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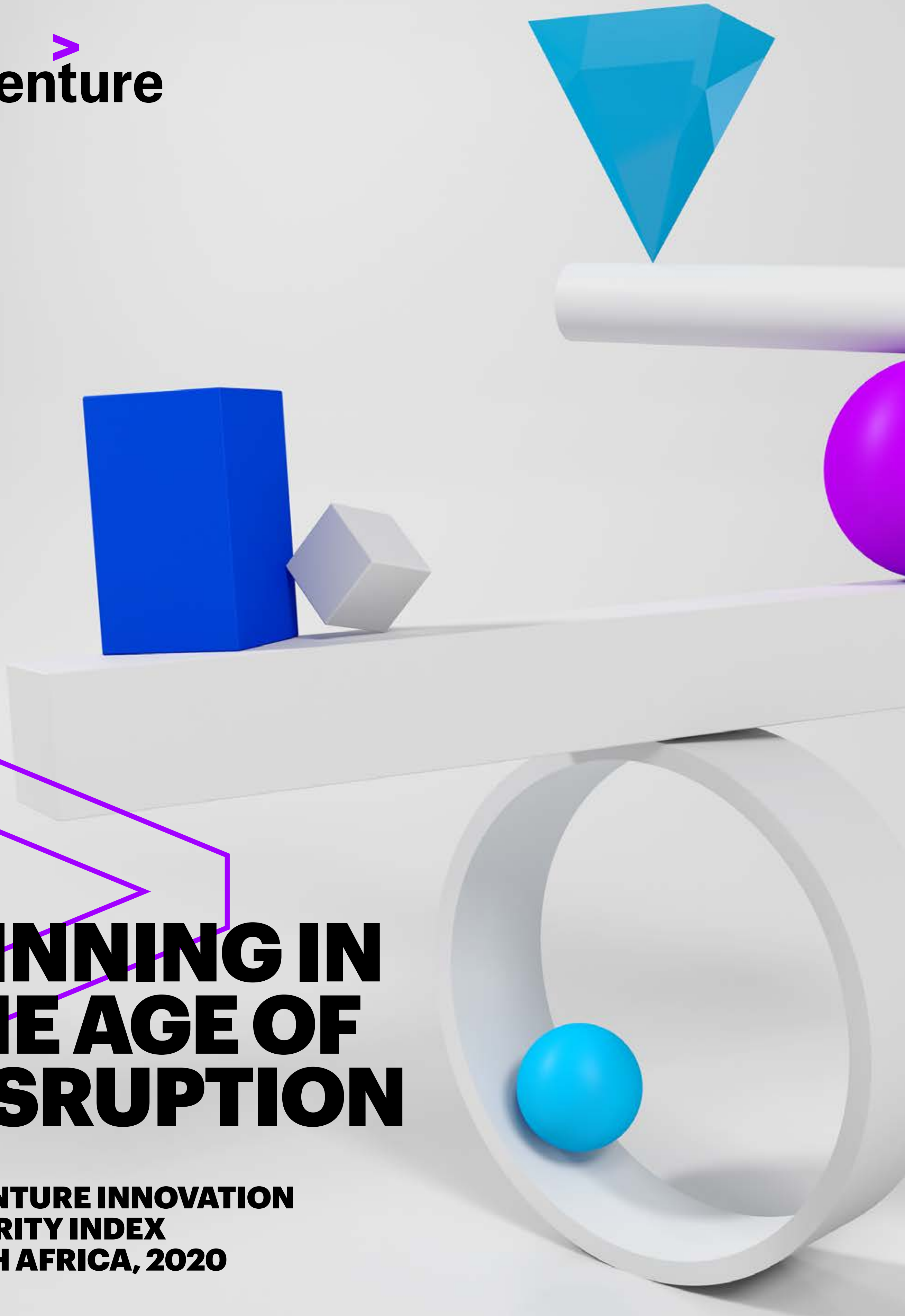


WINNING IN THE AGE OF DISRUPTION

ACCENTURE INNOVATION MATURITY INDEX SOUTH AFRICA, 2020

Disruption is an inescapable and growing challenge for all industries in South Africa. Though executives in the region are aware of the threat, they are not adequately prepared to face it. Innovation lies at the root of almost all disruption. To hold their own, South African companies must ramp up their innovation capability.

