Drivers of success

Factors fuelling demand for the world's most ambitious companies

MOORE

Negotiating the headwinds

Ambitious, mid-sized companies are the engine of the world economy. How they navigate the current headwinds of economic slowdown, high energy costs and supply chain disruption will impact all of us.

In this in-depth report we examine factors that are now driving demand, with practical insight from Moore Global's leaders in critical business sectors.

Many challenges and opportunities are specific to certain industries but three are common across all sectors.

Every leadership team now has to grasp the impact of ESG, or environmental, social and governance, as it has wide-ranging ramifications for customer retention, brand integrity, raising finance and engaging the workforce.

Digital transformation takes many forms but it is happening in businesses of every size and in every market.

Businesses are increasingly recognising the game-changing potential of automation. However, they still need high quality staff and the battle for the best talent, which began in the Covid period, shows no signs of abating.

"EVERY LEADERSHIP TEAM NOW HAS TO GRASP THE IMPACT OF ESG"

Anton Colella
CEO, Moore global

Energy, Mining & Renewables

Driver #1

Responsible mining

ESG, or environmental, social and governance, issues have become powerful forces in the energy and mining industries.

Often criticised for its practices, leaders in these industries are committed to reducing the impact of their extraction activities on the environment.

They also recognise the need for a responsible approach to issues around mining on first nations' land and the share of royalties they receive.

Driver #2

Back to the future

Ongoing disruptions to the global supply of some energy sources, most notably gas, have contributed to increasing use of non-renewable fossil fuels.

That means there is likely to be twin track development of traditional and renewable energy sources for some time.

Western mining companies are increasing investment in decarbonising their existing operations and creating new infrastructure to support renewable energy.

Driver #3

Green Infrastructure

The amount of electricity generated from solar and wind power has risen exponentially. Research has also accelerated into hydrogen, hydro-electric and nuclear as clean alternatives to fossil fuels.

Meanwhile, the construction of a robust green infrastructure to facilitate the transition to a world of electrification powered by renewable energy is accelerating globally.

However, all these promising new sources of energy throw up challenges in production, energy storage and transportation, especially in the case of hydrogen.

Unearthing solutions

The shift towards renewables has been driven by a number of factors, including falling costs and advances in technology, as well as global treaties, government policies and incentives.

Investment in physical infrastructure to reduce carbon emissions is clear to see: however, what is happening behind the scenes may be of equal importance in the long run.

With the proliferation of sensors and internet-connected devices, it has become possible to gather and analyse huge amounts of real-time information about energy usage.

This vast bank of data can be mined to optimise the operation of energy systems, leading to more efficient and cost-effective energy production and consumption.

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Entertainment

Driver #1

A metaverse, of sorts

Entertainment companies are looking to utilise Artificial Intelligence and Virtual Reality to deliver digital-first, immersive experiences as part of the evolution of the Metaverse.

Major players in the film and live entertainment sectors are experimenting in offering omni-channel entertainment options via AI and VR that allow audiences to consume entertainment in virtual worlds, shifting seamlessly across across multiple digital platforms.

However, making the metaverse mainstream, as envisioned by the likes of Mark Zuckerburg, is some way off. He is pitching 2031 as the target year for a billion users.

Driver #2

Game-tainment

The gaming sector is the pioneer of immersive technology. It is estimated there will be over 2.7 billion users by the end of 2023, accessing games through mobile devices as well as traditional consoles.

This level of innovation has triggered high M&A activity in the sector, with strong interest in Artificial Intelligence and Virtual Reality specialist gaming companies in particular.

Much of the pioneering work is being done by small independents. Bringing the necessary technologies and talent in-house will be central to the long-term strategy of many media companies.

Driver #3

End of the golden age

Streaming television services are expected to show modest subscription growth this year. Only those with the deepest pockets are likely to survive in their current form.

Advertising-funded services are being launched to offset slowing subscriber growth and these new revenues will exceed subscription fees over the next five years.

