The CEO’s Dilemma

Building Resilience in a Time of Uncertainty

September 2022
Global disruptions and an increasingly complex macroeconomic outlook will be key elements of the strategic environment for the foreseeable future.

For leaders, the only certainty is that waiting for clarity is a losing move.

The best organizations know how to turn uncertainty into opportunity. Their playbook relies on two critical elements: a shared and clear view of the world and the strategic challenges/opportunities it presents—and a resilient and adaptable plan to win.

In this BCG Executive Perspectives edition, we address what it takes to win in the face of uncertainty.
Today's global disruptions (e.g., geopolitical tensions, supply chain bottlenecks) and economic headwinds (e.g., soaring inflation, rising interest rates, decelerating growth, and currency fluctuations) have created a complex, once-in-a-generation, competitive environment with significant variations across geographic areas and sectors. Navigating this unprecedented complexity requires business leaders to develop a dynamic perspective not only on the most likely scenarios for how their operating and economic environments will evolve, but also on the distinct opportunities and risks these scenarios present for their organizations. Our research shows that “winners” in economic uncertainty do not just sit back and wait for recovery—instead, they are proactive and turn ambiguity into opportunity.

There is no “one size fits all” solution to today’s complex strategic challenges. But our research suggests that the best companies do two things well in crafting their unique plans to win. First, they have a clear understanding of their strategic starting point that takes into account nuanced and deaveraged perspectives on the economic and operational stability of the markets in which they operate—as well as on their own organizations' financial strength (e.g., profit volatility, free cash flow to debt ratio) ultimately falling into four high-level starting-point archetypes. And second, they embed a “dynamic strategy” mindset into their planning, comprising three elements:

- **Sensing**: Observing trends, defining and monitoring critical uncertainties, and outlining a set of scenarios against which to assess business decisions
- **Adapting**: Building operational and financial stability by shaping and reshaping strategies based on market trends and data-driven forecasts
- **Thriving**: Moving rapidly from assessment to action to seize growth opportunities and strengthen competitive advantage
In the News | How geopolitics, the pandemic, and policy choices are creating an increasingly complex economic and competitive environment

China Covid Lockdowns Threaten To Fuel U.S. Inflation As Economic Pessimism Grows

Supply chain—from disruption to inflation and back again

Global climate crisis hits home in the U.S. amid record heat and pervasive wildfires

Russia's War in Ukraine Is Driving Global Inflation. Here's How Much

Labor unrest disrupts supply chains from sky to sea

IMF Again Cuts Global Growth Forecast Amid Inflation, War in Ukraine

Fed hikes 75 basis points second time, signals third is possible

Is Recession Staring Us Down? Already Upon Us? Here’s Why It’s Hard to Say

World economy may soon be on the cusp of recession—as it happened

Global GDP Growth to Slow through 2023. Adding to Risk of ‘Hard Landing’ in Developing Economies

Increasing uncertainty driven by a set of global disruptions and exacerbated by macroeconomic headwinds needs to be met head on.

**Global Disruptions**

**Geopolitical tension**
With tension unlikely to ease soon, organizations need to rethink—not just de-risk—their business models for greater advantage in a multipolar world.

**Supply chain bottlenecks**
Bottlenecks will continue, increasing strategic importance of agile & sustainable supply chains to support strategies and boost advantage.

**Tech disruption**
The inexorable rise of new technologies (e.g., AI, Quantum) will raise the bar for disruptive innovation and reinvention.

**Consumer behavior shifts**
Consumers are rapidly changing purchasing behavior as a result of recent disruptions (e.g., COVID-19).

**People challenges**
Talent is a critical source of advantage; companies focused on people, culture, and new ways of working perform stronger in uncertainty.

**Climate change**
The climate crisis, the defining challenge of our time, is challenging companies to step up with ambitious ESG and net-zero strategies and commitments.

**Macroeconomic Headwinds**

1. **Soaring inflation**
   Inflationary pressure and consumer demand shifts continue to affect global businesses with impacts on labor, energy, and materials costs. How will inflation evolve globally and how can leaders blunt its impact on their businesses?

