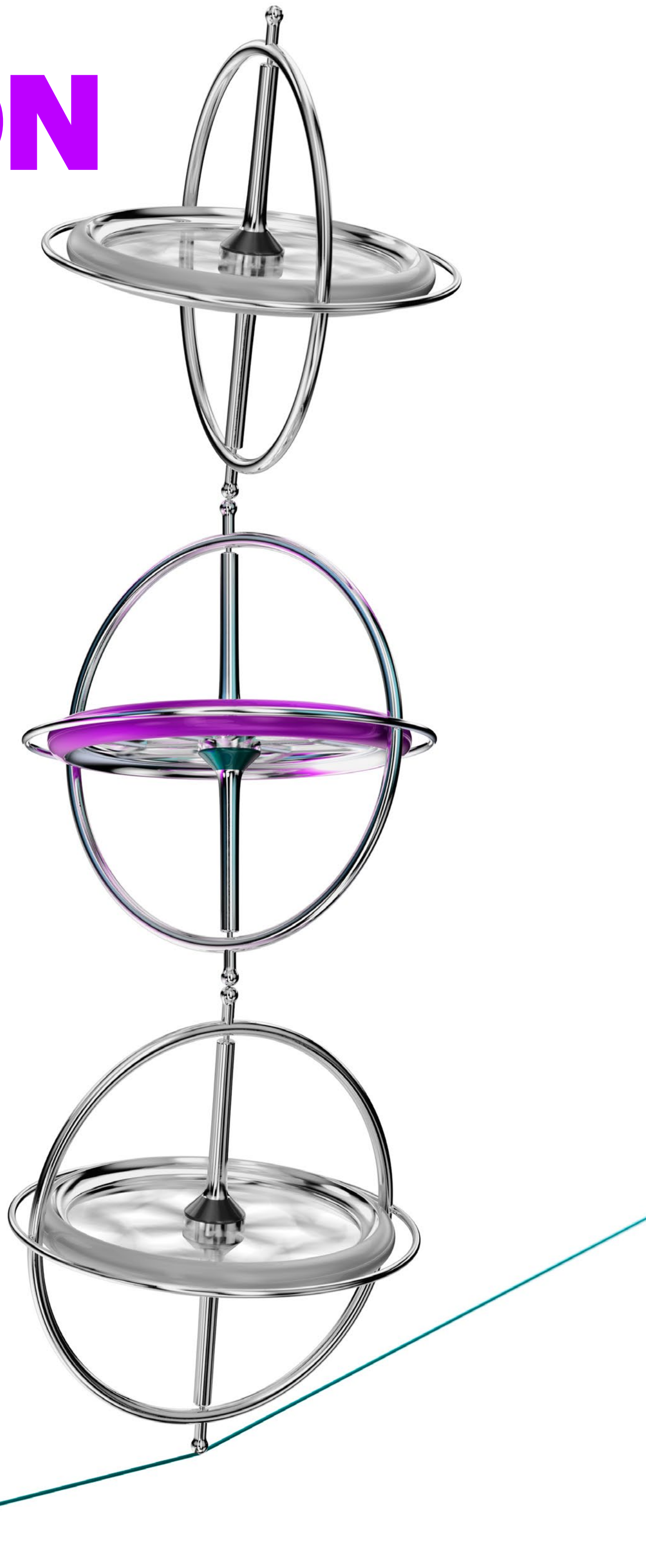
accenture

EXECUTING A WISE PIVOT TO BEAT DISRUPTION



BY: Vukani Mngxati, CEO, Accenture, Africa

The findings of Accenture's Innovation Maturity Index, detailed in a previous piece, indicate that 76 percent of South African companies are struggling to release trapped value — i.e., they are finding it hard to convert potential opportunities, such as those presented by digital technologies, into actual value. This makes them vulnerable to disruption. A wise pivot could save them.

