

2021
&
2030

EXECUTIVE PERSPECTIVES ON TOP RISKS

Lingering Effects of Pandemic and Operational Challenges Are Top Concerns for Consumer Products and Services Organizations

The continuing global challenges and potential existential threat posed by the ongoing COVID-19 pandemic. Political divisiveness and polarization. Social and economic unrest. Gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. Rapid shift to virtual, remote work environments. Changes in the geopolitical landscape. Shifting customer preferences and demographics. Fragile supply chains. Wildfires and hurricanes. Volatile unemployment levels and record low interest rates. Escalating competition for specialized talent. Immigration challenges. Cyber breaches on a massive scale. Terrorism. Big data analytics. Future of work.

These and a host of other notable risk drivers are all contributing to significant levels of uncertainties, making it extremely difficult to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. No one is immune to the significant levels of uncertainty, and C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because no one can possibly anticipate everything that lies in the future, organizations must focus on building trust-based, resilient cultures, led by authentic leaders, that can pivot at the speed of change.

In this ninth annual survey, Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2021 and, in a new dimension to this study, over the next 10 years, into 2030. Our respondent group, which includes 1,081 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:¹

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy.

¹ Each respondent was asked to rate 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Consumer Products and Services Industry Group

After a challenging 2020, many Consumer Products and Services (CPS) organizations are justifiably worried about the lingering effects of the pandemic, as well as operational challenges.

While some in the retail and consumer packaged goods sectors experienced record revenue growth due to the pandemic (like pharmacies, grocery stores, household products, food & beverage providers), many brick-and-mortar retailers (e.g., apparel and department stores) have seen their businesses flounder. The pandemic upended consumerism as we know it, hitting those without a strong online and digital presence particularly hard.

The results of our 2021 Top Risks Survey reflect the general angst among leaders throughout the CPS industry group, who are worried that a mix of macroeconomic, strategic and operational risks could significantly impact the performance of their businesses in the next 12 months. At the top of this list, board members and executives singled out additional government policies in response to the COVID-19 pandemic, a deterioration in market and economic conditions, talent retention and acquisition challenges, as well as internal resistance to cultural changes that may restrict their ability to adjust business models and core operations.

These top five risk issues apply to the broad Consumer Products and Services industry group, although the survey results show sub-industries such as retail, consumer packaged goods, hospitality and airlines have similar concerns, but with few exceptions. Below we discuss some of the unique concerns identified several sub-industries.

Retail

Among the top five risk issues identified by respondents in retail, the largest Consumer Products and Services sub-industry, the risk of cyber threats and anticipated increases in labor costs are ranked fourth and fifth, respectively. The first three are the same as those gathered from the broad Consumer Products and Services industry group.

It is no surprise that retailers are concerned about the potential for cyber threats to significantly disrupt their core operations and/or damage their brand. In the last 12 months, the cyberthreat landscape has deteriorated significantly, as more retailers move online to accommodate the surge in e-commerce. Last year, a number of household names were the target of sophisticated data breaches, including one major case in which 440 million records belonging to a cosmetic giant were exposed online.

The concern over anticipated increases in labor cost is notable given the significant workforce disruptions that many retailers faced last year. As the slow and elongated process of reopening retail stores continues amid a resurgence of the virus, decisions around hiring (i.e., when to bring furloughed workers back, whether to rehire new employees with different skill sets, and how to protect customer-facing workers) will continue to pressure retailers. According to the National Retail Federation, over 52 million people work in retail, making it the number one job sector in the United States, with a \$3.9 trillion contribution to the annual GDP.

Going forward, we expect retailers to continue to invest heavily in omnichannel shopping, and customer experience and loyalty programs, as part of their effort to address these macroeconomic and strategic risks. By providing exclusivity and personalized services and focusing on environmental, social and governance (ESG) issues, retailers will form long-term brand relationships and build deeper connections with their customers.

