

The background features a dark blue grid with several data series. A prominent purple line trends upwards from the bottom left towards the top right. To its left, there are several blue lines, some of which are jagged and oscillate, resembling stock market or economic data. The overall aesthetic is professional and data-driven.

# The war in Ukraine: How businesses can survive and thrive through high inflation

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# Meet the authors



## Michael Brueckner

Senior Managing Director –  
Growth & Strategy Lead,  
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Michael leads Growth & Strategy for Europe, overseeing all aspects of Accenture's strategy including shaping and implementing strategy and investments, including several significant acquisitions. He also serves on Accenture's Global Leadership Committee and Europe's Management Committee.

Michael has been with Accenture for more than 22 years and held many significant roles including Head of Health & Life Sciences, Strategy & Management Consulting lead, Regional P&L for Products Industries, and Global Growth & Strategy Lead for Accenture Digital.



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Senior Managing Director –  
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Kathleen leads Accenture Strategy, serves on Accenture's Global Management Committee and as Executive Sponsor for the company's work with the World Economic Forum. She also oversees the company's private equity work.

Kathleen works with CEOs and boards to address their most critical business challenges and build value by tapping new market opportunities, applying innovative technologies, executing large-scale restructuring and transformation, achieving growth through M&A, and embedding sustainability and responsible practices in every aspect of their business.



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Prof.Dr. Svenja Falk is Managing Director, Accenture Research and leads their Europe operations. She also heads Accenture's Berlin office and is a member of the Executive Board of the Accenture Foundation.

Svenja leads the working group on "Digital Business Models" in the Platform Industrie 4.0, is deputy chairperson of the German Council for Digital Sovereignty and serves on the Board of Trustees for Fraunhofer ISST. She has co-published and worked with the World Economic Forum, B20, The European Commission, UNIDO and the Chancellors Innovation Council. She is honorary professor at the Justus Liebig University in Giessen and a fellow at the Hertie School, Berlin.



## Tomas Castagnino

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Tomas is the Lead Economist of Accenture Research. He leads a global team of data science and economic research experts who innovate with data-driven research methods to develop thought leadership at the intersection of technology, economics and business. Tomas' work focuses on the economics of technology strategy and transformation, including its macroeconomic, company and labor market implications, as well as its proper measurement.

Tomas's work has been published by leading business and economics organizations such as the World Economic Forum, UNIDO, the National Bureau of Economic Research and the European Central Bank.



## Chris Tomsovic

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Chris leads Accenture Strategy's Global Macro and Corporate Finance team focused on helping corporates and private equity understand and navigate complicated macro shifts in the economy. He has supported clients with strategy development, economic assessments, M&A and corporate transformation across financial services, private equity, energy and consumer-facing industries.

Chris has served as the point-person for Accenture Strategy's macroeconomic analysis in response to COVID-19 and the war in Ukraine. Prior to joining Accenture, he completed a MSc from the London School of Economics.

# Competing in a high-inflation environment

The impact of the pandemic and the war in Ukraine has driven inflation to surge across the globe. Few C-suite executives have experienced these combined inflationary pressures and navigated their company through such an environment.

In a high-inflation context, three imperatives are crucial for success and enduring competitiveness:

- 1 Pay close attention to **industry** specifics. Inflation doesn't always have broad-brush effects. A nuanced understanding of industry context will influence what levers you need to pull, and when.
- 2 Use **technology** to improve efficiency and agility as quickly as possible to strengthen resilience.
- 3 Be intentional about solving issues with **stakeholders**—customers, partners and employees. Doing so strengthens a company at its core.

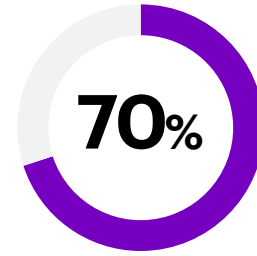
After two years of pandemic and a war in Ukraine that threatens modern globalization, many economists, business leaders and policy makers agree: We have entered a high inflation environment that is fundamentally challenging business leaders and the way companies operate. New dilemmas emerge every day, spanning supply chain, manufacturing operations and workforce management to financial management and customer retention.

# Are leaders prepared?

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# A new reality is testing companies and their stakeholders

Since the global financial crisis of 2007–2009, companies have enjoyed ongoing economic growth and low volatility. However, even before the war in Ukraine, many economies were already experiencing inflationary pressures caused by extensive fiscal and monetary support measures, a shift of consumers buying more goods versus services and supply chain disruptions.



