Global Capital Confidence Barometer

December 2019 | 21st edition | Digital
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Does digital support your growth and M&A strategy or define it?

With increasing market uncertainty, digital provides companies with opportunities to differentiate and drive performance.

The better the question. The better the answer.
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Building a better working world

99% of respondents say they have invested in digital transformation to some extent.	Digital is increasingly defining strategy.
55% of respondents are pioneers – organizations that have invested heavily in digital and view it as a transformative lever for their business.	Digital pioneers are emerging across sectors …
80% of pioneers say they are investing a quarter or more of their capital to their digital future.	… using digital to drive innovation …
94% of pioneers are planning a significant investment in the future to improve their customer experience through digital technology.	… and enhance the customer experience …
84% of pioneers expect to see increasing competition for assets when building their digital capabilities through inorganic approaches.	… to prepare for the next wave of disruption …
72% of pioneers reported increased sales or revenue and profit, despite a period of global market volatility and uncertainty.	… and drive strong performance.

> To succeed in the long run, companies need to plan their capital allocation strategically and balance near-term investments in their core business with the ability to meet customers' needs and market demands, today and in the future. This will likely mean investing in digital technology to help transform and future-proof their businesses. Pioneers understand this and continue investing in digital to accelerate their transformation and maintain their competitive edge.

Tony Qui
Chief Innovation Officer
EY Global Transaction Advisory Services

Digital

In a time of decreasing customer loyalty and increasing market uncertainty, digital technology provides companies with opportunities to differentiate themselves in the market and drive exceptional performance

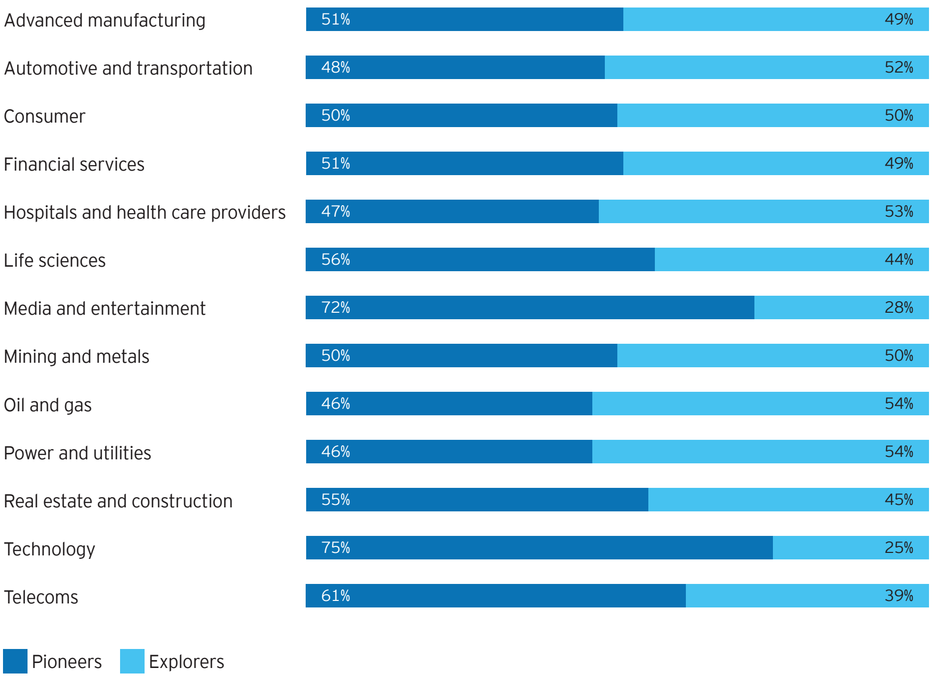
The results of the latest EY *Capital Confidence Barometer* indicate that of the 2,900 senior executives we surveyed between August and September 2019, almost all (99%) say they have invested in digital transformation.

It is becoming clearer that companies' approaches to digital strategy are maturing. It is no longer a question of **whether** companies are investing in digital, but more **how**, **where** and **how much**. However, there is still a difference in maturity between the most successful companies and others. Based on the advanced statistical analysis undertaken in collaboration with data scientists from the EY Advanced Insights team, we are able to segment respondents from the EY *Capital Confidence Barometer* into two distinct groups. This is based on their survey responses on how they have articulated investments in digital.

