitization investments are largely focused on enabling new products/services while cutting back in the front office

Q: To what extent do you see investments in automation / digitization changing compared to pre-COVID-19?

Changes of investments in automation/digitization compared to pre-COVID-19 (all respondents)



- Most companies **invest in digitization to develop new products, services, or solutions**; and to drive top-line growth
- Some cut investments in the back - or middle office, but **more significant investment cuts** are expected in the **front office**
- This is rather surprising but perhaps an indicator for the need to digitize operations in a more fundamental way first

■ Decrease ■ Increase ■ No change

Key Findings

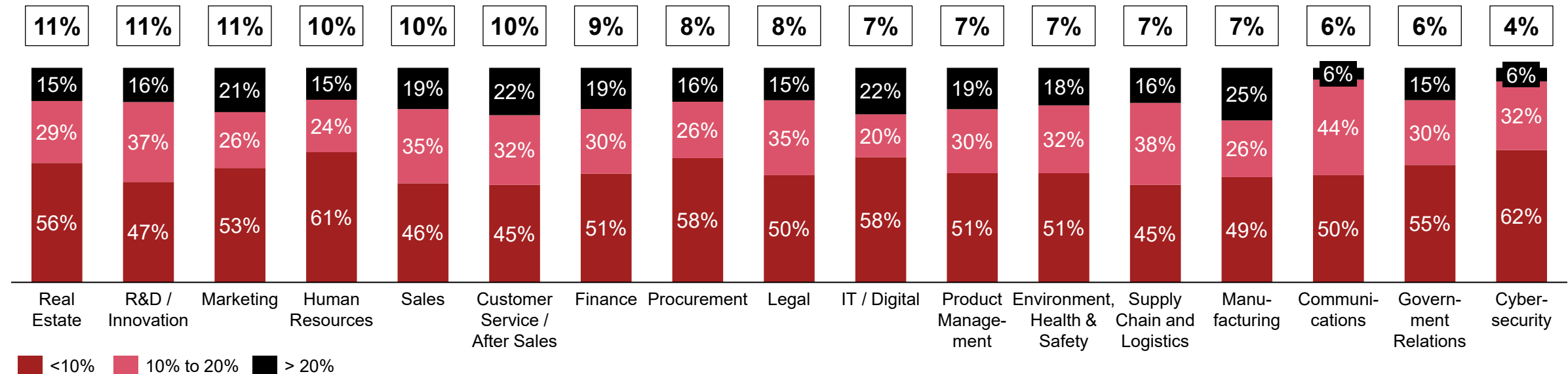
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Companies that cut costs do so with 4%-11% cost reduction per function; deepest cuts in Real Estate, R&D and Marketing

Q: In which functions/areas is your company considering cost reductions and by how much?

Degree of cost reductions by function (all respondents)

