Gartner Business Quarterly

Proven Guidance for C-Suite Action

- 3 New Realities to Guide 2023 Planning as Inflation Response Cools Economies
- Lay the Groundwork for a Huge New Market: Machines That Are Customers
- To Keep Data Scientists, Set Them Free

Winning in the Weird Economy

Fourth Quarter 2022

Gartner Business Quarterly

Fourth Quarter 2022

Research & Advisory Val Sribar, Senior VP
Executive Sponsor Scott Christofferson, Group VP

Editor in Chief Judy Pasternak
Managing Editor Richard Eames
Associate Editor Kelly Fiveash
Contributing Editor Dian Zhang

Contributors
Preksha Agarwal
Brian Andersen
Elizabeth Barrett
Kathon Betterton
Sanchi Bhat
Michael Buhrmester
Sharon Cantor Ceurvorst
Jian Chen
Laura Cohn
James Crocker
Galliopi Demetriou
Michael Dominy
Ben Fisher
Kevin Gabbard
Zachary Ginsburg
Matthias Graf
Sonu Gupta
Dan Gutter
Markus Hofbauer
Annika Jessen
Janine Kanters
Elizabeth Kilbride
Alexander Kirss
Lucas Kobat
Jamie Kohn
Juha Korhonen
Eliza Krigman
Casey Logan
Jorge Lopez
John-David Lovelock
Cesar Lozada
Elizabeth Makris
Emma Mathison
Chris Matlock
Jim McGittigan
Leslee McKnight
Kevin Mercado
Malcolm Murray
Kritika Nijhawan
Suzie Petrusic
Iga Pilewska
Stephanie Quaranta
Laura Rainier
Mark Raskino
Randeep Rathindran
Marty Resnick
Srinath Sampath
Shradha Sapra
Don Scheibenreif
Steve Shapiro
Charlotte Siewick
Patricia Simione
Gurbani Singh
Vaishnavi Singh
Rachel Steinhardt
Brian Stickles
Christie Struckman
Crystal Styron
Jitendra Subramanyam
Gamika Takkar
Anna Toncheva
Anna Maria Virzi
Sarah Watt

Project Managers Dian Zhang, Carolina Abalos

R&A Studio

Senior Designers Nicole Daniels, Divya Malkani
Senior Editor Meghan Cortez

777174

Winning in the Weird Economy

Letter From the Editor

The world economy has been through a lot recently. We've seen just about every phase in the cycle crammed into the last three years: a long expansion that was breaking records, a pandemic-driven shock, an overheated roaring-back. And now we come to the most peculiar stage of all. A triple squeeze — of sustained inflation, a still-robust talent market and continued supply chain disruption — places new limits on executive leaders as we head into recessionary times.

Through the cooling and the contradictions, keep an eye on two important constituent groups: customers and employees. You will need them both when the cycle turns again — so be careful how you treat them now.

This issue of Gartner Business Quarterly will show you how corporate functions together can support customers through a time when more buys less and delivery schedules are unpredictable.

For most companies, the window for price increases is shrinking. Instead, apply a different mindset to cost management — a broader definition of productivity and an enterprise view of technology spending. Help customers use digital tools that save them money; enlist supply chains to help customers save time. And prepare for new growth markets you won't want to miss out on.

As for employees, use our findings to make the right talent tradeoffs during a downturn. And discover the secret to retention for a group in exceedingly high demand. Of course, we're talking about data analysts and scientists. Spoiler alert: higher pay is not the answer.

You'll learn from the real-world experience of a global group of organizations including Asurion, Eastman, John Lewis & Partners, Lowe's, Trane Technologies and ZF Group.

GBQ helps you align with others and reach peak effectiveness, so your enterprise can achieve its goals, be bold and principled, and bring employees, investors, and the public along for the ride.

Our standing departments keep you up to speed — Cutting Edge is a look at provocative new data; Briefs offer short takes about smarter spending and planning, talent and culture, growth and innovation, and data and technology.

We welcome your feedback. Please contact me at judy.pasternak@gartner.com.

— Judy Pasternak

Table of Contents

Departments

Feature Articles

Feature Articles

The Cutting Edge: 4Q22

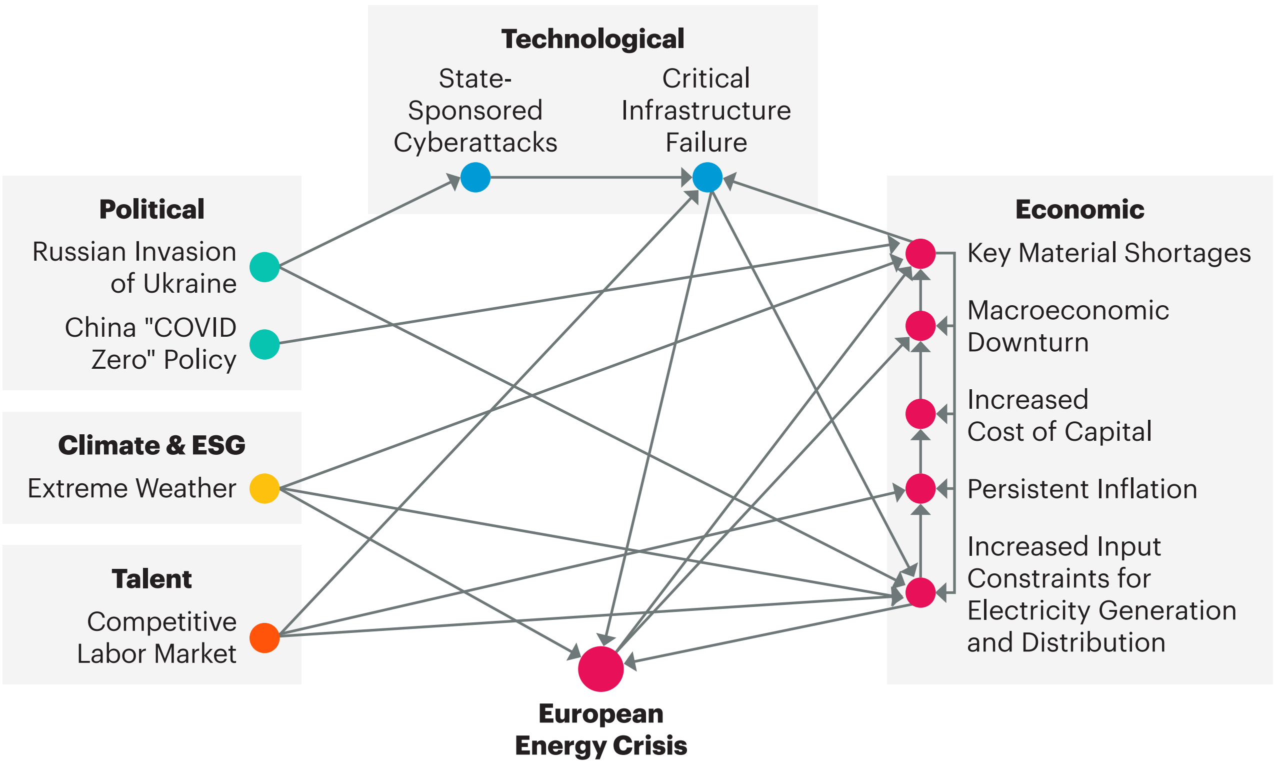
Cool New Data Points

Compiled by Laura Cohn

European Energy Crisis Could Intensify Top Emerging Risks

A complex web of risk interdependencies is contributing to worries about the availability and cost of energy in the EU and U.K., especially during the cold weather months ahead. In turn, a crisis may also contribute to additional emerging threats, including the top two that risk, audit and assurance teams cited in a survey: a recession and important material shortages.

European Energy Crisis Root Cause Map Among Top Five Emerging Risks

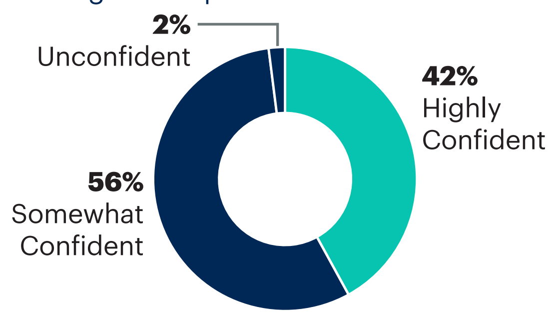


Source: Gartner; (1) "European Manufacturers Reel from Russian Gas Shutoff," Wall Street Journal; (2) "Analysis: France Braces for Uncertain Winter as Nuclear Power Shortage Looms," Reuters and "Germany to Keep Two Nuclear Plants Available As A Backup And Burn Coal as it Faces An Energy Crisis Brought on by War And Climate Change," CNBC.

Audit Executives See Cyberthreats As a Growing Risk in 2023

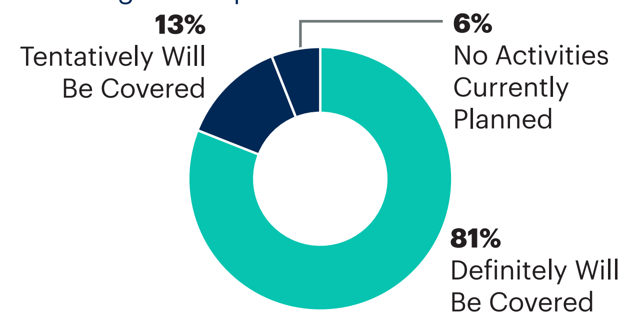
Fewer than half (42%) of audit executives are highly confident they can provide assurance over cybersecurity risk — although 81% plan to cover cybersecurity in audit activities. Russia's invasion of Ukraine and resulting geopolitical hostility could lead to increased cyberthreats. Even before war broke out, organizations believed that actors sponsored by the Russian government targeted them.

Confidence in Audit's Ability to Provide Assurance Over Cybersecurity Risk
Percentage of Respondents



n = 111
Source: 2023 Gartner Audit Key Priorities and Risks Survey

Plans to Cover Cybersecurity in Audit Activities in the Next 12-18 Months
Percentage of Respondents

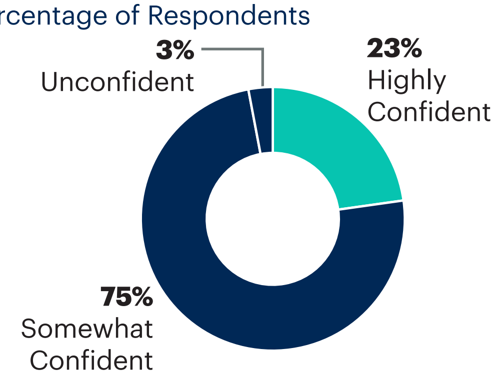


n = 112
Source: 2023 Gartner Audit Key Priorities and Risks Survey

Third-Party Risk Is Also a Concern

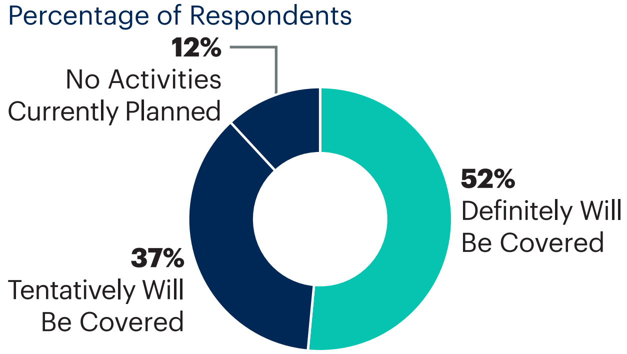
While more than half (52%) of audit executives say they will "definitely" cover third- and "nth" party risk in audit activities, just 23% say they are "highly confident" in their department's ability to provide assurance over this risk area. Third-party incidents, such as data breaches, compliance issues and supply chain disruptions, are increasing annually. Failing to strengthen oversight may expose an enterprise to regulatory fines, reputational damage and operational disruptions.

Confidence in Audit's Ability to Provide Assurance Over Third and "Nth" Party Risk
Percentage of Respondents



n = 110
Source: 2023 Gartner Audit Key Priorities and Risks Survey

Plans to Cover Third and "Nth" Parties in Audit Activities in the Next 12-18 Months
Percentage of Respondents



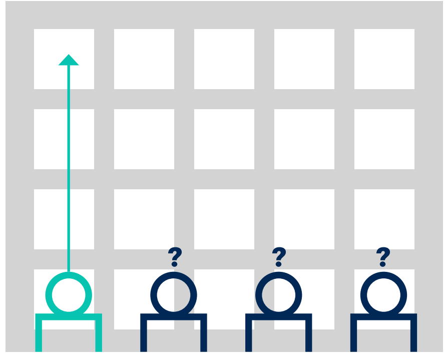
n = 112
Source: 2023 Gartner Audit Key Priorities and Risks Survey

The Cutting Edge

Worker Sentiment: Employees Are Unsure of Career Paths

Few (26%) employees are confident they will have a successful career at their current organization.

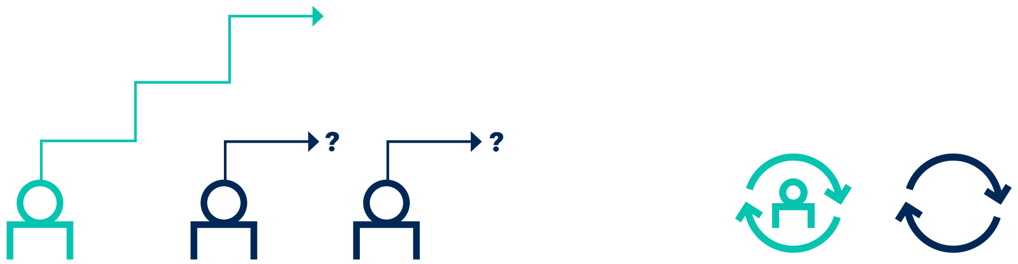
Just one in four employees is confident about their career at their organization.



n = 3,370 Employees
Source: 2022 Gartner New Talent Landscape and Career Pathing Survey

They Also Say They Can't Count on Their Managers to Help

Under a third of workers (31%) have a clear sense of *how* to advance their career over the next five years. Employees are developing in their current roles, but not towards their future roles: Only half say their manager tailors feedback based on potential positions they'd like to move to soon or later on.



Less than one in three employees knows how to progress their career over the next five years.

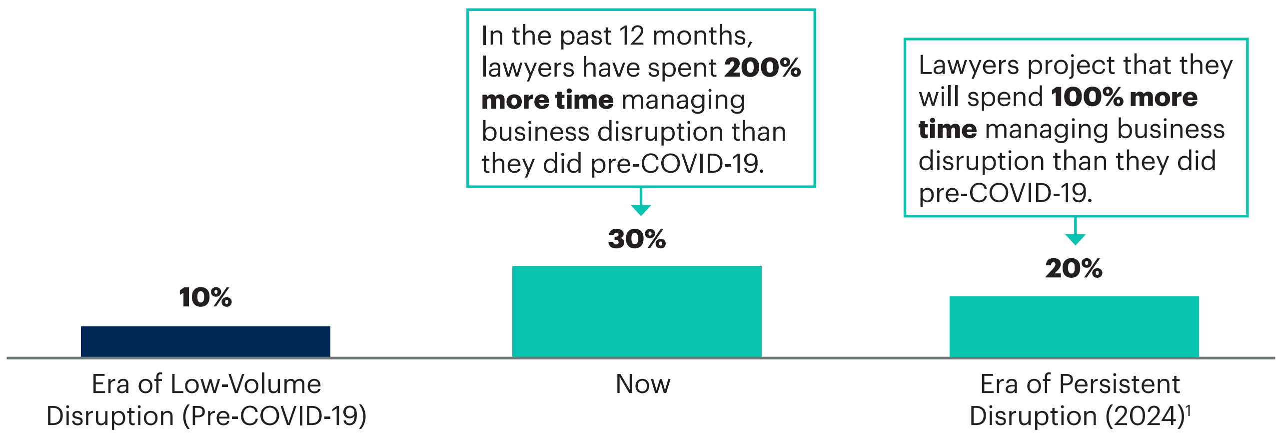
And just one in two says their manager tailors feedback based on the role they want to move into.

n = 3,370 Employees
Source: 2022 Gartner New Talent Landscape and Career Pathing Survey

In-House Lawyers: We Spend 200% More Time Managing Disruption Than Prepandemic

Ninety-three percent of lawyers said they had to make tradeoffs to respond to business disruption — and several lawyers told us they were forced to trade off work on projects of strategic significance to the business, including work on revenue-generating projects. And the problem isn't going away.

Lawyer Time Spent Managing Business Disruption



n = 140

Source: 2022 Gartner Legal Disruption Response Panel Survey

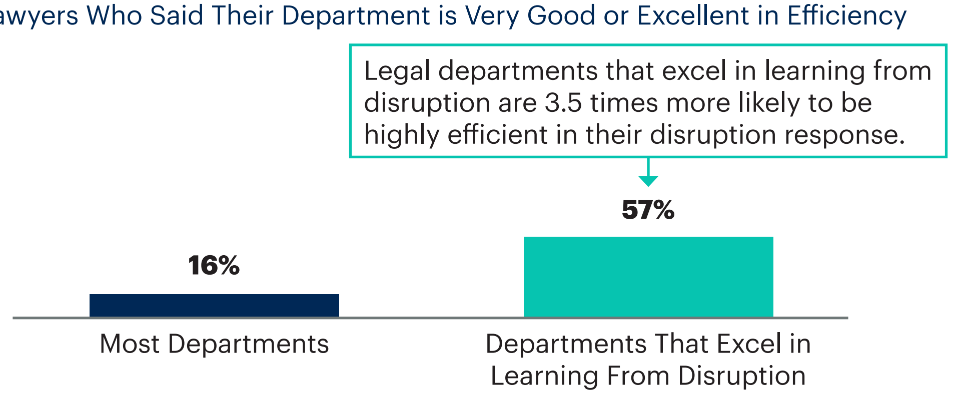
[1] Projected

Learning From Disruption Gets Legal to High Efficiency

Other functional leaders should also codify lessons as they work to improve their crisis management skills.

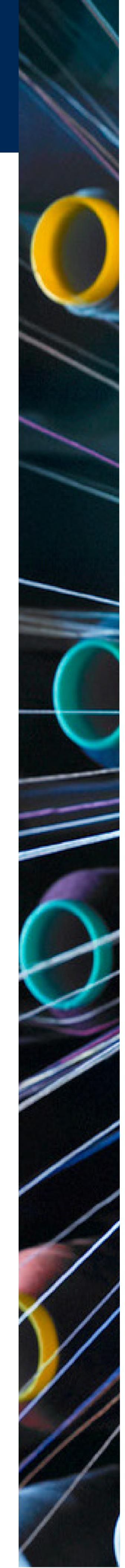
Impact of Learning on Efficiency

Percentage of Lawyers Who Said Their Department is Very Good or Excellent in Efficiency



n = 140

Source: 2022 Gartner Legal Disruption Response Panel Survey



3 New Realities to Guide 2023 Planning as Inflation Response Cools Economies

by Randeep Rathindran

The strange economic signals of 2022 have upended planning assumptions and complicated the lives of executive leaders steering their organizations through the cycle's turn. Global recession forecasts — based on falling GDP growth, a strong U.S. dollar, declining stock prices and property values — accompany historically low unemployment and continued robustness in job creation.[1, 2, 3]

Layoffs hit the headlines but so have actual and potential labor strikes.[4] Delivery delays led to stockpiling inventory, but then demand softened. Just as energy prices started to come down, OPEC decided to cut oil production by two million barrels per day. High prices are changing customer behavior, but when central banks hike interest rates to fight inflation, they feed momentum for a downturn.

The contradictions may be vexing, but opportunities beckon too. To make the most of those possibilities and prosper as the world continues shifting, keep three principles in mind:

1. The response to high prices can't be to raise prices.
2. You can't drive profitable growth without productivity growth.
3. Playing offense on talent doesn't have to break the bank.

The Response to High Prices Can't Be to Raise Prices

Most economists project that inflation will remain high through the first half of 2023. But the window for price increases is shrinking. Although about four in five CEOs and CFOs told us in June they planned to continue charging more for products and services,[5] possibly through the first quarter of 2023.

Passing higher input costs onto customers is ill-advised for three reasons:

- Higher interest rates affect the cost of everything from credit card debt payments and car loans to adjustable rate mortgages. So, consumers will either scale back on purchases of durables and other discretionary spending or spend a higher share of their incomes paying for them. These actions reduce demand for other goods and services; consumer confidence is plunging in the U.S., the U.K., Germany, Poland and major Latin American economies.[6] If your customers are other companies, remember that higher interest payments on corporate debt will leave them with less cash on hand to fund the business.
- Second, the correction in stock and real estate markets is eroding wealth and savings, which can lower spending, especially as goods and services become more expensive.
- Last, but not least, customers increasingly suspect companies of price-gouging, raising prices without need, or higher than needed, because inflation provides cover. The resulting distrust can drive once loyal customers away.[7]

Unless they have pricing power or are in a region and industry dealing with severe shortages (e.g., natural gas in Europe), organizations must now look beyond knee-jerk price increases toward cost optimization to protect margins.

