

LEADING IN THE NEW

**HARNESS THE
POWER OF
DISRUPTION**

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LEADING IN THE NEW

Technology-led innovation is releasing trapped value, disrupting every company and industry. Responding to the present is a requirement for survival. Leading in the new is the formula for success.

“Disruption” is one of those words that has been used so much in recent years that its meaning is getting fuzzy, save for the general notion that it’s something to fear—unless you happen to be the disruptor. But what are disruptors really doing when they upend markets and even industries? They’re simply releasing new forms of value—value that was ready to be unlocked as a result of technological progress, demographic shifts and social change.

Disruptors, in other words, are ushering in the future. From disruption comes the new.

Yes, this kind of change can happen in the blink of an eye. But not always. The strength and nature of disruption is defined by the type and amount of value it releases, and in many cases, it is predictable. It can be anticipated, met, controlled and even courted.

In fact, companies can take specific steps to **understand the risk of disruption** in their business and industry. They can also learn how to **identify sources of trapped value**—by recognizing, seizing and building on opportunities created by disruption.

Importantly, to release that value and turn it into economic reality, they must **create an intelligent enterprise** by adapting and integrating new technologies and ways of working, as well as new approaches to learning from customers and meeting their needs. And ultimately, their leaders must also have the courage to stay the course, even when doing so calls for constant motion. They must commit to the journey that we call **rotating to the new**.

“Living in the present” has become a popular idea in recent years, even something of a mantra for many individuals. But in business, “the present” is an unsustainable place. Business leaders can choose whether their organizations will be swept into the inevitable future, or whether they will be ready for it and even have a hand in shaping it. They can choose whether they will lead in the new.

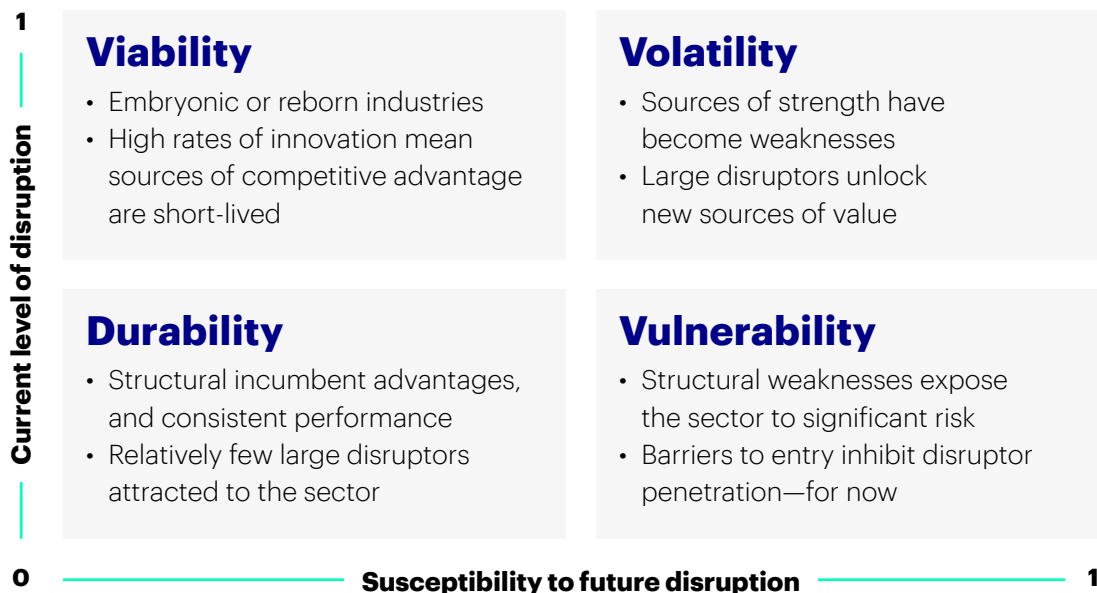


UNDERSTANDING THE RISK OF DISRUPTION

One of the biggest misconceptions many executives and management gurus have is that disruption is a mysterious and unpredictable event. Another is that it happens to businesses in ways that are beyond their control.

Disruption isn't random. Accenture research shows that industry disruption, while indeed complicated, follows a discernible, and understandable, pattern (Figure 1).

