

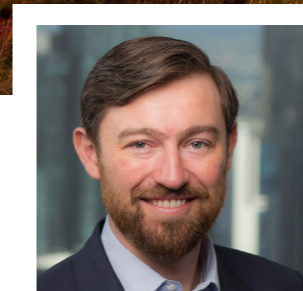
An aerial photograph of a coastline. The top left shows a rugged, red-sand landscape with some sparse vegetation. The middle section features a wide, flat expanse of red sand. The bottom right shows a body of water with numerous small, green mangrove islands. The text is overlaid on the red sand area.

Navigating Future Uncertainty in Australia with Megatrends

September 2023

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organisations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organisation, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.



On behalf of Boston Consulting Group’s Australian team, I am pleased to be able to bring BCG’s globally-renowned megatrends work to Australia.

The release of Navigating Future Uncertainty in Australia with Megatrends is the first in a series of papers tracking ten megatrends that are set to shape Australia with concrete and lasting impact, in a post-pandemic world.

Megatrends are all around us. They are large social, economic, political and technological changes that are slow to form, but once in place, indelibly reshape the global economy and have lasting influence. Throughout history and across the world, the ability to pool knowledge and help each other to make sense of it has made the difference in society’s ability to adapt or adopt in response to far-off challenges and opportunities.

Our team in our Australian offices have worked closely with BCG’s global Centre for Sensing and Mining the Future, to identify and track megatrends that are most pertinent to the Australian economy. Some megatrends in this paper are global, while others are undeniably and uniquely Aussie. Together, they paint a picture as to what the future could look like and drive conversation on what needs to be done right now to be ready.

The megatrends in this paper are in short digestible snapshots to assist leaders, decision-makers, organisations and individuals who are looking to navigate, prioritise and progress in a time of uncertainty.

Phillip Benedetti
Managing Director and Partner, Boston Consulting Group

Our world is constantly changing, shaped by megatrends – high-impact, quantifiable shifts that have a profound impact on the way we live and do business over several decade(s). You might ask, “So what? Hasn’t this always been the case?”. While the answer is yes, we now see that:

- **The sources of uncertainty have evolved** to include environmental, biological, geo-political and cyber risks, on top of traditional economic, competitive and technology risk.
- **The speed of change has accelerated** with the new technologies, climate change, high levels of debt, social media and more.
- **The stakes are higher than ever**, with stakeholders expecting organisations to better detect megatrends, respond to them decisively, and more proactively build resilience.

Megatrends are inherently global and don’t typically exist in isolation – spanning shifts in technology, the environment, the economy, geo-politics, consumer trends and more. However, some manifest uniquely in Australia’s context or impact

Australia more than other countries. This article is the first in a series on the most prominent megatrends in Australia. It introduces the ways they’re manifesting on our shores, some of their implications for organisations and governments, and what can be done to mitigate them.

Accelerating climate change. While Australia is no stranger to extreme weather, the severity, frequency and unpredictability of severe storms, droughts, bushfires and flooding is only poised to grow. Australia is already experiencing hotter, drier and wetter climate patterns.¹ The annual average risk costs of extreme weather and climate change to properties is projected to rise to \$91 billion per year in 2050 and \$117 billion per year in 2100 in Australia (see *Exhibit 2*).²

Federal and state governments need robust adaptability and resilience models to support impacted communities and stakeholders through disasters, and to avoid or mitigate their impact.