Average cost reduction

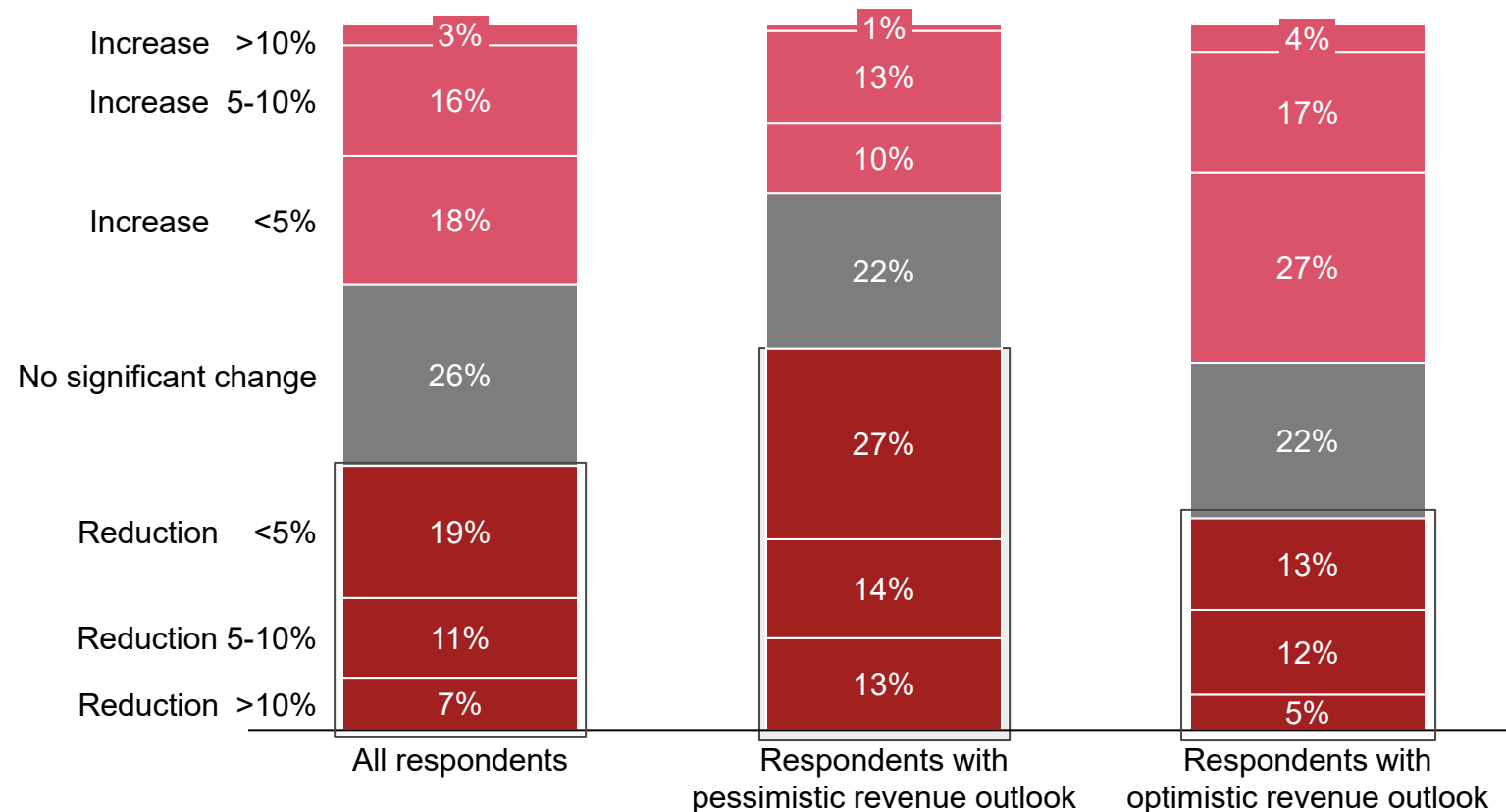


- Companies are **cutting costs substantially across functions** and set **new cost benchmarks** post-COVID-19
- Cost-cutting opportunities particularly exist in certain functions: **highest cuts expected in Real Estate** as companies are transitioning to an “Office of the Future”
- Surprisingly, R&D is ranked second in terms of cost reduction. While a reduction in R&D may be a necessity for many companies in the short term, the situation presents an opportunity for companies to optimize and streamline their R&D portfolio toward future growth pockets – applying a strategic lens to R&D cost cuts

Impact on people is significant – 37% of companies expect workforce reductions, even more so those with a pessimistic outlook

Q: To what extent do you expect changes to your permanent workforce over the next 12 months?