Figure 1: Disruption is defined by four distinct periods



The starting point for business leaders is to learn where in this pattern their industry is positioned, and why that's the case. Then, they must gauge the likely speed of change by measuring how susceptible their industry is to the inevitable forces of change. But, not every industry is impacted by disruption in the same way. As noted earlier, the strength and nature of disruption is defined by the type and amount of value it releases. Therefore, it also helps to recognize that disruption typically comes in one of two forms (Figures 2a and 2b).

DISRUPTION HAS TWO FORMS

It comes from “big bangs” or simple compressions

BIG BANG DISRUPTION or **explosive disruption** occurs when innovation and technology advancement yields new offerings that are substantially better *and* cheaper than those currently on the market. Customer preferences change rapidly, influenced by information that comes to them via the Internet and social media, and the combination—of evolving preferences, declining costs of innovation and the increasing quality of alternative choices—can easily shorten and skew an industry’s life cycle, or worse, totally destroy it. Consider the impact of electricity; back in the 1800s, suppliers of lighting and heat from whale oil were overwhelmed by the advent of electricity. Today’s Big Bang Disruptions are equally jarring, if not more so, as the revolutions in maps, encyclopedias, print journalism, travel agencies and more attest.

Figure 2a: Big Bang Disruption

Explosive disruption—print and online media advertising revenue \$Bn

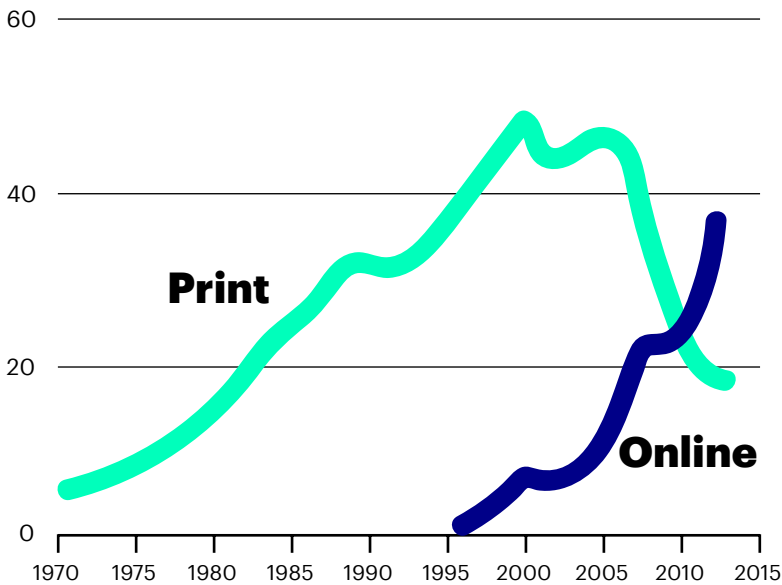
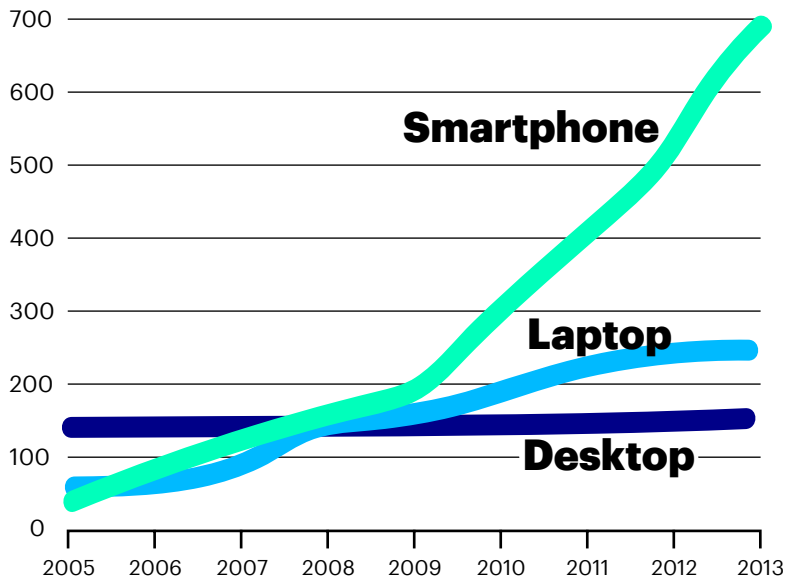