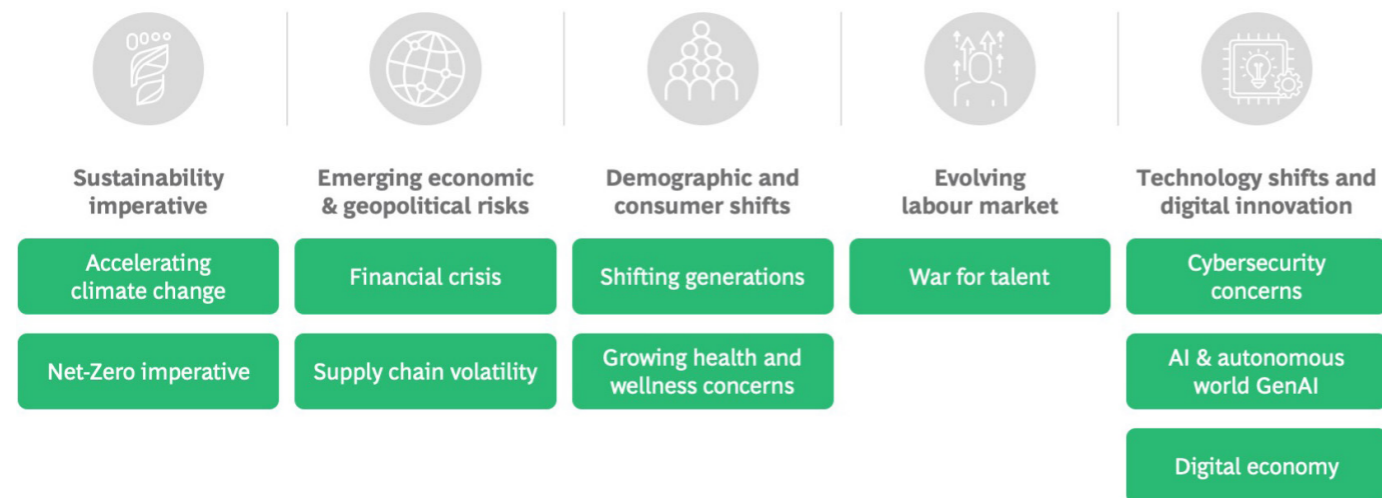


Sectors need to work with each other and government to develop innovative and data-informed solutions to minimise the direct cost of natural disasters to consumers and insurers; insurance losses are trending upward, with a record high in 2022.

The net-zero imperative. Achieving net-zero by 2050 is not just an environmental imperative – it’s a business imperative that requires bold action and across all sectors and nations. Australia has committed to reducing greenhouse gas emissions by 43% below 2005 levels by 2030 and meeting net-zero by 2050 – an ambition expected to require \$2.5 trillion

Exhibit 1 - Most relevant megatrends in Australia range across 5 major themes.

Most relevant megatrends in Australia range across five major themes

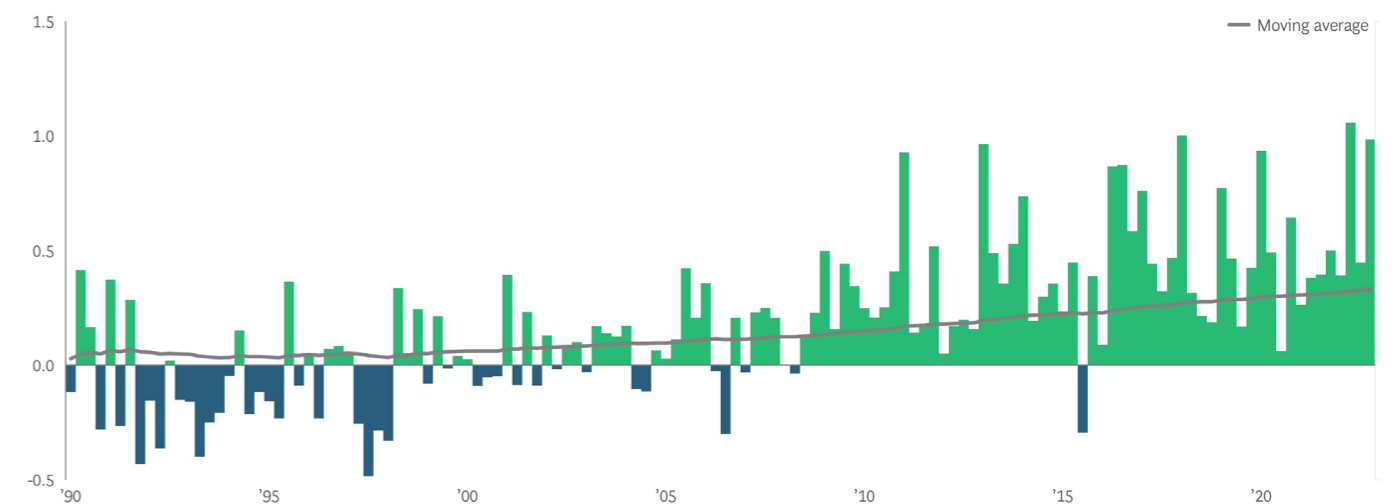


1. Australian Actuaries Climate Index 1990–2022
2. [Climate Council, 2019](#)

Exhibit 2 - Frequency and duration of extreme temperatures.

