

The Six Disruptive Forces That Will Shape Your Business's Future

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Excepting a few major pockets of turbulence like the dotcom boom and bust and the 2008 recession, the global economy was borne along by unprecedented tailwinds between 1990 and 2019. The result was a remarkably healthy expansion of global trade, spurred by three prominent and generally recognized supply-side forces: the rise of technology and connectivity, a growing, urbanizing population in the developing world, and generally favorable capital markets. Consider the following:

- 1. Technology and Connectivity:** In 1995, just two out of every hundred people had mobile phone subscriptions. By 2020, there were more mobile phone subscriptions than people on the planet. As an indication of the scale of this impact, today a single company serving this market – Apple –has a market capitalization greater than the entire stock markets of nearly every other developed country.^{1,2}
- 2. Growing, Urbanizing Population:** Between 1990 and 2021, the number of people living in urban areas doubled – from 2.3 to 4.5 billion.³ Much of this growth was in emerging markets, where urbanization drives productivity as people shift from lower productivity rural occupations like agriculture to higher productivity urban jobs. Witness China’s spectacular growth during this period – a 9x increase in its share of global GDP.⁴
- 3. Favorable Capital Markets:** Interest rates in the developed world declined nearly continuously between 1980 and 2020, reaching their lowest levels in 150 years by the late 2010s, creating a benign climate for investment and asset prices.⁵

But the past two years have heralded a new era of uncertainty, as some of those tailwinds are shifting, providing less reliable fuel for growth while increasing the threat of wide scale disruption. In a 2019 Innosight survey of more than 300 global business leaders, 78% of respondents recognized that their company needed to transform their core offerings or business models in response to changes in the market.⁶ And that was before pandemic-driven disruptions and economic reverberations that make the current environment increasingly complex and challenging.

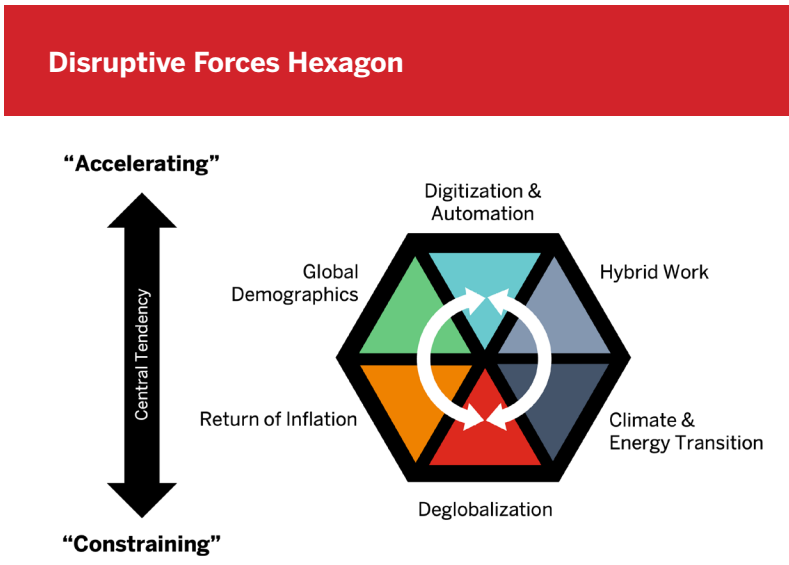
78% of global business leaders recognize that their company needed to transform their core offerings or business models in response to changes in the market.

It’s a natural temptation to wait things out during times of greater uncertainty. But forward-thinking companies will take a different approach: separate the signals from the noise, develop a sharp point of view on how their environment is changing to adapt to disruptive forces, and capitalize on the opportunities these shifts may present.

Six Disruptive Forces Shaping the Future

From our own research and discussions with business leaders across industries, we have identified six emerging or evolving disruptive forces that will affect every business in the coming years: 1) Global Demographics, 2) Digitization & Automation, 3) Hybrid Work, 4) Climate & Energy Transition, 5) Deglobalization, and 6) the Return of Inflation.

