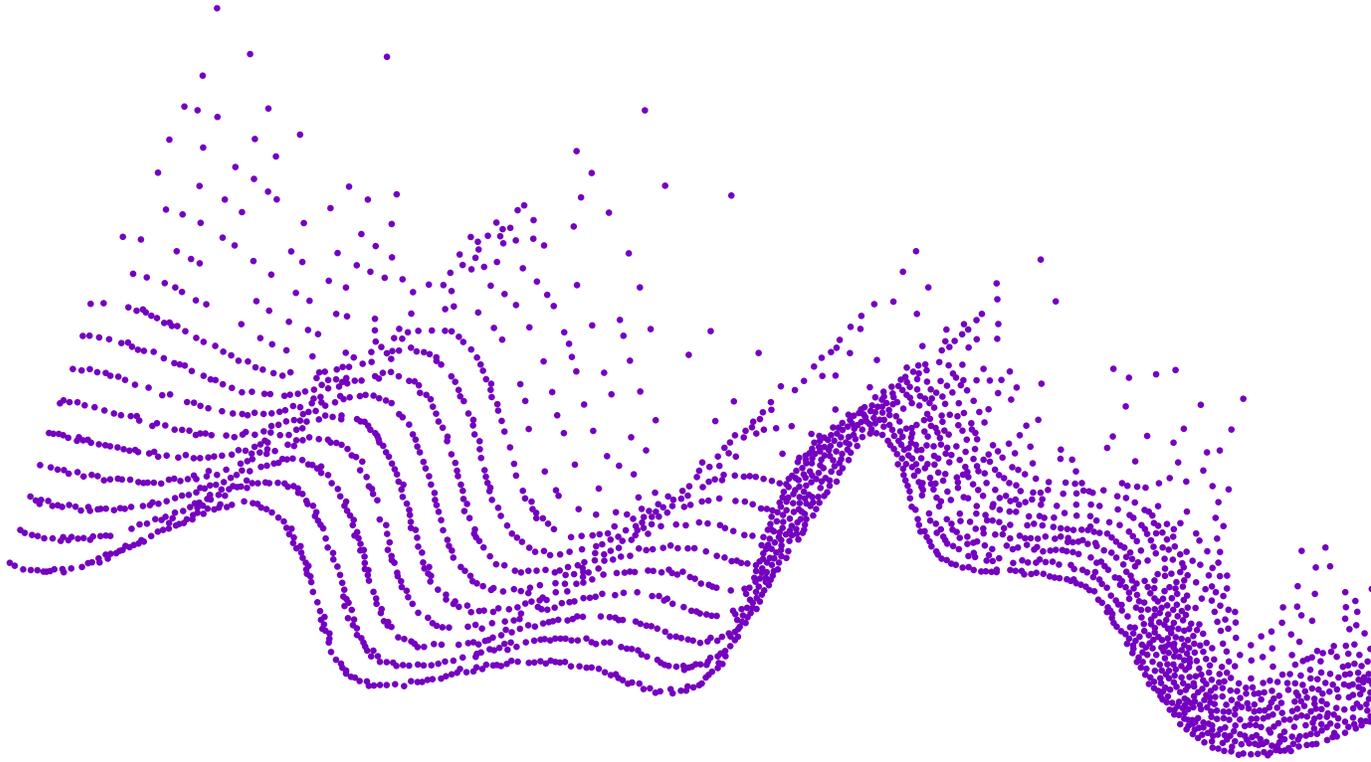


BORN TO BE WILD

**Are You Positioned to Shred the
Next Tsunami of Disruption?**



PADDLE IN, POP UP AND GET READY TO RIP

It's coming. And it's more than a wave. It's a strategy-shifting tsunami. Unless you know where you are, you'll never know where to head next. Unless you know what your competition's strategy is, you'll never know how to get there first. And unless you start now, you'll already be behind.

In a recent Accenture survey of Chief Strategy Officers, the majority agreed they would be disrupted at some point in the next five years — only 20 percent felt they were well prepared for disruption when it hits.