CFOs understand the situation. For CFOs and senior finance leaders that attended a May 2022 Gartner webinar, the sentiment for continued price increases dropped from 54% in 2Q to 25% in 4Q. The number that said they would resort to cost cutting as the tool to protect margins almost doubled (see Figure 1).[8]

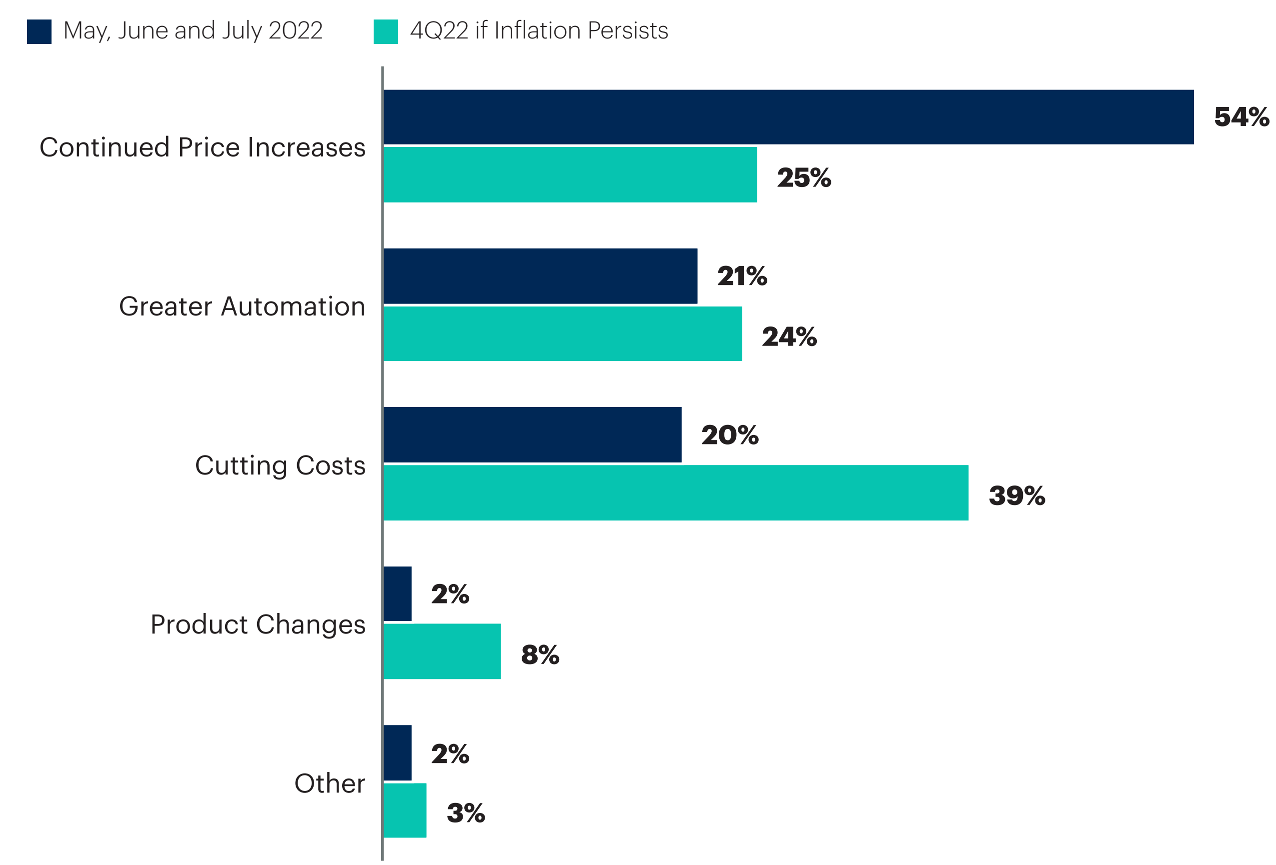
But executives and functional leaders should not stop at eliminating and rationalizing costs. Deploy the full playbook — renegotiating contracts, shifting spend and prioritizing investments according to business value as well as how they support the company's ability to stand out from the pack.

While cost optimization levers can help protect margins, there's one way to expand margins, and it's critical.

You Can't Drive Profitable Growth Without Productivity Growth

Doing more with the same or fewer resources is a necessity today, especially as economic nationalism limits opportunities for global labor cost strategies and monetary tightening raises the cost of borrowing. As these options dissipate, profitable growth and productivity become inextricably linked.

Figure 1. Finance Leader Actions to Combat Inflation
Percentage of Respondents



n = 182 CFOs and finance leaders (May, June and July 2022), 189 CFOs and finance leaders (4Q22 if Inflation Persists)
Q: What is the main action you will take in May, June and July to combat inflation?
Q: What is the main action you will take in six months if inflation remains persistently high?
Source: 2022 Gartner CFOs' 2022 Playbook for Enhancing Profitability and Driving Digital Acceleration Webinar

IT, therefore, is no longer a cost center to target as it was during the financial crisis of 2008 and 2009 when global IT spending declined by 5.83% in 2009.[9] Sixty-five percent of organizations responded to COVID-19 pandemic lockdowns by accelerating technology investments in automation and digitalizing their businesses.[10] And now about 45% of CEOs and CFOs say digital technology investments to improve performance efficiency would be among the last things they would cut.[11]

However, it's unclear whether digital acceleration has affected organizations' productivity. Although 73% of CEOs and CFOs perceive that employee productivity has improved, and 42% believe that digitalization has driven up asset productivity, the evidence is far from conclusive.[12]

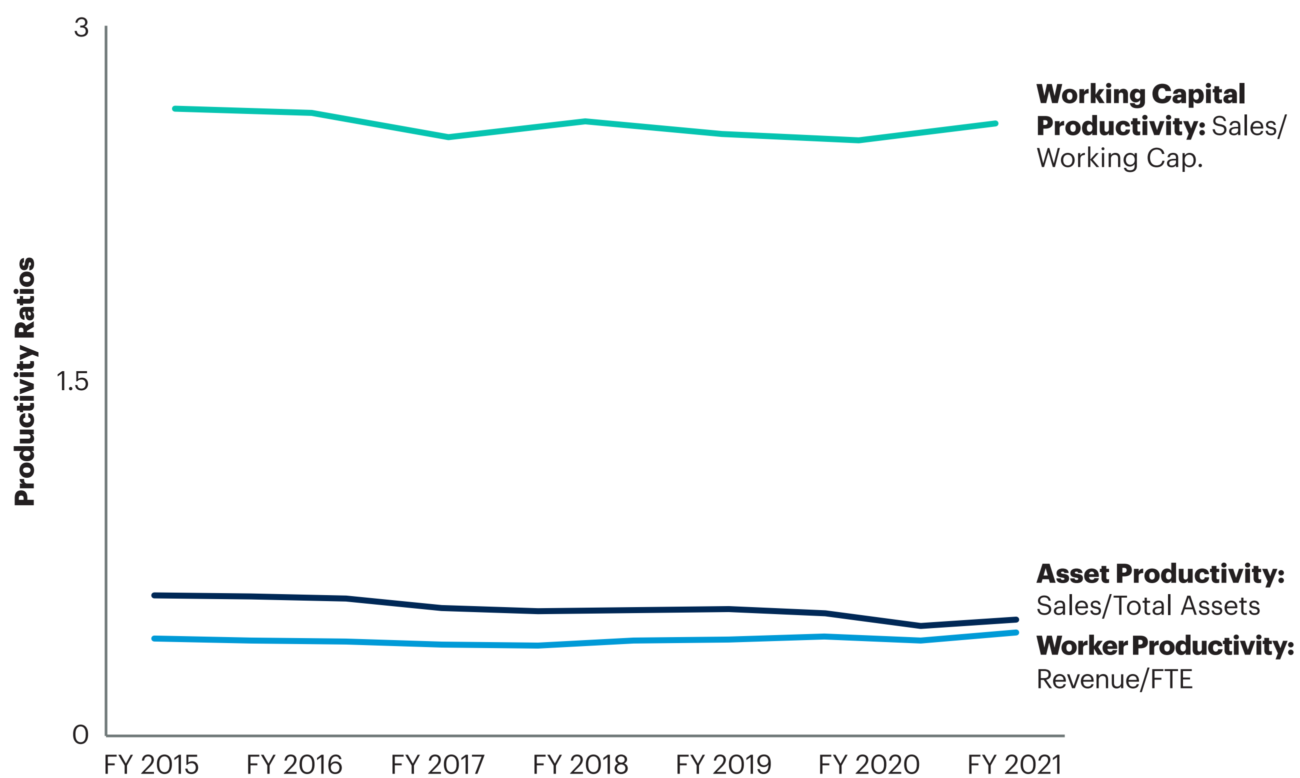
At one level, organizations were able to function during the lockdowns even as workforces went remote, but at the same time, has productivity really gone up?

Not really. An analysis of the S&P Global 1200 suggests that companies are taking more assets and working capital to generate a dollar of sales than they did in 2015 (see Figure 2). Though worker productivity (measured by revenue per FTE) has risen, much of the increase in the last year came from revenue roaring back after pandemic lockdowns rather than actual improvements in output per worker.

All too often, organizations pursuing digital get carried away with modernizing IT and implementing tools, without thinking adequately enough about how that integrates with other systems, processes and data analytics throughout the organization. Remember that digital investments must be designed to drive productivity and create cross-cutting capabilities that deliver business and financial outcomes.

To do this, the CEO and C-suite executives must agree on a definition as well as how to measure

Figure 2. Median Productivity for Workers, Working Capital and Assets
S&P Global 1200



n = S&P Global 1200 companies
Source: Gartner

productivity. They have to start with productivity outcomes (for instance, for working capital) and assess how much and how effectively these are driven by technology outcomes (e.g., invoice processing time). Business and functional leaders can collaborate to create a cascade of metrics linking technology-driven objectives to productivity results in collaboration with business and functional leaders.

They must also take a broader view of productivity that includes not just assets, working capital and worker efficiency but also customer productivity.

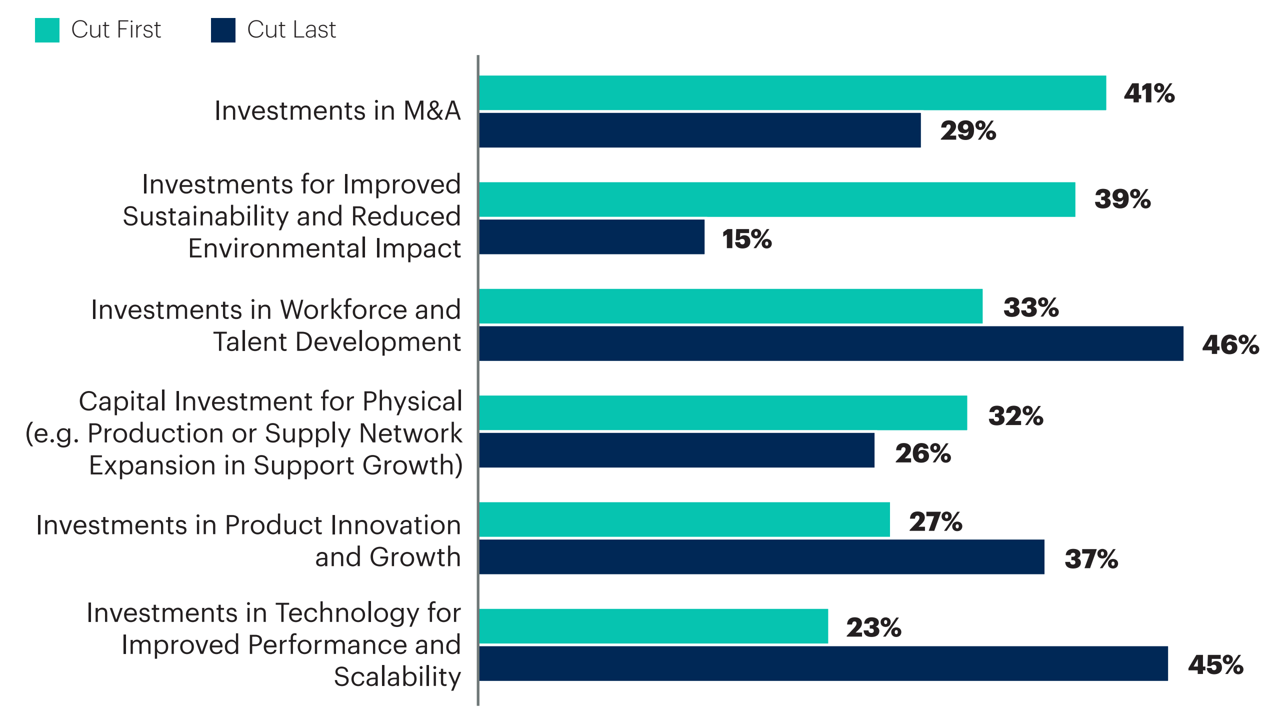
Playing Offense on Talent Doesn't Have to Break the Bank

Undoubtedly, the resilience of labor markets has been a big surprise even as economies and companies have struggled to post impressive growth numbers. This has left organizations divided on how to handle spending on workforce and talent development as they start paying more attention to costs. Forty-six percent of CEOs and CFOs rated it as the last thing they would cut (see Figure 3). However, 33% also rated it as one of their top categories to cut.[13]

The signals are also mixed when it comes to the competition for talent. Although job creation continues to be strongly positive, the number of HR leaders reporting slower hiring at their organizations rose to 37% in August, up from 23% in May.[14] The number of private sector job openings in economies such as the U.S. peaked in March 2022 and have been declining to flat at best in September 2022.[15] Further, prominent companies from Ford to Peloton, to TenCent to ByteDance, have announced layoffs.[16,17]

Yet, according to news reports, one former Shopify content manager, who lost her job when the company cut 1,000 positions in July 2022,

Figure 3. Top Two Strategic Investments CEOs and CFOs Would Cut First Versus Last
Percentage of Respondents



n = 128 (cut first); 129 (cut last)
Q: Which two investment categories do you think your organization will cut FIRST?
Q: Which two investment categories do you think your organization will cut LAST?
Source: 2022 Gartner Inflation Response Survey

had 25 job offers on LinkedIn just two days later.[18] This anecdote reflects the findings of our May and June 2022 global survey: One in three candidates had turned down at least two job offers.[19]

The lesson: When others cut back, move quickly to fill in your organization's gaps (e.g., a developer who's been laid off from a tech company may be ready to sign on with a company in another sector).

Pay transparency will help attract them: 67% of candidates told us they were more likely to apply for a job if the description includes the role's compensation.[19]

That doesn't have to mean offering top-of-market salaries:

- Fifty-nine percent of candidates were likely to accept a job with better work-life balance over one with 10% higher pay.
- Fifty-three percent were likely to accept an offer with a more interesting career path over one with 10% higher pay.
- Fifty-three percent were likely to accept an offer with more opportunities to learn new skills over one with 10% higher pay.

> Don't overlook the chance to rehire "boomerangs." Thirty-five percent of candidates said they would be interested in outreach from their previous organization.

One additional pool to consider is the "unretired." If inflation continues to eat into savings, 31% of U.S. retirees said they might return to work, according to an American Staffing Association survey conducted by the Harris Poll.[20]

Anchor Scenario Plans in the Three New Realities

The question of which exact economic scenario(s) might come to pass in the next 12 months is far from settled. However, most executives are overindexing on one scenario and do not appear to be considering a range of potential futures. In fact, 83% of CEOs and CFOs say their organizations are planning for only one macroeconomic scenario across the next nine to 12 months.[21] Fifty-three percent are planning for persistent inflation, while 43% were planning for disinflationary growth as their expected scenario (i.e., a return to prepandemic levels of growth with low inflation in the next year).

Yet demand- and supply-side drivers are constantly changing. Inflation, recession or stagflation are not end-states; they are merely transitions as economies sluggishly adjust. Understanding the movement between them is what matters for managing your business.

For example, if monetary tightening by central banks is just right, we might have an immaculate return to the disinflationary growth of the last decade (see the left side of Figure 4). However, if central banks raise rates too aggressively, they may weaken aggregate demand, forcing the economy to go through a hard landing, with a recession preceding the return to disinflationary growth (see right side of Figure 4).

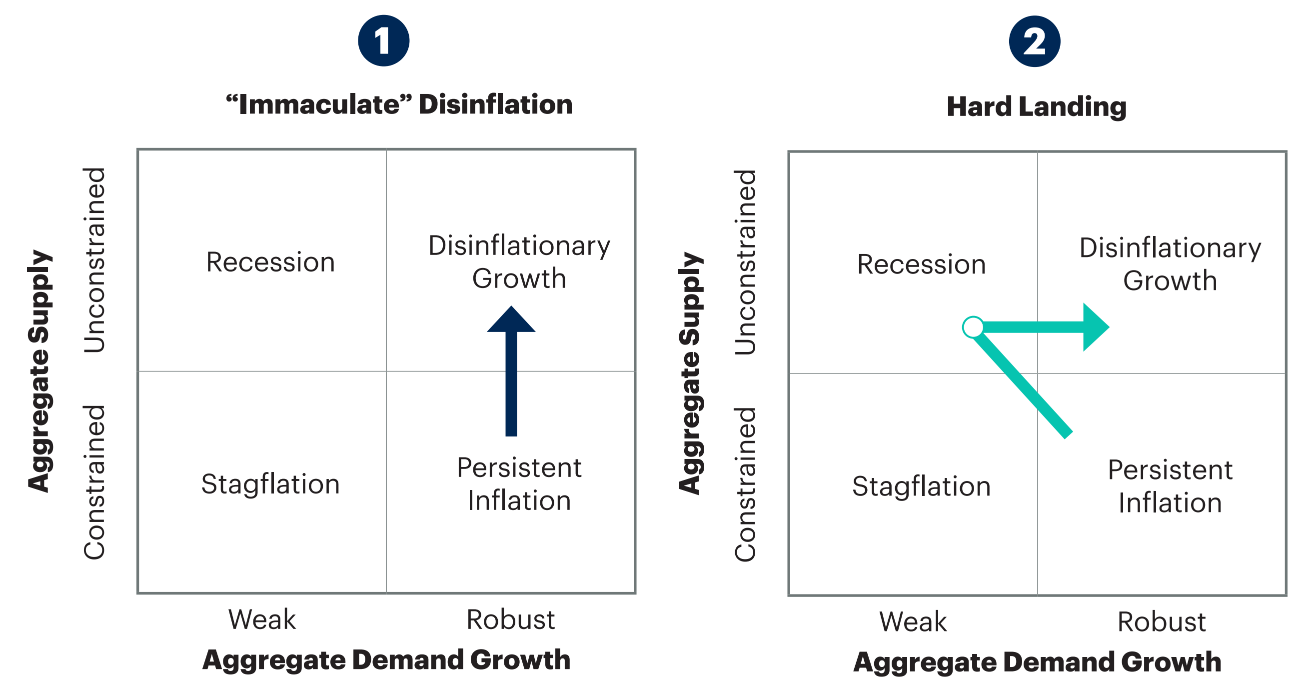
These transitions can expose rigidity in planning assumptions. For example, 39% of organizations plan to increase their finished goods inventory levels, presumably to serve customers after months of supply chain gridlock.[22] Higher inventory might be advisable under persistent inflation.

However, if demand weakens, it becomes a liability because the opportunity cost of holding this additional inventory rises. As some retailers recently discovered, it is expensive to procure inventory when prices are high and hold it in an environment of downward pressure on prices. [23]

More painful variations could result from aggressive rate hikes by central banks. For example, falling energy and commodity prices may briefly return the economy to prepandemic disinflationary growth. However, the lagged effect of rate hikes and a stronger dollar might pivot economies toward a recession or debt crisis — commonly referred to as the policy error scenario as shown on the left side of Figure 5.

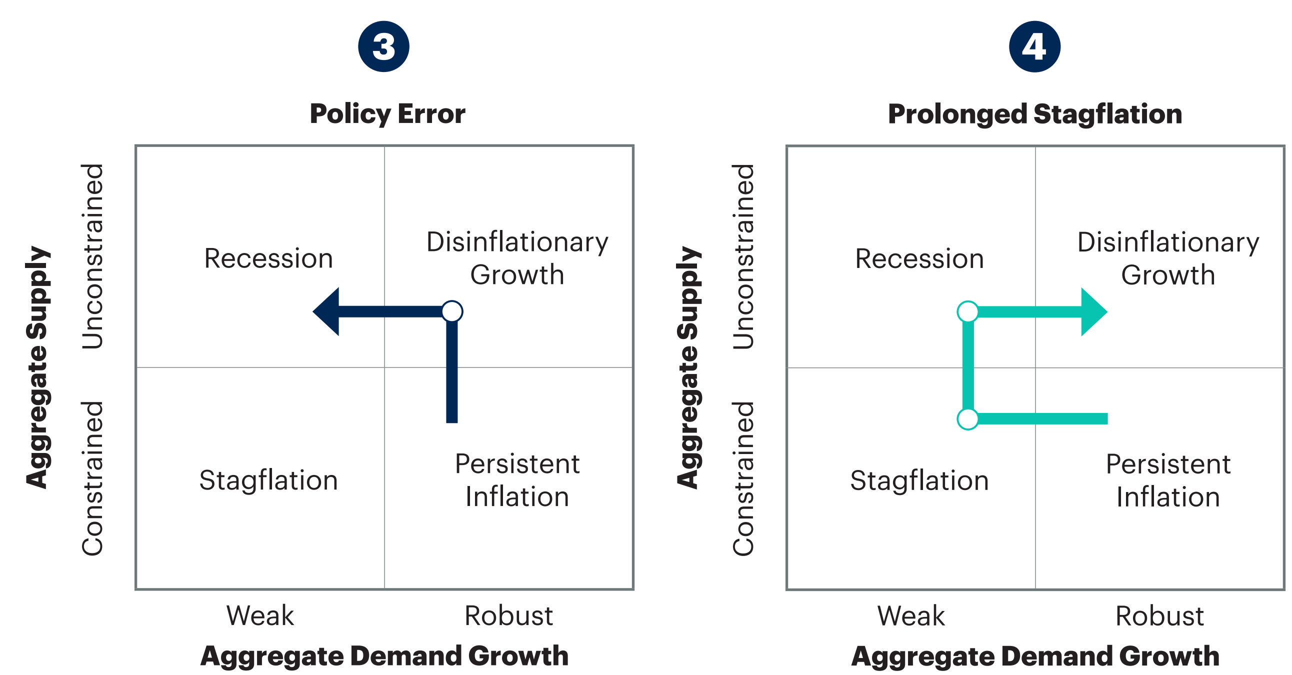
Most of the scenarios that executives must consider, though, have a common denominator, namely, the cooling demand. And that means the three new realities are principles for anchoring your action plans for the fluctuating conditions ahead.