1. **Pioneers.** Pioneers represent 55% of respondents and include some of the world's leading companies. These organizations have invested heavily in digital and view it as a transformative lever for their business. They have a clear vision of how to leverage digital innovation to improve the customer experience and create value across the organization.
2. **Explorers.** Explorers represent 45% of respondents. They have also invested in digital, but not to an extent that has redefined their strategy. They see digital as supporting their existing business rather than driving the next wave of innovation and value creation. As a result, they are not as well equipped to pivot their strategy in taking new opportunities.

While the percentage of digital pioneers is higher in the Americas than in the Asia-Pacific region or in Europe, they have emerged in every industry. They appear in much higher numbers in technology, media and entertainment, and telecommunications, but they are present across every other industry.

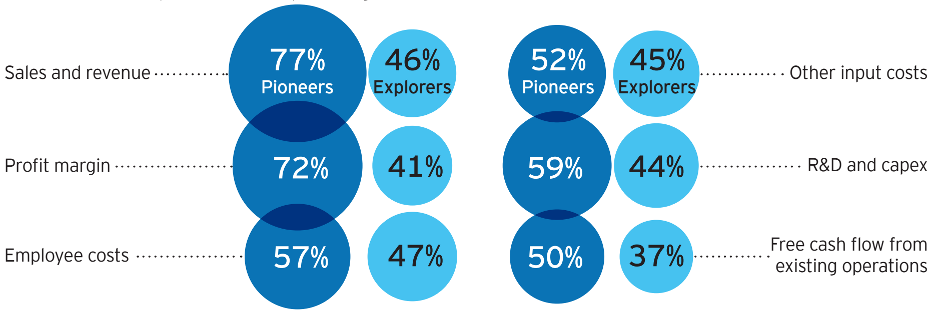
Percentage of digital pioneers vs digital explorers by industry



More importantly, pioneers' investment in digital technologies has paid off. They are over 30 percentage points more likely to have reported increased sales and revenue (77% vs 46% explorers) and profit (72% vs 41%) in the past 12 months. This despite a period of global market volatility and uncertainty. In the sections below, we look at areas which we believe drive pioneers' relative success.

Q **How have the following financial metrics changed for you in the past 12 months?**

Percent of respondents reporting increases in ...