HOW CLOSE ARE YOU TO THE IMPACT ZONE?

The Accenture Disruptability Index is created from analysis of 28 indicators within 3,629 companies across 80 countries and 20 industry sectors. Indicators represent measures of efficiency and innovation, barriers to entry, performance of incumbents and the presence and penetration of disruptors.

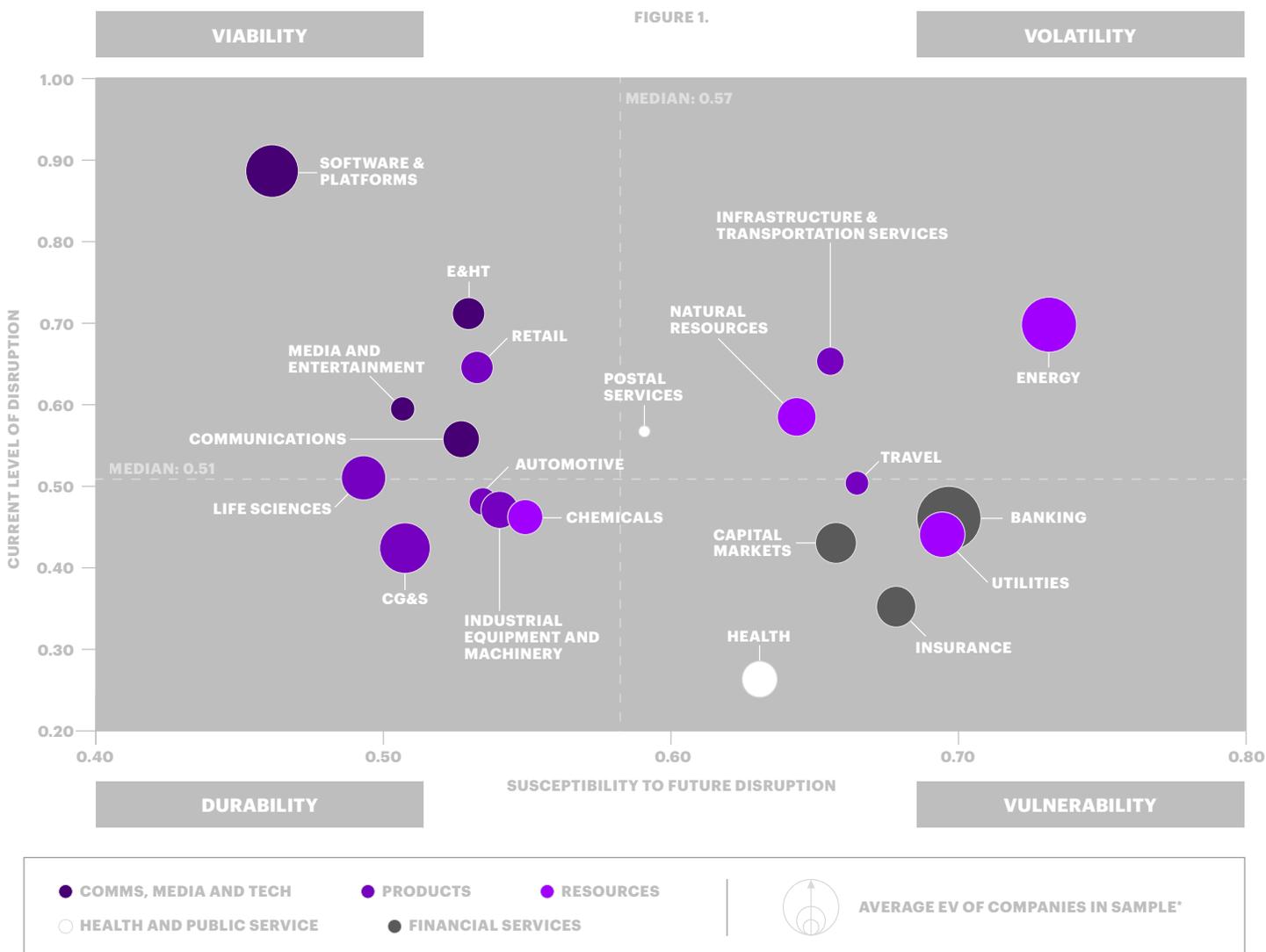
Disruption is at the heart of the software and platform business. It's an industry where companies succeed by disrupting others. But customer preferences, company strategies, regulations, industries and markets can change quickly. So there's never time to rest. Offense and defense are equally important.