As of January, 70% of global C-suite executives were expecting significant inflation in 2022, potentially reaching double-digit rates in select countries.<sup>1</sup> As a result, inflation is topping the priority list of many business leaders.

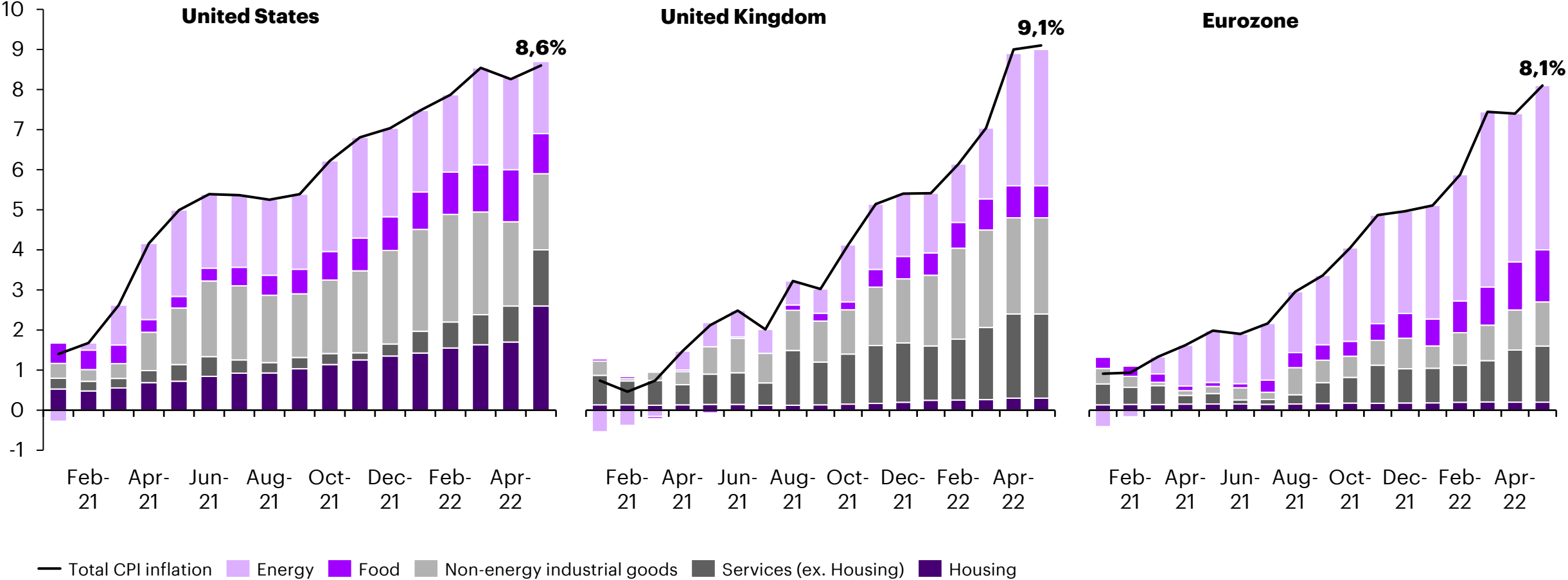
As war compounds issues like supply chain disruption and energy prices, the challenge has become real. Natural resource shortages along with soaring energy and housing costs, and constrained supplies of consumer goods have led to unprecedented inflation levels across major markets. As of June 2022, inflation reached 9.1% in the United States, 9.4% in the United Kingdom and 8.6% in the Eurozone.<sup>2</sup>

When inflation will peak remains unclear. [Economic and business impacts](#) will largely depend on the length and severity of the crisis as well as policy response.<sup>3</sup> Few business leaders today have experienced anything similar over their tenure. Now, this new reality is testing their supply chains, their people, their customers and their stakeholders.