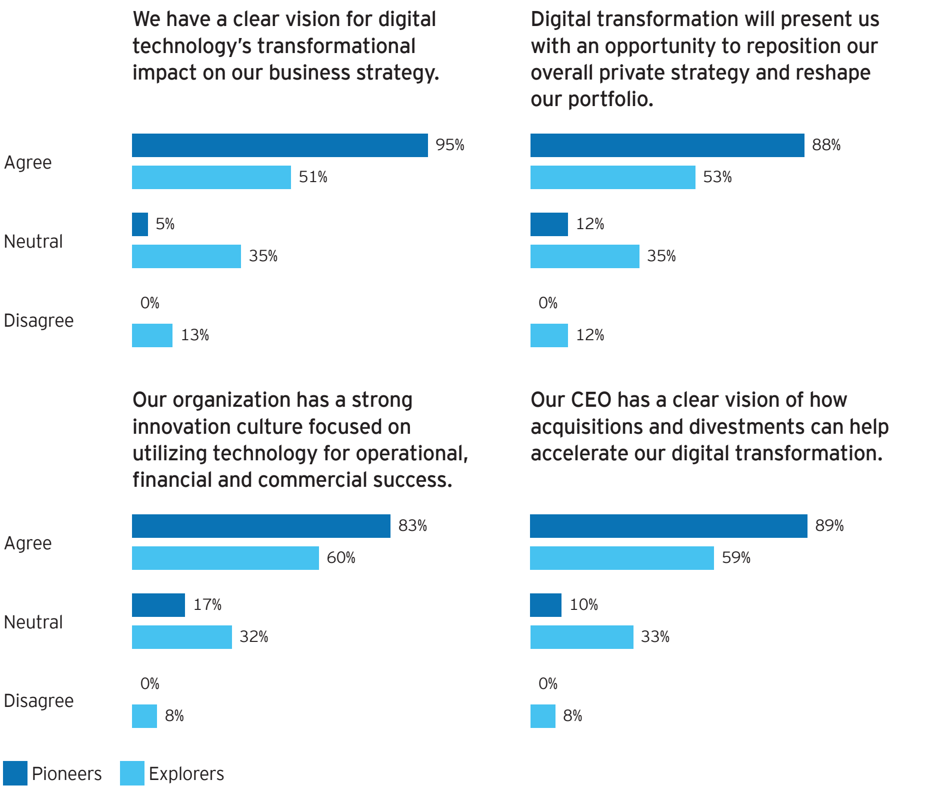


Why embedding digital in organizations' DNA is critical for success

A successful digital transformation requires a healthy innovation culture and a clear vision from the top down, which can then be translated into an actionable business strategy. Digital is and must be a part of the organization's DNA. Instead of having digital as an add-on, successful companies infuse digital capabilities throughout their business. These are the traits we see stand out across all respondents in the pioneer group. For example, 83% of pioneers say they have a strong innovation culture (versus 60% of explorers). They tend to have a better understanding of the impact of digital technology on their strategy (95% versus 51%) and believe that digital transformation will present new opportunities (88% versus 53%).

There's also a difference in tone from the top – 89% of pioneers agree that their CEO has a clear vision of how acquisitions or divestments can help accelerate their digital transformation. Yet only 59% of explorers have the same view.

Q **To what extent do you agree with the following statements?**



Why investing in digital is driving customer loyalty and creating long-term value

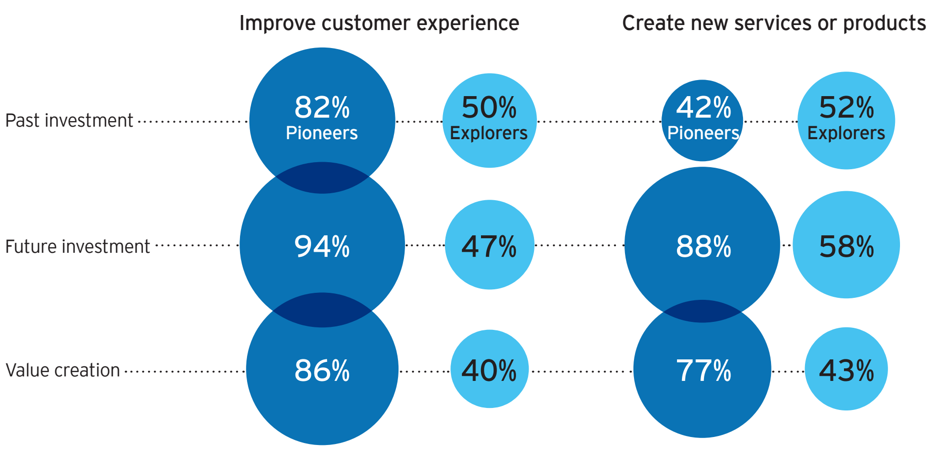
For most companies, the strategic objective is clear – finding growth. However, getting the right strategy is not easy, especially in a market environment where customer loyalty is fluid and disruption can come from anywhere.

To succeed in the long run, companies need to plan their capital allocation strategically and balance near-term investments in their core business with the ability to meet customers' needs and market demands, today and in the future. This will likely mean investing in digital technology to help transform and future-proof their businesses.

Pioneers understand this and continue investing in digital to accelerate their transformation and maintain their competitive edge. From vision to action, pioneers allocate funding to digital transformation to drive their strategy. More than 80% of pioneers say they are investing a quarter or more of their capital to their digital future. Explorers, while still investing in digital, are less likely to see it as central to their investment planning — less than one-third (29%) of explorers spend 25% or more on digital.

Moreover, pioneers prioritize their capital allocation to deliver a customer-centric business strategy. When we break down their investment plans to look at past, future and value creation intentions, we found the clear majority of pioneers have focused their past digital investment on improving the customer experience. Pioneers recognize that customer-centricity, customer experience and customer loyalty are paramount.