Australia is experiencing hotter, drier, wetter and otherwise more extreme climate patterns

Australian Actuaries Climate Index (AACI) 1990 – 2022
The index measures changes in the frequency and duration of extreme temperatures and is based on measurements taken by the BoM





investment in the next 3 decades.^{3,4} While the cost might be substantive, the benefits to companies taking leadership in transition strategies are multifaceted; climate leaders realise higher growth, attract and retain better talent, experience lower regulatory risks, access cheaper capital and achieve higher shareholder returns (see Exhibit 3).

Developing and implementing a net-zero transition strategy requires companies to collaborate with government and acquire skills to support new businesses and technology. And for those with the greatest contributions to make – such

as the automotive, food, retail, energy sectors – it requires significant investment in decarbonising operations and strengthening resilience.

Financial crisis. Australia is positioned for a turbulent recovery from record inflation as the RBA forecasts slowing GDP growth and rising unemployment (see Exhibit 4).⁵ In 2022, non-discretionary and discretionary household spending outpaced inflation and in turn, household savings ratio reduced by 8.5 percentage points from Dec’21 to Dec’22.⁶ Households committed to 20.5% fewer new

housing loans in May’23 (vs May’22), while household and personal goods loans increased by 15.6%.⁷

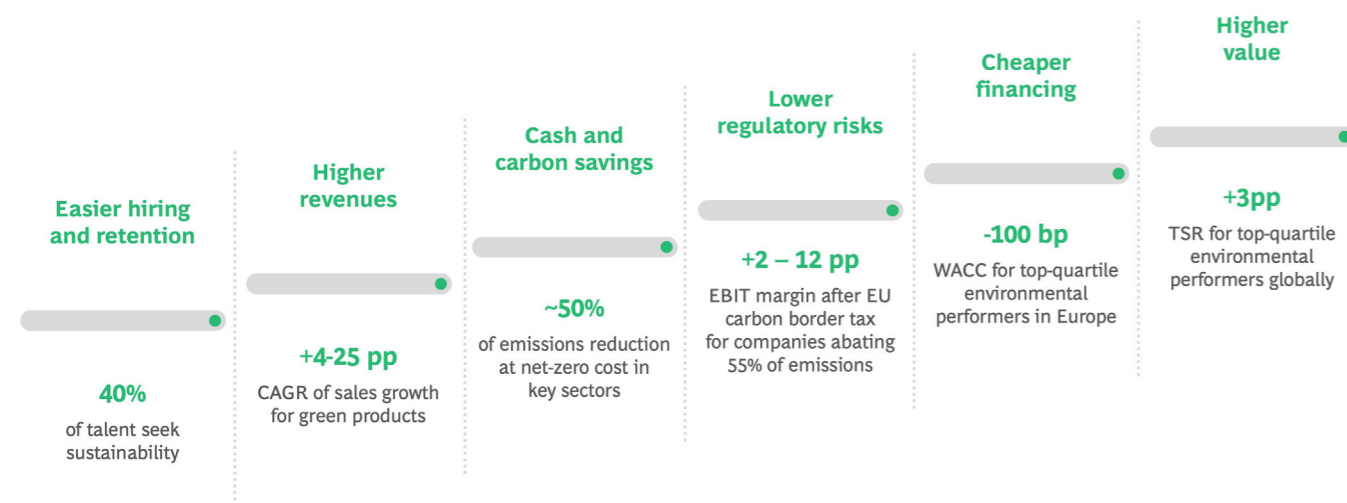
Australian companies need to prepare for rising costs, reduced consumer spending and changing customer behavior. They need to develop robust scenario plans, adapt to arising opportunities and focus on maintaining their bottom line. For banks, this means reinforcing

existing responsible lending practices and re-evaluating product constructs as mortgages roll over to variable rates and the housing market strengthens in a high interest rate environment.

Supply chain volatility. Global supply chain shocks have subsided, pressures have recovered to pre-pandemic levels and Australian companies are experiencing fewer

Exhibit 3 - Climate Leaders Gain Competitive Advantage.