To help companies better understand their vulnerability to disruption, Accenture developed the 'Disruptability Index' (see sidebar). The Index helps pinpoint both current levels of disruption and susceptibility to future disruption. Management teams can use the index to gauge how exposed they are today, understand where they are specifically vulnerable and plan an appropriate strategic response.

The research identifies four quadrants based on an industry's current level of, and susceptibility to, disruption: Durability, Vulnerability, Volatility and Viability

Each quadrant suggests a set of strategic actions to take to manage and control the impact of disruption. As an industry, software and platforms is in the Viability quadrant (Figure 1). Communications, media and high-tech industries are also in the Viability quadrant, having already experienced significant disruption. Most vulnerable to disruption are banking, utilities, insurance, travel and healthcare – all of which are already showing signs of disruption by new digital entrants redefining how their industry works.

VULNERABILITY CARRIES THE GREATEST RISK



Key to table above: Software and platform's position on the Disruptability Index is based on its position along two dimensions: level of current disruption and susceptibility to future disruption.

Sources: Accenture Research Disruptability Index

*Total sample = 3,629; sample sizes range between 555 and 21, with an average of 181 companies per industry

CURRENT LEVEL OF DISRUPTION

Software and platforms is the most highly disrupted industry today, followed by electronics and high-tech and retail. The reason? The high concentration of market players ready to take your place.

The sector's ability to attract enormous amounts of venture capital creates an endless flow of start-ups that compete with incumbents. However, incumbents' revenue growth within all segments across the sector has also been spectacular.



FACTORS AFFECTING CURRENT LEVEL OF DISRUPTION

DISRUPTORS



Tech-propelled disruptors
(Incumbents growing fast or disrupting other segments)



Start-up penetration
(Presence and valuation of given start-ups in the industry)



Venture capital
(Value of VC capital flows into the industry)

PRESENCE AND PENETRATION OF DISRUPTORS

PERFORMANCE



Profitability
(5-yr EBITA CAGR and consistency)



Growth
(5-yr revenue CAGR and consistency)



Volatility
(5-yr corporate bankruptcy rate)