HOW LEADING COMPANIES MANAGE THEIR DISRUPTION JOURNEY BY EXECUTING A WISE PIVOT STRATEGY

Our research shows there is a small group of high-growth companies—we call them ‘value releasers’—that consistently outperform the rest in the creation of both current and future value. Their advantage: these leaders focus on building innovation structures and practices that drive differentiation and shareholder value... and they know how to pivot their businesses wisely to the new.

For South African companies, the need for a dramatically different approach to strategy and execution is obvious. Yet, even as CEOs across industries see with clarity the need to change, most struggle to translate vision into action. Fewer still have the tools to steer their organisations decisively and sustainably.

Almost half of the South African executives we surveyed feel unsure or dissatisfied that their company’s innovation efforts will position them well to overcome future disruption, and concede that their companies are not prepared for disruption. There is an answer — our guidance in terms of how executives can respond to disruption: execute a Wise Pivot strategy that is repeatable. In a Wise Pivot strategy, companies manage their core assets not as discrete resources with diminishing value from creation through to retirement, but as a dynamic investment portfolio, continuously balanced across three lifecycle stages—the old, the now and the new.

- The “old” are products and services that have reached the peak of their growth and either have or are soon likely to stall.
- The “now” are offerings in the middle of the development, growing rapidly but already shifting from a focus on innovation to one based on efficiency and eventual commoditisation.
- The “new”, are emerging parts of the business just beginning their journey, whose speed and trajectory are largely unknown. To pivot wisely means embracing a constantly evolving strategy, one that integrates all three stages as executives manage their portfolios from one set of assets to the next, growing and reshaping their old core into a new one built with new technologies.

Companies need the skill and courage to radically shake up legacy businesses and ramp up new investments at the right pace and scale.

In a recent survey of 100 executives from large companies in South Africa, 72 percent said that they generate less than a quarter of their revenues and profits from new business activities.

Even more concerning is the fact that these businesses also do not anticipate that they will be able to generate more than half of their revenues and profits from new business three years from now.

In comparison, Accenture's global survey, which spanned 11 industries and 12 countries, revealed that over 50 percent of large companies optimistically expect that new business will generate more than one half of their revenues and profits three years from now.

Several factors prevent South African companies from accelerating their journeys. These include capital-intensive infrastructures, contractual agreements, outdated technology and a relentless devotion to legacy products, services and brands. In short, they are tied to the past. It's a serious challenge they need to move quickly to overcome.

Companies that do survive disruption are constantly re-inventing themselves, making their businesses relevant to the future. If companies remain overly focused on their core business, they are unable to pursue new opportunities. If they neglect their core business in a dash to the new, they may find themselves short of the investment capacity they need. Finding the right balance between these extremes takes skill and courage.

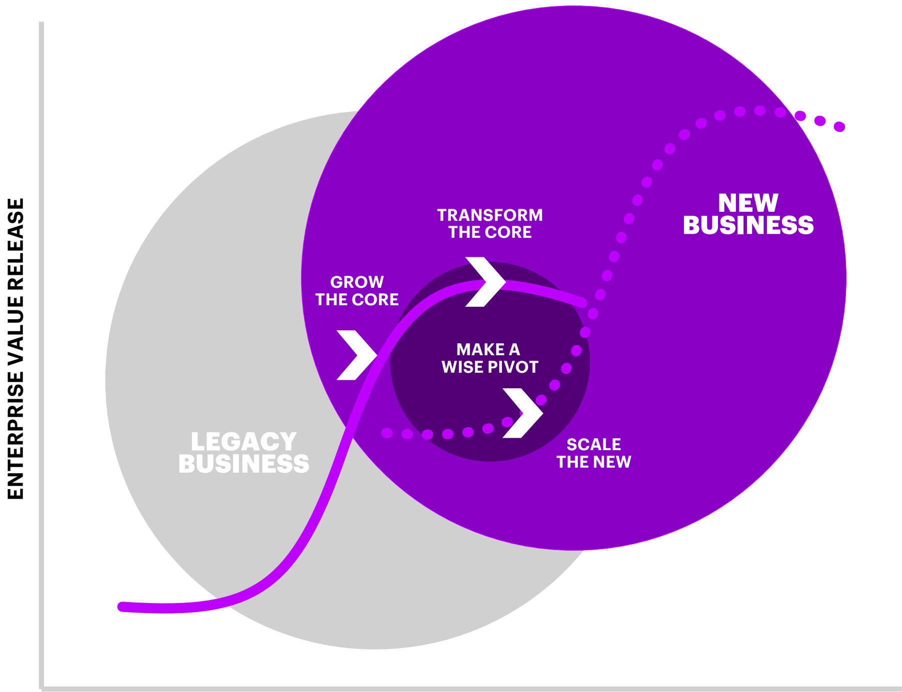
To pivot successfully companies, need to adopt a new approach to organisational change. This involves making a series of decisions about how to transform and grow the existing businesses, and how to scale new businesses, continuously and synchronously.