2. **Rising interest rates**
   Central banks are moving carefully and decisively to tamp down inflation via higher interest rates with knock-on effects for borrowing costs, investment levels, and relative currency values. How will rising interest rates affect capital access for businesses and consumers, and will they create tectonic shifts in competitiveness around the world?

3. **Uncertain recession outlook**
   Global economic sentiment has been gloomy, with recession indicators mixed and a wide range of forecasts. What is the economic outlook, how does it differ from previous downturns, and how will it play out across sectors?
Inflation levels have risen sharply around the world but are expected to come down in the next two years.

Global inflation trends by country

Current high inflation levels are geographically broad-based, with many countries matching or exceeding peak levels seen in past recessions. But early indicators might suggest inflation slowing as the economy cools in various parts of the world.

Forecasted inflation ranges by region

Analysts do not expect inflation to become entrenched, however. An aggregation of recent inflation forecasts suggests a gradual inflation slowdown over the next several years barring any shifts or additional external shocks.

Dramatic shifts in inflation drivers vary across regions and countries with energy emerging as one of the strongest drivers.

**Breakdown of headline inflation by driver (%)**

**Legend:** - - - Central bank inflation target  
- Energy  
- Durable goods  
- Services  
- Housing  
- Nondurable goods

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**Note:** Data through 7/2022; US latest CPI weights – Non-durables ex-energy at 22%, Durable goods ex-energy at 12.8%, Housing ex-energy at 32.5%, Services ex-housing at 24.4%, Energy at 8.3%. Eurozone data through 7/2022, EU latest CPI weights – Non-durable ex-energy at 34.3%, Durable ex-energy at 12.7%, Housing ex-energy at 11.3%, Services ex-housing at 33.1%, Energy at 7.1%. China data through 7/2022, China does not publish its CPI weights so the weighting estimated through Bloomberg may differ from headline nondurable ex-energy at 38.2%, Durable ex-energy at 5.8%, Housing ex-energy at 26.2%, Services ex-housing at 23.8%, and energy at 8%. For ‘Energy’ we chose ‘automotive fuels’ as the closest comparison in China.


Given the significant variability in the intensity and drivers of inflation from market to market, leaders need to understand inflation’s impact across their operating footprint and develop mitigation strategies.

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Varied central bank policy shifts curbing consumer & company spending power and access to 'cheap' capital—and many analysts expect high rates to persist.

**Current interest-rate policies**

Interest rate policy forecast ranges

Central banks are seeking a delicate balance, hoping to slow inflation without triggering a deep recession. The US Federal Reserve and the European Central Bank have announced some of the sharpest increases in recent years—and many countries and businesses with significant debt are beginning to feel the squeeze.

Analyst consensus is that today’s higher rates will persist into the medium term implying decreased demand, higher debt service costs, continued currency pressures, and lower profits. This raises interesting questions around sustainability & healthiness of debt levels and the burden of higher interest rates for governments & businesses.

Note: Eurozone - ECB main refinance operations announcement rate; US Fed, Federal Funds Target Rate-Upper Bound; BOJ Policy-rate statement/loan/discount rate; Range includes highest and lowest forecast; aggregated average forecast as of Aug 16

Source: Bloomberg, BCG Analysis

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Strong currency moves are driving tectonic shifts in competitive advantage and access to capital across the world.

Diverging policy regimes and geopolitical factors drove currency moves, mostly strengthening the US dollar...

…and leading to tectonic shifts in competitive advantage and access to capital across the world.

High interest rates in US translate into a greater interest in dollar-denominated investments in general, strengthening the dollar and increasing liquidity and access to capital in US.

Emerging economies historically have weakened and lost competitiveness when the US dollar appreciated relative to other major currencies—there may be discussion around what will happen this time, including, if emerging economies could benefit from global economic slowdown.

Correlation USD index and capital flows to/from emerging countries
(dollar index, investment flows to emerging markets in B$)

Correlation coefficient = -0.67

Source: International Monetary Fund

Note: Yearly average exchange rates shown; Source: BCG analysis; Bloomberg FX data as of Aug 16
Recent GDP deceleration suggests significant recession risk...

GDP growth (Y/Y %)


While recession remains a risk, recent forecasts suggest that a period of relatively flat growth is more likely...