Figure 4. A Dynamic View of Scenarios: Examples 1 and 2



Source: Gartner

Figure 5. A Dynamic View of Scenarios: Examples 3 and 4



Source: Gartner

[1] GDP fell 0.9% in the second quarter, the second straight decline and a strong recession signal, CNBC.

[2] Monetary Policy Report — August 2022, Bank of England.

[3] World Bank: Global rate hikes could trigger 2023 recession, BBC News.

[4] Strikes Becoming More Common Amid Inflation, Tight Labor Market, Wall Street Journal.

[5] The Gartner 2022 Inflation Response Survey of CEOs and CFOs was conducted to understand the strategies organizations are using to manage higher input costs from wage, salary and freight inflation. The research was conducted online, during May to June 2022 among 130 respondents (70 CFOs and 50 CEOs) from NA, EMEA and ANZ, across multiple industries. Respondents were CEOs or CFOs of midsize, large or global enterprises. The study was developed collaboratively by Gartner analysts and the Primary Research Team. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

[6] Global consumer confidence continues its descent in August, Ipsos.

[7] Consumers Begin to Blame Companies for Price Increases

[8] CFOs' 2022 Playbook for Enhancing Profitability and Driving Digital Acceleration Webinar (13 May 2022)

[9] Forecast: Enterprise IT Spending by Vertical Industry Market Worldwide, 4Q10 Update

[10] The 2021 Gartner Digital Business Acceleration Survey was conducted to learn about organization-specific digital business acceleration actions and outcomes. The research was conducted online from 1 April through 2 May 2021 among 615 respondents from North America (n = 311), Western Europe (n = 202) and Asia/Pacific (n = 101). Respondents were screened for function, job category (directors and higher) and involvement in their enterprises' digital initiatives. The survey was developed collaboratively by a team of Gartner analysts and Gartner's Research Data, Analytics and Tools team. Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[11] The Gartner June 2022 Inflation Response Survey of CEOs and CFOs was conducted to understand the strategies organizations are using to manage higher input costs from wage, salary and freight inflation. The research was conducted online, during May to June 2022 among 130 respondents (70 CFOs and 50 CEOs) from NA, EMEA and ANZ, across multiple industries. Respondents were CEOs or CFOs of midsize, large or global enterprises. The study was developed collaboratively by Gartner Analysts and the Primary Research Team. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

[12, 13] The Gartner June 2022 Inflation Response Survey of CEOs and CFOs was conducted to understand the strategies organizations are using to manage higher input costs from wage, salary and freight inflation. The research was conducted online, during May to June 2022 among 130 respondents (70 CFOs and 50 CEOs) from NA, EMEA and ANZ, across multiple industries. Respondents were CEOs or CFOs of midsize, large or global enterprises. The study was developed collaboratively by Gartner Analysts and the Primary Research Team. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

[14] "Strategies to Manage Retention and Attrition Amid Economic Uncertainty," Gartner HR Practice Webinar (August 2022). Over 330 HR leaders attended, representing a spectrum of industries. The majority were based in North America, though the perspectives and practices they shared were developed to support their global organizations.

[15] Job Openings: Total Private, FRED Economic Data.

[16] Around 60 top companies across sectors announced layoffs in August 2022, finds GlobalData, GlobalData.

[17] ByteDance reportedly lays off hundreds from games division, GamesIndustry.biz.

[18] A Shopify employee who lost her job in its mass layoff had 25 offers on LinkedIn just 2 days later, Business Insider.

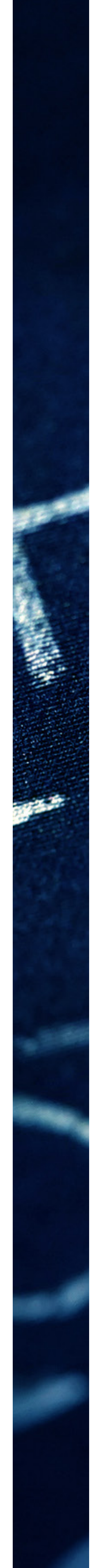
[19] 2022 Gartner Candidate Survey (May to June 2022). This study surveyed a sample of 3,621 candidates across 14 countries, 23 industries and 20 functions. Respondents were required to have met the following criteria to qualify for the survey:

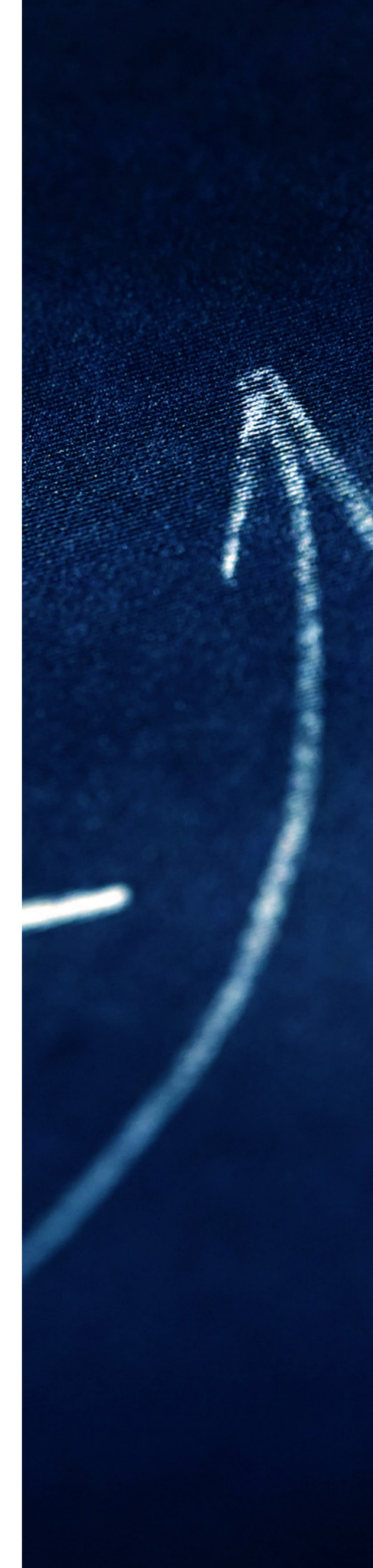
- Applied for one or more jobs in the past 12 months
- Contacted by at least one organization to complete an assessment or participate in an interview in the past 12 months
- Participated in one or more interviews in the past 12 months
- Work at an organization of 1,000 or more employees

[20] ASA Workforce Monitor — Retiree Perspectives, American Staffing Association.

[21, 22] Gartner June 2022 Inflation Response Survey of CEOs and CFOs. This study was conducted to understand the strategies organizations are using to manage higher input costs from wage, salary and freight inflation. The research was conducted online, during May to June 2022 among 130 respondents (70 CFOs and 50 CEOs) from NA, EMEA and ANZ, across multiple industries. Respondents were CEOs or CFOs of midsize, large or global enterprises. The study was developed collaboratively by Gartner Analysts and the Primary Research Team. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

[23] Clothing retailers set for discount battle to clear inventory glut, Financial Times.



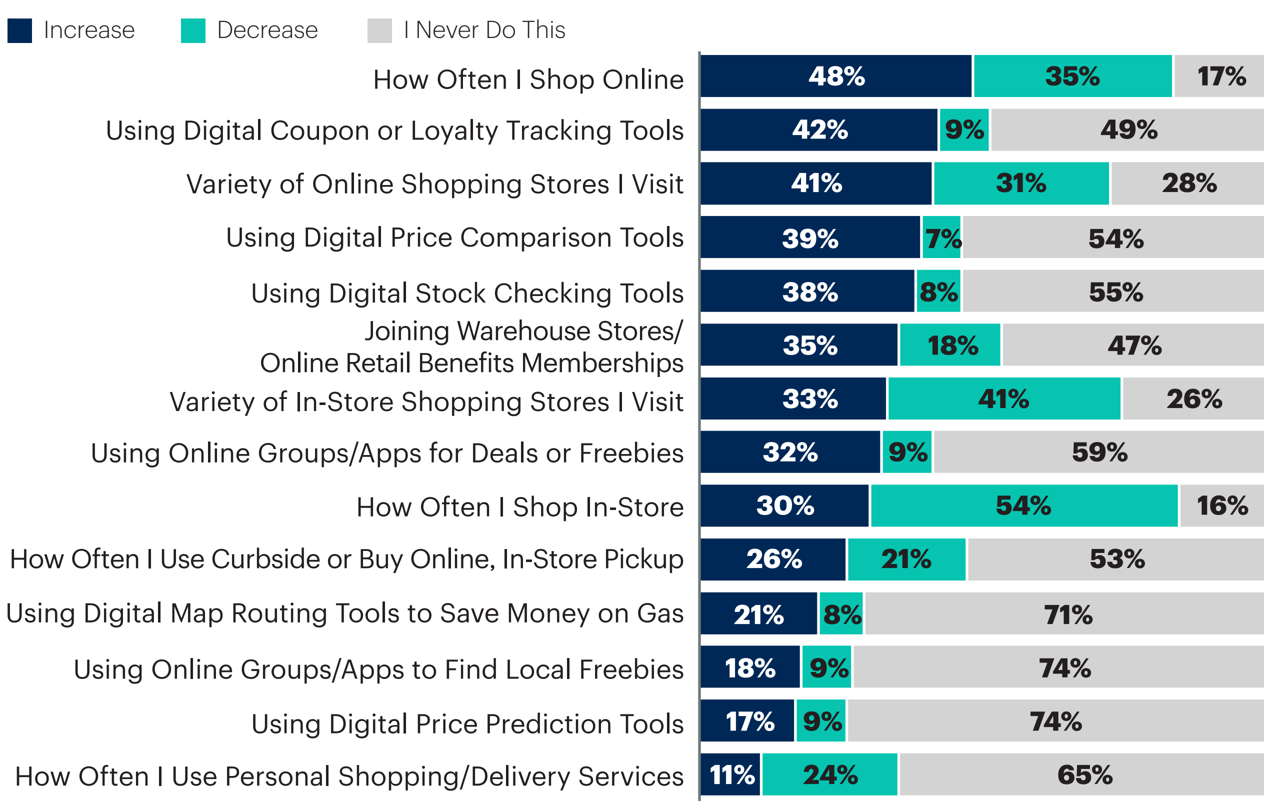


Understand How Shoppers Use Digital Tools to Combat Higher Prices

by Dan Gutter and Rachel Steinhardt

Many consumers now routinely use digital coupons, loyalty program trackers, price comparison sites and price prediction tools.[1] And, confronted by a soaring cost of living in 2022, they are savvy enough to hunt down the tools that save them the most money and are easiest to use (see Figure 1). This convenience can't be ignored by retailers.

Figure 1. Consumers' Shopping Practices in the Face of Inflation
Impact on Increase, Decrease or Use of Tools/Strategies as a Result of Inflation



n = 304 respondents

Q. How has inflation impacted how you shop for things that you need to buy regularly (such as food or groceries, household products, or personal care items)?

Source: 2022 Gartner Consumer Community (15 July through 22 July, 2022)

Notes: Survey was based on U.S. Consumers only.
Some percentages don't add up to 100% due to rounding.

You can retain and gain customers during this inflationary period and beyond, if you successfully demonstrate that your organization prioritizes the same things as consumers.

Sixty-two percent of customers are likely to stop purchasing from a brand that decreased its value proposition in some way, for example, because it reduced the size or quality of its product. This willingness to abandon once-loved brands has never been higher.[2]

So, you should use these five strategies to build digital shopping tools that align with customer expectations:

- Keep consumers on your digital channels with built-in pricing tools.
- Revisit your COVID-19-pandemic-era playbook and redirect your resources online.
- Retool product strategy and positioning to favor bulk selling and bundling.
- Plan according to your target demographic.
- Demonstrate value and quality and lean into promotions.

Keep Consumers on Your Digital Channels With Built-in Pricing Tools

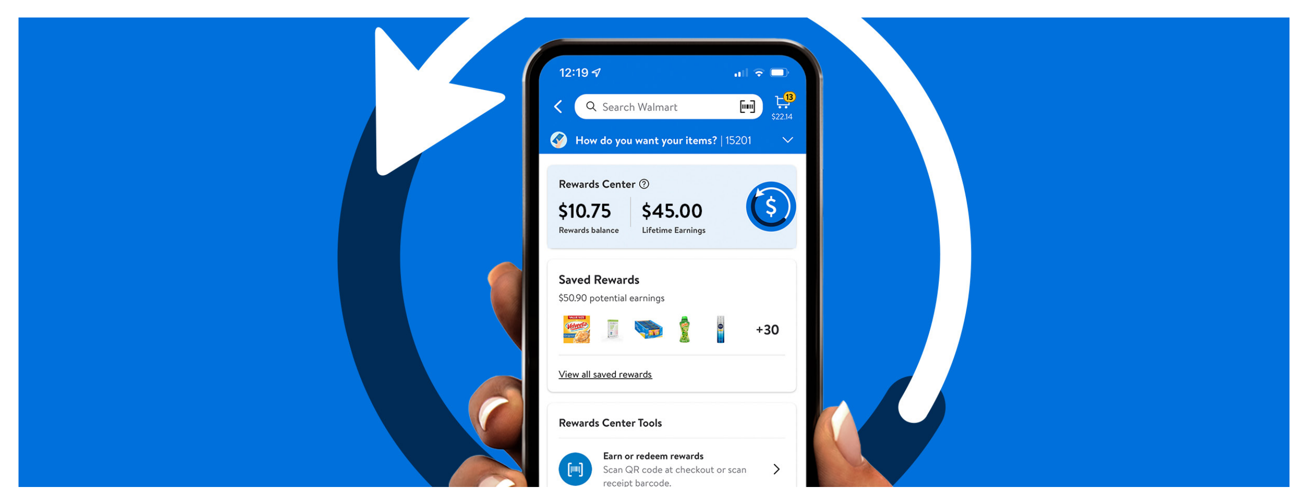
Retailers typically have good e-commerce strategies in place that can reduce cart abandonment and try to keep would-be shoppers on their site. But you should go further and offer online price research tools directly on your customer-facing platforms or, alternatively, partner with established third-party pricing and discounting systems. Do this and shoppers are less likely to hunt for rock-bottom prices on a competitor's website.

Some leading retailers with mature IT operations rely on dynamic or perceptive pricing algorithms to automatically set their pricing based on supply, demand and market conditions.[3] But not all retailers do so, and few disclose the rationale behind price fluctuations and variability to shoppers. E-commerce giant Amazon stands out with its 30-day price tracker that tells shoppers if a product's price on a given day is higher or lower than usual over the course of a month.[4]

Luxury U.S. department store chain Nordstrom tracks competitors and automatically matches pricing on product listings if a rival offers a discount.[5] U.K.-based department store John Lewis & Partners, however, has moved away from a similar pledge. It matched rival prices for decades with its "never knowingly undersold" promise, but it dropped that slogan in August 2022 because it did not apply to online-only retailers. It plans to begin a new "quality and value" marketing campaign now that the brand's shoppers increasingly buy its goods online.[6]

Walmart, meanwhile, integrated Ibotta — the third-party digital coupon clipping and cashback rewards system — into its Walmart+ subscription membership program (see Figure 2).[7]

Figure 2. Walmart+ Subscription Membership App

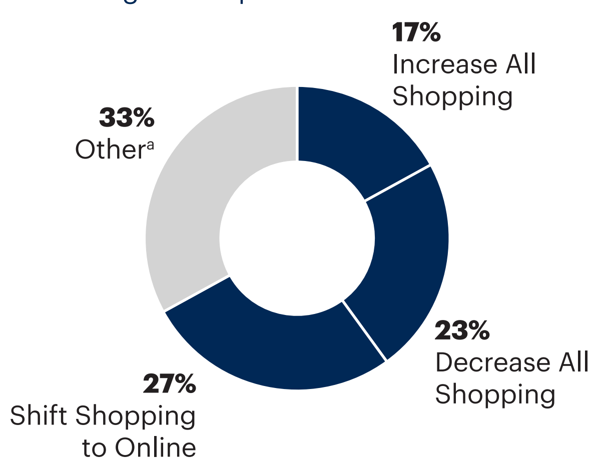


Source: Walmart

Revisit Your Pandemic-Era Playbook and Redirect Your Resources Online

During the COVID-19 pandemic, online channels were dominant by necessity, but in 2022, foot traffic to stores steadily increased. Now that inflation has hit, over one-quarter of U.S. consumers say they've shifted more of their purchases online once more (see Figure 3).

Figure 3. Consumers' Shopping Habits in Response to Inflation
Percentage of Respondents



n = 304 respondents

Q. How has inflation impacted how you shop for things that you need to buy regularly (such as food or groceries, household products, or personal care items)?

Source: 2022 Gartner Consumer Community (15 July through 22 July, 2022)

Note: Survey was based on U.S. Consumers only.

[a] "Other" includes 9% of consumers who are decreasing online/increasing in-store shopping, and 24% of consumers who never shop online, never shop in-store or never shop online or in-store.

Yet, despite the financial squeeze, there has been only a small overall decrease in purchases.[1] Your supply chain function can help here: It must plan for online channel inventory to expand and excess in-store inventory must be liquidated online, since this is where consumer attention now gravitates.

Amazon's largely abandoned foray into stand-alone brick-and-mortar retail could be an early indicator of this trend. In 2022, it reportedly shuttered nearly 70 relatively new nongrocery storefronts, including pop-ups and bookstores.[8] Leaders of retail operations know it's costly to retain in-person labor; and e-commerce pivots can be a more efficient play.

Retool Product Strategy and Positioning to Favor Bulk and Bundling

Consumers aren't just looking for the lowest sticker price when they hunt for bargains. Many want the lowest per unit cost, too, with more than one-third saying inflation has increased their reliance on warehouse and club stores and their online membership equivalents.[1]

Any consumer-facing company can borrow these product strategies of selling in bulk for a better deal per unit. To do this, you'll need cross-functional support. Supply chain leaders can source the size and variety of new product options available at point of sale, and CFOs can work with corporate leaders to determine a profit margin sweet spot for the new strategy. Meanwhile, marketing can roll out these deals on brand-owned and third-party digital retail channels.

Lowe's, for example, added bulk product footprints on its retail site for more than 1,000 goods.[9]

Plan According to Your Target Demographic

Staying ahead of customer behavior in cash-strapped times should be on every executive's agenda. First, avoid making demographic assumptions. People with household incomes above $100,000, for example, are more likely than lower-income consumers to increase use of digital price comparison and inventory-tracking tools as inflation bites.[1] In the U.S., higher-income customers are flocking to the discount retail brands Dollar Tree and Dollar General.[10]

Meanwhile younger consumers are more likely to increase both online and in-person shopping during inflation — which bucks the overall population trend, because other age groups are not doing these things at the same rates.[1]

Gen Z shoppers (people born in the mid to late 1990s and early 2000s) will absorb price elasticity for items they prefer not to do without, even when their incomes are stretched. This could affect whole categories. Starbucks reported record revenue amid general inflation and its own higher prices, citing younger consumers' penchant for customized orders before posting images of their coffee on social media.[11]

Demonstrate Value and Quality and Lean Into Promotions

When competing on price isn't an option, you should compete on value. But when competing on value isn't an option, compete on quality. Not every company can offer discounts and promotions to consumers. Some want to retain a reputation as a premium brand, while others say the bottom line simply can't take a hit while operating and manufacturing costs spike.

Some retailers can entice consumers with value-oriented messaging without listing prices or dangling a promotion. U.S. discount grocer Save A Lot, for example, runs a catchy commercial that highlights how its own-brand versions of well-known products are identical in every way but price.[12]

Other brands articulate this without a new marketing strategy or campaign. The U.S. food company Sovos Brands has reported strong sales throughout the inflationary period because value-seeking consumers, who would otherwise have dined out, opted for comparably affordable high-quality meals at home.[13]

[1] Gartner Consumer Community (15 July through 22 July, 2022, n = 304) While the Gartner Consumer Community (n ≈ 500) resembles the U.S. general population, the data cited is based on the responses of community members who chose to take each activity. These samples may not be representative of the general population and the data should only be used for directional insights.

[2] Gartner Consumer Community (10 June through 17 June, 2022, n = 245) While the Gartner Consumer Community (n ≈ 500) resembles the U.S. general population, the data cited is based on the responses of community members who chose to take each activity. These samples may not be representative of the general population and the data should only be used for directional insights.