A wise pivot also requires the right investment strategy to ensure the timing, scale and direction of investments are calibrated.

Making a wise pivot should be a matter of urgency among companies in South Africa where only 10 percent of the companies we surveyed have transformed their core business. Following the Wise Pivot model, companies can position themselves for the digital age in a steady, safe and balanced way by transforming the core (and generating funding for new investment), growing the core, and scaling the new—see Figure 1.

> **"Accenture sees an opportunity to employ the 'Wise Pivot' to drive growth and unlock Africa's abundance for all."**
>
> – Vukani Mngxati, CEO of Accenture, Africa

Figure 1:



Transform the core to generate investment capacity. This involves investing in processes and functions to increase efficiency and create value in the form of higher profits. This additional cash flow can help fund innovation and growth initiatives.

Grow the core to sustain the fuel for growth. The pursuit of accelerated growth should not overlook growth opportunities in the core business. This may involve finding new customers or markets for existing offerings or innovations that improve customer experience.

Scale the new to identify and scale new growth areas at pace. Innovations—whether new products or new business models—will not deliver the growth and impact the company expects if they are not commercialised and brought to a mass market.

> **Companies that succeed in the wise pivot can protect their businesses from disruption and look forward to a new S-curve of growth. By carefully scaling and timing investments, they can build "the new" and continue to nurture and grow the core.**

Transform

Our global study comprised an online survey of 1,440 C-level executives from companies with revenues exceeding $500 million, across 11 industries and 12 countries.

One particular group in this study scored high in their ability to pivot their businesses to the new successfully. They are the top 6 percent of companies surveyed. We call them "Rotation Masters".

They differed substantially from other companies in terms of the high percentage of revenues—more than 75 percent—that they have generated from new business activities over the last three years, as well as in terms of their financial performance.

Rotation Masters also stood out because of the work they did to ready themselves for a perpetual change journey. Specifically, they create three preconditions to help them reinvent their organisation:

- They build sufficient investment capacity for change.
- They enable their organisations to innovate.
- They seek and create synergies between their old and the new businesses.

Building Investment capacity for change

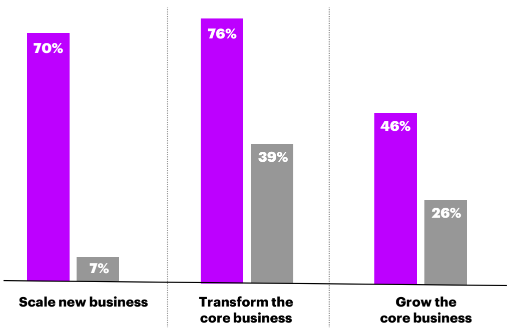
Rotation Masters understand the level of investment required to drive change. They fine-tune their existing business activities by reducing costs, divesting non-core businesses and streamlining assets.