...however, aggregation of GDP forecasts points to some downside risk, but not near-term recession

Real GDP forecast (Y/Y %)

US

Mean Forecast range

Q3 22 Q4 22 Q1 23 Q2 23 Q3 23 Q4 23

-4% -2% 0% 2% 4% 6% 8% 10% 12%

Eurozone

Mean Forecast range

Q3 22 Q4 22 Q1 23 Q2 23 Q3 23 Q4 23

-4% -2% 0% 2% 4% 6% 8% 10% 12%

Japan

Mean Forecast range

Q3 22 Q4 22 Q1 23 Q2 23 Q3 23 Q4 23

-4% -2% 0% 2% 4% 6% 8% 10% 12%

China

Mean Forecast range

Q3 22 Q4 22 Q1 23 Q2 23 Q3 23 Q4 23

-4% -2% 0% 2% 4% 6% 8% 10% 12%

Global growth expected to slow from 5.7% in 2021 to 2.9% in 2022, 1.2% lower than forecast in January 2022

Source: IMF GDP Actual Growth Y/Y % including combined 2022 actual & H2 2022 average forecast as of Aug 24, Bloomberg GDP quarterly forecast consensus data as of Aug 4; BCG Analysis

For instance, US economy shows conflicting indicators, clouding the outlook. Implication of China’s flatter GDP growth for the global economy may create diverse interpretations and hence different strategic choices.

What’s worse, another disruption could immediately impact the forecasts.

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Monitoring indicators that are…

**Decreasing recession risk**

- **US consumers well positioned to absorb shock given** significant cash on hand
- **Current EPS estimates** for 2022/2023 remain very high, providing a buffer to withstand some downgrades
- **Employee compensation growth beats inflation** aided by labor force growth
- **Purchasing manager indexes**, while not yet at troubling levels, have recently weakened
- **GDP forecasts point to downside risk**, but not necessarily to a near-term recession
- **The labor market remains strong**, although hiring and wages are easing, potentially indicating a slowdown in the economy
- **Unemployment rate**

**Increasing recession risk**

- **Fiscal policy contribution** to GDP growth will likely remain negative for the next two years
- **Inversion of yield curve** is the market’s favorite recession signal, but weakened by negative term premiums
- **Drawdown of ~25%**, although not necessarily a precursor of recession
- **GDP forecasts point to downside risk**, but not necessarily to a near-term recession
- **PMI indexes**
- **US fiscal policy**
- **Yield curve**
- **S&P index**

Source: BCG analysis
US Deep Dive | In contrast to the lead-up to previous downturns, the economy remains strong with unemployment at historic lows

US consumers well placed to absorb shock with significant savings
Household cash and equivalents—and cumulative excess savings

Cash and equivalents held by US households nearly doubled between 2020 and 2022, providing a significant buffer against near-term recession

Nearly record low unemployment could be a sign either of a strong economy or that the economy is overheating

Unemployment rates are back to pre-COVID-19 levels…
Unemployment rate (%)

… while wage growth is slowing from recent peak
Change in average hourly earnings (%)

Note: Savings and household wealth data as of Q1 2022; unemployment data through 6/2022; wages data through 6/2022
Source: NEBR, Federal Reserve Board, BLS, BCG analysis
US fiscal policy contribution to real GDP growth (Q/Q SAAR, % pts)

Fiscal stimulus was the largest driver of US GDP growth during the early stages of the pandemic. The last stimulus package was in 2021, creating a high base period for comparison, followed by a sharp inversion as stimulus programs end. Assuming no additional legislation, we estimate the fiscal policy contribution to GDP growth will remain negative for the next two years, reaching 0% by Q4 2024.

Source: Brookings Fiscal Impulse, BCG analysis
Different sectors are affected differently by macro uncertainties.

Sectors like agriculture are typically less vulnerable to business cycle shifts, while other sectors (e.g., media, tech, fashion) tend to be more affected. But this varies by recession depending on drivers.

Some sectors (e.g., retail), which were less vulnerable in the early 2000s recessions, are showing greater vulnerability in the current environment.
Top performers in economic uncertainty do not just wait for recovery; instead, they build competitive advantage and turn ambiguity into a source of opportunity.

