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Big Companies Face Period of Rising Growth and Turmoil

Technological upheaval and market shifts are forcing once-stable titans from GE to P&G to rewrite their playbooks

By Sharon Terlep
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After a decade of slow growth, corporate chieftains have good reason to feel buoyant.

In the U.S., the economy grew 3% in the third quarter and Federal Reserve officials in December increased their forecast for 2018 growth to 2.5%, up from 2.1% in September. Bulls on Wall Street boosted the market cap for S&P 500 companies last year by 18%, unemployment stood at a 17-year low, and a big tax cut and regulatory rollbacks portend more gains.

Europe, meanwhile, is also bouncing back after an all-but-lost decade. Asia's continued growth makes it a rare moment—after the extended hangover of the downturn—when the world's major economies are all pointing up.

Yet plenty of anxiety lingers—also with good reason. CEOs continue to grapple with the ever-accelerating pace of technology change. Meanwhile, they face growing pressure from investors and boards, and greater scrutiny from customers and even their own employees in the age of social media. Consumer habits and tastes continue to shift drastically. While a GOP-led Washington has been generally more favorable to business, political turmoil, and the risks it brings, has only increased, at times drawing executives into debates they'd just as soon avoid.

"In my 37 years at General Motors, the amount of technology is changing more than ever," Chief Executive Mary Barra says, discussing GM's efforts to bring to market fully electric vehicles and cars that drive themselves. "We've made cultural changes, we've changed where we do business, we're developing transformative technologies," says Ms. Barra.

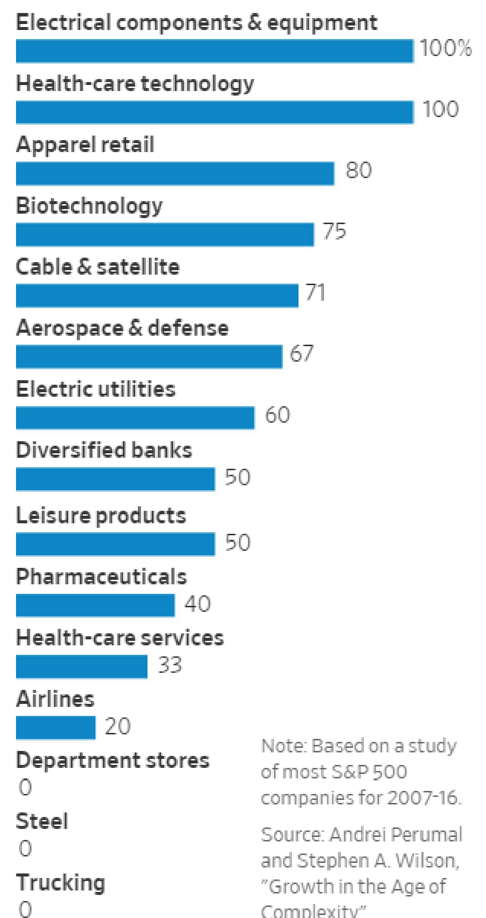
Whether it's GM trying to take the shape of a tech company, General Electric Co. considering a breakup, or PepsiCo Inc. struggling to sell soda, corporate mainstays are trying to right themselves after becoming vulnerable to market forces they once ably navigated. CEOs are overhauling business models, forging unexpected alliances and giving concessions to activist shareholders who criticize how their companies are being run.

CVS Health Corp., the largest U.S. drugstore chain, will spend much of this year trying to cement its acquisition of insurance giant Aetna Inc., a deal that creates an almost unprecedented health-care enterprise. Procter & Gamble Co., the maker of Tide and Pampers, has said it will admit activist investor Nelson Peltz to the board in March after spending at least $60 million trying to stop him and his strategy for overhauling the company. P&G agreed to add Mr. Peltz to the board after winning a shareholder vote by a historically narrow margin.

AT&T Inc. and Time Warner Inc. are prepared to fight at least until June a Justice Department lawsuit trying to stop a merger that would turn the phone company into a media giant. Big food companies, meanwhile, continue to grapple with dramatic shifts in what people eat and where they shop, as retailers scramble to reinvent a business model decimated by Amazon.com Inc.

"Some say that it's more change in the last three years than in the last 10 or 20 years," Home Depot CEO Craig Menear says of the changing retail landscape and his company's plans to upend an online-sales strategy laid out just five years ago. "It's imperative that we address these evolving needs with increased speed," says Mr. Menear.

Kurt Simon, JPMorgan Chase & Co. global chairman of mergers and acquisitions, worked on deals last year including Walt Disney Co.'s agreement to acquire most of 21st Century Fox Inc. for $52 billion. "How and who companies compete with are rapidly changing in a number of industries due to technology and the emergence of disruptive new entrants," Mr. Simon says. "For incumbents, you have the opportunity to either be disrupted or go on the offensive."



No longer is size synonymous with growth and profitability. Some of the world's biggest corporations are hemmed in by their own size, incapable of moving quickly enough to adapt to fast-changing markets and consumer tastes. GE, which last year saw its shares drop by one-third amid a reset of long-term financial projections, embodies the dilemma. The industrial giant is refocusing on three core business lines—the aviation, power and health-care divisions—while exiting most of its other business. CEO John Flannery, who took over last summer, this month said that GE is evaluating carving out its major divisions into separately traded units.

About 40% of companies in the S&P 500 are becoming less profitable as they grow, says Stephen Wilson, managing partner of advisory firm Wilson Perumal & Co., whose analysis measured revenue growth and operating income at the top companies. A company whose operating income grew more slowly than its revenue, according to the analysis, experienced so-called diseconomies of scale, as opposed to leveraging desirable economies of scale.

"In the industrial age, the biggest company was the most competitive," Mr. Wilson says. "Today, companies are trying to get bigger to get economies of scale, but to get bigger they are becoming more fractured, and that means less economies of scale. Companies are realizing that they can't just add new products and grow, that they can't just go into more countries and grow."

Adding to all of this turbulence, companies are increasingly transparent, giving investors and consumers greater ability to look under the hood and compare operations, even as new technologies continue to transform such economic fundamentals as how people get around and shop. This changing business landscape in turn is altering the nature of how companies produce goods and deliver services, and is affecting everything from human-resources departments to the supply chain.

A need for radical action will likely lead to more deals that cross industry lines, like the CVS-Aetna deal or Amazon's $13.7 billion deal in June to acquire Whole Foods Market Inc.

"Earlier rounds of M&A were simply competitors buying each other and getting the synergies out of a deal," says Frank Aquila, a partner at law firm Sullivan & Cromwell LLP. "While that's still an important part of M&A, we're going to see many more combinations going forward that may not be what people expect."

Despite a recognition that change—often radical change—is needed, perhaps the trickiest part will be where to be radical and where to be more cautious.

"The hardest thing for chief executives is to figure out where to make changes and how radical to be in different parts of the business," says Andy Eversbusch, a managing director at consulting firm AlixPartners LLP. Ideally, Mr. Eversbusch says, a company can pull off a "healthy turnaround" in which it overhauls itself before crisis strikes.

"The leaders that I see who are very good at this," he says, "are ones who routinely invest themselves in questioning every aspect of their business."