

Foresight



Economic, industry and
corporate trends

A report from the Economist Intelligence Unit
sponsored by Cisco Systems



Preface

In an age of uncertainty, peering 15 years into the future may seem like hubris. But ignoring long-term trends—demographic, economic, corporate—is an even less attractive option. Understanding the long-term future is vital in ensuring that strategies are sustainable, that opportunities are identified at an early stage and that challenges are addressed before they become insurmountable.

This report assesses likely changes to the global economy, to eight major industries and to corporate structures between now and 2020. Our research drew on three main initiatives:

- The Economist Intelligence Unit's proprietary long-term economic forecasts for the world's major economies.
- A wide-ranging online survey of senior executives from around the world in November-December 2005. In total, 1,656 executives took part.
- A series of in-depth interviews with executives, analysts and policymakers around the world.

We would like to thank all the executives who participated in the survey and interviews for their time and insights.

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Andrew Palmer was the editor of the report. Laza Kekic wrote the chapter on the world economy. Graeme Maxton, David Jacoby, Graham Richardson, Aviva Freudmann, Paul Kielstra, Ray Smyth, Bill Millar and Joanne Taaffe wrote the industry sections. Tom Standage contributed to the chapter on the company of the future.

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Executive summary

A lot can happen in 15 years. At the start of the 1990s, China was largely a planned economy, and the Soviet Union still existed. Few people had heard of the Internet and e-mail seemed closer to science fiction than reality.

The next 15 years will bring further massive changes to the shape of the world economy, to the landscape of major industries and to the workings of the company. The major findings of the Foresight 2020 survey are summarised overleaf, but the principal trends identified in this report include the following:

1 Globalisation. It's too early to talk of Asia's century, but there will be a redistribution of economic power. Emerging markets, and China and India in particular, will take a greater slice of the world economy. Non-OECD markets will account for a higher share of revenue growth between now and 2020 than OECD economies. Labour-intensive production processes will continue to shift to lower-cost economies, which will still enjoy a massive wage advantage over developed markets. The pace of globalisation will be arguably the critical determinant of the rate of world economic growth.

2 Demographics. Population shifts will have a significant impact on economies, companies and customers. The favourable demographic profile of the US will help to spur growth; ageing populations in Europe will inhibit it. Industries will target more products and services at ageing populations, from investment advice to low-cost, functional cars. Workforces in more mature markets will become older and more female.

3 Atomisation. Globalisation and networking technologies will enable firms to use the world as their supply base for talent and materials. Processes, firms, customers and supply chains will fragment as companies expand overseas, as work flows to where it is best done and as information digitises. As a result, effective collaboration will become more important. The boundaries between different functions, organisations and even industries will blur. Data formats and technologies will standardise.

4 Personalisation. Price and quality will matter as much as ever, but customers in developed and developing markets will place more emphasis on personalisation. Products and services will be customisable, leading firms to design products in a modular fashion and, in the case of manufacturers, assemble them in response to specific customer orders. Customers and suppliers will be treated in different ways, depending on their personal preferences and their importance to the business.

5 Knowledge management. Running an efficient organisation is no easy task but it is unlikely on its own to offer lasting competitive advantage. Products are too easily commoditised; automation of simple processes is increasingly widespread. Instead, the focus of management attention will be on the areas of the business, from innovation to customer service, where personal chemistry or creative insight matter more than rules and processes. Improving the productivity of knowledge workers through technology, training and organisational change will be the major boardroom challenge of the next 15 years.



The Foresight 2020 survey: The softer side of success

As part of the research for this report, the Economist Intelligence Unit surveyed more than 1,650 executives around the world for their views on how their companies, and the environment in which they operate, would change over the next 15 years.

Executives expect the fundamentals to matter as much as ever. A clear strategy, top-notch management and high-quality products and services are seen as critical sources of competitive advantage now and in the future. But respondents also expect much to change.

Low costs will matter less as a source of differentiation.

Make no mistake: cost control will be crucial. Pricing pressures and low-cost competition count as two of the three most significant risks that companies will face between now and 2020 (alongside poor management decisions). But two-thirds of respondents do not believe that having a low cost base will be a source of greater competitive advantage in that time-frame. What's more, the value of price competitiveness to customers is expected to decline relative to other factors, such as personalisation of products and quality of customer service.

The human touch will become more central to competitive advantage. A large majority of executives expect simpler tasks, such as airline check-in procedures or processing expense claims, increasingly to be handled by machines. As production processes and these routine transactions become ever more commoditised and automated, value will lie in hard-to-replicate personal relationships between employees, customers and suppliers. The vast majority of executives think that knowledge workers will be their most valuable source of competitive advantage (compared with other roles) in 2020, whether in outward-facing functions such as sales or inward-facing ones such as knowledge management.