[3] Market Guide for Retail Unified Price, Promotion and Markdown Optimization Applications — Short Life Cycle

[4] Amazon Assistant — Comparison Shopping, Amazon.

[5] Nordstorm Customer Service — Pricing Policy, Nordstrom.

[6] John Lewis to End "Never Knowingly Undersold" Era on 22 August, The Guardian.

[7] Walmart+ Members Can Now Save More With Walmart Rewards, Walmart.

[8] As Consumers Return to Stores, Why Would Amazon Shut the Door?, RetailDive.

[9] Buy In Bulk, Lowe's.

[10] Dollar Stores Attract Higher Income Shoppers Seeking Inflation Relief, NACS.

[11] Starbucks Reports Record Revenue, Driven Mostly by Gen Z's Love of Iced Drinks, The New York Times.

[12] Save A Lot Alike Food, Save A Lot via YouTube.

[13] As Inflation Rages, Sovos Brands Thrives With a Premium Portfolio, FoodDive.

Lay the Groundwork for a Huge New Market: Machines That Are Customers

by Don Scheibenreif and Mark Raskino

Now is the time to create a path to entry to a business megatrend that will be more significant than the arrival of digital commerce and could be your organization's key to growth. Welcome to a world where your company's best customers may not be individual humans or enterprises. They might be machines.

We call them custobots. Picture a virtual assistant like Siri or Alexa or a physical object connected to the internet, whether that's your car, factory robot, or even your washer or dryer. Humans retain a degree of control, but these appliances, guided by artificial intelligence (AI), can become digital concierges and autonomous sourcing agents that handle a lot of the tedious tasks consuming far too many hours of the day.

Someone will make them. Someone will service them. Someone will sell to them. It's already started.

By 2025, there will be 15 billion connected products with the potential to behave as customers — to shop for services and supplies for themselves and their owners.[1] By 2027, 50% of people in advanced economies will have AI personal assistants working for them every day.[2]

Companies that quickly learn how to create these machine customers and others that learn how to sell to custobots will win big. Others could find their traditional human buyers gradually disappearing — without even understanding why.

Jumping on the machine customer opportunity will not just be a tech thing or a marketing thing. It will be an everyone thing. All the executives in the C-suite will need to figure out where they fit in. Without that full team collaboration, progress will be partial, ineffectual and inconclusive.

Machine Customers Are Already Among Us

First, let's explore how humans could soon interact with just a sampling of potential machine customers on a typical day (see infographic on pages 24-25).

The vehicle you use to commute could buy its own tires, cleaning, maintenance and insurance. The road itself could call for police, repairs or cleaning. At the factory, industrial robots bristling with sensors detect the need for upgrades, parts or supplies long before their human operators do.

At the office, a buying algorithm can hire gig workers and order business services. The conference room will call for pest control if needed. The cooler or vending machine in the break room could analyze customer data and pricing signals, then seek restocking.

Back at home, potential custobots abound: household robots that obtain new flooring and pet supplies, appliances that order groceries, a workout mirror that also purchases clothing and equipment — or maybe signs you up for training. And of course, the intelligent assistant might invest for you, select a school or subscribe to media on your behalf.

Executives Must Collaborate to Prepare for Machine Customers

How does a company get in on this vast emerging market? What role does each function play in positioning the enterprise for this new era?

Strategy officers need to be the early birds who awaken the nest. They must investigate and explain the inevitability of the rise of machine customers as well as how that will affect the industry, and what the company's competitive approach should be.

Finance officers will be concerned about the gross margin and revenue growth rates achievable from machine customer markets. Will those markets aggregate? Will flexibility on pricing fundamentally shift? Will fraud and loss rates increase or decrease? As companies head into transition, how will they balance human customer business and machine customer business? Investment in the transition itself will sometimes require fresh capital, a different approach to investment risk, and possibly a revision of the company investor story and key metrics.

Legal officers (general counsel) will need to dig into definitions and start framing what risk-managed ways the company can engage commercially. What is the right language to correctly frame the concept in contracts? How can we enforce contracts, and how does redress work in an emerging machine customer world? How far can, or should, the company move ahead of regulation if that is slow to emerge? Eventually, questions will arise about custobot rights and the extent to which a machine can be considered and treated as an independent economic entity.

HR officers will face the challenge of restructuring the workforce. Human interaction and psychological skills that have been crucial to winning human customer business in the past may become less valuable or, in some cases, redundant. That capacity on sales and marketing teams will need to be progressively reduced and managed. On the other hand, the technocratic skill sets needed to deal with machine-customer-centric markets will need to be defined and recruited or internally developed. The culture of the company may need a reset.

Operating officers will have to progressively transform business operations to serve the demands and cadences of machine customer markets. Machine customers will demand different access and delivery mechanisms. Products, packaging, logistics and service channels will change.

Supply chain officers will have to expect a proliferation of intelligent replenishment algorithms and IoT-connected devices and assets that will gain the ability to act like customers. However, we expect demand cadence will be different from human customers. For example, machines will be on a 24/7 schedule, and order quantities may be more just-in-time than they are today.

Marketing officers must reconceptualize what a customer is and how to understand machine customer needs. The impact of machine customers on the marketing function may be the most profound of all the business functions. Machine customers won't have emotions. They will be driven by the rules and logic programmed into them by their human owners.

Revenue officers, like heads of sales, will also need to consider how the selling and buying process will change with machine customers. How will they evolve their selling process and even their human sales organizations if their customers are machines? Like marketing, the key will be understanding the underlying rules and logic that will guide the purchase behavior of a machine. A machine customer will likely need significantly more information to make a decision than its human counterparts.

Chief information officers, chief technology officers and chief data officers must lead the construction of the platforms capable of serving machine customer markets and will perhaps engineer their own machine customers. Competitive industries will become algorithmically complex. There will be a never-ending battle to find a better technological way of winning the choices of the sophisticated product and price comparison custobots. Financial markets are substantially machine-customer-driven already and may offer clues for the future of others.

Starting Your Day

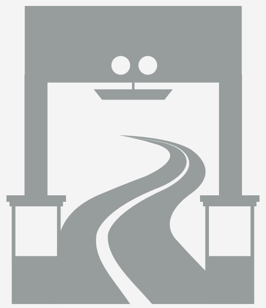
Leave Home: **Vehicle**

What they will buy:
- Tires
- Cleaning
- Fueling/charging
- Insurance
- Maintenance
- Media
- Food and drink

Examples: Ford, GM, Mercedes, Tesla, VW

Every business strategist in the automotive-related industries recognizes this will happen.

Drive to Work: **Road**



What they will buy:
- Repairs
- Recovery
- Police
- Cleaning
- Upgrades
- Loans

Examples: Roads, sensors, tollways

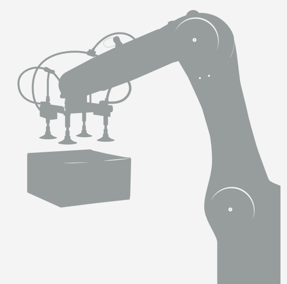
Anything could become a customer — it's very important to be broad minded.

Stop by the Factory: **Industrial Robot**

What they will buy:
- Repairs
- Cleaning
- Parts
- Supplies
- Upgrades
- Insurance

Examples: Siemens, thyssen-krupp

Industrial machines, bristling with sensors, will detect demand way before their human operators.



At Work

Check-in With Purchasing: **Buying Algorithm**

What they will buy:
- Gig workers
- Business services
- Energy
- Investments
- APIs and data

Examples: Datapred, Facebook, Google, Pactum, Staples

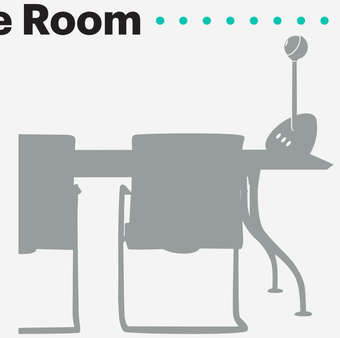
Some of this is already the norm.

Go to a Meeting: **Conference Room**

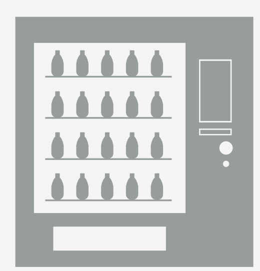
What they will buy:
- Cleaning
- Catering
- Security
- Equipment/ maintenance
- Pest control
- Furniture

Examples: Cisco, Herman Miller, Microsoft

What's the "natural" level of aggregate market control?



Take a Break: **Drinks Cooler**



What they will buy:
- Cleaning
- Stock
- Customer analytics
- Pricing signal data

Examples: Coca-Cola, Nestle, PepsiCo

Likely to be more effective at reordering than the human customer.

At Home

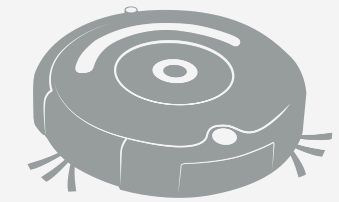
Home Fitness: **Workout Mirror**

What they will buy:
- Apparel
- Health and nutrition
- Beauty
- Furnishings
- Training
- Equipment

Examples: lululemon athletica, Nautilus, Tonal

Machine customers need to see us to help us.

Clean Up: **Household Robots**



What they will buy:
- Cleaning consumables
- Cleaning services
- Upgrades
- Pet products
- Flooring

Examples: Gecko Robot Window Cleaner, Grillbot, iRobot Roomba

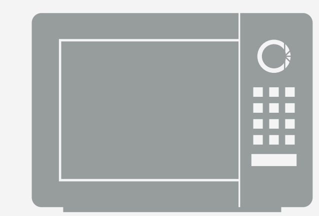
Machine customers may end up generating income they can spend.

Cook Dinner: **Appliances**

What they will buy:
- Food
- Health and nutrition
- Maintenance
- Upgrades
- Cleaning
- Insurance

Examples: GE, Pantri, Samsung, Whirlpool

Proprietary platforms and walled gardens hinder market development.



Relax: **Smart Speakers With Intelligent Assistants**

What they will buy:
- Media and entertainment
- School selection
- Investment portfolio management
- Almost anything?

Examples: Amazon, Apple, Microsoft

If physical context isn't relevant, then it's likely that ambient AI wins.

Today, there are more machines with the potential to act as customers than humans on the planet.

Get Started Now With a Machine Customer Investigation Team

The CEO should convene senior representatives from strategy, IT, product development, sales and marketing to explore what machine customers mean for your organization. The team members should share an interest in the possibilities of machine customers but also bring their own experience and biases to the party. A "team of rivals" that can challenge each other yet are committed to the longer-term vision is optimal.

This team should:

- **Formulate scenarios for market opportunities.** What IoT-enabled products might arise in the situations/activities where customers use your products and services today? Who might create and control those machine customers? How would machine customers change your addressable market/business? The point is to embed machine customers as a "big rock" in your long-term strategy.
- **Test products or services capable of being upgraded for machine customers.** Use a capability diverse and cognitively diverse team of technology architects, engineers, data scientists, economists, linguists, psychologists and business decision makers who will determine assessment requirements, profiles, recommendations and action plans for engaging machines as customers.
- **Be mindful of the very real barriers.** Developing an intelligent custobot that can learn the depth and breadth of knowledge and preference trade-offs required to act on behalf of a human customer in a variety of situations is a complex endeavor. Some humans may initially be uneasy about delegating purchasing functions to machines. Most importantly, the technology must work. Consider what ethical standards, legal issues and risk mitigation are needed to operate in a world of machines as customers.

Machine customers may be the last and largest, emerging market on Earth and may well extend beyond it to space.

The fast replication of machine customers will create megamarkets, mega fast. Our modeling predicts that by the year 2030, machine customers will be directly involved or have influence over $30 trillion in purchases.[3] And CEOs tell us they believe 25% of their company's revenue will come from machine customers.[4]

Will your enterprise be ready in time?

Adapted from the forthcoming Gartner book: When Machines Become Customers.

[1] Gartner issued a 2Q22 update to its enterprise and automotive IoT forecast to show the latest market dynamics. In particular, the automotive sector has been modified in line with new sales data by country and updated information on the electronics value in the bill of materials. The forecast provides seven key metrics for enterprise and automotive IoT for 42 major countries within 10 regions from the internet of Things Forecast Database: endpoint electronics revenue, endpoint installed base, endpoint shipments, communications interface shipments (for 11 communications technologies), communications interface installed base (for 11 communications technologies), communications services spending (for six communications technologies), communications services connections (for six communications technologies).

[2] 2018 Gartner Artificial Intelligence, Enterprise Perceptions, Plans and Implementation Survey

[3] The model starts with forecasts by the IHS Markit for global real GDP from 2020 through 2030 and the share of private consumption as part of real GDP. We use Gartner estimates of the number of machine customers deployed to arrive at the portion of that spending that was programmable in 2020. Almost all of it was facilitation. We then use Gartner forecasts for machine customers' growth and the maturation of key technologies, such as AI, blockchain, digital currencies and tokens, to estimate programmable spending in subsequent years, including all three types — facilitation, augmented and autonomous consumption.

[4] 2020 Gartner CEO Survey: The Year of Recession

Supply Chains Can Drive Customer Loyalty

by Suzie Petrusic

The supply chain is often first in line for cost cuts when budgets are tightened. But executive leaders weighing such cuts must recognize that a decline in the supply chain's performance negatively affects customer loyalty by nearly three times as much as a price increase (see Figure 1).

Instead of cuts, enterprise leaders should support the supply chain in satisfying and enabling their customers to boost loyalty:

1. **Satisfied customers** get high-quality products and services delivered on time in a convenient way, with issues resolved thoroughly.
2. **Enabled customers** take fewer steps to be able to use products and services, and packaging, delivery, payment options, ordering interfaces and customization make their jobs easier.

Satisfaction Is Necessary But Not Enough

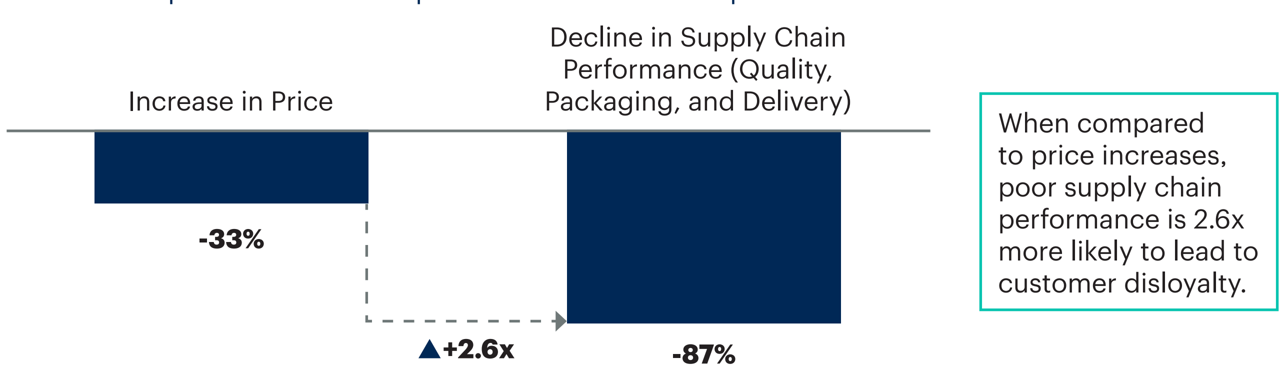
To keep up with your competitors and make sure your customers remain loyal, satisfaction should already be at the heart of your organization's brand strategy. But "enablement" opens up possibilities for supply chain leaders — with support from different areas of the business — to offer innovative ways to help customers achieve real savings and efficiencies.[1]

Customers are more loyal when enterprises deliver on expectations of satisfaction and enablement. But, when it comes to repurchasing decisions, enablement drives loyalty by up to 80% and is two times more effective than simple satisfaction in that regard (see Figure 2).

Enablement Can Fuel New Productivity Gains

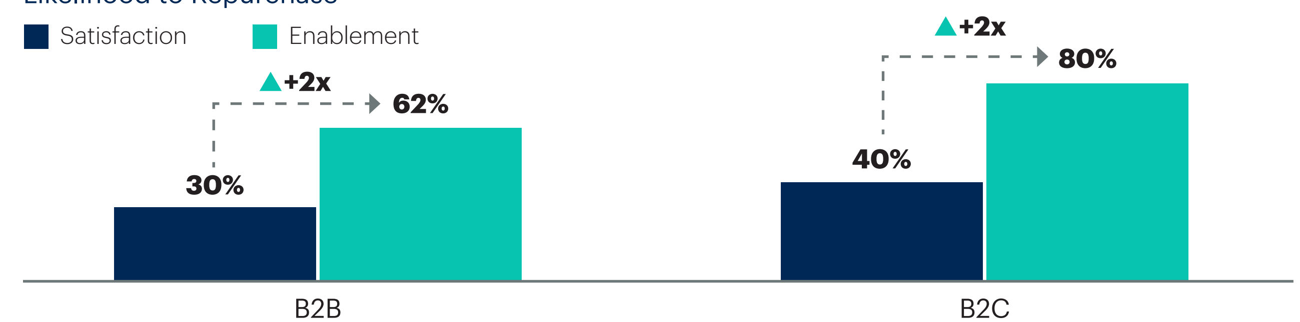
Enterprise leaders should support their chief supply chain officers in designing services and offerings that enable customer operational performance — essentially, helping customers complete their own jobs more efficiently. Do this, and your customers will increase their productivity, including by having fewer full-time employees (FTEs) or reducing mistakes and therefore rework. These improvements have historically been outside of customers' reach because the gains were based on decisions and capabilities in the supply chain's organization (see Figure 3).

Figure 1. Decline in Supply Chain Performance Drives Customer Disloyalty
Maximum Impact of Purchase Aspects on Likelihood of Repurchase Decisions Made



n = 1,606
Source: 2021 Gartner Supply Chain's Customer Expectations Survey
Note: This data represents actual money spent by customers, not just attitudinal indicators of future choices. Maximum impact shows the percent decrease in the likelihood of repurchase decision in association with moving from the 75th to the 25th percentile performance for each of the indicators.

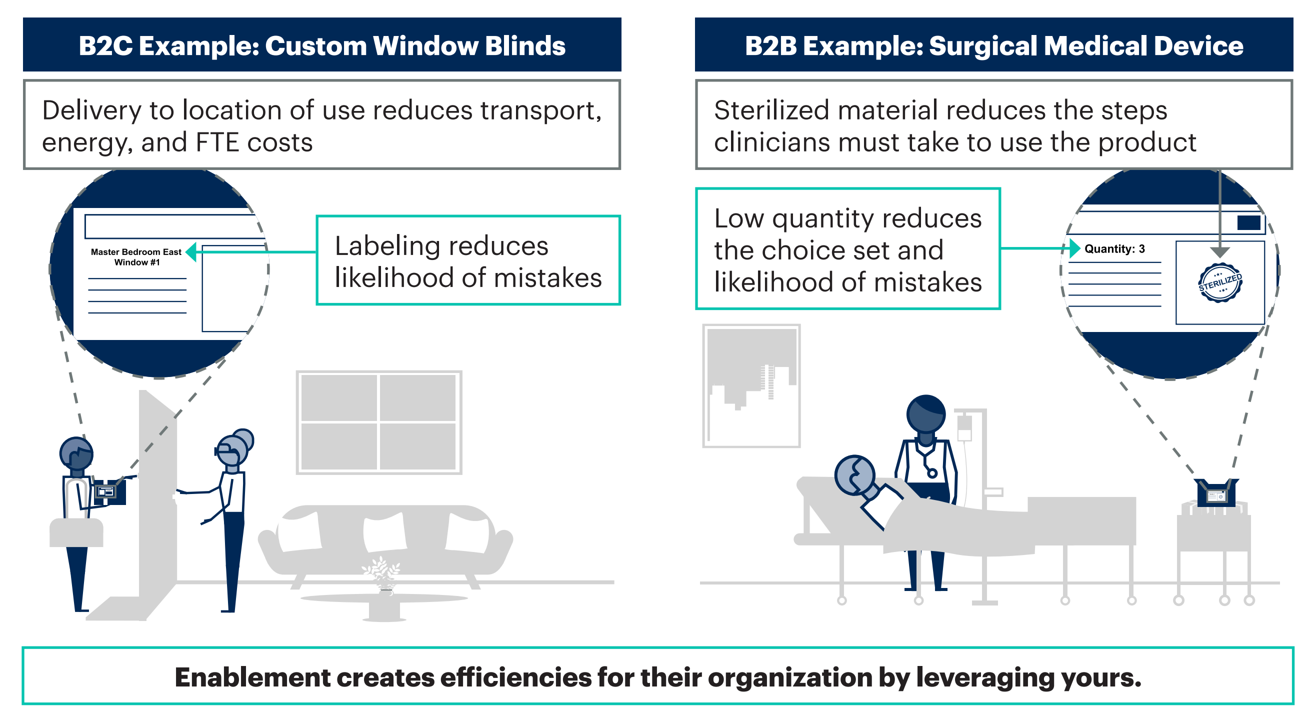
Figure 2. Enablement Drives Loyalty 2X as Much as Satisfaction
Likelihood to Repurchase



Customers who took **fewer steps** and whose **jobs were easier to accomplish** because of customization, packaging, and delivery were more than **2X more likely to repurchase** than customers who were simply more satisfied.

n = 900 B2C, 706 B2B
Source: 2021 Gartner Supply Chain's Customer Expectations Survey
Note: Maximum impact shows the percent increase in the likelihood of repurchase decision in association with moving from the 25th to the 75th percentile performance for each of the indicators.