# Drivers of recent CPI inflation

Year-on-year % change and % point contributions from major goods and services categories



Sources: US Bureau of Labor Statistics, UK Office of National Statistics, Eurostat; data surveys as of May 2022

# The good news

Despite the outlook, leaders may be better prepared than they realize. The operational changes they made to navigate the COVID-19 pandemic helped their businesses survive and thrive: In fact, our research shows the largest 2,000 companies globally grew by 11% between Q4 of 2019 and Q4 of 2021.<sup>4</sup>

Value generation differed among them, however. The [more digitally advanced companies](#) navigated the crisis without compromising profitable growth.<sup>5</sup> From December 2021 to January 2022, 90% of C-suite executives reported that their organizations were undergoing rapid digital transformation.<sup>6</sup> Some companies—we call them '[Twin Transformers](#)'—also combine digital transformation with an acceleration of their sustainability agenda.<sup>7</sup>

Twin Transformers  
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# Economic cost pressures

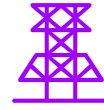
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# How inflationary cost pressures are amplified

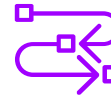
Many forces have come together to drive high inflation, and the effects differ by industry. The impact depends on cost structure—including energy, materials and wages—as well as the ability to pass costs on to consumers.

Inflationary cost pressures on profit margin are amplified as they pass through the various layers of the economy:



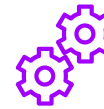
## Round 1 Energy (direct)

Direct impact on operating costs depends on the industry's intensity of use of these inputs.



## Round 2 Supply chain (indirect)

Cost pressure passing from upstream industries to downstream industries depends on intensity of use of inputs from industries heavily impacted in Round 1.



## Round 3 Wage and demand erosion

Inflation erodes consumer purchasing power, placing upward pressure on wages. The size of the effect on wages depends on the tightness of the labor market and the negotiating power of employees.

# How cost pressures affect different industries

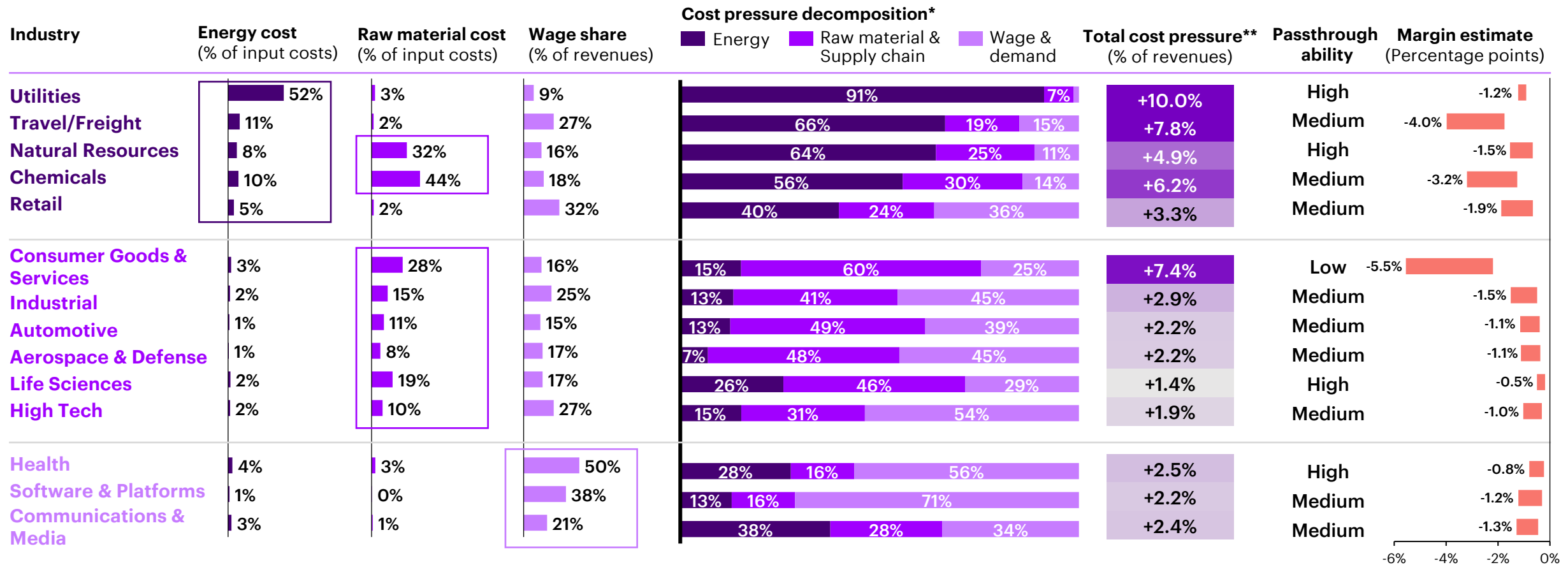
Industries will face different levels of cost pressure on margins, based on their cost structure.