Q **In which areas have you made or are you planning significant investment in technology and where do you see most opportunity for value creation?**

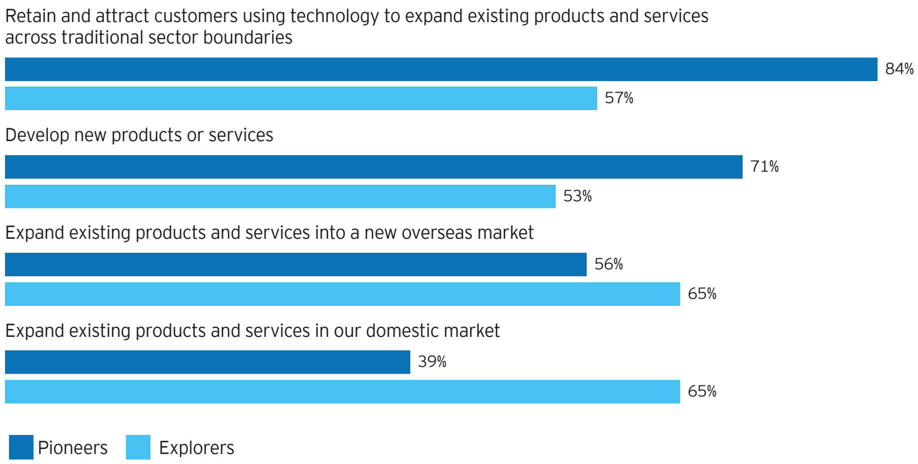


Pioneers also plan to invest more heavily in new products and services in the future. These investments are aligned with their top two strategic priorities focused on driving customer retention and the next wave of products and services.

> In a market of increasing competition and decreasing customer loyalty, finding new growth opportunities to deliver new products, services or innovative business models will be a crucial differentiator.

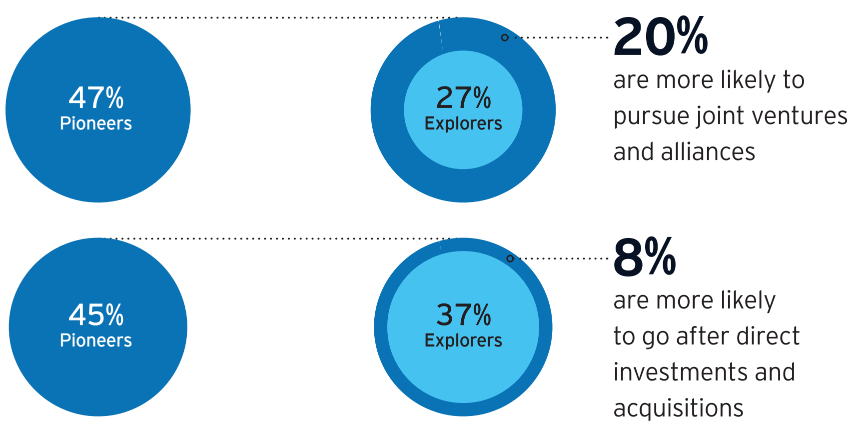
Explorers, meanwhile, are less focused on customer experience and therefore less likely to achieve their full investment potential. At the same time, their top two strategic priorities are focused on expanding their core business into new markets as a way to find growth. This may yield efficiencies today. However, it will not prepare explorers for the new customer landscape of tomorrow.

Q Which of the following growth strategies is a strategic priority for your company?



Why adopting an ecosystem mindset is key to build digital capabilities through M&A

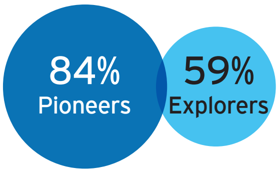
When we look at how companies go about building their digital capabilities, both groups are using in-house development and R&D, as well as inorganic approaches. However, pioneers place more bets and more frequently look to acquire capabilities from the outside. They are 20 percentage points more likely to pursue joint ventures and alliances (47% versus 27% of explorers), and almost 10 percentage points more likely to go after direct investments and acquisitions (45% versus 37% of explorers).



> This approach reflects an understanding that leveraging M&A to acquire digital capabilities provides the speed and flexibility to capture emerging opportunities before the competition.

As such, pioneers are more likely to view the increasing competition for assets as a threat to their digital strategy.

This highlights the importance of the business ecosystem. Companies are no longer operating in a closed environment and disruptive opportunities exist across the value chain. They need to consider the ecosystem of their suppliers, customers and competitors, which is a complex task. As such, it is key that companies adopt the right mindset in developing an ecosystem that will enable them to be more agile and accelerate their growth.