**Key moves top performers make to grow and thrive over the long term:**

- **Scaling digital solutions to drive significant impact**:  
  - 3X higher returns  
  - 15-20% revenue growth  
  - 15-20% cost savings

- **Taking advantage of lower valuations to double down on M&A**:  
  - 4.6% one-year RTSR on core industry acquisitions  
  - 8.5% one-year RTSR on non-core industry acquisitions

- **Committing to innovation**:  
  - Innovation leaders invest 1.4X and take more time, but deliver ~4X outperformance compared with innovation laggards

**Total shareholder return of ~1,000 international companies**

Comparison of top vs. bottom quintile TSR

Note: S&P 1200 (ex. financials and real estate companies)  
Source: Capital IQ, BCG analysis; 1. BCG Digital Enablement Score; 2. Refinitive, BCG analysis; 3. BCG Global Innovation Survey; BCG i2i team

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AGENDA

- A view of the world
- A plan to win
## Business leaders must balance contrasting priorities amid strong macroeconomic headwinds

### Global disruptions

| Evaluate and **shift geographic footprint** for conducting business across value chain | Geopolitical tension unlikely to ease |
| Diversify **supply chain** and material sourcing for increased flexibility | **Supply chain challenges are strong** |
| Accelerate **tech innovation and digital transformation** of existing business model | **Tech continues to disrupt the world** |
| Adapt business model and invest in e-commerce to meet **rapidly shifting consumer demand** | **Consumer demand shift continues to evolve** |
| **Accelerate hiring** and upskill existing talent to fit business needs and new ways of working | **People challenges persist** |
| **Commit and fulfill net-zero targets** through significant investments | **Climate change pressuring our future** |

### Macroeconomic headwinds

(Interest rates/inflation/recession)

| Leverage derivative tools to counter the risk of **forex charges** while maintaining business model | Strengthen existing supply chain to cope with **inflation** and uncertainty |
| Postpone digital and tech investments to **preserve cash balance** | Maintain current business model while adopting **dynamic pricing** to increase profits |
| Freeze recruiting efforts to **bolster** bottom line | **Postpone ESG capital commitment**, risking brand equity |

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**Note:** List not exhaustive
With the current disruptions and uncertainties, it is imperative for business leaders to reevaluate:

1. The stability of their portfolio against economic downturns & market disruption
2. The internal financial stability to cope with uncertainty

Each business context is distinct, but four starting-point archetypes can help leaders understand the moves most relevant for their organizations.
Four starting-point archetypes for organizations faced with uncertainty

**Market stability**
An outside-in view of how much key disruptions\(^1\) will affect the markets (e.g., countries, sectors) in which the company participates

**Financial stability**
An outside-in view of the ability of the company's finances to withstand drastic change\(^2\)

- **Unprepared**
  - At risk
  - Low
- **Fortress**
  - Strong position with minimal risk: positioned to thrive through high market stability and high financial stability
  - High
- **Prepared**
  - Moderately vulnerable: significant financial stability to mitigate risk and seize opportunity in an unstable market
  - High
- **Unprepared**
  - Weak, but relatively fortunate, position: more stable markets reduce risk from low financial stability
  - Moderate
- **At risk**
  - Most vulnerable archetype: operating in volatile markets with minimal financial safety net
  - Low

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\(^1\) E.g., supply chains, labor pools, geopolitics, consumers, investors, rival moves; \(^2\) E.g., profit volatility, free cash flows, debt levels, funding options, leadership readiness
Defining starting point based on archetype characteristics & related inaction risk

**Fortress**

'Fortress' companies should take an aggressive stance to leverage & further solidify their advantageous starting position. They should capitalize on their favorable market situation & strong financial foundation to pursue bold initiatives such as:
- Proactive M&A
- Explore new business models through innovation
- Accelerate digital & ESG transformation

Inaction Risk:
- Decline in competitive advantage by simply resting on an initial strong position
- Lose unique growth opportunities that uncertainty exacerbates

**Prepared**

'Prepared' companies should consolidate their existing market position & seek to leapfrog competitors. They should leverage their strong financial foundation to buffer against unstable market conditions through dynamic initiatives such as:
- Diversify business & organizational model
- Enhance supply chain
- Create ambitious agenda around digital, tech, & ESG

