



GROW IN THE NEW

THE ACCENTURE CHINA DIGITAL TRANSFORMATION INDEX HELPS BUSINESSES UNDERSTAND THEIR CURRENT POSITION AND HOW THEY CAN "ROTATE TO THE NEW" AND ACCELERATE GROWTH



After decades of rapid expansion, which created ever-rising demand and guaranteed growth for all kinds of companies, the Chinese economy is slowing. This has left Chinese companies struggling to sustain growth, and most are discovering that their efforts are inadequate. To restore growth, Chinese companies must “rotate to the new”—using data-driven methods and digital technologies to optimize existing businesses and build new technology-enabled ones.

While China has its share of digital champions—companies like Alibaba that have built online empires—most Chinese companies have not even begun their rotation to the new. Our research finds that only 7 percent of Chinese companies have begun their pivot—driving deep and continuous transformation of the legacy business, while mounting a decisive expansion into new businesses.

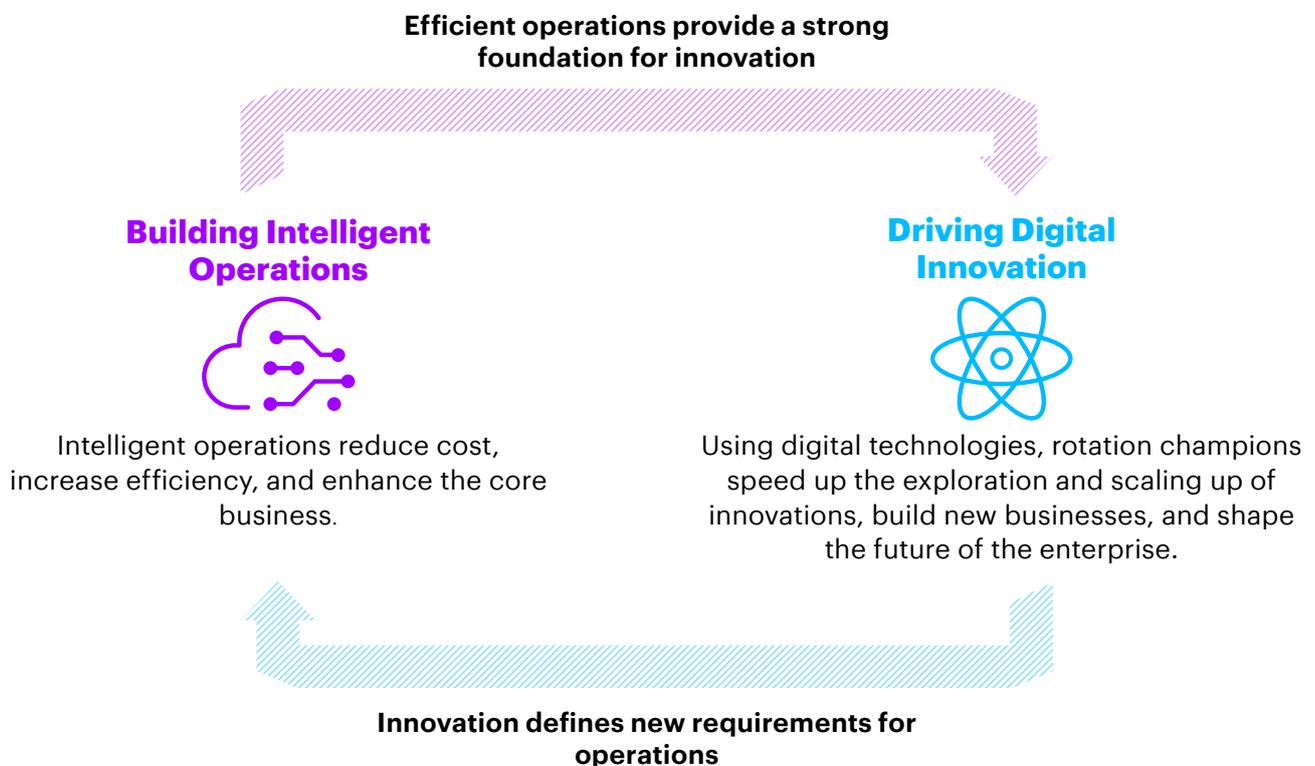
But the companies in that 7 percent minority—organizations that we call “Rotation Champions”—demonstrate how rewarding the rotation to the new can be. Rotation Champions are defined as companies that derive 50 percent of revenue from business activities that they began in the past three years.¹ We compared Rotation Masters and their peers using the Accenture China Digital Transformation Index and found that Rotation Masters are far ahead of the pack and excel in two key areas: implementing new digital operations and innovation.

