Executive Leaders Must Use Business Dynamics to Drive Technology Investments in 2021

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Initiatives: Executive Leadership: Enterprise Strategic Planning and Execution; CIO Leadership of Strategy, Governance and Operating Models

Gartner’s CEO survey shows that most businesses are being buffeted by varying forces. Demand is highlighted more strongly than supply, and demand-side accelerators are the most cited. Executive leaders must ensure that 2021 investment focus matches the severity and balance of these forces.

Overview

Key Findings

- Businesses are being buffeted by powerful demand- and supply-side accelerators and drags.
- Currently, demand-side forces are more powerful, and demand-side accelerators are most powerful.
- The exact nature and severity of these forces are different for each business, based on macro and micro factors, such as industry, physical versus informational offerings, and length of supply chains.

Recommendations

Executive leaders focused on enterprise strategic planning and execution should:

- Map the forces acting on their enterprises into the four categories in the business dynamics framework.
- Rebalance the technology investment portfolio to exploit accelerators and minimize drags for their businesses.
- Present this analysis quarterly at board and executive committee meetings, given the high levels of uncertainty and volatility in the current business and social context.

Data Insights

Executive leadership teams should adapt their portfolio of activities and investments to the type and severity of demand- and supply-side accelerators and drags.
We are currently in a period of relatively high uncertainty in terms of scale, scope and nature, fueled by pandemics, geopolitical tensions, the rise of China and digital China, and division and instability in many countries. Causes of this uncertainty include burgeoning neonationalism; Brexit; fraying alliances and trade wars; new, more sophisticated forms of cyberattack, hacktivism and deep fakes; disrupted supply chains; racism, diversity and inclusion issues; and climate change and sustainability imperatives. These forces are creating complexity and unpredictability for short-, medium- and even long-term planning. And they must now be considered when governments and businesses plan their longer-term investments.

In 2020, Gartner introduced the language of business dynamics as a powerful tool (see Figure 1). We suggest companies map their health in terms of supply side (can we create the products and services demanded by our customers?) and demand side (do our customers want our products and services, can they afford them and can they access them?). Our research further suggests that enterprises must continuously examine and then map four categories of forces in play:

- **Demand accelerators** — such as in streaming media or goods/services consumption, with more people wanting home entertainment and other “comforts” during the COVID-19 lockdown
- **Demand inhibitors** — such as in retail, customers being unable to go to physical stores or unable to afford goods and services
- **Supply accelerators** — such as in manufacturing, with alternative sourcing to shorten supply chains and higher availability of skilled staff to hire
- **Supply inhibitors** — such as in manufacturing, disruptions in international supply chains or inability to find skilled employees or to rapidly deploy more automation
Figure 1: Use Business Dynamics to Understand Forces at Work on Your Enterprise

Use Business Dynamics to Understand Forces at Work on Your Enterprise

Every business and public-sector enterprise experiences forces in all four of these areas. The exact forces and the level of those forces is different for each enterprise based on macro and micro considerations related to their industry, geography, strategy, business and operating model. Mapping, analyzing, discussing, and then acting upon these forces are powerful tools to drive business success in uncertain times. Business leaders should create a chart like the one below for their enterprises, linking investments (shown as blue circles) to the category of force each most strongly addresses. Make the size of each circle equal to the level of required investment, and the length of each arrow proportional to the relative level of force being experienced in each category. This provides a simple, but powerful, senior management view of the force balances at work and potential investments.

*E.g., Normal = YE20

Source: Gartner
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CEOs and other executive leaders must continuously recalibrate short- and long-term investments to address these forces.

At the outset of the COVID-19 pandemic, forecasters generally exaggerated the impact of demand-side drags in most industries. This was especially true in services like infotainment, financial services, insurance, data gathering and analytics, consulting/advisory, advertising, social media, cloud computing and software, even with lockdowns, quarantines and work-at-home orders. The latter restrictions are extending far longer than original predictions. Many businesses were prepared, or moved quickly, to provide their services online (e-commerce), and could keep their supply chains open. Also, many supply-side drags and constraints were temporary, based on hoarding and short-term supply chain issues, except in some specialized areas such as vehicle semiconductors.

For companies whose offerings are primarily “digital” and thus virtual (such as services, consulting and advisory), there were minimal drags on either supply chain or channels to their customers. Many of those companies reported record-high revenue, profits and market capitalization. Some of the digital dragons and giants (such as Alibaba, Tencent, Amazon, Google, Facebook) had 25% to over 40% growth in 2020. Beyond the digital world, many sustainable energy companies in solar, wind and battery power
and the services behind them (like Sunrun, Enphase, SunPower, Vestas, Nexterra Systems) grew even faster. And some more traditional companies navigated the forces to strong performance, including retailers like Walmart and Kroger; industrial companies like Bosch, Schneider Electric, Honeywell and Danaher; and business services like Gartner, Thomson-Reuters, United Rentals and Nexterra.