Figure 2b: Compressive Disruption

Gradual disruption—computing device shipments, units M



COMPRESSIVE DISRUPTION or **gradual disruption** is more insidious. It occurs when incumbent companies' operating margins are squeezed over a prolonged period of time, usually driven by the arrival of new entrants with new business models. Consider the auto industry. Between 2009 and 2013, global automotive manufacturers delivered an impressive growth rate of 35 percent, as revenues for the 49 largest original equipment manufacturers rose from US\$1.34 trillion to US\$1.81 trillion during the four-year period. Since then, growth in both revenues and earnings before interest, taxes and amortization (EBITA) has flatlined. Stagnant, near-zero growth (in this case, a compound annual growth rate around 1 percent) is the first indicator of an industry potentially headed toward rapid decline.¹ As both profits and revenues continue to decline in parallel, the core business is weakened, making it difficult to create sufficient investment capacity to capitalize on new opportunities. Without new investments, organizations cannot bring innovations to their customers. Over time, obsolescence ensues.

When faced with disruption of either type, many leaders instinctively try to sustain their legacy business. In contrast, for those leading in the new, disruption represents the ultimate opportunity to reinvent the core and become more financially viable—by identifying sources of trapped value and venturing into new markets to release it.

IDENTIFYING SOURCES OF TRAPPED VALUE

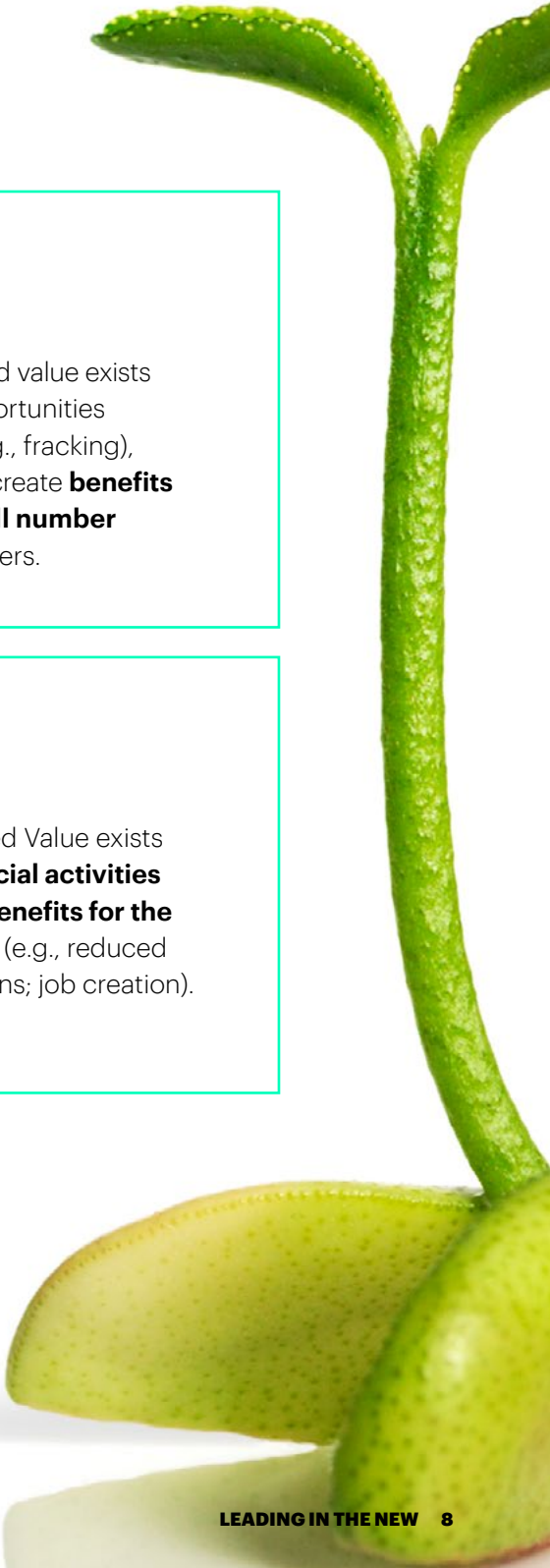
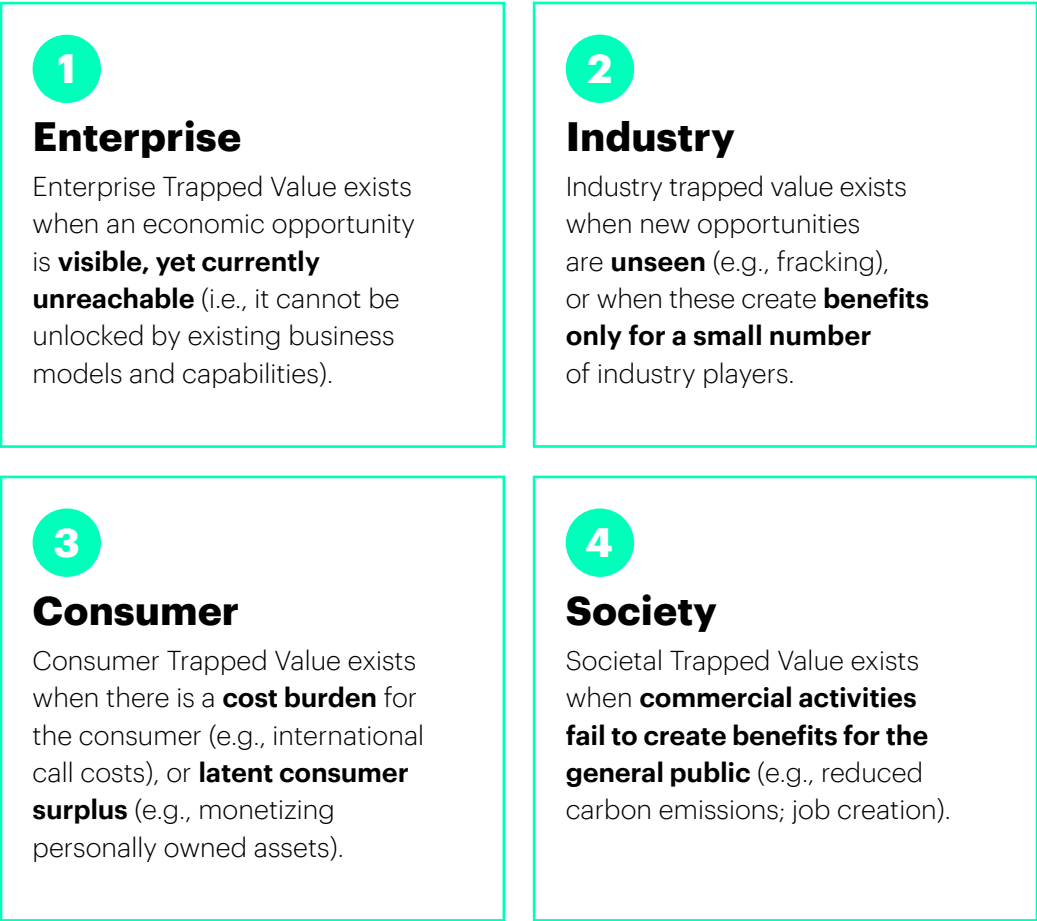
New, exponential technologies are creating unprecedented opportunities. But without continuous innovation, the value therein can remain trapped for enterprises, industries, consumers and society at large.

Several industries are proving how disruptive technologies can yield stunning economic opportunities. One Oxford study, for example, predicts that by 2027, 20 percent of global electricity will come from solar technologies, enabling energy “pro-sumption” and disrupting traditional utility business models.² Artificial intelligence has the potential to double annual economic growth rates of developed economies by 2035; this could add US\$8.3 trillion to gross value added in the United States alone in 2035³. It seems that we do indeed live in an age of opportunity abundance.

But converting an opportunity into reality is not easy. The process begins with understanding the nature of trapped value.

Accenture research indicates that value can be trapped in four areas: Enterprise, Industry, Consumer, and Society (Figure 3).

