Quarterly Insights Review

Q1-2025 | Focus on uncertainty, cyclicality and adaption

AQUISIS

AQUISIS

In this edition

Quarterly Insights Review: Q1-2025

Page numbers refer to the page of the PDF

AQUISIS

Strategic adaptations in response to economic cycles: Navigating industry life stages for competitive advantage

Research Pulse

Businesses continually adapt their strategies in response to economic cycles, tailoring their approaches to align with the maturity stages of their industries. Economic fluctuations impact firms differently depending on whether they are in the introduction, growth, maturity, or decline stage. In this article we explore how economic conditions influence strategic decisions, from investment in innovation to operational efficiency and market expansion and introduce the Boom and Bloom matrix as a visual tool to guide strategy thinking.

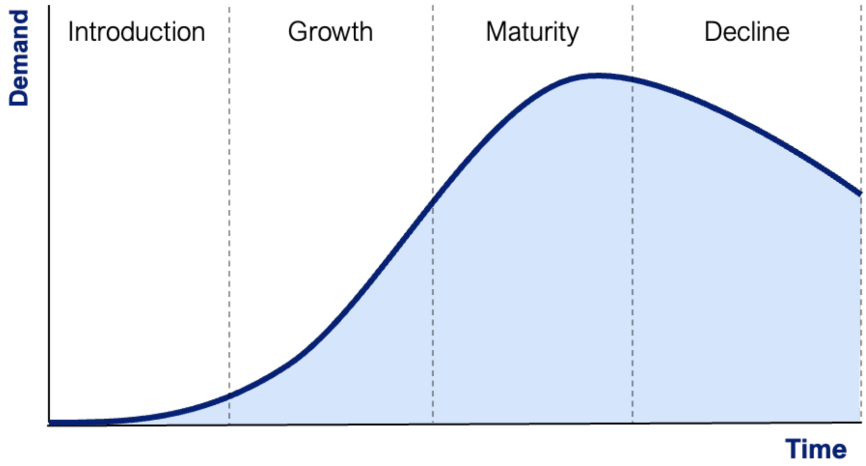
Industry maturity matters for strategy setting

Businesses adapt their strategies in response to economic cycles, and these adaptations are significantly influenced by the maturity stage of their respective industries. Understanding the interplay between economic fluctuations and industry maturity is crucial for firms aiming to navigate challenges and capitalize on opportunities effectively.

The Industry Life Cycle (ILC) model outlines the stages (introduction, growth, maturity, and decline) that industries typically traverse. Each stage presents unique characteristics and challenges:

- **Introduction:** Marked by low competition and high innovation, firms focus on product development and market entry strategies.
- **Growth:** Characterized by rapid market acceptance and increasing demand, companies prioritize scaling operations and expanding market share.
- **Maturity:** Growth stabilizes, competition intensifies, leading to price wars and a focus on efficiency and differentiation.
- **Decline:** Demand wanes, prompting firms to consider diversification, innovation, or exit strategies.

Industry life cycle model



Economic cycles, periods of expansion and contraction in economic activity, interact with these industry stages, influencing strategic decisions. For instance, during economic downturns mature industries may experience intensified competition and price sensitivity, necessitating strategies focused on cost reduction and efficiency. Conversely, in growth stages, even during recessions, firms might continue to invest in innovation to capture emerging opportunities (Caridad Maylín-Aguilar, 2020).

1. Introduction Stage:
   - *Economic Expansion:* Firms leverage abundant resources to invest heavily in R&D and marketing to establish a foothold.
   - *Economic Downturn:* Resource constraints may limit aggressive expansion, leading companies to adopt lean startup methodologies and focus on core innovations.
2. Growth Stage:
   - *Economic Expansion*: Companies scale rapidly, entering new markets and broadening product lines.
   - *Economic Downturn*: Firms might prioritize operational efficiency and target niche markets to sustain growth amidst reduced demand.
3. Maturity Stage
   - *Economic Expansion*: Organizations focus on differentiation through branding and incremental innovation to maintain market share.

   - *Economic Downturn*: Cost-cutting measures, process optimization, and exploring emerging markets become pivotal strategies.
4. Decline Stage
   - *Economic Expansion:* Firms may invest in reinventing product offerings or diversifying portfolios to rejuvenate growth.
   - *Economic Downturn:* Companies might expedite exit strategies, divest non-core assets, or pivot to more promising sectors.

Needless to say, the extent to which this applies depends heavily on an industry's cyclicality and revenue visibility.

Boom and Bloom matrix

	Introduction	Growth	Maturity	Decline
Boom	Push R&D and market entry	Scale & diversify	Differentiate	Reinvent
Bust	Lean innovation in core	Streamline, focus on niche	Cost-cutting	Exit

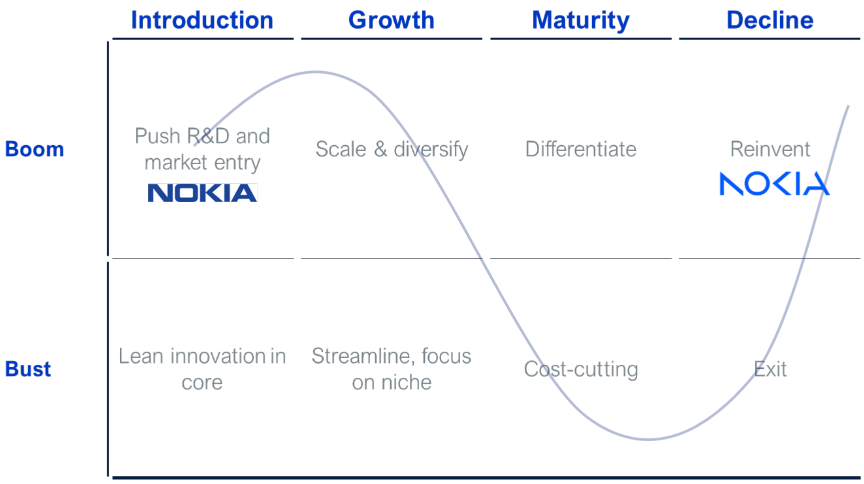
Case Studies: Strategic Adaptations in Practice

A notable example of strategic adaptation is Nokia. Few companies have played the full spectrum in the recent path like Nokia: In the Introduction Phase (early 1990s), the mobile telecommunications industry was in its infancy, marked by high R&D costs and limited competition. During this period of global economic growth, Nokia transitioned from a diversified conglomerate to a telecommunications company, heavily investing in mobile technology R&D. As the industry entered the Growth Phase (mid-1990s - early 2000s), mobile phone adoption surged, competition intensified, and technological advancements such as GSM networks emerged. With strong economic expansion fueling consumer purchasing power, Nokia capitalized on the demand by introducing mass-market, user-friendly devices like the Nokia 3310, scaling production, and expanding globally to become the market leader.