With these new sources of growth, Rotation Champions substantially outperform their industry peers, growing revenue by 14.3 percent (compounded annually) over the past three years—or more than five times the 2.6 percent growth of peers. Moreover, Rotation Champions are racking up larger profits, with average gross margins of 12.7 percent, compared with 5.2 percent for other Chinese companies.

HOW ROTATION CHAMPIONS EMBRACE THE NEW FASTER

Rotation Champions exist across industries (and are most common in automotive and consumer electronics) but they all share two critical two digital capabilities: the ability to build intelligent operations and a knack for cranking out digital innovations (see Figure 1).

Figure 1. Two critical digital capabilities: Intelligent Operations and Digital Innovation



ACCENTURE CHINA DIGITAL TRANSFORMATION INDEX UNDERSTAND YOUR INDUSTRY'S CURRENT POSITION

We developed the Accenture China Digital Transformation Index to gauge where companies stand in their rotation to the new. The index score is based on how well companies in an industry have built the two critical rotation capabilities: building intelligent operations and driving digital innovation. Working with the China Service Alliance for the Integration of Information and Industrialization (CASIII), we scored 450 Chinese companies across eight industry sectors.

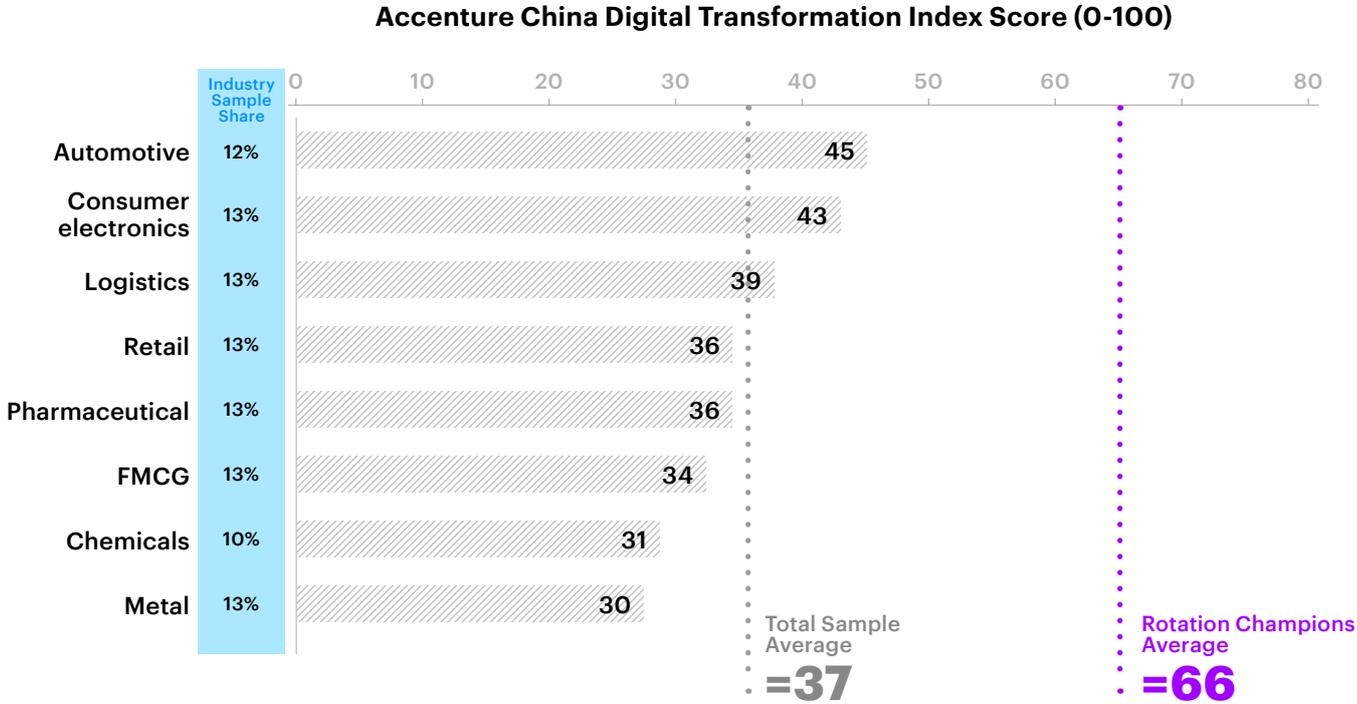
Key Insight #1:

The Accenture China Digital Transformation Index scores show that in most industries, the average Chinese company is far behind Rotation Champions in digital transformation.

The average company across the across the eight industries we studied scored between 30 and 45 (out of 100) on the index, with an average of 37, indicating a relatively low level of digital maturity. The average score for Rotation Champions in the same industries was 66 (see Figure 2 and Figure 3).

This signifies that a significant gap between leading companies and their industry peers when it comes to mastering digital capabilities—and an opportunity to improve performance by closing the gap.