Figure 3. Enablement Offers Customers New Productivity Gains



Source: Gartner

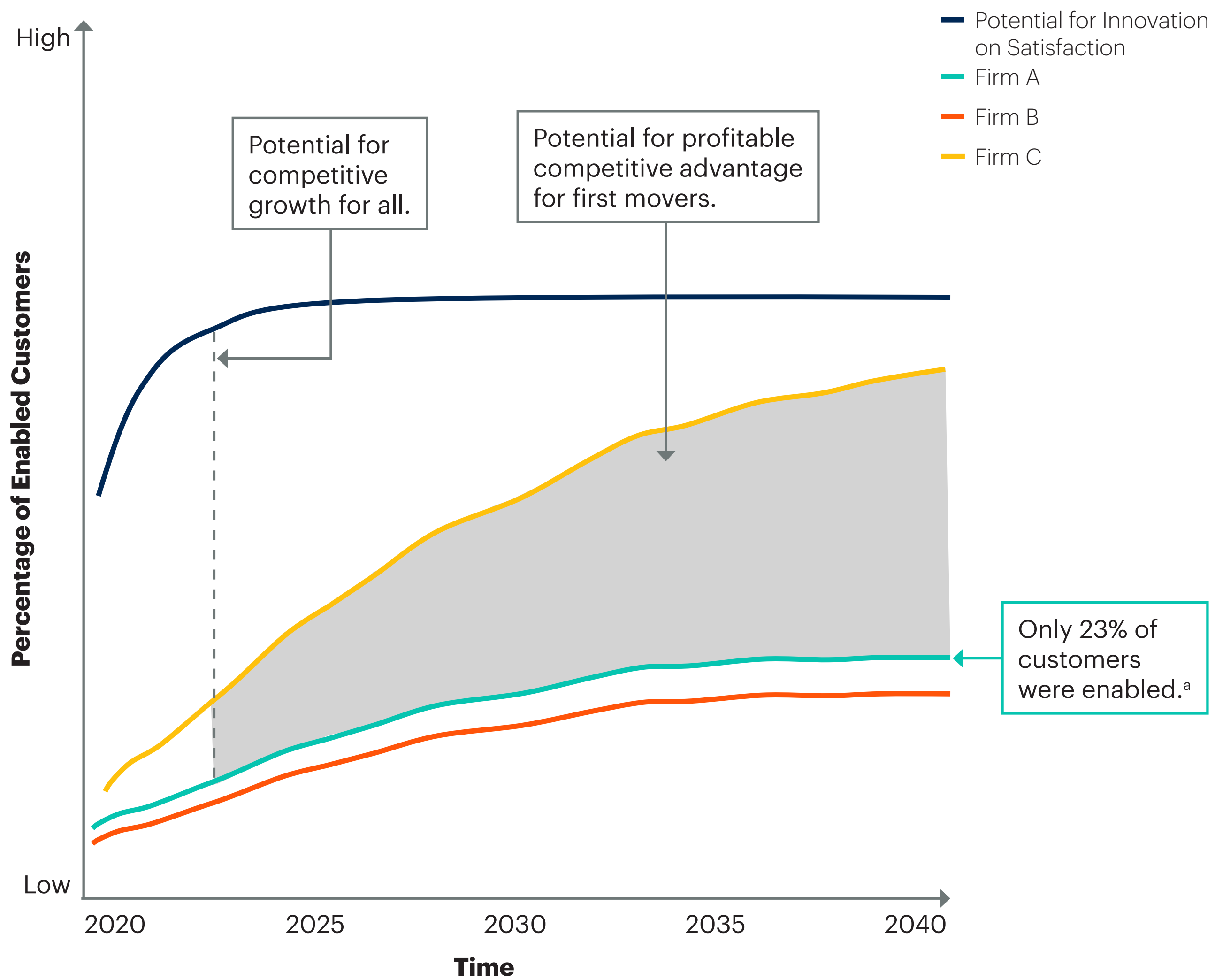
Make It Easier for Customers to Achieve Their Desired Outcomes

Enabled customers will reward your organization for developing supply-chain capabilities that go beyond simple satisfaction and help them get their jobs done. For example:

- Amazon's frustration-free packaging makes it easier for customers to open boxes. Similarly, shelf-ready packaging in a business-to-business (B2B) context can greatly reduce the FTEs customers need.
- Plant-to-customer delivery helps B2B organizations reduce lead times and get much-needed products to their customers faster and more easily.

The good news is that some organizations are already providing enablement in some form to 23% of customers.[1] But that also means about 77% of customers are not being enabled today. So enterprises that are first to implement this as a growth strategy have great potential to achieve an early advantage over their competitors (see Figure 4).

Figure 4. Enablement Is the New (Profitable) Competitive Frontier
Illustrative



Source: Gartner

[a] The curves on the graph are illustrative. The percentage of enabled customers is based on data sourced from 2021 Gartner Supply Chain's Customer Expectations Survey, n = 1,606

Get Ahead With an Enablement Strategy

To seek engines to growth, executive leaders should support three critical activities that supply chains must execute:

1. **Know what customers want:** Supply chain leaders do not have direct access to customer preferences — even though they need to understand the context in which customers use a product or service. Your commercial function can help here, facilitating the exchange of information the supply chain requires to develop innovative and profitable enablement capabilities and services.
2. **Prioritize customers' success:** Supply chains often concentrate on their own operational excellence, seeing it as the best way to support their customers' success. Enablement requires supply chain leaders to adjust their posture and be welcomed as a strategic partner across the enterprise. Consider new and adjusted metrics, such as a customer enablement score, to align your organization on customer outcomes.
3. **Make enablement profitable:** Developing enablement services and capabilities will be meaningless if commercial and marketing partners do not sell them to customers. Supply chain leaders must provide cost structure information to the commercial function. And commercial leaders will need to apply a price, and decide which customers should pay for enablement and which should not. Working together means you can scale the return on this important — and profitable — investment by letting customers self-select into these services when they want them.

[1] 2021 Gartner Supply Chain's Customer Expectations Survey. From November through December 2021, Gartner Supply Chain Research conducted an online survey of customers globally and received 1,606 complete responses that included 900 B2C and 706 B2B customers. Most respondents were from North America (n = 837) and EMEA (n = 447), and nearly 1,500 of them were 25 – 64 years old.

Of the 706 B2B customers, 634 survey respondents worked in a company with annual revenue of at least $1 billion, and 613 of them were managers or above (senior leaders or executives). The respondents were spread across multiple industries, including manufacturing (n = 279); retail (n = 97); healthcare (n = 82); technology and telecom (n = 81); banking, finance, and insurance (n = 43); energy and utilities (n = 37); education (n = 20); government (n = 13); media (n = 2); and others (n = 52).

Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and organizations surveyed.

Make the Most of Your Brand-Building Budget

by Janine Kanters, Elizabeth Kilbride, Michael Buhrmester and Sharon Cantor Ceurvorst

Businesses are fighting to retain customer and employee loyalty while marketing budgets still haven't fully returned to prepandemic levels and now inflation has hit.[1] Every dollar, pound, rupee or euro counts — for these stakeholders and for chief marketing and communications officers, too.

Many executive leaders — with an eye on environmental, social and governance (ESG) issues — see societal benefits as a significant brand builder, as it's what target audiences are demanding. Sixty-two percent of employees and 56% of customers check whether a company supports social causes they care about before applying for a job or making a purchase.[2] But to meet the macroeconomic challenges head on, your organization must concentrate on the most effective course of action: demonstrating the personal and functional benefits of your brand.

Three Categories of Benefits Brands Can Provide to Their Target Audiences

Customers who are deeply committed to a brand are over four times more willing to pay a premium. And prospective employees are 13 times more willing to switch employers without a raise in salary so they can work for a brand they're committed to.[3]

To appeal to your target audiences — which include customers, employees, prospective employees and investors — chief marketing officers and chief communications officers must seek a more effective brand strategy. And it starts with thinking about the types of benefits your brand provides:

- **Societal benefits — how a brand fulfills societal needs or goals:** For example, a company may use ethical production processes or create offerings that benefit society. This category can include ESG and DEI efforts such as committing to sustainability pledges or taking a corporate stand on social or political issues.
- **Personal benefits — how a brand fulfills personal psychological needs:** This includes helping people achieve their goals, for example, including making them feel confident and connected to others or reinforcing that they are staying true to their values.
- **Functional benefits — how a brand fulfills practical needs and goals:** This is solving important problems or issues for customers, or offering them very high-quality or high-value products and services.

Drive Brand Commitment With Personal Benefits

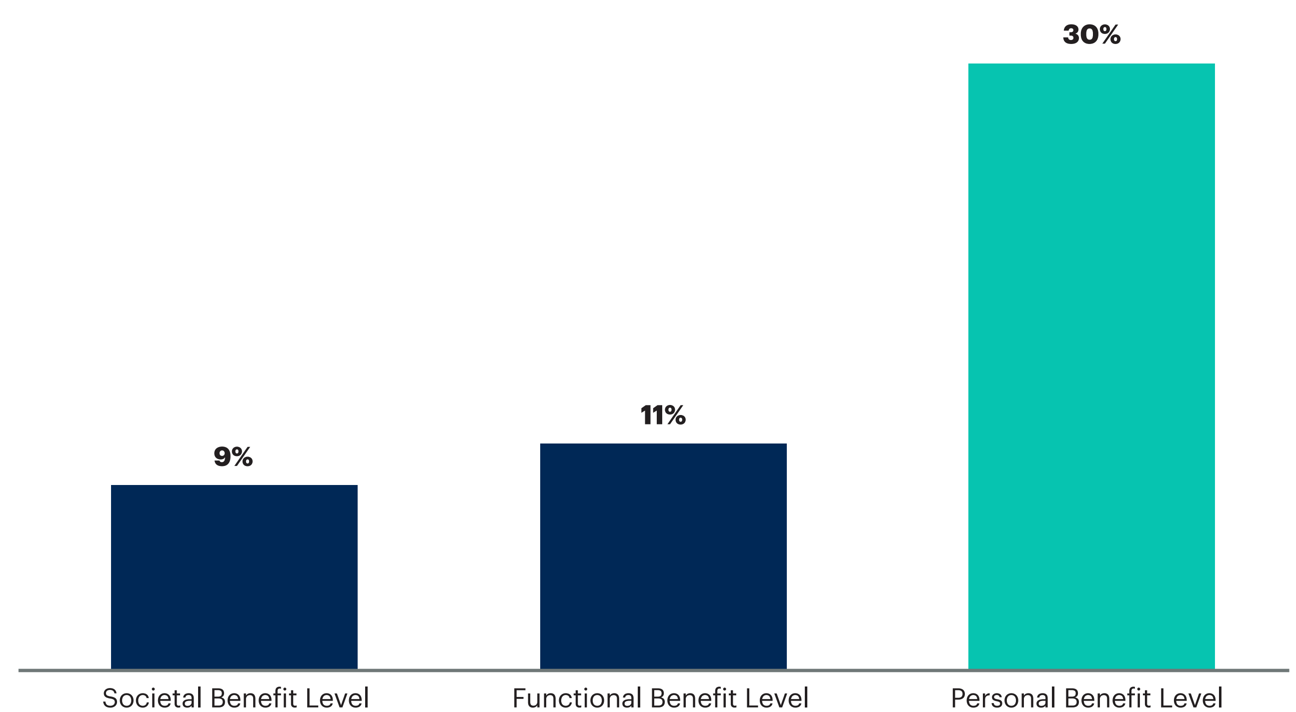
Companies are increasingly embedding societal benefits (for example, sustainability initiatives) into positioning and brand messaging. Yet, when it comes to driving audiences' brand commitment, increasing personal benefits is three times more effective (30%) than increasing societal (9%) benefits (see Figure 1).[3]

To provide a personal benefit, you must identify the psychological need your brand can credibly provide to target audiences, which can include helping them feel a sense of security, growth, belonging or autonomy.

A bank, for example, may know through customer research that people are often overwhelmed with uncertainty about their personal finances and investments. In this instance, the psychological need is competence: Customers want to feel like they are financially savvy and can achieve what they want in their life. The bank can position its brand promise to address those concerns, concentrating on helping customers see what's coming in the financial markets so they feel capable and ready to succeed.

To do this, the bank's campaigns and messaging must put customers in the place of someone making milestone financial decisions and connecting the brand to these achievements. Bank experts can appear in written and video content sharing their own expertise, exploring trends and making predictions to help the customer feel like an expert, too.

Figure 1. Impact of Three Types of Brand Benefits on Brand Commitment



n = 1,896 respondents

Source: 2022 Gartner Brand Activation Survey

Note: Brand Commitment index (outcome) is based on eight questions about brand preference, connection, and advocacy. Benefit levels based on four to five questions each assessing extent to which the brand provides each type of benefit. Results based on a multiple regression analysis with controls for audience type, gender, country of residence, employment type, urban/rural residence, social media influence, age, income, political affiliation, focal brand industry category, concern with inflation and supply chain, and level of familiarity with each benefit. Driver impact calculated as the percentage increase in commitment index as a function of model values at -1SD and +1SD from the mean on each respective benefit.

To Drive Strong Brand Commitment, Combine the Functional With the Personal

Strong brand positioning should emphasize more than just one type of benefit, and the combination of personal and functional benefits (67%) presents a powerful opportunity for your organization to drive brand commitment. The additional effect of societal benefits alongside personal and functional benefits is very small (3%). So use your brand-building budget to tie together personal and functional benefits, because it will give you better results from target audiences than simply demonstrating your societal actions to them (see Figure 2).

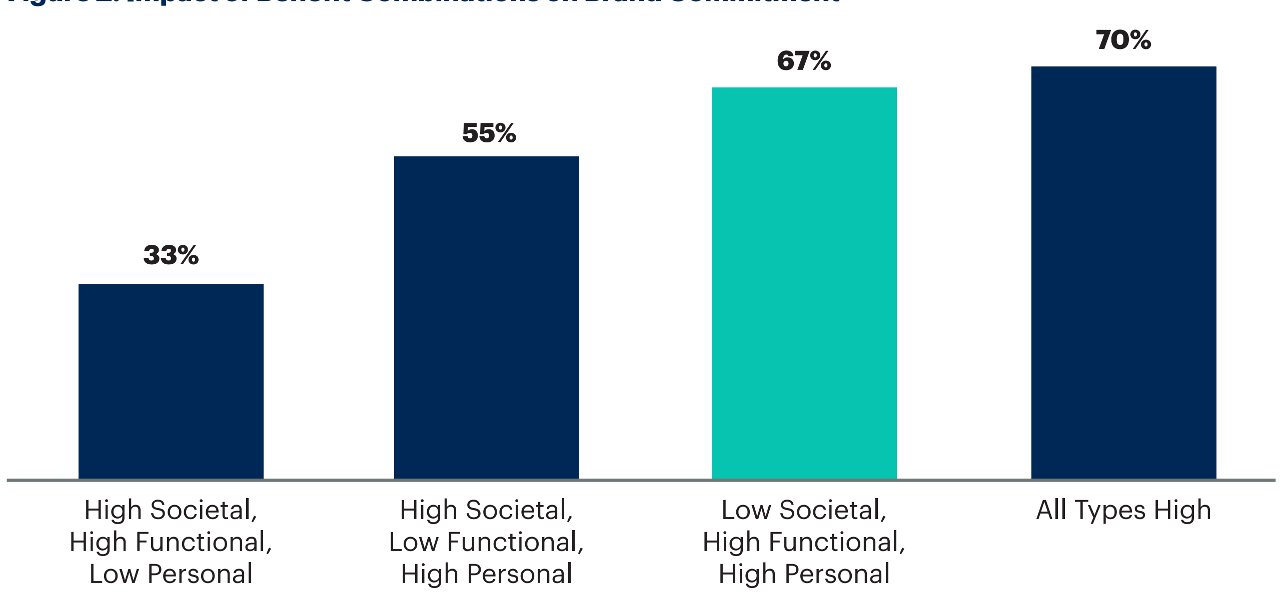
When assessing brand positioning and messaging, make sure you meet functional expectations first. Failings in this area can lead to criticism from customers and employees alike who won't come back. If a brand doesn't fulfill a functional need — for example, providing a product or service that works or a job that covers living expenses — no amount of personal or societal benefits will rectify that.

But to attain positive business outcomes, rather than just merely avoiding negative ones, you must provide a personal benefit. First up, identify the emotional or psychological benefit that target audiences receive when they use your brand's product or service.

Security, for example, may be a perceived personal psychological benefit because of a product's functional safety features. But, instead of emphasizing how a product provides safety or security (and how it might be better than competitors), shift your brand's messaging to evoke personal feelings of being secure. The software security company McAfee, for example, has a value proposition of "Protection for ALL your connections" and incorporates messaging about how it has "your back."[4]

You should position your brand around a select set of personal and functional benefits. Look to formal and informal channels of audience insight, from customer and employee surveys to chat forums and social media messages, to identify the benefits audiences get from your brand.

Figure 2. Impact of Benefit Combinations on Brand Commitment



n = 1,896 respondents

Source: 2022 Gartner Brand Activation Survey

Note: Results based on multiple regression model with controls for audience type, gender, country of residence, employment type, urban/rural residence, social media influence, age, income, political affiliation, focal brand industry category, concern with inflation, and supply chain. Driver impact calculated as the percentage increase in commitment index as a function of each combination of "low (-1SD from mean)" and "high (+1SD from mean)" benefit levels relative to an all low baseline (0%).

A competitive analysis of these insights will help you select the specific benefits your organization is best placed to provide.

But satisfying your employees' and customers' psychological and practical needs doesn't necessitate a rebrand. These benefits can be embedded into messaging and campaigns, including advertising, website copy, press releases, intranet articles, townhalls and newsletters.

Marketing and communications functions can help here. They should equip leaders with guidance and resources such as discussion guides and talking points on which personal and functional benefits resonate with target audiences. Executives can then convey these benefits in their own communications, whether in public interviews or when talking to their teams.

Couch Societal Benefits Within the Personal Benefits They Help Deliver

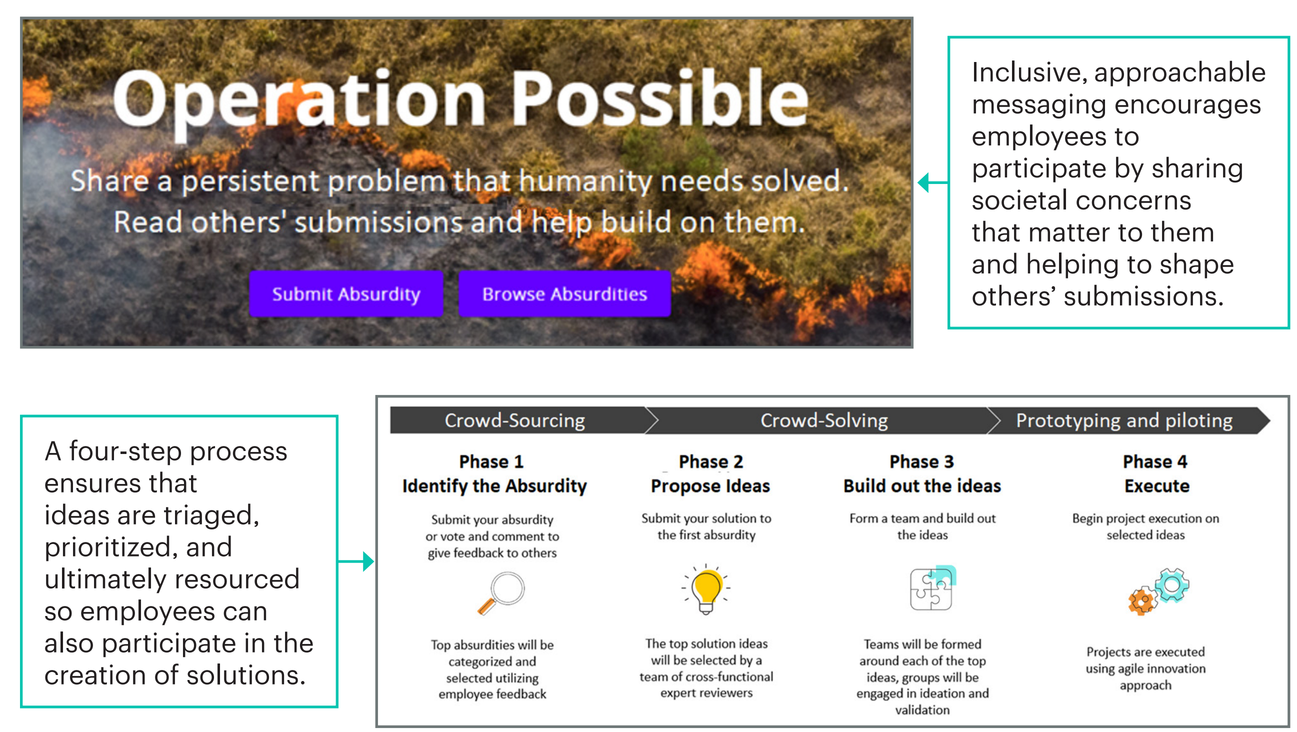
The effect of societal benefits may be weakest because they are increasingly seen as expected (and therefore not rewarded), generic and undifferentiated, or furthest from someone's most pressing and immediate need. Yet, people still want to hear about societal benefits. Sustainability, for example, is vital, so you must adjust how your brand talks about it to effectively convey efforts to your audiences.

