

What will be the “New Normal?”

McKinsey Managing Director on how the Business World will be Different; What will be the Impact on Supply Chains?

SCDigest Editorial Staff

In the last few months, a number of commentators across the general business and financial sectors have started to talk about the “new normal” – the clear implication being that whenever the economic downturn ends, the business environment will not shortly return to the conditions that preceded the recession, as has generally been the case after the past many economic slumps.

Recently, **Ian Davis**, worldwide managing director at McKinsey, offered some thoughts on the new normal from a macro business perspective. But as these business changes in many cases will clearly impact the supply chain, SCDigest thought Davis’ comments were worth summarizing.

Davis says there are good reasons for talking about the “new normal.”

“We are experiencing not merely another turn of the business cycle, but a restructuring of the economic order,” he says.

That fact that the economic order we have known for many years will be fundamentally restructured is especially important given the different circumstances businesses currently find themselves. For many, right now it is a battle of survival – all corporate energy is involved in simply outlasting the downturn, and little else.

Others are better situated, and have the opportunity to plan and prepare for what is coming next, Davis says – obviously giving them a huge advantage over those that do not have the resources to take that more strategic approach while they are trying to stave off bankruptcy in the present.

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Davis is certainly not the first to say that there will be a lot less corporate “leverage” or borrowing in the new normal. That correspondingly means the price for taking on “risk” will be a lot higher.

To SCDigest, that means the likelihood of mergers and acquisitions, or private equity taking a public company private, should drop substantially versus levels seen in recent years. Companies and private equity companies will be a lot less willing or able to borrow the cash to fund such deals – or the price for the credit will be steep enough that a lot fewer of those deals will offer the right risk reward ratio. Whether that is good or bad for supply chain practitioners depends on your perspective – it likely will reduce the demand in some ways for top supply chain talent, which private equity deals were fueling in recent years, and that had the effect of pushing supply chain executive salaries higher.

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It’s also clear that we will see an expanded role for government across most areas of business activity.

Davis, for example, says that “there is a risk of a new era of financial protectionism” that could make it “harder for companies to move capital to the most productive places and that dampen economic growth, particularly in the developing world.”

Davis adds that, “Companies need to prepare for such an eventuality—even as they work to avert it.”

He adds that it was clear even before the recession that “that US consumption could not continue to be the engine for global growth,” observing that most developments that enabled that over the past few decades (women entering the workforce, baby boomers entering peak spending years, rise in level of college grads) have largely played themselves out.

So, “Companies seeking high rates of income and consumption growth will increasingly look to Asia,” where he says the drivers of growth, including productivity gains, technology adoption, and cultural and institutional changes, are not likely to be stopped for long by the recession.

“The world’s economic center of gravity will continue to shift eastward,” Davis says.



There seems to be almost universal agreement that when we finally enter into the post-crisis period, the business and economic context will not have returned to its pre-crisis state – bringing risk and opportunity.

“Executives preparing their organizations to succeed in the new normal must focus on what has changed and what remains basically the same for their customers, companies, and industries,” Davis concludes. “The result will be an environment that, while different from the past, is no less rich in possibilities for those who are prepared.”

Look for our thoughts more specific to the “new supply chain normal” very soon.