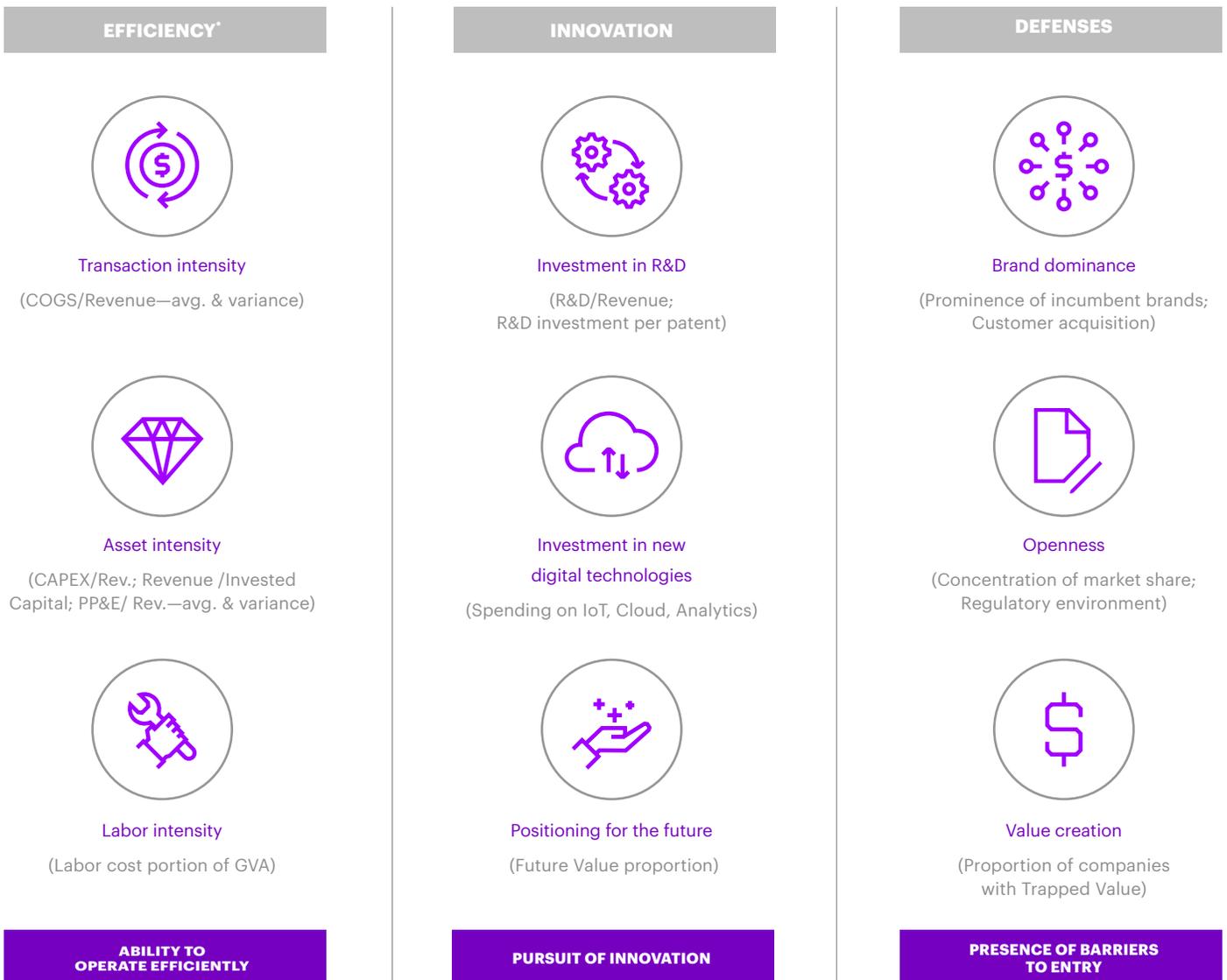
ABILITY TO OPERATE EFFICIENTLY

SUSCEPTIBILITY TO FUTURE DISRUPTION

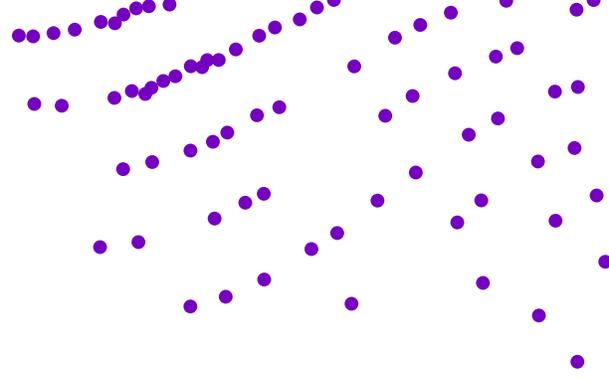
Looking forward, the software and platforms industry is secure against future disruption. Why? Other industries must pivot to a digital platform or fade to a ripple in the pond. Ongoing, significant investment in R&D and new technologies contribute to a high rate of innovation and consumer demand. In other words, platforms are here to stay.



