



Q&A

Foresight 2020: Examining the Economic, Industry, and Corporate Trends of the Future

An interview with Robin Bew, Chief Economist,
Economist Intelligence Unit

The Economist Intelligence Unit (EIU), which provides ongoing analyses, forecasts, and business intelligence on more than 200 countries and eight key industries, recently released its newest research report: *Foresight 2020*.

The *Foresight 2020* report provides a comprehensive assessment of likely changes to the global economy, major industries, and corporate structures between now and 2020. Findings are based on research from the EIU's long-term economic forecasts, in-depth interviews with executives, analysts, and policymakers around the world, and a wide-ranging survey of over 1600 senior executives for their views on how their companies—and the environment in which they operate—would change over the next 15 years. The report was sponsored by Cisco Systems, but the EIU maintained complete editorial control during its creation and bears sole responsibility for its contents.

To learn more about the report and its findings, we sat down with Robin Bew, Chief Economist at the EIU.

“The global economy is changing. Those companies that can change with it will be successful; those that cannot will struggle.”

**—Robin Bew,
Chief Economist,
Economist Intelligence Unit**

Q. What was the purpose of the *Foresight 2020* research report?

A. We conducted this research in an effort to help companies gain a sense of the possible demographic, economic, and corporate trends they may face in the next 15 years. Given the pressures that today's companies face, it's quite challenging for them to step back from what they're doing in the short term in order to focus on the longer term. But in the world of global business, an awareness of the future is vital to ensuring that strategies are sustainable, that opportunities are identified at an early stage, and that potential challenges are addressed proactively. We expect that this research report, which outlines likely changes to the global economy, to eight major industries, and to corporate structures between now and 2020, will enable companies to be better prepared for those challenges.

Q. What were the key findings of the report?

A. The major findings and trends basically fall into five areas. First, globalization. The world is already becoming a larger and more dynamic place, and that will only continue over the next 15 years as emerging markets such as China and India continue to grow rapidly and hence take a greater share of the world economy. This redistribution of economic power will have profound effects not only on the emerging markets, but also on the established ones. A second critical finding is related to demographics and population shifts. In regions such as Europe and Japan, where the population is aging rapidly, we expect slower growth whereas in many emerging countries, where the demographic profile is more favorable, we expect faster growth. The United States will fall somewhere in between these two extremes. We also expect that globalization and shifting demographics, along with improved networking

technologies, will create a trend toward atomization, which is the third key finding. Atomization is the idea that increasing competitive pressures will result in processes, firms, customers, and supply chains fragmenting. Companies will expand overseas, work will flow to where it is best done, and information will increasingly be digitized. This will make collaboration between partners and with customers more important than ever. The fourth major finding of our research is the trend toward increased personalization. Price and quality will continue to be important, but the real value in years to come will be in a company's ability to customize its products and provide customers with a high quality of service. Finally, given the easy commoditization of products, the improved automation of simple processes, and the increased competition in the marketplace, companies will be looking for other ways to improve efficiency, satisfy customers, and grow their business. The key will be to attract and retain trained, productive knowledge workers. The increased importance of knowledge workers is the fifth major trend, and managing such workers effectively could well determine which companies will succeed and which will struggle in the next 15 years.

Q. The report is broken down into three main categories: the global economy, the major industries within the global economy, and then the company itself. What specific findings on the global economy were the most surprising—or the most important—in your opinion?

A. I think it's important to note that the world economy will be so much bigger—two-thirds bigger—in 2020 than in 2005. But the fact that the economic pie is bigger doesn't necessarily mean that today's largest countries or businesses will continue to dominate. The US will outpace other major developed countries in income and GDP growth thanks, in part, to its favorable demographic profile. The European Union, on the other hand, has an aging population and the existing 25 member states will shrink as a share of global demand. Only by virtue of its increasing membership will the EU in 2020 maintain the economic weight that it has today. Countries like China and India, which are growing tremendously, will continue to narrow the gap with these Western markets. But even in 2020, both of these nations will remain poor, with incomes per head far below those in even the worst performing developed markets. Another particularly significant finding, in my opinion, is that the pace and extent of globalization will be the single most important determinant of world economic growth. This is an area in which both developed and emerging countries play a role. Consider the impact of past trade agreements on the overall pace of globalization and growth. Liberal trade agreements have spurred globalization as companies sold their goods and services worldwide and invested overseas; this increased competition is fostering greater efficiencies, lowering the cost of goods and services, and stimulating world economic growth. Countries in the developing and industrialized world have benefited as a result. Yet there are myriad social and political pressures threatening further trade and investment liberalization, and even some signs of new protectionist barriers being erected. This is worrying, as our research shows that if protectionism were to take greater hold worldwide, the consequences for growth would be substantial and adverse.

Q. How do you expect these global economic findings to impact the major industries?

A. Our report examines the potential impact on eight major industries, but let's take one industry, retail, as an example. As previously discussed, we expect emerging markets such as China and India to create significant growth opportunities as those consumers become more demanding and as products proliferate. Although household income levels will still lag well behind those of mature markets, it is important to note that in terms of aggregate purchasing power parity, China will have closed the gap with the US by 2020. This will translate into a need for retailers to take a close look at where demand is coming from and take advantage of large—yet still low-income—emerging markets. In mature markets, demographic shifts, a rising environmental awareness, and increasingly fickle consumers will spur retailers to examine their products and innovate. In both emerging and mature markets, retailers will face increased competition and customers will place more weight on personalized service. As a result, retailers will need to enhance

their ability to deliver—particularly by improving the way they train and recruit workers and by updating their IT investments—if they are to successfully meet these challenges and maintain their competitive advantage. Although I’ve used retail as an example here, it’s important to note that some of these trends will impact and apply to other industries as well, though the specific details will vary.

Q. Given these economic and industry trends, what changes do you expect to see in companies in the next 15 years?

A. Although companies will continue to focus on automation and process improvements, the hunt for competitive advantage will increasingly focus on three areas: improving the productivity and performance of knowledge workers; delivering unique value through specialized or niche products and services; and maintaining more intimate relationships with customers and suppliers. We expect all of this to impact a number of areas within the company—from IT investments, which will be geared toward improving collaboration and helping knowledge workers perform better, to the production process, which will be outsourced as necessary to improve product quality and service value. Even the hierarchy of the organization itself is likely to shift, becoming flatter as internal teams work across time zones and functions, and as individual employees are given greater mobility and decision-making autonomy within those teams.

Q. In your opinion, what are the most important messages that today’s business leaders should take away from the *Foresight 2020* research report?

A. I think one of the most important insights of this report is that the next 15 years will bring massive changes to the shape of the world economy, to the landscape of major industries, and to the workings of the company. Today’s business leaders need to be aware of the trends that are shaping the global marketplace and carefully examine how those trends will affect their industry and their particular business. For example, knowing that the changing shape of the global economy will cause top-line growth to come from emerging markets, business leaders can work proactively to enter those markets and take advantage of that growth. Recognizing that shifting global demand will drive niche markets, CEOs can create their own niche—or determine which existing niches will be most appropriate for their business—and then establish themselves as the early market leader. Understanding the trend toward atomization and the future importance of “soft” value drivers such as improved collaboration and personalized customer service, CEOs may look at restructuring their organization and shifting employee roles and responsibilities as a way to help deliver that value. In the end, I suppose all of this comes down to one key message: The global economy is changing. Those companies that can change with it will be successful; those that cannot will struggle.

For more information about the *Foresight 2020* research report, please visit www.cisco.com/go/foresight2020



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