Innovation in advertising is vital to enhance profitability, so streamers will focus on developing Adtech, digital platforms that tailor adverts to viewers' preferences and interests.

Meanwhile, streamers are likely to expand into gaming through acquisition or intellectual property deals with developers.

That's entertainment

The media and entertainment industry never stands still for long. Badly affected by Covid, production is once again in full swing.

We are seeing the emergence of immersive technologies and creation of virtual worlds that will continue to evolve and gain traction with new audiences beyond early adopters.

Content producers are responding to a plateau in consumption by channelling more budget into interactive options and immersive technology that allows audiences to consume entertainment in virtual worlds.

Demand for original television content will stay strong, fuelled by competition between the various streaming services.

Overall, spending in the entertainment sector has been steadily increasing and this is likely to continue.

Graham Tyler, Global Leader, Media

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Financial Services

Driver #1

Fintech is being disrupted

Investor sentiment towards start-ups in financial technology, or fintech, has cooled. However, interest remains high in more mature products and services that align with traditional services, like payments and banking, or open up possibilities in underserved geographic regions.

Innovation driven by fintechs often removed banks from the equation and severed links with their traditional customers. They are now looking at funding or building their own tech platforms.

As in any revolution, many ambitious start-ups have failed to monetise their innovative ideas, or seen their competitive advantage evaporate. They are selling or merging, often with incumbents, and there is evidence of an increasing number winding up.

Driver #2

The AI will see you now

Once it was the bank manager who decided a loan but now Artificial Intelligence (AI) applications programmed to assess a customer's credit worthiness are likely to have a say in the process.

However, a backlash against impersonal, digital-only models prompted a subtle shift to tech-enabled services that still require human interaction.

The real benefit of improved data mining to financial services providers is in identifying customers that no longer have appropriate products for their stage of life.

This allows them to offer better-value alternatives and reduces the risks of detrimental outcomes to customers – and fines from regulators.

Driver #3

Sustainable consumerism

Financial services has come a long way on ESG. Firms are strong on Governance because they are used to regulatory oversight, while Environmental is moving up the curve fast as companies measure their environmental impact and factor that into their activities.

There is more to do on the Social aspect. Investment managers have ESG portfolios and banking is looking at lending through an ESG lens. Mortgage customers are being offered money to make homes energy efficient and banks are looking at how to fund infrastructure projects sustainably.

Climate change has a huge impact on insurance and companies are developing new products, pricing and investing in data to track the impact of global warming.

Finance 2.0

Covid unleashed significant forces of change in financial services that will gather momentum.

Consumers deprived of face-to-face services took to the internet and the growth in digital adoption has altered how consumers seek to interact with their banking and insurance providers. This shift has left financial firms reconsidering where the physical and the digital worlds intersect, the so-called 'phygital' debate.

Fundamentally, banks, investment managers and insurers need to work out how to redesign customer journeys while managing their cost:income ratio.

Ultimately, consumers sit at the heart of all this volatility. Regardless of the external forces being brought to bear, financial services providers must ensure their focus remains firmly on how they build enduring trust with their customers by delivering consistently good outcomes.

Ewen Fleming, Global Leader, Financial Services

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Hotels & Leisure

Driver #1

'Bleisure' and new tourism

Bleisure travel combines leisure with business, resulting in longer stays.