As a result, more than two-thirds of Rotation Masters were confident that they held sufficient investment capacity to scale new businesses as well as reinvigorate their existing core business.

In comparison, only 39 percent of South African respondents say that they have sufficient investment capacity to transform their legacy business and even fewer (7 percent) are confident about their ability to scale up new businesses – see Figure 2.

Figure 2:

Rotation progress hinges on having sufficient investment capacity



Percentage of respondents saying "definitely sufficient" on a scale of 1 to 4: excludes respondents who answered "don't know"

Source: Accenture C-level Survey

CASE IN POINT:

67%

Consider UK-based home improvement retailer, Kingfisher. Increasing online product search and purchasing rapidly disrupted the company's traditional brick-and-mortar retail model.

In response, Kingfisher introduced a five-year transformation plan to infuse digital innovations into its customer experience and sales channels. It funded this plan through savings achieved through standardisation and cost-saving initiatives.

Rotation Masters are also more likely to make investment decisions that create a deep-seated readiness for change. In the past three years, they focused on improving internal efficiencies (e.g., through reducing strategic costs and increasing workforce efficiency) and by building external networks. Rotation Masters also view consolidation of tangible assets (cited by 71 percent of respondents) and divesting select business lines (67 percent) as important to build investment capacity for change. However, just 9 percent of South African companies hold the same view across both activities.

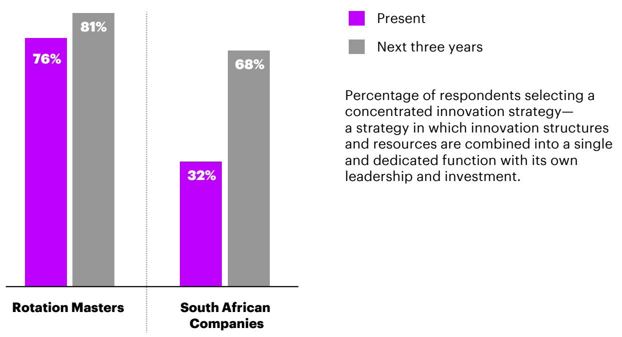
ENABLE THE ORGANISATION TO INNOVATE

Our research shows that leading companies leverage innovation to reposition their companies for the future. They build strong innovation capabilities to help them pivot their business successfully—95 percent of leaders in our survey say they use innovation strategically to unlock value in their legacy and new businesses.

Most Rotation Masters (81 percent) indicate they will have adopted concentrated innovation strategies three years from now; 68 percent of South African companies will follow suit, up from 32 percent today—see Figure 3.

Figure 3:

Concentrated innovation is key to rotation progress
In your opinion, how concentrated is your company's innovation strategy at present/three years from now?



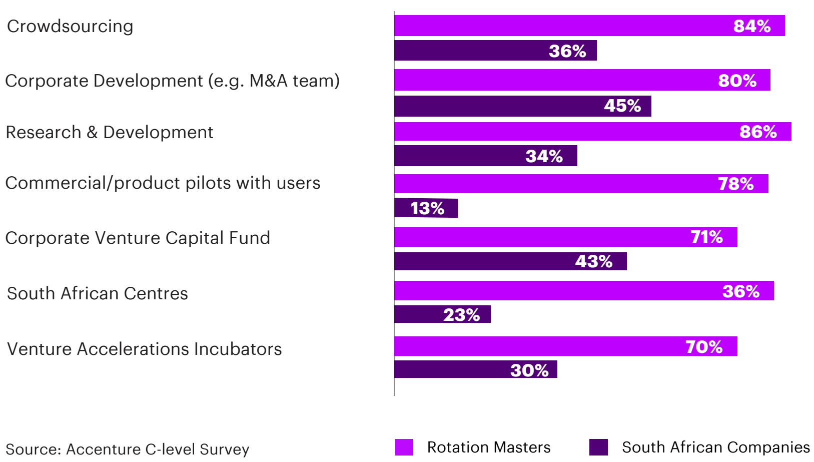
Source: Accenture C-level Survey

A concentrated strategy allows Rotation Masters to spot promising innovations, prototype and test them early. As a result, they are better able to see innovations with highest potential and turn them into a commercial reality ahead of the competition.