Expected permanent workforce change in next 12 months

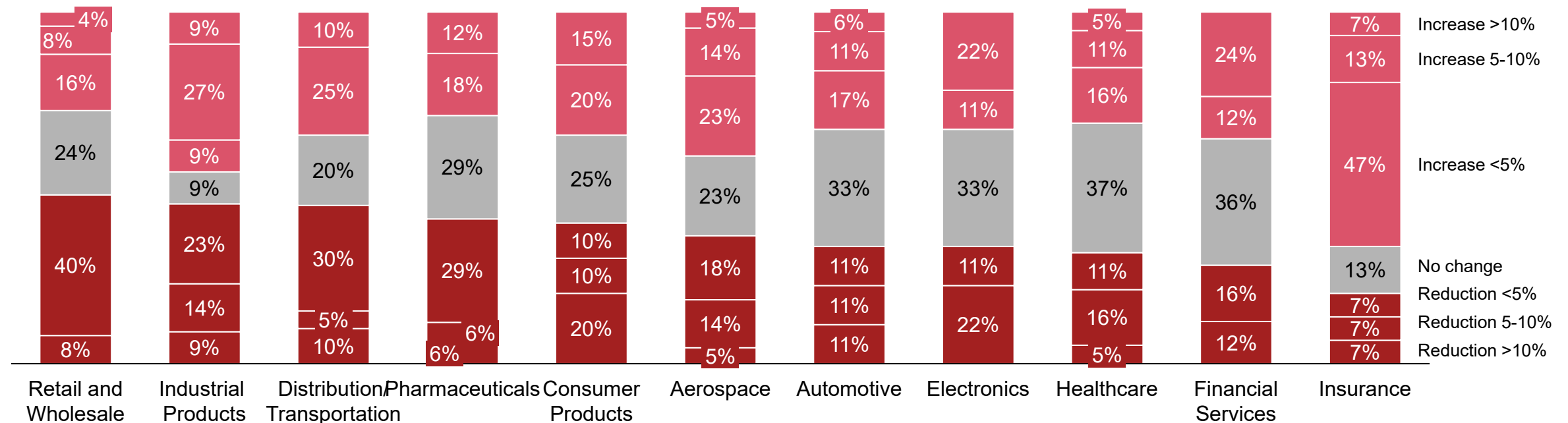


- Overall, **37% of respondents** are expecting to have a **permanently reduced workforce** over the next 12 months; 7% of respondents are expecting a reduction of more than 10%
- In line with the expectation of decreasing revenues, 54% of companies with pessimistic revenue outlooks are expecting a both immediate and permanent workforce reduction
- ~70% of companies with an optimistic revenue outlook plan to either increase hiring, or keep their workforce levels flat
- However, ~30% of the companies forecasting growth expect to simultaneously reduce headcount, **indicating jobless growth**

Workforce reduction is significant in most industries - Retail, Industrial Products and Distribution industries are expecting deepest reduction

Q: To what extent do you expect changes to your permanent workforce over the next 12 months?

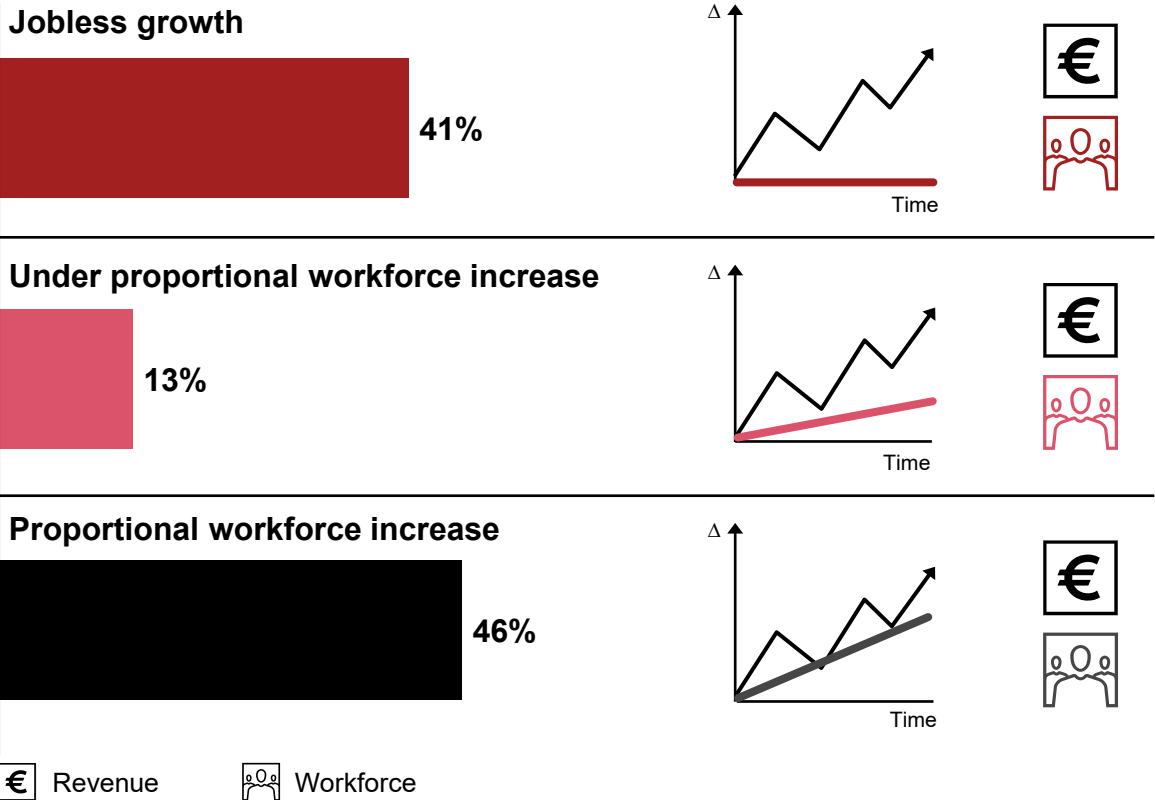
Expected permanent workforce change in next 12 months by industry (all respondents)