However, in the Maturity Phase (mid-2000s - early 2010s), mobile penetration reached saturation, and competition from Apple and Samsung disrupted the market with smartphones. The 2008 financial crisis further constrained consumer spending, shifting demand towards affordable smartphones. Nokia struggled to transition to the smartphone era due to its late adoption of touchscreens and app ecosystems, leading to a significant loss in market share. The Decline Phase (2010s) saw the mobile phone industry overtaken by smartphone ecosystems. As economic recovery spurred new consumer preferences favouring app-driven smartphones, Nokia attempted a comeback with Microsoft's Windows Phone OS (Lumia series), but it failed to gain traction.

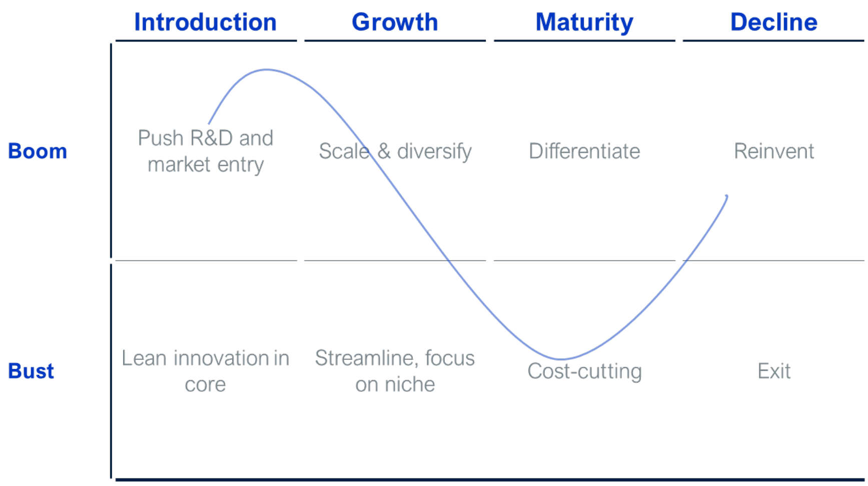
In 2014, Nokia sold its mobile division to Microsoft and shifted its focus to network infrastructure. In the Rebirth & Transformation Phase (2015 - Present), the telecom industry evolved with the rise of 5G, IoT, and cloud networking. As global investment in digital infrastructure surged, Nokia repositioned itself as a leader in network solutions, acquiring Alcatel-Lucent and investing in 5G, cloud services, and industrial automation. Today, Nokia competes with Ericsson and Huawei in the 5G market, demonstrating its ability to adapt and reinvent itself in response to industry and economic shifts.

Nokia's development in the context of Boom and Bloom matrix



A more recent case is Peloton, the connected fitness company that saw explosive growth during the COVID-19 pandemic. As lockdowns kept consumers at home, demand for Peloton's at-home exercise equipment and digital subscriptions surged, leading to rapid revenue expansion and aggressive investment in manufacturing and supply chain scaling. However, as economic conditions normalized and gyms reopened, the company faced declining demand, supply chain challenges, and excess inventory. Additionally, rising inflation and shifting consumer spending patterns further pressured sales, prompting Peloton to pivot its strategy. The company implemented cost-cutting measures, restructured its operations, and shifted focus towards subscription-based revenue models to sustain long-term growth. Peloton's trajectory underscores the importance of aligning investment strategies with sustainable demand patterns and highlights the risks of overexpansion during economic booms. This example illustrates how businesses in consumer sectors must remain agile in response to economic cycles and industry maturity stages to navigate volatility successfully (Mohammed, 2025).

Peleton's trajectory in the context of Boom and Bloom matrix



Innovation Strategies Amid Economic Fluctuations

As noted in the previous paragraph, innovation remains a critical lever for businesses navigating economic cycles. Theories diverge on whether innovation is pro-cyclical (thriving during expansions) or counter-cyclical (flourishing during downturns):

– Opportunity Cost View: Suggests innovation is counter-cyclical, as firms utilize lower opportunity costs during downturns to focus on R&D.
– Resource View: Argues innovation is pro-cyclical, driven by the availability of internal funds during economic expansions.

Empirical evidence indicates that innovation activities, such as patent filings, tend to be pro-cyclical, increasing during economic expansions when resources are more abundant. However, the nature of innovation (product vs. process) may vary with economic conditions (Povolná, 2019).

During economic downturns, process innovation, focused on efficiency improvements, cost reductions, and lean production methods, often becomes more prevalent as firms seek to maintain competitiveness with limited resources. Conversely, product innovation, introducing new goods and services, flourishes in periods of economic growth, when consumer demand is strong, and firms are more willing to take risks on novel market offerings (Gaskell, 2022).

Moreover, industry-specific dynamics shape innovation responses to economic cycles. High-tech industries, such as pharmaceuticals and software development, may continue innovating through downturns due to long R&D cycles and reliance on venture capital or government funding. In contrast, capital-intensive industries, such as manufacturing, may see more pronounced innovation slowdowns during recessions due to tighter credit conditions.

Six best practices

The interplay between economic cycles and industry maturity stages profoundly influences business strategies. By aligning strategic initiatives with both the expected economic climate and their industry's maturity stage, firms can enhance resilience and sustain growth. This alignment necessitates a nuanced understanding of market dynamics, resource availability, and innovation capabilities tailored to each phase of the industry life cycle. Leaders should consider the following strategies:

1. **Diversify Revenue Streams:** Reducing dependence on a single market or product can mitigate risks associated with economic downturns.
2. **Invest in Continuous Innovation:** Allocating resources to R&D across economic cycles ensures long-term competitiveness and adaptability. Also, as evident in the matrix, the effect of and optimal response to business cycle fluctuations depends heavily on what industry cycle(s) one is exposed to.
3. **Enhance Operational Agility:** Developing flexible operations allows rapid responses to market changes, optimizing efficiency during both expansions and contractions. Nokia is a great example here: they are still around today because they adapted strategy in response to lifecycle and business cycles changes. On the other hand, their fall from greatness illustrates the dangers of being caught blindsided by shifts or being too slow to respond.
4. **Market monitoring:** Staying attuned to both economic signals and evolvements in category maturity enables proactive strategy

adjustments, aligning business operations with the industry and economic conditions.

