

Monitor
Deloitte.



The exponential enterprise

Fortifying the ability to win
through the capacity for change

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Introduction

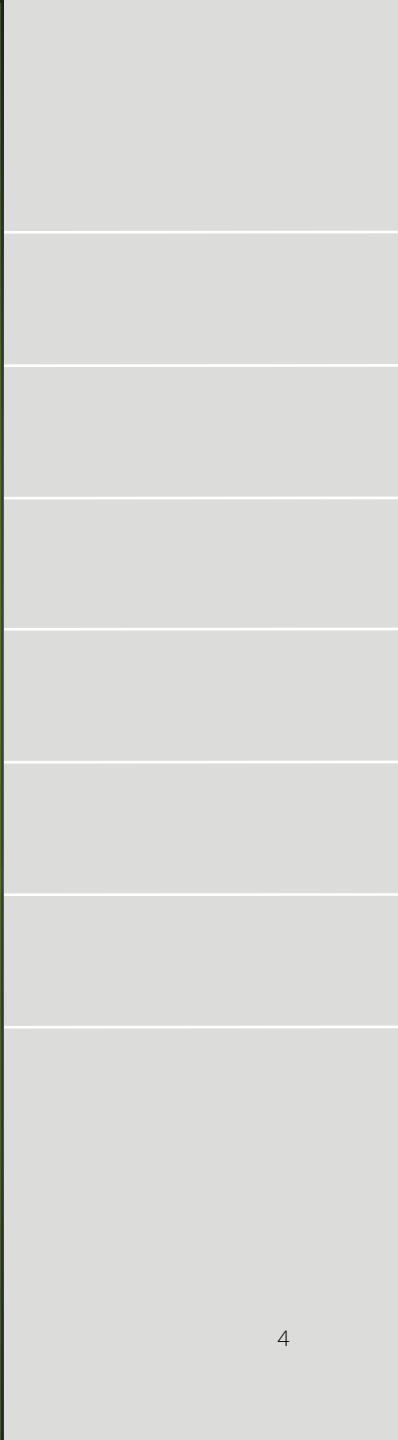
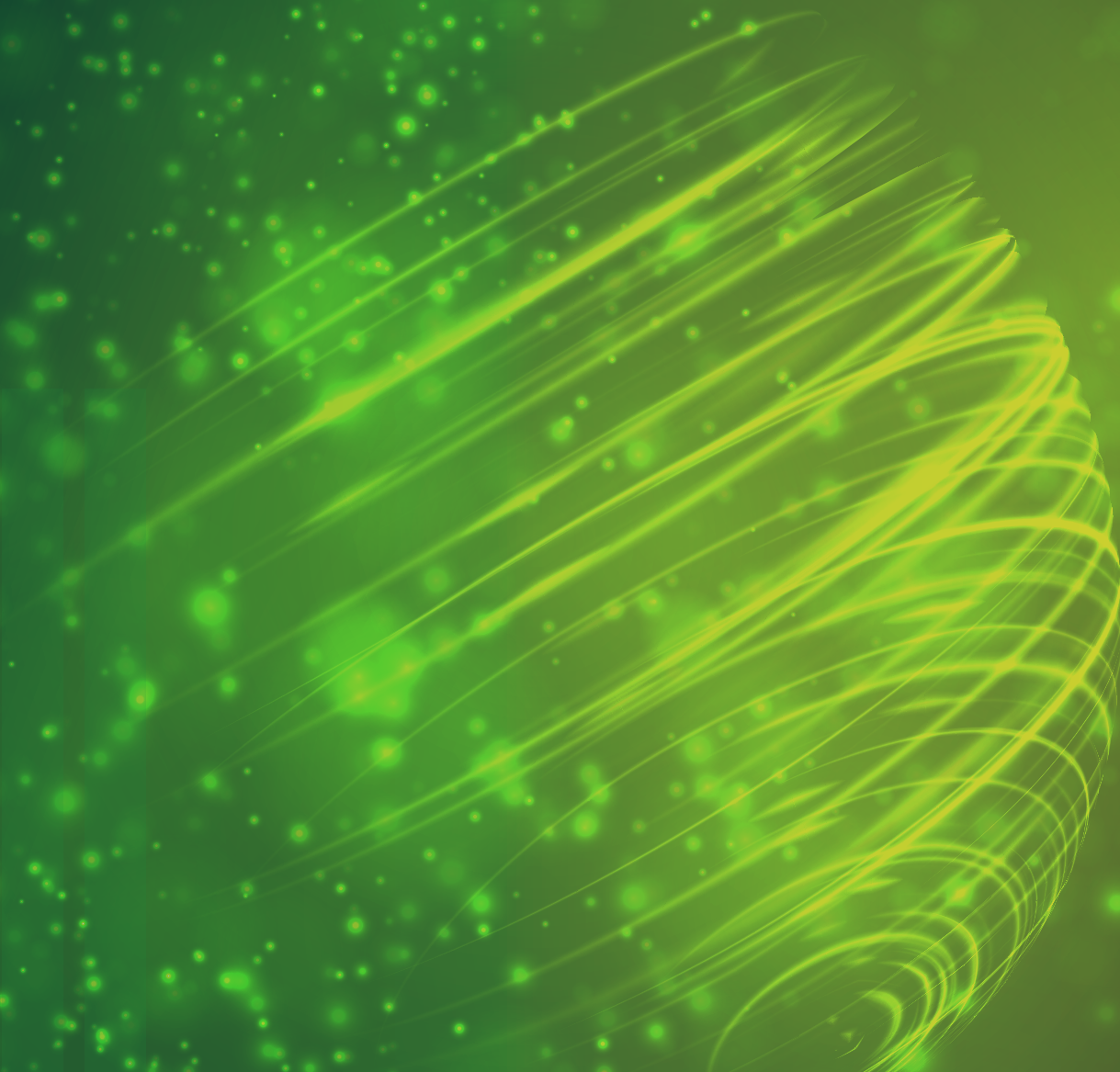
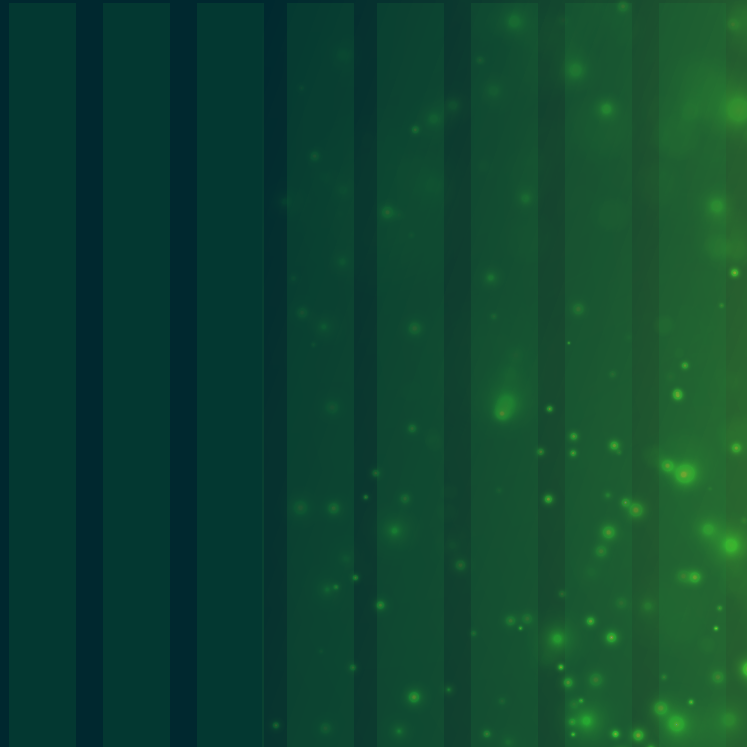
Leaders of the 21st century enterprise face a more dynamic and disruptive operating environment than their 20th century counterparts. The recent COVID-19 pandemic is illuminating the speed and magnitude with which disruption can proliferate. External advisers often use the word transformation as shorthand for the change required to meet these challenges. But the language around transformation has become overused and vague. Poorly defined transformation ties up valuable resources while often falling short of fundamentally addressing the root issues at hand. Still, few leaders ask “why transform?” Most recognize that evolutions in technology, society, and geopolitics have created new growth opportunities, competitive pressures, or threats to the sustained success of incumbent businesses that require adaptation. Today’s leaders must address two different questions:

1. Where does transformation add value to the enterprise? Leaders need solutions that have measurable impact: delivering value (financial and nonfinancial) to enterprise stakeholders. Without a clear benefit case to measure progress and impact, transformation will remain an intangible, unmanageable, unsellable, and ultimately unprofitable idea.

2. How do we sustain the benefits of transformation? Successful transformation isn’t possible as a “one-and-done” initiative, but rather requires an “always-on” capability to sense and respond to change ahead of competitors. Unlocking the value of transformation requires more than just technology modernization and process optimization initiatives; it requires continuous adaptation to navigate and thrive in a constantly changing world.

Our work explores both these questions. We define the characteristics of an always-on strategy and transformation capability and, through quantitative analysis, measure the value delivered. We also provide a framework to help leaders reexamine their approach to enterprise strategy, growth, operations, and leadership. These tools allow leaders to redesign their firms so that adapting to future change is easier instead of difficult, proactive instead of reactive, and a source of strategic opportunity instead of risk.

Operating environment: A ball of confusion



Operating environment: A ball of confusion

CXOs are navigating a less predictable, increasingly complex, and hyperaccelerated operating environment. 20th century leaders experienced change at an evolutionary (not revolutionary) pace and often viewed crises as infrequent, isolated events. Their responses framed challenges arising from change and disruption as temporary setbacks that they could overcome to return to the status quo. Last century's leaders also viewed opportunities through the same lens, with the assumption that competitive and operating conditions would eventually reach equilibrium. As a result, transformation initiatives were often tactical, functionally driven, back office-oriented, and focused on risk mitigation versus growth, customers, innovation, and self-disruption.

21st century leaders face a far different environment. Technological innovation is not only accelerating, but also increasingly disruptive to marketplace competitive dynamics, societal norms, and government policies.

Figure 1. New operating conditions

TECHNOLOGY CATALYSTS	DISRUPTIVE FORCES	NEW OPERATING CONDITIONS
<p>Experiences:</p> <ul style="list-style-type: none"> • Mobile • Augmented, virtual, and immersive reality • Speech and gesture interfaces • User and entity behavior analytics <p>Insights:</p> <ul style="list-style-type: none"> • Data and analytics • AI and machine learning • Deep learning <p>Platforms:</p> <ul style="list-style-type: none"> • Cloud data centers • Cloud-native applications • Cloud, edge, and IoT networks • Quantum computing <p>Connectivity:</p> <ul style="list-style-type: none"> • Broadband, wireless, LTE, 4G/5G/6G technologies • Wi-Fi 6, Bluetooth • API marketplaces <p>Integrity:</p> <ul style="list-style-type: none"> • Cryptography • Federated security • Cyberthreat intelligence 	<p>Expanding networks Social, workforce, industry, trade</p>	<p>Growing volume and value of data and asymmetric advantage accruing to those who can access, interpret, and act on it</p>
	<p>Increasing disintermediation Information, value chain, influence</p>	<p>Emergence of value webs composed of expanded supply chains and evolving ecosystems that blur the roles of customers, competitors, and vendors</p>
	<p>Empowered consumers Expectations, personalization, optionality, search, advice</p>	<p>Primacy and expanded notions of the customer and evolution toward a "marketplace of one"</p>
	<p>Sociopolitical volatility Deglobalization, social awareness, diminished trust in institutions</p>	<p>Widening lens of key stakeholders beyond financial to include social, environmental, and policy; rising number and impact of risks of the commons</p>

Operating environment: A ball of confusion

These shifts create three new challenges for 21st century leaders:

The speed and complexity of change sustains volatility, uncertainty, complexity, and ambiguity (VUCA). This widens the range of scenarios and forces choices in shorter time frames with less certainty.

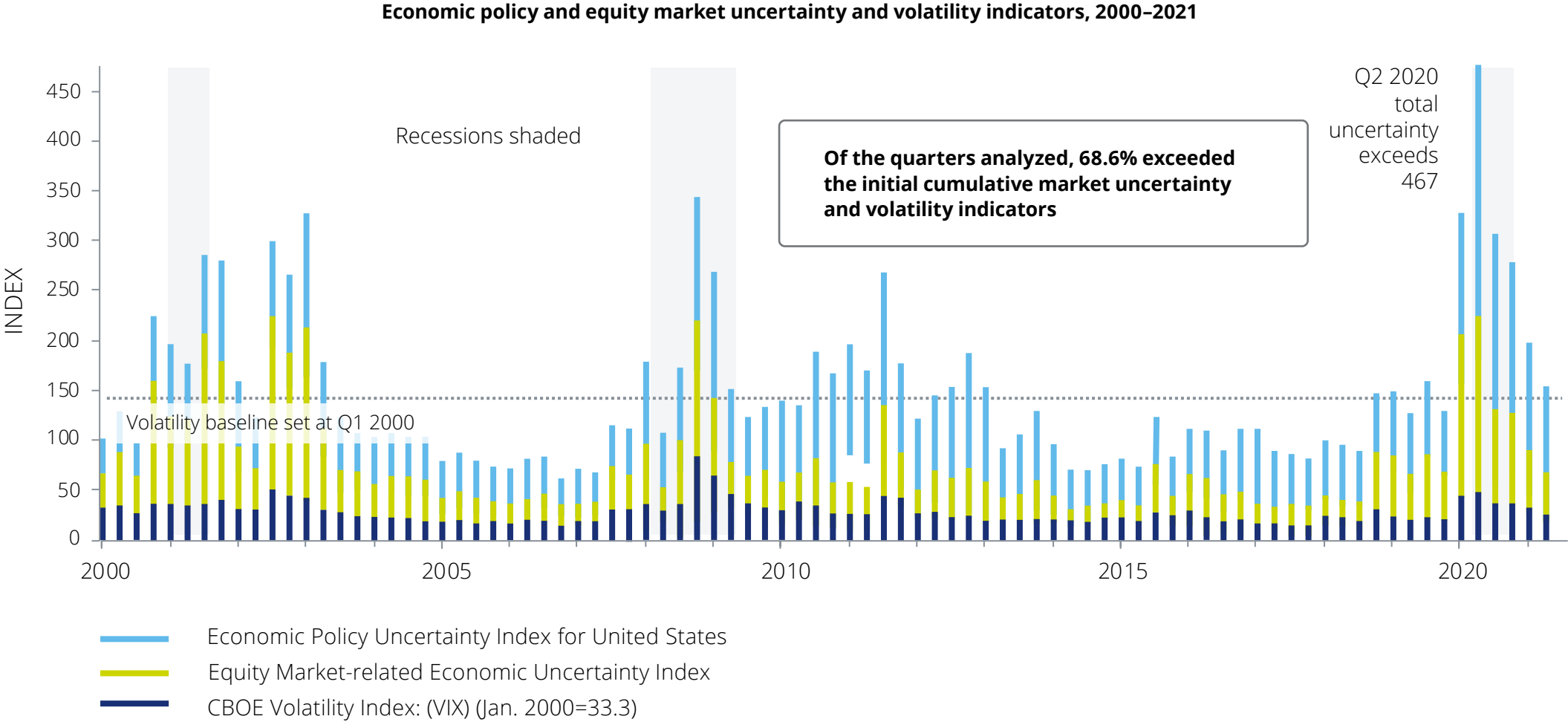
Acute and chronic disruptions multiply and amplify at faster rates, shifting from a singular, repairable event to a continuous, compounding condition.