FACTORS AFFECTING SUSCEPTIBILITY TO FUTURE DISRUPTION



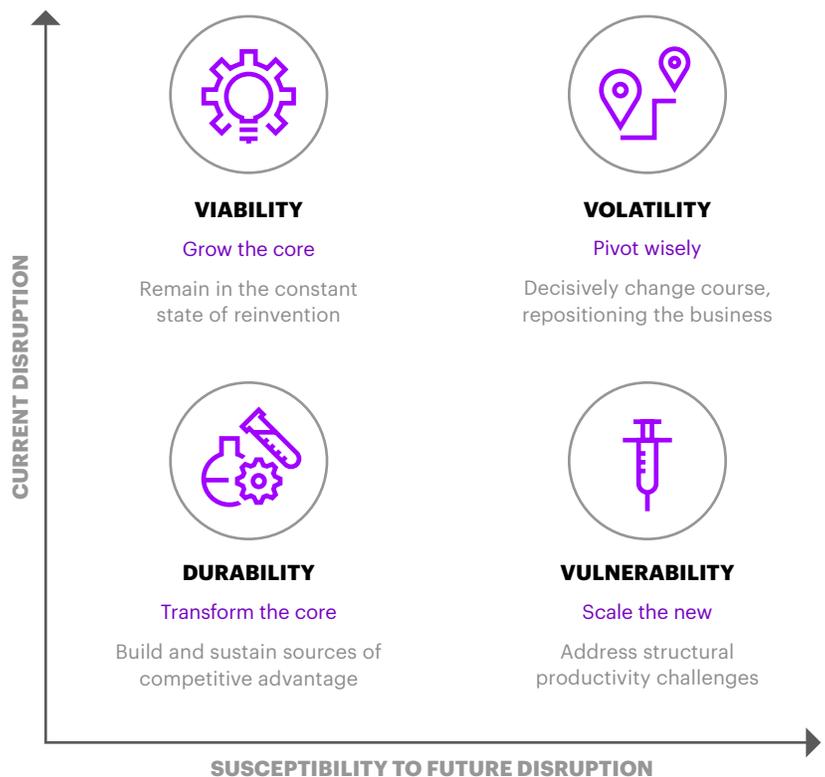
* For each of the efficiency measures (other than labor intensity) we create scores based on both the industry average and the variance in industry performance. This is to account for structural differences between industries. For example, the score of an industry with high capital intensity would be offset if there was limited variance in capital intensity between companies in the industry, and vice-versa.



HOW CAN YOUR COMPANY SHRED THE TSUNAMI?

It starts with spotting the wave. The Index allows every business to understand their own position. But they can also use it to spot potential opportunities in adjacent industries and clarify the picture of competitors' strengths and weaknesses. For example, the travel industry is moderately disrupted and highly susceptible to future disruption. A travel company could address its structural challenges by innovating or repositioning the business to create barriers to entry. But for those that don't take such actions, a platform business offering new travel-related services may well take their place.

Software and platform companies can also use the index to examine individual businesses within their portfolio. While the company may be viable overall, an individual business, product or service line may be vulnerable.



The Index's granular focus on specific areas helps companies determine the right actions to secure their viability.



WHAT'S NEXT? RIDE IT.

The blistering pace of innovation in the industry gives companies a strong position relative to disruption. But they can't stop innovating.

You can't wait until the crest is already on top of you. History shows that complacency is dangerous. And you don't have to look hard for examples where failure to innovate has seen a once ubiquitous product or service rapidly lose its market. If users and customers lose interest in a platform it very quickly becomes vulnerable to others offering more innovative products and features. In contrast, constant reinvention keeps businesses strong. Look, for instance, at how Microsoft reinvented itself from a PC software business. Or Adobe's

conversion to a SaaS business model and Netflix's emergence as the ubiquitous platform for streaming videos, including its own high-quality content.

Leaders like these continuously reinvent themselves. And they do it by adopting the values of a Living Business. They find success in continuously evolving with the needs of customers and executing along three lines: they find new markets for existing products, bring new products to existing markets, and expand aggressively into adjacent markets.