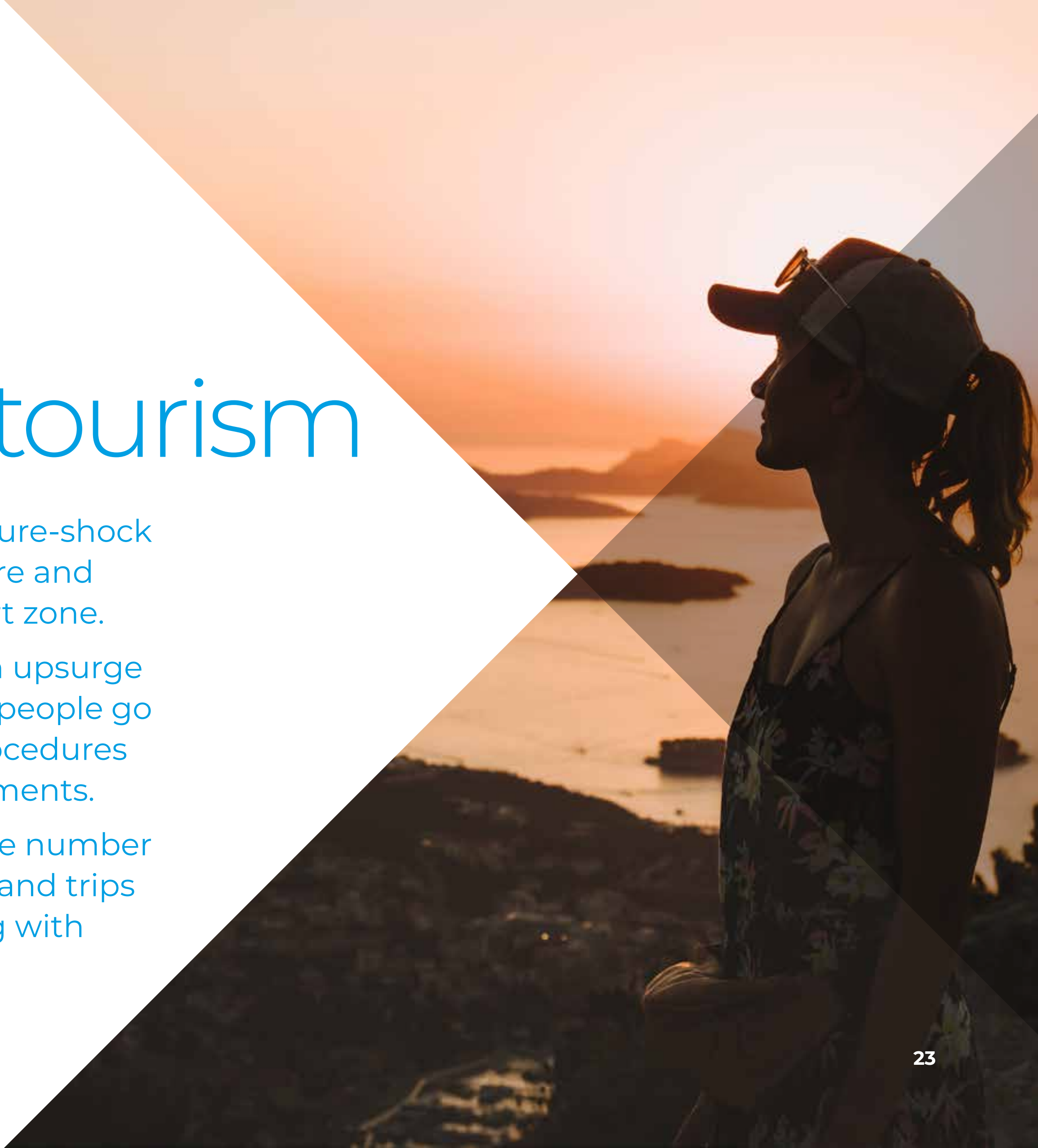
This evolving new tourism market is expected to grow by almost 20% annually.

It appeals to digital nomads, people who can work anywhere. They are driving demand in less frequented destinations.

Many of them are 'culture-shock seekers', keen to explore and get out of their comfort zone.

There has also been an upsurge in medical tourism, as people go abroad for medical procedures and physical enhancements.

Covid has increased the number of 'wellness getaways' and trips focused on connecting with nature.



Driver #2

ESG impacts everything

Investors are increasingly focusing on green and sustainable leisure projects.

Hotel owners and developers that are putting measures in place to meet growing ESG (environmental, social and governance) requirements will find it easier to secure finance for refurbishments and new projects.