As technology compresses traditional risk mitigants—distance and time—disruptive forces shape and reshape wider swathes of the operating environment, making threats more existential, interconnected, and sudden; the COVID-19 pandemic provides an initial case study.

Indicators tied to financial markets and economic policy underscore these points. Major swings in market sentiment and performance over shorter time intervals have been defining characteristics of financial markets for more than two decades, with little relief in sight.

Operating environment: A ball of confusion

Figure 2. Uncertainty and volatility indicators



Source: FRED® economic data.

Operating environment: A ball of confusion

The volatility fueled by these disruptions creates not only challenges, but also opportunities for businesses:

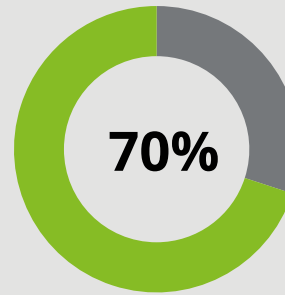
- It changes customer and employee preferences.
- It exposes gaps in capabilities.
- It affects the competitiveness of existing offerings—either positively or negatively.
- It outmodes some monetization strategies, giving rise to alternate methods.
- All of these, in turn, affect growth and profitability.

Most leaders expect these conditions to persist, yet few are confident in their enterprise's ability to respond. These ongoing and amplifying VUCA conditions complicate long-term strategic planning and decision-making for enterprise leaders and will continue to do so unless they are solved for.

Traditional transformation initiatives (e.g., modernization, optimization) alone cannot keep up. Exponentially increasing technological sophistication and its corresponding impact on the broader operating environment require a wholesale reconsideration of the purpose, organization, and leadership of a firm's business structure. The answer is a redesigned *exponential enterprise*.

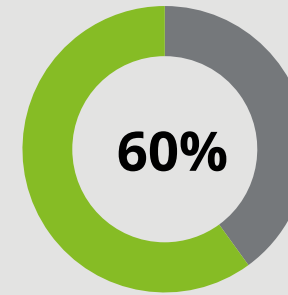
Figure 3. CXO perspectives

Business models are not flexible



70% of CEOs and senior executives do not have confidence in their organizations' ability to adapt and transform in response to disruptive events.¹

Macroeconomic disruptions are inevitable



60% of CEOs and senior executives believe that disruptions similar to those seen in 2020 will repeat in the future.²

Source: 1. Deloitte Insights, 2021 *Deloitte Global Resilience Report: Building The Resilient Organization*, 2021.

2. Bernardo Silva, Tom Schoenwalder, Wayne Nelson, and Sarit Markovich, 2020 *Chief Strategy Officer Survey: Evolving the corporate strategy function for a world of disruptive change*, Deloitte Insights, April 16, 2020.

*Ability to win and the
capacity for change*

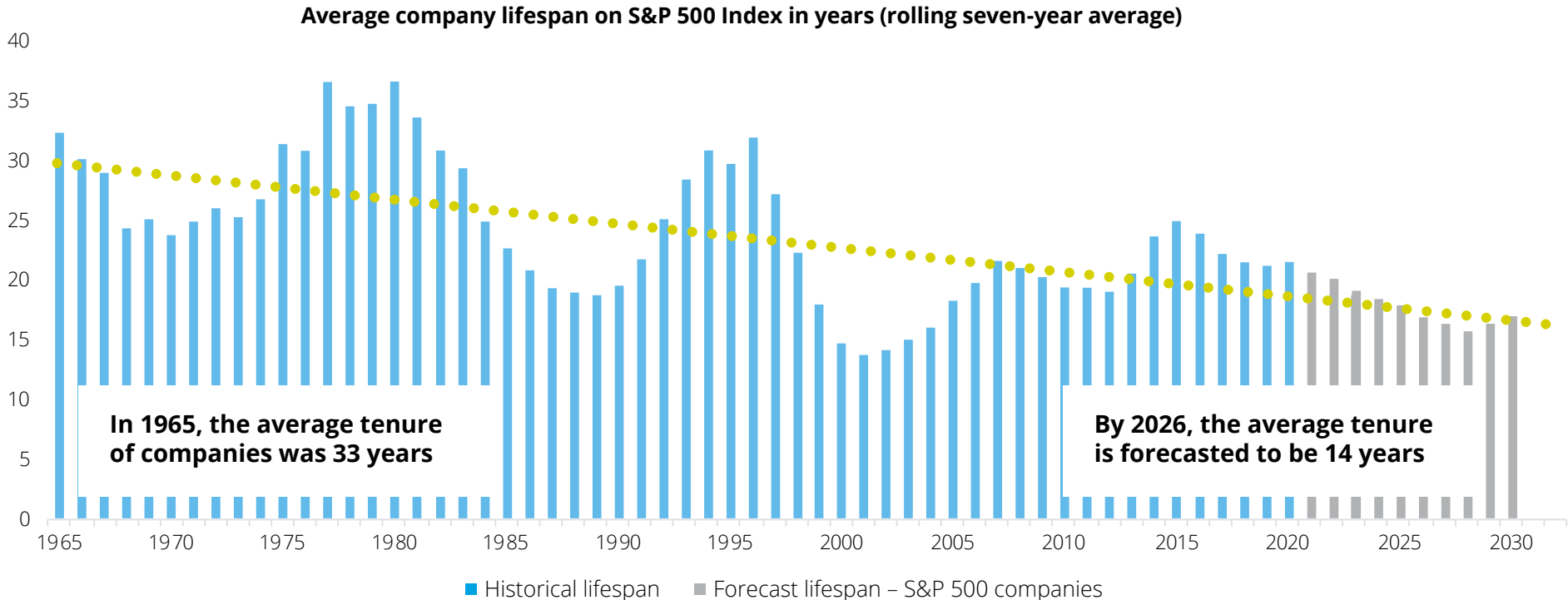


Ability to win and the capacity for change

In an ever-changing operating environment, competitive advantage and growth become more difficult to create and sustain. Market leaders now spend dwindling time in incumbent positions as technology advances, customer preferences evolve, markets rise and fall, and disruptors outflank them. The average tenure of companies on the S&P 500 illustrates this macro trend: Whereas industry giants used to enjoy at least

30 years of tenure on this list, newly anointed members can expect a term less than half that. While a number of factors drive this churn—M&A, for example—many, if not most of these link to the disruption of industries and the failure of incumbents to adapt to the world around them.

Figure 4. Company lifespan on the S&P 500



Source: Innosight, 2021 Corporate Longevity Forecast.

Ability to win and the capacity for change

The increased turnover among market leaders, all of whom were replete with advantage at one point, reveals some ways future competition may differ from past rivalry:

- Drivers of competitive advantage, including unique and valuable intellectual property; distinctive people, processes, and technology; and positioning within key customer segments, depreciate more quickly and must be more aggressively exploited, defended, and replenished by the enterprise to sustain growth and profitability.
- Change in the operating environment is no longer an abnormality that enterprise leaders circumvent on their way “back to normal,” but an ongoing condition that creates a growing and shifting number of opportunities and risks.
- Success increasingly depends on an enterprise’s ability to respond advantageously to change and continuously adapt to fluid conditions.

Many of today’s enterprises are ill-equipped to win in this environment. Most have been organized and managed to sustain legacy advantages in steady-state conditions. Few are capable of the proactive and perpetual adaptation required to exploit advantages in a dynamic marketplace. To retool a Silicon Valley cliché: 21st-century leaders *do* have to fix the plane while they’re trying to land it—over and over again.

Figure 5. Barriers to transformation

Common barriers to advantageous transformation		
	Ambition	Ambiguous or uninspiring long-term ambition and goals
	Stakeholders	Narrow definitions of stakeholders and value returned
	Intellectual property	Diminishing value, relevance, or security of unique “IP”
	Strategy	Episodic planning versus active monitoring and calibration
	Capabilities	Legacy technology, process, workforce, and governance models
	Technology	Harness new technology for tactical means versus strategic ends
	Operating model	Default to siloed, vertically integrated operating models
	Leadership and talent	Constrained by ability, incentives, and ambition to lead change

Source: Monitor Deloitte analysis.

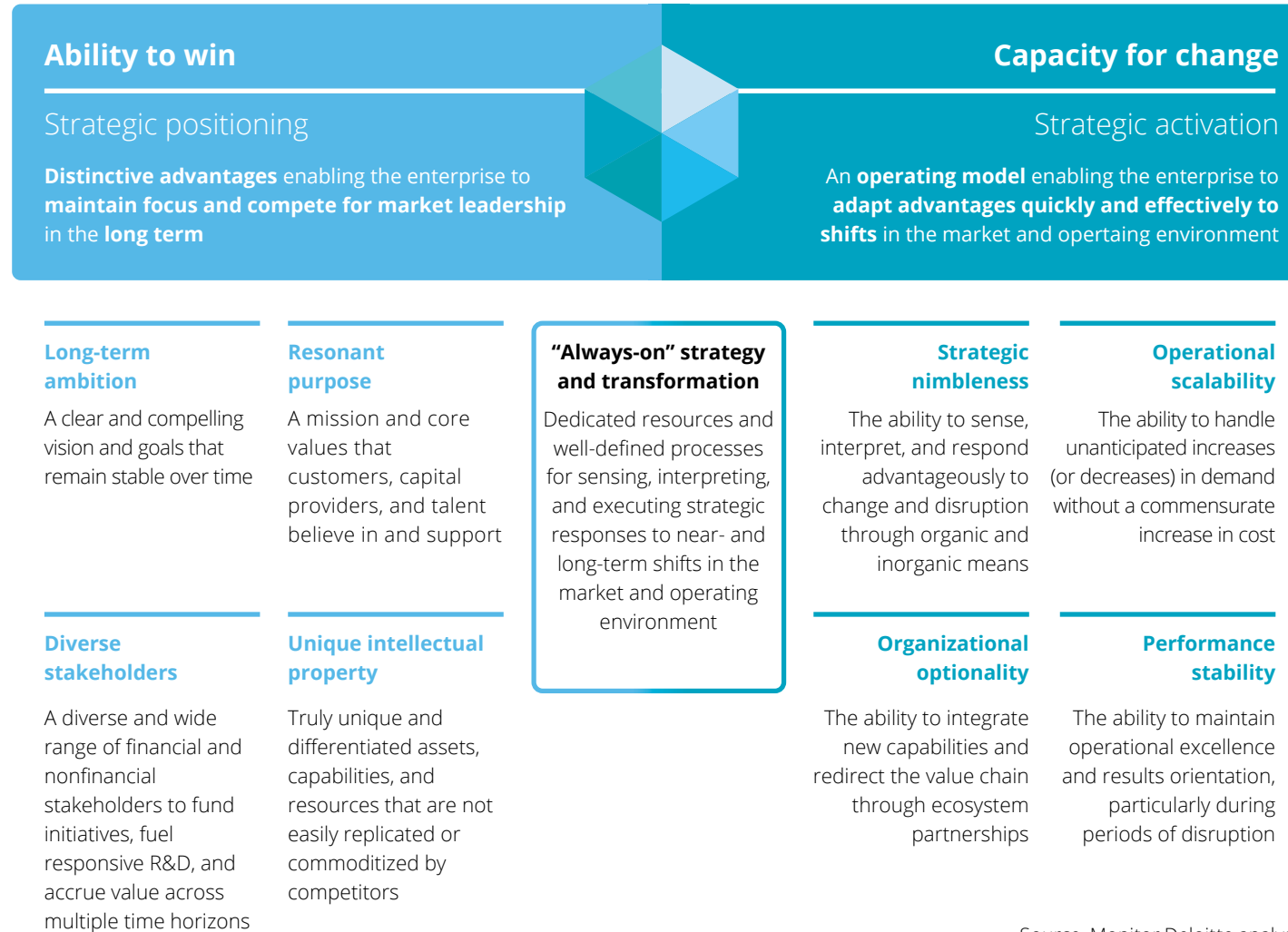
Ability to win and the capacity for change

Exponential enterprises embrace these changes by orienting their businesses around two dimensions:

1. *An ability to win*, representing the *few and only* things the business wants to protect from change: a long-term strategic vision and goals supported by distinctive assets and capabilities that retain value in various future scenarios
2. *A capacity for change*, comprising the operating model, capabilities, and leadership that allow the business to rapidly and flexibly adapt how it positions, delivers, and monetizes its *ability to win*

Both dimensions are required for long-term success. The *ability to win* comprises all-weather value drivers that, if properly positioned, packaged, and nurtured, can propel the enterprise through a wide range of potential future scenarios. *The capacity for change* provides the foundation for the enterprise to adapt continuously and advantageously in the face of change. Always-on strategy and transformation capabilities, both long- and short-term, mutually reinforce these two dimensions.

Figure 6. Ability to win and capacity for change



Source: Monitor Deloitte analysis.

