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The Four Global Forces Breaking Trends

(Source: This article is an edited excerpt from No Ordinary Disruption: The Four Global Forces Breaking All the Trends (PublicAffairs, May 2015) and published by McKinsey and Company. The authors are: Richard Dobbs, a director of the McKinsey Global Institute and a director in McKinsey's London office; James Manyika, a director of the McKinsey Global Institute and a director in the San Francisco office; and ,Jonathan Woetzel, a director of the McKinsey Global Institute and a director in the Shanghai office)

The world economy's operating system is being rewritten. In this edited excerpt from the new book No Ordinary Disruption, its authors explain the trends reshaping the world and why leaders must adjust to a new reality. There is the confluence of four fundamental disruptive forces—any of which would rank among the greatest changes the global economy has ever seen. Compared with the Industrial Revolution, the authors estimate that this change is happening ten times faster and at 300 times the scale, or roughly 3,000 times the impact.

Although it is known that these disruptions are happening, most fail to comprehend their full magnitude and the second- and third-order effects that will result. Much as waves can amplify one another, these trends are gaining strength, magnitude, and influence as they interact with, coincide with, and feed upon one another.

Together, these four fundamental disruptive trends, as noted by the authors, are producing monumental change. The first trend, urbanization, is the shifting of the focus of economic activity and dynamism to emerging markets like China and to cities within those markets. These emerging markets are going through simultaneous industrial and urban revolutions, shifting the center of the world economy east and south at a speed never before witnessed. As recently as 2000, 95% of the Fortune Global 500—the world's largest international companies, were headquartered in developed economies. By 2025, when China will be home to more large companies than either the United States or Europe, the authors expect nearly half of the world's large companies—defined as those with revenue of US$1 billion or more—to be headquartered in emerging markets.

Perhaps equally important, the focus of economic activity is shifting within these markets. The global urban population has been rising by an average of 65 million people annually during the past three decades, the equivalent of adding seven Chicago cities a year, every year. Nearly half of global GDP growth between 2010 and 2025 will come from 440 cities in emerging markets—95% of them small and medium-size cities that many Western executives may not even have heard of and couldn't point to on a map. Mumbai, Dubai, and Shanghai are familiar to most. But what about Hsinchu, in northern Taiwan? Brazil's Santa Catarina state, halfway between São Paulo and the Uruguayan border? Or Tianjin, a city that lies around 120 kilometers southeast of Beijing? In 2010, the authors estimated that the GDP of Tianjin was around $130 billion, making it around the same size as Stockholm Sweden. By 2025, they estimate that the GDP of Tianjin will be around US$625 billion—approximately that of all of Sweden.

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In Brief . . .

- **Walgreens Boots Alliance** reported net income of US$1.3 billion on revenues of US$28.8 billion for its fiscal 3rd quarter. Earnings, adjusted for nonrecurring gains, came to US$1.02 per share, beating estimates. The company also named *Stefano Pessina* as its permanent chief executive officer and lifted its full-year outlook. WBA executive chairman James Skinner credited Mr. Pessina with an integration that is "proceeding exceptionally well."
- **Sigma Pharmaceuticals Limited** (Sigma) signed a new 5-year wholesale supply and services agreement with **Reform Management** (Reform). With over 1,900 independent community pharmacy customers in Australia, Reform has one of the largest independent networks and is committed to partnering with suppliers to support their servicing and buying requirements.
- **Oriola**, the Finnish healthcare service provider and pharmaceutical wholesaler, and **Orifarm**, a supplier of parallel imported and generic pharmaceuticals, have agreed to continue their long-term partnership. Oriola provides Orifarm, founded in 1994, with pharmaceutical storage and distribution services as well as tailored services in Finland. Nearly 90% of Orifarm's parallel-imported and generic pharmaceuticals are distributed to hospitals, and in the future, Orifarm intends to also strengthen its position with pharmacies.
- Japan's generic market grew to ¥1,113 billion / US$9.22 billion in FY2014, up 9.5% against the previous year, on a sales basis for wholesalers, distributors, and drug makers. The market is estimated to increase to ¥1,218 billion / US$10.09 billion (+9.4%) in FY2015, according to Yano Research Institute.
- The development of pharmacy education around the world through a unique collaboration between the **International Pharmaceutical Federation** (FIP), **University College London School of Pharmacy** and the **United Nations Educational, Scientific and Cultural Organization** (UNESCO) will continue for another 4 years. The UNESCO-sponsored collaboration is known as the **Global Pharmacy Education Development Network** (GPhEd) and was launched in 2010. This global network has brought together pharmacy schools and stakeholders from across the globe with aims of synchronizing powerful development in pharmacy and pharmaceutical sciences education, improving communication for scientific innovation and healthcare outcomes and, ultimately, enabling attainment of *Millennium Development Goals*.
- **Teva** has raised its stake in **Mylan** to 4.61%, which will allow it to take its acquisition bid to court "should it become necessary". Mylan reincorporated in the Netherlands last year, and under Dutch law owning this amount of shares allows Teva to legally challenge the company's continued rejections of its US$40 billion takeover offer.