Figure 2. Rotation Champions score highly on the Accenture China Digital Transformation Index

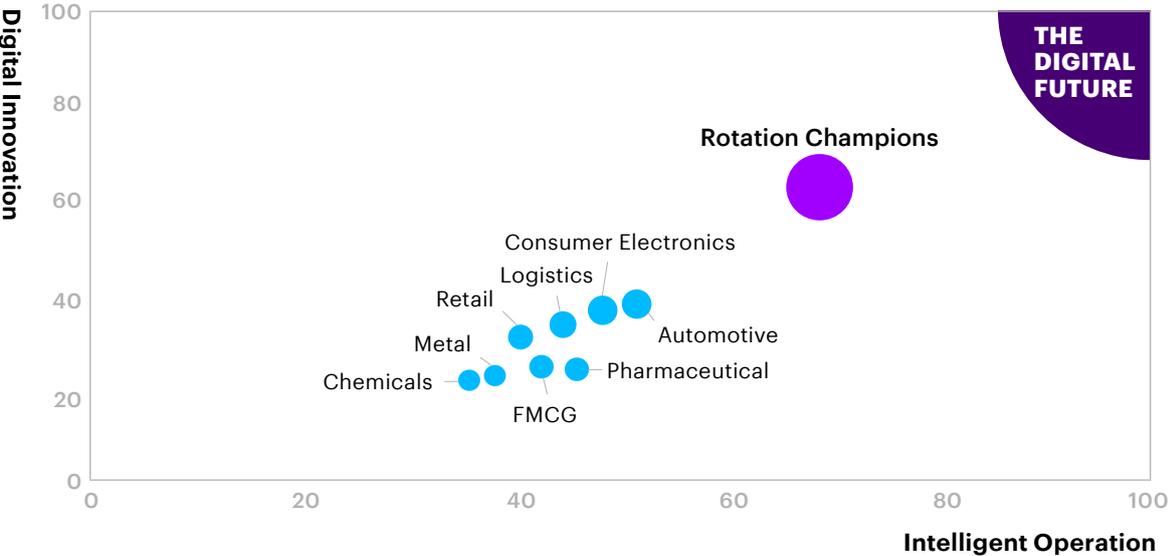


Source: Accenture Research, CICS-CERT

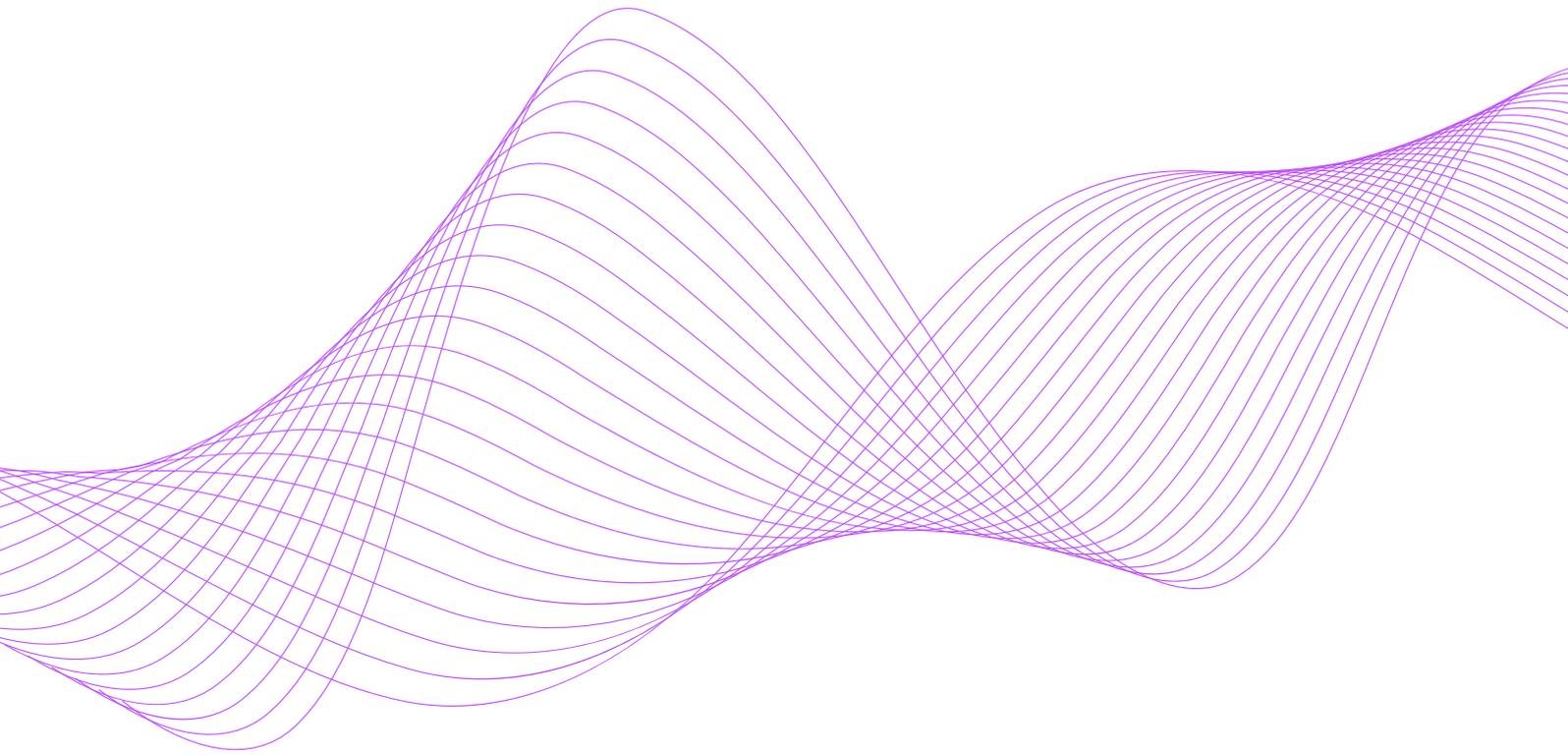
Shanghai-based Baosteel Group is showing how digital can bring manufacturing into the 21st century and transform a heavy manufacturing operation into a customer-focused service. The company's automated production technology has been chosen as the intelligent manufacturing demonstration pilot of the Chinese Ministry of Industry and Information Technology. Using IoT, ubiquitous digital connectivity, cloud computing, big data analytics, and