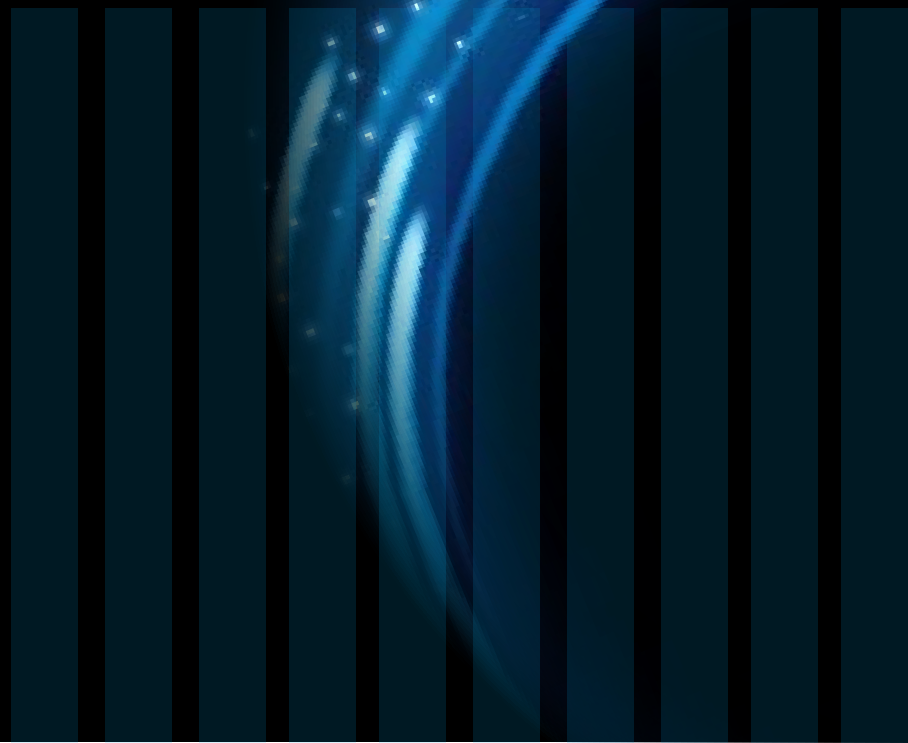
Ability to win and the capacity for change

Because tangible enterprise design elements (*assets, capabilities, and processes*) sit behind each of these characteristics, an enterprise can measure its ability to win and capacity for change and compare both to industry competitors. Monitor Deloitte quantitative analysis shows that *exponential* enterprises—those that rank highly on both *ability to win* and *capacity for change* relative to others in their industry—benefit from higher and more stable shareholder valuations and more consistent financial performance, allowing them to attract more capital and talent by signaling an ability to create durable competitive advantage.

Exponential enterprise Index methodology

- Monitor Deloitte's exponential enterprise Index evaluates 500 large-cap US companies across industries against leading and lagging indicators of *ability to win* and *capacity for change*.
- The index spans the years 2015 to 2020 and evaluates companies on a rolling two-year basis.
- For each two-year period, companies receive composite index scores of 1 to 100 for both the *ability to win* and *capacity for change*.
- Index scores for *ability to win* and *capacity for change* are calculated independently of each other and are based on companies' performance on a small set of financial and nonfinancial parameters.
 - Financial parameters include key financial ratios and performance trends.
 - Nonfinancial parameters are primarily based on quantitative scores generated from natural language processing of statutory filings.
- Companies are scored based on their performance across each parameter relative to others in their industry. Parameter scores are then factored together to create composite index scores for the *ability to win* and *capacity for change*.
- The scoring model and methodology generate a normal distribution of companies for both *ability to win* and *capacity for change* indices in each industry. An index score greater than 50 (out of 100) indicates that a company is performing better than the median company in its industry in that dimension.

The value of the *exponential enterprise*



The value of the *exponential enterprise*

To quantitatively measure a company's *ability to win* and *capacity for change*, Monitor Deloitte developed the Deloitte exponential enterprise Indices. The indices use publicly available data and disclosures from 500 large-cap quoted US companies to generate empirical (versus judgmental) metrics and index values for each dimension and underlying characteristic. (Details of the methodology can be found in the sidebar.) Index values reflect a company's score on each *ability to win* and *capacity for change* relative to others in its industry.

Our analysis found that, on average, a company with above-median scores on both the *ability to win* and *capacity for change* indices enjoy a forward price-to-earnings ratio 53% larger (and share price volatility 21% lower) than rivals in their industry with below-median scores in both dimensions from 2015 to 2020. Narrowing the focus to the top and bottom performance quartiles, the advantage is even more stark: Top firms earn valuation premiums that are 176% greater and 30% less volatile than the worst performers.

Figure 7. Deloitte exponential enterprise Index results



Ability to win and *capacity for change* are independently valuable dimensions, but neither is ultimately sufficient for a company to create and sustain competitive advantage in the long term. *exponential enterprises* organize themselves to maximize each dimension and their combined impact.

The value of the *exponential enterprise*

The *ability to win*

Companies with top-quartile *ability to win* scores sustained, on average, forward PE ratios 54% greater than lowest-quartile competitors in their industry between 2015 and 2020.

Enterprises with high *ability to win* scores stand apart from others in their industry by having:

Figure 8. *Ability to win* characteristics

Characteristic	Signal	Value
Long-term ambition	<ul style="list-style-type: none"> Long-term ambition and goals (10+ year horizon) articulated in financial disclosures 	<ul style="list-style-type: none"> Enterprises with top-quartile long-term ambition scores have ~23% higher forward PE ratios than bottom-quartile industry competitors.
Resonant purpose	<ul style="list-style-type: none"> Investments from long-term strategic shareholders, indicating a willingness to invest in a company's strategic vision and purpose across varying economic conditions 	<ul style="list-style-type: none"> Enterprises with top-quartile strategic ownership have: ~42% higher forward PE ratios and ~124% higher return on capital (ROC) than bottom-quartile industry competitors.
Diverse stakeholders	<ul style="list-style-type: none"> Evidence of stakeholder engagement concerning environmental, social, and governance matters Shareholder communications underscoring diversity and inclusion initiatives as a corporate priority 	<ul style="list-style-type: none"> Enterprises with top-quartile ESG scores¹ generate higher returns for both debt and equity investors, with an average ROC ~219% higher than bottom-quartile industry competitors.² Enterprises with top-quartile ESG scores also enjoy more stable valuations, with ~14% lower average share price volatility than bottom-quartile industry competitors.
Unique intellectual property	<ul style="list-style-type: none"> Language in financial disclosures indicating consistent and sustained development of unique and proprietary IP Evidence of robust research, development, and investments in advanced technologies, particularly in AI and machine learning 	<ul style="list-style-type: none"> Enterprises with top-quartile unique IP scores are able to generate top- and bottom-line benefits, enjoying operating margins that are, on average, ~28% greater than bottom-quartile industry competitors.³ Top-quartile enterprises are also able to sustain these margin advantages over time, realizing operating margins that are ~27% less volatile than bottom-quartile industry competitors.

Source: Deloitte analysis of company event transcripts, earnings call transcripts, press releases, broker and independent research publications, 10-K filings, 10-Q filings, and ESG reports.

1. Calculated as a five-year average score across three key indicators: diverse stakeholders, diverse board members, and ESG performance.

2. This effect is especially profound among life sciences and health care companies, which have been excluded from the calculation to avoid distorting the results upward.

3. Operating margin volatility is calculated as the variance of operating margin across a designated period.

The value of the *exponential enterprise*

The *capacity for change*

Companies with top-quartile capacity for change scores sustained, on average, forward PE ratios 66% greater than lowest-quartile competitors in their industry between 2015 and 2020.

Enterprises with high capacity for change scores stand apart from others in their industry by having:

Figure 9. *Capacity for change* characteristics

Characteristic	Signal	Value
Strategic nimbleness	<ul style="list-style-type: none"> Language within financial disclosures indicating a greater ability to pivot opportunistically to shifting operating environments Clearly articulated strategy and execution plans for pursuing mergers and acquisitions for inorganic expansion 	<ul style="list-style-type: none"> Enterprises with top-quartile strategic nimbleness scores achieve cash conversion ratios that are ~441% more liquid than their bottom-quartile industry competitors. These enterprises also realize significant performance advantages, generating operating margins 100% higher than bottom-quartile industry competitors.
Operational scalability	<ul style="list-style-type: none"> Disclosed investments and plans to respond effectively to sudden shifts in either supply or demand 	<ul style="list-style-type: none"> Enterprises with top-quartile operational scalability scores generate efficiency advantages, with ~21% lower operating margin volatility and ~42% higher return on assets (ROA) than bottom-quartile industry competitors.
Organizational optionality	<ul style="list-style-type: none"> Language within financial disclosures signaling a sharp focus on leveraging external partnerships and ecosystems Robust base of intangible assets 	<ul style="list-style-type: none"> Enterprises with top-quartile organizational optionality scores realize significant efficiency advantages, with ~55% lower operating margin volatility and ~33% higher ROA than bottom-quartile industry competitors.
Performance stability	<ul style="list-style-type: none"> Stable financial performance, particularly during times of crisis, such as during the COVID-19 pandemic 	<ul style="list-style-type: none"> In addition to superior cash conversion ratios, operating margins, operating margin volatility, and return on assets, enterprises with top-quartile scores across strategic nimbleness, operational scalability, and organizational are better positioned to meet their debt obligations, maintaining interest coverage ratios ~77% greater than bottom-quartile industry competitors.

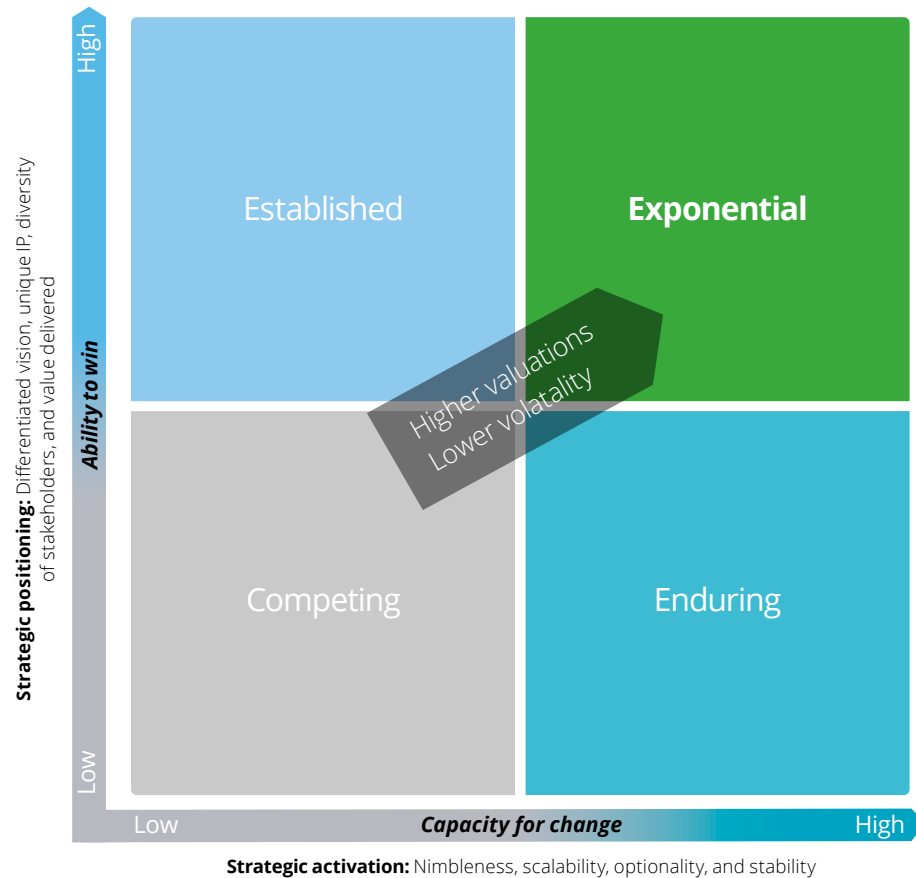
Source: Deloitte analysis of company event transcripts, earnings call transcripts, press releases, broker and independent research publications, 10-K filings, 10-Q filings, and ESG reports.

The value of the *exponential enterprise*

Figure 10. Enterprise archetypes

Companies demonstrating both characteristics are being rewarded by shareholders

Deloitte Exponential Enterprise Index



Exponential enterprises stand apart by sustaining a superior ability to win and capacity for change compared with industry competitors. *Exponential enterprises* stay ahead of technological, social, and governance trends: Companies making earlier, bolder investments in the capabilities, operating models, and values characteristic of the ability to win and capacity for change see higher gains in performance and valuation relative to “fast followers” in their industry.

Exponential enterprises continue to prioritize longer-term, more intangible investments in their *ability to win* and *capacity for change* even during times of crisis and disruption; additionally, the difference between firms with the highest scores on both indices, relative to rivals with the lowest scores, expanded mightily as COVID-19—arguably the most acute global crisis and period of uncertainty since the Second World War—spread in 2020.

Most of our analysis focuses on defining and creating exponential enterprises (those with both superior ability to win and capacity for change). But the indices also reveal three other foundational enterprise archetypes, each characterizing distinct strategic implications for how companies must organize, invest, and lead to become more valued, more stable exponential enterprises.

