

MAY 2021

2021 Corporate Longevity Forecast

As S&P 500 lifespans continue to decline, fast-shaping “hybrid industries” create new risks and opportunities.

By S. Patrick Viguerie, Ned Calder, and Brian Hindo



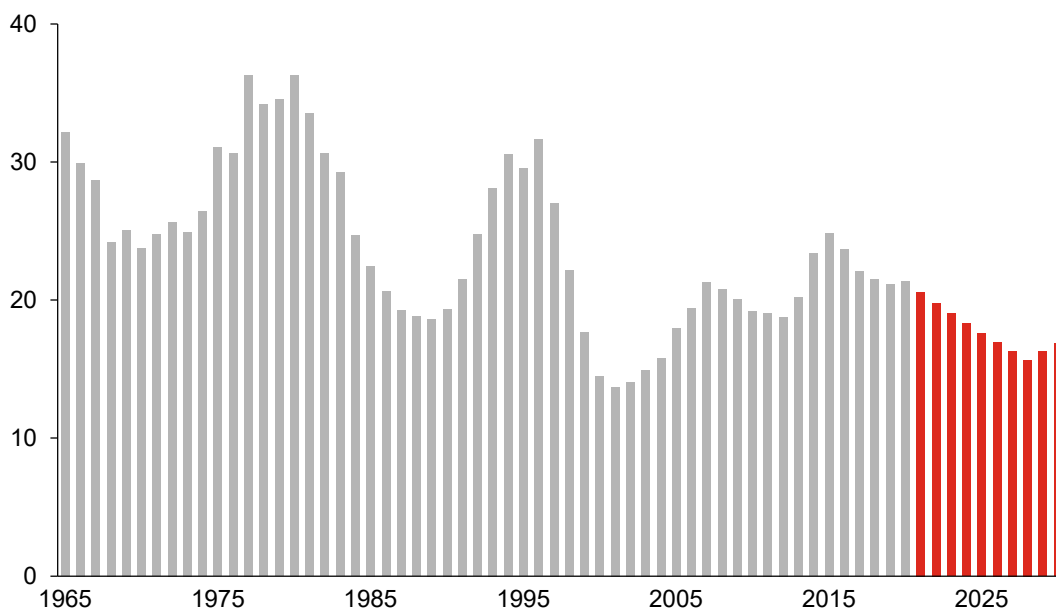
Creative destruction continues apace – and at a high level. After a plunge in activity due to the COVID pandemic, major rebounds in private equity, M&A, and IPOs are leading indicators of a continued future rise in the value of the S&P 500. Our tracking of corporate longevity of S&P 500 firms shows a steady churn rate of companies dropping off the index as new entrants join the list and corporate lifespans continue their downward trajectory.

The full impacts of this global pandemic are not yet known and will play out over the next few years. But signs point to ongoing changes in consumer and market behavior that were previously underway and which the pandemic sharply accelerated.

As a long-term trend, the digital revolution has already reshaped the S&P 500. In 1969, industrial companies represented a third of the index. A half century later, 68 firms are industrials. Over the same span, info-tech companies went from 16 to 68, tied for the top spot.¹

Innovation has flourished during the pandemic, as new solutions have displaced the way we've done things before. As all this creative destruction² makes its way through the economy, disruptive forces are especially concentrated in several sectors, where entire industries are blurring together into fast-growing “hybrid industries” – notably digital healthcare, retail-tainment, and e-mobility.

Chart 1: Average company lifespan on S&P 500 Index in years (rolling 7-year average)



Data: Standard & Poor's; Innosight analysis based on public S&P 500 data sources. See endnote on methodology.

Hybrid industries manifest in different ways. In the case of retail-tainment, it is a convergence of two sectors that previously operated separately. E-mobility, on the other hand, is more multi-faceted, as it re-makes a long-standing coupling of fuel and transportation to include entirely new players in a new sector. Finally, digital health harnesses the increasing consumerization of a wide range of traditional healthcare services, as accelerated by the COVID crisis.

Across these and other industries, three factors hold: companies that are thriving are digital, sustainable, and play to their core strengths that catch broader tailwinds and market forces that can lift growth.

And there are signs of more turbulence ahead. The surge of pre-IPO decacorn companies is rising along with a decline of candidates among existing public companies available to fill what historically remains a high plateau of spots opening on the S&P 500 list.