Each is profoundly important and involves significant uncertainty due to embedded tensions involving complex social, governmental, and technological interactions that will influence how they play out over time. Additionally, these disruptive forces cannot be considered in isolation, as meaningful interactions and dependencies exist across each of them. Viewed longitudinally, there will be important cause-



and-effect relationships that shape society and the actions of policymakers. Taken together, they create a fundamentally complex and challenging operating environment that will impact companies, industries, and geographies in different ways. Some of these forces are more accelerating or constraining in nature, regarding their potential to drive or impede future economic growth; however, the opportunities and threats created by each will be specific to an individual company's operating context and their ability to grasp opportunities before their competitors do.

1. Global Demographics

The global population will continue to increase, but there will be important shifts in where and how that growth will occur. Take China, for example, which experienced the largest growth in GDP over the last 30 years but stands to see a rapid deceleration in its population growth. At the same time, its population is aging faster than almost all other countries.

The world population will reach 8.5 billion by 2030 and the number of wealthy people, with more spending power, will more than double.⁷ Africa will lead the way in population growth, adding 380 million people.⁸ While Asia's rate of growth will wane as its population ages (as borne out by the recent population decline in China), its wealth will increase, with one billion Asians projected to join the middle class by 2030. Among Asian countries with the largest populations, China should expect to see the number of its affluent consumers quintuple, while India should expect theirs to quadruple. Meanwhile, North America and Europe will remain relatively stable, though a slight decline of about 6 million people is expected in Europe.^{9,10}

Implications for Business Leaders

Global demographic trends will continue to power growth over the next decade, but business leaders will need to pay attention to the details. Growth will not be uniform, nor will it occur in the same places or in the same ways that it has historically. Because growth is granular,¹¹ there will inevitably be high-growth pockets in lower growth places, and low-growth pockets in higher growth places. Nonetheless, those that move quickly into the right places at the right time with the right offerings will enjoy significant headroom.

Leaders should ask themselves:

- Which geographic markets will be more or less important going forward, and how should we adjust our portfolio to maximize opportunities? For example:
 - Are we positioned to serve a world with a billion new middle-class customers in Asia, or an increasingly elderly population in China?
 - Will population growth in Africa translate to meaningful growth for our business and over what timeframe?
- Within our priority markets, are we focusing on the right customer segments with the right business models?
 - Do we understand the customer segments that will be most important to the growth and profitability of our business 5+ years from now?
 - Are we doing enough to identify and profitably meet the needs of these customers?
 - Are there parts of the portfolio that should be deprioritized in light of demographic trends?
- Who will be our most important competitor in each of our priority markets 5+ years from now? How well positioned are we?

2. Digitization & Automation

Technological advances and digital innovations – the primary driver of growth in the US economy during the past 25 years – will continue to drive new business models and ecosystem relationships. The past few decades witnessed a massive explosion of computing and communications capability, along with the scaling of new business models, and the ability to connect every person on the planet through the internet. The next decade promises even more of this, perhaps exponentially so, driven by technologies such as artificial intelligence, blockchain, 5G networks, and edge computing.

For example, Open AI's ChatGPT reached a million subscribers in just five days, a massive acceleration of the pace of adoption compared to the two and a half months Instagram took to recruit the same number of subscribers in 2010 after its launch – then considered the fastest scaling of a new business model ever seen.¹² As of last year, 50% of companies were said to have adopted AI in at least one business unit or function. With tech giants like Microsoft, Google, Amazon and others pushing further into AI this year, this percentage will undoubtedly increase as AI capabilities become table stakes.^{13,14} Meanwhile, cryptocurrency and the broader digital asset industry persist, despite the spectacular implosion of several exchanges including FTX and a loss of \$2 trillion in total market value from the highs in November 2021.¹⁵ In Q1 of 2023, Bitcoin had rebounded as the best performing asset class with a 73% gain, its best three months since March 2021.¹⁶

Implications for Business Leaders

Digitization and automation have decidedly accelerating effects on growth and operating efficiency and will play an even more important role in future business model transformation going forward. However, as rapid growth in these areas continue (particularly in areas like generative AI) we are likely to see increased tensions between technology advocates and policymakers regarding safety, trust, and dependability of these advancements.