other technologies, Baosteel is not only streamlining supply chains, it is also finding new ways to serve its customers. This includes customization and production planning services. Baosteel collaborates with customers to work out the type and quantity of steel plate required and, as a result, can deliver steel with a specified shear center directly to an auto factory, for example.²

Figure 3. Across industries, Rotation Champions are moving quickly into the digital future



Source: Accenture Research, CICS-CERT



Key Insight #2:

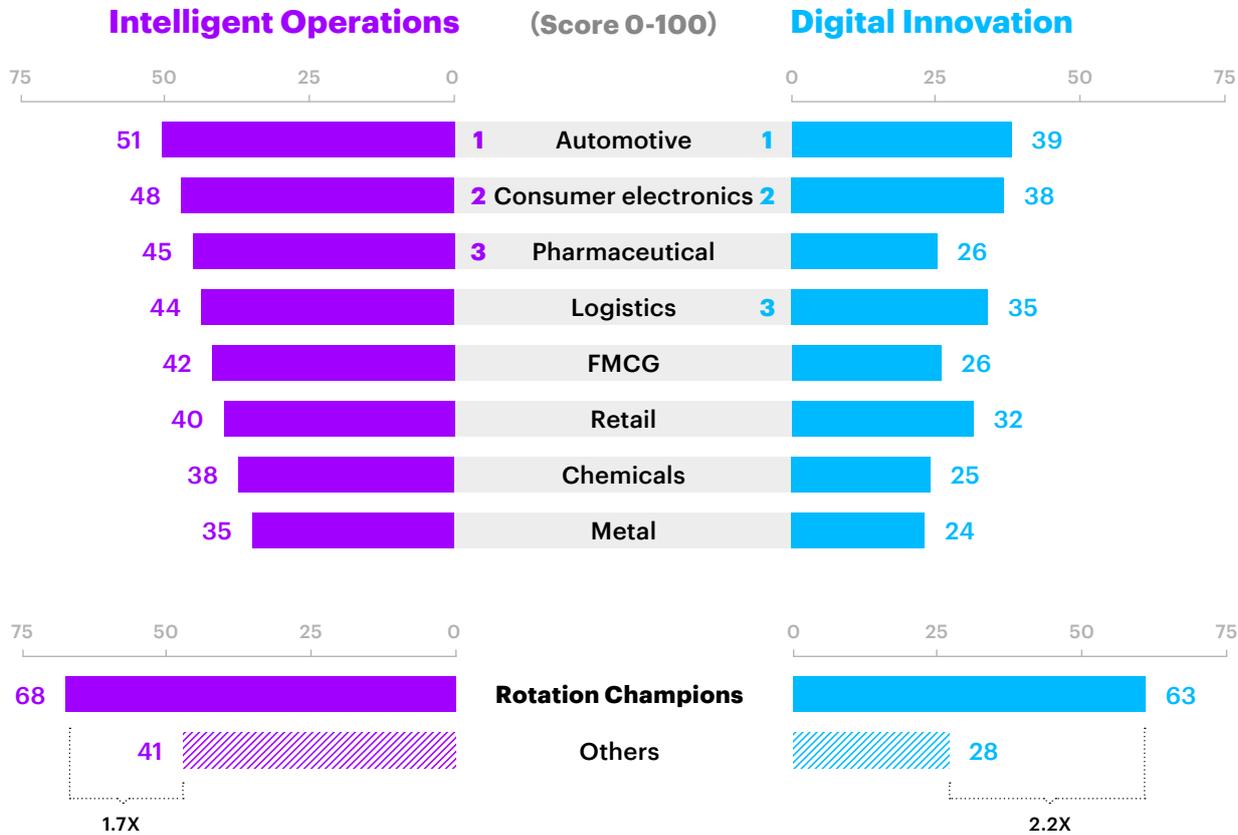
Rotation Champions are ahead in digital transformation because they excel in both key capabilities that we measure in the Accenture China Digital Transformation Index building intelligent systems and innovating.

