TELECOMMUNICATIONS & DIGITAL INFRASTRUCTURE

Winning in Times of Geopolitical and Economic Uncertainty

SUMMARY

Business models are being threatened by geopolitical and economic uncertainty. We have identified five forces affecting most corporations today that should be part of every boardroom conversation, ranging from the return of protectionism and shareholder capitalism to the persistent threats coming from cyber wars and the ever-increasing pace of technological disruption.

Given these uncertainties, successful companies need to rethink their business models to give them an advantage over their competition and reposition their companies to be viable in the long-term. Leading best practices include a company's leaders' ability to dynamically adjust their operations to increase strategic flexibility, to broaden their internal and external networks to inform their perspective on the market so they can anticipate and adapt to changes more quickly, and to target their investment in technology for operational efficiency while maintaining their competitive positioning.

FIVE FORCES INCREASING RISK EXPOSURE

Gone are the days of predictability when business and policy decisions could be made with reasonable confidence that the underlying assumptions would not change. Relatively low-interest rates, geopolitical stability, predictable trade relationships, and a steady pace of technological innovation all created a foundation upon which strategy could be formed, business models optimized, and investment decisions made.

Investor concerns are now mounting as they increasingly scrutinize the risk exposure of portfolio companies. With a multitude of industry agnostic factors influencing operations, corporations find themselves navigating a complex landscape. This diverse array of risks can induce paralysis, significantly hindering effective decision-making and complicating the strategic playing field. There are five forces affecting most, if not all, corporations today.

1. A Return to Shareholder Capitalism: Companies are rapidly reversing their positions on stakeholder-centric initiatives. Industry-leading companies (e.g., Amazon, Google, Coca-Cola, Nike) have altered course on initiatives such as DEI and environmental sustainability.[1] A return to profit-centric capitalism signals a new era in the corporate landscape.

2. Rapidly Changing Global Order: Basic economics highlights the benefits of leveraging comparative advantage for global trade. However, many executives struggle to reconcile costs and benefits on the subject. Isolationist posturing, global conflict and political appeasement loom large on corporations leveraging global models today.

3. The Return of Protectionism: Political tactics involving economic elements are commonplace. However, corporate stakeholders today face, if consistently implemented, unprecedented changes in the utilization of tariffs and taxes to influence relations domestically and abroad.

4. Cyber Wars on the Global Stage: Cybersecurity concerns have transcended the exclusive domain of CIOs. Engaging with the ever-evolving digital infrastructure to maximize data safety and capitalize on potential advantages, while minimizing losses, is critical to strategic flexibility.

5. The Ever-Increasing Pace of Technological Disruption: Rapid, disruptive technological change has often been a common topic of discussion, exemplified by concepts like Moore's Law. However, the recent surge in artificial intelligence and quantum computing has brought these disruptions to the forefront of global business dynamics and strategies like never before.

Effectively managing these disruptive elements is crucial for success in today's marketplace. Companies can maintain a competitive edge by building protective moats through strong financial fundamentals and accelerating competitive advantages through avoiding the stagnant status quo.

A&M recommends a three-pronged approach: Employ strategic flexibility in operations, broaden the aperture of information and insights flowing into the business, and target investments toward technology that improves productivity and enables innovation.

> Strategic flexibility allows companies to safeguard their operations against geopolitical and economic uncertainties.

1 Rebecca Schneid, *"The Major U.S. Companies Scaling Back DEI Efforts as Trump Targets Initiatives,"* Time, February 22, 2025, https://time.com/7260689/us-companies-scaling-back-dei-efforts-trump-targets-initiatives/

UTILIZE STRATEGIC FLEXIBILITY THROUGHOUT THE BUSINESS

In light of geopolitical conflicts, trade wars, and evolving manufactoring constraints, strategic flexibility emerges as a critical strategy for safeguarding revenue streams, supply chains and profitability. It is essential for corporations to conduct thorough reviews of their business and operational plans to pinpoint vulnerabilities and swiftly implement enhancements. The ability to dynamically adjust operations across geographic locations is crucial for optimizing profitability and ensuring resilience in an unpredictable landscape.

Financial Implications:

Increased Input Costs: As companies move away from global supply chains in favor of regionalized or localized sourcing, they may face higher input costs.

Higher Cost of Goods Sold (COGS): Protectionist policies, such as tariffs or trade restrictions, could drive up the cost of imported materials or products. For companies that rely heavily on global supply chains, COGS would increase as the prices of imported goods rise due to tariffs or duties.

Changes in Supply Chain Assets: As companies shift away from global suppliers to domestic alternatives (e.g., nearshoring), they may need to adjust their inventory levels and supply chain assets.

Changes in Working Capital: A focus on domestic supply chains might lead to higher levels of inventory as companies build up stockpiles to mitigate future supply chain disruptions.