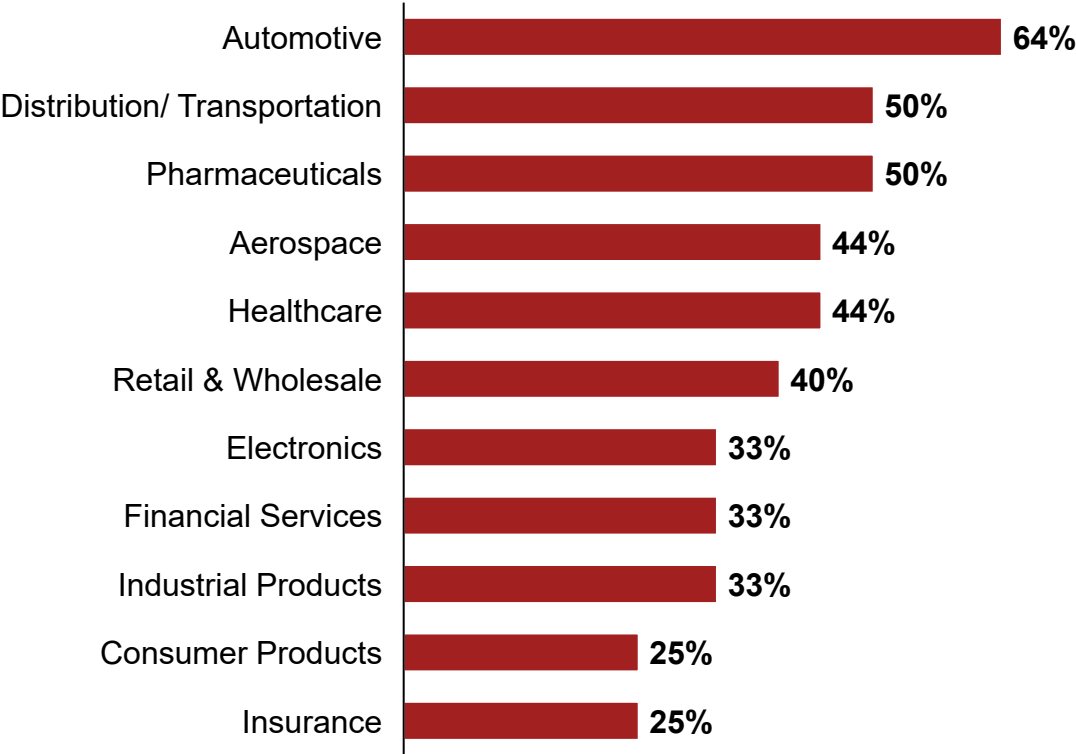
- Half of Retail and Wholesale companies are planning to reduce their permanent workforce, with changes at 5%-10%
- Industrial Products and Distribution companies are expecting higher cuts in workforce – about 10% expect a reduction of over 10%

More than 40% of companies with a positive revenue outlook expect jobless growth; highest share in Automotive, Distribution and Pharma

Correlation between revenue growth and workforce increase
(respondents with optimistic revenue outlook)



Share of jobless growth expectation by industry
(respondents with optimistic revenue outlook)



The survey results implicate three main actions to respond to the crisis and emerge stronger

1

Revisit your strategic priorities vs. expecting a rebound to the past

Rethink your future strategy and business model going forward based on the drivers in your industry and revisit your value creation plan in light of changes to the industry and markets.