5. **Foster Strategic Partnerships:** Collaborations can provide shared resources and insights, bolstering resilience against economic fluctuations.

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

References

Bibliography

Caridad Maylín-Aguilar, Á. M.-S. (2020). The Industry Life Cycle in an Economic Downturn:. *Journal of Business Cycle Research*, 185-214.

Foroohar, R. (2025, March 23). Why ships are the new chips. *Financial TImes*.

Gaskell, A. (2022, October 4). How Innovation Changes During A Recession. *Forbes*.

Heal, A. (2025, March 23). Is KKR's bad bet on cycling the start of Europe's private equity reckoning? *Financial Times*.

Mohammed, S. (2025). Pedaling through change: The peloton story of disruption, crisis, and reinvention. *Medium*.

Povolná, L. (2019). Innovation Strategy in Small and Medium Sized Enterprises (SMEs) in the Context of Growth and Recession Indicators. *Journal of Open Innovation*.

Copper: Macroeconomic bellwether turns geopolitical indicator

AQUISIS

News-tickers have been filled with copper price news recently with different sources headlining with rising falling prices at the same time. What is going on?

The macro view

Overall commodities have been moving sidewards with steel continuing its slow descent to normality after the spike due to Russia's attack on Ukraine. Year to date, steel is down 4% and aluminum 1%. This fits with a broader normalization narrative as well as the heavy drag on global growth exerted by the Trump administration.

Copper has some structural tailwinds including more exposure to growth verticals like electrification and electronics, which lead to projected medium term far outstripping confirmed supply. However, copper tends also to be much more sensitive to changes in global growth. In fact, BNP's senior commodities strategist David Wilson is quoted saying "We expect prices to collapse in Q2 2025" on the back of negative demand trends in a note published on Friday.

Steel, Copper, and Aluminum forward prices L10Y

Cumulative since to April 1, 2015

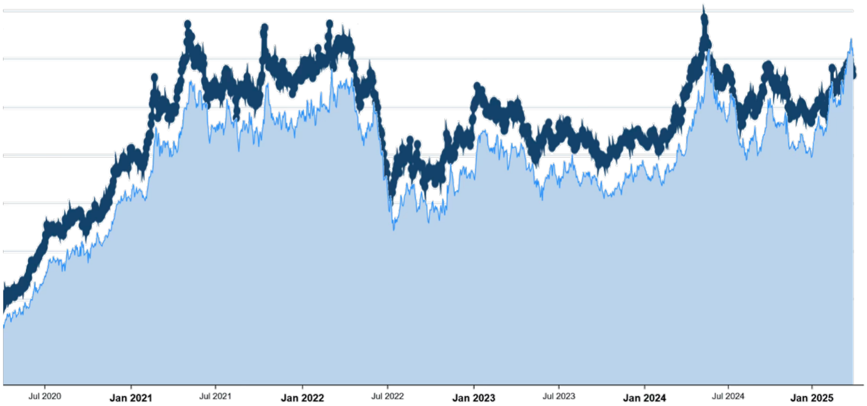
Source: Koyfin

Still, copper quoted on CME has increased 25% since the start of the year.

The geopolitics view

While copper prices in the US increased by a quarter, the global benchmark index at the London Metal Exchange increased only 11%. The explanation is in Washington: With the imminent threat of Trump tariffs on copper imports into the US, traders have been

Copper price, spot: LME (dark blue) vs. CME (light blue)
USD / ton,

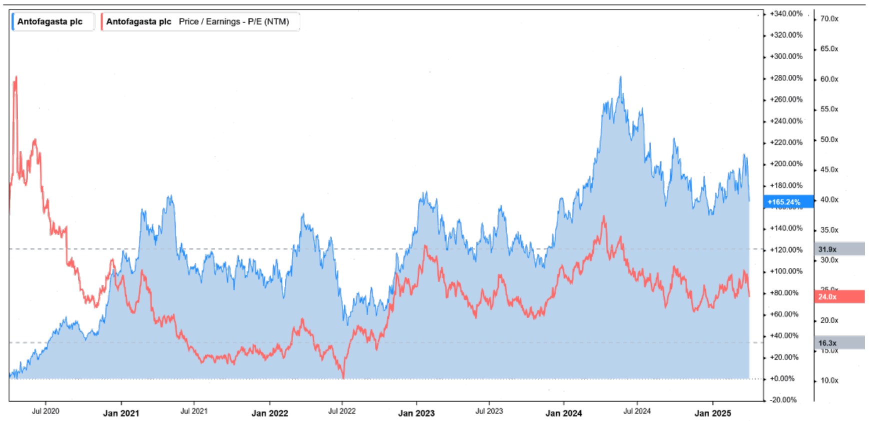


Source: Koyfin, LME

buying in London and selling in New York, which led London prices exceeding US prices more than usual at the start of the year. The result was a higher demand in London and higher supply in the US, opening up a pricing gap. As tariffs come closer to implementation and practical limits to hoarding copper stockpiles, that effect as unwound. Rather, the gap has inverted: Fitting with tariffs, copper is now more expensive in the US while London global copper is moving back to its overall trend of timid growth. Stockpiling of copper in the CME warehouses is something we have seen before - during the first Trump term.

Outside the US, there is no copper price surge as can also be seen multiples on copper stocks, which have held steady (though they are admittedly also influenced by other factors).

Antofagasta performance L5Y
TRS (shaded in blue), and fwd. P/E ratio



Source: Koyfin

How firms react to uncertainty: Strategies, adaptations, and market implications

Research Pulse

Uncertainty is an inevitable challenge for businesses, stemming from economic, geopolitical, and technological disruptions. Firms adopt either defensive strategies, such as cost-cutting and consolidation, or proactive approaches like innovation and market expansion. Historical case studies, such as Apple's investment during the 2008 crisis and Ikea reaction to supply chain shock amid Covid-19, highlight the benefits of strategic adaptability. Defensive actions may ensure short-term survival but can hinder long-term growth. Policymakers play a crucial role in fostering resilience through credit access and innovation incentives. Firms that embrace uncertainty as an opportunity, investing in R&D and expansion, are better positioned for sustained success in volatile environments.