To communicate societal benefits, frame them in terms of the personal benefit they help deliver. Highlight how customers and employees personally contribute to and benefit from the brand's social actions and, where possible, transfer credit to them for societal good.

For example, Trane Technologies released a new corporate purpose, "Boldly Challenging What's Possible for a Sustainable Future," and as part of that initiative empowered employees to identify social impact ideas and action steps. The global climate innovator, which has a portfolio of energy-efficient heating and air conditioning products, asked its employees to crowdsource "absurdities" or "persistent problems humanity needs solved" (see Figure 3).

Figure 3. Trane Technologies' Social Impact Ideas and Action Program

Trane Technologies' "Operation Possible" Program Overview



Source: Adapted From Trane Technologies

Susan Cleveland,
Content Marketing Director,
Trane Technologies

TRANE TECHNOLOGIES

"Operation Possible offers employees a chance to identify the issues that are important to them and engage in open innovation in a way that matches their passion," says Trane Technologies' content marketing director, Susan Cleveland. "When our people tell us they've got goosebumps from seeing what we can do through this type of social innovation, we know we are on the right track."

Instead of sending corporate messages about the company's commitment to the environment, Trane Technologies centers employees in its sustainability work — giving them agency and credit for identifying and solving challenges.

Leadership uses a four-step process to make sure ideas are triaged, prioritized and ultimately resourced so employees can be personally involved in the creation of solutions.

The crowdsourcing of ideas helps them feel they are staying true to their own values and connected to peers, while also being given the chance to be a part of something bigger.

[1] 2022 Gartner CMO Strategy and Spend Survey
[2] 2021 Gartner Corporate Social Impact Survey
[3] 2022 Gartner Brand Activation Survey
[4] Protection For All Your Connections, McAfee.

A Case for Enterprisewide Technology Spend Management

by Srinath Sampath and Galliopi Demetriou

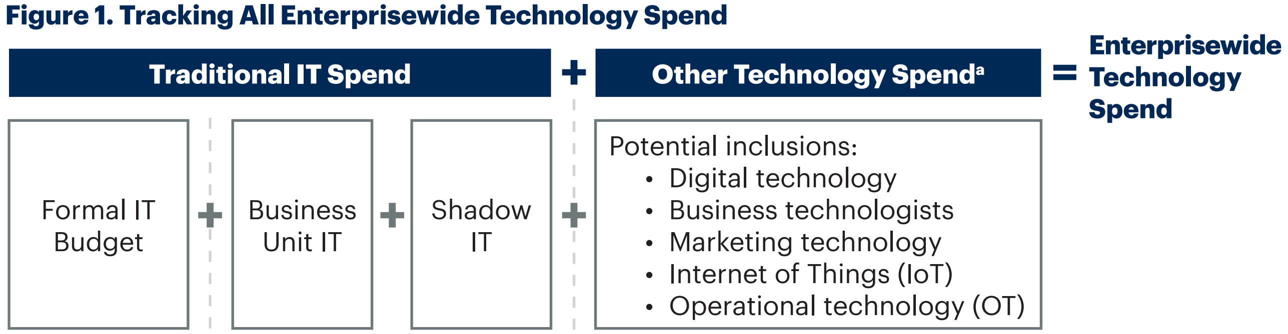
In the last few years, executive leaders have been willing to increase their risk tolerance and loosen their purse strings in the pursuit of the digital dividend. Even in the face of rising costs and impending recession, we forecast global enterprise IT spending will grow 5.9% in 2022 and 6.3% in 2023.[1]

The increases, however, aren't meant to be a blank check. CFOs and CEOs are asking CIOs and chief digital officers whether their aggressive digital investments have delivered the expected results. When business units are buying software and employees everywhere in the organization are coding, it's hard to come up with defensible answers. Limited visibility is one thing that gets in the way of an accurate accounting.

It's time to take a broader view, checking for alignment, possibilities for collaboration and best practices among (see Figure 1):

- The formal IT budget — The IT department is accountable for providing these assets and services.
- Business unit IT — Profit centers or overhead departments are accountable, but IT is consulted as a subject matter expert, with two-way communication.
- Shadow IT — IT is aware of this spending, which can happen anywhere in the enterprise, but may not have detailed information about it.
- Other technology spend — These investments, which may vary significantly depending on the company, require or affect enablement or support from the formal, business unit or shadow IT categories. Examples might include marketing technology or the Internet of Things.

Figure 1. Tracking All Enterprisewide Technology Spend



Source: Gartner

[a] What organizations include in the "Other Technology Spend" category varies significantly in practice. The examples are provided as a reference, not as a formal definition/delineation of the category.

The Payoff

More than half (52%) of executive leaders responding to our 2022 Enterprisewide Technology Value Survey say they've increased all these forms of tech spending compared with five years ago.[2]

Though higher technology spending is perceived as a net positive, two-thirds of executives somewhat or strongly agree it requires a fundamental shift in how IT manages traditional spend and how the enterprise manages the full tech spending landscape.

As it turns out, they are right. The whole organization benefits from governing and demonstrating the value of all technology spending. Compared to others, the proportion of effective spend managers who said their technology investments had a high impact on their enterprise goals was higher. Specifically, they told us it was:

- 28 percentage points higher when it comes to increase in funding/revenue
- 25 percentage points higher when it comes to reduction in operating costs
- 33 percentage points higher when it comes to achieving their environmental, social and governance (ESG) goals

IT leaders gain advantages, too. Compared to others, the proportion of "effective spend manager" companies that said they experienced positive technology outcomes was higher. Specifically, it was:

- 19 percentage points higher when it comes to having manageable levels of technical debt — the implied cost of reworking when choosing an easier solution now over a better one later
- 23 percentage points higher when it comes to being perceived as a value driver
- 24 percentage points higher when it comes to successfully meeting business demand

What Enterprisewide Technology Spend Managers Do Differently

Here's what separated effective companywide spend managers from the pack:

- **A formal process to consolidate, allocate and report technology spending throughout the enterprise —** This could include a technology-focused executive oversight committee and/or putting guidelines in place to make consistent investment decisions.
- **Well-defined spend categories that document specifications of what does (or does not) qualify as technology spend —** The descriptions apply regardless of which function budgets or spends the money. Seventy-five percent of CIOs, CFOs and business executives we surveyed said the formal IT budget is well-defined in their organization. But only 46% and 37% said the other technology spend and other traditional IT spend respectively were well-defined.
- **Visibility into spend —** Figure 2 (see the next page) depicts the gap — for each spending category — between the surveyed executive leaders' desired level of transparency and their actual level of transparency. For all types of spend, CIOs/technology leaders and CFOs/finance leaders were more interested in having this information than business leaders were. For the two categories outside the formal IT budget, effective spend managers had much higher levels of actual transparency compared to others.

An Enterprisewide Technology Financial Plan Creates Transparency

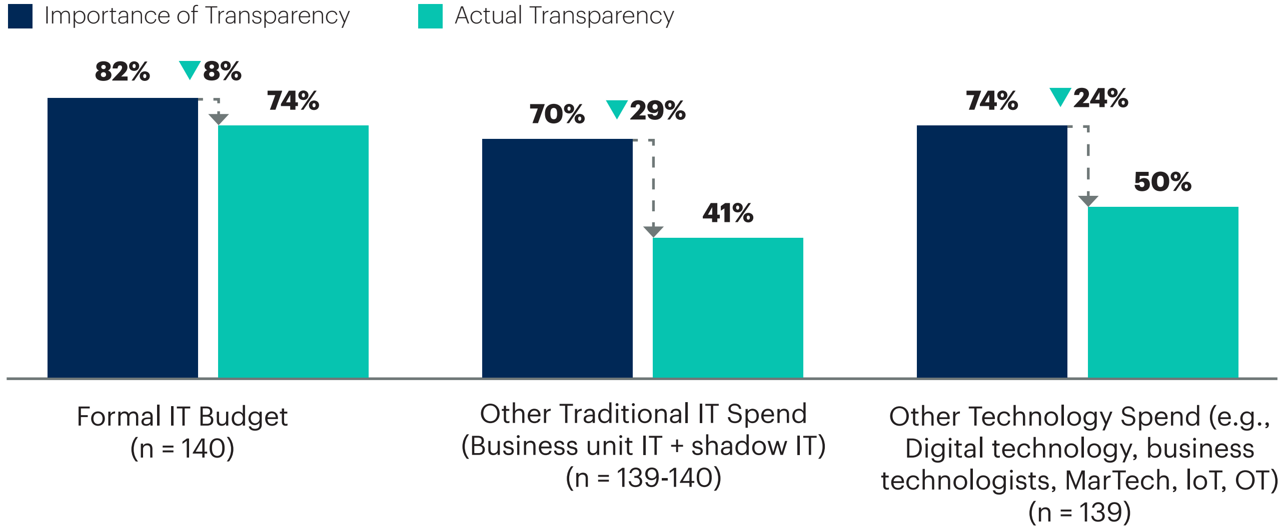
Senior executives (including the CIO, CFO and others) should partner on gathering a single-source-of-truth view of technology investments and spend throughout the enterprise. Let's call this the enterprisewide technology financial plan.

Encompassing all spending categories, it would serve as a one-stop shop for all senior executives up to and including the C-suite and board to understand overall technology spending.

This plan should account for the interdependencies between the different categories. For instance, with the business and other corporate functions spending more on technology outside the IT budget, responsibility for support/maintenance likely falls back on the CIO's team and adds pressure on the formal IT budget.

Shedding a light on the full portfolio of spend can help teams prepare future investments appropriately. For this to happen, the enterprisewide technology financial plan needs to be forward-looking beyond the annual

Figure 2. Gap Between Importance of Transparency and Actual Transparency for Each Technology Spend Category
Summary Top 2 Ratings[a]



n varies, all respondents, excluding "Don't Know"
Q. How important is it for you and your team to have full transparency for the following types of technology spend in your organization?
Q. What level of transparency do you and your team have for the following types of technology spend in your organization?
Source: 2022 Gartner Enterprisewide Technology Value Survey
[a] Top 2 ratings means the percentage of respondents that selected either 6 or 7 on a 7-point scale.

budget cycle, preferably with a time horizon of two years or more. Eighty-one percent of the surveyed executive leaders with all three categories planned for more than two years in their enterprise report they are significantly more effective at managing the categories outside the IT budget.

Appropriately, technology can offer assistance. Only 11% said they were using software solutions to track, consolidate and forecast enterprisewide technology spending; another 22% said they planned to start in the future. These solutions can provide different views of overall technology spending to different constituencies, whether it's the general ledger view for finance, a service view for the business or a technology view for IT.

One big question remains unanswered: Who should take charge of holistic technology spend planning? In our survey, CIOs/technology leaders and CFOs/finance leaders couldn't agree; each group believed it was best suited for this responsibility.

[1] Gartner 2Q22 IT Spending Forecast. The Gartner IT forecast is a summary of detailed market forecasts for individual technology markets. These source forecasts are combined and translated into the IT databook's geographic, time series and segmentation hierarchies.

[2] The 2022 Gartner Enterprisewide Technology Value Survey was conducted to understand the evolution of technology spending (including but not limited to formal IT spending) and the level of transparency that CIOs, CFOs and other business unit leaders have into enterprisewide technology spend throughout their organizations. The survey also focused on how organizations are governing enterprisewide technology spending. The survey was conducted online from May through June 2022 among 140 respondents from North America, Western Europe and Asia/Pacific. Respondents came from all industries, except nonprofits, charities and NGOs, and from organizations with $50 million or more in annual revenue. Respondents included 53 CIOs and IT or technology leaders, 38 CFOs and finance leaders, and 49 other functional business unit leaders. Respondents were screened for their involvement in IT and technology budgeting and spending decisions. *Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.*

To Keep Data Scientists, Set Them Free

by Sanchi Bhat

Data scientists are about to become an even hotter commodity[1] as companies respond to high inflation and potential recession the way they reacted to the COVID-19 shock: by moving to automate or augment processes with machine learning and artificial intelligence. But believe it or not, it's possible to prevent poaching and avoid expensive competition for new hires.

In fact, tactics shared by two companies offer enticements that have proved more important than money. Asurion has achieved a 93% retention rate among its data scientists and Eastman has overcome common obstacles to upgrading data skills in the existing workforce. The secret ingredient was freedom — time to learn, recognition for creativity and varied experiences that untethered talent from a particular business unit or a specific type of data work.

Giving data scientists this liberty will require many enterprises to change their mindset. The knee-jerk ways for organizations to bolster their capabilities in this field are to recruit top-dollar external talent and/or improve existing employees' data literacy by offering enterprise-wide training programs.

But the high salaries commanded by experienced data scientists in the United States and Europe risk rendering the former strategy unviable, while the latter fails to account for employees' lack of time to learn.

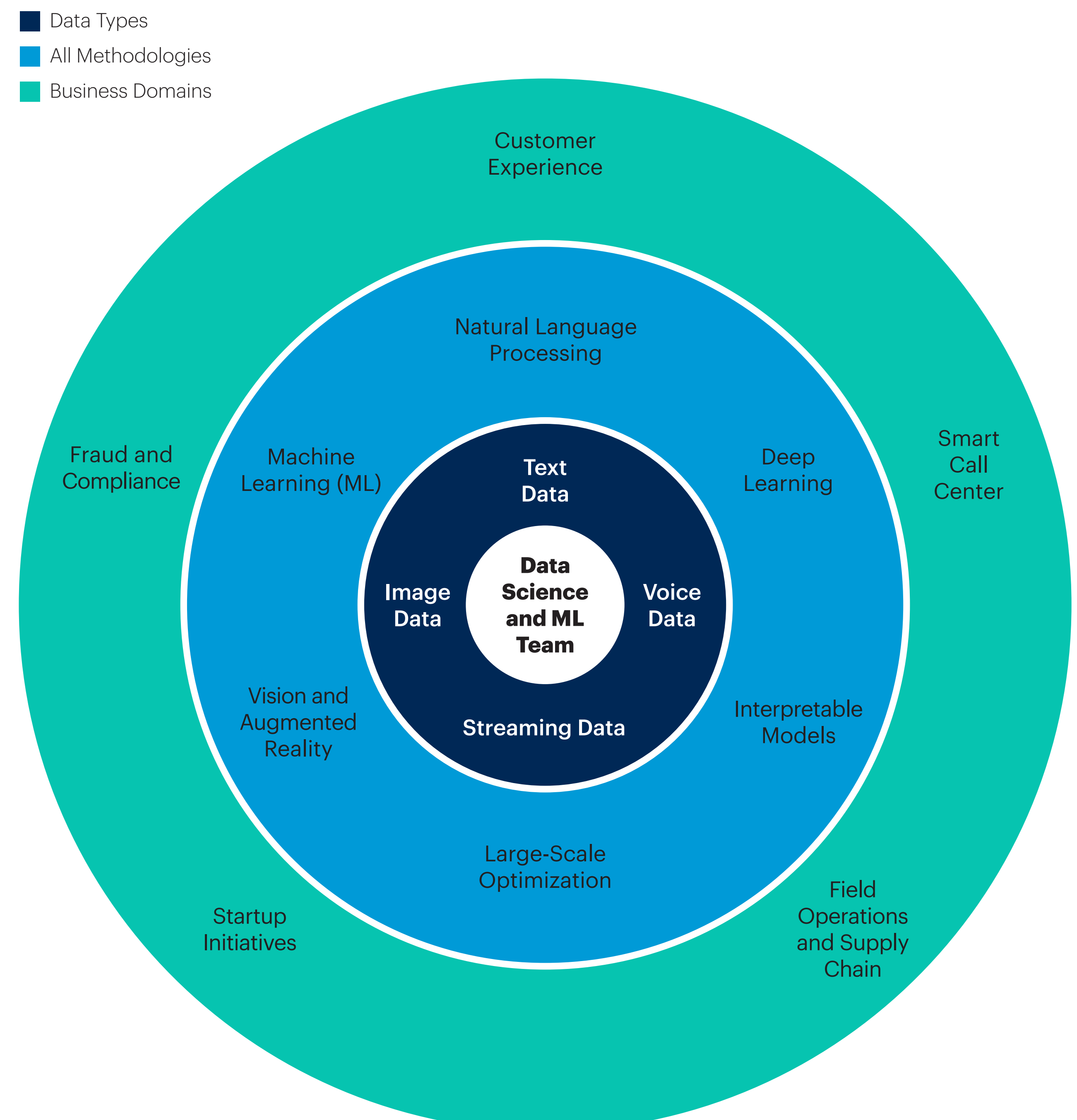
Liberate Data Talent From Restrictive Tasks

There is a way forward, however. Organizations providing a flexible working pattern that allows — in fact, encourages — data scientists to rotate among business units will make themselves more attractive to these workers. Such enterprises are rare.

Asurion, a U.S.-based technology insurance and repair services company, understood data scientists' deep need to learn and grow in multiple ways. Instead of assigning experienced data talent to specific parts of the business, Asurion created a "hub-and-spoke" organizational model with a data science team at the center (see Figure 1). The team loans personnel to business units based on the function's business case and data analytics needs and the team members' own interests.

The model is designed to offer a fluid working structure to data talent that wants to learn about different datasets and methodologies. Asurion's data scientists also share their expertise inside this centralized hub, further increasing the team's collective knowledge.

Figure 1. A Data Science and Machine Learning Team Shared Across Business Units

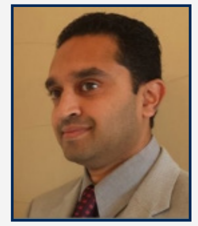


Source: Adapted From Asurion

Reward Creative Failure

Even though data science experiments don't always yield concrete results, most organizations tie outcomes to hard performance metrics such as targeted increases in business revenue — and failure to achieve the goal can hurt when it's time for a performance review. Asurion solved this issue by adding an element of "potential" to performance reviews to recognize pilot projects that produced no tangible results but added to the centralized team's overall knowledge (see Figure 2).

> Even though data science experiments don't always yield concrete results, most organizations tie outcomes to hard performance metrics.

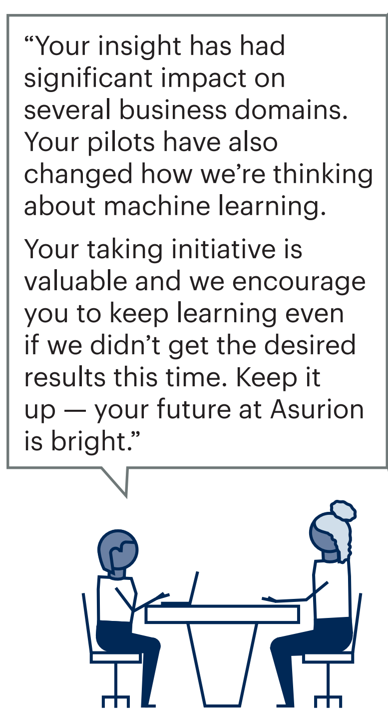


Sundar Kuppuswamy,
Chief Data Scientist, Asurion

As Sundar Kuppuswamy, Asurion's Chief Data Scientist, points out, "Data scientists do not typically build off of requirements. They thrive off of curiosity, experimentation, learning and creating business impact." Since introducing these changes for its data scientists, Asurion not only achieved a stellar talent retention rate but also increased its new business capabilities by 400% from 2018-2021.

Figure 2. Asurion's Criteria for Rewarding Potential
Illustrative

Asurion assesses data scientists' potential in addition to their performance to promote growth from lessons learned.



Review for Jane Doe, Data Scientist

Performance	Potential
Document **Achievement:** • Impact of projects on the business • Impact of projects on the team	Document **Growth Seeking:** • Going above and beyond • Learning from failures • Observed intangibles
• 20% faster in resolving customer technology issues • 70% reduction in customer escalations • 80% of U.S. customer base optimally served by Asurion local tech experts • 5% growth in new product sales driven by new tools • 20% improvement of customer ratings based in understanding customers and focusing on quality of service	• Contributed to a new collaborative initiative despite limited material impact • Coached interns and helped others with ideation and solution development • Taught NLP course in addition to the day job — shows positive engagement, improves knowledge and builds relationships • Recovered from failure and shared lessons learned • Took ownership for knowledge sharing and evangelizing efforts

Source: Adapted From Asurion

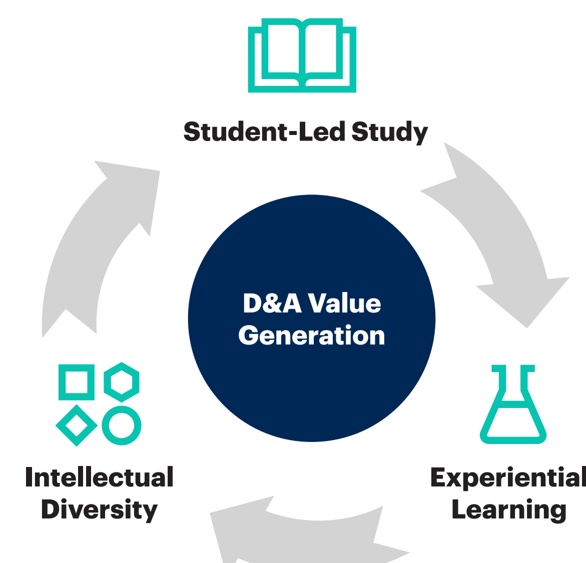
Protect Employees' Time to Learn

Organizations intent on creating the perfect data literacy program often forget to remove obstacles that prevent workers from acquiring new skills. Employees who are willing to learn data science end up studying after normal business hours so that their core work remains unaffected. Unsurprisingly, fewer than expected sign up for even user-friendly data-literacy programs.