Climate leaders gain competitive advantage

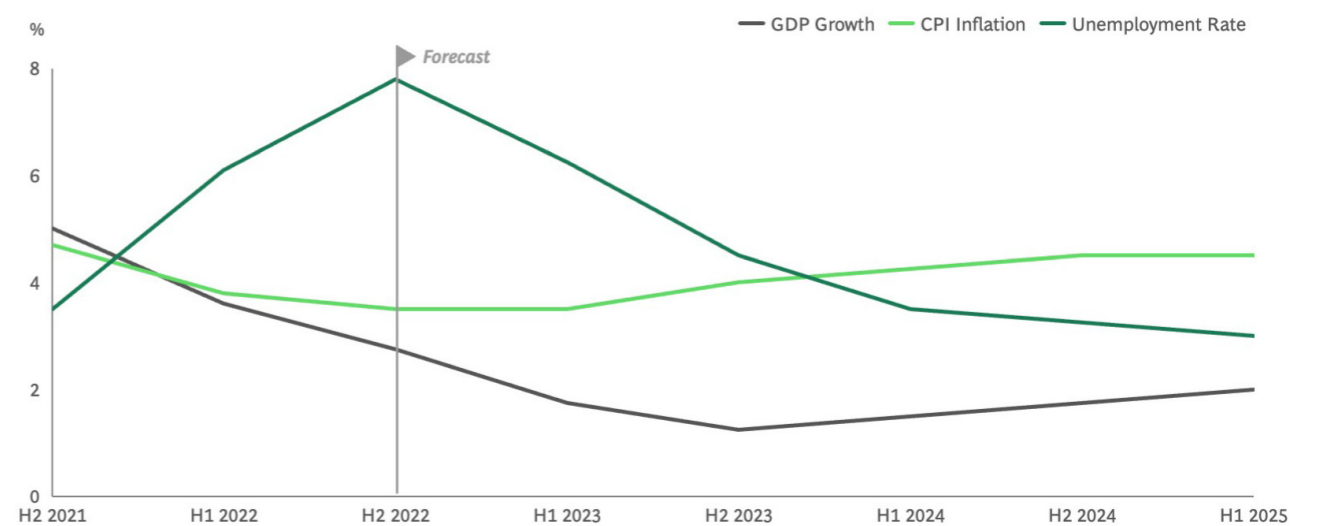


Source: EU announcements; BCG analysis;
 Note: bp = basis points; pp = percentage points; WACC = weighted average cost of capital
 1. Based on a €75/tCO2 carbon price assumption for 2030

3. [Transition to Net-Zero](#), Global Australia
 4. Climate Change Roadmap Towards a Net-Zero and Resilient Future, Insurance council of Australia, November 2022
 5. Statement of Monetary Policy May 2023, RBA
 6. Australian National Accounts, ABS, March 2023

Exhibit 4 - Australia's challenging economic recovery.

Australia's recovery from record inflation will be combatted by falling GDP growth and rising unemployment