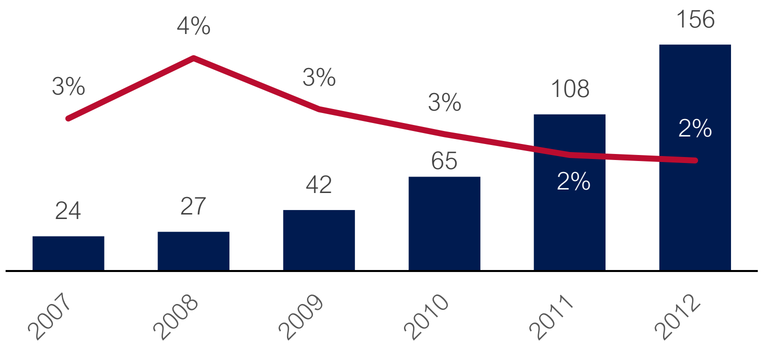
Navigating uncertainty: How firms adapt, innovate, and thrive in volatile markets

Uncertainty is an unavoidable aspect of the business environment, arising from economic fluctuations, geopolitical tensions, technological disruptions, and regulatory changes. Firms must navigate this landscape, adjusting strategies to mitigate risks while seizing opportunities. How companies react to uncertainty varies based on industry dynamics, firm size, and competitive positioning. Research suggests that while some firms adopt defensive measures like cost-cutting and consolidation, others take proactive steps such as innovation and market expansion. Understanding these responses is crucial, as firm behaviour under uncertainty significantly influences economic stability and competition.

Economic theory has long examined how firms respond to uncertainty. The real options theory suggests that firms delay investment decisions in uncertain environments, waiting for clearer signals before committing capital (Pindyck, 1994). A 10% increase in economic uncertainty leads to a 5% decline in corporate investment activity. Similarly, behavioural finance research indicates that risk-averse managers may adopt conservative strategies, avoiding major expenditures and expansions during volatile periods (Tversky, 1988).

However, some firms view uncertainty as an opportunity rather than a threat. The resource-based view posits that firms with unique capabilities, such as technological expertise or strong financial reserves, can leverage uncertainty to gain a competitive edge (Barney, 1991). For example, during the 2008 financial crisis, Apple continued investing heavily in R&D, which paid off with the launch of the iPad in 2010, generating over $1bn in revenue within its first three months.

Apple's annual R&D expenditures and revenues
Value in percentage terms and $bn



Source: Apple Inc

Strategic response: Cost-cutting, consolidation, and the power of innovation

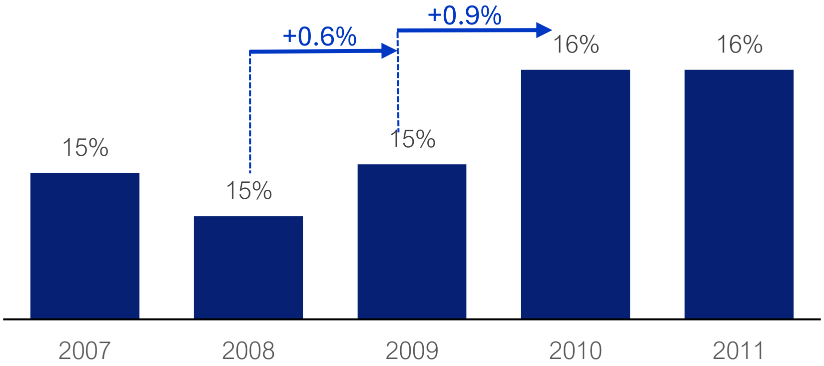
During periods of economic uncertainty, firms often adopt defensive strategies to preserve financial stability. A common response is cost-cutting, which can include workforce reductions, divestitures, and scaling back research and development investments. According to a McKinsey report, during the 2008 financial crisis, Fortune 500 companies collectively reduced capital expenditures by 12% and cut R&D spending by 8%. Defensive strategies can also include restructuring and divestitures. Some firms choose to streamline their operations by selling off underperforming business units or exiting non-core markets to focus on their most profitable segments. This was evident in the aftermath of the 2008 financial crisis, when many multinational corporations restructured their portfolios to prioritize stability.

Another common response is industry consolidation. In times of uncertainty, firms seek to reduce competition and enhance market power by acquiring rivals. Research by Bernanke found that merger and acquisition activity often increases during uncertain periods, as larger firms capitalize on market downturns to acquire distressed assets at lower valuations (Bernanke, 2018). For instance in 2020 while overall deal volume declined, certain types of transactions became more prevalent, such as distressed M&A, where financially stable companies acquired distressed assets or companies at reduced valuations. While consolidation can create operational efficiencies and strengthen market positions, it can also reduce competition, leading to higher prices for consumers and potential regulatory scrutiny. Additionally, firms that grow too quickly through acquisitions may face integration challenges, cultural clashes, and financial strain, potentially offsetting the intended benefits of consolidation.

Case studies: Real-world firm responses to uncertainty

The 2008 financial crisis forced many firms to adapt rapidly to a collapsing credit market and declining consumer demand. Companies such as Ford took proactive measures by securing emergency credit lines and reconfiguring their business models to focus on more fuel-efficient vehicles. This strategic pivot helped Ford increase its market share by 2% between 2008 and 2010, marking its first market share gain since 1995. This upward trend continued in 2010 and 2011, with Ford achieving a 16.4% market share in both years, while competitors who failed to adapt, such as General Motors, required government bailouts.

Ford change in market share following 2008 crisis
Value in perentage terms of US market



Source: S&P Global Market Intelligence

Ikea's response to global uncertainty highlights how businesses can adapt to disruption. The company faced challenges from Covid-19, geopolitical tensions, and supply chain shocks but adjusted swiftly. It diversified sourcing, increased local production, and maintained higher inventory to handle shipping delays. When lockdowns closed stores, e-commerce sales jumped from 5% to 25%. By embracing flexibility, Ikea mitigated risks, proving that adaptability at the company level can counter broader economic uncertainty (Beattie, 2024).