Expect to see increasing competition for assets in the next 12 months

EY Embryonic

A powerful, cloud-based platform that brings ecosystems to life by mapping the flow of funds and M&A transactions, and visualizing the relationships between traditional and innovative companies. Together with EY industry knowledge, it provides fast insights to make fact-based decisions on where to invest to help realize your growth potential. Find out more at ey.com/capitaltechnologies.

Case study:

A life sciences client was looking for an investment opportunity in digital innovations. They wanted to get a deeper understanding of the ecosystem to identify possibilities, as well as risks, in a relevant digital landscape. Utilizing Embryonic big data and analytics capabilities, EY teams helped the client to get strategic insights and in-depth analysis on competitive landscape and investment trends by providing an up-to-date benchmarking of where the client stands in digital innovations against best practices from key competitors. They were able to see implications and growth opportunities, as well as potential targets, from the data.

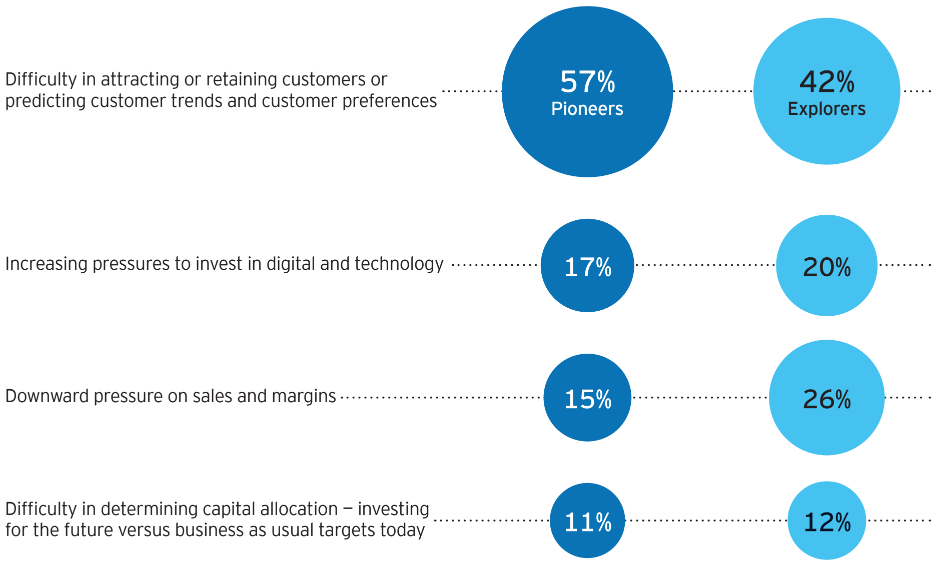
Why a flexible business strategy enables companies to embrace disruption

Geopolitical trade and tariff uncertainty, increasing competition from startups and technology, and regulatory uncertainty are the top three challenges that pioneers and explorers are both seeing as the greatest risks to their business growth. Additionally, explorers are much more concerned about an economic slowdown and the downward pressure on sales and margins. While pioneers are most worried about how these risks will negatively impact their value proposition and ability to serve customers.

> All along the digital journey, pioneers are prioritizing innovation, understanding their ecosystem and embracing challenges.

Pioneers are becoming disruptors rather than becoming the disrupted. They are better positioned to find pockets of growth and new opportunities, even in times of uncertainty. Explorers, in contrast, appear to spend much of their time protecting what they have now, potentially at the expense of what they may achieve in the future.

Q What is the main impact of disruption on your business or sector?



Key takeaways

Four key actions executives should consider to navigate their digital future successfully

Digital is the present for 99% of the respondents and the undeniable imperative for all in the future. Companies that believe in digital's transformative power will excel. Those slower on the journey may continue to perform well in the short term, but will find themselves on the back foot, or out of the race entirely soon enough.