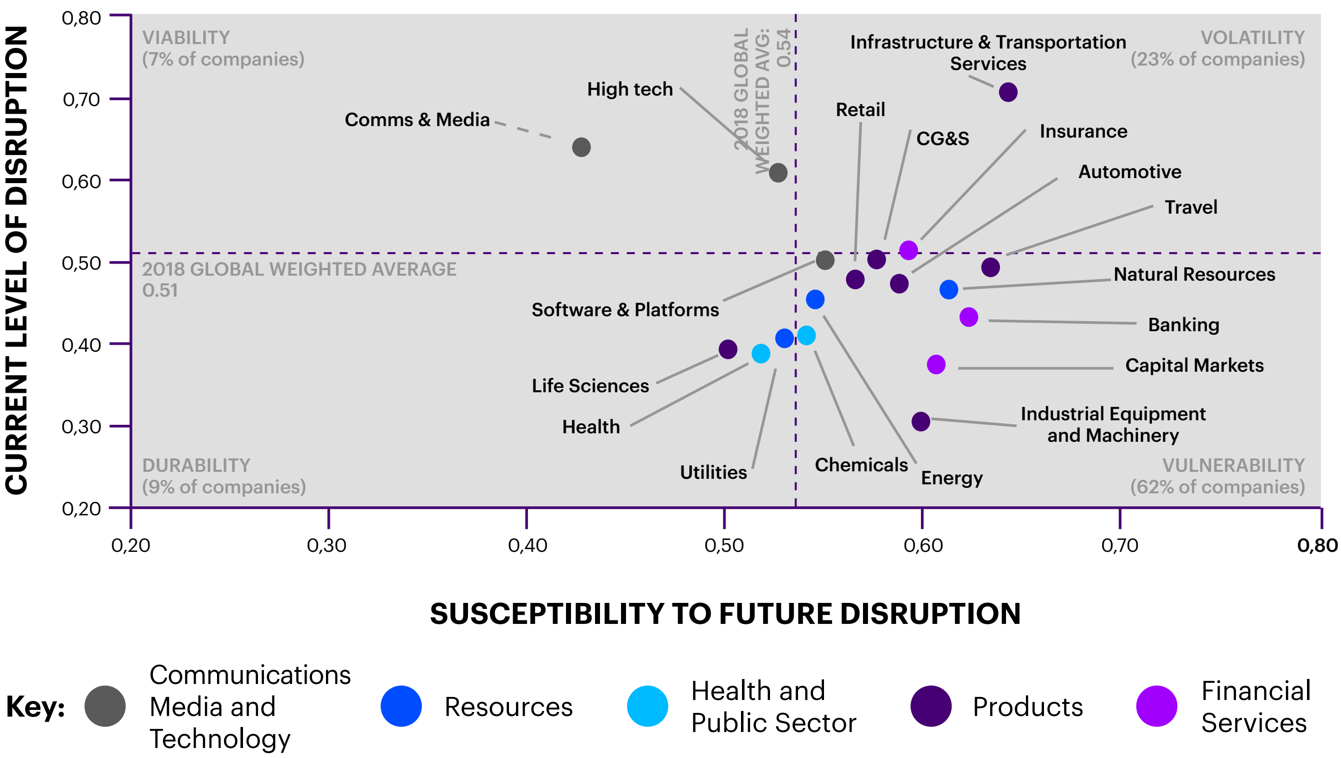
DISRUPTION IS INESCAPABLE

85% of South African companies are vulnerable to future disruption.

Disruption has taken hold in every industry and geography, and it's constant. South Africa's industries are more vulnerable than most—our research shows that 85 percent of South African companies (Figure 1) are vulnerable to future disruption versus 70 percent globally. That's because the majority of local companies are making a conservative play, competing in their traditional businesses using traditional approaches. It's a risky strategy.

The companies that are beating disruption, just 7 percent of South African companies compared to 14 percent of companies globally, are innovating, using digital technologies to grow and reshape their core businesses into new businesses. Companies that aim to drive growth and thrive in the digital era have much to learn from these companies.

Figure 1: Industry Exposure to Disruption: South Africa



Source: Accenture Research Disruptability Index 2.0, South Africa, 2020

MEASURING DISRUPTION IN SOUTH AFRICA

Our Disruptability Framework measures an industry's current level of disruption as well as its susceptibility to future disruption.

For the former, we examine two components: the presence and penetration of disruptor companies and the financial performance of incumbents. To gauge susceptibility, we measure three components: incumbents' operational efficiency, commitment to innovation, and defences against attack (Figure 2). To measure these variables, we built a bottom-up approach using data from 100 companies across South Africa.

Figure 2: Accenture's Disruptability Framework

PRESENCE AND PENETRATION OF DISRUPTORS	PERFORMANCE OF INCUMBENTS	ABILITY TO OPERATE EFFICIENTLY	INNOVATION ACTIVITIES AND INVESTMENTS	DEFENCES
Presence of **incumbent disruptors**	Incumbent **profitability**	**Transaction** intensity	Scale of **innovation efforts**	**Brand** dominance
Presence and penetration of **start ups**	Scale and consistency of incumbent **growth**	**Asset** intensity	Investment in new **digital technologies**	**Openness** of market
Value of **venture capital** flows	Incumbent **bankruptcy rate**	**Labour** intensity	**Market perception** of ability to innovate	Scale of **trapped value**

BUILDING THE CAPABILITY TO INNOVATE CAN HELP SOUTH AFRICAN COMPANIES COMPETE AND THRIVE!

This research indicates that all industries are facing disruption, but 85 percent (versus 70 percent of companies globally) are highly susceptible to future disruption.

62%

are vulnerable to future disruption.

23%

are facing higher levels of potentially volatile disruption.

DISRUPTION HAS A PATTERN DEFINED BY FOUR DISTINCT PERIODS

DURABILITY

Just 9 percent of South African companies are in the Durability period. Industries in this period - demonstrate broad resilience and achieve consistent performance, while disruptors remain a distant threat, for now. Instead of purely sustaining the status quo, this is a period in which companies have a great opportunity to seek, and experiment with new business ideas.

VULNERABILITY

The majority of companies in South Africa (62%) are in the Vulnerability period where acute weaknesses in industries, from a lack of innovation to insufficient investment, become apparent. It is in this period that incumbents benefit from the continued presence of high barriers to entry and, instinctively, many rely on these defences to fend off disruption. This blind spot distracts many from a great opportunity: scaling up new ideas and venturing into new markets.

VOLATILITY

In the period of Volatility, old sources of industry strength become weaknesses as large disruptors enter to unlock new sources of value. Most companies focus on resolving pressing issues in the core business; what's much harder is redirecting investment capacity to grow new businesses. Twenty-three percent of South African companies have entered this period.

VIABILITY

Fifteen percent of companies fall into this period. In the Viability period, embryonic or reborn industries try to sustain high rates of innovation and enjoy only short-lived competitive advantages as new disruptors constantly emerge. Here the opportunity lies not only in growing the core business by offering new products in existing markets, but also in expanding the footprint of existing products to new markets.

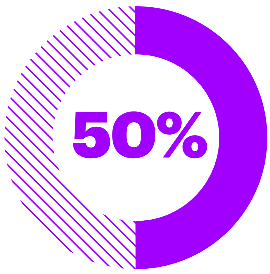
Executives in South Africa are aware of the threat and are not adequately prepared.

PLAYING SAFE AMID DISRUPTION IS RISKY

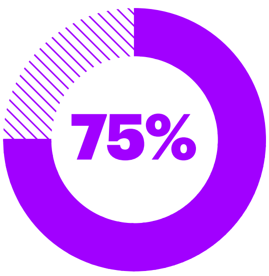
1 in 2 **SOUTH AFRICAN COMPANIES SAY THEY ARE NOT PREPARED FOR DISRUPTION**

As part of its global study, an analysis of over 3,000 of the world's largest companies across 20 countries, Accenture conducted interviews with 100 South African C-suite executives from 14 industries to understand how their businesses are preparing for, and are positioned to deal with disruption.

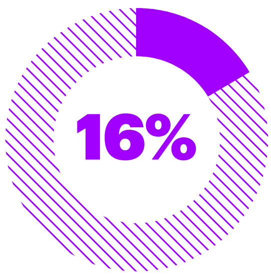
Their responses are cause for concern:



concede that their companies are not prepared for disruption.



expect their industry to be disrupted by new innovations in the next three years, especially from new competitors and technologies.



are very satisfied that their company's innovation efforts will position them well to overcome future disruption.

With technology advances creating abundant value opportunities and scope for innovation, why are local companies slow to unlock this value and get onto the winning side of disruption?

When companies are in the middle of disruption, they typically make cautious moves. They raise barriers to entry instead of extending themselves outward. They rely on what's worked for them in the past, in lieu of seeking deep change on the inside. They double down on efficiency, rather than committing to real innovation. In summary, they focus their energies and resources on the core business that generates most income and profits. While these are instinctual and understandable choices, they don't work. These choices keep companies in survival mode and away from actively shaping their future.