Collaborative relationships will multiply and intensify. A majority of executives believe that high-quality relationships with outside parties will become more

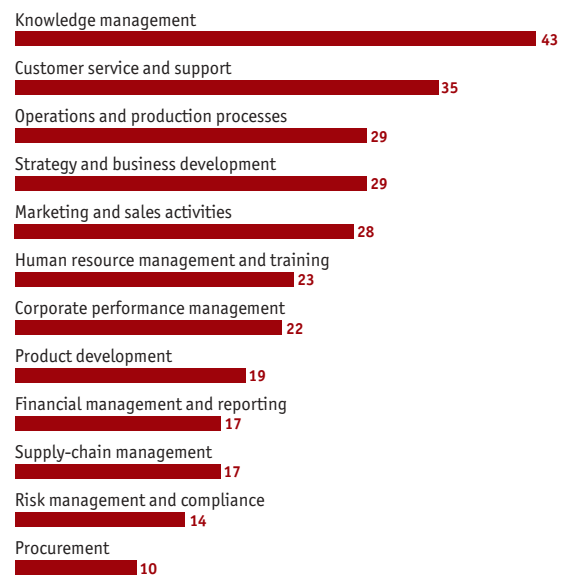
important as a source of competitive advantage between now and 2020. Collaborative problem-solving is expected to increase in volume inside and outside the organisation, as customers and suppliers become more involved in product development, as cross-functional and crossborder teams work together more frequently and as partnerships with other organisations proliferate.

Productive knowledge

Getting these high-value interactions right will be a major challenge. A lack of people with the requisite interpersonal skills is seen as the biggest single barrier to improved collaboration with outside parties, closely followed by cultural hostility to more open relationships, data security worries and an absence of incentives to form and develop such relationships. Executives believe that employees' ability to communicate, to solve problems and to lead will be

Which of the following areas of activity offer the greatest potential for productivity gains over the next 15 years?

Select up to three activities.
(% respondents)



Source: Economist Intelligence Unit survey, 2005.



more important to their organisations' future success than functional and technical capabilities.

Initiatives to improve the quality of the workforce in these areas will include recruitment, training and redeployment: a large majority of executives expect the proportion of employees in complex knowledge-based roles to increase over the next 15 years. But simply employing more knowledge workers, who tend to command higher salaries, can quickly become a short cut to lower margins—unless they also become more productive.

Executives clearly believe there are gains to be made in this regard. There are striking overlaps between the areas in which complex interpersonal relationships are thought to matter most—customer support, business development, corporate performance management, marketing and sales and knowledge management—and those thought to have the greatest scope for productivity growth.

Although increased automation of processes remains a prominent focus for productivity growth, particularly in non-services industries, the scope for driving greater efficiencies out of production processes and simple transactions is diminishing. Instead, respondents expect to focus more energy on improving organisational structures and communication as sources of enhanced productivity.

- **Technology spending will shift to enabling knowledge workers to do their job better.** Asked how their organisations will improve their performance in knowledge-based roles, use of information technology (IT) was identified as the single most likely approach. A major shift in IT investment is anticipated over the next 15 years. Today, such investment is focused mainly on general IT infrastructure and on financial management and reporting. By 2020, executives expect the emphasis on infrastructure spending to have fallen away dramatically and for knowledge management and customer service to be the principal areas of IT focus.

- **Organisational structures will change.** In order to increase the efficiency of interactions with others, executives expect organisations to become flatter and for

employees to have more autonomy to make substantive decisions. More than two-thirds of respondents also say that they will incentivise employees to collaborate more effectively with other parties.

Differences between industries and market segments should not be papered over, of course. Manufacturers are far likelier than service industries to look to increased automation of processes as a route to higher productivity. Low costs will be critical for companies operating in discount segments. And some industries, such as retailers, are already more sophisticated in their relationship management than others.

But the survey points to two broad trends that will affect companies across sectors. First, competitive advantage will increasingly depend not on routine, easy-to-automate processes but on unpredictable, hard-to-automate knowledge workers. Second, companies will shift their IT spending, human resources (HR) strategies and organisational structures to make these workers more productive. Managing both these trends—in essence, marrying soft skills with hard targets—will be the defining boardroom challenge of the coming years.

Who took the survey?

1,656 executives from 100 countries around the world participated in the Foresight 2020 survey, which was conducted in late 2005. Respondents were spread evenly between the three main centres of economic activity—30% from Asia-Pacific, 34% from western and eastern Europe and 27% from North America.

As well as being highly cosmopolitan, the survey group was very senior. Almost one-third of respondents were CEOs, and half of the sample were C-level executives or board members.

Participants were drawn from a wide range of industries and business segments, as well as from a spread of company sizes, with more than one-third reporting annual revenue of over US\$1bn.

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