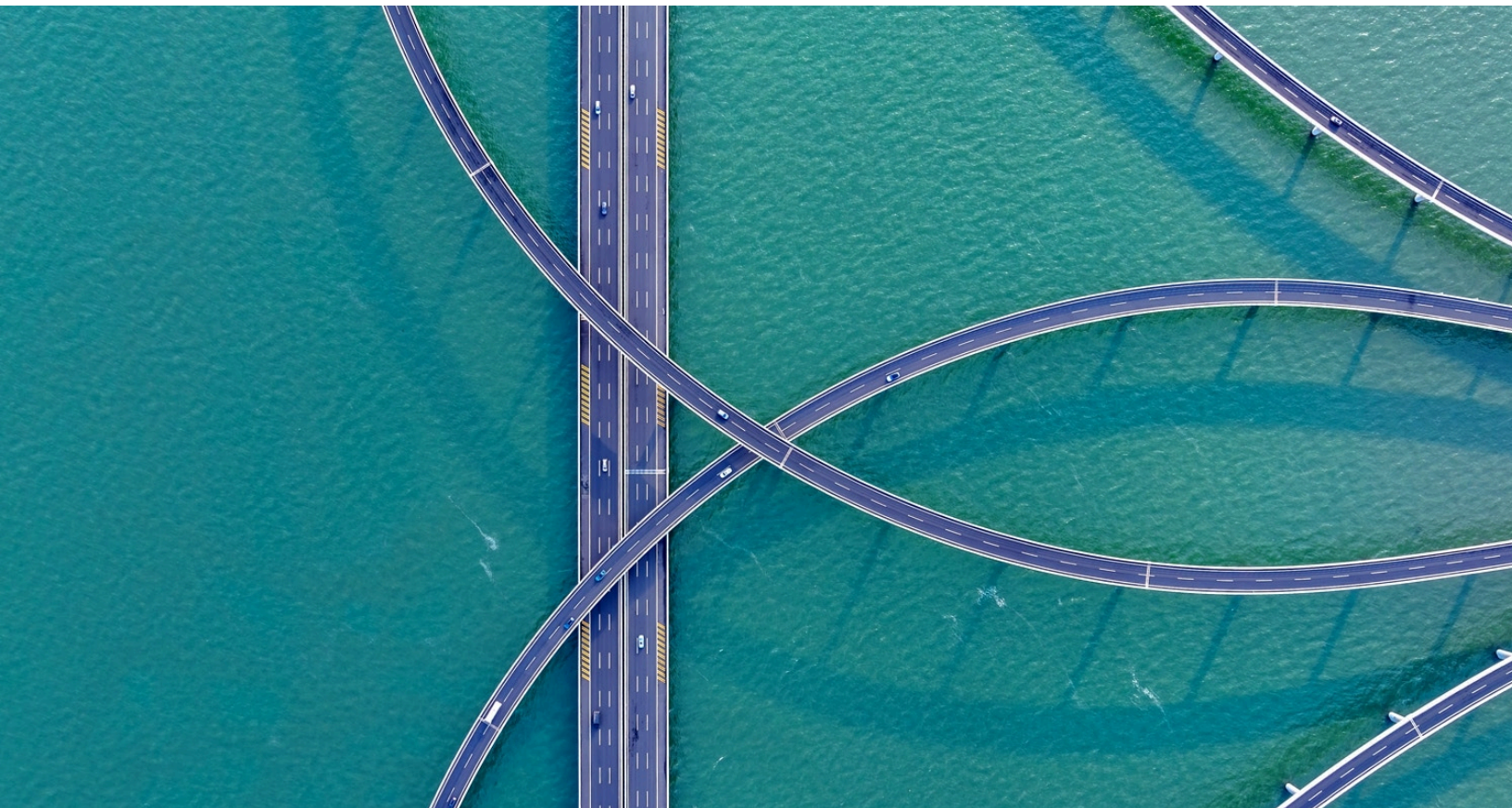


Strategy & Corporate Finance Practice

# The strategic realities of a new era

In a multipolar world, business leaders will need to cut through the static to find the clear signals shaping the next era of global competition.



**Uncertainty often dominates** the headlines, but it is possible to cut through the static and find clear signals in the trends shaping the next era of global competition. In this episode of the [Inside the Strategy Room](#) podcast, McKinsey senior partners [Andy West](#) and [Chris Bradley](#) share their latest research on the strategic realities of a new era: the shift from a unipolar to a multipolar world, the impact of technological advancements, demographic changes, the productivity imperative, and the role of energy in shaping the future.

This is an edited transcript of their conversation, which took place at the McKinsey Global Strategy Summit in New York. For more discussions on the strategy issues that matter, follow the series on [your preferred podcast platform](#).

**Chris Bradley:** For many of us today, the world looks like static on an old-fashioned television, and we've become somewhat used to the noise and addicted to the uncertainty. But we believe there's way more signal than you think.