Case Study: Toyota's Decentralized Flexibility

Overview

Toyota is praised for its approach to continuous improvement and its utilization of just-in-time manufacturing. However, a critical element of Toyota's success is its decentralized, global supply chain. Toyota leverages local sourcing agreements throughout its expansive global network. These relationships serve to mitigate risk by diversifying operations away from specific regions that are facing uncertainty.[2]

Result

Toyota is able to flex operations across different continents to adapt to unpredictable events such as natural disasters, geopolitical conflicts or global pandemics. During the COVID-19 crisis Toyota utilized its relationships with semiconductor manufacturers to limit exposure within its supply chain. This focus on strategic flexibility puts Toyota in a prime position to pivot its supply chain to quickly adapt to disruptions.

2 Kelly Marchese and Bill Lam,*"Toyota Pioneers New Global Supply Chains,"* Wall Street Journal, Accessed April 2, 2025, https://deloitte.wsj.com/cio/toyota-pioneers-new-global-supply-chains-1407816105

BROADEN INTERNAL AND EXTERNAL NETWORKS

As changes in government foreign relations and tax policy accelerate and proliferate, corporations must be prepared to handle widespread, industry-agnostic change. Chief executive officers, chief strategy officers and boards of directors must be re-equipped with a comprehensive array of information, strategic partnerships, skills and analytical tools to thrive in an environment where business and politics are increasingly intertwined. It is imperative for corporations to maintain a vigilant outlook and actively broaden their perspective to anticipate and adapt to these multifaceted challenges they currently face.

Financial Implications:

Limited Market Access: If foreign relations policy constricts domestic investments and international markets become more fragmented, U.S. companies could find it harder to access customers overseas. Increased protectionist policies might make exporting goods to certain regions less competitive.

Tax Base Reductions: Corporate tax reductions can increase after-tax earnings, providing additional capital for reinvestment in core business operations, capital expenditures and strategic growth initiatives. Companies may also use the additional cash to reduce debt or return value to shareholders through dividends and buybacks.

Long-Term Liabilities: If companies decide to build or relocate production facilities domestically to take advantage of trade protections or incentives, they may incur long-term liabilities, such as debt or financing to fund new capital projects.

Case Study: JPMorgan Chase's War Room

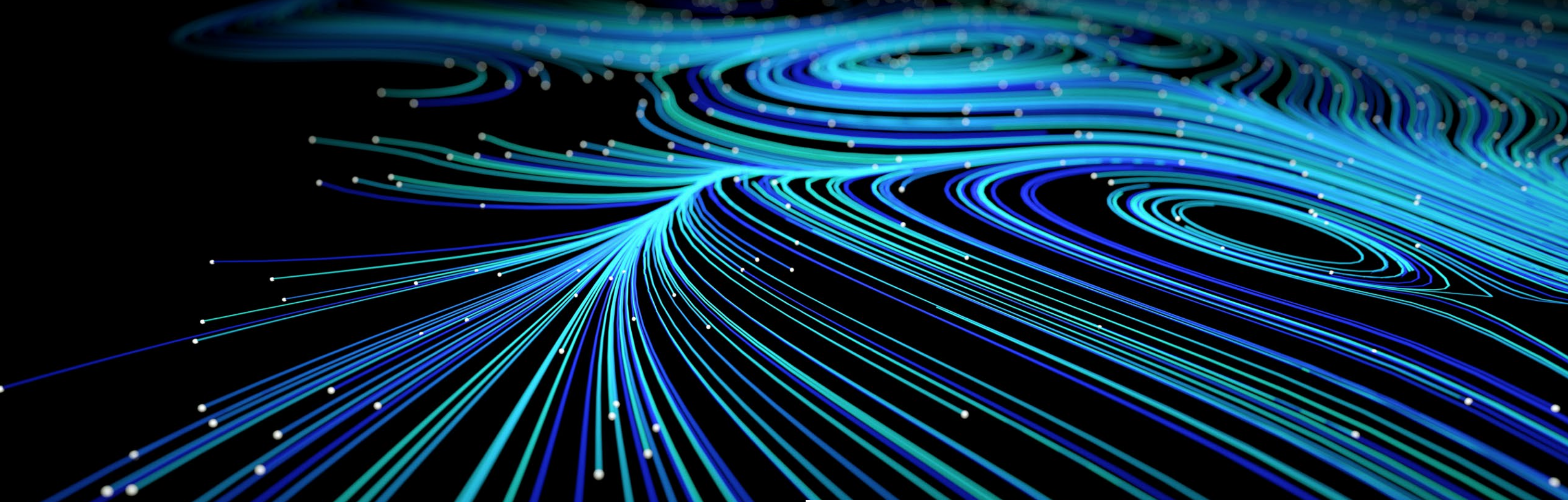
Overview

Following President Trump's return to office, his administration wasted no time in overhauling policy and signing a flurry of executive orders. The implications of these actions on the market and businesses need to be constantly analyzed. JPMorgan Chase set up a "war room" to analyze the impact, in real time, of President Trump's decisions to their business and set the company up for success in fielding client concerns.[3]

Result

Providing live-time, expert advice positions JPMorgan Chase as a resident expert in the new administration's policy and its impact to businesses in a variety of sectors. This expertise will bear fruit in driving investors, corporations and other stakeholders toward JPMorgan Chase as a source of refuge in uncertain times.