Unfortunately, as disruption escalates and business growth begins to moderate, companies that have not kept pace with change (e.g., adopting new technologies to increase efficiencies and business agility, innovate and enter new markets) find themselves ill-equipped to compete.

Simply put, companies on the wrong side of disruption are failing to unlock value trapped within their businesses. For them, the economic opportunity is visible but unreachable—it cannot be attained with their existing business models or capabilities.

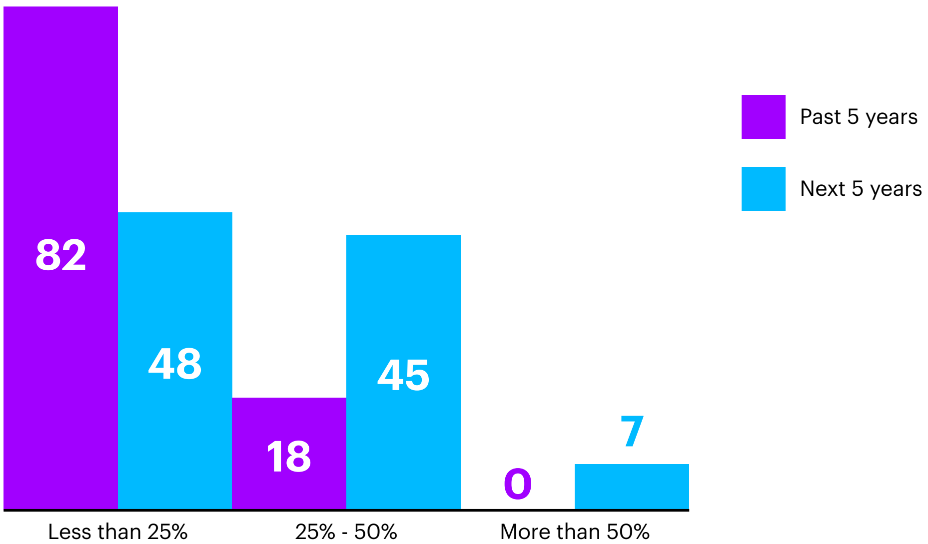
Our research shows that 68 percent of South African companies continue to compete in their legacy businesses using mostly traditional approaches, or have just started transforming their legacy business into new business. The good news is that investment in innovation is growing—more companies are planning to allocate a bigger share of financial investments to innovation. However, it may be 'too little, too late'. A more focussed and radical approach may be required.

We asked respondents about their financial investments in innovation over the past five years and over the next five years. Almost half (48 percent) of respondents said that they will put less than 25 percent of financial investments into innovation in the next five years. Given the rate of disruption in local industry, that may be very shortsighted.

What is more promising is that a full 45 percent say they will allocate up to 50 percent of investments to innovation in the next five years, a big step up from the 18 percent that did so over the past five years. However, only 7 percent of respondents noted that they would commit more than 50 percent of their financial investments to innovation in the next five years (Figure 3).

Figure 3: Financial investments in innovation over the past (and next) five years

45% of companies will allocate up to 50% of investments to innovation in the next five years.



Source: Accenture Research analysis based on survey data

WHY IS INNOVATION SO IMPORTANT IN SOUTH AFRICA RIGHT NOW?

Disruption is caused by innovation. This makes innovation the source of disruption—and the antidote to being displaced by disruption.

South Africa is facing enormous challenges, including high unemployment, low skills levels and declining productivity and competitiveness. To stimulate economic growth, it needs to address fundamentals, improving infrastructure, healthcare, education, broadband reach and costs, and more. Rapid advances in digital technologies offer business and government a way to rapidly address these issues, introducing new, more efficient and effective processes, making new business models possible and providing unparalleled opportunities for value creation.

But unleashing that value requires a strong innovation capability.

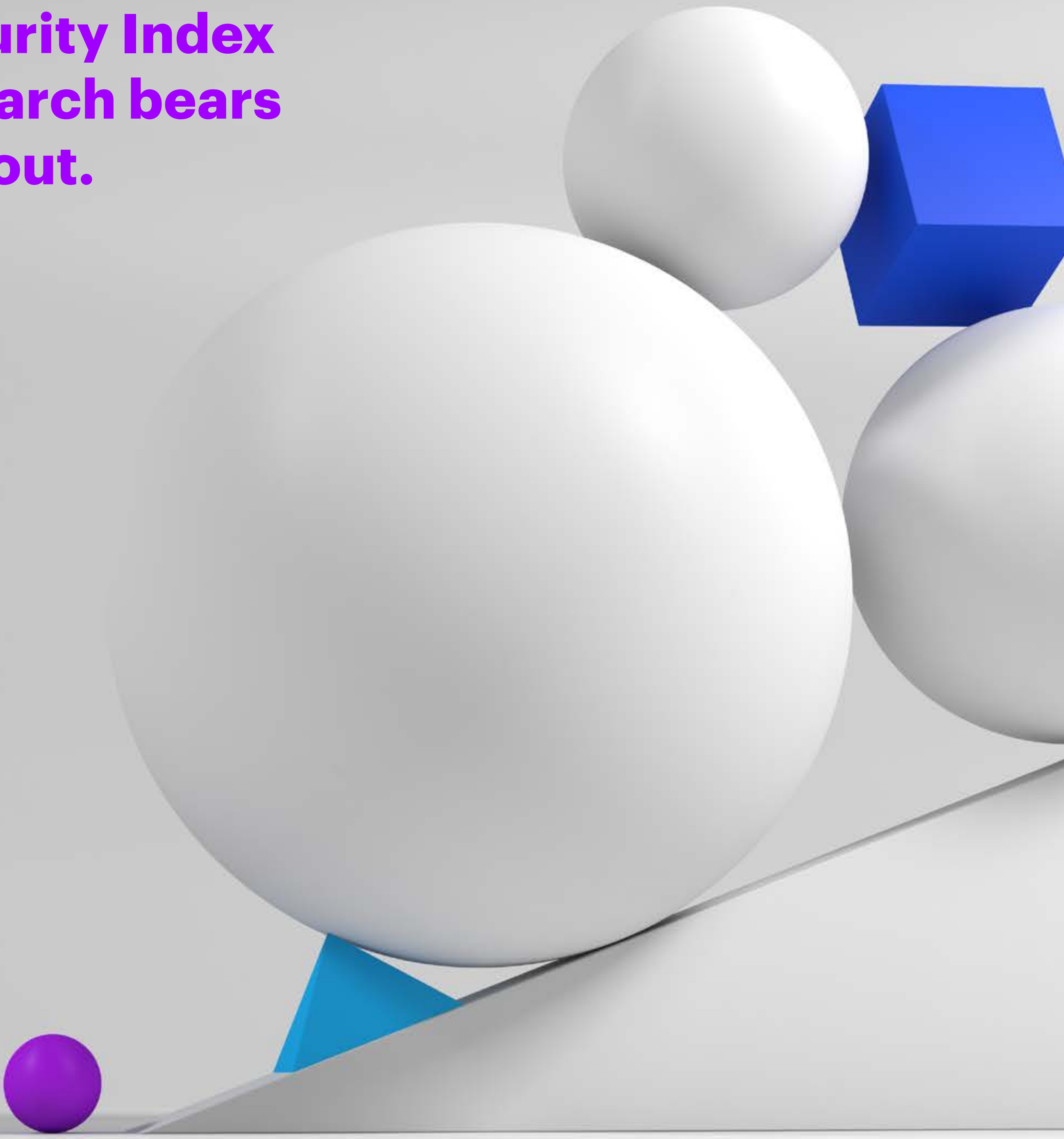
The domination of two recognised industry giants illustrates the point:

- **Netflix's** video streaming business has now expanded globally. Its anywhere, anytime, any device offering, backed by the successful use of artificial intelligence (AI) to match and recommend content to users, has disrupted the video, DVD and PayTV markets. Now it is spending billions of dollars to develop original content, a differentiator that's boosting its market share and shaking the film industry.

- **Amazon,** which has quintupled its sales since 2010, and now has a market capitalisation hovering at around $1 trillion, has changed retailing for ever. Starting with online book sales in 1994, it expanded into sales of many other items, reshaped the retail industry with one-click sales and delivery convenience. It's fully leveraging analytics and AI for personalised recommendations, and embedding it in virtual assistant Alexa. Entry into new markets—from smart consumer devices (Alexa) to cloud services, technology products and, more recently, the health care and financial services markets—is ongoing.

What can we learn from these types of companies?

Companies that thrive in the age of disruption actively innovate. Our 2020 Innovation Maturity Index research bears this out.



DELIBERATE INNOVATION STRUCTURES AND PRACTICES DRIVE SUCCESS

To develop the Innovation Maturity Index, we took a bottom up approach—we identified a number of innovation characteristics and factors from literature reviews and from our survey insights where we studied and tested the adoption of these innovation characteristics and factors on high-growth companies globally. The Accenture Innovation Maturity Index groups these characteristics, evaluating the extent to which respondents apply the characteristics and factors to innovate and release value. By high growth we are referring to companies that have outgrown their peers in the last five years and are expected to outgrow their peers in the next five in terms of revenue and profitability growth.

We found that high-growth companies take a distinct approach to unlock trapped value with innovation. These leaders have focused on changing at a fundamental level by deliberately building innovation structures and embedding key innovation practices across the organisation.

Companies that thrive in the age of disruption build deliberate innovation structures and adopt seven innovation practices that lead to organisational change.

To get there, they have, and are investing in innovation aggressively. They take a focussed and decisive approach to innovation: it is change-oriented, outcome led and disruption-minded.

These leaders set up deliberate structures for innovation success.

The structures that enable these companies to Innovate by Design include innovation strategy, -culture and -architecture structures.

82%

Of high-growth companies innovate by setting up deliberate structures for innovation success—82 percent of these companies agree that innovation strategy, -culture and -architecture structures describe their organisation to a significant extent.

STRATEGY

Successful innovators share a similar approach to innovation strategy.

- They aim for **disruptive advances,** rather than incremental improvements.
- They **build concentrated innovation functions,** rather than dispersed teams.
- They **balance innovation between old and new** and make sure innovation is quantifiable.

CULTURE

Companies that succeed in innovation have a culture of innovation in which:

- **Creativity is encouraged** and rewarded.
- **Ideation is applauded** by managers.
- **New thinking is fostered** within the organisation.

ARCHITECTURE

A well-designed innovation architecture specifies **clear processes for moving innovation** from ideation through R&D to mass-market commercialisation, employing a combination of internal and external innovation capabilities.

Next, consider the Innovation Practices:

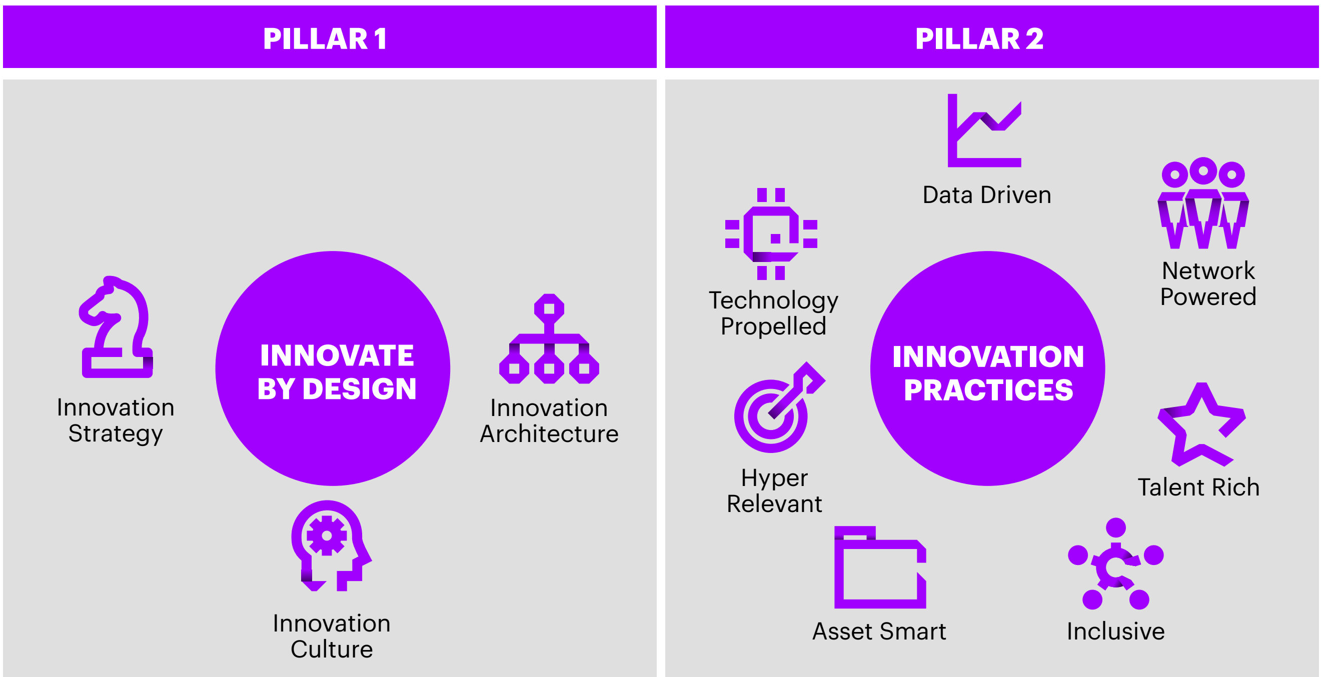
High-growth companies also adopt seven innovation practices that lead to organisational change—90 percent of high-growth companies agreed that these practices describe their organisation to a significant extent.