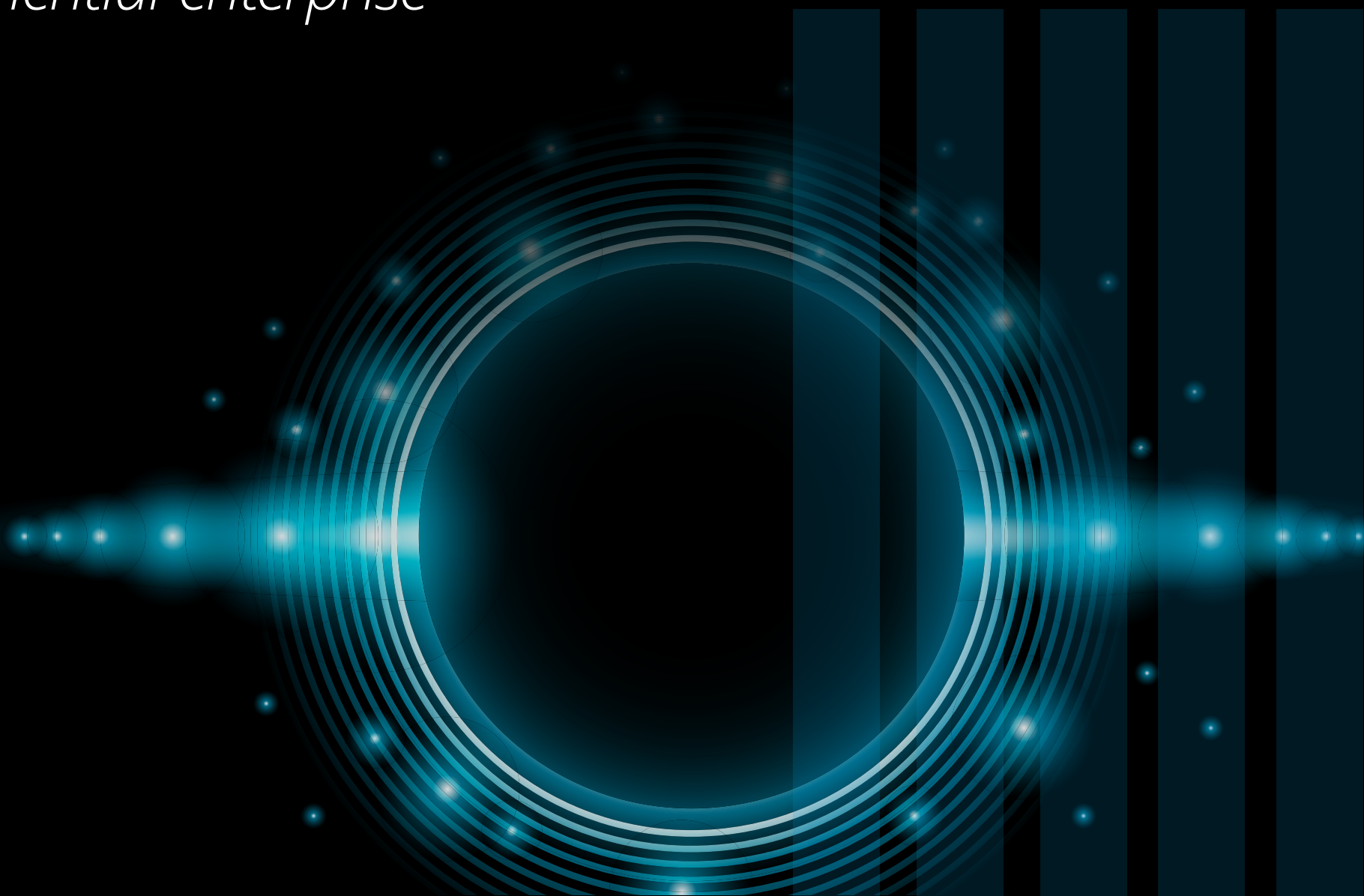
The value of the *exponential enterprise*

Established enterprises have high *ability to win* relative to their industry but are constrained by low *capacity for change*. They often have well-articulated strategic visions and differentiated intellectual property, but are quick to drift away from strategy, sustainability (i.e., active consideration of environmental, social, and governance policies) and diversity priorities when confronted with acute disruption. Their performance on key ability to win characteristics declined relative to *exponential enterprises* when the pandemic erupted. Established enterprises have lower *capacity for change*; their capital-intensive operating models force them to pour resources into legacy, fixed assets rather than funding R&D or investing in new technologies. Established enterprises enjoy thick but slowly eroding growth and margins and often elect to placate existing stakeholders by returning capital rather than enacting riskier long-term change initiatives. Less sustainable firms, unable or unwilling to adapt, also often find themselves in this category.

Enduring enterprises, in contrast, have high *capacity for change* but low *ability to win* relative to their industry. Enduring enterprises lean on their capacity for change to drive near-term organic and inorganic growth and performance efficiency. They rely on intangible assets and capital-light operating models that respond comparatively better in the face of acute disruption. Enduring enterprises, however, struggle to sustain competitive advantage. They are less likely to embrace a long-term strategic vision or goals. They make technology investments to gain efficiency rather than differentiation and lack the long-term stakeholders required to fuel and support heavy-duty change initiatives. Enduring enterprises can succeed in the near term, but across longer time horizons, they struggle to sustain competitive advantages and valuation premiums.

Competing enterprises fall short of rivals on both ability to win and capacity for change. Already lacking differentiated intellectual property, they are also slow to respond to technological, social, and governance trends. They lack diverse or future-oriented stakeholders and are intensely focused on investments and performance along shorter time horizons. Their operating models are capital-intensive and rely on costly in-house capabilities that others could deliver more effectively and efficiently. Sophisticated partnerships and external collaboration are constrained, however, by a lack of critical technologies, such as cloud. Competing enterprises frequently sacrifice margins in attempts to sustain growth or stem accelerating revenue declines, thereby competing margins out of their respective industries. As a result, competing enterprises suffer from low valuations that tend to fall further during periods of disruption.

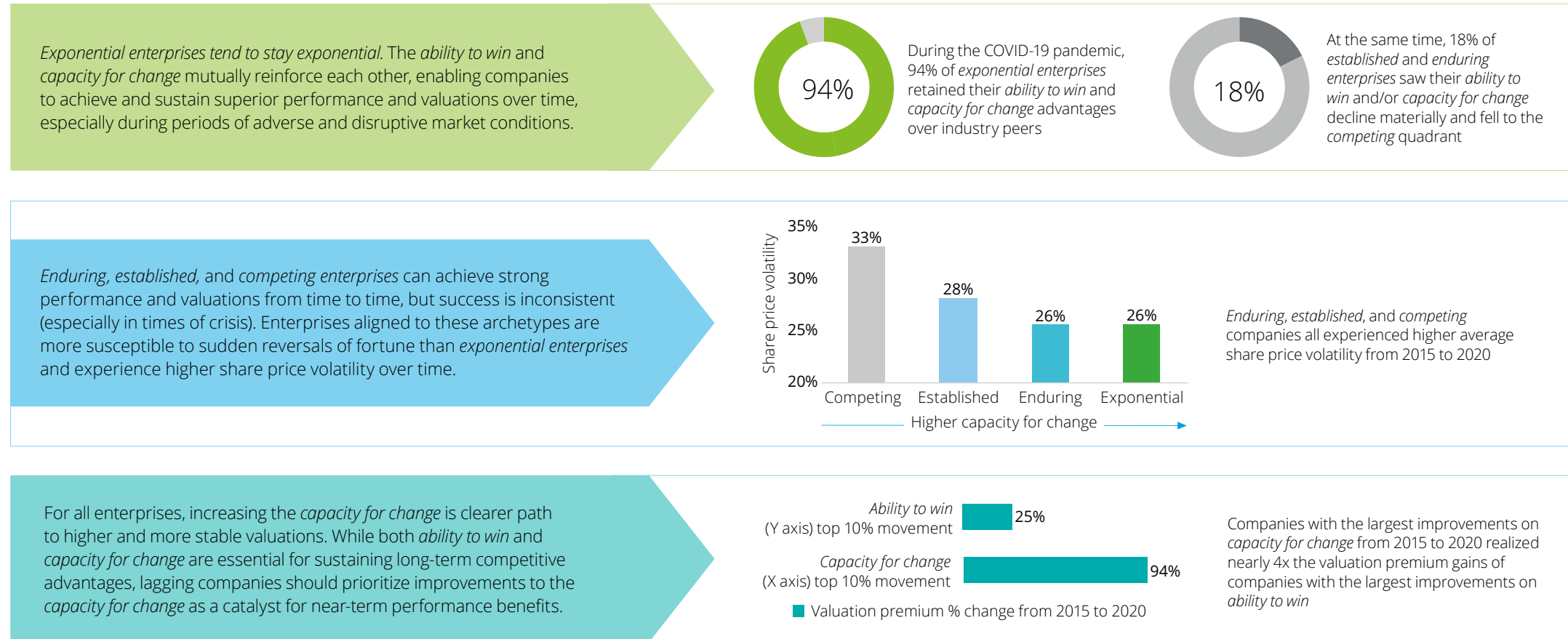
Becoming the *exponential enterprise*



Becoming the *exponential enterprise*

Analyzing how stakeholders ascribe value to each of these enterprise archetypes over time, some patterns emerge:

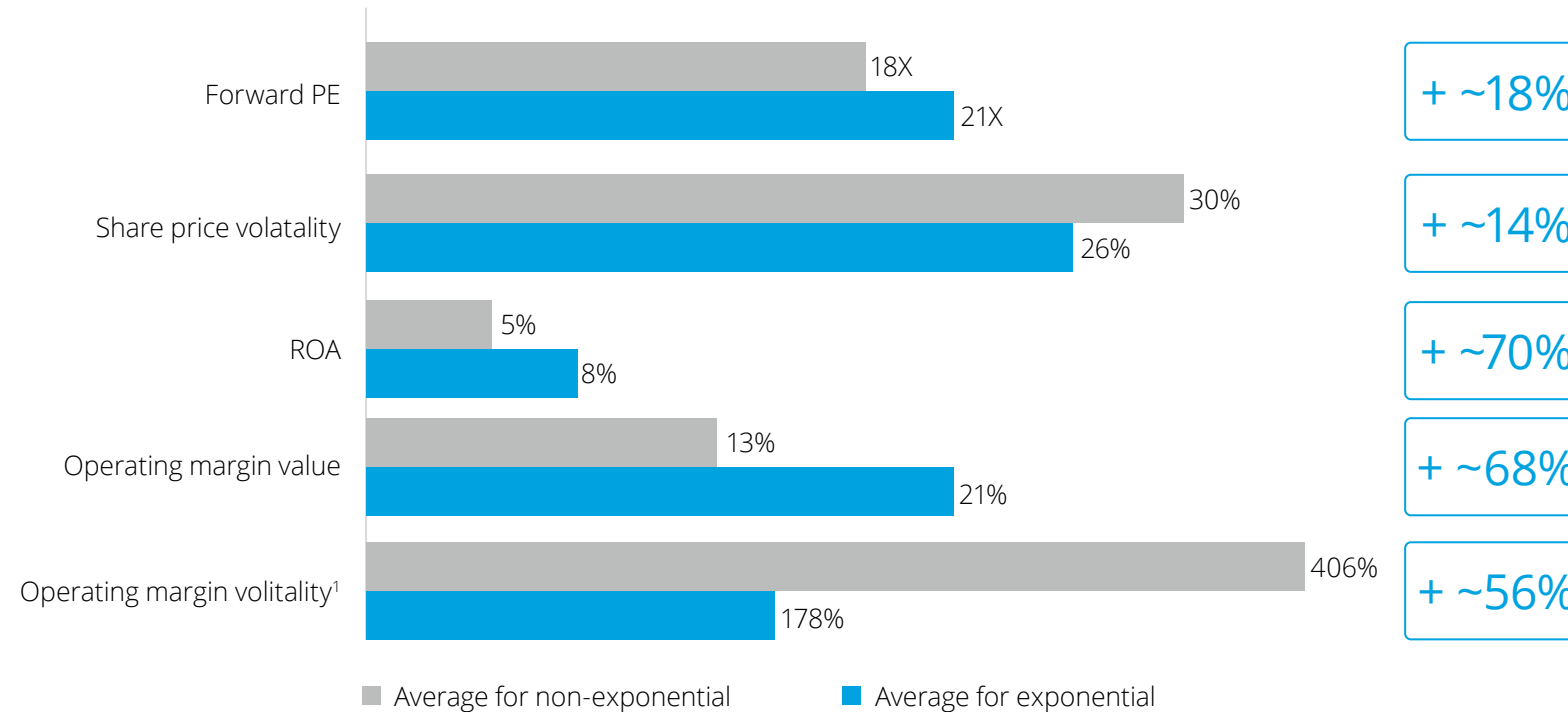
Figure 11. Stakeholder value attribution



Becoming the *exponential enterprise*

The exponential enterprise Indices show that companies that have both a high *ability to win* and a significant *capacity for change* are better positioned than industry competitors to create and sustain value, even in times of disruption and crisis. Measuring and then strengthening the *ability to win* and *capacity for change* should be a priority for today's enduring, established and competing enterprises. *exponential enterprises*, meanwhile, can sustain growth and avoid competitive stagnation or decline by monitoring and strengthening their existing advantages in both dimensions.

Figure 12. Benefits of being an exponential enterprise



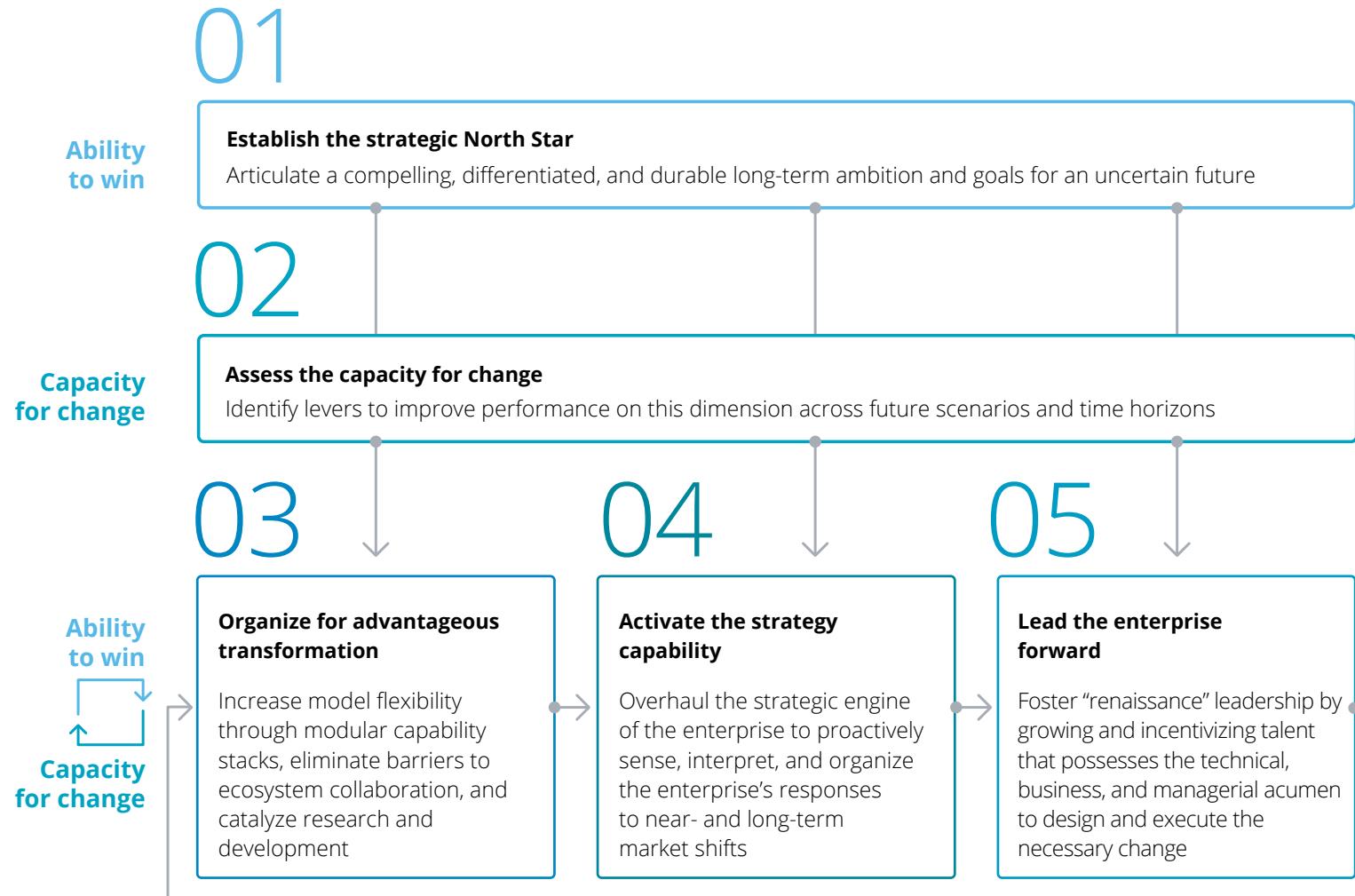
1. Operating margin volatility is calculated as the variance of operating margin across a designated period.

Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

There are five critical steps, each involving diagnostics, organizational design, and leadership, that firms must take to become (or remain) an *exponential enterprise*. The first step in the journey toward becoming an *exponential enterprise* confirms a firm's *ability to win*; the second aims to maximize its *capacity for change*. The remaining three steps strengthen the ties between the two:

Figure 13. Five steps toward becoming the exponential enterprise



Source: Monitor Deloitte analysis.

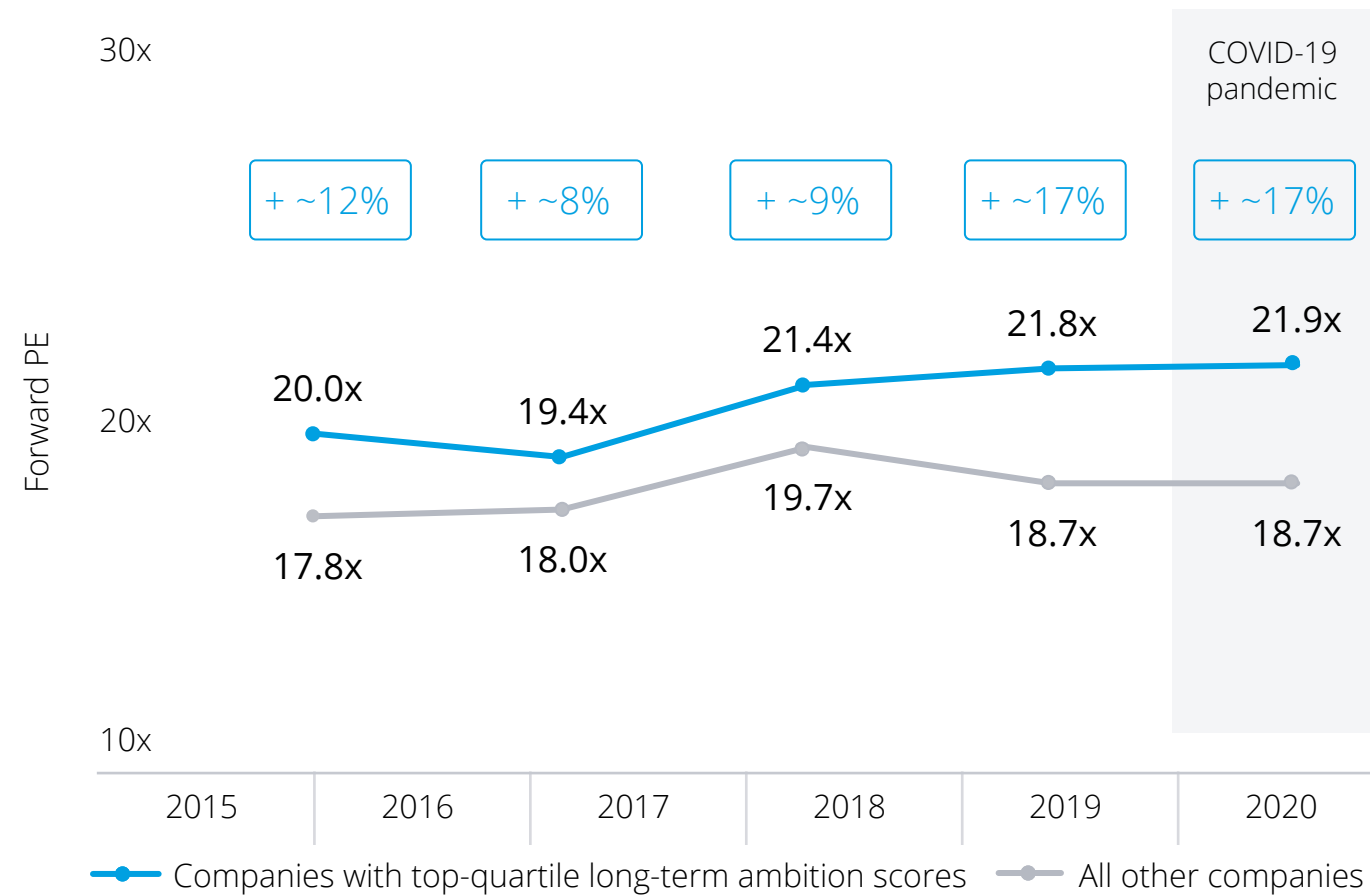
Becoming the *exponential enterprise*

For *exponential enterprises*, these steps may be more diagnostic and confirmatory in nature, providing visibility into the current state, revealing opportunities for high-payoff calibrations, inspiring new performance indicators, and ultimately creating focus and direction for leaders across the business. For lagging enterprises, these steps may reveal more significant gaps in strategy, operations, and the corporate investment portfolio that, if closed, could yield significant competitive benefits and financial returns. *Measuring* the gaps is the critical step, as this will help leaders shape and sequence the required transformation.

1. Establish the strategic North Star

A clear, compelling, and differentiated long-term ambition and goals drive value in *exponential enterprises*. Between 2015 and 2020, companies that used public disclosures to articulate a corporate narrative and strategy framed across a time horizon of at least 10 years achieved ~13% higher valuations on average than those that did not.

Figure 14. Value of a differentiated long-term ambition



Source: Monitor Deloitte analysis.

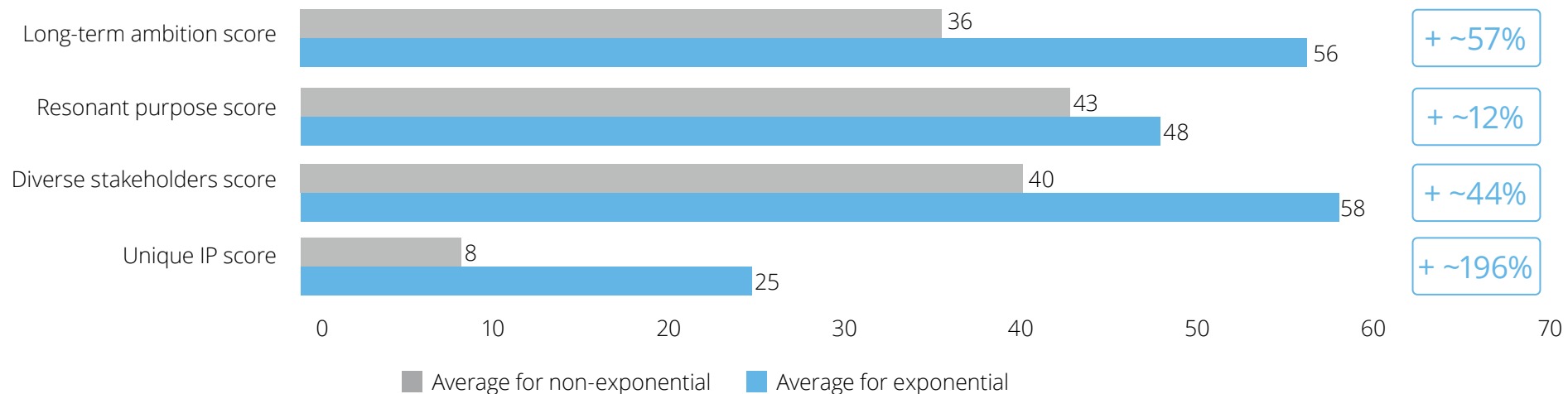
Becoming the *exponential enterprise*

As the operating environment becomes more volatile and uncertain, many firms have applied a shorter-term, more tactical lens to strategic planning, mistakenly believing this will make them more nimble. In actuality, corporate strategies need to be longer-term, broader, and eminently stable—holding true through change and anchoring a consistent framework for decision-making at all levels of the enterprise. A strong, long-term strategic vision, particularly one coupled with clear, quantitative goals, provides greater clarity to key enterprise stakeholders: its

leaders, employees, customers, partners, and investors. That clarity encourages stronger support around tough decisions regarding values, investments, and (most importantly) priorities: what to do and what not to do. Companies without a true strategic North Star find themselves whipsawed by fleeting trends and unable to make tough decisions efficiently and with confidence. Ultimately, such enterprises lose focus, and their ability to win and capacity for change both suffer.

A long-term strategic vision alone, however, is insufficient. Many enterprises wax poetic about aspirations and goals, but offer little evidence that their strategy, people, or operating model have internalized them in daily business. Exponential enterprises harness all the *ability to win* characteristics collectively to support their long-term strategic vision and continuously assess and invest to ensure they are both leading and maximizing their competitive value.

Figure 15. Exponential enterprises' advantages across all *ability to win* characteristics



Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

The entire leadership team must work together to create and activate the strategic North Star. While any member of the C-suite can articulate a vision, the collective group must manage the stakeholder

relationships, determine and nurture truly unique intellectual property, and ensure a wide range of diverse views in decision-making and governance. Scenario planning is a critical element of this exercise,

ensuring the various components of an enterprise's *ability to win* hold across as many future operating environments as possible.

Figure 16. Establishing the strategic North Star

	Articulate a clear long-term ambition , purpose, and goals for the enterprise	Distill what enterprise IP is truly unique and valuable that must be defended	Determine key stakeholders (internal and external), their needs, and the value proposition delivered	Test whether these advantages remain competitive across multiple future scenarios
Why it matters	Enterprises often devote too little effort to solidifying their vision, or settle for incremental rather than bold	Successful enterprises attempt to “see around corners” and rely on capabilities that will position them for sustained success	Enterprises are broadening time horizons and the notion of stakeholders as complexity of business problems grows	Current long-term strategic planning cycles are often misaligned to ever-changing market conditions
Proof points	<p style="text-align: center;">33%</p> <p>of CXOs report “lack of leadership vision” as a top-three challenge to establishing their long-term strategy²</p>	<p style="text-align: center;">87%</p> <p>of CSOs do not feel confident in their ability to generate disruptive growth needed to compete in the future³</p>	<p style="text-align: center;">80%</p> <p>of CXOs report that key strategic decisions are made without soliciting input from diverse and inclusive sets of stakeholders²</p>	<p style="text-align: center;">71%</p> <p>of CSOs spend more than three months on strategic planning, and 45% refresh only every two to three years⁴</p>

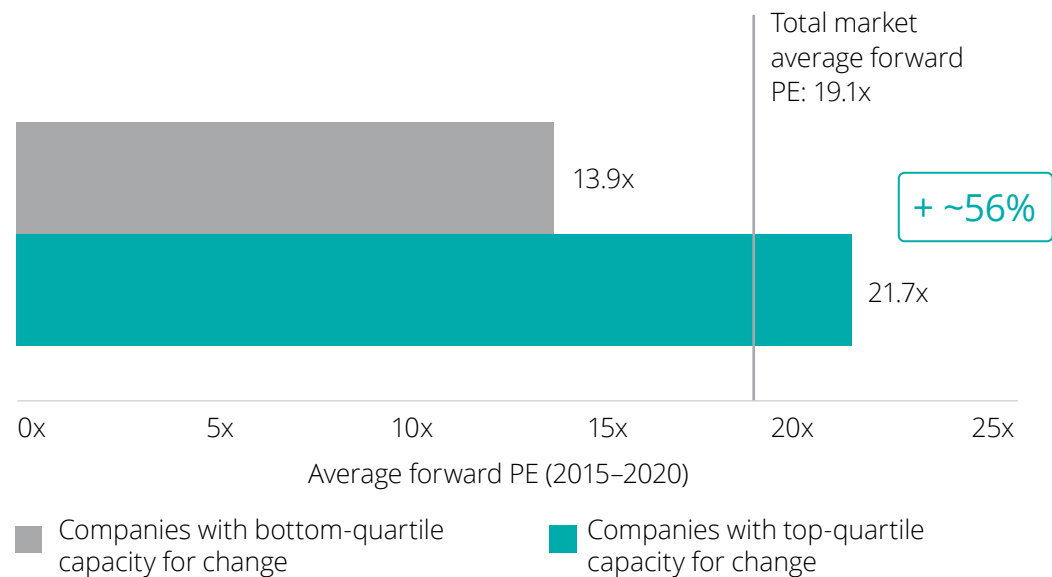
1. Deloitte, *Setting the north star: Staying focused and on track*, 2019.
 2. Deloitte, *Success Personified in the Fourth Industrial Revolution*, 2019.
 3. Deloitte, *The Fourth Industrial Revolution*, 2020.
 4. Deloitte, *2020 Chief Strategy Officer Survey*, 2020.

Becoming the *exponential enterprise*

2. Assess the *capacity for change*

Companies with the characteristics of nimbleness, scalability, optionality, and stability are able respond opportunistically to environmental shifts and navigate periods of disruption and crisis better than competitors. Enterprises with a high *capacity for change* more consistently achieve superior financial performance and valuations compared with others in their industry.