3 Chip Cutter and Alexander Saeedy, *"CEOs Launch War Rooms, Hotlines to Cope With Trump's Order Blitz,"* Wall Street Journal, January 21, 2025, https://www.wsj.com/business/ceos-launch-war-rooms-hotlines-to-cope-with-trumps-order-blitz-8c0acb52



Strategic investment in disruptive technologies drives top-line growth, boosts bottom-line profitability, and enhances operational efficiency.

LEVERAGE TARGETED INVESTMENT IN TECHNOLOGY

Selective, targeted investment in technology is imperative for corporations today, as improved use of data and analytics enables leaders to streamline processes, boosting revenues and margins. Embracing advancements in digital and artificial intelligence is essential for staying competitive, but they need to be targeted to avoid getting mired in a costly, distracting transformation. Many companies that have invested in AI technologies for highly repetitive or labor-intensive operational functions are recognizing significant productivity improvements and increasing quality at the same time. Positioning the organization to capitalize on these trends is, in essence, a form of proactive risk management, ensuring that companies are not only prepared for the future but are also poised to lead their respective industries in innovation and operational efficiency.

Financial Implications:

Localized, More Limited Innovation Ecosystems: While global collaboration often drives innovation, regionalization might foster tighter, more localized innovation ecosystems.

Mergers and Acquisitions: Policy changes, such as trade protections, might drive companies to pursue M&A activity to better position themselves in the domestic market or to consolidate in response to a more fragmented global market.

Streamlined Operating Expenses: The integration of AI technologies can reduce costs by automating tasks, optimizing workflows, and minimizing the need for manual intervention in routine day-to-day operations.

Revenue Improvements: Advanced customer segmentation and personalized treatment modeling allow for deeper insights into customer needs, enhancing the ability to deliver tailored solutions that bolster revenue growth.

Case Study: Comcast's Cutting-Edge Approach to AI

Overview

Corporations worldwide invest in AI to aid performance improvement, operations optimization and product innovations. Most realize they must adapt or risk "missing the wave." However, corporations that best leverage AI capabilities avoid the cure-all allure of technological novelty and instead concentrate on specific use cases to deliver measurable returns. Comcast is one of the companies leading the way by focusing its AI integration efforts on network optimization and customer service.[4]

Result

Comcast developed an in-house technology platform called Janus. This platform enhances network performance across Comcast's customer base, addressing key customer demands such as real-time, live sports streaming, high-quality connectivity and advanced customer service. Additionally, Janus aims to improve operational efficiency through its "self-healing" functionality, which minimizes the need for human intervention in network operations. The program aims to deliver tangible value to consumers while improving operational efficiency.

4 *"Comcast is Harnessing Leading-Edge Cloud and AI Tech To Transform the Way Its Network Delivers Next-Generation Internet Experiences,"* Comcast, September 23, 2024, https://corporate.comcast.com/press/releases/comcast-harnessing-cloud-and-ai-to-transform-next-generation-internet-experiences

Corporations today find themselves navigating an unprecedented landscape where external forces significantly impact their daily operations. Yet, this environment is not insurmountable. The real threat lies in strategic paralysis — taking a wait and see approach that leaves a company exposed. To thrive amidst these challenges, corporations must become more flexible, improve their understanding and detection of threats, and accelerate their ability to adapt to an ever-changing world.

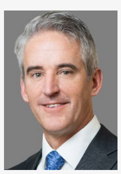
By embracing strategic flexibility, companies can safeguard their operations against geopolitical and economic uncertainties.

This involves not only diversifying geographically but also continuously reassessing and enhancing business plans to swiftly identify and address vulnerabilities. Additionally, leveraging both internal and external advisement equips corporations with the insights needed to navigate complex regulatory landscapes and capitalize on emerging opportunities, ensuring they remain agile and informed. Investing in technology is no longer optional but has become essential for both productivity and innovation.

Leveraging disruptions as catalysts for growth, embracing financial fundamentals, and utilizing strategic foresight will be the key to unlocking continued success in these uncertain times.

> Trusted advisors, both internal and external, can equip corporations with the insights needed to remain agile and informed.

KEY CONTACT



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