These companies are:

- **Data-driven.** Generating, sharing and deploying data to deliver new product and service innovations safely and securely.
- **Hyper-relevant.** Knowing how to be—and stay—relevant by sensing and addressing customers' changing needs.
- **Talent rich.** Creating new, modern forms of workforces (flexible, augmented and adaptive) to gain a competitive advantage in fast-changing markets.
- **Asset smart.** Adopting intelligent asset and operations management to run businesses as efficiently as possible, and to free up the capacity for other innovative efforts.
- **Inclusive.** Adopting an inclusive approach to innovation and governance that incorporates a broader range of stakeholders.
- **Network-powered.** Harnessing the power of a carefully managed ecosystem of partners to bring the best innovations to your customers.
- **Technology-propelled.** Mastering leading-edge technologies that enable business innovation.

The Accenture Innovation Maturity Index framework is designed, on the back of these insights, to measure the readiness of companies' innovation capabilities to unlock trapped value and support their journey to the NEW.

FIGURE 4: INNOVATION MATURITY INDEX



INNOVATION MATURITY—HOW SOUTH AFRICA MEASURES UP

In South Africa, and globally, the gap between companies on the winning side of innovation and those being disrupted by it is growing.

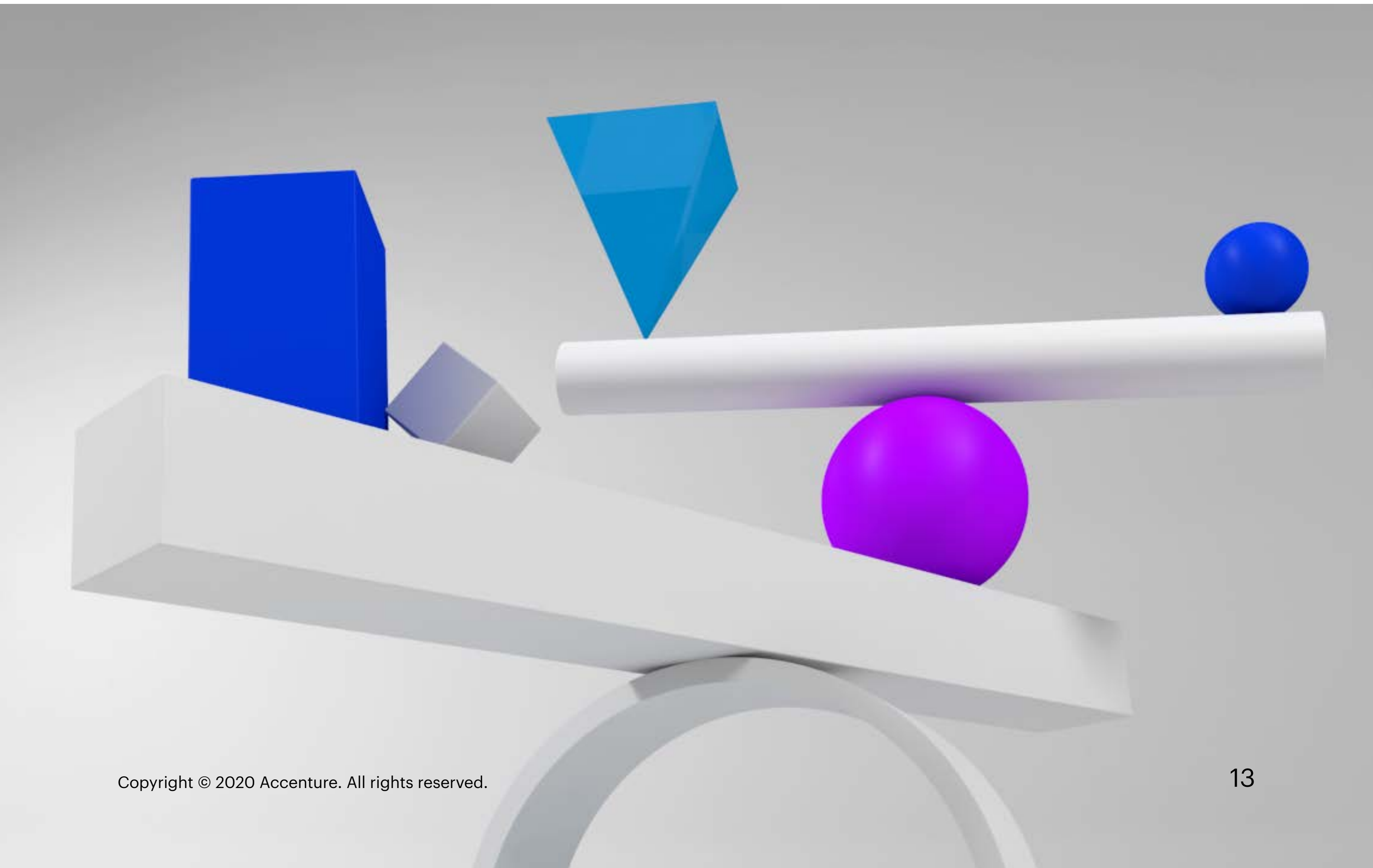
The winners are innovating—using digital technologies to unlock value in their current businesses, seize new market opportunities, scale up innovation and grow their current and future businesses. As these innovators release more value, industry disruption grows for those unable to release trapped value.

The average score on the Accenture Innovation Maturity Index in South Africa was 54 out of 100. A small group of high-growth South African companies—7 percent of the sample—averaged 68 points, eight points lower than the 76-point average of Global Innovation Champions.

Most companies have failed to move at the same speed as the technology developing around them. As the pace of change has accelerated, the gap between high-growth companies and the rest is widening.

These companies have built the innovation skills to create new products and services for customers and have achieved deep organisational change. This innovation "maturity" allows them to release trapped value much more effectively than their peers.

Their balanced approach to growth is, however, an equally important success factor.