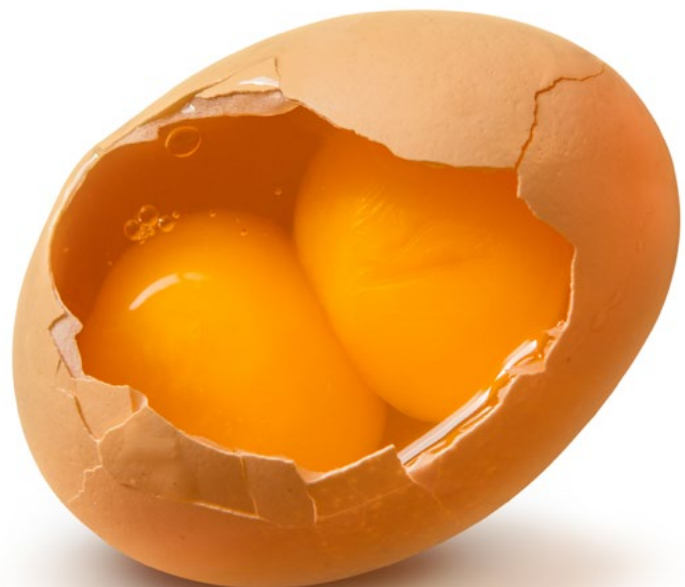
Figure 3: Sources of trapped value



All types of trapped value have the potential to help companies improve or even transform their performance, with the release of enterprise value illuminating the most direct path. Generally speaking, though, industry newcomers—start-ups, for the most part—have been more able than incumbents to capitalize quickly on emerging technologies and open up new value opportunities. Why? Because incumbents are often tied to their core businesses. Their profit and loss statements reflect the expense budgets required to drive their core businesses, and they cannot easily turn away from these expenses without risking existing profit streams.

A recent Accenture survey of 1,440 C-level executives indicates that 70 percent of established companies currently generate less than 50 percent of their profits from new business activities that these companies started in the past three years.⁴

Further, the cost of capital for a typical corporation means that it generally cannot afford the risk that comes with true innovation—where failure is a very real likelihood. However, by being laser-focused on the existing rules of the game, and not explicitly seeking to identify trapped value, business leaders can miss important shifts in the market.



CREATING AN INTELLIGENT ENTERPRISE

It's time to create a new kind of enterprise, one that is equipped to target, release and monetize trapped value in sustainable ways.

Creating an intelligent enterprise requires action on several levels, from several vantage points. To begin, at a grassroots level, companies that successfully and consistently release trapped value exhibit six characteristics. These companies are:

1 **Hyper Relevant:**

Knowing how to be and how to stay **relevant to customers**, by sensing and addressing their changing needs (e.g., affordability, social connectedness, experience quality).

2 **Network Powered:**

Harnessing the power of a carefully managed **ecosystem of partners**, to bring the **best innovations** to your customers.

3 **Technology and Data Propelled:**

Mastering **leading-edge technologies** and **data manipulation** to enable business innovation, at an unprecedented level and scale.

4 **Asset Smart:**

Optimizing **asset positions** to enable a faster shift to new business models, by making bold and timely changes (often at the balance-sheet level).

5 **Hyper Lean:**

Adopting **intelligent operations** (automation and digitization of manufacturing, supply chains and functions) to optimize cost structures and **free up capacity for innovation**.

