



Digital is Not the Only Disruptive Force

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“Business model disruption encompasses far more than digital, and is affecting every industry,” says [Tony Alvarez III](#) [2], head of Alvarez & Marsal’s (A&M’s) European practice. “If strategic decisions are wrong, or the company has made bad bets on developments that haven’t happened, or there are cycle issues as we have seen with the oil and commodity companies, there is a need for significant change. In low growth environments, you need to consolidate and be operationally efficient.”

Everyone wants to talk about digital change but it is by no means the only way to transform a company. Making tough decisions about cost structure, inefficient hierarchies and customer focus, for example, will also make companies fit to compete over the long term. The world’s largest mining companies offer a compelling example:

Two years ago, a prolonged slump in commodities prices forced miners including BHP Billiton, Anglo American and Glencore to sell off assets, slash their dividends and undertake large-scale cost-cutting programs, such as Anglo American’s plan to cut 85,000 jobs.

Now, the companies are back to making what the Wall Street Journal [described as](#) [3] “boom-era profits:” Rio Tinto and Anglo American both doubled and Glencore quadrupled net profits in 2017, thanks to the combination of a recovery in raw materials prices and their own operational improvements. However, there is no let-up in the drive to keep costs low: profits are now being threatened by higher energy and wage costs and Anglo American aims to cut another \$3 billion–\$4 billion in costs by 2022.

In Europe, A&M is [working with the engine maker Rolls–Royce](#) [4] to transform its operations as the company seeks to recover from a series of profit warnings, to address problems with key engines for Boeing and Airbus planes which it must pay to fix and to streamline an overly complex decision-making structure. The U.S. activist investor ValueAct has had a seat on the board since 2016.

CEO Warren East has said he expects “significant” savings from the transformation program, in addition to the £200 million (\$280 million) of annual cost reductions announced by the company in March of 2018. His stated aim is “driving simplicity, agility and pace into our business.”

When business models are no longer creating value for shareholders, either as a result of external pressure such as a drop in prices, or because the company’s internal processes have become inefficient and outdated, the decision for boards becomes how to change, and digital is only part of the answer.

“We bring with us best practices from complex restructuring and transformation situations which are really valuable,” says Alvarez. “Once we are in a given company, we seek to win over the hearts and minds of management teams and help them deploy effective communication to captivate the broader organization, and we develop long-lasting relationships.”

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](#) [5], our corporate transformation newsletter.

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