Utilities, like power generation and distribution, are greatly affected due to their dependence on oil and gas. However, they may be able to manage impact by passing on costs, but within the constraints of regulatory price controls.

By contrast, the consumer goods industry is exposed to the high cost of energy indirectly, as many of their manufacturing processes rely on food, raw materials and resources from directly impacted industries. Food, beverage and consumer durables are likely to see significant disruption due to their reliance on agricultural commodities and raw materials; together, Ukraine and Russia supply 26% of global exports of wheat.<sup>8</sup> The food, beverage and consumer durables sector also is highly price-sensitive and vulnerable to consumer switching.

Other industries may suffer cost pressure even more indirectly. For example, the health industry is not a heavy direct user of energy or raw materials, but much of its cost structure depends on employee compensation. As prices of products they consume rise, workers will demand higher wages to try to maintain their purchasing power.

# Cost structure and cost pressure on margin by industry in Europe



\*Energy impact = Cost increase due to direct energy usage, Raw materials & supply chain impact = cost increase due to direct usage of raw materials and transmitted through the supply chain, wage & demand = cost increase due to inflation induced wage increase and demand erosion. \*\* Before pass-through. Ranges for high and low scenarios consistent with ongoing impact and protracted impact scenarios: Energy price scenario \$110-150/Bbl for oil, \$157-194/MWh for natural gas, \$155-188/tn for coal. Utilities correspond to supply of electricity/gas/heat, excluding water/waste. Source: OECD, Accenture Research energy price impact on margin simulation model.



# Identify your specific challenges



**Track market/industry insights**



**Watch for internal indicators that point to the three types of economic cost pressures**



**Consider how location factors in**

Remember that challenges also vary by geography and industry. Areas that rely on production from other regions may be more exposed to energy and food inflation. Other geographies may have social, political or institutional constraints that prevent them from handling inflation shocks, resulting in volatility.

The US, meanwhile, would primarily be affected by higher oil prices and their knock-on effect on household wealth and consumer spending.

In the event of a protracted impact scenario, Oxford Economics estimates that US GDP could decline relative to pre-war estimates by 1.0 percentage points in 2022 and 0.6 percentage points in 2023.

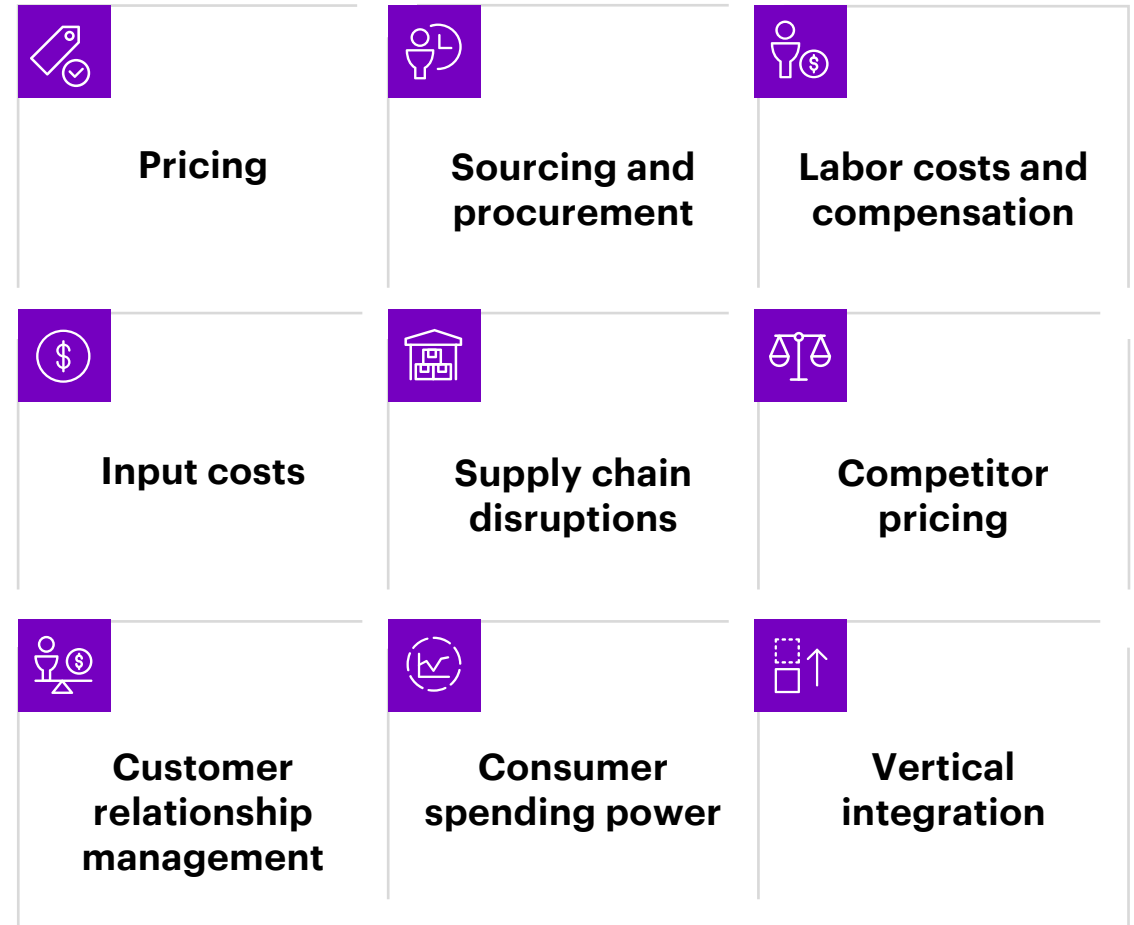
# Use technology to help weather the storm