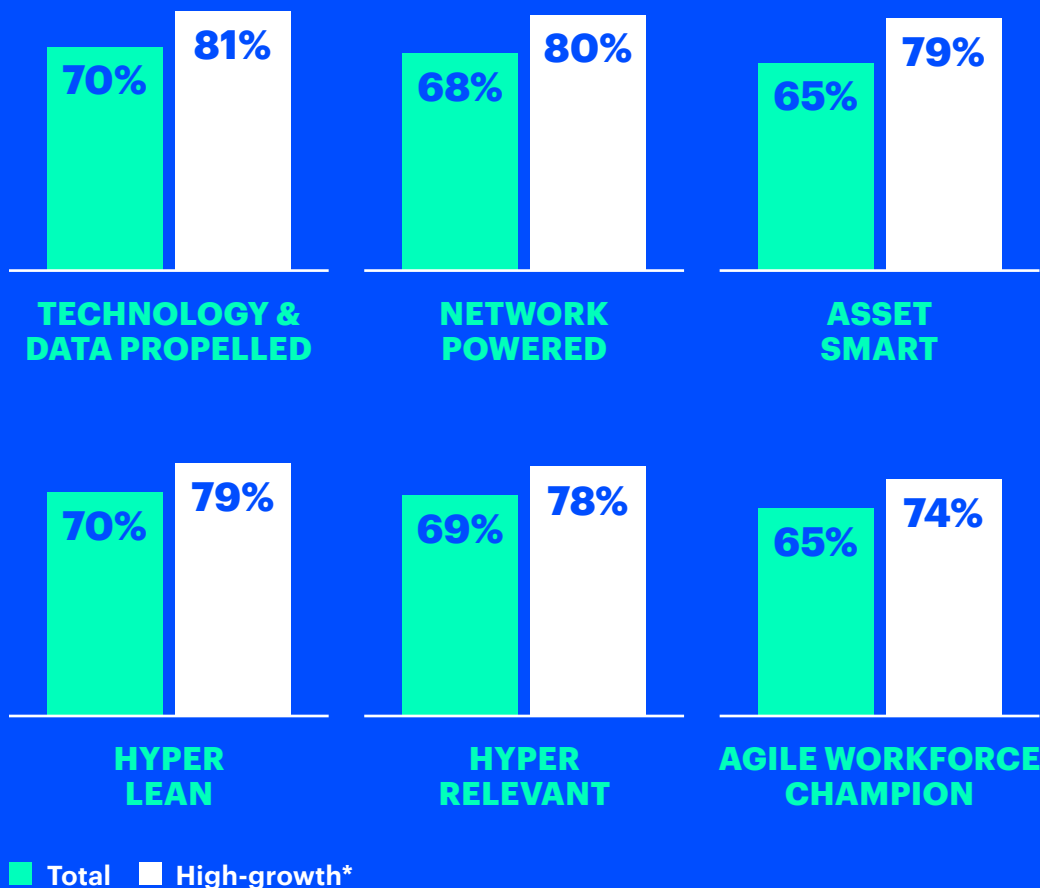
6 **Agile Workforce Champions:**

Creating new, **modern forms of workforces** (specialized, flexible, augmented and adaptive) required to gain a competitive advantage in existing and new markets.

A recent Accenture survey of 1,440 C-level executives shows that companies with higher growth rates give particular importance to these six characteristics.

Percent of Respondents Assigning “very/critically important” to Each Characteristic

Question: To establish or maintain a leadership position in your industry over the next 3 years, how important do you expect each of the following to be for your company?



* High-growth companies defined as companies that reported to have +6 percent growth on sales, EBITD, ROIC and ROA over the past 3 years (others reflect companies that reported <=6 percent growth on these metrics)

Importantly, though, to leverage the potential of these six characteristics, an organization must master an organizational architecture that brings together new capabilities and existing operating models to create a step-change in agility, efficiency, productivity and creativity. This architecture itself is oriented around several imperatives; a company may gravitate naturally toward one of these as an anchor, using the others to supplement its approach.

Today, it is not sufficient to focus on being customer centric or on building customer loyalty; growth demands a new degree of customer relevance. The intelligent enterprise recognizes the importance of delivering hyperpersonalization by using data intelligently to deeply understand, anticipate and adapt to customer needs. In doing so, the organization becomes what we refer to as a **Living Business**. Living Businesses will venture outside of traditional industry boundaries to capture new sources of growth, while cultivating a culture that fearlessly embraces change.

Furthermore, the intelligent enterprise knows how to apply new technologies—**Industry X.O technologies**—to reinvent the core business, (e.g., an experience-led model for manufacturing and operations-based businesses). It is proficient at drawing on connected digital technologies to tailor innovative products, services and experiences to the customer. By combining industrial processes and business operations, intelligent enterprises not only improve their efficiency, but also identify new (typically digitally enabled) revenue streams.



Not surprisingly, many technologies are seen as imminent threats to the **future workforce**, particularly due to the potential for further automation and augmentation of tasks. The intelligent enterprise knows how to combine the power of human qualities and technology to enhance the way in which certain jobs are performed, while creating additional demand for new skills (e.g., data science) and taking charge of reskilling. These enterprises also understand the importance of being truly human in the digital age (e.g., focusing on creativity and innovation), and they are well-connected to the new talent marketplace outside of the organizational boundaries (e.g., access to an agile, extended workforce).

Following years of chronic underinvestment in IT and steady deterioration of legacy systems, many companies are now facing high technical debt (the amount of money it would take to renew legacy systems to make them fit for today's business environment). The intelligent enterprise is proficient at utilizing a new digital architecture (e.g., new cloud services, data lakes, microservices, open APIs, robotics, etc.) that can help reduce dependency on and cost of maintaining the legacy systems, while supporting faster execution of the business strategy. This new **digitally decoupled** architecture promises to deliver savings that can be used to make investments in IT agility, giving organizations the freedom to innovate.