In our CEO survey, we asked CEOs to gauge the strength of each of these four forces. The results show that, in general, CEOs feel their businesses are subject to a powerful portfolio of forces in all four areas. Only 10% of CEOs found any of the four force categories to have a “very weak” effect on their business. On average, demand-side forces are experienced as a little stronger by CEOs, and demand-side accelerators were the most strongly felt type of force. For many B2B and B2C businesses, this acceleration was related to the use of digital channels to reach and serve customers at greater scale and with fewer resources than the offline equivalent. Of course, demand and supply are inextricably linked, and demand-side issues at any point in time will both be impacted by — and impact — the supply side (see Figure 3).
Outperforming businesses feel the relative pull of demand accelerators even more than the average, perhaps because they are ahead of the game on the supply side, considering that more “table stakes” are in their industry. Underperformers are most notably different in that they feel the effects of demand-side inhibitors more than others. We have seen this in retailers who remained overly dependent on physical channels during the pandemic (see Figure 4).
Strength of the Forces Acting on Business by Performance Group

Allowing Strong

Differences by industry were not as marked as we might guess (see Figure 5). This suggests that many macro forces — such as disrupted international supply chains, inability to use physical channels, and available talent creating a buyers’ market in many cases — apply to all industries (i.e., favoring the employer).

And as noted previously, some specific industries have been more strongly negatively affected, such as travel (hotels, airlines) and physical venues (movie theaters, restaurants). Others have experienced a significant acceleration of demand, such as in home entertainment (streaming media), home deliveries and others such as hobbyist (services and goods), home exercise equipment and services (like Peloton) and home improvement and garden suppliers.

Unsurprisingly, the retail industry seems to be the most buffeted by these forces, in general, because of a few factors:
1. Consumer retail spend is often discretionary, and consumer tastes and competitive alternatives move fast.

2. There have been significant supply chain disruptions for many retailers, affecting availability of goods and costs and the effect of those things on price volatility and competition.

3. Retailers with physical stores have had to contend with difficulties with access for both employees and customers.

The forces at work on financial services organizations are more complex. This is true for a number of reasons. Some financial services (like home, car and life insurance) are closer to being mandatory and/or longer-term in nature; physical constraints are much less; and longer-term drivers like prolonged, low-interest rates may be even more of a driver than the forces currently affecting other industries.

**Figure 5: Strength of the Forces Acting on Business by Industry**

**Strength of the Forces Acting on Business by Industry**

Showing Strong

<table>
<thead>
<tr>
<th>Category</th>
<th>Financial Services (n = 78)</th>
<th>Manufacturing (n = 77)</th>
<th>Retail (n = 35)</th>
<th>Services (expect IT) (n = 116)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand-Side Accelerators</td>
<td>48%</td>
<td>46%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Supply-Side Accelerators</td>
<td>24%</td>
<td>22%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Demand-Side Inhibitors</td>
<td>35%</td>
<td>31%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>Supply-Side Inhibitors</td>
<td>16%</td>
<td>16%</td>
<td>16%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Base varies, All answering respondents

Q. Rate the strength of these forces acting on your business.

Source: 2021 Gartner CEO and Senior Business Executive Survey

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In summary, all executive leaders should articulate and engage on the type and severity of demand- and supply-side accelerators and drags, then make sure their portfolio of activities and investments match the severity of opportunities and threats. Since IT has historically served the supply side of enterprises, and demand-side forces are most extreme, it is important to ensure that there is sufficient investment to grasp demand acceleration opportunities and mitigate demand-side drags. Initiatives on the demand side can include product innovation, better design of customer journeys and multichannel experience.

Additional Research Contribution

Angela Kreiter

Evidence

Gartner conducted this research from July 2020 through December 2020, with questions about the period 2020 to 2023. One-quarter of the sample was collected in July and August, three-quarters from October through December.

In total, 465 actively employed CEOs and other senior executive business leaders qualified and participated. The research was collected via 390 online surveys and 75 telephone interviews.

By job role, the sample mix was:

- 287 CEOs
- 115 CFOs
- 29 COOs or other C-level
- 34 chairpersons, presidents and board directors

By geographic region, the sample mix was:

- 183 North America
- 109 Europe
- 97 China, Japan, Australia and other APAC
- 56 Brazil, Mexico and other Latin America
- 13 Middle East
- 7 South Africa

By enterprise revenue, the sample mix was:
Recommended by the Authors

2021 Gartner CEO Survey: The Year of Rebuilding

Mastering Business Dynamics

Tool: Accelerate Digital Business With Workshop on Business Dynamics Mapping

Digital Business Acceleration Requires Real Options-Based Strategy

Don't Make Predictions and Choices, Instead Create Options by Using Scenario Planning for Pandemic Recovery