THE INNOVATION CHAMPION APPROACH

1. Champions use innovation strategically to unlock value in new business while revitalising their core business. We call this strategy the 'wise pivot'.

71%

of champions (versus 41 percent of others) use innovation strategically to unlock value in their new businesses.

Companies that survive disruption are constantly reinventing themselves, making their businesses relevant to the future. But it's a balancing act—if companies are overly focused on their core business, they cannot 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.

To pivot successfully—make a wise pivot—companies need to adopt a new approach to organisational change. This strategy is continuously evolving and allows companies to manage their core assets as a dynamic portfolio within three lifecycle stages—the old, the now and the new—to grow and reshape their core business into a new one built with new technologies.

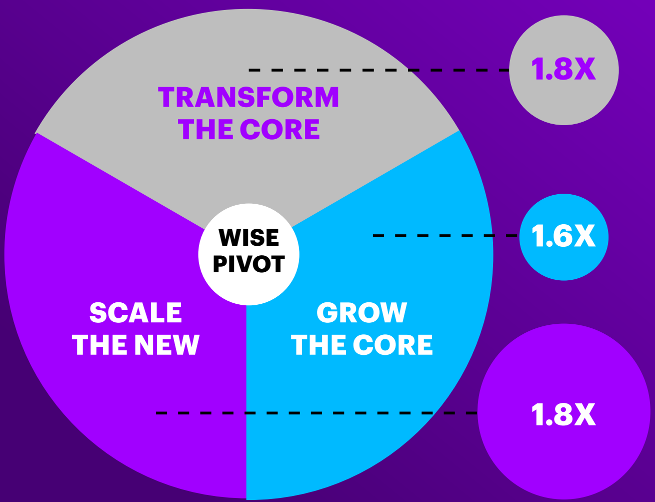
Champions are more confident of the levels of investment they dedicate to pivoting their business (Figure 4).

Their goals are to:

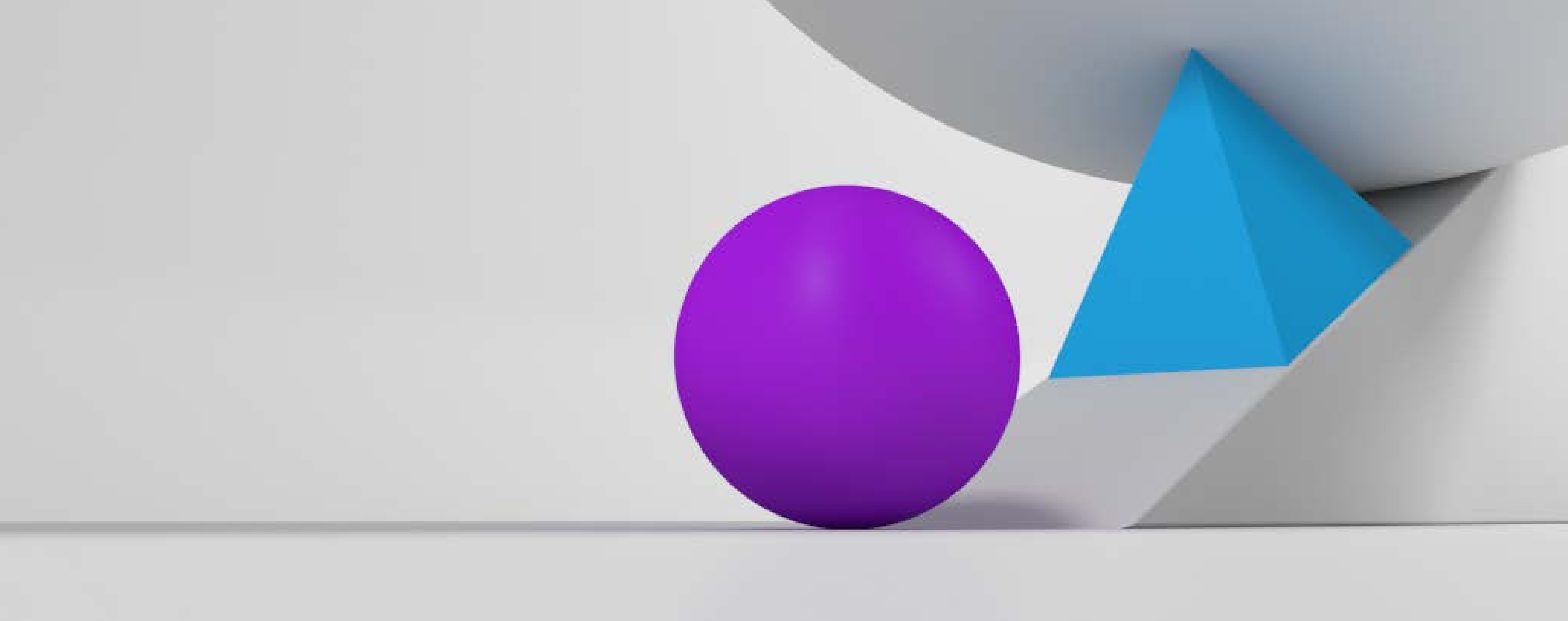
- **Transform the core to generate investment capacity.** This involves investing in processes and functions to increase efficiency and create value in the form of higher profits.
- **Grow the core to sustain the fuel for growth.** This may involve finding new customers or markets for existing offerings or innovations that improve customer experience.
- **Scale the new to identify and scale new growth areas at pace.** To deliver the growth and impact the company expects, innovations—whether new products or new business models—must be commercialised and brought to a mass market.

By carefully scaling and timing investments, these companies can build "the new" while continuing to nurture and grow the core.