Figure 4 shows how Rotation Champions compare with their peers on each component of the Accenture China Digital Transformation Index. In intelligent operations, champions averaged 66, or 1.7 times higher than the other companies. On digital innovation, they averaged 63, or 2.2 times the average.

To close the gap between themselves and Rotation Champions, Chinese companies should not only invest in improving their operations but also put resources into enhancing their innovation capabilities. For example, TASLY Group, a maker of traditional Chinese medicines and other

healthcare products and services, set up a Digital Innovation Division in 2014 to manage a comprehensive upgrade of the IT infrastructure and support digital transformation across the group. The company has also created a digital manufacturing system that combines data analytics and production automation in its factories and sophisticated digital systems to track supplies and finished products across the supply chain. To bring digital innovations to market quickly, TASLY starts with “incubation teams” that design a business system and set clear quantitative goals for each R&D project. If targets are met, a full development project will be funded.³

Figure 4. Champions excel in both index components



Source: Accenture Research, CICS-CERT

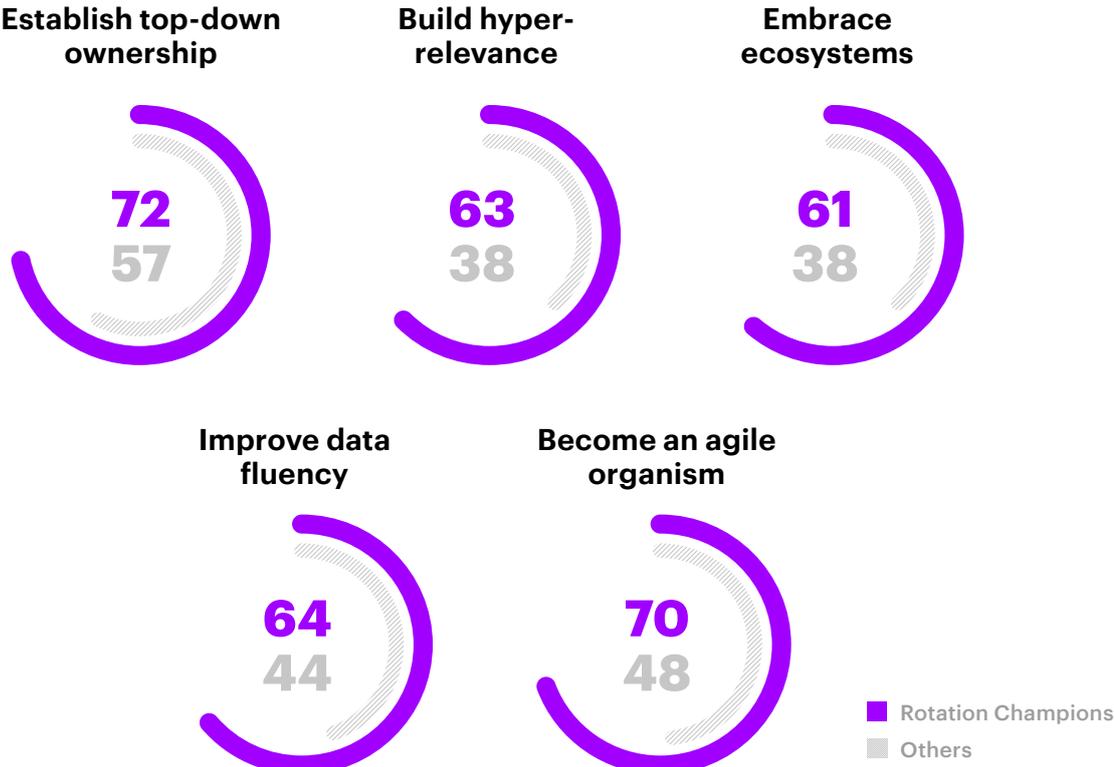
How have Rotation Champions used their digital capabilities to accelerate growth? According to our analysis, on the operations side, champions have focused on customer experience, smart manufacturing, and intelligent functions. On the innovation side, champions have been creating new digital

products and services as well as new digital ventures to accelerate the creation of digital business models.