Leaders must be prepared to answer:

- What is the potential for further technological advancement to enable growth and drive productivity for our business?
- How does technology change the competitive context in which we are operating? Where do we stand relative to our “known” competitors?
- How about our “unknown” competitors – how will technology change who we compete against and how?
- How should we approach new technologies like AI and machine learning? What is the potential positive or negative impact on our employees, customers, and other stakeholders?
- How do we ensure that we are using new technology responsibly to mitigate risk to our business and other stakeholders?

3. Hybrid Work

A proliferation of new communication technologies enabled the widespread adoption of hybrid work models in the wake of the pandemic. Some see this shift in working patterns as an evolutionary step in how work occurs – an incremental change. We see it differently: in our view, remote work represents a step change in how labor markets are organized, raises big questions about productivity, and creates important collateral effects in other areas of the economy.

In the United States, 75% of metro areas have higher office vacancy rates than before the pandemic. And according to Gallup, 53% of U.S. employees whose jobs can reasonably be performed remotely expect to work in hybrid arrangements.^{17,18}

Employee preference for hybrid work is global. For example, a recent survey of London workers found that nearly 75% would rather quit than return to the office full-time. This finding was mirrored in a 2021 survey, which found that 74% of workers in Asia wanted options for continued flexible remote work.^{19,20}

This is a critical tension between employees and management that is likely to play out over months and years. In 2023, a growing number of companies like Meta, Amazon, Starbucks, and Disney have announced return-to-office mandates as management teams try to dial back work-from-home policies established during the pandemic due to concerns about productivity and culture.

Implications for Business Leaders

Broadly, the rise of hybrid work should have an accelerating effect on growth by reducing friction in labor markets, increasing employers' abilities to match talent and opportunity, and adding cost savings and improved productivity; one study estimated savings of \$11K per halftime remote employee²¹; however, these are highly disruptive changes to the structure of work and may come at a cost to culture and engagement.

There are also considerable second-order effects to a sustained shift in work location: demand for office space, shifting transit needs, and changes in traffic patterns will affect city planning, businesses serving offices and office-based workers, and so on. The truth is that no one knows what the long-term impact of a hybrid workforce will be on productivity, but the sheer scale of the hybrid work experiment of the past three years suggests that the answer matters.

Leaders should consider the following questions as they confront the opportunities and challenges presented by hybrid work:

- What advantages or disadvantages does hybrid work provide in attracting, developing, engaging, and retaining talent in our business?
- With a granular view, what is the impact of hybrid work on the productivity of our business? What hybrid approaches make sense for us? Where and how can we realize potential upside while minimizing cultural costs of a hybrid workforce?
- How will hybrid work patterns more broadly affect demand for the products and services that we sell? How should this affect our product/service portfolio? And importantly, how should we evolve our go-to-market approaches (e.g., a retail network, physical vs. online access, channel) in light of these patterns?

4. Climate & Energy Transition

The Earth's changing climate is ushering in the adoption of environmentally sustainable practices, and the transition from fossil fuels to renewable energy sources is well underway. By 2030, 65% of the global electric supply could come from renewables, compared to just 29% in 2020.²² Complicating this picture of progress, however, is increasing recognition of the scale, cost, and complexity of this transition. For example, global energy prices increased more than 50% in 2022, driving demand for cheaper energy, regardless of the source.²³

Demand for renewable energy is trending upward but the timing of widespread adoption is uncertain as costs and tradeoffs, business and supply chain issues, and influence of customer demand are among the many factors to be considered. Meanwhile, climate change presents a host of complicated issues that impact global GDP and the wellbeing of local populations, for example, mineral shortages for batteries and concerns over water supply and quality.

Implications for Business Leaders

Absent major innovation, a shift away from affordable fossil fuels will likely constrain future growth in the near- and medium-term. The behavior of key energy markets (e.g., the >10x spike in natural gas prices in Europe) due to the 2021 supply shortage followed by the Ukraine war provides a glimpse of how difficult and costly the process will be. Oil giants like BP and Shell recently announced a scale back or hold on their renewable investments, which suggests that companies are taking a harder look at the economic considerations and calling into question whether we have the right model to convert the economy to renewables and who will bear the cost.