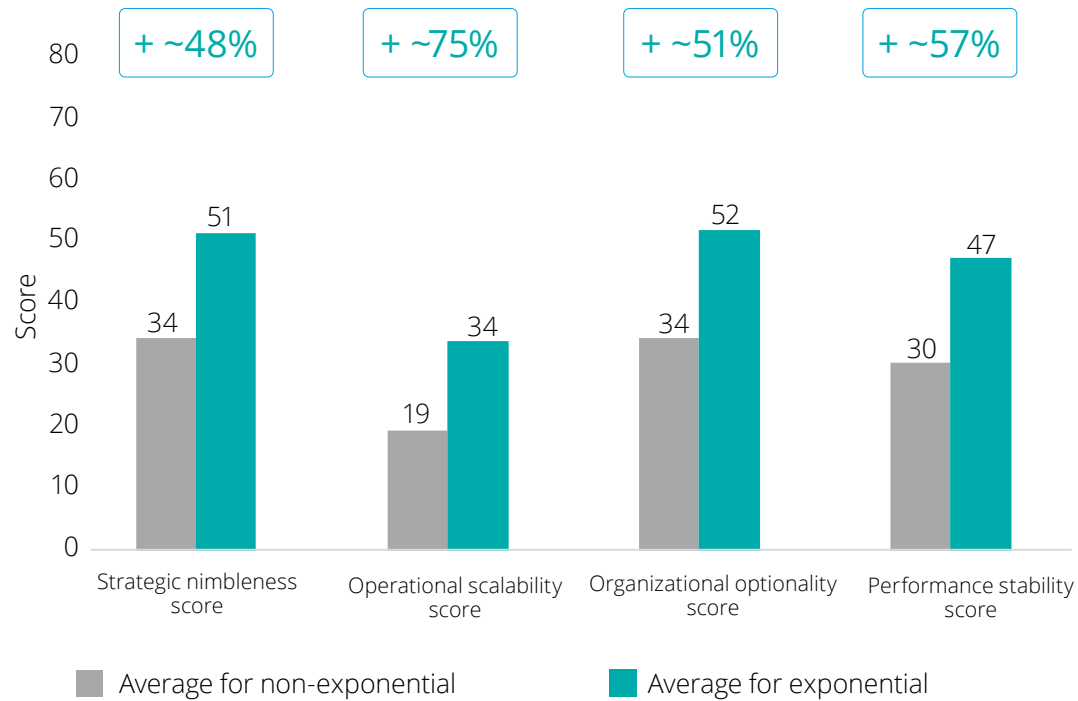
Figure 17. Valuation premiums of high *capacity for change*



Source: Monitor Deloitte analysis.

Superior capabilities across all four capacity for change characteristics allow exponential enterprises to adapt advantageously in challenging operating conditions, sustaining their ability to win and delivering value to stakeholders.

Figure 18. *Exponential enterprises'* advantages across *capacity for change* characteristics

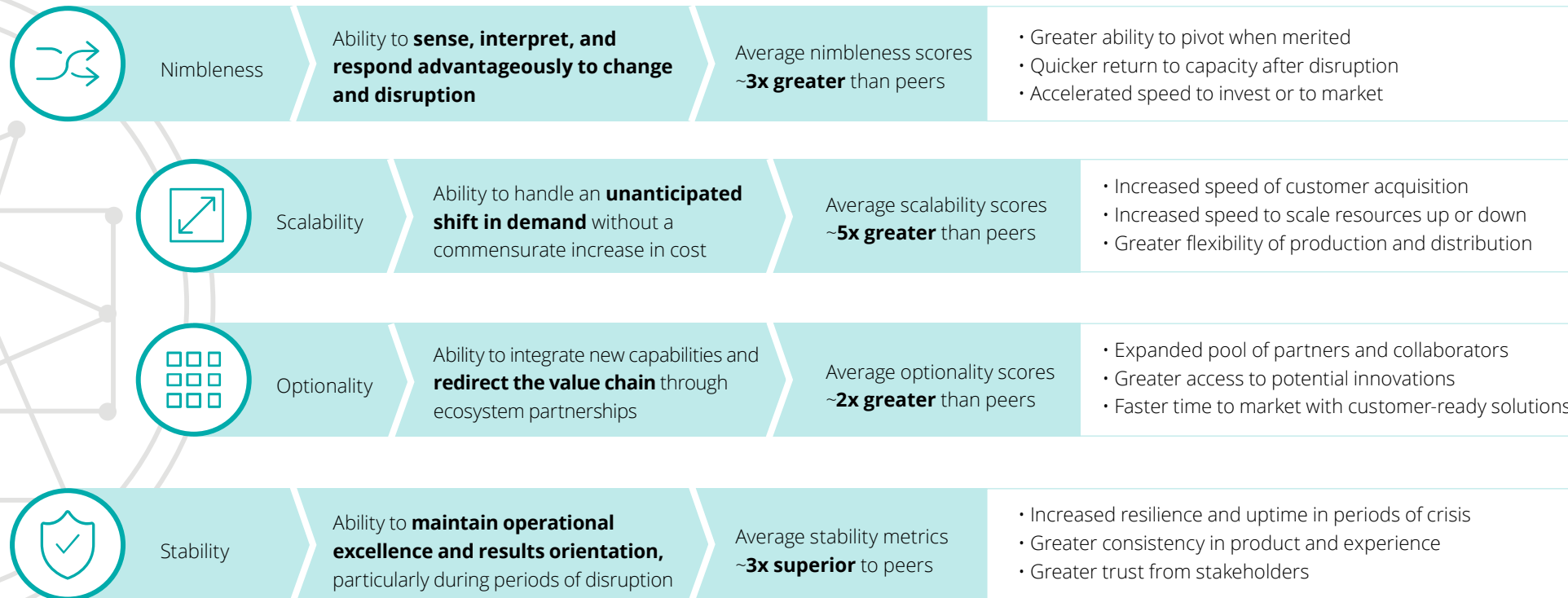


Becoming the *exponential enterprise*

Figure 19. *Capacity for change* characteristics

Companies with a high *capacity for change* are defined by...

Benefits



Note: Score advantages represent comparison of top versus bottom-quartile performers across each capacity for change characteristic.

Source: Various company event transcripts, earnings call transcripts, press releases, broker and independent research publications, 10-K filings, 10-Q filings, and ESG reports.

Source: Monitor Deloitte analysis.

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After establishing the strategic North Star, enterprises must closely evaluate their operating model, seeking opportunities to elevate their *capacity for change* by bolstering and restacking critical capabilities. Addressing the *capacity for change* involves two steps:

- Qualitatively and quantitatively evaluate the enterprise's existing *capacity for change* across the four characteristics, comparing the firm's current state to both leading practices and industry leaders. This identifies larger gaps to close across the firm's operating model. See figure 20.
- Identify improvement levers that can best influence the metrics; these can make the *capacity for change* tangible and actionable. See figure 21.

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Addressing the *capacity for change* helps frame a sharper, tighter group of change initiatives that leadership can influence and measure, shaping the perimeter of the overall enterprise transformation.

Figure 20. Assessing the *capacity for change*

	Measure existing capacity for change (nimbleness, scalability, optionality, stability)		Determine levers to improve capacity for change in the near and long term	
Why it matters	Successful future enterprises will rely on greater nimbleness, scalability, optionality, and stability to weather, adapt to, and take advantage of disruption		Understanding the issues and opportunities to increase <i>capacity for change</i> will inform the operating model design and business case for the <i>exponential enterprise</i>	
Proof points				
	<p>52%</p> <p>of the time, companies use scenario planning to help “future-proof” their strategy¹</p>	<p>26%</p> <p>of CXOs put a process in place to assess whether cash reserves can withstand unexpected market events²</p>	<p>60%</p> <p>of organizations are likely to use AI to assist workers in the near-term future³</p>	<p>25%</p> <p>higher profits and twice the customer satisfaction for companies with top-quartile employee engagement ratings, compared with the organizations with bottom-quartile ratings⁴</p>

1. Deloitte, *2020 Chief Strategy Officer Survey*, 2020.

2. Deloitte Insights, *2021 Deloitte Global Resilience Report: Building The Resilient Organization*.

3. Deloitte, *Re-architecting Work Models: Four Future Worlds of Work*, 2020.

4. *Deloitte Review*, “The essence of resilient leadership: Business recovery from COVID-19,” July 2020.

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Figure 21. *Capacity for change* improvement levers

Sample improvement levers



Nimbleness

Ability to sense, interpret, and respond advantageously to change and disruption

- Strengthen external **market sensing and scanning** capabilities
- **Empower cross-functional teams** with the freedom (and boundaries) to make decisions
- Leverage **data, artificial intelligence, and machine learning** to interpret complex and disparate market signals



Scalability

Ability to handle unexpected shifts in demand without commensurate cost increases

- Enhance **demand prediction** and inventory fulfillment with supply chain data analytics
- Leverage the power, capacity, and connectivity of a well-designed **cloud infrastructure**
- Strengthen and/or diversify **supplier networks** and internal production capacity



Optionality

Ability to integrate new capabilities and redirect the value chain through partnerships

- **Shift nonstrategic or commodity capabilities** to partners and divest from noncore and legacy businesses
- **Improve interoperability of internal and external networks**, data sets, and decision tools
- **Enhance experimentation** and innovation capabilities and incentives



Stability

Ability to maintain excellence and results orientation, particularly during periods of disruption

- Reduce company-specific risk and build stakeholder trust with **robust cybersecurity**
- **Improve risk management** with real-time performance monitoring and enhance transparency on ESG initiatives
- Improve **workforce satisfaction** with proactive talent retention strategies

Becoming the *exponential enterprise*

3. Transform the operating model:

One of the most challenging tasks in building the exponential enterprise involves configuring a modular, flexible operating model. An operating model with these qualities creates essential cartilage between the ability to win and *capacity for change*.

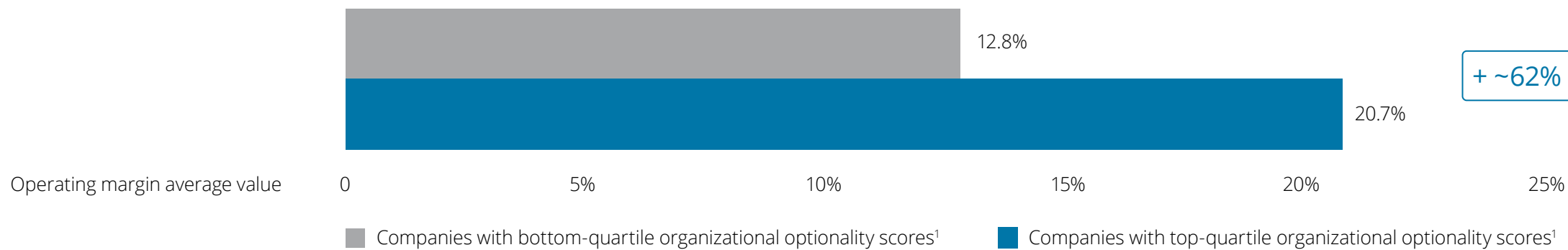
- A modular operating model organizes “stacks” of owned and outsourced capabilities. Within each capability “stack,” exponential enterprises determine which components are truly proprietary

(i.e., supporting unique characteristic of the firm’s ability to win) and which it can outsource to, or collaborate with, external partners to deliver. This ecosystem of partners may include other firms in the value chain or best-in-class specialist vendors, creating significant opportunity for the company to optimize its business model and execute through market-leading capabilities.

- A flexible operating model lets the enterprise deliver its competitive advantages in multiple ways—across

different operating environment conditions, revenue models, talent structures and supply chains. Flexible operating models enable the enterprise to both seamlessly integrate new capabilities (i.e., talent, processes, data, and technology) and stakeholders and easily collaborate with ecosystem partners as they emerge over time. Consequently, companies with greater organizational optionality generate higher returns from their operations.

Figure 22. Performance benefits of superior organizational optionality



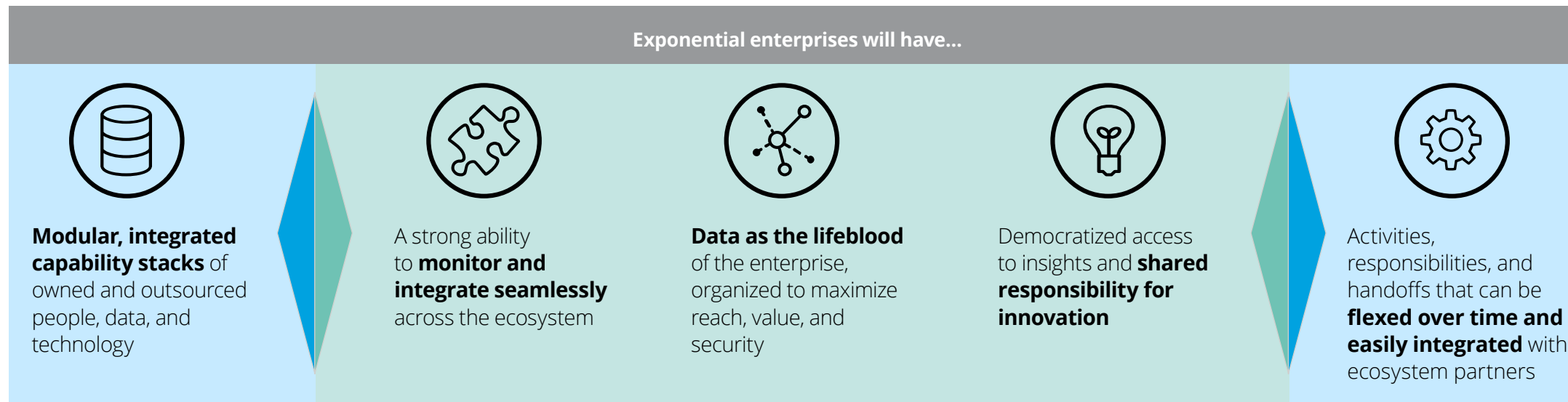
1. Calculated as a five-year average score across the three following metrics: M&A data, NLP-optionality (incubator), and NLP-optionality (ecosystem).

Becoming the *exponential enterprise*

Building modularity and flexibility into the operating model is perhaps the most significant barrier many incumbents face on the path to becoming an exponential enterprise. Many firms still build both strategic and nonstrategic capabilities in-house, saddling themselves with a broad, expensive footprint of rapidly depreciating technology, processes, and skills versus what they could develop and source through ecosystem partners.

As technology advances, customer expectations grow, and the operating environment shifts, companies must take advantage of modularity and flexibility, structuring creative partnerships to not only improve efficiency, but also deliver better customer outcomes faster and with less risk.

Figure 23. Operating model characteristics of exponential enterprises



Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

Few enterprises have reached the frontiers of modularity and flexibility possible with today's technologies. Many *exponential enterprises*, however, have taken great strides in this direction in five ways:

- i. Fund early and consistent investments in *leading-edge enabling technologies* such as artificial intelligence, blockchain, and cloud computing, all of which encourage operational scalability, process automation, system stability, and tighter ecosystem integration. *Exponential enterprises* have remained ahead of industry competitors in terms of how deeply they embed these technologies in both their current operations and their forward-looking strategies. See figure 24.