Tailwinds matter. If your products and services are seeing a lift from the demand changes, you should look at the coming years as a period of acceleration. And if demand is flagging, the time to catch up is running out.

Corporate Longevity and the Rise of Hybrid Industries

Corporate longevity remains in long-term decline, according to Innosight's biennial corporate longevity reports. Our latest analysis shows the 30- to 35-year average tenure of S&P 500 companies in the late 1970s is forecast to shrink to 15-20 years this decade ([Chart 1](#)).

Every year, a number of companies drop off the S&P 500 list due to a decrease in market value or acquisition by larger companies. They are replaced by other firms that enter the index due to growth in market value, or arrive via an IPO or spinoff. In 2020, 18 companies were added or dropped from the index, versus a turnover of 20 in both 2019 and 2018. To further analyze select companies entering and exiting, see [chart 2](#).

As the chart highlights, the companies dropping off the S&P 500 or getting acquired were concentrated in industries converging into three broad sectors. In turn, they've been replaced largely by companies blazing growth trends in place before COVID that have since accelerated.

These three hybrid industries help explain the turbulence while also serving to highlight the risks and opportunities in the future.

The Rise of Retail-tainment

Retail and media have been intertwined for decades. And even before the pandemic, digital commerce had already reshaped retail, leading to the bankruptcy of dozens of store chains every year for the past several years, from Toys R Us to Sears to Brookstone. Dropping off the S&P 500 during the pandemic were an array of venerable retailers, such as Nordstrom, Macy's, Kohl's, and Tiffany & Co.

Chart 2: Remaking the S&P 500 (select changes 2018-2020)

INDUSTRY SECTOR	EXITED THE S&P 500	JOINED THE S&P 500
Healthcare/Biotech/Pharma	Celgene (acq. by B-M-Squibb) Express Scripts (acq. by Cigna) Aetna (acq. by CVS) WellCare Allergan (acq. by AbbVie) Stericycle Envision Healthcare CR Bard	Bio-Rad Laboratories DexCom Catalent West Pharmaceuticals Services Teladoc Health (expected addition in 2021) Abiomed Steris
Energy/Utilities/Transportation	Chesapeake Energy Newfield Exploration Helmerich & Payne PG&E Goodyear Tire & Rubber TechnipFMC Cimarex Anadarko Petroleum Concho Resources SCANA EQT Tesoro Corp. Range Resources Noble Energy	Tesla Monolithic Power Systems Evergy Enphase Energy Diamondback Energy Old Dominion Freight Line
Retail/Consumer/Entertainment	Nordstrom Macy's Kohl's Tiffany & Co. Coty Foot Locker Viacom (acq. by CBS) Mattel Time Warner (acq. by AT&T) Scripps Networks Interactive (acq. by Discovery) Harley-Davidson Capri Holdings	Etsy Twitter Live Nation Las Vegas Sands Take-Two Interactive Domino's Pizza
2020 turnover in other industries	H&R Block E*Trade (acq. by Morgan Stanley) Raytheon (merged with UTX) Alliance Data Systems	Teradyne Teledyne Technologies Otis and Carrier (spun off from UTX) Paycom Gardner Denver Tyler Technologies

Data: Standard & Poor's; table includes additions/deletions through 3/2021

The disruptive trend toward retail-tainment has accelerated during the COVID pandemic. For consumers, their entertainment and retail experiences are increasingly one in the same (at home, on screen) — and often provided by the same companies.

Amazon Prime members have for years been receiving both free shipping and unlimited content streaming from one place. As the number of Amazon Prime households in the U.S. has increased from 60 million in 2018 to nearly 75 million today, these households now represent a supermajority of the population.



This convergence has led to the growth of new types of retail experiences. One of the S&P 500's recent entrants, online crafts seller Etsy, typifies this phenomenon. Founded in 2005, the Brooklyn-based website grew up as a way for makers of hand-made crafts to reach a global audience.

After Etsy went public in 2015, the company struggled for three years to maintain its IPO price of \$27 per share. During the

pandemic, though, Etsy skyrocketed above \$200 as revenue doubled.

While 10% of revenues in 2020 were from artful COVID masks, Etsy has shown that it is not just a phenomenon of the pandemic. Discovering new craft items and making connections with makers has turned into a durable form of entertainment.