In hotels and leisure, ESG impacts activities across the board. Architects must design more energy-efficient buildings, while construction companies must source more sustainable materials.

When projects are built, operators must find ways of reducing food waste and improving energy efficiency.

Driver #3

Brands spread their wings

Market share of trusted hotel and hospitality brands will increase as travellers look for ‘known’ choices when booking trips.

There has been an upsurge in smaller boutique brands but many of these are sub-brands of major corporates seeking to penetrate all markets.

As the world continues to reopen after Covid, there is a shift in East-West dynamics. Successful Asian leisure groups are expanding into North America, Europe, the Middle East and Africa while major Western hotel chains are growing significantly in Asia-Pacific.

This will bring about more customisation of offerings to suit different market needs and specialisation in the types of services on offer to guests.

Doors opening for hotels

Covid is generally believed to have left the hotels and leisure sector in a financial hole – but many companies recovered well last year and are now looking to expand.

The big brands are getting bigger, often developing and expanding sub brands. The strategy of major players like IHG, Hilton, and Accor is to expand into as many different market segments as they can, from budget to boutique and right up to luxury.

They are also moving their portfolios to a franchise model which reduces upfront costs, spreads risk and has a positive impact on internal rates of return on investment.

The shift is also good for smaller independent hotel operators that can fold their already successful businesses into global chains.

Crucially, it is also a transparent model that is popular with investors.

Márton Takács, Global Leader, Hotels & Leisure

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Manufacturing & Distribution

Driver #1

Disruptive technology

Manufacturing and distribution companies that prosper will be those willing to adopt artificial intelligence and disruptive technology.

In 2020, the global investment in Artificial Intelligence (AI) was estimated at $50 billion and many are expecting spending to more than double by 2024.

One of the biggest areas of expenditure – about 20% of the total – is intelligent process automation, which is replacing humans carrying out low-value, repetitive tasks with AI-enabled machines.

Industrial manufacturing and retail/ consumer products have been one of the biggest AI success stories post-Covid. However, there is still huge potential for organisations to embed technology deeper across more of their operations.

Driver #2

Supply chain resilience

The most pressing topic for many CEOs is the state of the supply chain.

From the onslaught of the pandemic, companies have been dealing with raw materials and component shortages, the rising cost of goods caused by inflation and labour shortages.

While we have seen improvements, the pressure is unlikely to abate as geopolitical tensions in Europe and Asia – the workshop of the world – look set to continue.

Supply chain stresses are not expected to be resolved until some of the underlying causes stabilise.

Expect companies to continue to see new methods of reaching customers and look for alternative manufacturing bases to replace or augment traditional operations.

Driver #3

CEOs wrestle with ESG

The top five disruptors in manufacturing and distribution are all heavily influenced by ESG: cost of capital, cost of product, availability of product, the battle for talent and the customer experience.

Companies that are committed to ESG will benefit from cheaper and easier access to capital.

They will also have more choice when hiring as top talent wants to work for environmentally and socially-conscious companies.

Consumers want to feel good about their choices so buying from an ESG-minded company is becoming increasingly important for sales and brand loyalty.

Embrace disruption

Mark Fagan, Global Leader, Manufacturing & Distribution

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Manufacturing and distribution has had to overcome many obstacles over the last few years, from the pandemic and associated supply chain disruption to maintaining a solid workforce.

Many business models are not appropriate for this ‘new normal’ and leaders are looking more closely than ever at automating vast swathes of their operations to improve efficiency and give them a competitive edge.

Many executives find the sophisticated solutions emerging both intoxicating in their promise and exasperating in their complexity – only 12% of US companies have implemented AI systems and disruptive technology across their entire organisations.

While it is right to be cautious, much of the highly specialised technology coming out of the research labs today will soon become mainstream. Delay can be riskier than taking action.