Also recent geopolitical tensions, such as the U.S.-China trade war, have prompted firms to rethink global supply chains. Apple, for example, has diversified its manufacturing base, shifting production from China to India and Vietnam to mitigate the risk of trade disruptions (Richard Baldwin, 2021). Between 2018 and 2023, Apple increased its supplier presence in India by 150%, signalling a long-term strategic shift.

The role of policy in supporting innovation and market stability amid uncertainty

Regulators and policymakers must understand and balance firm dynamics, ensuring that incentives to innovate while preventing excessive market concentration. Research suggests that policies promoting access to credit and supporting R&D investment can help firms navigate uncertainty more effectively (Gonzalez-Uribe & Leatherbee, 2016). For instance, in 2021, the European Union allocated €96bn to its Horizon Europe R&D initiative to bolster innovation resilience among European firms. Similarly, in the United States, the Small Business Innovation Research (SBIR) programme provides funding to high-risk, high-reward ventures, allowing startups to develop new technologies without the immediate pressure of profitability. These policy efforts highlight the importance of fostering an environment where firms can take calculated risks, invest in long-term projects, and remain competitive despite uncertain market conditions.

The dynamics discussed in this highlight key insights into how firms and policymakers can approach uncertainty effectively:

- **Uncertainty is both a challenge and an opportunity.** While it can disrupt business operations, firms that embrace adaptability through strategic investments and innovation can gain a competitive edge.
- **Industry conditions and firm resources shape responses**. Large firms with financial reserves may pursue acquisitions, while smaller firms might focus on operational efficiency or government-backed initiatives to weather uncertainty.
- **Resilience requires strategic flexibility**. Companies like Apple, Ikea, and Ford have shown that diversifying supply chains, leveraging new technologies, and adapting business models are critical to surviving and thriving in uncertain environments.
- **Policy support plays a vital role.** Access to credit and R&D incentives can help firms manage risks and sustain long-term growth, ensuring that uncertainty does not stifle innovation and competition.

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via
- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

References

Bibliography

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*.

Beattie, A. (2024, September 26). How supply chain superheroes have kept world trade flowing. *Financial Times*.

Bernanke, B. S. (2018). The Real Effects of Disrupted Credit: Evidence from the Global Financial Crisis. *Brookings Institution*.

Gonzalez-Uribe, J., & Leatherbee, M. (2016). The Effects of Business Accelerators on Venture Performance: Evidence from Start-Up Chile . *The Review of Financial Studies*.

Pindyck, A. D. (1994). Investment Under Uncertainty. *Princeton University Press*.

Richard Baldwin, R. F. (2021). Risks and global supply chains: what we know and what we need to know. *National Bureau of Economic Research*.

Tversky, D. K. (1988). Prospect Theory An Analysis of Decision under Risk. *Decision, probability, and utility: Selected readings* .

ì

Porsche-Piëch family explores €2bn defence investment to diversify holdings

The Porsche-Piëch family is considering a major move into the defence sector to broaden its investment portfolio beyond Volkswagen and Porsche.

This shift reflects a growing trend among major investors to seek stability through diversification, particularly in sectors like defence and infrastructure, as traditional automotive investments face challenge

The Porsche-Piëch family is exploring the acquisition of a defence company as part of a broader strategy to diversify its holdings and invest up to €2bn. The family's investment arm, Porsche SE, announced the plan to move beyond its current stakes in Volkswagen and Porsche. This shift aims to provide a new "core investment" to complement its automotive holdings and diversify its dividend income. Although specific targets were not revealed, the focus is on the defence sector, with the company also considering investments in infrastructure.

Porsche SE has a cash reserve of €2bn to finance any acquisitions, but it will avoid taking on additional debt, limiting the scale of the deals. The company also faces upcoming repayments on its €5.2bn net debt from its 2022 purchase of a controlling stake in Porsche AG. However, Porsche SE's chairman, Hans Dieter Pötsch, ruled out selling shares in Volkswagen or Porsche to fund these repayments.

The family investment vehicle has previously made smaller investments in start-ups and holds a stake in the drone maker Quantum Systems. The defence sector focus aligns with recent changes in Germany's military spending policies, which have boosted shares in the sector. Despite the controversial history of VW and Porsche in arms production during WWII, Porsche SE's leadership sees no ethical issues in its current plans to expand into the defence industry.

Riding the Wave of Crisis: Growth Opportunities Amid Uncertainty

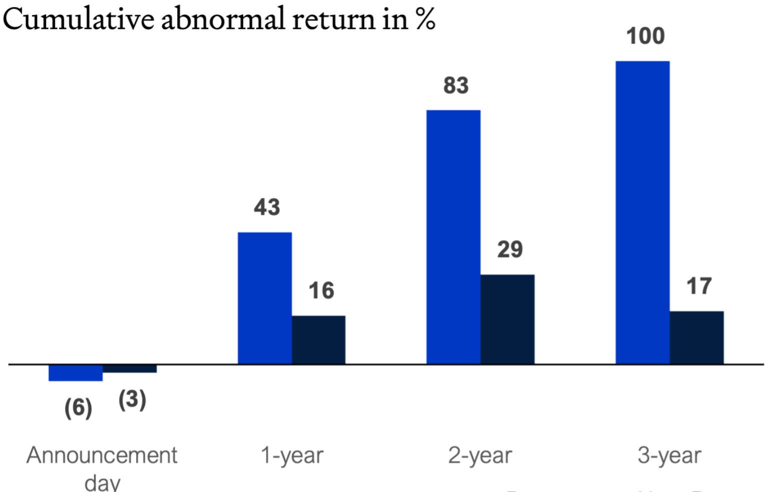
Research Pulse

During crises, it is crucial to maintain a proactive approach by continuing to invest in growth opportunities, fostering new ventures, and maintaining sustainability initiatives. This leads to higher returns, improved survival rates for small and medium-sized enterprises (SMEs), and better financial performance in uncertain times.