Figure 5: Levels of investments dedicated to pivoting the business



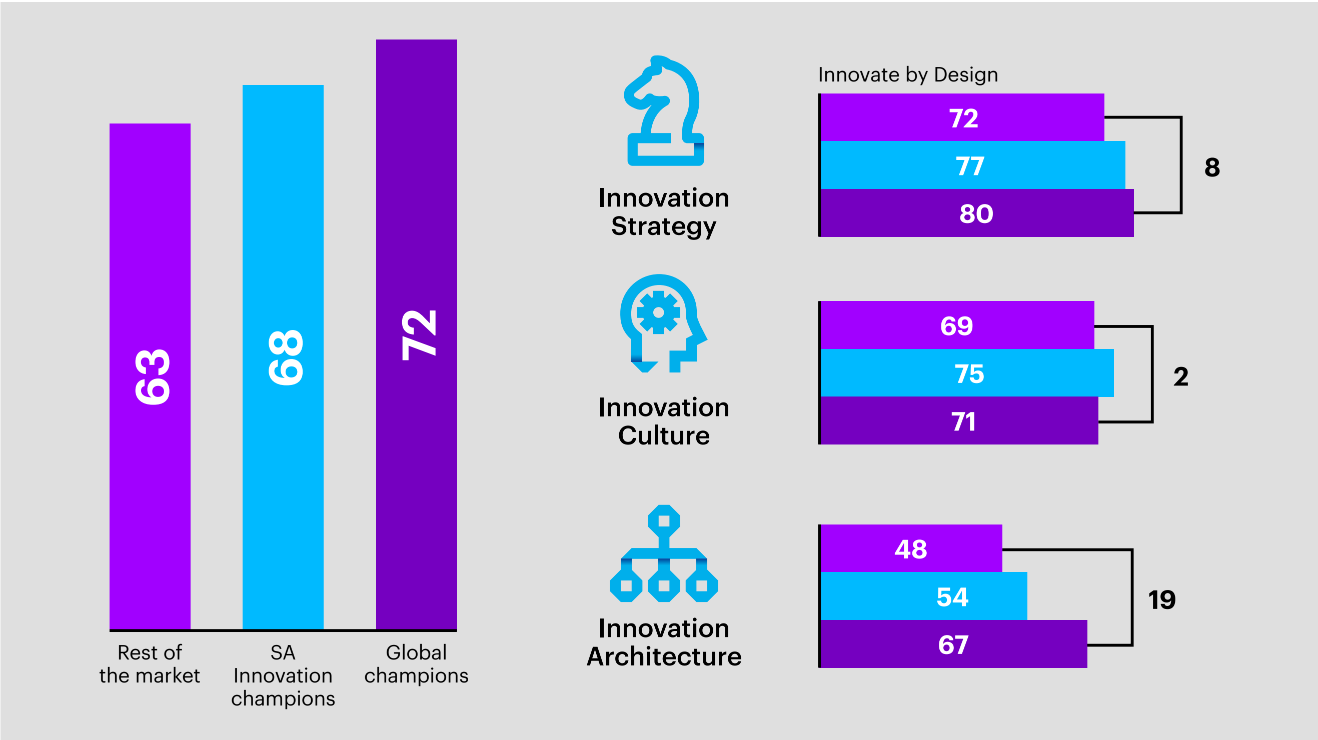
Bubble size: Level of investment confidence by change activity: Champions over the rest of the market



2. Champions see the value in building a strong Innovation Architecture to support the execution of their pivot.

In South Africa, 'Rest of the Market' companies are right up there with Innovation Champions in terms of putting innovation strategy and culture of innovation structures in place. Where both are lagging Global Champions, however, is in building an innovation architecture that is needed to take an innovation from idea to a viable commercial product and scale it (Figure 6).

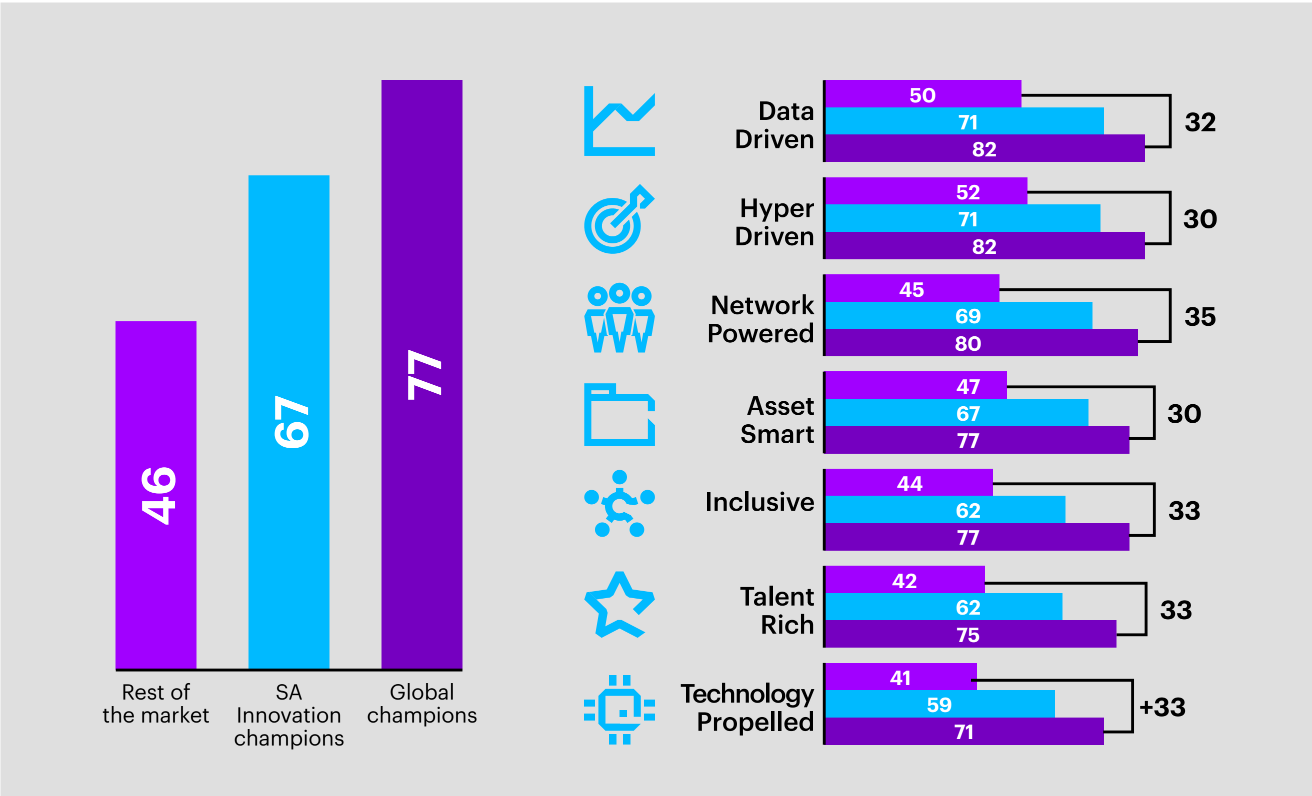
Figure 6: Innovate by Design Index Scores (out of 100)



3. Innovation Champions differentiate themselves in all of the innovation practices, but especially in their use of data.

Across the seven practices, local Champions are a good 20 points ahead of the rest of South African companies, and Global Champions are 30 points ahead. Increased focus on adoption of all seven innovation practices will be important for companies aiming to drive growth. Becoming data-driven is, however, the one practice that underpins all others.

