

# Creative Destruction vs. Created Destruction

Creative Destruction, sometimes referred to as “Schumpeter’s gale” after the Austrian economist who popularized the concept nearly eight decades ago, is a theory of economic innovation which describes the “process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”

This process of internal destruction typically takes many years, during which time the decay of an incumbent economic order or process continues until it collapses and forces a new structure to emerge. Creative Destruction tells you that, eventually, the new replaces the old. However, sometimes the imperative to change is imposed suddenly and unexpectedly, often at an inopportune moment. When this happens, you enter a world of Created Destruction.

At present we are seeing huge changes in how business is getting done today due to the COVID pandemic. Take a moment to consider how it challenges the norms that were thought of as “givens” just months ago. In other words, the speed of destruction in established processes and practices is at a level infrequently seen in history. What used to take years or decades to implement, is now being changed, out of necessity, in a matter of months. And for those of you who believe that things will revert to old norms in a post-COVID world, I would argue that in many cases it will be difficult, if not impossible, to “unring the bell.”

Huge changes are happening across nearly every industry. For instance, in healthcare, which represents 20% of the

domestic GDP, telehealth is fundamentally changing delivery and payment models. In commercial real estate, tenants across industries are giving serious thought to the amount of real estate needed to support their businesses in a post-pandemic world. And throughout all industries, the use and deployment of field-level sales forces, throughout all industries, is being reconsidered.

What does created destruction do for the landscape of competition? For both companies and end users, it primarily will lead to monumental improvements in actual goods and services, as well as in how these goods and services are delivered — for example, in terms of cost, quality and outcomes.

Second, it helps level the playing field between large and small businesses. It is no longer acceptable to lament the fact that the size and scale of market leaders are too much to overcome. One could argue that it is easier for a middle-market company to implement upending changes to business practices and accelerate growth than it is to retool larger, well established businesses.

Third, created destruction favors those who are bold and take risks. I don't think anyone believes we will go back to the status quo post-COVID. However, you can debate what truly changes and what doesn't. What I do believe we can agree on is that those who embrace the challenge of sudden change will be best positioned to take on an unfamiliar future and thereby stand to gain the most. In fact, I believe the returns on the deals done in 2020 and 2021 may prove to be some of the highest we've seen in some time.

With these principles in mind, our view is that the current downturn will be far deeper and longer than the Great Recession and will extend well into 2021, rippling across many sectors, as we have already witnessed in the first months of the pandemic. Over the coming weeks, we will share our thinking on distressed M&A opportunities and the winners and losers in a variety of critical industries. Some sectors have high pent-up demand and less price elasticity and are accordingly expected to quickly recover after "re-opening." Others, however, will sustain enduring damage from the shift to remote working and move to online that will change in demand unclear.

At FTI, we embrace the inevitability of change and know imagination and innovation will create new norms in the wake of this pandemic. Working together, with our clients, to creatively solve problems, we know that we can get people back to work and help get the economy moving again.

### Industries we will cover include:

-  Automotive
-  Financial Services
-  Food & Agriculture
-  Healthcare Services
-  Industrials
-  Media & Entertainment
-  Power & Renewables
-  Real Estate
-  Retail

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