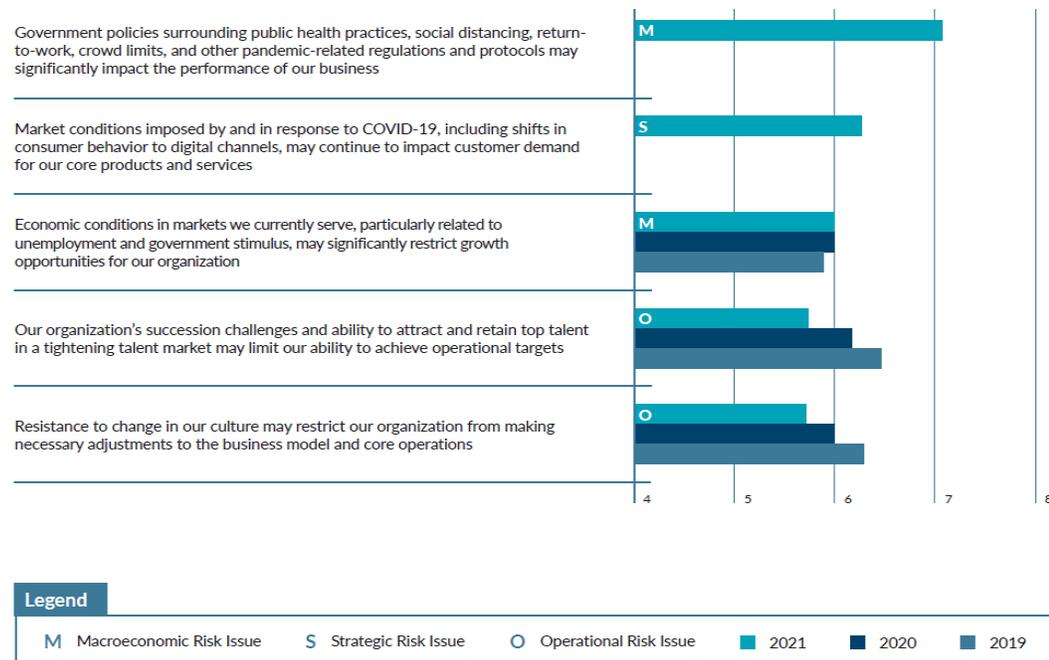
Consumer Packaged Goods

In addition to the top two risks (impact of COVID-19 on market conditions and potential government policies in response to the pandemic), the three issues below round up the top five risks identified by survey respondents from the consumer packaged goods (CPG) industry:

- Uncertainty surrounding the viability of key suppliers, scarcity of supply or stable prices in the supply chain ecosystem may make it difficult to deliver products or services at acceptable margins.
- Third-party risks arising from reliance on outsourcing and strategic sourcing arrangements, IT vendor contracts, and other partnerships/joint ventures to achieve operational goals may prevent achievement of organizational targets or impact brand image.
- Ongoing demands on or expectations for a significant portion of the workforce to “work remotely” or increased expectations for a transformed, enhanced collaborative physical work environment may negatively impact the effectiveness and efficiency of how the business is operated.

Across the global economy, supply chains have been hammered by the pandemic, forcing businesses to restructure their procurement operations in order to build in resilience. CPG companies are taking a broad range of actions to curb challenges, increasing warehouse space, altering delivery methods and seeking more flexible supplier contracts. Still, their fragile situation could worsen if governments take further actions, like port closures and countrywide lockdowns, to control rising infections. Additionally, CPG companies are rethinking their supply chains in response to changing consumer behavior and the resulting shift in their business model from business-to-business (B2B) to direct-to-consumer (D2C). To ensure that supply chains are operating at a high degree of dependability and cost effectiveness, management would be well-advised to move beyond a procurement mindset and embrace a more holistic methodology known as [strategic sourcing](#).

Top Risks for 2021



With the clouds imposed by the pandemic, it is more difficult for Consumer Products and Services companies to see the future 'new normal' and how fast it will arrive. Traditional trends and patterns used in the past to predict demand and growth have been obscured, forcing industry players to place their bets on multiple sales and marketing channels, invest in digital capabilities, including e-commerce and shopping platforms, improve data analytics to better understand their customers and behaviors, rethink their supply chain strategies, train employees in the skills required to serve consumers in the digital economy, and reimagine branding strategies.