Turning the Tide: Capitalizing on Growth Opportunities

In the face of economic downturns, many businesses instinctively cut costs and scale back on investments. However, this approach limits a company's growth prospects and undermines its long-term success. Instead, focusing on growth opportunities and investing in the company's future can lead to better outcomes. One crucial aspect of keeping a company thriving during a crisis is capitalizing on growth opportunities. Research by Che et al. of University of Mississippi (2018) found that during the 2008 financial crisis, firms with high growth opportunities experienced higher abnormal returns when they cut dividends to invest. Furthermore, these firms were more likely to resume dividend payments within five years and demonstrated significantly higher long-term returns than non-resumers.

Dividend cuts to fund profitable growth boost returns
Cumulative abnormal return in %

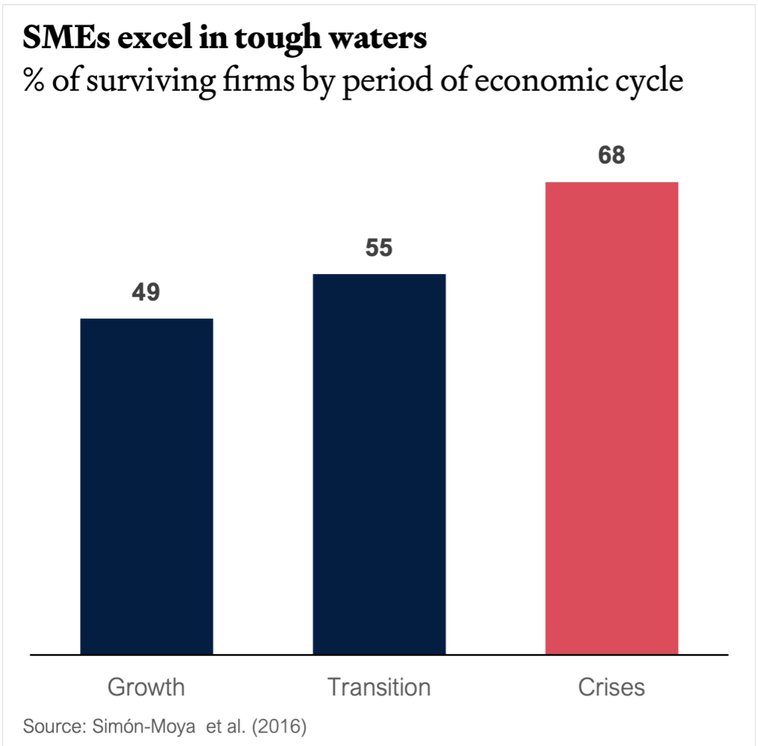


Source: Che et al. (2018)

Seeds of Success: Fostering Entrepreneurship in Stormy Weather

Another second factor for success during a crisis is fostering an environment that supports new ventures and entrepreneurship. A study by Simón-Moya et al. of Valencia University (2016) discovered that new firms had a higher likelihood of survival during crisis periods compared to growth periods. Variations in the environment expose deficiencies in the market, and thus create opportunities to be exploited. Additionally, the opportunity cost of starting a new business in times of crisis is lower, also due to the scarcity of jobs, entrepreneurs will persevere in keeping their new business in a state of growth.

Adaptability and resilience in the face of adversity not just plant startups' seed for long-term success, but are also crucial traits in incumbents. Leaders in established companies should encourage the development of new ventures and corporate entrepreneurship during crises, boosting the company's growth once the crisis ends. This requires a (partial) focus shift from cost cutting to creating an environment that supports innovation and creativity, and provides resources and support for entrepreneurs within the company.



CSR, An Anchor in Turbulent Seas

During economic downturns, it is tempting to cut 'discretionary spending' like corporate social responsibility (CSR) initiatives. However, maintaining a strong CSR profile can have a positive impact on a company's financial performance precisely during a crisis. Research by Isabelle Ducassy (2013) found a significant positive link between CSR and financial performance during the beginning of the financial crisis. Although the connection between the two variables dissipated as the crisis progressed, investing in CSR initiatives can provide insurance-like protection and improve companies' financial performance during a financial crisis.

By keeping a focus on growth opportunities, new ventures, and CSR initiatives, companies can not only weather crises but emerge stronger and more resilient. Long-term success depends on continued investment, even during challenging times. This approach can lead to the development of new products and services, entry into new markets, and the establishment of a strong brand reputation.

Attracting the A-Team: The Competitive Advantage of Crisis Investing

Moreover, investing growth opportunities during a crisis can attract top talent and provide a competitive advantage. This commitment to growth fosters a dynamic, innovative workforce that drives company success. Additionally, it promotes an environment of creativity, problem-solving, and collaboration, leading to innovative solutions and strategic partnerships that strengthen your company's market position and growth potential.

Navigating the Storm: Investing for Long-term Success

In conclusion, during crises, it is vital to adopt a proactive approach by continuing to invest in growth opportunities, fostering new ventures, and maintaining strong CSR initiatives. This strategy leads to higher returns, improved survival rates, and better financial performance across the cycle. By focusing on long-term success rather than short-term cost-cutting, your company can emerge from the crisis stronger and more resilient, with a dynamic workforce, innovative solutions, and a robust brand reputation. Crises are cyclical, and how a company navigates through these challenging times determines its success in good times.

Authors

Fernando Núñez de la Torre was a Fellow at Aquisis and is a consultant at Mondo Sostenibile

Kristoffer Stapelmann is a Managing Partner at Aquisis

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

References

Ducassy, I. (2013). Does Corporate Social Responsibility Pay Off in Times of Crisis? An Alternate Perspective on the Relationship between Financial and Corporate Social Performance . *Corporate Social Responsibility and Environmental Management, 20*, 157-167.

Virginia Simón-Moya, L. R.-T.-S. (2016). Influence of economic crisis on new SME survival: reality or fiction? *Entrepreneurship & Regional Development, 28*, 157-176.

Xin Che, A. P. (2018). The effect of growth opportunities on the market reaction to dividend cuts: evidence from the 2008 financial crisis. *Review of Quantitative Finance and Accounting, 51*, 1-17.

Strategic adaptation: How firms pivot to navigate market shifts and emerging opportunities

Research Pulse

Market shifts are inevitable, driven by economic changes, technology, consumer trends, and geopolitical disruptions. Firms that successfully pivot leverage agility, innovation, and strategic foresight to stay competitive. The dynamic capabilities framework highlights how companies like Amazon, Tesla, and Zara have adapted by reconfiguring resources and investing in digital transformation. Rising defense budgets and the digitalization of security present new opportunities, particularly for struggling industries like the European automotive supply chain. By repurposing their existing deep expertise, these firms can pivot into adjacent defense applications. Effective market pivots require organizational flexibility, innovation, and supportive policies to foster long-term resilience and growth.