ACCELERATING YOUR DIGITAL TRANSFORMATION

What can Chinese companies do to accelerate their rotation to the new and spur new growth? Based on our research findings, an analysis of the business practices of Rotation Champions, expert insights, and interviews with C-suite executives in China, Accenture identifies five priorities on which companies should focus to build digital capabilities (see Figure 5).

Figure 5: Five priorities to accelerate digital transformation



Data source: Accenture Research, CICS-CERT
 Note: We conducted a confirmatory factor analysis with the 52-detailed metrics and the result support the hypothesized five-factor structure.

ROTATION CHAMPIONS FOCUS ON 5 PRIORITIES AS THEY BUILD THEIR DIGITAL ADVANTAGES

Establish top-down ownership: Senior leaders must use their influence across the organization to drive the digital transformation agenda. In our global survey, 58 percent of the Rotation Champions said that C-level executives are responsible for driving digital transformation initiatives in their organizations. To ensure effective implementation, top leadership should also appoint a dedicated digital transformation taskforce.

Build hyper relevance: Become hyper-relevant to customers by using data and analytics to sense and address changing needs, including shifting preferences in customer experience. Rotation Champions use sophisticated customer analytics to guide continuous improvements in products, services, and experiences.

Embrace ecosystems: The best-performing companies call on partners and other resources in their ecosystems to speed up

innovation and improve service. This can include partnerships across industry value chains or building an open-source research and development platform, for example.

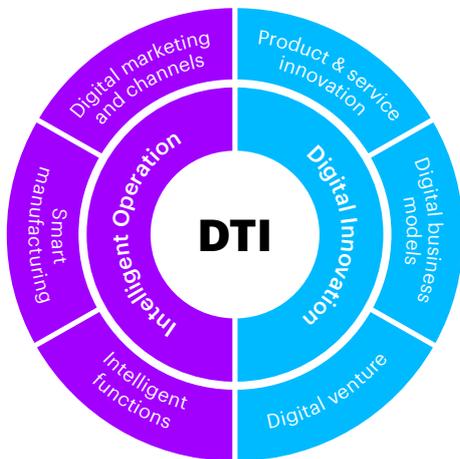
Improve data fluency: To rotate to the new, leading-edge technologies are essential. For companies to move quickly into the digital world and thrive there, they must adopt cloud solutions, build enhanced data and communications infrastructures, and learn to maintain AI algorithms.

Become an agile organization: Companies need the right talent and skills to develop the agility for digital business. This means augmenting human skills with intelligent technologies, deploying talent in agile teams, and using a flexible mix of internal and external/full-time and part-time resources. Companies also need to manage talent using data-driven approaches.

TIME TO ACT

Digital technologies are profoundly transforming economies and industries around the world and in China. These changes are challenging to the status quo, but they also create fresh opportunities. By spotlighting the success of Rotation Champions, we hope to inspire other Chinese companies to commit to their own digital transformations. Like the champions, the average Chinese company can use intelligent operations and innovation to find new ways to expand the current business and open all-new sources of growth. Now is the time to start.

ABOUT THE RESEARCH



Accenture China Digital Transformation Index

The Accenture China Digital Transformation Index is a cross-industry framework to assess a company's digital maturity across two business dimensions: operation and innovation.

Under the framework, we have build up

- 1st level index: 2
- 2nd level index: 6
- 3rd level index: 18
- 4th level index: 52

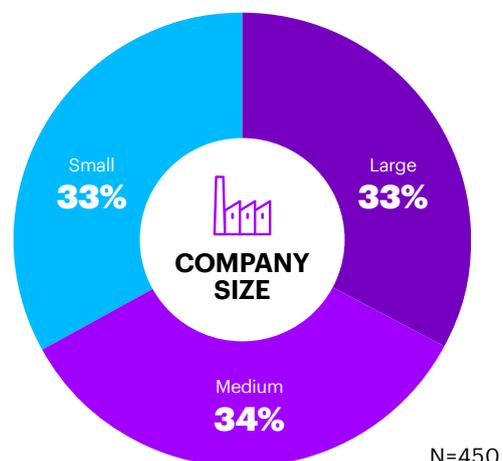
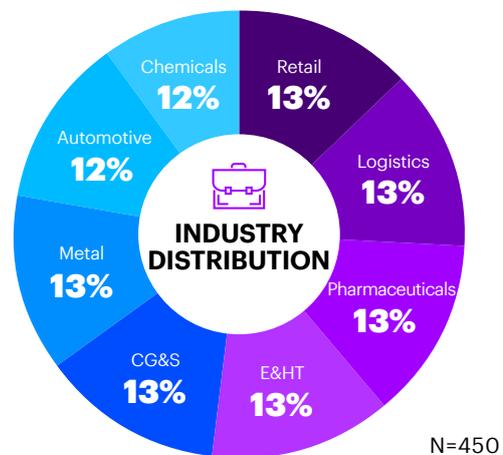
A scale of 0 to 100 was used to rate company performance on digital rotation. A score of 100 indicates that it is the ideal model of future digital enterprise.