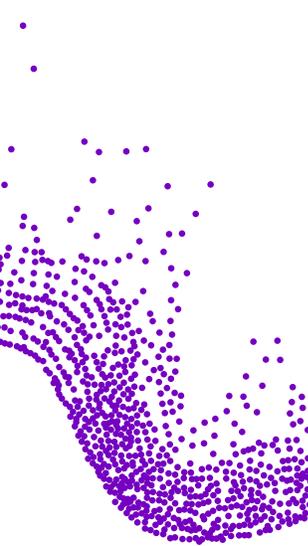
FINDING NEW MARKETS FOR EXISTING PRODUCTS

Having already made deep inroads into their primary markets, many platform companies are avidly searching for expansion opportunities. Google and Facebook, for example, receive 65% share of global digital ad spend, excluding China. OTT Video Platforms now reach most internet users in their respective markets. Expanding their user base for existing products requires a well-conceived and well-executed platform adoption strategy.

Companies form innovative partnerships to help them expand. In China, JD.com, maker of digital voice assistant LingLongDingDong,

is partnering with Nestlé to create a “nutrition assistant” that offers customers recipes and nutritional information.¹

Others are expanding to new geographic markets. That requires a robust operational framework to manage multiple languages, tax and regulatory requirements, payments in various currencies, and content hosting. Marketing, sales and customer support need to be localized to provide a consumer experience that fits with the global brand. Products and services may also require customization to reflect local market needs and deliver relevant functionality.



As platform businesses aspire to scale products and services globally, they must ensure that the costs of doing so don't grow at the same rate.

NEW PRODUCTS IN EXISTING MARKETS

As companies flourish, their base markets become saturated. That means simply acquiring new customers won't be enough to grow the core. Another option? Offer new products and services to existing customers who know and trust the business. Many of the industry's titans already operate such diverse business models to generate multiple sources of revenue:



Tencent draws revenue from advertising, media and more



Apple is in devices, services and media



Amazon's core is ecommerce but makes significant revenue from media, advertising and the cloud with Amazon Web Services growing at 45% year-over-year

Artificial intelligence (AI) has a key role to play here. As it gathers and analyzes more and more information about customers, AI will provide the insights to drive real-time changes, develop new products and services, and deliver engaging experiences.

AGGRESSIVE EXPANSION INTO ADJACENT MARKETS

A third path to growth is to disrupt other sectors. The most direct route is to apply core competencies in new ways to adjacent markets. Take Amazon's purchase of Whole Foods. It's a move that many investors believe will help Amazon harness its distribution strengths to compete in home delivery of groceries. Or what about Uber? In 2016 the company launched UberEATS, using the original Uber app's back-end technology and existing network of drivers to enter the food delivery sector. In April 2018, Uber acquired bike-sharing start-up Jump, and will use its existing infrastructure to help rapidly scale this adjacent business.²

These moves into adjacent markets may look simple. But to succeed, they require a thorough analysis to determine which potential markets are a strategic fit with the core business.



EMBRACING EPIC DISRUPTION

“Sink or swim” is the new normal. Disruption will always exist. It’s the underlying reason software and platform companies have been so successful. Start-ups and platform giants redefine customer experiences and change how entire industries operate.

But disruption is not uniformly distributed. Accenture’s Disruptability Index shows that disruption has a pattern. And that discovery enables management teams to understand their position, identify where they are specifically vulnerable and take action.

To thrive in a disruption-defined industry, software and platform companies must remain in a constant state of reinvention. They need to unceasingly enhance capabilities that support what they do best, apply their strengths in new and different ways and invest in aggressive expansion.

Companies must approach disruption like they have nothing to fear and only have opportunities to gain.

AUTHOR

ROBIN MURDOCH

Global Industry Managing Director
robin.murdoch@accenture.com

PAUL D. JOHNSON

Research Manager
paul.d.johnson@accenture.com

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 approximately 449,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

Visit us at www.accenture.com.

SOURCES

1 Brosgill, Richard, “Western vs Chinese voice assistants, who will have the last word?,” The Drum, November 27, 2017, <http://www.thedrum.com/opinion/2017/11/27/western-vs-chinese-voice-assistants-who-will-have-the-last-word>

2 Dickey, Megan Rose, “Uber acquires bike-sharing startup JUMP,” Techcrunch, April 9, 2018, <https://techcrunch.com/2018/04/09/uber-acquires-bike-share-startup-jump/>