At the same time, savvy traditional retailers have learned how to reach into homes by providing entertainment experiences, rather than just advertising. Target Stores, for instance, doesn't just advertise on Hulu but produced a 2020 Hulu documentary called "Design for All," which explores how an inclusive approach to product design can transform lives and lead to environmental sustainability.

The Shift to Digital Health

The COVID-19 pandemic has reshaped the healthcare landscape. The crisis exacerbated a range of legacy pressures, from weak supply chains to the patchwork of inefficient business models across the ecosystem.

At the same time, the crisis is accelerating newer pressures, such as the growth of consumerism in healthcare. In a matter of months, consumer behavior shifted to digital solutions. Historically, telehealth had been a languishing business opportunity. But as Zoom visits to doctors became common, it brought along a host of technologies and business models for lower cost medical visits, monitoring, and interventions.

While digital health began around the management of electronic health records, the trend toward complete digital health management is being driven both by incumbents (such as United Health-care and Medtronic) and by large firms that have moved into the sector (such as Amazon, Alphabet/Google, Walmart, Best Buy, and Philips).

These firms are acquiring and integrating a stunning array of digital services. Solutions range from patient engagement and health coaching to activity tracking and even gesture sensing—all aimed at enabling healthcare providers to remotely monitor and serve patients (chart 3).

Chart 3: Recent digital health deals (2019-2020)

Technology Solution	Acquisition	Buyer	Deal Value
Consumer-centered Virtual Care	Livongo	Teladoc Health	\$18.6 billion
Cloud-based Clinical Trial SaaS	Medidata	Dassault Systèmes	\$5.8 billion
Wearable Activity Tracking	FitBit	Alphabet/Google	\$2.1 billion
Digital Health for Clinical Telemedicine	Health Navigator	Amazon	N/D
Coordinated Care Platforms	Collective Medical	PointClickCare	\$650 million
Medical Device Data Integration	Capsule Tech (aka Qualcomm Life)	Philips	\$635 million
Enterprise Telehealth	InTouch Health	Teladoc Health	\$600 million
Online Prescription Management	Dividose	United Healthcare	\$300 million
Online Prescription Management	CareZone	Walmart	\$200 million

Data: [Mobihealth](#)

One new S&P 500 entrant, Dexcom, is maker of continuous glucose monitoring devices. Digital health typically integrates hardware with digital services. The digital behavioral and mental health segment alone is forecast to grow 12 percent a year, reaching \$4.3 billion by 2025, according to Grand View Research.

One of the largest digital health deals shows how far convergence has come over the past decade. In 2011, mobile phone tech leader Qualcomm launched its Qualcomm Life division dedicated to medical device connectivity. Spun off as Capsule Technologies, it was acquired for \$635 million by Dutch conglomerate Philips as part of its own transformation into a digital health company.

All told, the 53 digital health mergers and acquisitions in 2019 were valued at \$8 billion. In 2020, that figure hit \$50 billion. One telemedicine firm that has grown through acquisitions, Teladoc Health, now has a market value of \$34 billion, large enough to be the next firm added to the S&P 500, as the current threshold for inclusion is about \$8 billion.

The Emergence of E-Mobility

Until recently, clean tech and the imperative to tackle the climate crisis has not been a major factor in the S&P 500 churn rate. Before 2020, there have not been many large clean tech companies to emerge in the U.S. and meet the requirements for listing on the index.

The rising global imperative to decarbonize power grids while simultaneously electrifying transportation is remaking the relationship between energy generation and mobility. The two industries have always been inextricably linked. However, where it was once the oil and gas fuel industry, it is now the clean energy industry that is forming a symbiotic relationship with transportation. As the lines between energy sectors such as energy exploration, public utilities, and transportation dissolve, the rise of the global e-mobility marketplace is accelerating, from \$151 billion in 2019 to \$183 billion in 2020.

The biggest-ever new entrant to the S&P 500, Tesla Inc., is the gorilla in this space, joining the list with a market value that's now bigger than the rest of the U.S.-headquartered automakers combined. With Tesla's success both in solar and EVs, it's at the center of the new sector.

Currently, only 3% of new vehicles purchased worldwide are EVs. But that share is expected to reach 50% sometime between 2025 and 2030. Incumbents have relented, with firms ranging from Volkswagen, Volvo and General Motors all announcing that they will be phasing out production of gasoline models over the next 10 to 15 years.



