COMPRESSIVE DISRUPTION
LEARN TO THRIVE UNDER PRESSURE
# Our World is Undergoing a Fundamental Shift to the New

<table>
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<th>Past</th>
<th>Present</th>
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<td>Information scarce</td>
<td>Information abundant</td>
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<td>Static hierarchies</td>
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<td>Compete to win</td>
<td>Collaborate to win</td>
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<td>Individual productivity</td>
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<td>Focus on planning ahead</td>
<td>Experiment, learn and respond</td>
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<td>Efficiency of process</td>
<td>Effectiveness of outcomes</td>
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DISRUPTION HAS GONE MAINSTREAM
It is shortening corporate life expectancy

Half of S&P companies are expected to be replaced over the next 10 years

Average company lifespan on S&P Index in years

1935: 90
1958: 61
1980: 25
2011: 18
2026: 14

BUT DISRUPTION HAS TWO FORMS
It comes from “big bangs” or simple compressions

**Big Bang Disruption**
Big bang disruption—print and online media advertising revenue $Bn

**Compressive Disruption**
Gradual disruption—computing device shipments, units M

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COMPRESSIVE DISRUPTION IS INSIDIOUS
It used to take decades but now happens faster

WE STUDIED:

- Automotive
- Energy
- Industrials
- Materials
- Telecommunications
- Utilities

WE FOUND:

OPERATING MARGINS ARE BEING SQUEEZED by a form of slow, but dangerous disruption that results in a prolonged decline of revenues and operating profits.
COMPRESSION DISRUPTION IS SUBTLE
It gradually weakens the core business

Operating margins within asset-heavy industries are subject to prolonged decline

**EMPTY GROWTH**
EBITA growth peaks then decelerates

**DECAY**
EBITA declines faster than revenue

**FALSE HOPE**
EBITA and revenues briefly recover

**DECLINE**
Prolonged decline in EBITA and revenue

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EBITA: Earnings Before Interest, Taxes and Amortization
SHELTERED FROM SUDDEN, RADICAL CHANGE
Asset-heavy industries are ill-prepared for compression

ASSET-HEAVY INDUSTRIES ARE SEDUCED BY THE PAST

STABILITY
Reliance on significant barriers to entry

SIZE
Unwillingness to restructure or divest old assets

LONGEVITY
Inability to embrace new business models

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Yet severe operating profit compression is evident and unaffected by economic recovery

Six industries we studied are experiencing prolonged decline in profitability

2011
$2.0T EBITA
2.7% of world GDP

2015
$1.4T EBITA
1.9% of world GDP

Aggregate Revenue
(US$ Trillions)

2011: 16.7
2015: 15

Source: Accenture Profit Compression Database; World Bank national accounts data (current US$); Accenture Research analysis

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SEDUCED BY STABILITY
Reliance on significant barriers to entry

WHAT’S HAPPENING IN ENERGY?
In the United States, it took more than 50 years for renewable energy to achieve only 5% share of total energy consumption.

WHERE’S THE COMPRESSION?
US$67bn
Investments were made in small scale renewable energy projects in 2015 as energy prosumers* rise to 12 million in Europe alone

*Individuals who create, sell and consume their own energy.
Source: US Energy Information Administration, Accenture analysis.
SEDUCED BY SIZE
Unwillingness to restructure or divest old assets

WHAT’S HAPPENING IN UTILITIES?
20 gigawatts of stranded assets are weighing down the balance sheets of leading European energy companies.

WHERE’S THE COMPRESSION?
33
European Utilities experienced a 38% decline in profits from 2010 to 2015.

SEDUCED BY LONGEVITY
Inability to embrace new business models

WHAT’S HAPPENING IN AUTOMOTIVE?
Rise of ride-sharing revenue (forecast)*
US$32bn in 2017
21.8% 2017 to 2021 CAGR

WHERE’S THE COMPRESSION?
Automotive OEMs revenue growth has stalled since 2014 (1% CAGR)
compared with 35% growth from 2009 to 2013

* Source: Statista
COMPRESSIVE DISRUPTION IS ACCELERATING
Asset-heavy industries must shift to the new

Prolonged decline will continue unless compression is addressed

PEAK DEMAND
Socio-economic and political instability

NEW ECONOMIC PARADIGMS
Products are becoming services

DIGITIZATION OF EVERYTHING
Digital technologies are pervasive and open up new opportunities

ACCELERATING COMPRESSION

Companies need to shake off deeply entrenched assumptions, create investment capacity in the core, and wisely pivot to the new
THREE OPPORTUNITIES FOR CORE BUSINESS RENEWAL
Freeing up capacity to innovate and invest in the new

SEEK
Be open to harvesting new, innovative ideas, both within and outside of the borders of your organization (e.g., through open innovation platforms, partnerships).

SELECT
Carefully examine your assets, including intangibles (e.g., customer and marketing data), and find new ways to monetize them.

ACT
Evolve your business model, putting new commercial propositions (e.g., build content-based services) at its center.
ABOUT THE RESEARCH
Performance analysis of growth and profitability

6 ASSET-HEAVY industries
1,200 companies
12 years 2004 to 2015
LEARN MORE ABOUT DISRUPTION

BIG BANG DISRUPTION

COMPRESSIVE DISRUPTION

DIGITAL FRAGMENTATION
## Create an Intelligent Enterprise

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<th>Take Control of Disruption</th>
<th>Unlock Trapped Value</th>
<th>Rotate to the New</th>
<th>Master new organizational architectures</th>
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<td><strong>Forms of disruption:</strong></td>
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<td><strong>Perpetual change journey:</strong></td>
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<td>- Society</td>
<td>- Pivot wisely</td>
<td>- Cyber-resilient business</td>
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