Figure 7: Innovation Practices Index Scores (out of 100)



Innovation Champions' scores indicate that becoming data-driven is the alpha trend.

Becoming data-driven creates a foundation for transforming the core business. It is a strategic asset that Innovation Champions are using to power their pivot.

Data-led activities applied at the foundation can help increase data quality, trust and create efficiencies to transform the core business and improve the current value of operations. At the same time building a solid data foundation is critical to set up an analytics and AI capability to power the new.

HOW THE INNOVATORS DO IT

NETWORKED & HYPER RELEVANT

Nike[1] has relied heavily on the power of its network to streamline supply chains and automate manufacturing to get the latest styles to customers as quickly and efficiently as possible. Working with global manufacturer Flex, Nike has simplified footwear assembly and shifted many tasks to robots. It now produces uppers in 30 seconds, with 30 percent fewer steps and about 50 percent less labour. Nike has increased its hyper relevance with a new digital platform to gather and analyse customer data. And the company is more inclusive, thanks to a new push to use recycled materials that reduces the company's environmental impact. The payoff: from April 2013 to April 2018, Nike's shares more than doubled vs. a 62 percent gain for the S&P 500.

DATA DRIVEN

Oil producer **Chevron**[2] spent $4.3 billion in 2018 on shale basins, approximately 20 percent of its total spend. It is using data-analysis expertise gained at its offshore wells to make horizontal drilling more efficient. This analysis is based on a proprietary database of over five million well attributes, supplemented by data analytics of petrophysical properties. The insights gained helped Chevron reduce the time taken to drill a shale well from 27 days, to just 15 days, for longer and more complex wells.

NETWORK POWERED

Additive manufacturing company **Carbon** is collaborating with **Adidas**[3] to create the Futurecraft range of personalised 3D printed shoes. Carbon's Digital Light Synthesis system enables Adidas to test and prototype design concepts 10x faster than previous methods, allowing Adidas to rapidly scale production.

HYPER RELEVANT

Tommy Hilfiger's[4] runway collections are instantly available through TommyNow, the company's "see now, buy now" initiative. This initiative eliminates the standard six-month wait between the runway and retail. As soon as shows begin, shoppers can order items through the label's digital platforms, and an event live-stream.

TO COMPETE AND THRIVE IN A DIGITAL ERA, START NOW

Our study of high-growth companies indicates that innovation is a critical capability that companies need to cultivate to hold their own in a highly disrupted global economy. In South Africa, few sectors are responding well to disruption. While investment in innovation is growing, key structures—such as the business architecture needed to realise and scale innovation—will need to be established before organisations can counter disruption in their sectors.

Our research shows that majority of South African industry sectors (62 percent) are in the Vulnerability period, 23 percent have entered the Volatility period, and just 7 percent and 9 percent of industries are in the Viability and Durability periods, respectively. To start their innovation pivot, companies in these sectors need to move forward strategically.

Start your innovation pivot: Strategic considerations

WHAT'S THE NATURE OF DISTRIBUTION IN YOUR INDUSTRY?	HOW CAN YOU BREAK AWAY FROM THE NORM?
When your industry wallows in the Viability period of disruption...	**CREATE YOUR NEXT CUTTING EDGE** Embrace new technologies to develop potentially disruptive ideas, in and outside of your current industry.
When your industry hovers in the Durability period of distribution...	**FUND YOUR FUTURE BETS** Progressively bolster and allocate your innovation investments so you can test and turn new ideas into commercial realities faster.
When your industry struggles in the Vulnerability period of distribution...	**FIND PARTNERS TO SCALE WITH** Commit to scaling new ideas with ecosystem partners who can provide access to technologies and specialised talent.
When your industry flails within the Volatility period of distribution...	**DISRUPT FROM THE INSIDE** Establish a specialised entity such as an "innovation lab" or a "digital factory" in order to bring meaningful innovation into your established business.

Companies that fail to innovate, adopting new technologies and approaches to strengthen their core and pivot to the new, will not find it easy to hold their position in a disrupted market.

Taking the first steps now can help them build a foundation that will enable them to grow, compete and thrive in a digital era.

HOW TO PUT INNOVATION TO WORK ACTIONS TO TAKE NOW

TARGET ENTERPRISE-TRAPPED VALUE

BE CHANGE-ORIENTED
Identify which target characteristics (e.g., becoming talent rich) are central to your growth strategy, and how intensely you are prepared to drive innovation-led change.

BE OUTCOME-LED
Prioritise investments in those capabilities that you can bring back into your 'core' to help modernise the existing ways of working (e.g., acquisition of artificial intelligence or cyber security capabilities).

BE DISRUPTION-MINDED
Aggressively direct your investment capacity to innovations that help expand your footprint into new markets, with foresight (e.g., using blockchain to improve women inclusion in insurance).

RELEASE ENTERPRISE-TRAPPED VALUE

Test and embrace multiple innovation practices to redefine the most established ways of doing business (e.g., rotation of talent from business-as-usual roles to 'innovation gigs').

Tie your innovation investments to the desired long-term performance (i.e., growth revenue, profit, customer value growth etc.), not only to short-term efficiency benefits.

Organise differently for disruptive innovation initiatives (e.g., go beyond experiments, and turn those initiatives with the highest potential—or your 'moon shots'—into businesses at a faster pace).

ABOUT THE RESEARCH

This report combines multiple streams of proprietary research using both outside-in and survey-based research methodologies.

Our survey of 100 C-suite executives sought insights on how large South African companies (across industries) are responding to disruptive change: To what extent are they improving their innovation capabilities to unlock trapped value? Are they making good use of digital technology to transform legacy businesses and build new ones? These findings formed the basis for Accenture's Innovation Maturity Index. By studying innovation-related approaches, practices and processes of high growth companies globally we designed the Accenture Innovation Maturity Index framework. This included gathering demographic and financial information about our survey respondents as well as evaluating the extent to which respondents applied 49 innovation factors and 26 structural processes that—as determined by an extensive review of existing empirical literature—underpin their ability to release trapped value. By high-growth companies we are referring to those who self-report revenue growth and profitability above the industry median over 2013-18 and expect this to continue from 2019-23. Innovation Champions are defined as high-growth companies scoring one standard deviation above the mean score on the index.

Our separate analysis of over 3,000 companies globally, including 100 South African companies, assessed the presence and penetration of disruptors across sectors. It considered 15 factors—including financial performance, operational efficiency, innovation capacity and the ability to maintain defences against new market entrants—to gauge companies' current level of disruption and their susceptibility to future disruption.

For more Africa related insights visit the Accenture Africa Observatory

https://www.accenture.com/za-en/africa-observatory

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