In addition, Rotation Masters employ a combination of internal and external innovation capabilities. Notably, they tend to prioritise the deployment of crowdsourcing strategies and in-house corporate development teams (who can identify and acquire the right innovation capabilities externally) more than other companies. They also have a strong preference for the use of innovation centres and research and development capabilities, and they seek opportunities to pilot and test product ideas with end users—see Figure 4.

Figure 4:

Rotation Masters know how to put innovation capabilities to work
How much of a priority for your company are the following innovation capabilities for enabling transformation?



Source: Accenture C-level Survey

CASE IN POINT:

30 YEAR

US-based Ecolab provides a good example of enabling the organisation to innovate. It was an early pioneer in driving innovation through digital technology. Its business model, which combines chemistry, digital technology and on-site customer service, has enabled it to become a leading global provider of water, hygiene and energy technologies to the food, healthcare, hospitality, energy and industrial markets. For example, it introduced its 3D TRASAR™ Cooling Water Technology more than 30 years ago. This technology combines chemistry, remote services and sophisticated monitoring and control to improve a range of industrial operations.

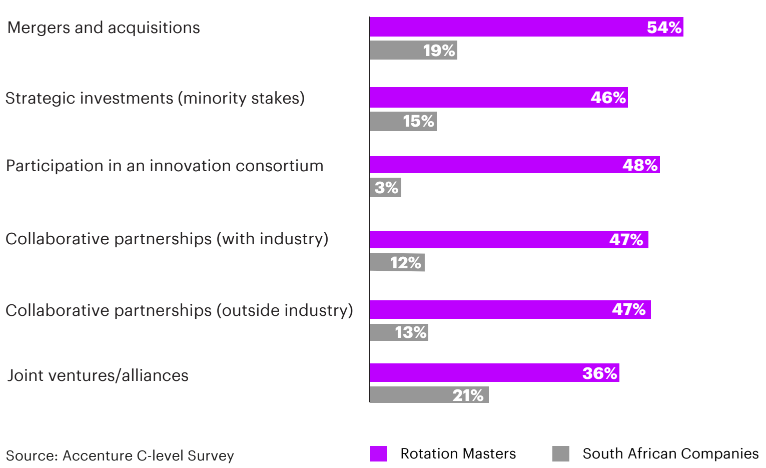
CREATING SYNERGIES BETWEEN OLD AND NEW BUSINESSES

Rotation Masters are explicitly looking for ways to update their legacy businesses and find synergies between the old and the new. We discovered that more Rotation Masters than others are focused on tapping into the potential to cross-sell between the new and legacy businesses. In addition, most Rotation Masters (60 percent) consider the potential to leverage new business in order to reshape the culture of the legacy business. Developing completely new business models is a high priority for companies well-advanced on their journey. Most of the Rotation Masters in our study (81 percent) consider moving beyond their existing business models vital to cementing future leadership positions in their industries. External networks are playing an important role in creating synergies between old and new businesses. While expanding into new businesses requires access to investment, a strong appetite for collaboration is important, particularly to find synergies to build on the strengths of a legacy business. Notably, Rotation Masters know how to leverage the power of external networks, such as innovation consortia, collaborative partnerships and joint ventures—see Figure 5. South African companies, by comparison, have been slow to leverage these expansion strategies. Such collaborations matter, because they enable Rotation Masters to innovate at a higher speed. Nearly 80 percent of Rotation Masters consider it essential to support innovation activities with a wide network of partners and customers.

Figure 5:

Expansion strategies adopted by Rotation Masters

How important are each of the following to your company's ability to expand into new businesses in the next three years?