Source: Statement of Monetary Policy May 2023, RBA

7. Lending Indicators, ABS, May 2023

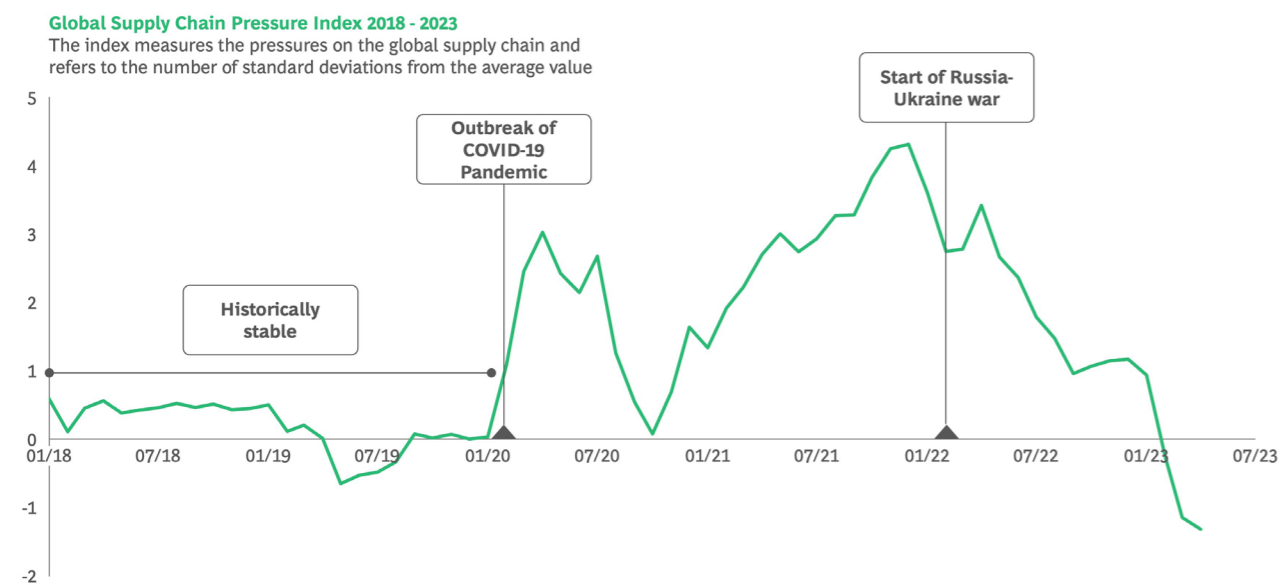


disruptions (see Exhibit 5). However, geopolitical tensions and evolving international relations will continue to shape global trade and supply chains, positioning Australian companies to capitalise on existing opportunities. Globally, only 10% of companies have resilient and responsive supply chains. These companies recover faster from disruption and benefit financially.⁸ Companies with leading supply chains have outpaced the gross profit growth of laggards by up to **55 percentage points**.⁹ Australian companies need to assess investment opportunities to develop resilient supply chains. Developing supply chain resilience could involve:

- Identifying and assessing risks and establishing visibility across the supply chain
- Implementing measures to predict and identify supply chain shocks and conducting scenario planning to outline a clear decision-making process
- Evaluating and redesigning supply chain operations including supply chain network design, sourcing strategies and planning and inventory management
- Developing wide-ranging enablers for supply chain resilience, such as digital tools, processes, governance and culture.

Exhibit 5 - Easing pressures on the global supply chain.

Global supply chains have recovered post-pandemic



Source: Global Supply Chain Pressure Index, Federal Reserve Bank of New York

8. [If Disruption is the New Normal, Operational Resilience is the New Necessity](#), BCG, 2022
9. [BCG Executive Perspectives: The CEO's Dilemma, Preparing Your Supply Chain for Resilience](#), BCG, 2022

Shifting generations. Changing demographics, particularly the preferences of Gen Z and Millennials, are reshaping how companies operate, with Millennials now Australia's largest generational cohort.¹⁰ These younger generations prioritise social and environmental responsibility and are willing to pay more for brands that have a positive impact on society or run their business in a sustainable way.¹¹ This is pushing companies to adopt more sustainable practices and adapt marketing to attract and retain these digitally savvy consumers.

With Baby Boomers accounting for ~50% of Australia's wealth while representing ~21% of the population, it is expected that they will pass on \$225 billion in inheritances each year to Millennials and Gen Z by 2050.^{12,13} Companies can cater to the unique needs and preferences of these generations and position themselves to capture a significant share of this inherited wealth.

Growing health and wellness concerns. Australia is experiencing rising public health concerns. The prevalence

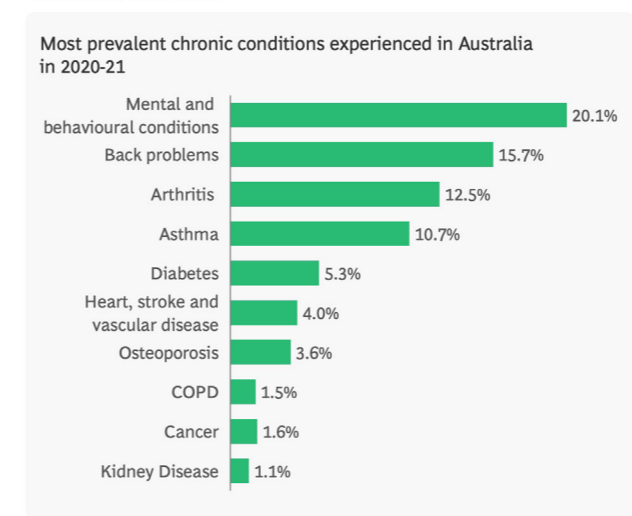
of chronic health conditions such as mental health problems, back problems and arthritis are increasing; 78.6% of Australians had at least one long-term health condition in 2021. **Nearly 46.6% (or 11.6 million)** had at least one chronic condition.¹⁴ Public awareness of rising health concerns has driven 60% of Australians to attempt lose weight.¹⁵ And 80% of Australians' to prioritise keeping themselves and their family healthy in 2021 (an 11% increase on the prior 5 years).¹⁶

This increasing health and wellness awareness has been mirrored by consumer health spending, which has risen by 5.4% each year over the past decade (see Exhibit 6). Though total health spending has steadily increased, private health insurance participation is decreasing among younger demographics who increasingly feel that it is unaffordable and fails to provide value. Insurers and government should partner to create an ecosystem in which younger and healthier individuals see the value in participating in health insurance, if they are to maintain affordability of health insurance across demographics.