(Sources: Associated Press, FIP, Oriola Oy, Pharma Japan, Pharma Times, Sigma and Wall Street Journal)

Global Forces (cont.) . . .

The second disruptive force is the acceleration in the scope, scale, and economic impact of technology. Technology has always been a great force in overturning the status quo. The difference today is the sheer ubiquity of technology in lives and the speed of change. For example, Facebook attracted 6 million users in its first year and that number multiplied 100 times over the next five years. China's mobile text- and voice-messaging service, WeChat, has 300 million users, more than the entire adult population of the United States. Accelerated adoption invites accelerated innovation. In 2009, two years after the iPhone's launch, developers had created around 150,000 applications. By 2014, that number had hit 1.2 million, and users had downloaded more than 75 billion total apps, more than ten for every person on the planet. As fast as innovation has multiplied and spread in recent years, it is poised to change and grow at an exponential speed beyond the power of human intuition to anticipate.

Processing power and connectivity are only part of the story. Their impact is multiplied by the concomitant data revolution, which places unprecedented amounts of information in the hands of consumers and businesses alike, and the proliferation of technology-enabled business models, from online retail platforms like Alibaba to car-hailing apps like Uber.

Technology offers the promise of economic progress for billions in emerging economies at a speed that would have been unimaginable without the mobile Internet. Twenty years ago, less than 3% of the world's population had a mobile phone; now two-thirds of the world's population has one, and one-third of all humans are able to communicate on the Internet.

Responding to the challenges of an aging world is the third force. The human population is getting older. Fertility is falling, and the world's population is graying dramatically. While aging has been evident in developed economies for some time—Japan and Russia have seen their populations decline over the past few years—the demographic deficit is now spreading to China and soon will reach Latin America. For the first time in human history, aging could mean that the planet's population will plateau in most of the world. Thirty years ago, only a small share of the global population lived in the few countries with fertility rates substantially below those needed to replace each generation—2.1 children per woman. But by 2013, about 60% of the world's population lived in countries with fertility rates below the replacement rate.

This is a sea change. The European Commission expects that by 2060, Germany's population will shrink by one-fifth, and the number of people of working age will fall from 54 million in 2010 to 36 million in 2060, a level that is forecast to be less than France's. China's labor force peaked in 2012, due to income-driven demographic trends. In Thailand, the fertility rate has fallen from 5 in the 1970s to 1.4 today. A smaller workforce will place a greater onus on productivity for driving growth and may lead to rethinking the economy's potential. Caring for large numbers of elderly people will put severe pressure on government finances.

The final disruptive force is the degree to which the world is much more connected through trade and through movements in capital, people, and information (data and communication) - what the authors call "flows." Trade and finance have long been part of the globalization story but, in recent decades, there's been a significant shift. Instead of a series of lines connecting major trading hubs in Europe and North America, the global trading system has expanded into a complex, intricate, sprawling web. Asia is becoming the world's largest trading region. "South–south" flows between emerging markets have doubled their share of global trade over the past decade. The volume of trade between China and Africa rose from US$9 billion in 2000 to US$211 billion in 2012. Global capital flows expanded 25 times between 1980 and 2007. More than one billion people crossed borders in 2009, over five times the number in 1980. These three types of connections all paused during the global recession of 2008 and have recovered only slowly since. But the links forged by technology have marched on uninterrupted and with increasing speed, ushering in a dynamic new phase of globalization, creating unmatched opportunities, and fomenting unexpected volatility.

The authors noted that "these four disruptions gathered pace, grew in scale, and started collectively to have a material impact on the world economy around the turn of the 21st century. Today, they are disrupting long-established patterns in virtually every market and every sector of the world economy—indeed, in every aspect of our lives. Everywhere we look, they are causing trends to break down, to break up, or simply to break. The fact that all four are happening at the same time means that our world is changing radically from the one in which many of us grew up, prospered, and formed the intuitions that are so vital to our decision making."

This can play havoc with forecasts and pro forma plans that were made simply by extrapolating recent experience into the near and distant future, conclude the authors. "Our intuition has been formed by a set of experiences and ideas about how things worked during a time when changes were incremental and somewhat predictable. Globalization benefited the well-established and well connected, opening up new markets with relative ease. Labor markets functioned quite reliably. Resource prices fell. But that's not how things are working now—and it's not how they are likely to work in the future. If we look at the world through a rearview mirror and make decisions on the basis of the intuition built on our experience, we could well be wrong. In the new world, executives, policy makers, and individuals all need to scrutinize their intuitions from first principles and boldly reset them if necessary. This is especially true for organizations that have enjoyed great success."