Business leaders should ask themselves:

- How will the energy transition impact our supply chains, production processes, and other costs to doing business? At what scale and significance?
- Does the energy transition create direct business opportunities that we should pursue? How could sustainability efforts be leveraged as a source of differentiation for our business?
- How would alternative energy transition scenarios (e.g., faster/slower, narrower/broader) affect our business and what actions should we take to ensure resilience?

5. Deglobalization

After decades of increased collaboration across national borders and continents, the hyper-globalization trend began to slow following the 2008 financial crisis amid trade wars and concerns of overreliance on international partners.²⁴ This phenomenon – coined “slowbalization” – now shows signs of shifting toward deglobalization as national and corporate rhetoric emphasizes onshoring more today than before the pandemic. In a study of corporate transcripts, Barclays Investment Sciences team observed that 4% of organizations mentioned onshoring as a strategy in 2022, a significant difference from pre-pandemic levels of under 1%.²⁵

At the same time, we are seeing increased conflict, both cold and hot, between global powers, from Russia’s invasion of Ukraine and NATO’s sanctions to tense relations and increased tariffs between the United States and China. These conflicts have significant consequences for the global market, such as the departure of many multinational corporations from Russia immediately following its invasion of Ukraine. As investors react to these shifts, some, like BlackRock founder and CEO Larry Fink, have pronounced “an end to the globalization we have experienced over the last three decades.”²⁶

Implications for Business Leaders

Globalization and free trade has been a central underpinning of the growth experienced in recent decades and something that leaders have almost taken for granted. Any significant shift away from free trade and open markets presents significant risks to global growth and would create major headwinds for global companies.

Leaders should ask:

- Is our business built on the assumption of an increasingly connected global economy, or are we prepared for alternate scenarios?
- How exposed are our customer markets to a shift in openness to global trade? Should we think differently about where and how we are investing in coming years?
- How resilient are our supply chains to further disruption based on tariffs or political instability? What implications does this have for our supply chain strategy?

6. The Return of Inflation

In 2022, double-digit inflation returned to the developed world for the first time in approximately 35 years. No executive in any developed economy today has managed through an inflationary period like this. Over 90% of central banks raised interest rates in response to inflation, with more than 280 recorded instances recorded of a 0.25% rate increase (translating into a cumulative 70% increase in policy rates globally).²⁷ The US Federal Reserve is engaged in its steepest, fastest tightening phase ever, and is determined to get inflation under control – even at some risk to the economy. In response, many consumers are decreasing their discretionary spending and trading down to lower-priced private-label goods.²⁸

The failure of Silicon Valley Bank and First Republic Bank highlight how destabilizing this new environment can be. It's also uncertain. The U.S. Federal Reserve is in uncharted territory, having spent the period since the 2008 Financial Crisis fighting deflation. The current inflation was thought to be transitory but has revealed itself to be more broad-based and persistent. Is it a reaction to the significant pandemic stimulus or are there more fundamental inflationary pressures? And how effective will current tightening actions be, and at what impact to economies?

Implications for Business Leaders

Inflationary conditions can suppress growth, erode wealth, and reduce consumption. While monetary policies can be effective to offset this, they are subject to over-corrections or under-corrections, which are not obvious until months or even years later. Additionally, there are tensions among different stakeholders such as policymakers, legislators, and central banks, that will affect how and when inflation is brought under control.

As all this plays out, leaders must ask:

- Do we understand how inflation is impacting our business and what effects a prolonged inflationary period could have – and how we would navigate such a scenario?
- Have we taken advantage of any opportunities that inflationary conditions may have enabled, for example, in terms of raising prices?
- Are we sufficiently prepared for a potential recession? Where is there potential flexibility and what actions should we take proactively? Are there growth opportunities that we must protect? What should we stop doing?