How Flexible Organizations Adapt to Market Pivots: Research-Based Insights

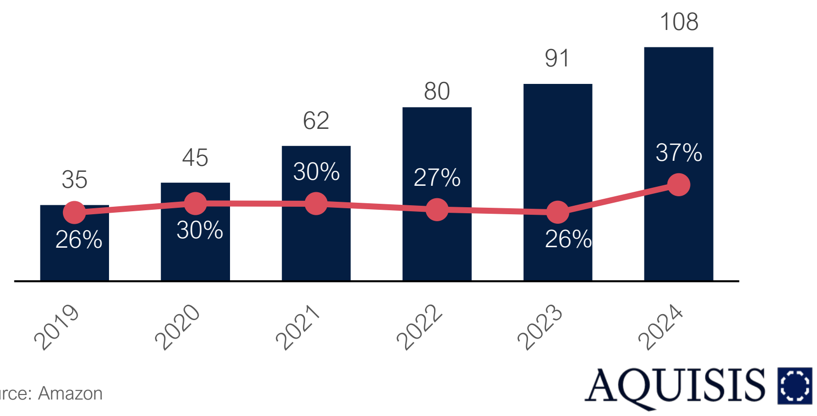
Market shifts are inevitable, driven by economic changes, technological advancements, consumer preferences, and global disruptions. Organizations that successfully adapt to these pivots demonstrate strategic flexibility, leveraging agility to turn uncertainty into opportunity. Research indicates that firms capable of rapid adaptation often outperform rigid competitors, particularly in volatile industries (David Teece, 2016). By analysing how companies pivot effectively, we can uncover key lessons in organizational resilience, strategic foresight, and innovation.

Economic and management theories provide insight into why some firms excel at market pivots while others struggle. The dynamic capabilities framework suggests that firms with strong sensing, seizing, and transforming abilities can reconfigure their resources to capitalize on changing market conditions. For instance, Netflix successfully transitioned from DVD rentals to online streaming by leveraging its technological capabilities and consumer data analytics. Similarly, contingency theory posits that organizational structure should align with external conditions to maximize performance (Lawrence & Lorsch, 1968). Flexible organizations embrace decentralized decision-making, allowing for quicker responses to market shifts. A study by Volberda and van der Weerdt found that firms with adaptive structures are 30% more likely to achieve sustained growth after a market disruption (Henk W. Volberda, 2012).

Amazon's ability to pivot from an online bookstore to a cloud computing giant exemplifies strategic flexibility. Recognizing the potential of cloud services, Amazon Web Services launched in 2006, eventually becoming a $100bn business segment by 2024. This shift was facilitated by Amazon's culture of experimentation and investment in digital infrastructure (Group, 2025).

Inditex, Zara's parent company, maintains flexibility through a responsive supply chain. Unlike traditional retailers, Zara produces smaller batches and adjusts designs based on real-time consumer feedback. This adaptability has allowed Zara to maintain a competitive edge despite disruptions such as the COVID-19 pandemic (Pankaj Ghemawat, 2006).

AWS revenues and operating margin
Data in $bn



Source: Amazon

Organizational strategies for effective Market pivots

Organizational strategies for effective market pivots focus on agile decision-making, sustained innovation investment, diversification, digital transformation, and fostering a culture of adaptability to navigate and thrive in shifting market landscapes:

1. Agile Decision-Making: Research suggests that organizations with decentralized decision-making structures can respond to market changes 25% faster than those with rigid hierarchies (Yves L. Doz, 2010).
2. Investment in Innovation: Firms that maintain R&D investments during downturns are more likely to emerge stronger post-crisis. A McKinsey study found that companies that sustained innovation

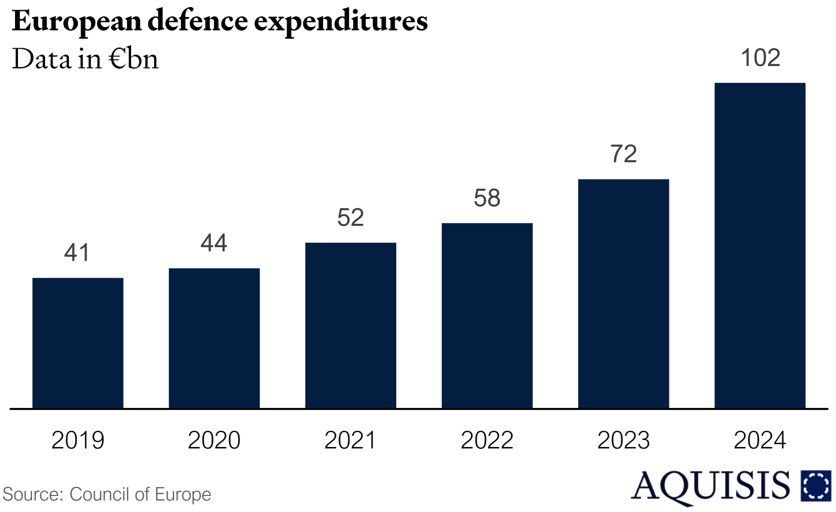
spending during the 2008 financial crisis outperformed competitors by 10% in revenue growth within five years (Jordan Bar Am, 2020).

3. **Diversification and Risk Management:** Organizations that diversify their revenue streams tend to be more resilient. Apple's decision to expand into services (e.g., Apple Music, iCloud) reduced its dependence on hardware sales, making it less vulnerable to smartphone market saturation (May, 2019).
4. **Cultural Adaptability:** Companies fostering a culture of experimentation and learning tend to outperform rigid competitors. Google's "20% time" initiative, which allows employees to work on side projects, led to the development of products like Gmail and Google Maps.
5. **Digital Transformation:** Cloud computing, AI, and data analytics enable firms to anticipate and respond to market shifts efficiently. A study by the Harvard Business Review found that digital-first firms are 2.5 times more likely to successfully pivot during disruptions (Dukach, 2022)

Adapting to geopolitical shifts: A case from the automotive segment

The increasing geopolitical tensions and global conflicts have underscored the necessity for higher investment in defense and security, influencing market pivots across industries. Global military expenditure reached $2.4tn in 2023, marking the steepest year-on-year rise since 2009. More recently, Europe has developed a will to achieve strategic autonomy and compensate for the apparent withdrawal of the US as geopolitical guarantor. Examples include, the proposed €500bn special defense fund in Germany, or France considering increasing defense spending from ±2% to >3% (equivalent to a 50% rise).