Finally, the intelligent enterprise takes a new approach to **cybersecurity**, moving beyond the current "band aid" approach to one that protects an organization's most important assets across its entire industry value chain.

By building resilience from the inside out, intelligent enterprises can operate and grow confidently in an increasingly technology- and data-powered world.

ROTATING TO THE NEW

The journey to the intelligent enterprise hinges on the ability to rotate to the new. Rotation is a dynamic change journey that requires companies to master four areas, continuously and synchronously.

To “Lead in the new,” companies need to master the art of “Rotating to the new” (Figure 4). This requires having the courage to:



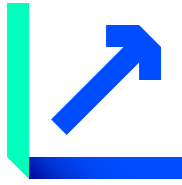
Transform the core business...

...by building more competitive cost structures to improve flexibility, increase profits and drive up investment capacity in the existing core business. Mondelez International, for example, established an incremental zero-based budgeting system, a new global operating model and supporting global business services. The resulting improved visibility into spending, creating new budgeting processes, accountability for cost management and the change-management program helped Mondelez International save an estimated US\$1 billion over three years. By embedding cost consciousness into its culture, Mondelez International's ongoing efficiency savings can be reinvested into growth initiatives⁵.



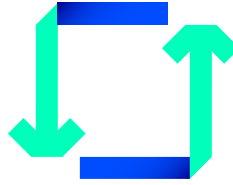
Grow the core business...

...by redirecting some of that investment capacity to drive incremental growth in the core business (e.g., digital marketing and analytics, to gain new insights and improved Web/mobile interactions, to activate new demand and to expand into new markets). For example, consider what happened when Meliá Hotels enhanced its direct sales channels and redesigned its loyalty program. Targeted digital content based on advanced customer analytics enabled Meliá to increase direct sales by 27 percent, and add more than one million registrations to the re-launched Meliá Rewards program⁶.



Scale new business...

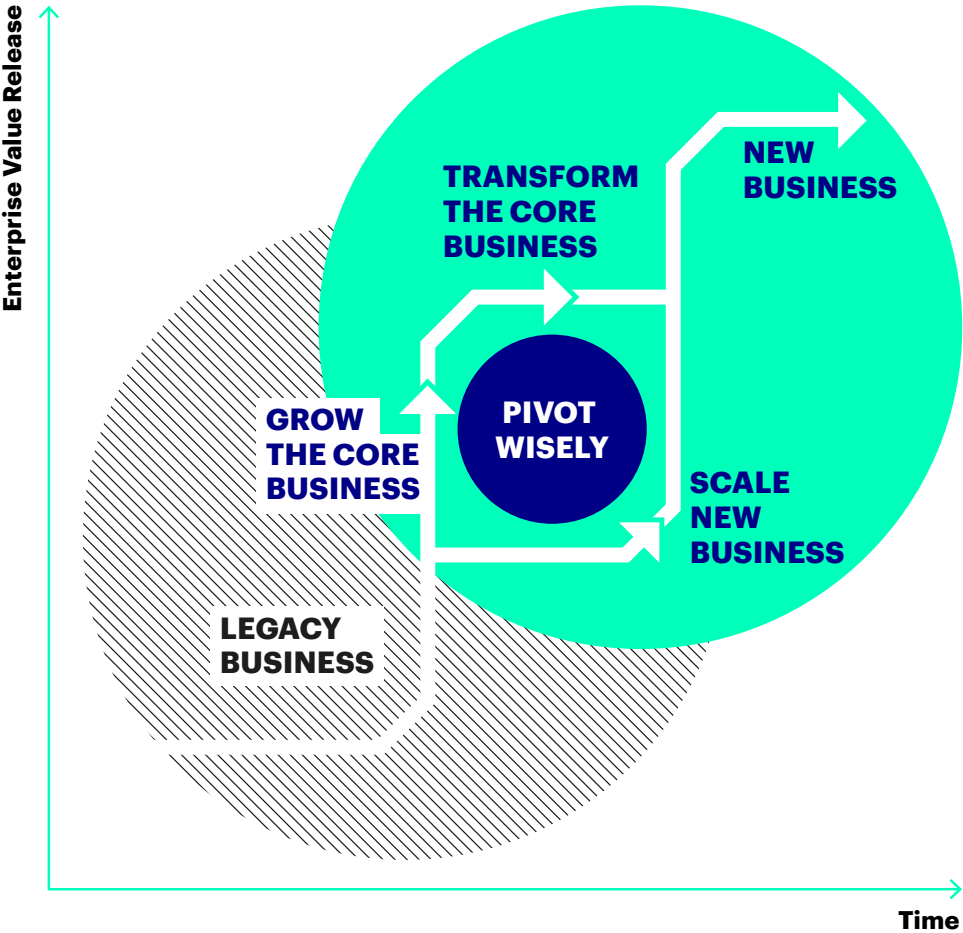
...by identifying the new areas that are growing up next to the core—and are relevant in their industries—and scaling them. Doing this requires building an innovation architecture inside the business (for example, innovation hubs, labs, partnerships). Taking just these sorts of steps has enabled Schneider Electric's Digital Services Factory to reduce the time from ideation to market testing from three years to under eight months. The service harnesses investment in connected devices so that Schneider can analyze data to understand and improve its offerings in areas such as predictive maintenance, asset monitoring and energy optimization⁷.