Maritime

Driver #1

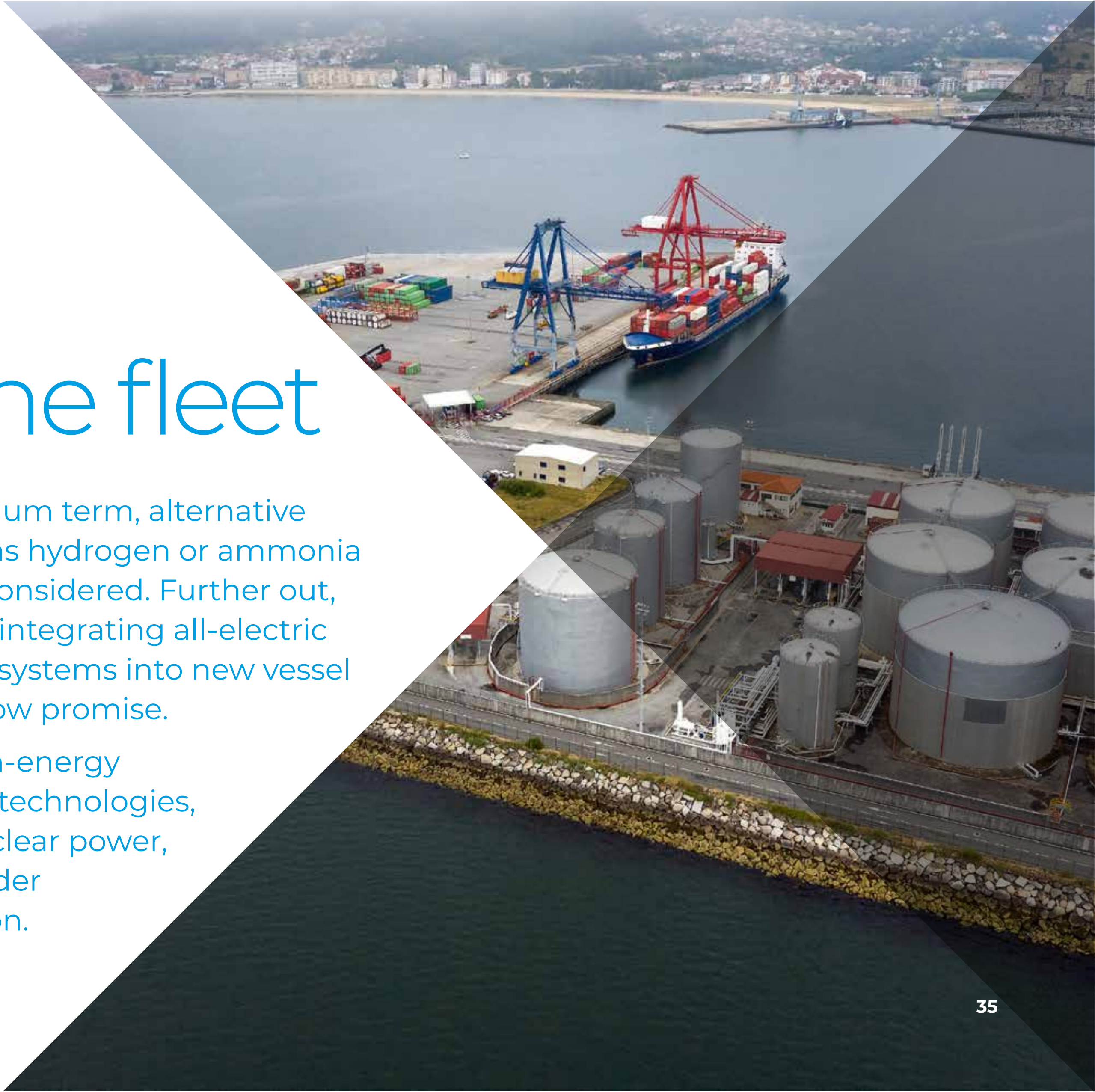
Decarbonising the fleet

The maritime industry is responsible for almost 3% of the world's carbon emissions and has set goals to reduce that significantly by 2050.