Eastman, a U.S.-headquartered chemicals company, recognized that employees struggle to train while also carrying out their daily tasks. The enterprise used a three-pronged approach to reduce their time to learn (see Figure 3):

- **Student-led study.** Employees in the learning group took turns to read a chapter from their curriculum and teach it to the other members.
- **Experiential learning.** Team members practiced what they were taught by solving real-world business challenges. This meant less time learning the theory of data science, and faster learning via on-the-job training.
- **Intellectual diversity.** Eastman brought in external hires to share their best practices, tips, and learning hacks that employees used to train faster.

Figure 3. Eastman's Time-Saving Learning Principles Led to Data and Analytics Value Generation



Source: Adapted From Eastman

Eastman's initiatives enabled its data scientists to create value with business units across the enterprise. For example, they collaborated with the supply chain team to develop a model that could predict supply chain disruptions, helping the team prepare for and mitigate costly delays. From 2013 to 2019, the business value (in dollar terms) generated by the organization's data science team increased by more than 350%.

B. Mark Ewing,
AI and Machine Learning Technology Manager and Chief Architect, Eastman

As B. Mark Ewing, AI and Machine Learning Technology Manager and Chief Architect at Eastman, remarked, "We delivered value from the beginning without heavyweight external data talent, and our early wins paved the way for bigger successes year over year."

[1] Leading Upskilling Initiatives in Data Science and Machine Learning: Hype Cycle for Data Science and Machine Learning, 2022

How to Weigh Talent Trade-Offs in a Downturn

by Alexander Kirss, Iga Pilewska, Crystal Styron and Matthias Graf

Functional leaders are confronting at least three types of uncertainty:

- What will happen to the economy
- How a slowdown might affect their organization
- How a downturn will affect their employees

Because they can't control the macroeconomy, executives should devote more time and resources toward the areas they can influence. Namely, they should bolster the resilience of their organization and — in particular — their employees (see Figure 1).

This downturn, however, will be different because of new talent challenges. Addressing these effectively will require crucial trade-offs. HR, enterprise risk management and strategic planning leaders will be vital partners in making tough choices.

Move With the Changing Times

A rare convergence of economic and talent conditions hobbles organizations' ability to hire and retain the right people in the right numbers and the right places for achieving enterprise goals:

- **Persistent, high inflation and disrupted supply chains** crimp organizational budgets and profits, making it harder to pay for top talent.
- **A highly competitive labor market and low unemployment** will exacerbate hiring difficulties.
- **Expectations for the employee-employer relationship** are shifting. Increasingly, employees no longer see working as a simple economic transaction but rather as a tighter social bond marked by reciprocal respect and obligations. They want more flexibility, personal growth, well-being and a feeling of shared purpose.
- **Stark winners and losers** are a consequence of economic gains accruing to fewer businesses and smaller segments of the population in recent decades. This growing inequality sharply raises the stakes of a downturn for organizations and their employees.[1]

In addition, the COVID-19 pandemic exposed many preexisting talent challenges. For example, a fast economic recovery from the pandemic-induced recession led to widespread worker shortages caused by aging populations, slowing birth rates and decreased immigration — the result of pandemic restrictions and growing nativism in many countries.

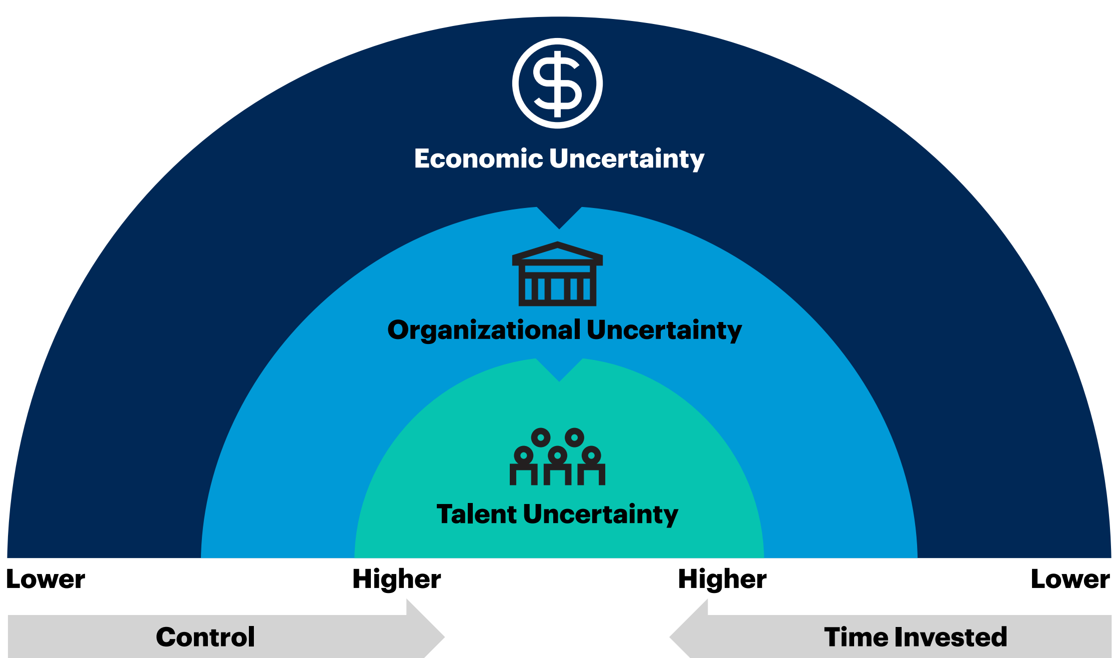
The U.S. has been suffering from an especially acute case of understaffing: In 2018, for the first time this century, the number of open jobs in the U.S. exceeded the number of unemployed people. This change reversed sharply during the initial months of the pandemic, then whipsawed back to new highs in 2022 (see Figure 2).[2] The U.K., Australia and Canada are also experiencing more demand for workers than the available supply.[3, 4]

Identify Priorities and Talent Non-Negotiables to Confront Uncertainty

Proactively manage these various uncertainties (or "known unknowns") by:

- **Identifying functional priorities —** This involves examining existing strategic plans to triage which goals are most important.
- **Prioritizing talent non-negotiables —** Executive leaders should identify the talent capabilities and needs critical to meeting functional priorities. Organizations often slow down hiring and look to rightsize the number of employees and mix of capabilities during a downturn. Take care that these cuts do not impinge on organizational success.
- **Aligning with other business leaders —** Work with peers to identify and understand overlapping priorities and talent needs. Doing so might make it easier to fulfill organizational priorities and will help everyone communicate shared priorities and needs most effectively to the CEO and board.

Figure 1. Three Layers of Uncertainty



Source: Gartner

Figure 2. Visualizing the Competitiveness of the U.S. Labor Market
Ratio of Job Openings to Unemployed Persons

Source: "Number of Unemployed Persons per Job Opening, Seasonally Adjusted," U.S. Bureau of Labor Statistics

Plan for Multiple Scenarios to Maximize Resilience

Focusing on two factors — the organization's performance outlook and talent demand — filters unnecessary information and allows flexible development of a targeted plan based on four talent scenarios leaders may face (see Figure 3).

When an organization has a positive performance outlook and weak talent demand, emphasize **future-proofing;** that is, enhancing resilience to potential shocks. This could include combining or even removing redundant functions, redefining job roles, and restructuring reporting lines to improve efficiency.

In the best-case scenario, the organization's performance outlook and its talent demand are both strong. That's the time for **trailblazing,** taking more risks and being more aggressive. As profit projections are likely trending upward, organizations can expand their operations.

But if performance outlook is negative while talent demand is high, then the company will need to **rightsize.** Activities can include adjusting the number of employees, their capabilities, and organizational structure; reallocating talent and skills to high-impact and priority areas; and potentially investing in high-impact and priority skills to meet business objectives.

Lastly, organizations where performance outlook and talent demand are weak should consider **downsizing.** This decision should not be taken lightly. For example, airlines and restaurants laid off workers during the COVID-19 pandemic only to struggle later to rehire and train new employees.[5,6]

Downsizing is the right decision only when the costs an organization would face from maintaining its existing workforce outweigh the reputational and operational costs of eliminating positions. If that step is necessary, senior management should be as open and transparent as possible with employees about why and balance any cuts with targeted investments in essential talent.

Functional leaders will likely have the best understanding of whether they can achieve their strategic objectives with their current workforce. However, HR can help them understand how feasible it may be to fill gaps given the current talent landscape. The CFO can provide a sense of the organization's performance outlook under various economic scenarios.

Figure 3. Understanding Scenario Uncertainty

Performance Outlook	Weak (Talent Demand)	Robust (Talent Demand)
Positive	**Future-Proofing** • How do you ensure you have the skills for continued success? • How do you ensure engagement and productivity of your talent? • How do you prepare in case of a more negative economic outlook?	**Trailblazing** • How do you build the case for additional investments? • How do you drive innovation in talent attraction and retention? • How do you align business needs with employees' requirements?
Negative	**Downsizing** • What's your approach to selecting targeted workforce segments? • How do you ensure engagement and productivity of remaining employees? • How do you balance cost savings with talent investments needed?	**Rightsizing** • How do you get the talent needed with limited resources? • How do you realign your workforce for maximum impact? • How do you build the case for additional investments?

Source: Gartner

Manage Talent Dilemmas Confidently Using Data and Organizational Values

While executive leaders face several critical talent trade-offs, focusing on data and the organization's values can help them to avoid biases and make informed decisions.

Specifically, organizations need to weigh:

- **Technological investment versus talent investment —** Digitalization often helps organizations increase productivity gains during an economic downturn. But failing to simultaneously invest in talent may hinder their ability to scale operations coming out of the slowdown.
- **Cost savings versus employee needs —** Limits on organizational budgets may require a pause in benefits such as matching employees' retirement contributions, slow down hiring, or even trigger layoffs. Organizations that have enacted human-centric policies may be less able to implement these changes though, since they impinge on employee needs.
- **Building for stability versus innovation —** Accelerating investment to exploit new market opportunities during a downturn may increase risks, particularly if innovations do not pay off. Emphasizing stability, however, may leave organizations lagging dangerously behind their peers as they emerge from the economic slump.

Executives can confidently manage these talent dilemmas by using data and carefully examining their organizational values to:

- Make decisions based on evidence, not unconscious biases and fear.
- Align decisions to previous promises and employee expectations.
- Provide genuine explanations of why a particular decision was made.
- Make compelling recommendations to the CEO and board about necessary talent actions.

An array of data can inform talent decisions, including business and industry performance, employee sentiment and performance, and labor market competitiveness. Foundational documents and messaging, such as statements of organizational purpose and recent statements by the CEO and other C-suite leaders, will reveal values. Since organizational values are collectively shared by all members of the enterprise, consider consulting with employees directly through informal listening sessions or focus groups.

For example, an organization that has instituted a "human deal" and already offers flexibility can avoid labor force reductions through job sharing and reduced hours for employees who appreciate these options. HR leaders may have data on employees' preferences regarding flexible work and their effect on employee engagement and willingness to adjust. They can use this data to make the case to the CEO and board that implementing such measures will support the company.

The COVID-19 pandemic put cost optimization at the top of most organizations' agendas, and an economic downturn will fuel calls for budget and personnel cuts. But successful organizations preserved workforce savings early during the pandemic while funding smart talent investment opportunities. More generally, a balance between cost savings and talent investments tends to be vital for a successful recovery and long-term business growth amid widespread disruption.

1 J. Eeckhout, "The Profit Paradox: How Thriving Firms Threaten the Future of Work," Princeton University Press, 1 June 2021.
2 Job Openings and Labor Turnover Summary, U.S. Bureau of Labor Statistics.
3 Britain's Labor Shortage Is Helping Drive Its Inflation Problem, New York Times.
4 The Post-COVID-19 Rise in Labor Shortages, OECD.
5 Labor Shortages Are Causing Turbulence in Air Travel, Revelio Labs.
6 Restaurants are Short-staffed, and That's Taking a Big Toll on Customers and Workers Alike, CNBC.

The Whiteboard

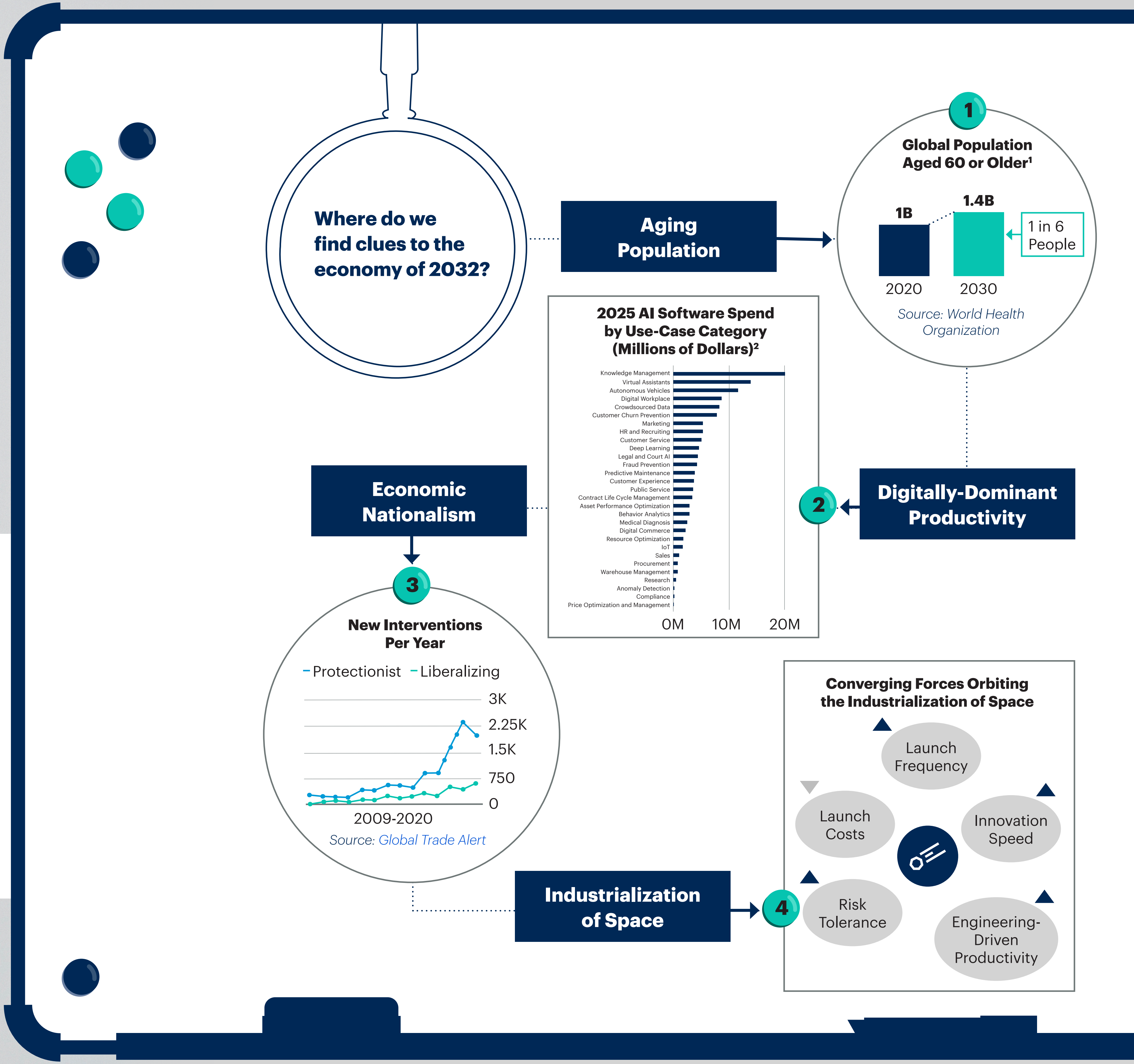
Big Questions to Ask About the Future Economy

by Markus Hofbauer, Lucas Kobat and Marty Resnick

Contributions by Jorge Lopez and Steve Shapiro

Keep thinking about tomorrow while you're navigating the near-term twists and turns of one of the most unusual downturns ever. You can't afford to overlook developing economic forces that could shape the future — and your company.

Let's head to the whiteboard and sketch out four trends to embed in strategic planning efforts. Can your enterprise gin up opportunity and minimize risks posed by population shifts, digital-based productivity, nationalism on Earth and large-scale business operations in space?



As populations age, how do we respond?

What is it?

- The shift in population towards older people started in high-income countries
- Now gaining momentum in low- and middle-income countries
- Will drive up medical spending, reduce tax revenues, and change labor availability and markets

The number of persons aged 80 years or older is expected to triple between 2020 and 2050 to reach 426 million.[3]

In Japan, 30% of the population is already over 60.

By 2050, two-thirds of the world's people over 60 will live in low- and middle-income countries.

Why might it be happening?

Continued decline in fertility rates, increased life expectancy.

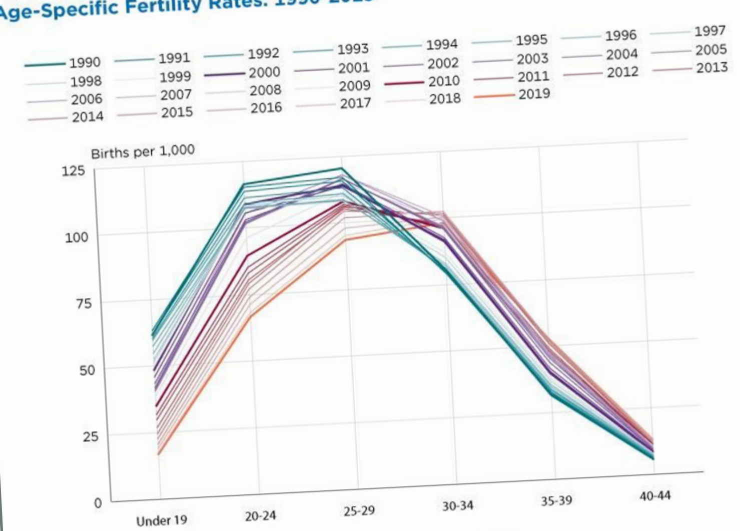
How can we see it?

- ☐ Higher percentage of elderly population no longer working (health).
- ☐ Falling birthrate (lower growth).
- ☐ Failure of participation rate recovering after economic crises.
- ☐ Rising public and private sector health costs.
- ☐ Public sector reduction in productivity-inducing investments.

What will make this trend faster or slower?

- ▲ Medical advances continue to increase life expectancy (has doubled in the last 200 years in the US to 78.8)[4]
- ▲ Lower fertility rates occurring in an increased number of developing countries
- ▼ Declining access to medical services and innovation
- ▼ Advent of new diseases impacting the older generations

Figure 2.
Age-Specific Fertility Rates: 1990-2019[5]



Note: Fertility rate is measured as births per 1,000 females in the age group.
Source: National Center for Health Statistics; U.S. Census Bureau, Population Estimates.

So, what could be the business impact?

- Healthcare systems become overwhelmed and aging humans face challenges in finding support and care.
- Biotechnology innovation delivers and aging populations are able to provide extended labor force participation.

What risks should I prepare for?

- Overwhelmed healthcare systems, reducing medical care opportunities
- Biotechnology innovation fails to deliver
- Aging populations are unable to provide extended labor force participation.

SMALL BUSINESS

Are You Maximizing Your Potential 100-Year Life Span?[6]

Jerry Cahn Forbes Councils Member
Forbes Business Council COUNCIL POST | Membership (Fee-Based)

Questions we should ask before responding

CMO
How do we capture the preferences of aging consumers and how consumer preferences change as wealth is transferred to younger generations?

Head of R&D
Can we deliver capabilities needed or preferred by aging humans and will there be government support to experiment in this space?

CHRO
How can we use existing, or lobby for new, immigration policies to attract skilled and entrepreneurial immigrants to fill our workforce gaps?

CFO
What is more cost effective? Hiring and training younger workers or the additional benefits required to entice older workers to stay?

2

How much productivity will come from machines in the future?

> **By 2025,** negative growth rates in human-driven economic productivity will become permanent as labor force participation rates drop.

> **By 2028,** machines will account for 20% of the global workforce and they will account for 40% of all economic productivity.

→ *What is it?*

New productivity gains will largely come from machines alone, rather than human-operated machines or humans.