EVs are only one part of a bigger shift. Solar power is not only the fastest growing source of electricity but is now #1 in new capacity worldwide, surpassing natural gas. That has also led to explosive growth for home storage batteries as well as ways to give consumers more control over their own energy management.

One notable new entrant, Enphase Energy, has joined the S&P 500 while pioneering renewable energy solutions. The Fremont, California company offers a range of products and solutions that make design, installation and operation easier. This includes products like “micro-inverters” that attach directly to the back of solar panels and mobile apps that let homeowners monitor their panels and optimize their energy use for their homes as well as the charging of their EVs.

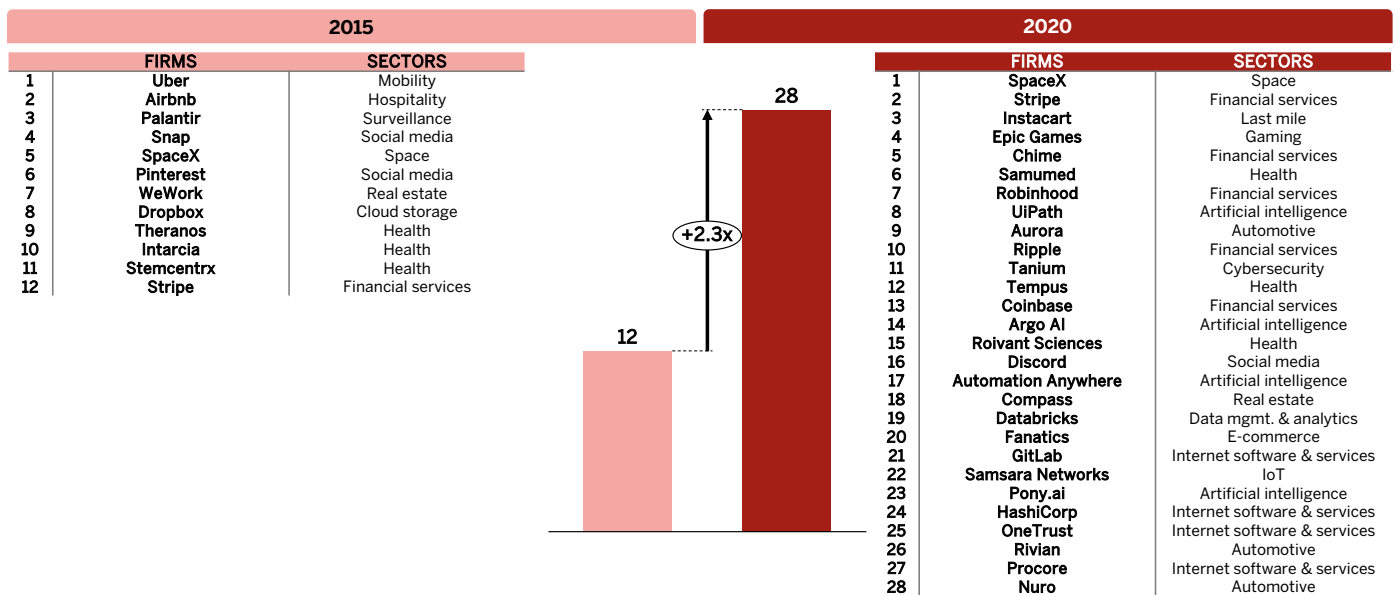
The shift to renewable energy and e-mobility comes as we're seeing old-line energy companies either adapt or fall by the wayside. The incumbents that are now leading the push for e-mobility are being rewarded. GM, for instance, has seen its stock triple over the past year.

A dozen oil and gas exploration companies have dropped off the S&P 500 over the past three years due primarily to a drop in market value or bankruptcy. Companies fighting the convergent forces are getting punished. Chesapeake Energy entered the S&P 500 in 2006 but fell off the list in 2018 and into bankruptcy in 2020. Now it's emerging from bankruptcy as a much smaller company that's well under the S&P 500 inclusion threshold. Those 12 years as part of the index represents an average lifespan of all S&P 500 companies, as Innosight has forecasted for 2028.

Further Signals of Turbulence Ahead

Nowhere are these massive market tailwinds more apparent than in the potential crop of new entrants to the S&P 500. The class of private companies valued at \$5 billion or higher has doubled in number since 2015 (Chart 4). These are prime candidates to IPO soon and trigger additional turnover in the index.