2

Invest in business model digital transformation and ESG as the key drivers for growth and reset costs to new benchmarks

Strategically target digitization to build and evolve new business models. Leverage the value creating power of ESG to remain relevant in the future. Keep pace with new cost benchmarks post-COVID-19 and look for areas where you can outperform.

3

Bring your people with you into the new way of operating

Engage your people proactively in the process of change – especially in light of the impacts on the workforce, the expansion of digitization and automated ways of working, as well as the transition to the “Office of the Future.”

Lessons from the past show that companies that apply a comprehensive value creation approach to restructuring emerge stronger post-crisis

		Levers to recover quickly and come out stronger	Actions and results
2008 Crisis	Global Automotive OEM	<ul style="list-style-type: none"> Reevaluate total cost structure from top to bottom Invest in critical growth capabilities (e.g., fuel efficient powertrain), but cut decisively in legacy crown jewel areas 	<ul style="list-style-type: none"> <i>Changed design processes, removed bottlenecks and cut models not aligned with the future from production</i> <i>Posted \$2.7bn earnings in 2009 and \$6.6bn in 2010, the highest in a decade</i>
	Global Steel Manufacturer	<ul style="list-style-type: none"> Implement fundamental operating model changes to be fit for the future Implement disciplined end-to-end changes over short, mid and long term 	<ul style="list-style-type: none"> <i>While most steelmakers slashed costs, they invested in differentiation through an integrated digitized supply chain</i> <i>Post-crisis leader in the European steel industry with consistent high margins well above competition</i>
	Leading Electronics Player	<ul style="list-style-type: none"> Shape your future by investing in R&D, technology, IT, digital (taking advantage of low opportunity costs) Accelerate digitization as a no-regret move to increase operational efficiency and decrease dependence on labor 	<ul style="list-style-type: none"> <i>Doubled down on R&D while competitors cut budgets: filed four times more patents, constructed four types of R&D centers</i> <i>Ranked #19 on Interbrand's most valuable brands in 2008; now ranks #6</i>
	Global Technology Player	<ul style="list-style-type: none"> Redesigned operating model and portfolio to focus on core capabilities and unlock legacy costs 	<ul style="list-style-type: none"> <i>Divested longtime businesses and redesigned overall operating model to fit for purpose per business</i> <i>Emerged as number one or two market leader in their core businesses</i>
	US Tele-communications Player	<ul style="list-style-type: none"> Make strategic acquisitions or build partnerships to strengthen competitive position, taking advantage of low company valuations and protecting yourself from hostile takeovers 	<ul style="list-style-type: none"> <i>Acquired competitor in 2008 for \$28bn; the two companies shared the same wireless technology</i> <i>Deal allowed company to add coverage in new areas in U.S. and made them number one in the market</i>

For further information about our services, please check our website

Key offerings / solutions

Capabilities-Driven Strategy + Growth

Executives are struggling with developing and executing strategy. At PwC's Strategy&, our pioneering approach, built on distinctive capabilities, enables companies to focus on their greatest strengths and gain a competitive advantage.

[For more information, click here.](#)

Fit for Growth

Few organizations manage their costs for sustainable success. Our *Fit for Growth* approach is a proven model for unlocking performance that helps companies manage their cost in a more strategic way, allowing them to cut costs and grow stronger at the same time.

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Workforce of the Future

Jobs will change, but the need for a workforce will not. PwC has identified three global trends that underpin the business landscape of today and will likely impact the future of work – Technological, Demographic, and Social. We help clients enhance their workforce strategy, workforce experience, and work environment today, to position them for success tomorrow.

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Front Office Transformation

Digital technologies and delivery methods, big data, and empowered customers are giving rise to new business models, channels, and products. We help our clients deliver a differentiated customer experience by digitally enabling their front office – both people and channels enabled by the power of could – founded on Salesforce.

[For more information, click here.](#)

Please to reach out to our experienced professionals!

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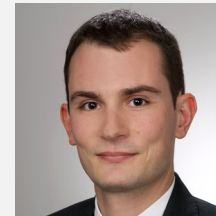
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