→ *Why might it be happening?*

- Advances in AI, ML, and hyper automation spaces
- Potential to deliver the productivity boost that traditional improvements have not

→ *How can we see it?*

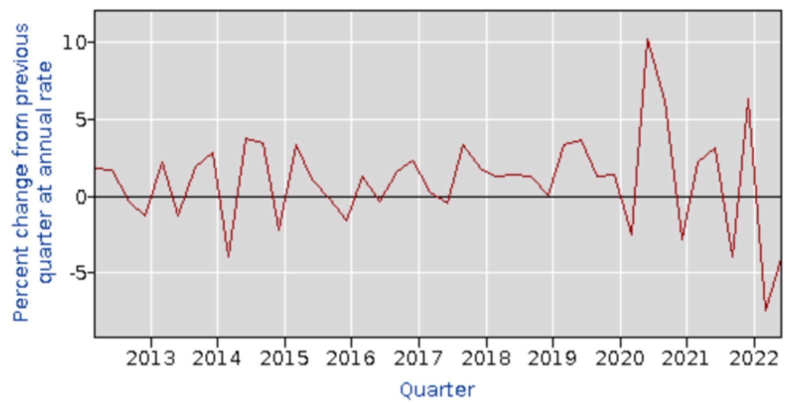
- ☐ Automation growth
- ☐ Increased use of AI, ML, and hyper automation
- ☐ Exploration of autonomic systems

→ *What will make this trend faster or slower?*

- ▲ Continued advancements in hyper automation
- ▲ Government funding in more nationalistic and regionally focused economies
- ▽ Societal and political pushback from displaced, or potentially displaced, workers
- ▽ Digital-driven productivity does not materialize in the formal published productivity data

Major Sector Productivity and Costs [7]

Series Id:	PRS85006092
Sector:	Nonfarm Business
Measure:	Labor productivity (output per hour)
Duration:	Percent change from previous quarter at annual rate
Base Year:	-



So, what could be the business impact?

- Short-term efficiency gains as machines take over human tasks
- Buying decisions will increasingly be made by machines (industrial robot's sensors detect new parts are needed and automatically places an order from a preferred supplier) Inequality will increase as pioneering firms pull away from others.

What risks should I prepare for?

- Drops in labor force participation rates leading to social unrest
- Displaced workers losing sense of purpose and meaning instead of retraining for higher-value work
- Popping investment bubbles if promises of unsupervised machines land flat
- Unsupervised machines could lead to higher compliance costs and increased legal action in uncharted legal territory

Questions we should ask before responding

EPMO Leader
How do I begin to identify and manage interdependencies between machine and human workers on projects and other initiatives?

Head of R&D
How do I cautiously invest in capabilities that allow for the transfer of higher-order tasks from humans to machines?

CHRO
When should I start accounting for machines in workforce planning strategies, as I would with human resources?

CFO
How do I prepare the organization for increased compliance costs related to machines taking on human tasks?

3 What will a more national, less international economy look like?

→ What is it?

Shift toward national as opposed to international economies and business activities due to rising geopolitical tensions and domestic political polarization.

→ Why might it be happening?

- Governments seek to counter potential geopolitical threats
- Enact protectionist economic policies in sectors deemed essential for national security.

→ How can we see it?

- ☐ Justification of tariffs
- ☐ Transfer restrictions for sensitive data and technologies
- ☐ Increasing government support for critical industries beyond defense
- ☐ Rise of populist nationalist movements who run on criticizing freedom of trade, capital, and movement

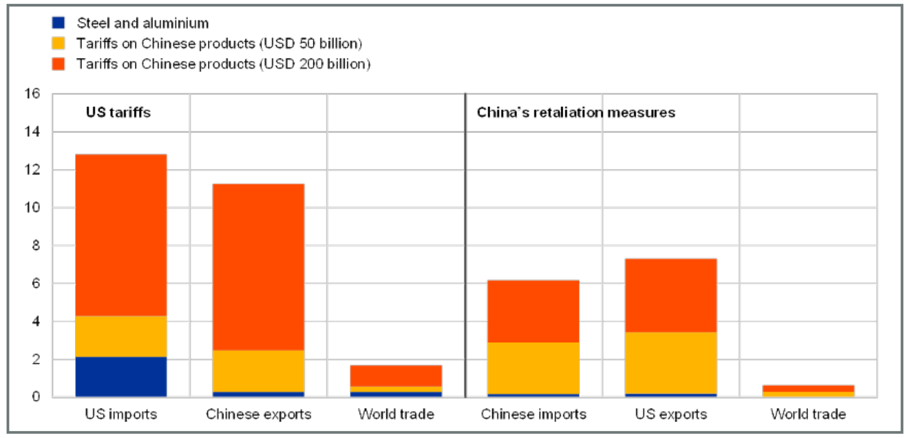
→ What will make this trend faster or slower?

- ▲ Geopolitical confrontation
- ▲ Populist demands
- ▼ Labor and skill shortages
- ▼ Slowing growth

By 2028, protectionist economic policies and geopolitical stresses will spur 35% of multinational corporations to divest from international holdings and reorganize around new domestic entities.

By 2030, half of previously global value chains will be reoriented as national or regional chains.

This trend began before the COVID-19 pandemic.[8]



So, what could be the business impact?

- Higher competition for skills
- Atypical growth for government supported companies
- Increasing regulatory, compliance and insurance costs
- Limited choices for markets, operations
- Growth limited/concentrated to "friendly geographies"
- Increased direct gov investment, esp. goods that are deemed essential

What risks should I prepare for?

- Pressured to pick sides
- Divesting and rebuilding
- Higher competition between multiplying smaller economic geographies
- Labor shortages

European business leaders fear rising protectionism

What's behind the rise in trade protectionism?

posted by Juliette Rowsell
in Procurement

CNN World Africa Americas Asia Australia China Europe India Middle East United Kingdom

The conditions are perfect for a populist resurgence in Europe

ECONOMIC FORUM Join us

Geopolitical Crises Forcing Leaders to Face up to Difficult New Realities

"Corporations are their own geopolitical entities, and as such, they need to be thinking about how they act in the international domain."

Timothy Fort, Indiana University Professor of Business Law and Ethics

Questions we should ask before responding

CEO, CSO and CFO
Should I integrate economic nationalism into strategic planning?

CSCO
Are we regularly rethinking operational location and supply chains?

CEO, CFO, CSO and CRO
Have we performed a geopolitical stress test?

CRO, CFO, CEO and CSCO
Should we run specific econ nationalism risk scenarios?

CEO and CHRO
Where do I have political expertise within my company?

4

Making money in space — just science fiction?

What is it?

Commercial activity outside of earth's atmosphere.

Why might it be happening?

- Increasing number of for-profit opportunities
- Higher likelihood for commercial space mining, laboratories, and manufacturing

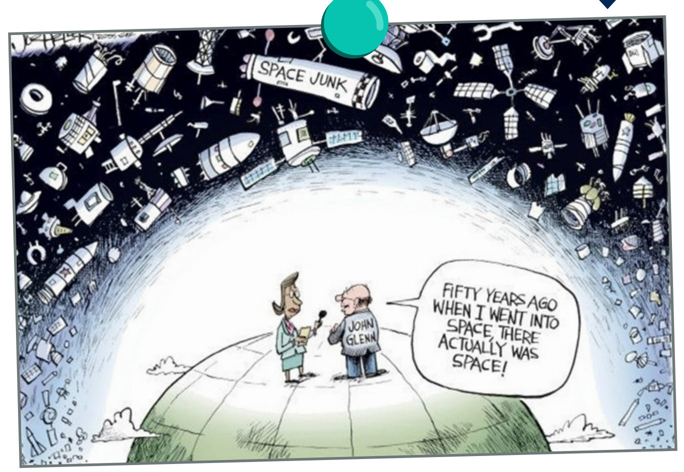
How can we see it?

- [ ] Cost of launching a satellite has declined by 70% and could soon drop exponentially to 1% of historical cost.
- [ ] Two Chinese companies launched low Earth orbit satellites in spring 2022.
- [ ] In 2020, SpaceX succeeded in being the first private company to deliver astronauts to the International Space Station in 2020.

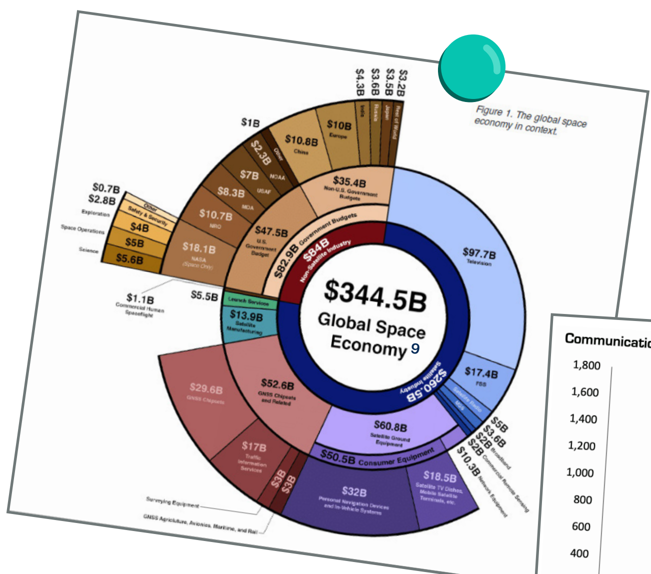
What will make this trend faster or slower?

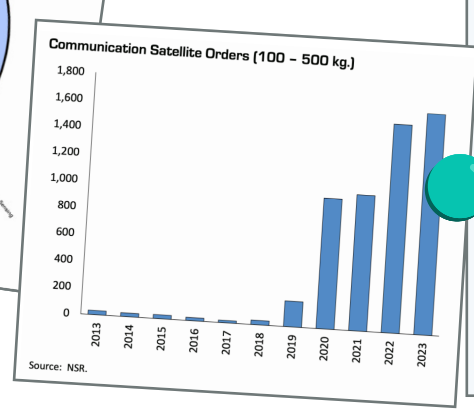
- ▲ Scale increases for production of low Earth orbit intelligent satellites reduce costs exponentially
- ▲ Increased bandwidth, coverage, and resiliency drive demand and consumption
- ▲ Lower entry costs and profits will attract more followers
- ▼ Space pollution and waste shift increase environmental concerns that outweigh optimism
- ▼ Increase in space activity creates risk of new forms of geopolitical conflict

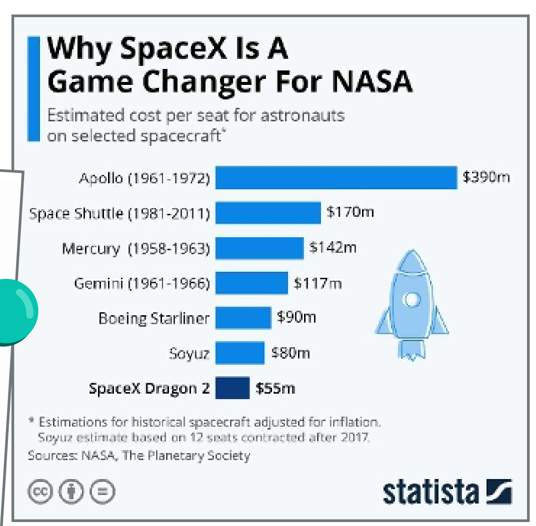
Space junk has been a concern since at least 2012.



Joe Heller, Heller Syndication







So, what could be the business impact?

- Higher quality broadband communication and data transfer
- Improved opportunities to track logistics
- Business opportunities driven by new public sector and government space race
- Increased supply of space-based clean energy sources
- New raw material sources due to asteroid mining
- Creating useful products out of waste and unused materials; sequestering hazardous but valuable debris currently in space

What risks should I prepare for?

- Conflict due to out-of-date rules that govern human activity in space
- Prolonged process of updating global space governance
- Establishment of space enterprise monopolies

By 2024, continuous connectivity to every place on Earth will be established.

By 2027, low Earth orbit satellite mesh will be considered as 'critical infrastructure' by the U.S. and Chinese governments.

Questions we should ask before responding

CEO and CSO
What is our cadence for reviewing opportunities in space?

CSO and CSCO
When should we start tracking raw materials availability from mining asteroids and the moon?

CSCO and CFO
How can we tap space-based clean energy sources?

CEO, CFO and CSO
Should we identify and create new business models directly or indirectly related to Space exploration?

CFO and CSO
What is the best way for us to invest in this trend?

[1] The number of people 60 years and over will grow 40% this decade (WHO) 1 October 2022
[2] Forecast Analysis: Artificial Intelligence Software, Worldwide — Gartner
[3] Aging and Health: Key Facts, Paragraph 1: World Health Organization, Newsroom: 2022
[4] 200 years of public health has doubled our life expectancy — San Juan Basin Public Health
[5] Fertility Rates: Declined for Younger Women, Increased for Older Women — US Census Bureau
[6] Are you maximizing your potential-100-year-lifespan? — Forbes
[7] Databases, Tables & Calculators by Subject: US Bureau of Labor Statistics: 2022
[8] The economic implications of rising protectionism: a euro area and global perspective — European Central Bank
[9] Federal Aviation Administration, The Annual Compendium of Commercial Space Transportation: 2018

Briefs

Smarter Spending & Planning

A Checklist for Managing Energy Risks in Europe

If natural gas prices soar in Europe, increasing the cost of raw material, manufacturing and shipping, chief supply chain officers can take steps to reduce their companies' demand for energy. They'll need to partner with legal, finance, enterprise risk management and HR.

Start with a mitigation action plan by risk category.

Availability

1. Review supply contracts for energy, raw materials and carbon offsets to understand and catalog the force majeure clauses. Include the most consequential threats in your corporate risk register.
2. Identify operational units that can be buffered or shut down in the event of energy rationing. Create an action plan to sequence the interventions and shutdowns. Update your business continuity plan to include energy rationing; then conduct scenario testing.

Affordability

1. Review operational and contract hedging strategies to understand your cascading risk exposure from back-to-back contracts.
2. Reduce exposure to power and natural gas price volatility by hedging future volumes of energy consumption at a set price. Stagger market entry, contract length and drawdown.

Acceptability

1. Track the origination of energy procured. Reduce carbon liabilities by reducing energy consumption from fossil fuels and switching to renewable energies.
2. Take advantage of incremental energy efficiency opportunities, tax incentives and energy grants.

— Casey Logan

Don't Let Business Growth Derail Emissions Goals

Enterprises that fail to factor in the environmental consequences of future business growth risk missing absolute reduction targets for greenhouse gas (GHG) emissions. For industrial organizations, a 3% year-on-year increase in sales may result in a 5% jump in GHGs. If left unaddressed, these releases compound — making attainment of green goals at best costly and at worst impossible.

Executive leaders should create an integrated financial and emissions-reduction strategy:

1. Forecast the relationship between sales growth and emissions by producing an annual GHG budget. Assess which parts of the business or products (SKUs) are driving growth and review the associated GHGs. Also assess the impact of M&A and divestitures on the enterprise's ability to meet climate-related targets.
2. Provide executives with goal-setting options and emissions reduction plans that integrate growth. The proposed GHG cuts may follow a steady path over time or be front-loaded or back-loaded, so consider the pros and cons (and the full financial implications for the business) of each alternative when presenting them to the board.
3. Decouple GHG emissions from enterprise growth by moving towards renewable energy. This could include installing solar photovoltaic (PV) panels on a manufacturing facility and shifting away from natural gas to electrification.

— Sarah Watt

Talent & Culture

Finance Can Compete Better for Digital Talent by Upgrading Job Descriptions

Only 23% of finance functions have the necessary talent for digital transformation. Better job descriptions will help them win the competition for those with this scarce skill set. Don't just list the qualifications; persuade those who are qualified to apply. Help candidates picture what it's like to work for your function and how they'll benefit from taking a position there.

CFOs should:

1. Show the technologies they will work with and what else you plan to add in the future. That way, prospective employees know they can make the most of their skills with the right tools present in finance.
2. Clarify the business impact of their jobs by sharing examples of projects they will work on (for instance, automation), and how the outcomes support business goals (such as higher efficiency). Connecting the role with the broader picture helps your future employees, especially those new to finance, envision a long and fulfilling career.
3. Highlight innovative coworkers by listing finance's digital transformation success and other team members' involvement in it. Your future employees will be more willing to join a group of creative people whom they can learn from and interact with.

— Brian Stickles

Show Employees How to Make Sustainability Part of Their Job

Organizations committed to becoming more sustainable seek to boost positive economic, environmental, social and governance benefits throughout the business, which involves balancing long-term objectives with immediate returns.

But the switch can be difficult to achieve if employees who are not directly tied to the initiative don't know how their work should change. Worse still, they can become disillusioned when corporate pledges that appear to be inclusive and environmentally sound aren't backed up with tangible engagement and results.

To create a culture of sustainability, follow these three steps:

1. Break the cycle of staff who think, "This isn't my job." Executive leaders must create a shared understanding about how employees can contribute to the strategy if they change their behavior. One way to do this: teach systems thinking — a discipline about interconnections — which helps staff recognize the cause and effect of their work.
2. Systems, processes and practices may need revamping. Make sure, for example, to offer a platform that lets employees make suggestions for improving sustainability outcomes.
3. Track progress on removing the barriers to behavior changes and identify who is going to do what and by when. Sustainability metrics, for instance, may be missing from manager and employee evaluations. You can address this by embedding action plans into your regular team meetings — and make members accountable to driving those changes.

— Christie Struckman

Briefs

Growth & Innovation

Three Criteria to Help R&D Identify Your Next Big Patent

Failing to recognize innovations that could be eligible for patent protection can deprive organizations of valuable intellectual property opportunities. R&D leaders should train their teams on three fundamental and broadly applicable criteria (but consult your legal department for specific counsel):

1. Novelty, meaning that not all elements of the invention can be found in a single source of relevant, publicly available technology (what lawyers call "prior art"). Identify what could make your innovation patent-worthy and note relevant search keywords, including synonyms or alternate ways to describe it. Define search limitations and search patent and non-patent literature databases using unambiguous terms first. Share findings with your legal team.
2. Nonobviousness or "inventive step." A skilled person should not be able to easily arrive at the invention by combining what's already out there. First, identify differences between your invention and the closest existing example. Next, evaluate whether a skilled practitioner could create what you did by modifying current technology.
3. Utility or industrial applicability. In the U.S. Patent and Trademark Office's definition, for example, this means that an ordinarily skilled person in the field would immediately appreciate an invention's usefulness or that it has specific (well-defined), substantial (significant and presently available) and credible (evidence-based) utility.

— Shradha Sapra

When to Launch a Separate Digital Brand

Companies that develop a separate digital brand can create new growth opportunities at a fraction of the cost of a traditional bricks-and-mortar approach. Telecom operators have launched over 100 such sub-brands — such as Visible from Verizon or Yallo from Sunrise. Banks also offer digital versions of their products and services, and electricity utilities are getting in on the act too.

Product leaders and other senior executives should consider this step:

1. To address specific types of customers that your main brand struggles to reach, such as young people and digital-only groups used to consuming products and services online.
2. To complement your existing brand in defending against major market disruptions like the entry of new competitors. The light operating model allows businesses to respond more effectively while protecting their existing revenue base.
3. To master new operating models before taking on bigger and riskier digital transformation projects.
4. To implement a new IT system for the new brand, enabling hyper-automated processes, while your current business uses an older, more complex set-up that may be difficult to modernize.
5. To introduce sector-specific services, as telecom providers can do in manufacturing, healthcare and education, for instance.

— Juha Korhonen

Data & Technology

How ZF Group Generates Revenue From Data Products and Services

Enterprise data can transform your organization's digital business and boost revenue. But to do it right, you must leave behind false assumptions — that existing data is the best starting place, consumer information is easiest to monetize and doing so requires selling it.

ZF Group, a global vehicle and industrial systems supplier based in Germany, opened new business opportunities with these innovative methods:

1. Instead of concentrating on available data, think first about markets to enter. Target those where your brand is trusted, yet transactions are poorly timed, buyers and sellers are mismatched or offerings are incomplete.
2. Most enterprise data is worthless externally because it is developed to meet specific business needs. Think creatively about how to gather data that isn't collected by your competitors and make sure its fields and definitions solve a timing, matching or completion problem for customers.
3. Choose a data delivery system that makes it easy for your customers to solve their problems and provide analytics to clients in an easy-to-understand format.

Applying these principles, the company identified predictive maintenance as a way to lower fleet managers' costs, developed a ball joint sensor and used the data it streamed to forecast repair needs. Each $7 sensor provides information worth $1,515 to ZF.

— Kevin Gabbard

Organizations Are Bracing for New Privacy Laws in Five U.S. States

New privacy laws in California, Colorado, Connecticut, Utah and Virginia take effect in 2023, introducing new definitions and use limitations for sensitive personal data.

To gear up, legal, compliance and privacy leaders surveyed in our July snap poll are taking or planning four primary actions:

1. More than four in 10 respondents said they'd like less sensitive personal information in their systems. In particular, they'll update data inventories to track where and what their enterprise holds, encourage business partners to collect or process less, and update data retention or records management processes to purge information that reveals personal traits.
2. Seventy-three percent will collaborate with technology, customer experience and/or marketing to discuss the impact of the new laws' consent mandates on customers. The goal: offering more transparency such as opt-in consent.
3. Forty-eight percent are tapping liaisons within business units to streamline privacy impact assessments. These colleagues can assist with questionnaire design, and implement and monitor the controls to reduce risk.
4. Seventy-seven percent plan to grant the same privacy rights to all U.S. customers. They want to maintain a holistic policy that doesn't require major updates for each new regulation.

— Laura Cohn

Actionable, objective insight

Position your organization for success. Explore these recent editions of the Gartner Business Quarterly:

Journal

Q1 2022 Gartner Business Quarterly: Lessons from the Big Quit

Unlock strategies to survive and win the race for talent.

Download Now

Journal

Q2 2022 Gartner Business Quarterly: Business Planning for the Never Normal

Uncover strategies to navigate through recurring major disruptions.

Download Now

Journal

Q3 2022 Gartner Business Quarterly: Human Leadership of Digital Business

Fine-tune the relationship between people and machines to accelerate digital growth.

Download Now

Already a client?
Get access to even more resources in your client portal. **Log In ↗**

Gartner®