Inaction Risk:
- Lose financial buffer during the next global or market disruption
- Lose out on unique growth opportunities that economic downturns can create

**Unprepared**

'Unprepared' companies should focus on creating financial stability & safeguard existing operations. They should improve their weaker financial position in a relatively stable market through strategic initiatives such as:
- Transform business model with a financial focus
- Utilize data driven strategic planning
- Consolidate supply chains & vendor relationships

Inaction Risk:
- High burn rate and opportunity to 'run out of cash'
- Lack of ability to invest in key growth areas or support strategic agenda

**At Risk**

'At risk' companies should focus on a full-scale transformation that will stabilize their position and limit severe consequences. They should improve their poor financial position in an unstable market through transformative initiatives such as:
- Implement risk assessment systems
- Build strong financial foundation
- Reexamine & transform business model

Inaction Risk:
- High risk of insolvency
- Potentially insurmountable position with additional disruptions
- Potential 'easy prey' for stronger positioned companies
How to navigate uncertainty:
Enhance resilience and secure clear pathway for sustained growth

Sensing
Harness data to discern market trends & evaluate potential impact and develop scenarios to support business decisions
- Data-driven detection
- Dynamic scenario-based strategic planning
- Risk assessment & resilience diagnostic

Adapting
Build resilience across the value chain and functions
- Financial resilience
- E2E margin management
- Top-line resilience
- Supply chain resilience
- Organizational resilience
- Tech resilience
- ESG resilience

Thriving
Seize growth opportunities to build competitive advantage and medium- to long-term market position
- Portfolio reshaping
- M&A
- Tech and business model innovation

1. Including sensing the macroeconomics and analyzing scenarios based on client situation; 2. Including revenue resilience, investment, liquidity, cash and cost management resilience; 3. Including pricing, sales and marketing efficiency, e-commerce, dynamic inflation, streamline customer experience; 4. Including future of work, talent management, organizational structures
Fortress | Water & waste management company acquired major industry player to solidify global position and accelerate innovation

Recent example from the COVID-19 crisis with strong action:
The water & waste management sector experienced huge demand shifts due to the Covid-19 pandemic. These changes were compounded by a decrease in tariffs in the wake of unemployment, growing ESG pressure due to resource scarcity, and increased regulation intervention.

Riding the wave of a very strong 2019 above-target revenue and profit performance in a historically less vulnerable sector, this global water and waste management company sought to create cohesion to better fight off new global challengers and increase tech innovation to support robust growth ambition and segment diversification. Through the acquisition of a major competitor, they increased their financial stability, expanded their global footprint, and harnessed innovative tech and ESG capabilities to accelerate their ambition.

M&A
- Acquired global competitor with 30,000+ employees operating across all five continents
- Created a new entity with real growth potential and revenues of ~€5 Bn yearly

ESG resilience
- Leveraged acquired company to accelerate ESG agenda through circular economy blockchain, value creation in waste management through new recycling techniques and support drive for sustainable agriculture

Tech resilience
- Strengthened digital tools though influx of new tech from acquired company to optimize for management flow in real time, 24/7 monitoring of networks, accident anticipation software and smart operation centers

Leading to significant impact

+50% 1-year relative TSR increase due to confidence in the acquisition

Share capital increase of +€2bn confirmed the rationale and support of the acquisition
- Total demand for shares amounted ~200 million shares

Strengthened ESG & tech position, placing them in the top players in the industry
Prepared | Emerging biotechnology company led the way in groundbreaking R&D to gain value and profile

Recent example from the COVID-19 crisis with strong action:
The Biotechnology industry is largely composed of companies that are "pre-revenue" and conduct "high-risk, high-reward" innovation (e.g., new drug modalities) and are easily influenced by changing market conditions (e.g., liquidity, economic slowdown). However, investing in emerging tech and founding strategic partnerships can be a critical source of advantage.

From the early onset of the Covid-19 pandemic, this emerging player seized the opportunity to be at the forefront of innovation by investing in R&D to provide a fast and highly effective Covid-19 vaccine clinical candidate, ahead of many competitors. This biotechnology company strategically entered a partnership with a global healthcare leader to accelerate clinical trials, regulatory, manufacturing, and commercialization. Due to their investments in the 'right technology' and powerful strategic partnership, the company's financial strength enabled them to leapfrog their competitors and lead in a very competitive COVID vaccine market.