# From insight to action

Will I lose my customers if I pass on the cost of inflation? Will my competitors price me out of the market? How will I pay my employees? What's the best procurement strategy for a highly inflationary environment? Will I remain competitive overall?

Leaders may need to make tough choices quickly. Anticipating change and planning for a range of scenarios is essential, and the more intelligence, the better.

"Intelligent" enterprises use integrated, cloud-enabled planning and performance analysis tools to improve how they capture and analyze data. From there, they can garner valuable insights to fuel decision-making around critical issues, including:





# Trade-offs: What to expect and how to address them

The optimal strategy improves the company's data gathering and analytics capabilities and uses technology-enabled solutions to calibrate the best response to the difficult trade-offs that inflation demands:

## Trade-off: Customer demand and retention vs. margin

### What to do about it

- Rethink work processes and reward approaches that drive engagement and boost productivity.

### How to improve decisions using data and insight

- Analyze data on:
- wage movement in the wider sector
- pay expectations
- local cost of living
- and other employment metrics

### How to drive operational efficiencies with technology

- Automation and augmentation technologies to boost productivity (long-term investments)
- Skilling and re-skilling platforms
- Extended/ augmented/virtual reality (XR/AR/VR) for training and remote collaboration

### Pressure on industry

- **High:** Software & Platforms, Health, High Tech
- **Mid-High:** Retail, Communications & Media, Industrial

## Trade-off: Cost vs. resilience

### What to do about it

- Optimize operational costs like transportation routes, raw materials, etc.
- Explore alternative suppliers and locations.
- Ensure full visibility of your supply chain.

### How to improve decisions using data and insight

- Use end-to-end control tower analytics to pinpoint bottlenecks and understand the impacts of price fluctuations on costs of raw materials.<sup>10</sup>

### How to drive operational efficiencies with technology

- Process automation software to improve operations and procurement
- AI to optimize transport routes
- 3D printing
- Blockchain, Internet of Things and smart contracts
- Digital twin to reduce trial-and-error costs

### Pressure on industry

- **High:** Utilities, Natural Resources, Chemicals
- **Mid-High:** Consumer Goods & Services, Industrial, Life Sciences

## Trade-off: Retention vs. wage inflation

### What to do about it

- Understand where your customers are in their struggle with inflation.
- Adjust supply and prices accordingly (e.g., add new product lines with varying quality, sizes, discounts, etc.)

### How to improve decisions using data and insight

- Track customer churn, sentiment and spending in real time (not only on your own products or services, but across wallet share)
- Keep an eye on how competitors are adjusting prices and releasing new products.
- Establish real-time feedback loops about how customers and competitors are responding to your activities

### How to drive operational efficiencies with technology

- Data infrastructure and management powered by cloud

### Pressure on industry<sup>9</sup>

- **High:** Consumer Goods & Services, Retail, Travel
- **Mid-High:** Automotive, Communications & Media, Industrial

## Trade-off: Cost efficiency vs. topline growth

### What to do about it

- [Use zero-based cost approaches to improve liquidity and cash flow<sup>11</sup>](#) while freeing up resources for growth.