Survey Sample Characteristic

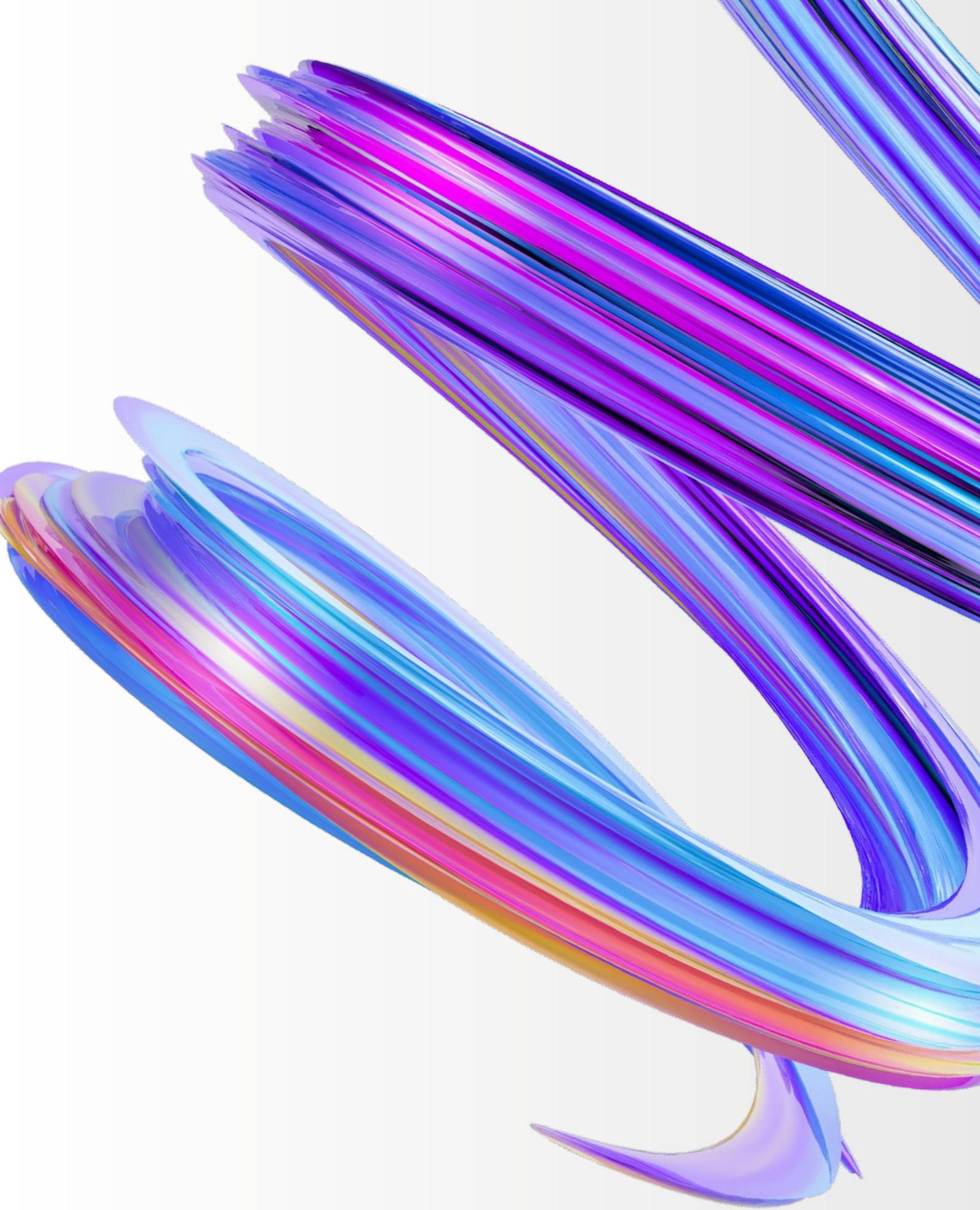
The China Service Alliance for Integration of Informationization and Industrialization (CASIII) conducted online survey on Chinese enterprises' digital practices every year. For this research, the responses were collected during February 2018 to May 2018.