In the short term, shipping owners and operators can utilise slow steaming – throttling back the engines – and replacing traditional fuel oils with hydrogen to comply with the most pressing emissions targets.

In the medium term, alternative fuels such as hydrogen or ammonia are being considered. Further out, options for integrating all-electric propulsion systems into new vessel designs show promise.

Other clean-energy propulsion technologies, such as nuclear power, are also under investigation.



Driver #2

Green financing

Initiatives like the Poseidon Principles, aligning marine funding strategy with ship owners' decarbonisation progress, are leading to a change in thinking about long-term funding of the maritime sector.

Banks and other finance providers are increasingly required to justify investment choices based on sustainability and potential environmental risk.

Shipping companies must find ways of monitoring and improving their environmental impact, commitments to society and governance structure.

They must clearly communicate their strategies and performance or face the prospect of being dropped by investors, funders and customers.

Driver #3

Digital shipping

Shipping is going through a digital transformation that will require widespread overhaul of ships and port operations. The drivers are greater efficiency and improved profit margins.

It may ultimately lead to autonomous ships and port facilities. That could encourage a switch from road to sea cargo while lowering maintenance costs for vessel owners and improving safety.

However, the use of smart technologies to monitor ships and collect data 24/7 has highlighted cyber security risks. Automated container ships are an obvious target for cyber terrorists, while digitised port handling systems must protect proprietary data and have prevention measures in place to limit fraud.

Avoid choppy waters ahead

There is a growing focus on sustainability in shipping and it could become a key differentiator for companies competing with both maritime rivals and other forms of freight transport.

We have reached a point at which shipping companies need to find a lot of money to renew their fleets because of new regulations and pressure to improve their environmental footprint.

ESG is now very important to financiers, investors and charterers. Without a robust strategy and transparent sustainability reporting, shipping companies will find it more difficult to source the necessary funds required to renew their fleets.

This is not an issue in developed economies only – energy-efficiency and environmental frameworks are also being established in developing economies.

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Real Estate & Construction

Driver #1

Tokenisation takes hold

Moore Global was among the first to highlight the rise in tokenisation in real estate.

We explained how property specialists increasingly look to ‘tokenise’ assets so they can improve liquidity in the world’s most valuable asset class and make real estate investment easier, cheaper and more efficient.

Since our first report almost two years ago, interest in tokenisation has increased significantly among real estate investment companies and individuals looking for blockchain-related opportunities.

From a market dominated by cyber-savvy technologists, real estate tokenisation is becoming more widely adopted.