### How to improve decisions using data and insight

- Achieve full visibility into costs and prices
- Reset the baseline
- Make cost structure more variable
- Build operational efficiency

### How to drive operational efficiencies with technology

- Advanced analytics to track and recalibrate costs in real time

### Pressure on industry

- **High:** Consumer Goods & Services, Travel, Chemicals
- **Mid-High:** Natural Resources, Retail, Industrial

# Be transparent with stakeholders

While insights are crucial, transparency is equally so. Be forthcoming with stakeholders about the changes you're making to address inflation, especially with customers, employees and ecosystem partners.

This could be as straightforward as:

- Taking an end-to-end view of the entire value chain to identify additional value pools.
- Giving customers advance notice of price increases.
- Setting employee expectations around midcycle wage adjustments and other nonmonetary benefits.
- Updating suppliers regularly on purchase decisions.

Be sure to collect feedback and response data so you can understand how stakeholder reactions may affect your business and adjust accordingly.

# Solving for today and tomorrow

Inflation may be here to stay, but with solid insights and sharp decision-making, it is still possible to create value for your stakeholders. Understand how inflation will affect your industry, your ecosystem and your employees (in the short-, mid- and long-term), and act early to improve your data capabilities and build transparency on all fronts. It's all part of the foundational strength businesses need to survive and grow—both now and when high inflation is no longer a critical concern.

# References

<sup>1</sup> Accenture Survey of 3,200 C Suite executives across Geographies and Industries; data collection, 10th December 2021- 21st January 2022

<sup>2</sup> US Bureau of Labor Statistics, UK Office of National Statistics, Eurostat; data surveys as of June 2022

<sup>3</sup> [Business and economic impact of the war in Ukraine](#), Accenture (2022)

<sup>4</sup> Accenture Research analysis on data retrieved May 2022 from S&P Capital IQ and SNL Financial databases

<sup>5</sup> [Make the leap, take the lead: Tech strategies for innovation and growth](#), Accenture (2021)

<sup>6</sup> Accenture Survey of 3,200 C Suite executives across Geographies and Industries; data collection, 10th December 2021- 21st January 2022

<sup>7</sup> [The European double up: A twin strategy that will strengthen competitiveness](#), Accenture (2021)

<sup>8</sup> "[2021/22 Grain Trade in Flux Amid Russia-Ukraine Conflict](#)," US Department of Agriculture Foreign Agricultural Service (2022).

<sup>9</sup> Accenture Research based on profit margins simulation model. The model accounts for first, second and third round impacts of energy price increases. To model first and second round impacts, we embedded a detailed view of the structure and outlook of the energy market into Input-Output tables coming from OECD. The detailed view of the structure and outlook of the energy market was developed in consultation with energy industry experts. To model third round effects, we consider two channels a) impact on demand and b) impact on wages. For a) we assume that demand for each industry will follow industry GDP growth which we source from Oxford Economics' industry data bank (data retrieved April 26th). For b) we assume that wage inflation equals consumer price inflation after first and second round impacts, and that it loops through the supply chain. Employee compensation importance for each industry is from OECD Input-Output tables. Finally, ability to pass-through cost pressure to prices was calibrated combining GTAP demand substitution elasticities with industry expert views. We simulated high and low energy price scenarios consistent with ongoing impact and protracted impact scenarios in [Energy price scenario \\$110-150/Bbl for oil, \\$157-194/MWh for natural gas, \\$155-188/tn for coal](#).

<sup>10</sup> [The benefits of supply chain visibility](#), Accenture (2022)

<sup>11</sup> [Inflation and Economic Uncertainty](#), Accenture (2021)



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## About Accenture Strategy

Accenture Strategy works with boards, CEOs and C-suite executives to create 360° value for all stakeholders by defining and answering their most strategic business questions—including growth, profitability, technology-driven transformation, mergers and acquisitions (M&A), operating models and sustainability—with insights from AI and data science, combined with deep industry and function expertise.

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Research creates thought leadership about the most pressing business issues organizations face. Combining innovative research techniques, such as data science led analysis, with a deep understanding of industry and technology, our team of 300 researchers in 20 countries publish hundreds of reports, articles and points of view every year. Our thought-provoking research developed with world leading organizations helps our clients embrace change, create value, and deliver on the power of technology and human ingenuity.

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