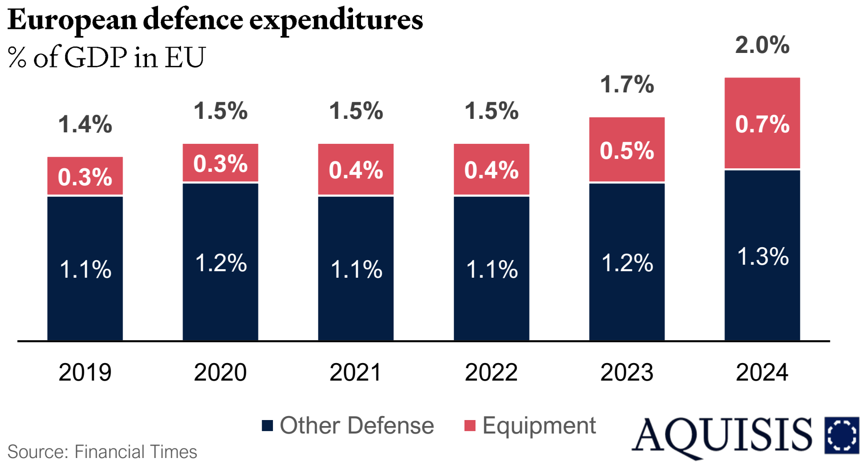
This surge has prompted a reassessment of investment strategies, with private equity and venture capital firms increasing their exposure to defense-related sectors. The digitalization of defense, driven by advancements in AI, cybersecurity, and unmanned military systems, has opened new investment avenues. Additionally, dual-use technologies, those applicable in both defense and civilian markets, such as GPS and cybersecurity, are attracting greater funding due to their scalability and commercial viability. This evolving investment landscape highlights how organizations must remain flexible in reallocating capital to high-growth sectors amid shifting global priorities (Kupec, 2025).



Source: Council of Europe

Struggling traditional industries, particularly automakers, offer a compelling case for pivoting into defense as a means of leveraging existing capabilities and securing long-term growth. The European automotive supply chain, facing declining demand for combustion-engine vehicles and the rapid shift to electric mobility, could adapt their engineering expertise to meet the increasing demand for military and defense-related applications. The vast and specialized network of suppliers, which has developed in Europe, already possess advanced manufacturing infrastructure, high-precision engineering capabilities, and expertise in autonomous vehicle technology, elements that align with modern defense needs.

Aerospace and defense industries are increasingly integrating AI, automation, and electric propulsion systems into military vehicles, drones, and logistics solutions. By repurposing their R&D efforts, the automotive industry could develop autonomous military transport vehicles, hybrid-electric armored personnel carriers, or AI-powered logistics systems for defense forces. This transition is already underway, with firms such as Rheinmetall, a defense contractor with automotive roots, expanding its production of military vehicles and weapon systems. Similarly, BMW's advancements in battery technology and autonomous driving systems could be applied to military-grade electric vehicles and reconnaissance drones. Europe, in fact, has quite some catching up to do. Not only are the world's biggest defense companies almost all American or Chinese, but the US also invests multiple times more in defense R&D: When announcing the €8bn European Defense Fund last year, Josep Borell cited a defense R&D gap of €14bn in the EU vs. €130bn in the US.



Beyond manufacturing, automakers could also capitalize on government contracts to ensure financial stability. Defense procurement spending in the European Union and NATO has surged, with initiatives like the €1bn NATO Innovation Fund fostering new military technologies. By strategically aligning with these initiatives, traditional automotive companies could transition into dual-use technology providers, supplying both civilian and defense sectors. With a projected increase in EU defense spending by up to 50%, and most increases recently going into equipment, there are ample opportunities for those willing and able to pivot.

The future of market adaptation

The ability to pivot effectively is a defining characteristic of resilient organizations. Firms that embrace agility, invest in innovation, and foster an adaptive culture are better positioned to navigate market shifts. As global uncertainties increase, organizations must continue refining their dynamic capabilities to sustain competitive advantage. Policymakers, in turn, should support strategic flexibility through targeted initiatives that foster entrepreneurship, digital transformation, and workforce adaptability. By examining case studies and research-backed strategies, it becomes clear that the key to long-term success lies not in avoiding market shifts but in leveraging them as opportunities for growth.

Authors

Stefano Buldrini is an Associate

Kristoffer Stapelmann is a Managing Partner.

To learn more, you can reach us via

- Email: info@aquisis.com
- Phone: +39 055 517 0015
- Further contact details available on our website: www.aquisis.com

References

Bibliography

David Teece, M. P. (2016). Dynamic Capabilities and Organizational Agility: Risk, Uncertaintym and strategy in the innovation economy. *California Management Review*.

Dukach, D. (2022). Research Roundup: How Technology Is Transforming Work. *Harvard Business Review*.

Group, S. R. (2025). *Cloud Market Jumped to $330 billion in 2024 – GenAI is Now Driving Half of the Growth.* Synergy Research Group.

Henk W. Volberda, N. v. (2012). Contingency Fit, Institutional Fit, and Firm Performance: A Metafit Approach to Organization–Environment Relationships. *Organization Science*.

Jordan Bar Am, L. F. (2020). *Innovation in a crisis: Why it is more critical than ever.* McKinsey & Company.

Kupec, B. (2025, January 6). How the defence sector is attracting growing investment. *Moonfare*.

Lawrence, P. R., & Lorsch, J. W. (1968). Organization and Environment: Managing Differentiation and Integration. *Administrative Science Quarterly*.

May, P. (2019). The Great Convergence: Information Technology and the New Globalization. *Review of Political Economy*.

Pankaj Ghemawat, J. L. (2006). *ZARA: Fast Fashion.* Harvard Business Review.

Yves L. Doz, M. K. (2010). *Embedding Strategic Agility: A Leadership Agenda for Accelerating Business Model Renewal.* Long Range Planning.