Exhibit 6 - Rising health concerns are matched by rising health spending.

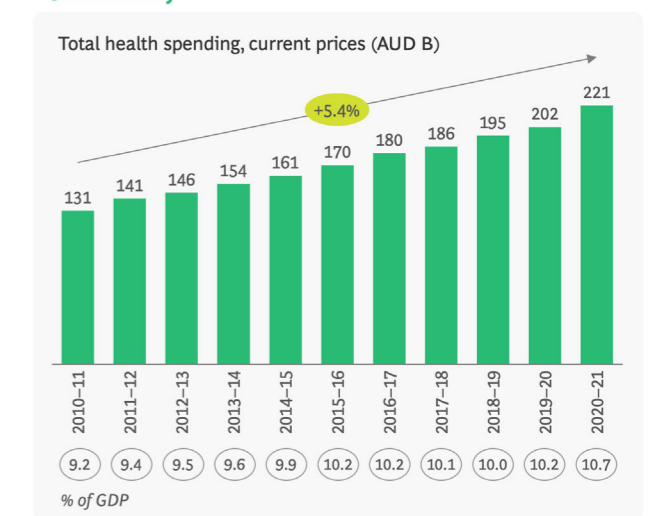
Growing public health problems is mirrored by spend in health & wellness

Australians are having increasingly frequent and chronic health concerns...



Source: Health Conditions Prevalence, ABS; Health expenditure Australia 2020-21, AIHW

... and increasing their spending on health & wellness by ~5% annually



10. [ABS 2021 Census](#)
11. [Sustainability Practices Gen Z are willing to pay more for in Australia](#), Statista, 2022
12. [Australia's Income and Wealth Distribution](#), McCrindle, 2023
13. [Managing Wealth](#), Findex, November 2022
14. Health Conditions Prevalence, ABS
15. National Talks Survey 2021, ABC
16. Aussies are eager to master health-conscious lifestyles, Nielsen



War for talent. In a post-COVID world, companies must adapt their workforce strategies to meet changing employee expectations.¹⁷ The Future Forum’s Pulse survey revealed that 81% of Australian full-time knowledge workers (people working with data, analysing information, thinking creatively) desire location flexibility, and 95% seek schedule flexibility.¹⁸ This emphasises the importance of flexibility in retaining talent, with 70% of employees open to exploring new roles.¹⁹

Companies are responding to these changing expectations. The percentage of remote positions has tripled since 2020.²⁰ And while many companies are mandating 2–3 days in the office, they are recognising other aspects of flexibility and diversity, such as acknowledging religious holidays, encouraging the formation of minority networks and engaging with political decisions and affairs. By embracing a holistic approach to flexibility, companies can create inclusive work environments that attract and retain top talent and foster diversity and equity.

Cybersecurity concerns. With recent cyber-attacks on Optus, Medibank and Latitude impacting almost 20 million customers, awareness of cyber security and the risks associated with data breaches has increased. Beyond these major public attacks, it’s estimated that there’s over 750 cyber-attacks every day in Australia – and this is expected to double in the next 5 years.²¹ This has led to significant growth in the cybersecurity sector, including the

Australian Government’s \$9.9 billion investment to build cyber capabilities and national intelligence over the next 10 years.²²

To counter these escalating threats, companies are being more proactive to prevent or minimise the impact of potential attacks. Given the substantial costs associated with cyber-attacks, investment is expected to increase – it is crucial for companies to allocate sufficient resources to protect their systems and sensitive customer information. Adequate spending on cybersecurity is not only a strategic imperative but also necessary to mitigate risks and ensure the long-term resilience of organisations in today’s evolving cyber landscape.