Business model innovation
• Entered a strategic partnership with one of the largest industry players
• Leveraged partner’s extensive experience in clinical trial conduct and regulatory to gain speed in approval and increased the probability of success

Tech resilience
• Invested heavily in 'frontier' technology that far exceeded competitors enabling revolutionary product innovation (e.g., cell therapy and multi-specific antibodies)
• Diversified technology use cases across multiple segments (e.g., cancer immunotherapy and vaccine)

Supply chain management
• Expanded and diversified existing supply chain (e.g., raw material suppliers, coating process) to ensure flexibility given the high demand from the Covid-19 pandemic
• Together they operated one of the most sophisticated supply chains with >40 owned sites & >200 suppliers globally
• Implemented comprehensive preparedness plans to control site operates

Leading to significant impact

x4 revenue growth between 2020 and 2021

4,000% increase in sales growth in 2021 alone

>200% change in market cap between 2020 and 2021

Considered as an emerging leader and pioneer of innovation within industry

Source: Press; BCG analysis
Recent example from the COVID-19 crisis with strong action:
The chemical sector has consistently outperformed the world index and has historically been shaped by long-term, stable trends. However, recent emerging industry trends (e.g., green chemistry, sustainability demand, new technology, etc...) has pressured players to innovate, distancing the gap for those who cannot keep up.

Despite an EBITDA below the chemical industry average, this company sensed the market changes and adapted its production, organization, and supply chain capabilities to meet the rapid shifts in the market. They temporarily adjusted their portfolio to meet global demand.

Supply chain resilience
- Remained in close contact with suppliers and logistics providers to ensure continuity of production and ‘find practical solutions’
- Diversified existing suppliers of a few key raw materials to reduce dependency on single source and minimize supply risks

Organizational resilience
- Pivoted workforce to accelerate production of hand-sanitizer to meet global need
- Reduced working hours for lower demand products therefore freeing up cash and reducing costs

A strong uplift was achieved

>100% EBIT increase

Return on capital employed was +10% compared to 1% the previous year

+30% increase of sales and cash flow; significantly strengthened their financial stability

+175,000 liters of hand sanitizer were produced weekly through Q4/2020
A leading global clothing manufacturer experienced major disruptions brought on by the COVID-19 pandemic including a record decline in business activity, decreased store traffic, outlets & franchise store closures globally, and significant supply chain disruptions (e.g., shutdowns of key suppliers of raw materials and manufacturing factories).

Facing extreme cost pressure and an expected decline in Q1 of 2020, the clothing manufacturer assumed a conservative approach to liquidity management across several key dimensions:

**Financial resilience**
- Implemented strict cost and working capital control measures to maintain healthy balance sheet and sustainable liquidity
- Suspended a €1Bn share buyback program & dividend payments to shareholders

**E2E margin management**
- Implemented plans to reuse unsold inventory in the next financial year
- Launched multiple targeted online campaigns to boost e-commerce sales
- Slowly reopened factories, distribution networks, and brick-and-mortar retail stores

**Supply chain resilience**
- Gradually normalized and resumed operations with manufacturers
- Suspended supplier orders for Q2 & Q3 of the year

Leading to significant impact:

- **>30% Y/Y increase in e-commerce sales in Q1 2020**
  - Including triple-digit rise in e-commerce sales in specific parts of the world

Survived disruption by increasing debt levels and implementing strict cost-cutting initiatives:

- **+2M live-stream viewers** during online 'Brand Day'
  - Generated ~$30M in the first 10 hours

Considered an e-commerce market leader as a result of doubling down on digital

Source: Press; BCG analysis
Take 3 key steps to navigate uncertainty and win in a downturn

1. **Sensing** macroeconomic and disruptive trends to shape (and reshape) future scenarios that guide strategic decisions

2. **Adapting** business and functional strategies in response to new insights and to market, economic, and competitive developments

3. **Thriving** by building competitive advantage to turn adversity into opportunity

Actions should be based on the specific business context
### Additional perspectives on uncertainty, resilience, and economic pressures

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