Driver #2

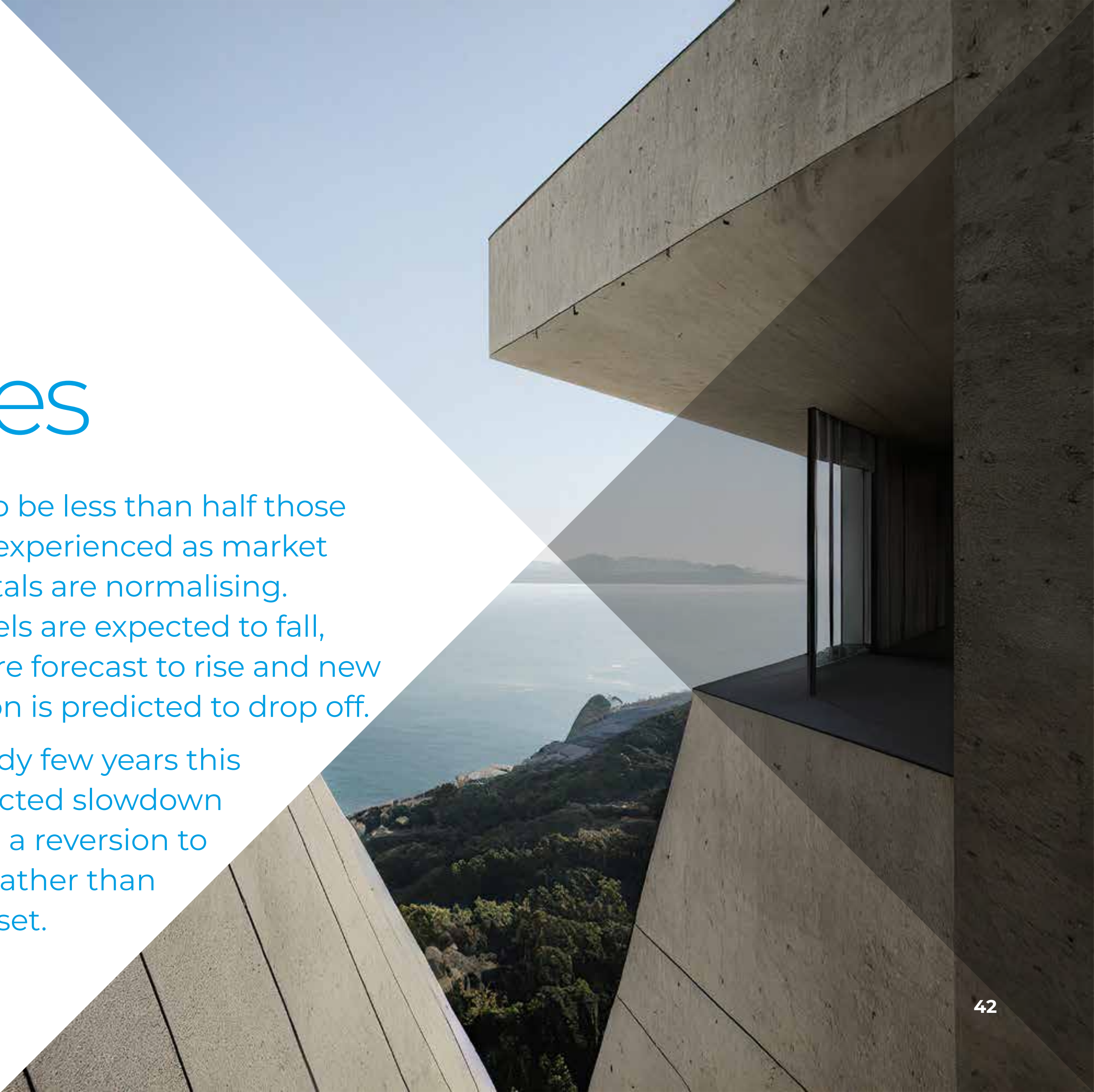
No panic on prices

After a price boom, we are now in a period of taking stock for real estate investors.

The NCREIF Property Index (NPI), which reflects the changes in prices of commercial real estate for investment purposes in the United States, increased by more than 20% in the four quarters through mid 2022.

Returns for 2023 and 2024 are expected to be less than half those previously experienced as market fundamentals are normalising. Activity levels are expected to fall, cap rates are forecast to rise and new construction is predicted to drop off.

After a heady few years this year's expected slowdown constitutes a reversion to the mean rather than a major upset.



Driver #3

Investors will be patient

Demand for commercial property remains high but developers and funders must remain patient as rising interest rates will reduce the number of transactions.

There will likely be fewer investors competing for product, while price uncertainty will curtail investor appetite for getting deals done.

Investors will be looking for higher quality assets and may show more interest in niche property types than in previous years. Senior housing, student housing, data centres, self storage, medical offices and life sciences look set to receive attention.

Relying on strong foundations

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Overall, 2023 will be a reset year.

The unwinding of Covid stimulus programmes, the return to a more normal interest rate environment, the impact of recession on labour supply and inflation will impact all real estate classes in various ways.

Sophisticated investors have been anticipating these events and many will be waiting on the sidelines for investment opportunities to present themselves.

Continued inflationary pressure and high interest rates have had a clear impact on the global economy and led to a flurry of predictions about the likely depth and length of a downturn.

However, most real estate professionals remain reasonably positive about the longer-term prospects.

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