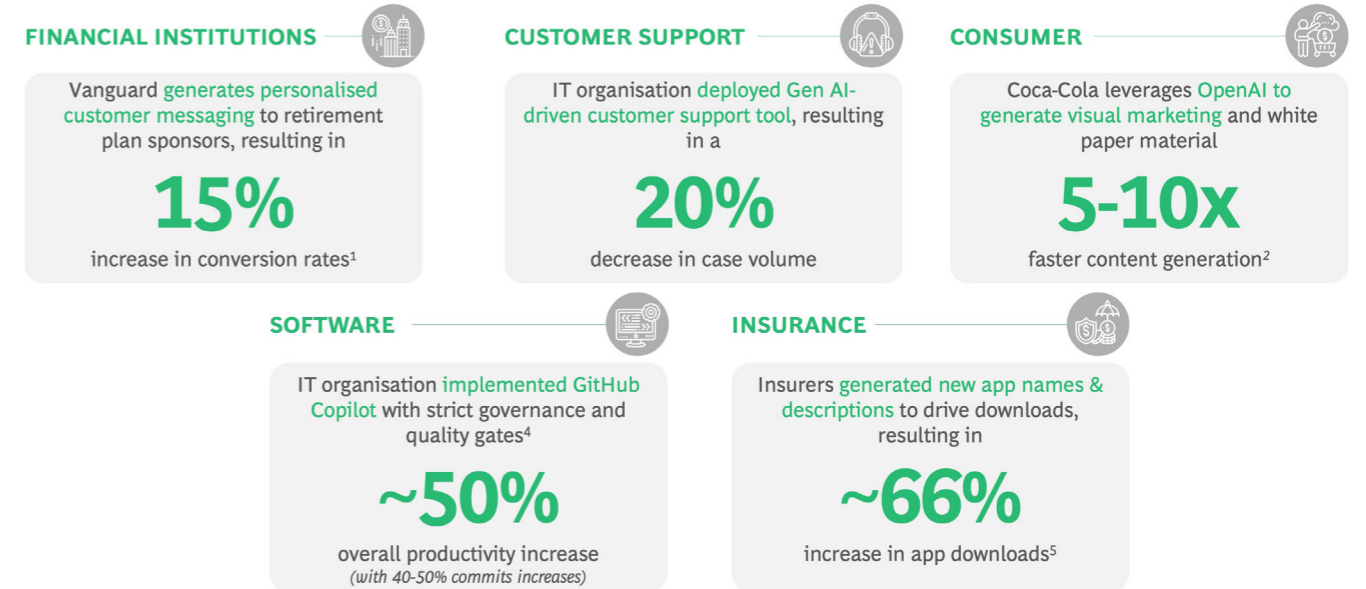
AI and the autonomous world. Artificial Intelligence (AI) is widely used in Australia – from self-driving vehicles in mining, compliance management in finance, to supporting clinical decisions in health care. AI could contribute more than \$20 trillion to the global economy by 2030 and has already proven transformative in many industries with many emerging use-cases.²³ For example, AI has been used to automate manual, repetitive tasks such as customer onboarding, content management and administrative reporting. It has also augmented the way companies work, for example by supporting software engineers with coding, generating synthetic data to support decision-making, and mitigating risks with real-time fraud investigation.

Generative AI (GenAI) is developing at unprecedented rates and the **total addressable market globally** is expected to reach **\$180 billion by 2027 (\$121 billion USD)**, from **~\$27 billion in 2023 (\$18 billion USD)**.²⁴ To illustrate the scale and speed of GenAI uptake: what

ChatGPT achieved in 5 days took Netflix 3.5 years and Twitter 2 years.²⁵ GenAI is unlocking significant benefits for organisations, with BCG looking to incorporate it into our own ways of working (see Exhibit 7).

Exhibit 7 - Benefits of GenAI.

Emerging GenAI use-cases have unlocked significant impact across industries



1. Persado Case Study on Vanguard 2. Coca-Cola company announcement on March 3. Observations on a real case of deployment of GitHub Copilot on 100 Software Engineers as of September 2022 4. Persado case studies (www.persado.com) as of August 2020

17. BCG Executive Perspectives: Investing to Win Talent, BCG, July 2021
 18. Finding Balance in the Future of Work in Australia, BCG, September 2022
 19. Finding Balance in the Future of Work in Australia, BCG, September 2022
 20. 2022 Talent Playbook, EMSI, Burning Glass
 21. Australia’s Cyber Security Sector Competitiveness Plan, AustCyber, 2022
 22. Australian Trade & Investment Commission: Cyber Security
 23. Australia’s AI Action plan, Australian Government 2021



However, GenAI comes with business risks that are hard to mitigate. These risks need to be carefully managed by organisations that seek to leverage its capability to drive operational efficiencies and better customer outcomes (see Exhibit 8).

Find further [BCG articles about GenAI](#).