From vision to action to outcome, companies will perform better overall and be more resilient in the face of continuing uncertainty if they take these four actions:

1 **Create a culture that embeds digital into the organization's DNA from the top down and throughout.**

2 **Define a business strategy that invests in digital to drive customer-centricity to create long-term value.**

3 **Adopt an ecosystem mindset and utilize M&A as a lever to accelerate growth.**

4 **Implement a flexible business strategy by embracing digital disruption to better respond to the ever-changing competitive landscape and risks.**

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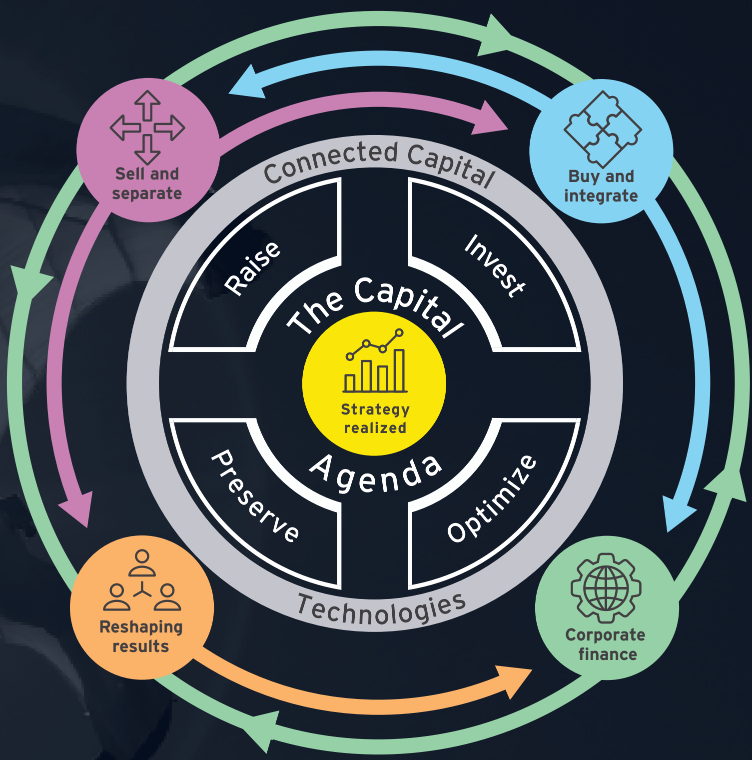

Strategy realized	Corporate finance	Buy and integrate	Sell and separate	Reshaping results
Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future.	Enabling better value-creating decisions through deep finance and strategic modeling to optimize capital agenda execution, financial performance and shareholder return.	Enabling strategic growth through better integrated and operationalized acquisitions, JVs and alliances.	Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin-off or JV.	Providing trusted leadership in urgent, critical and complex situations to rapidly solve business challenges, sustainably improve results and help you reshape for a better future.

Connected Capital Technologies

Our Connected Capital Technologies are an integrated suite of purpose-built technologies that help enable our EY professionals to deliver our Connected Capital Solutions by unlocking the power of data. They bring deeper analysis and faster insights to support better decision-making around your capital and transaction strategies through to execution, from growth strategy and portfolio reshaping to M&A, divestiture, post-merger integration and restructuring.

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How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you're preserving, optimizing, raising or investing capital, EY's Transaction Advisory Services combine a set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.

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About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas — EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select global EY clients and contacts and regular Thought Leadership Consulting contributors.

- In August and September, Thought Leadership Consulting surveyed on behalf of EY a panel of more than 2,900 executives in 45 countries; 70% were CEOs, CFOs and other C-level executives.
- Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.
- Surveyed companies' annual global revenues were as follows: less than US$500m (25%); US$500m-US$999.9m (25%); US$1b-US$2.9b (18%); US$3b-US$4.9b (10%); and greater than US$5b (22%).
- Global company ownership was as follows: publicly listed (57%), privately owned (31%), family owned (9%) and private equity portfolio company (3%).

About the survey methodology and EY Advanced Insights

In collaboration with the EY Advanced Insights team, we analyzed the responses of over 2,900 senior executives from the 21st edition of the EY Capital Confidence Barometer. Respondents were clustered into two groups using latent class segmentation based on their expressed views on and investments in digital. We then analyzed how these groups responded to questions on topics including capital allocation, business and M&A strategy, and performance. Reported differences are statistically significant using Pearson's Chi-squared test with multiple comparison correction (FDR=0.05).

The EY Advanced Insights team brings together EY service lines leaders, thought leaders and data scientists to develop a data-driven understanding of the challenges and opportunities driving the economic and dealmaking landscape. This team leverages advanced analytics and big data approaches to unlock deeper insights from data, and create proprietary products and services to engage the market and EY clients.