We all grew up in a world of globalization. We grew up in a world of Moore's law, digitization, and ubiquitous communication. In a world where every single year, demography gave us a present—more working people, more taxpayers, and where we didn't have to think about energy at all. But that's not the world anymore. Our reading of history is that the “rule book” changes about every 20 to 30 years or so. If you go back to the 1970s with the oil crisis, or to the end of World War II, you see these reality shifts in how the world worked. Today, we may be confused by the static around us, but our view is that once you shift your dish toward the new world trends and realities, you'll see that there are loads of signals out there. The challenge is picking up on them and responding boldly.

**Andy West:** What happens in a time of uncertainty? Do we lean into a new era? Are we optimistic? Are we placing bets? No, we're hoping things will change, maybe we're defensive or even paralyzed. This is why finding clear signals versus static is so important. And then, the signal has programming that has to go along with it—you need to figure out how the signal applies to you.

There is a lot of static in the world order right now, but there are signals, and they explain a lot of what's happening. For the last era, we've had a largely unipolar world, where the US market has tended to drive the global economy and, politically, much of the world order. [We are now in a multipolar world](#). We have to understand that this is happening, and that it's going to continue to happen.

The other point here concerns the “end of globalization” and what's happening with trade corridors and trade routes. Globalization skyrocketed until about 2010, and it was at parity for quite some time. It's coming down by about 8 percent; we like to trade more with our friends, and we're doing that, but you also see it flattening out a little bit. Do we need to be cognizant of this change? Absolutely. Is it a trend? It seems to be. Is it really the end of globalization? Absolutely not.

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So, what’s the signal from all this noise, and what does it mean strategically? It means you need to know your position in the world. Many organizations will have done some stress testing for geopolitical risk and thought about what’s affecting the supply chain, or trade rebalance. But are you gearing your organizations for those questions into perpetuity? Watch the flow of new money and capital in your space. Where is it going? What decisions are people making? These signals give clues to help understand what’s happening. Don’t sit on the sidelines—think about building options, partnerships, alliances, and market exposure. These are all things that need to be baked into your strategy, because this is where the changes are coming in the next five or ten years.

**Chris Bradley:** The next domain sending big signals is [tech platforms](#). We’ve been living in the era of silicon and digitization; now we’re shifting to the era of automation. One way to make sense of this is through the prism of industries. When you look at the top ten companies in the world right now, only Microsoft remains from 20 years ago, and they’re all ten times bigger. We’ve also seen a divergence between two types of industries. The first, we call “non-arenas,” places that operate according to the “normal rules.” For example, during this period, China more than doubled its steel output; however, the steel industry still looks like the steel industry today.

The other set of industries [we call “arenas,”](#) and they have completely different rules of economics. They account for only about 10 percent of global revenue but generate more than half of the value created. Today, these arenas are everywhere—they’re now 40 percent of all the market cap in the world. And the way that these industries work, the way the investment works, is very different. For example, when you doubled the steel industry, you just got more steel. You didn’t get a fundamentally different type of industry, or a different type of value creation formula. In the arenas, you see radical escalation.

Look at the escalation of tech investment happening in the US right now. All that investment is going to result in a new reality: We’re all on a new curve. We’ve gotten used to the curve of Moore’s law, doubling every 18 months. The amount of effective computing in these AI models is

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increasing by three times a year; that’s 2.5 times faster, and it’s transforming the economy. The result, of course, is going to be what happens to our automation curve.

The McKinsey scenario for automation is this: In the mid-case, we believe about one-third of the work that’s done today will be automated within ten years; that’s at about 3.5 percent a year. That is the biggest productivity tailwind ever experienced in humanity. Are we going to capture three and a half years of productivity points? Probably not. But this is going to transform the world in really radical ways. One of the bold predictions MGI [McKinsey Global Institute] has made is that we know where industrial action of the future is headed. That’s because these arenas I talked about are so big that they don’t come from nowhere. You can see the investment. You can see the technology breakthroughs. You can see the emerging business models. So, what are the bankable realities? We’re on a new curve of effective computing that’s going to change the world profoundly. It’s not only going to change companies and economies, it’s not just what your call center looks like, it’s about the fundamental characteristics of your industry and who your competitors are.

**Andy West:** So, as leaders, as strategists, as people who are trying to guide your organizations through this particular reality, we really do need to internalize that “we are all in the arena.” Whether these trends are directly applicable to your business or not, they are at least going to change the way you compete. In a tech-focused world, the ability to take a traditional competitive advantage and migrate it to these new arenas, to these new opportunities, is going to be incredibly important. Many companies struggle to consistently identify their competitive advantage, let alone measure it, understand how they’re scaling it, or recognize how they’re leveraging it. As strategists, you will need to trade that advantage, and part of it must be technology-enabled.

**Chris Bradley:** And one other point that is bankable: In ten years, your technology department is not going to be an IT department, because tech’s going physical. This innovation is expanding beyond the information space and transitioning into the physical world.

**Andy West:** So, how do you rewire your organization to be ready for automation and the shift to physical tech? It's about coming out of IT, into the corporate headquarters, and into the plant. There are a few things to consider, but demographics is the next new reality sending important signals.