Becoming the *exponential enterprise*

Figure 24. Enabling technologies of exponential enterprises

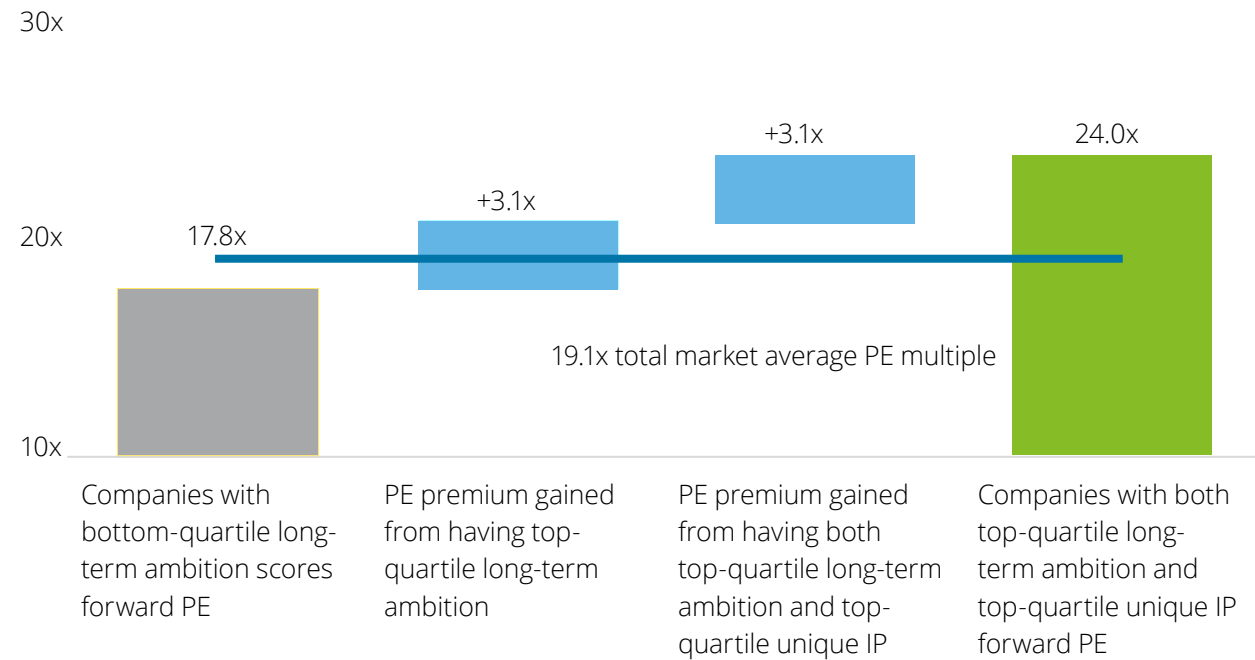
Digital imperative	Description	Strategic applications	Technologies
Experiences	Focuses on optimizing interactions with users, whether they be customers, the workforce, or other stakeholders within the ecosystem	<ul style="list-style-type: none"> • Business engagement • Customer insights • Workforce experience • Ecosystem collaboration 	<ul style="list-style-type: none"> • Mobile • Augmented, virtual, and immersive reality • Speech and gesture interfaces • User and entity behavior analytics
Insights	Assesses what data, analysis, operating model, and workforce is required to enable organizational strategies	<ul style="list-style-type: none"> • Business intelligence • Data mastery • Automation • Prediction 	<ul style="list-style-type: none"> • Human and machine teaming • Personalization • Real-time optimization
Platforms	Focuses on the location and management of information across an organization or its network	<ul style="list-style-type: none"> • Business agility and speed • Information storage, processing, and networking • Ways of working with speed 	<ul style="list-style-type: none"> • Cloud data centers • Cloud-native applications • Cloud, edge, and IoT networks • Quantum computing
Connectivity	Involves the flow of information across platforms, experiences, and insights, encompassing the future of the internet, and networking with other organizations and ecosystems	<ul style="list-style-type: none"> • New business models, such as digital ecosystems • Cross-teamed centers of excellence (CoEs) • Engineering culture current and future state • Digitally savvy workforce 	<ul style="list-style-type: none"> • Plan for evolving technical architectures • Operating model changes • Human-centered design strategies • Open talent networks and workforce ecosystem approaches
Integrity	Focuses on improving resilience, security, ethical tech, and trust across all internal and external-facing business systems and processes with a cyber-minded culture to address continuously evolving threats	<ul style="list-style-type: none"> • Organizational purpose (ESG, carbon-neutrality, ethical AI) • Business integrity • Cybersecurity • Ethics and tech (algorithm ethics in AI and zero trust) • Trust 	<ul style="list-style-type: none"> • Identity and access management • Risk-based multifactor authentication • Zero trust security • Cryptography • Federated security • Data backup and recovery • Cyberthreat intelligence

Source: Deloitte Insights, "A new language for digital transformation," September 2020.

Becoming the *exponential enterprise*

- ii. *Gather and structure data* and make it the lifeblood of the enterprise, organizing it to maximize reach, value, and security. Many enterprises strive to create a “single source of truth” with their data. *Exponential enterprises*, however, build on that notion using data management and advanced analytics technologies to create and democratize insights throughout the enterprise, creating a common set of metrics, enabling more confident decision-making, and fueling more widespread innovation using data as a strategic asset.
- iii. *Prioritize research and development* across the enterprise. Many enterprises invest heavily in R&D, but *exponential enterprises* take three further steps. They ensure all business units and functions, not just isolated development teams; have responsibility for R&D; establish an innovation culture as a strategic priority; and adopt an adaptive, outside-in product-development mindset to harness strategic capabilities to create new customer value. To measure and manage the success of their efforts, they apply commercial metrics to R&D initiatives, ensuring that efforts and investments translate into long-term business value.

Figure 25. Unique IP valuation premiums

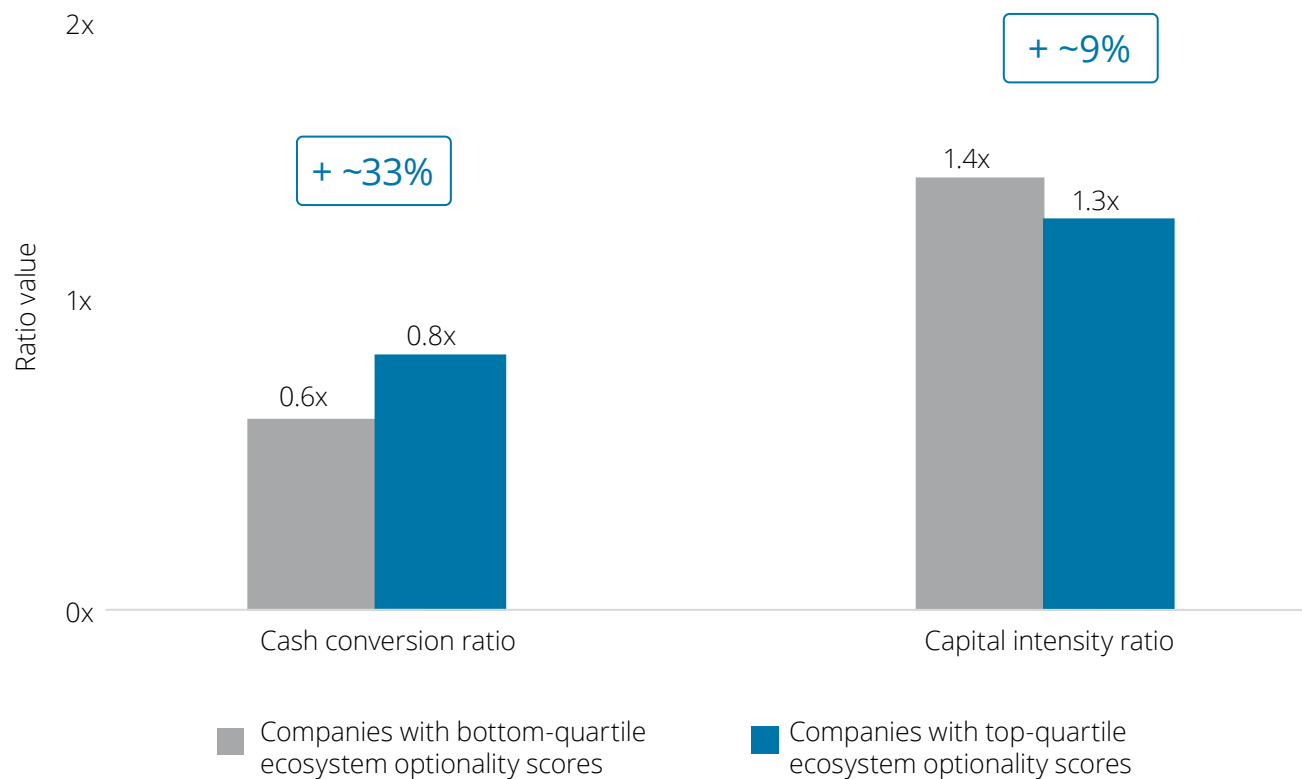


Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

iv. *Develop capital-efficient business models*, increasingly “asset-light” in nature. Exponential enterprises leverage their ecosystem connectivity, technology leadership, and R&D advantages to monetize their unique and valuable intellectual property efficiently and effectively across the value chain. Compared with industry competitors, *exponential enterprises* have less capital-intensive business models with much faster cash conversion cycles. They also benefit from a more robust foundation of intangible assets, enabling them to sustain this advantage through ongoing operating environment changes.

Figure 26. Asset efficiency gained through ecosystem optionality

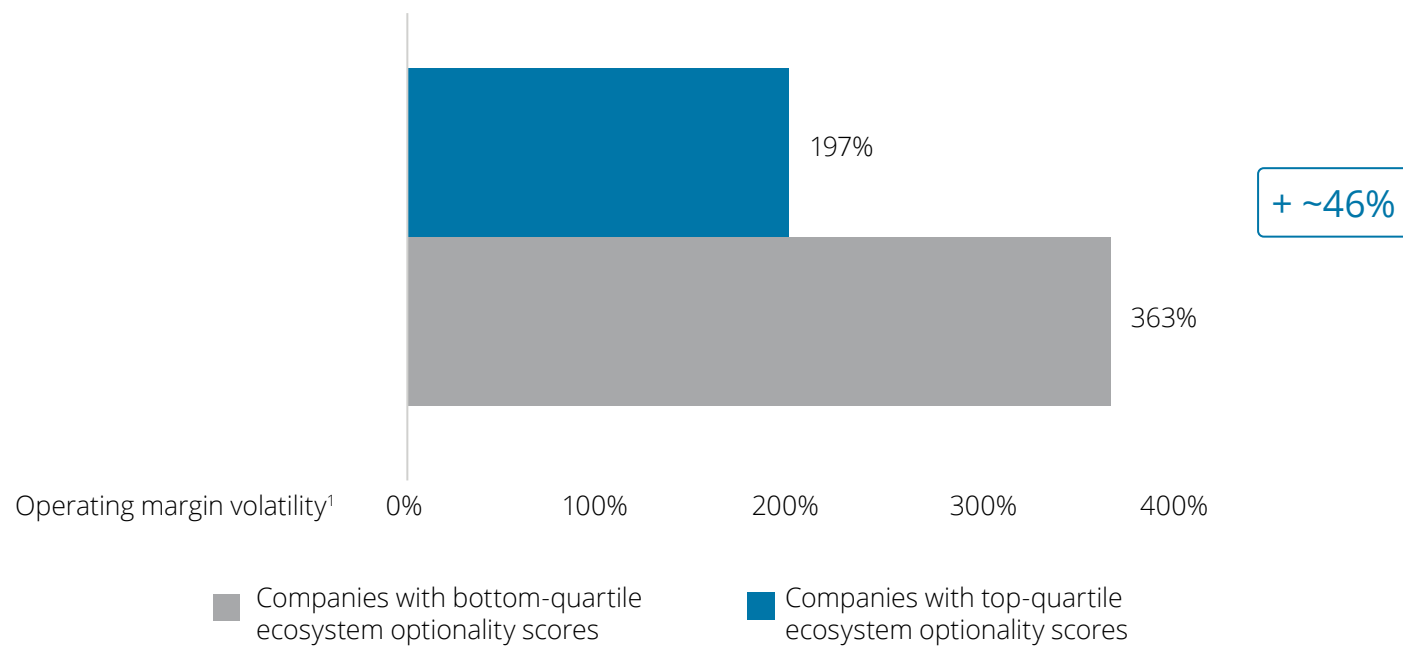


Notes: Ecosystem optionality is defined as an organization’s ability to redirect its value chain through access to nonproprietary capabilities from ecosystem partners. Capital intensity ratio is calculated using the reciprocal of the total asset turnover ratio.

Becoming the *exponential enterprise*

- v. *Engage with ecosystems*, leveraging them and outsourcing partners in innovation, enterprise design, and operations. While the benefits and use cases for strategic outsourcing are well-defined and well-explored by leaders, ecosystems and their expansive potential are often more talked about than implemented; only 64% of the 500 largest US public companies have elevated the discussion of ecosystem participation into public disclosures, investor day presentations, and analyst communications. Ecosystem collaboration lets exponential enterprises optimize where they play in the value chain, opens new markets and monetization possibilities for unique intellectual property and capabilities, and creates opportunities for co-investment in mutually beneficial research and development.

Figure 27. Ecosystem optionality provides performance stability



Ecosystem optionality is defined as an organization's ability to redirect its value chain through access to nonproprietary capabilities from ecosystem partners.

1. Operating margin volatility is calculated as the variance of operating margin across a designated time period.

Becoming the *exponential enterprise*

Maximizing the capacity for change begins with creating the modular operating model (the map of capabilities that a business has and needs) followed by building the flexible design that works across multiple operating environments. Well-articulated transformation programs bind the two together.

Figure 28. Transforming the operating model

	Create a modular operating model	Evaluate which capabilities should be delivered by ecosystem partners	Eliminate barriers to seamless ecosystem partnership	Build the data and analytics engine to translate information into insights and results
Why this matters	Using modular building blocks to structure the organization will enhance <i>capacity for change</i> in the face of growing uncertainty	Partnering or outsourcing nonstrategic capabilities can free up resources to focus on core IP and provide best-in-class service	Partnerships and alliances are becoming more strategic and complex as pressure from new entrants and uncertainty grows	There is an asymmetric advantage accruing to enterprises that can access, ingest, and translate large amounts of data into insights
Proof points	40% of CFOs expected their supply chains to be more diversified after the effects of coronavirus ¹	65% of organizations view shifting from functional to team-centric and network-based models as very important ²	75% of partners complain about overly complicated partner programs and want transparency, support, and predictability ³	75% of CXOs believe that AI will substantially transform both their own organization and industry within the next three years ⁴

Source: Monitor Deloitte analysis.

1. Deloitte, *2021 Tech Trends*.

2. Deloitte, *Re-architecting Work Models: Four Future Worlds of Work*, 2019.

3. Jennifer D. Fisher, "Elevating the human experience for partners," *CMO Today*, 2020; 2112 Group, *2019 ease of doing business report*.