Source: Accenture C-level Survey

CASE IN POINT:

US healthcare company CVS Health has a long history of pursuing growth strategies and building new businesses alongside its strong core pharmacy business. Established as a discount health and beauty store in 1963, it added in-store pharmacy departments four years later, and continued to pursue a steady transition of its business model. Today, CVS Health is one of the largest healthcare providers in the US, with over 9,800 retail pharmacy locations and over 1,100 MinuteClinics in 33 states.

MAKING A WISE PIVOT: KEY PRIORITIES

The leader that finds the right balance between the old and the new does not just rely on skills but demonstrates courage. Courage to radically and deliberately shake up legacy businesses, divesting some parts while revitalising others. Courage to scale new investments at the right pace and scale so that they neither miss the moment, nor overreach themselves. Rotation Masters are decisively expanding into new businesses while driving deep and continuous transformation of their legacy businesses. Companies in South Africa, depending on their current stage of progress, will need to prioritise key behaviours to move their organisations closer to a wise pivot and emulate Rotation Masters.

Which are you?

- Rotation Master. You have decisively expanded into new businesses while driving deep and continuous transformation of your legacy businesses. You generate 76 to 100 percent of your revenues from new business activities started in the past three years.
- Rotation Driver. You have a legacy business that is in full swing of transformation and have focused expansion into new businesses. You generate 51 to 75 percent of your revenues from new business activities started in the past three years.
- Rotation Striver. You have a partially transformed legacy business and recognise potential for expansion into new businesses. You generate 26 to 50 percent of your revenues from new business activities started in the past three years.
- Rotation Starter. You are in the early stages of legacy business transformation with high expectations from new businesses in the future. You generate 1 to 25 percent of your revenues from new business activities started in the past three years.

	BUILD SUFFICIENT INVESTMENT CAPACITY FOR CHANGE	ENABLE THE ORGANISATION TO INNOVATE BY	SEEK AND CREATE SYNERGIES BETWEEN THE OLD AND THE NEW
ROTATION DRIVERS	Drive **growth in the legacy** business to replenish investment capacity (e.g., via digital marketing)	Deliberately direct investment to **scale new business** activities (e.g., through serial acquisition of new assets)	Reinvigorate the **culture in the legacy** business using new capabilities and new talent. (e.g., recruitment of data scientists)
ROTATION STRIVERS	Develop a clear **expansion strategy** for new businesses and determine how much capital funding is needed	Create a core set of **innovation capabilities** to enable faster transformation of the core business	Invest in **upgrading the technology infrastructure** required to support new businesses
ROTATION STARTERS	Prepare to **drastically restructure** the legacy business (including divestment of underperforming activities)	Establish the **essential innovation** capabilities (e.g., innovation labs and centres) to start incubating new ideas	Invest in **collaborative partnerships** to improve ability to test new commercial ideas, and access new markets early

AND DON'T FORGET THE WORKFORCE

An agile, innovative, digital age organisation will require an adaptive, innovation-led workforce. It will thus be critical to pivot the workforce to new business models, orienting teams to support new customer experiences and helping them to acquire the skills they need to function in the new.

To pivot the workforce:

- Recognise the business case. Use automation to fuel growth by reinvesting savings in the future workforce.
- Organise for agility. Create flexible processes; manage the workforce to support both the core business and the new.
- Foster a new leadership DNA. Cultivate leaders at all levels to help pivot the workforce to new growth models.

MAKE YOUR MOVE

To respond to disruption, companies need to understand where to focus their transformation efforts. Firstly, it is important to understand whether the initiatives your organisation are currently embarking on will collectively yield the best response to disruption.

Secondly, companies need to know how to build sufficient investment capacity, then deploy that capacity to scale new businesses while designing the organisation to innovate more pervasively. Companies also need to create synergies between the old and the new.

We partner with companies to help them shift with speed and confidence to transform existing businesses while expanding into new areas of growth.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world's largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 459,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.
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