Carol Raimo, Managing Director, Consumer Products and Services Industry Leader, Protiviti

Hospitality, Leisure and Travel

With hotel occupancy rates down, planes grounded, and borders closed, the hospitality, leisure and travel sectors have been particularly devastated by the pandemic. The vaccine rollout and the prospect of an additional stimulus package from the Biden administration have offered some hope, although businesses in this space remain especially vulnerable to further lockdown and social distancing measures. As the survey results show, this is the top risk issue for the sector, followed by the impact of economic conditions related to unemployment and government stimulus on growth opportunities.

With 2020 revenues effectively written off, many hospitality, leisure and travel companies are exploring various growth opportunities, including acquisitions, joint ventures and other partnership activities. According to the survey results, the companies rank potential difficulty identifying and implementing these growth opportunities as the third most worrying risk issue.

Another major concern for the sector is its ability to meet expectations around protecting the health and safety of employees, customers, suppliers and the communities in which companies operate (this is their fifth biggest risk). Specifically, hospitality, leisure and travel companies worry that measures implemented in this regard may be insufficient to receive market permission to operate or encourage people to work for or do business with them.

Airlines

It goes without saying that the airline industry has struggled to take off during the pandemic. According to the International Air Transport Association, deep industry [losses will continue](#) into 2021, even though performance is expected to improve. The association is also predicting aggressive cost-cutting, even though airlines have already cut costs by 45.8%, but revenues are down 60.9%.

Indeed, many in the industry are surviving on financial life support from governments, and the flight to recovery is expected to be long and turbulent. Airline respondents to our survey identified the ability to access sufficient capital or liquidity as their second biggest risk issue, bested by restrictive government policies in response to the pandemic.

Given the uncertainty over how long it will take for the industry to return to pre-pandemic normal, airlines are adapting to the new business realities. We can expect the industry to consolidate, offer fewer flight options, and possibly experience a permanent haircut in business travel. International and leisure travel as well as hub and spoke routes will take time to recover. With excess capacity and rising cargo yields as shoppers turn to e-commerce, we can expect continued conversions of wide-body aircraft to service air freight demand. All of these and other factors impact the industry's fundamentals, and ultimately the percent of employees who will be returned from furloughs.

Nichole Minice, Managing Director, Airline Industry Leader, Protiviti

Over the past 12 months, airlines have reduced staffing for a wide range of customer-facing and internal roles to match the decline in demand, but some of the deepest cuts in headcount have been in back-office functions. Despite these cuts, succession challenges and the ability to attract and retain top talent in a tightening talent market remain top concerns. This is fifth on the industry's top risk list. A powerful [potential solution](#) to the talent shortage issue is to invest in and expand the use of intelligent automation, such as combining robotic process automation (RPA) with AI. This strategy could help airlines emerge from the pandemic more efficient and resilient.

Looking Ahead — Long-Term Risk Issues

As part of the survey, board members and executives from the Consumer Products and Services industry group were asked to project their top five risk issues over the next decade. The impact of digital technologies on skilling and talent, as well as sustaining customer loyalty and retention, were identified by the respondents as their top two risk issues.

Interestingly, on the most pressing concerns for 2021, the risks related to adopting digital technologies does not make the top five list for the broad Consumer Products and Services industry group, given its myriad near-term challenges. However, it is clearly on the industry's radar, especially as pressure mounts on organizations to adopt new technologies like AI, robotics, natural language processing and visual recognition software. According to the survey, industry leaders are concerned that over the next 10 years the talent to support these digital technologies may be in short supply or would require significant efforts to upskill and reskill existing employees. On customer loyalty and retention, Consumer Products and Services industry group respondents worry that it would be increasingly difficult to sustain due to evolving customer preferences and/or demographic shifts in their existing customer base.

This industry group also reported the impact of market conditions imposed by COVID-19 on customer demand as the third-rated risk for 2030. It is the only industry group of the six we examined that included this risk in the top five for the long term, suggesting that industry leaders may have significant concerns over the lasting impact of COVID on the market and consumer, guest and passenger behavior.

The respondents identified two other top risks for the next decade:

- Succession and talent acquisition challenges.
- Ensuring privacy or identity management and information security protection with limited resources.

Top Risks for 2030



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