Chart 4: U.S.-Based, Venture-Backed Private Companies at Scale Valued at Over \$5B Number of firms (publicly available valuations only)



Data: CBInsights, Crunchbase, public reporting

Takeaway Questions for Leaders

Powerful tailwinds are holding across a range of industry sectors. The companies now growing into the post-COVID economy are getting more digital, getting more sustainable, and play to their core strengths that catch these broader tailwinds.

At the same time, failure to do so can put companies on the other side of the forces that Schumpeter called creative destruction. The high-pressure reshaping of entire industries creates winners and losers.

So how can companies catch the tailwinds of being both digital and sustainable? Leaders can start by asking these five questions:

How do these trends affect my business, and how can we be best positioned to catch the tailwinds? Being digital and sustainable aren't short-term trends, but provide long-term benefits for businesses that can harness them. Leaders need to examine not only whether their strategy aligns with these forces but also whether every product, service and company policy does as well.

Who will our customers be? Everything starts with the customer and how they are adapting their lives given all the changes in the way we work, shop, and stay healthy. In many cases, it could mean that current customers are skipping to different solutions, or that you are missing an emerging new class of customers.

Due to simultaneous changes and convergences, who are our new competitors? As different industries merge together and form new hybrids, the competitive landscape transforms. Hospitals now compete with phone apps. Utilities now compete with car companies. Hollywood studios now compete with e-commerce companies. Your new competitive landscape depends not on your history but on your strategy. Given this lens, who will be your most important competitor in five years?

Are we creating the products and services that will meet the demands of the future we face? Incumbent companies should re-assess their portfolio for the new reality aligning innovation efforts with strategy. This can be done by making sure that R&D or new product development is not an isolated department but central to the mission of the leadership team.

What capabilities will we need to adapt to the accelerated pace of change and thrive in the

“new next?” Throughout the COVID pandemic, we have witnessed behavior changes and substitutes: people turning to Zoom for virtual meetings instead of flying for in-person meetings, for example. As we emerge from the pandemic, we can expect an acceleration of the tailwind forces that were already in motion, including consumer-driven health, sustainability, and shopping and working from home. What core capabilities — such as brand, distribution, and supply chain — can you build on, and what new capabilities — such as digital systems or specialized talent — do you need to develop?



ABOUT THE METHODOLOGY

The S&P 500 turnover analysis is based on data compiled from public sources and is inspired by research conducted by former Innosight director Richard Foster.

“Churn” is calculated by dividing the number of constituent changes each year by 500. For instance, 2020 had 16 constituent changes; 2021 churn = 3.2% (=16/500). Next, “seven-year rolling compound annual growth rate” (7yrCAGR) in “churn” is calculated to smooth year-on-year volatility and capture long-term trends. Average company life span is calculated by the reciprocal of 7yrCAGR (= 1 / 7yrCAGR). The resulting life span history is plotted and reveals a cyclical pattern in long-term decline.

Note: Life span begins in the mid-1960s and reflects the move from 90 to 500 constituents in 1957. Forecast life span reflects historical peak-to-peak and trough-to-trough trends. Forecast “channel” is created in peak and trough patterns based on historical trend and cycle duration to 2030. This “channel” serves as a guide for forecast trend line to 2030.

ABOUT THE AUTHORS

S. Patrick Viguerie is managing partner of Innosight. pviguerie@innosight.com

Ned Calder is a partner at Innosight. ncalder@innosight.com

Brian Hindo is a partner at Innosight. bhindo@innosight.com

The authors would like to thank Evan Schwartz and John Van Landeghem for their contributions to this report.

ABOUT INNOSIGHT

Innosight is a strategy and innovation consulting firm that empowers forward-thinking organizations to navigate disruptive change and own the future. Now a member of the Huron Consulting Group, we work with leaders to create and implement new growth strategies, accelerate critical innovation initiatives, and build innovation capabilities. Discover how we can help your organization navigate disruption at www.innosight.com.

ENDNOTES

1. <https://www.qad.com/blog/2019/10/sp-500-companies-over-time>
2. As defined by economist Joseph Schumpeter (1883-1950), the “gale of creative destruction” describes the “process of industrial mutation that revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”