4. Deloitte, "Thriving in the era of pervasive AI," in *Deloitte's State of AI in the Enterprise, 3rd Edition*.

Becoming the *exponential enterprise*

4. Optimize the strategy capability

Exponential enterprises rely on a robust strategy capability focused on connecting the *capacity for change* with the *ability to win*. The chief strategy officer's role in enterprise leadership is increasingly prevalent and prominent, but also ambiguous and often misunderstood. Despite the title, many enterprise strategic officers are tactical in terms of approach and mandate, focused primarily on three-to-five-year planning cycles or periodic budget and business reviews. These all are good exercises for optimizing an enterprise's shorter-term financial metrics, but can fall short of the intentional enterprise design and stewardship required to continuously and reliably strengthen *ability to win* or *capacity for change*.

The *exponential enterprise* instead centers on an "always-on" strategy and transformation capability that has multiple layers—at least two more than a prototypical optimization exercise.

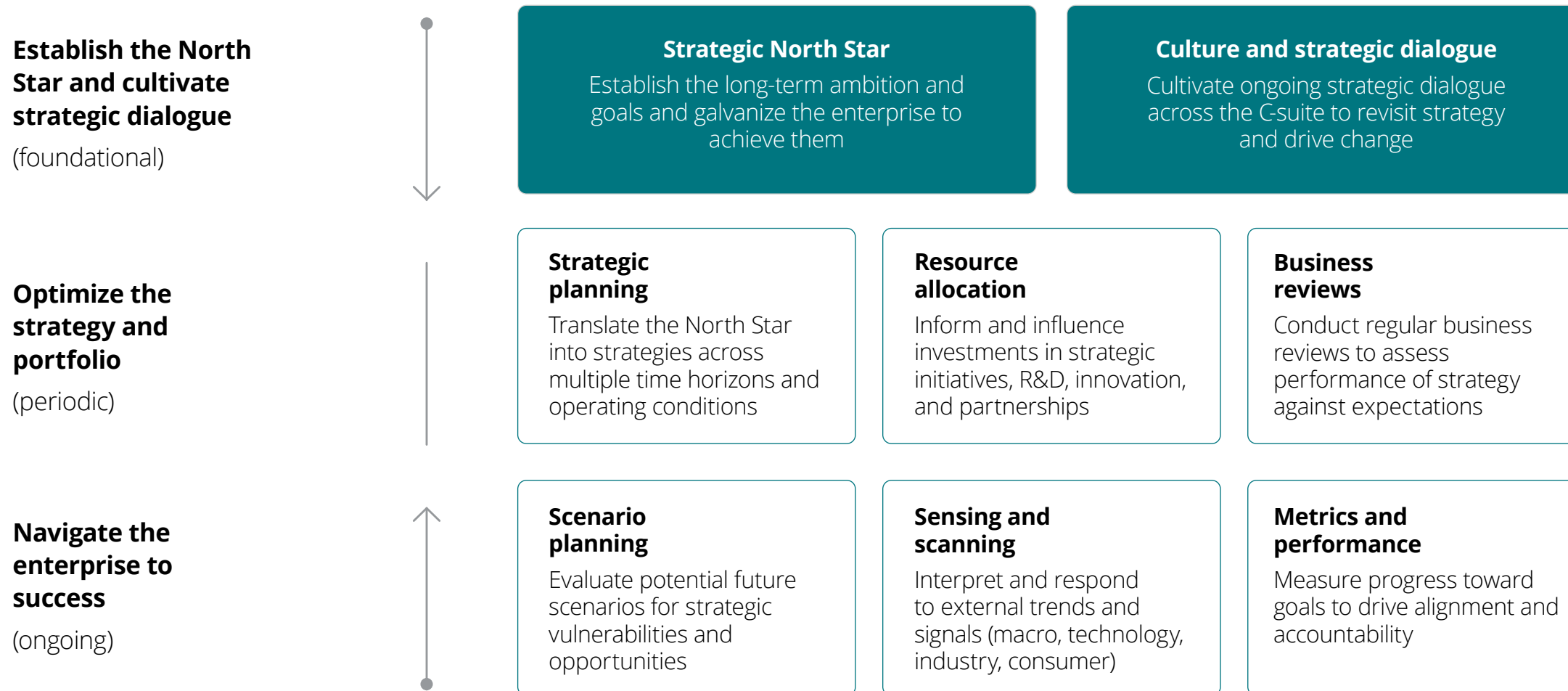
- One is *foundational*: establishing the enterprise's strategic North Star if it lacks one, then (more importantly) creating and facilitating the forums for strategic dialogue around the long-term ambition and goals. At its heart, strategy is about decision-making guided by frameworks, metrics, and insights. In *exponential enterprises*, the mandate for the strategy capability expands to challenging decisions as the operating environment evolves, as well as establishing success metrics aligned to purpose, values, and performance.
- The second is *navigational*: shaping strategic options and informing investment priorities aligned to both long-term ambition and near-term optimization targets. The strategy capability must dedicate time and resources to proactive sensing, scanning, and scenario

planning as the operating environment evolves. Strong scenario planning capabilities, in particular, help the enterprise illuminate both vulnerabilities and opportunities that certain future-state environments could create. Metrics are also critical for strategy leaders, as they make far-horizon efforts more tangible by measuring the pace and direction of change in the operating environment, as well as the probable consequences of potential responses (including inaction).

Exponential enterprises treat strategy not as a one-and-done exercise but rather an ongoing cyclical process. Leading organizations are engineering their strategic function to be more agile, scalable, and stable, giving them an array of strategic options to draw from to succeed in whatever scenarios the future unfurls.

Becoming the *exponential enterprise*

Figure 29. The role of strategy in the *exponential enterprise*



Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

“Always-on” strategy involves many of the same tools that traditional approaches use (resources, frameworks, leadership forums, and time) but deploys them to support both shorter- and longer-term analysis and decision-making. Leading organizations are also

harnessing the power of advanced strategic platforms equipped with advanced analytics, automation, and AI (including natural language processing and machine learning) to help leaders identify strategic forces, inform strategic choices, and monitor execution and outcomes.

These traditional and next-generation strategic methods and tools can collectively help leaders think more expansively and precisely about the wide range of future possibilities and their target responses to them.

Figure 30. Optimizing the strategy capability

	Establish a dedicated office responsible for market sensing, strategy design, and execution	Create better mechanisms to facilitate strategic dialogue	Align on metrics and measure progress
Why this matters	A dedicated strategy office allows an organization to be aware of changes in the system and helps them to determine how and where to act	The traditional process of strategy development is too infrequent and lacks the sensing mechanism to sense and seize opportunities as they emerge	While the North Star describes the destination, interim mile markers are needed to measure and track progress and facilitate potential recalibration
Proof points	70% of CSOs identified the ability to generate disruptive growth as critical for their organizations ¹	45% of CSOs conduct a strategy review process only once every two to three years ²	90% of organizations fail to effectively execute their strategies and realize the full benefits of their efforts ³

1. Deloitte, *2020 Chief Strategy Officer Survey*, 2020.

2. Deloitte, *Retail Execution: The New Differentiator*, 2015.

3. Deloitte, *The future of retail metrics: Measuring success in a shifting marketplace*, 2019.

Becoming the *exponential enterprise*

5. Lead the enterprise forward

Complex and ambiguous business problems require enterprise leaders who:

- Are comfortable making difficult decisions;
- Can define and communicate a vision that guides and inspires the firm to succeed in any operating environment; and
- Encourage interdependent work, where a group of people with different areas of expertise are incentivized to come together to quickly innovate, iterate, and scale new market offerings, capabilities, and businesses.

Many exponential enterprises have leadership with qualities that support these objectives.

Figure 31. Leadership and culture of the exponential enterprise



Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

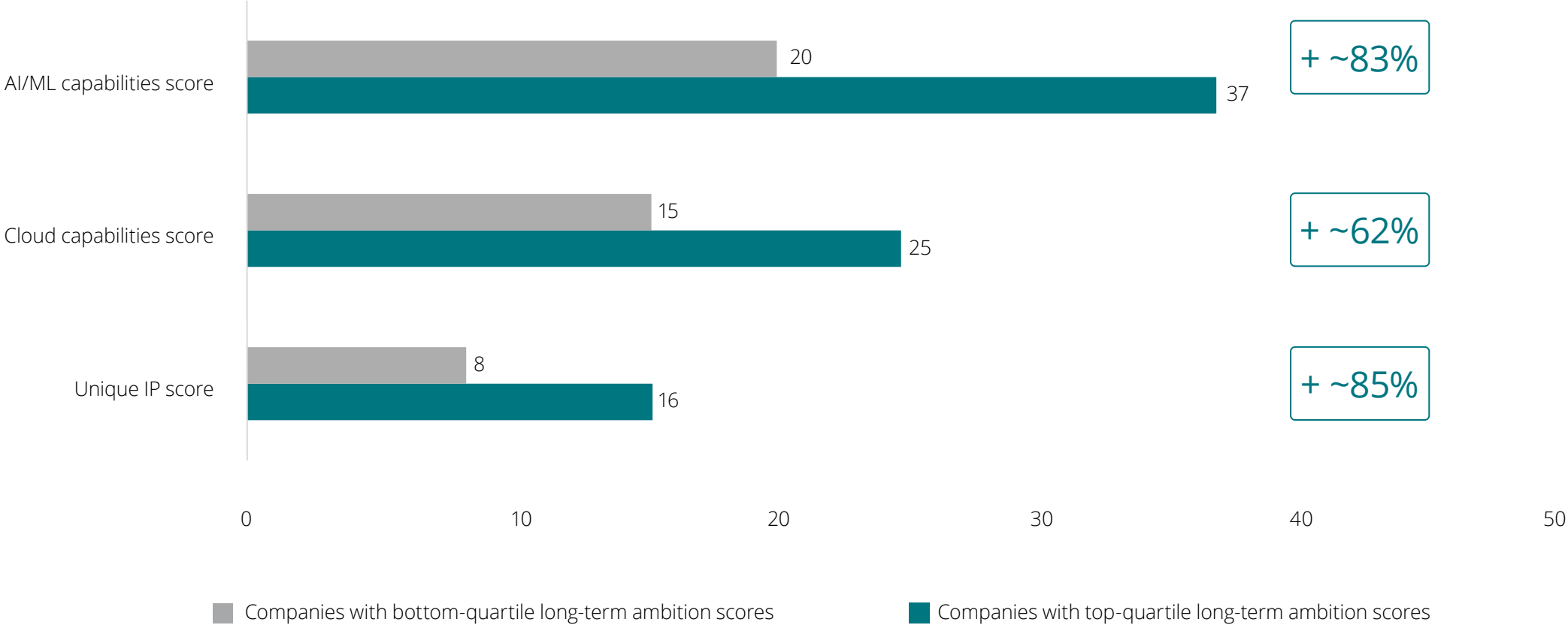
Sustaining cultural qualities like these, however, is one of the biggest challenges exponential enterprises face.

To do so, enterprise leadership must be aligned, capable, and committed.

- *Aligned*: All levels of the enterprise (board, C-suite, business unit leaders, and employees) must understand, believe, and deliver in alignment with the enterprise's long-term ambition. This alignment is essential for the enterprise to transcend from being *plan*-driven (rigid, regimented, top-down) to *purpose*-driven (flexible, opportunistic, collaborative). That transition makes the alignment emotional as well as transactional, raising the collective willpower required to support dramatic and substantial change.
- *Capable*: From top to bottom, the *exponential enterprise* needs leaders, managers, teams, and partnerships that can create opportunity in the face of change, uncertainty, and ambiguity. They must identify and nurture leaders; recruit, train, and organize multidisciplinary teams; and leverage technology and external partnerships to enhance, amplify, and accelerate solutions to complex problems. Such enterprises also need leaders comfortable with enabling technologies—both today's and, as they evolve, the future's.
- *Committed*: *Exponential enterprise* leaders realize that true transformation is difficult to start, painful at times during execution, and risky throughout—yet embrace change anyway. Leaders of *competing, enduring, or established* enterprises often argue that plowing organizational energy and resources into creating the foundations for long-term, durable competitive advantage may seem unwise or untenable given more immediate priorities, challenges, threats, and risks. The payoff of making that choice, however, is significant.

Becoming the *exponential enterprise*

Figure 32. Long-term ambition as a driver of advanced technology investments



Long-term strategic ambitions are described as clearly articulated enterprise goals to be targeted over an extended period of time (i.e., ~10 or more years).

Source: Monitor Deloitte analysis.

Becoming the *exponential enterprise*

A firm's C-suite can take four steps to create leaders—for both today and tomorrow—well able to inspire and lead the change necessary to make an enterprise *exponential*:

Figure 33. Leading the exponential enterprise forward

	Align leadership pipeline and workforce strategy	Develop new metrics for stakeholder value measurement	Align incentives to reward innovation and teaming	Report on progress and celebrate success
Why this matters	Leadership must be redefined to attract transformation talent and foster success for a high-performing, integrated workforce	Metrics are evolving as the definition of stakeholders and time horizons broadens to tackle more complex problems	An unsupportive culture and lack of alignment are the biggest barriers to driving collaboration and adaptability	A company's success depends on its ability to clearly articulate the vision to stakeholders and keep them apprised of progress
Proof points	<p>72%</p> <p>of CXOs identified the ability of their people to adapt, reskill, and assume new roles as the top-ranked item to navigate future disruptions¹</p>	<p>80%</p> <p>of CXOs are developing the products or services that make a positive impact on society or the environment²</p>	<p>92%</p> <p>of companies report that their programs are not “very effective” at creating a more personalized, agile, and holistic rewards system¹</p>	<p>77%</p> <p>of CEOs in successful companies are intensely involved in communicating the strategy actively and credibly³</p>

1. Deloitte, 2021 Human Capital Trends.

2. Deloitte, *Success Personified in the Fourth Industrial Revolution*, 2019.

3. Deloitte survey: “Strategy and execution – who holds the reins?”

Conclusion

21st century enterprises will rise and fall depending on their ability and willingness to transform continuously and advantageously in the face of change and disruption. The advantages already gained by *exponential enterprises* over industry competitors through their *ability to win* and *capacity for change* signal a sea change in the ways competitive advantage is created and sustained over time and the increasing importance of these dimensions to financial shareholders when ascribing valuations. Leaders must act on these signals now or risk seeing their enterprise lose grip on the advantages, market positioning, and valuations they have created and defended—as well as those they will lean on for their continued success and growth.

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