We focus on 'traditional' manufacturing and services sectors rather than data-intensive industries like financial services or banking. We also exclude highly concentrated sectors where grouping and analysis are not practical (although we include a small number of oil and gas players).

For each industry, we segmented firms by size (large, medium and small), and performed random sampling in each size group to ensure the industry is well represented. We aimed for 50 to 60 samples in each industry to balance data availability and statistical validity.



Based on the classification standards carried out by the National Bureau of Statistics of China



REFERENCES

- ¹ By “new” business activities, we mean investments and ventures in previously unexplored markets and offerings.
- ² Baosteel using ten years to deploy "Smart Steel Factory", Baosteel Website, September 15th 2018, <http://news.baosteel.com/baosteelpc/economicnews/ShowArticle.asp?ArticleID=112225>
- ³ Source: Interview, August 9th, 2018

STEERING COMMITTEE

Wei Zhu	Senior Managing Director, Chairman - Greater China, Accenture
Libo Yin	Director, the National Development & Research Center for Industry Information Security
Jian Zhou	Head of the Informatization Research & Promotion Office, the National Development & Research Center for Industry Information Security

RESEARCH TEAM

Serena Qiu	Thought Leadership Research Senior Principal, Accenture Research
Shan He	Thought Leadership Research Associate Manager, Accenture Research
Freda Tong	Thought Leadership Research Manager, Accenture Research
Taylor Guo	Thought Leadership Research Senior Principal, Accenture Research
Xiaoyu Gao	Engineer & Head of China Industrial Control Systems Cyber Emergency Response Team Security
Duan Li	Associate Engineer of China Industrial Control Systems Cyber Emergency Response Team Information Security

ACKNOWLEDGEMENTS (IN ALPHABETIC ORDER)

Eva Chen, Xuyu Chen, Yuelong Fan, Francis Hintermann, Jin Jia, Geoffrey Lewis, David Light, Ted Liu, Dongyan Ma, Paul Nunes, Wei Qian, Shen Ren, Denis Sheng, Han Song, Xi Yang, Teresa Ye, Jin Yu, Jing Yu, Yi Yu

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.

The company has been operating in Greater China for over 30 years. Today, it has around 15,000 people servicing clients across the region with offices in the cities including Beijing, Shanghai, Dalian, Chengdu, Guangzhou, Shenzhen, Hong Kong and Taipei. As a trusted Partner of Choice for digital transformation, Accenture is bringing more innovation to the business and technology ecosystems and helping Chinese enterprises and the government to embrace digitization and enhance global competitiveness to succeed in the new era.

For more information about Accenture, please visit its corporate homepage www.accenture.com and its Greater China homepage www.accenture.cn.

ABOUT ACCENTURE RESEARCH

Accenture Research shapes trends and creates data-driven insights about the most pressing issues global organizations face. Combining the power of innovative research techniques with a deep understanding of our clients’ industries, our team of 250 researchers and analysts spans 23 countries and publishes hundreds of reports, articles and points of view every year. Our thought-provoking research — supported by proprietary data and partnerships with leading organizations such as MIT and Singularity — guides our innovations and allows us to transform theories and fresh ideas into real-world solutions for our clients. Visit us at www.accenture.com/research.

ABOUT CHINA INDUSTRIAL CONTROL SYSTEMS CYBER EMERGENCY RESPONSE TEAM

The China Industrial Control Systems Cyber Emergency Response Team (CIC), which falls under the Ministry of Industry and Information Technology, is responsible for conducting strategic research, R&D, monitoring & early-warning, assessment, emergency and industrial development related to industry information security, building up relevant capacity, and safeguarding security.

Its objective is to become China’s leading research institute in the fields of industry information security and informationization-industrialization integration (III) as part of the national strategy of ‘making China great through manufacturing and informatization,’ guided by the principle of ‘supporting government and serving industry,’ and focusing on integration of manufacturing and Internet as well as industry information security. It aims to become China’s think tank for government policymaking and an authority to guide industry development, offering policy support and safeguards for making China a center of high-quality manufacturing. CIC is also involved in building industry information systems, protecting key infrastructure, and developing the information industry.

ABOUT CONTEMPORARY SERVICE ALLIANCE FOR INTEGRATION OF INFORMATIZATION AND INDUSTRIALIZATION (CSAIII)

CSAIII was founded in 2013 with ‘reinventing traditional growth drivers and identify new drivers’ as its mission, ‘partnership for all to win’ as its purpose, and ‘strategic planning, methodology and instruments, solutions finding and exchange for scaling’ as its focus. CSAIII provides government, industry, and business with comprehensive quality services, such as tracking and judging, thematic studies, standards-setting, diagnostics and consultation, standards adoption, demonstration pilots, publicity and training, technical solutions, results scaling, conferences meeting and international cooperation.