Transforming a Business to Grow Amidst a Changing Operating Context

These six disruptive forces will affect every organization and industry differently. What may be seen as an enabling opportunity by one could be viewed as a significant threat by their competitor. But the net result is a world where it is harder to sustain growth. The first step to navigating this environment is to devote the effort and time to consider how these changes will likely shape the future context in which your organization will operate.

Through our work with senior leaders who are facing major shifts within their operating environments, we have developed an approach that allows them to respond to these disruptive forces by seizing industry-specific opportunities. It takes a “future-back” approach to strategy setting and unfolds in four distinct steps:

- 1. Take stock of the company's performance to date.** Before considering future-state scenarios, leaders should first ground themselves in a clear understanding of the current operating context. This involves developing a perspective on the organization's historical performance and how it has evolved over time. Additionally, leadership teams should identify the core assumptions or operating conditions that have underpinned the company's business model, what we refer to as their “historical success formula” and how these are changing.
- 2. Align on the critical assumptions about the long term – 5+ years ahead – that underpin your business.** To make sense of disruptive forces and the abundance of other trend and market analyses, leadership teams need to devote time to have formal dialogues about what all this means for their business. In these discussions, leaders should align on a point of view on what their future operating environment will be and what outcome-determining assumptions will most influence the company's business model. Without this understanding, one of two outcomes are likely: the organization will continue to operate under the assumptions that have powered its historical success with

minimal change, or the organization will act on a wide range of market signals in ways that lack clear conviction or direction. Either approach will likely prove costly.

3. Set a clear direction that will enable you to deliver today and create the business you need tomorrow. Leaders must create a strategy that prioritizes the demands of the present with the opportunities and threats of the future. This requires companies to maintain appropriate emphasis on innovating the current business to remain competitive and grow in the near-term – with clearly defined 1- to 3-year performance requirements – while simultaneously creating the discipline to explore longer term innovations. And with resource realignment, this will require leaders to make tough decisions about what initiatives they will stop, start, or continue to ensure priorities align to the present and future view.



4. Build the operating model, capability agenda, and roadmap to make it happen. Leaders and teams face time, funding, and people constraints as they execute their strategy. Beyond stating strategic priorities, organizations should identify and address potential barriers within their existing operating model that will free resources to explore longer-term growth, while not distracting from improving performance within the core business, the challenge that is at the heart of what Innosight’s cofounder Clay Christensen called “the innovator’s dilemma.”

Creating separate structures and processes is critical to the success of “new and different” initiatives. Doing so ensures the core business is not distracted, while new initiatives have space to experiment in agile ways. Additionally, companies should define which capabilities will be required based on the future state view; if those capabilities exist or can be built within the core business, organizations should make explicit how these capabilities should be allocated to support present and future needs.

As leaders prepare their organizations to navigate an uncertain future, taking these four steps—taking stock of today, identifying critical assumptions, setting a clear direction for the present and future, and adapting operations to support priorities — will help them turn these global threats into opportunities.

Case Example: Designing Future Growth Strategy at a Global Consumer Goods Company (Food Co)



For one major food company, the pandemic had dramatic implications on its business, from the shock-driven rise in digital channels to the logistical challenges related to production and distribution. Food Co had conducted trend analyses on virtually every topic, but they hadn't crystalized a view of what it all meant for their business.

To answer that question, the leadership team evaluated the impact of a number of disruptive forces, ultimately arriving at six outcome-determining assumptions about their 2030 operating environment, such as the impact of climate change on agriculture, the shift to DTC models, and the growth of last-mile services. This helped them develop a clearer perspective on how their historical value chain was evolving, where they believed the threat of disruption was the greatest, as well as areas offering potential new growth opportunities.

Following Food Co's "view of the future" exercise, the leadership team was able to evaluate how well its product portfolio was positioned to compete and win in the future. This resulted in a handful of targeted acquisitions to explore new strategic focus areas across the most probable future scenarios. These new strategic focus areas were managed and executed by a group that specialized in leveraging consumer insights to develop new brands and categories which could be grown and shaped before handing to the core businesses.

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ABOUT INNOUGHT

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