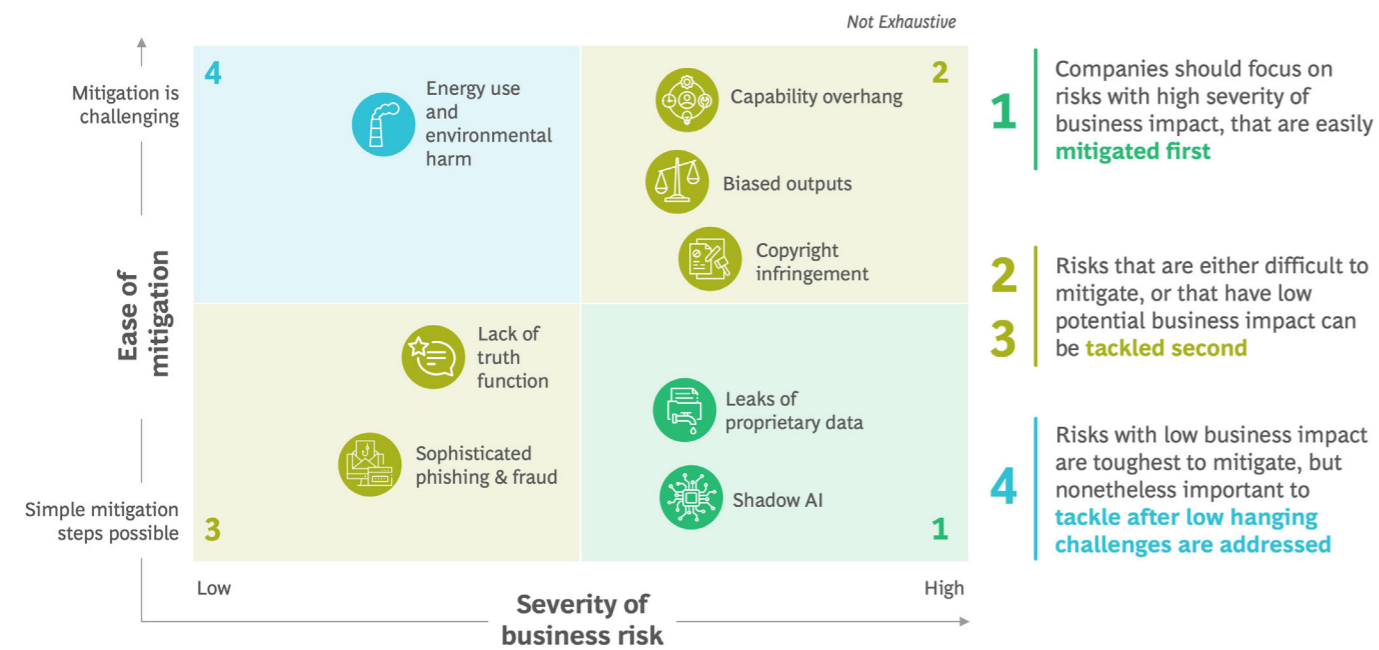
Digital Economy. The digital economy has grown and expanded into a multi-trillion-dollar sector, driving the growth of organisations and the broader economy.

Companies have a narrow opportunity to capitalise and adapt to the ever-changing digital economy; and those that cannot adapt are left behind. The average lifespan of a company has shrunk from 61 years to 18 years over the past 50 years and the technology adoption curve is 7 times what it was 20 years ago.²⁶

need to act now to design a holistic approach and develop initiatives to capitalise on the digital economy and best adapt to the constantly changing digital landscape.

Exhibit 8 - GenAI risks and mitigants.

GenAI poses business risk, with some harder to mitigate than others



Digital activity accounted for 6.1% of the total economy value added in 2020-2021 and the Australian Government has taken on significant and ambitious targets to bring the digital economy to the forefront.²⁷ As part of the Government's Digital Economy Strategy, Australia has bolstered investment with ~\$1.5 billion in 2021, with a further \$1.1 billion in 2022 and is aiming for over 10% of the Australian workforce to be in digitally intense industries by 2030.^{28,29} Australian companies

Megatrends provide leaders with a vision and agenda, highlighting how Australia's competitive structure and landscape will change in the coming years. Organisations need to shift their focus to megatrends so they can adapt and thrive.

This is the first of a new thought-leadership series by BCG focused on megatrends in Australia. Stay tuned for further articles that will explore these megatrends in detail over the coming months.

26. [Charting Economic Opportunities in the New Digital Paradigm](#), BCG, 2022
 27. [Digital activity in the Australian economy, 2020-2021](#), ABS, Oct 2022
 28. [Digital Economy Strategy 2022 Update Released](#), March 2022
 29. [Digital Economy Strategy](#), Australian Government, 2021

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