Pivot wisely...

...by keeping an eye on pace and balance. The “core” and “new” businesses usually need to co-exist for a substantial period of time, which creates a conundrum from an investment perspective. If businesses pivot too quickly from the core to the new, they will over-invest and stretch themselves too thin financially. If they pivot too slowly from the core to the new, they risk becoming obsolete. Thus, companies need to strike a delicate balance. For example, Novartis has leveraged “asset swapping” to fundamentally pivot its business—it acquired the oncology portfolio from GlaxoSmithKline (GSK), while divesting its noninfluenza Vaccines business to GSK and forming a Consumer Healthcare joint venture⁸. This pivot has enabled Novartis to lift its core margins and focus on growing three core business segments with global scale (innovative pharmaceuticals, eye care and generics).

Figure 4: Rotating to the new: a perpetual change journey



Rotating to the new is a perpetual change journey.

Singtel, one of the largest listed Singapore companies by market capitalization on the Singapore Exchange, provides an example. Singtel has transformed its core business by putting data at the center of its business, making network, technology and spectrum investments. At the same time, the company has developed new revenue streams in the telecom industry and beyond by leveraging its telecom assets. For example, the company earns revenue from digital marketing, geoanalytics and video streaming— thanks to anonymized and aggregated telco data. Singtel also offers mobile payment services through Singtel Dash, which allows consumers to make fast and secure transit payments and top-ups, in-store and online retail payments, and local and overseas money transfers.

Accenture research into digital performance of large global companies shows that only 6 percent of those companies have managed to create sustainable financial impact from their digital investments. We call these companies the Digital High Performers; they differentiate by adopting explicit business strategies for the digital age, rather than simply digitizing their existing business. In other words, they excel at not only transforming and growing their core businesses, but also at finding and scaling new business opportunities, enabled by digital technologies.⁹

Many companies will succeed at identifying new sources of value. But only those with the courage to rotate to the new will emerge as leaders.

IT'S TIME TO ACT

Organizations must continuously reinvent themselves to stay relevant and meet the demands of a fast-forward future. They need to know what not to fear, and be decisive in making momentous, strategic choices.

Arborists like to say that the best time to plant a tree is 20 years ago, and the second-best time is now. Business executives can take this advice to heart. While no company can go back in time and do what hindsight reveals should have been done, business executives can take steps to understand what it takes to lead in the new, right now.

Innovation is the seed of growth of any organization. But for established businesses, finding ways to scale innovations to the point where they become materially successful is extremely difficult. And disruption from new entrants can leave incumbents vulnerable. The task of today's business executives is clear: they must leverage new technologies to propel innovation and to deeply transform their current business, while unlocking new business opportunities in parallel.

Accenture is working side-by-side with organizations today to help them be the disruptors, not the disrupted. By applying our research, methodologies and insights, we help organizations understand the nature of disruption, identify sources of trapped value, innovate at scale and, most importantly, build an intelligent enterprise that is ready to lead in the new.

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