Since the postwar baby boom, there has been a constant influx of new workers and taxpayers. We have also had agriculture migrating into industrial applications. We saw farm productivity skyrocket, and the rise of dual-income households with more women entering the workforce. That is a lot of labor coming in with the tailwind. That era is now declining. We have an older working population with a lot of experience, and many are now beginning to leave the workforce. With fertility rates declining at a precipitous rate, we're not having as many future workers born today. When we forecast that out, what does it look like? This downward trajectory is going to continue. The second wave, emerging from Asia, India, Latin America—this is a pretty big wave—will peak in the next five to ten years. By around 2080, you'll see a plateau. To put all that into perspective, today we have about four workers to every single nonworker in society; by 2080, that ratio is expected to be two to one. That's pretty profound. And the world is getting much older. In China, this means that by 2050, there will be half the number of people under 25 as there are today. It's a very different world. This is a signal; this is the new reality that we all need to plan for.

It's going to be at the front and center of strategy over the next five to ten years. There is no getting around it through growth or through margin expansion; fundamentally, we have to get more productive. Do you know how you've been progressing over the last several years? Are you meaningfully increasing the productivity of your workforce? Are you contemplating being an attractive place to work for an older workforce? Are you considering reconfiguring your work, not because of politics or new trade channels, but rather migrating to where the workforce you need for the future is actually going to be? Understanding the constraints on your labor supply, getting ahead of the curve, and considering an automation-rich future—these are the questions you should be asking.

**Chris Bradley:** Onto the next reality shift: energy. We're going to see energy on the agenda with a new focus: How do we win the race for electrification? Electric energy accounts for only 20 percent of all worldwide energy use. The dominant debate will be centered on how to electrify our economy the fastest and how societies can effectively build up their electricity capacity.

The McKinsey Global Institute conducted [a large piece of work](#) to understand the physical realities of net zero by 2025. We found that across seven domains that need to change, there are 25 fundamental challenges that must be resolved. Some are easy to solve, and we call these Level 1 challenges. Things like, will we be able to have electric cars that drive a certain distance on a battery? Absolutely, the curve's in place. Then there are challenges that are Level 2 problems. Staying with electric cars, can we build the charging infrastructure? Not if we keep going at the current rate, but we know we can speed up. It's a known curve, it just needs acceleration.

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Then there are the Level 3 problems, where we don't actually have a curve, and these account for half of the abatement. Problems like we don't know how to make enough cement and steel, we don't know how to solve air travel, and we don't know how to do heavy trucking in a low-carbon way. And so, we've just got to acknowledge that and face it. But in the world of energy, what are the bankable realities? The electrification of the economy is going to become the priority.

**Andy West:** For some businesses, this is going to be incredibly critical, and for others, it's just going to be a factor that you have to account for. Either way, everyone will have to lean into electrification. You will need to understand what will happen, depending on market conditions, particularly in the United States, due to fluctuations in energy prices. Considering it creatively and incorporating it into the strategy dialogue will be absolutely critical.

We're getting to the last category, [productivity](#). If you look at median productivity over the last 20 or 25 years or so, we are in a world that is much more productive. This is a trend that has to continue. The challenge when you look at it in terms of labor productivity growth is that you see a real deceleration happening over time. And it's something that we're going to have to manage to get onto a different curve, a steeper curve.

**Chris Bradley:** One of the things we've all gotten used to, where we need to shift our dish, concerns growth. For most of our adult lives, we've had about 20 percent of the world's population growing at hypergrowth rates, exceeding 7.5 percent per year. Today, less than 10 percent of the world is growing at more than 5 percent per annum. We're used to a world of perpetual positive labor supply shock and positive demand shock, and expansion in the productivity economy of the world that was massively deflationary, but also stimulative. When we look at [the world's balance sheets](#), they are bigger than ever. In the US, the share of GDP in equities has never been higher. In the last 25 years, we've invested about \$116 trillion on things that make us more productive. But we've also added a lot more than that in debt. And the valuations expanded even faster, so the growth in household net worth went even faster. This means we've got a balance sheet built for a fast-growth, high-productivity world, but maybe we don't have a fast-growth, high-productivity world. Either the balance sheet's going to change to match the world, or the world is going to grow into its balance sheet. That sets the stage for some of the strategic realities.

**Andy West:** Obviously, capital is going to be core to your strategy. It's no longer just about margin and quarter-to-quarter growth. Considering the return on invested capital, and the productivity gains you're making, these will be a core part of your strategy going forward. And the [granularity of growth](#). It's going to be about finding growth in pockets and learning how to manage accordingly.

The world has changed, but there is a lot of signal out there. Rather than being paralyzed by the static, shift your dish toward the trends and new realities. Then, identify the signals and tune in to the programming that aligns with your strategic context.

**Andy West** is a senior partner in McKinsey's Boston office, and **Chris Bradley** is a director of the McKinsey Global Institute and a senior partner in the Sydney office.