Digital disruption for Finnish companies: Dream or Nightmare?

Accenture High Performance Business Forum survey results

January 2015
Disruption is already here for 56% of companies and 38% will face it in the next 5 years.

Competition is global, not regional or local. 28% see disruption coming outside the industry.

86% see digital disruption purely as an opportunity. 6% see it as both an opportunity and threat.

17% of the companies have laid down a clear strategy in response to digital disruption.

41% of respondents believe their company is well prepared to leverage digital disruption opportunities.

54% of the companies have distributed the responsibility for responding to digital disruption across the organization, leaving no individual accountable.

Digital disruption will have a major impact on cost and innovation, and some impact on revenue.

Extensive study regarding Finnish companies’ views on the business impact of digital disruption
Digital disruption is here

“Something new indeed—the era of what we call “Big Bang Disruption,” where products and services enter the market both better and cheaper than incumbent offerings and, thanks to the efficiency of digital markets, attract customers across all traditional market segments right from the start.”

— Paul F. Nunes, Global managing director of the Accenture Institute for High Performance

Uber, a revolutionary digital service for the taxi business, was introduced in Finland in November 2014. The startup event Slush attracted 14,000 visitors, including heads of state. The social network Facebook obtained a banking license.

Digital disruption is at our doorstep – how have we prepared ourselves for it? In the fall of 2014, Accenture interviewed more than 200 executives from the largest companies and public organizations in Finland to better understand the impact of the digital disruption. The survey results show how comprehensively digital disruption is affecting every line of business. We were surprised by the solid faith Finnish companies have in their ability to respond to the disruption – often without any clear plans or assigned responsibilities.

Digital disruption is relevant in any industry

Digital is going to stay high on the company management agenda also this year. Industries and value chains change so rapidly due to digital technologies that no company or organization is unaffected by the revolution. The question is, whether the current digitalization is a continuation of earlier development or an actual disruption with the potential to transform entire industries.

In fall 2014, we decided to find out what digital disruption meant to Finnish companies and industries by interviewing more than 200 executives from major companies and public organizations in Finland. The results confirm that digital disruption is a reality now (56% of respondents) or it will become reality no later than during the next 5 years (94% of respondents). This means that within 5 years, practically no company or industry is immune to the digital disruption.

The disruption is already evident, particularly in industries close to the consumer, but even in B2B industries, such as the process industry, 91% of respondents expect digital disruption to affect their company’s operations significantly by 2020.

Views on digital disruption

“The industry is changing in many ways, new competitors are emerging, and if we are not alert and proactive today, we will be hopelessly out of the game in five years.”
- CEO, finance industry

“Although the industry has already gone digital, the big surge is only just approaching.”
- Executive, banking industry

“We currently have a large market share, but this will be at risk if we are not equipped to cope with digital transformation.”
- Executive, retail

“Companies too often resort to small improvements, while we should start thinking completely out of the traditional box.”
- Executive, telecommunications

“The company culture is solely focused on current activities and lacking a common direction and focus on the digital.”
- CIO, manufacturing industry
Another interesting finding was related to the impact of digital disruption on revenues and costs. 60% of respondents believe that it will have a major impact on their company’s costs, whereas only 36% believe that this impact will also extend to revenue. Additionally, 67% see digital as a factor that greatly boosts innovation; apparently, this innovation is not seen to be directly linked to the company’s growth.

Consumer-centric industries see the biggest potential for revenue growth. This may be partly related to the specifics of the industry. Digitalization of processes, such as digitalization of sales transactions via E-commerce, was initiated early, whereas development of digital services targeted at consumers is a relatively new phenomenon. In other words, the pursuit of cost savings is a very familiar concept but the utilization of digitalization to grow is still being conceptualized.

According to the survey respondents, the main impediments to responding to digital disruption are rigid corporate structures and slow speed of organizational changes. Despite the awareness of the existence and need of disruption, the corporate ship typically turns too slowly, which entails the risk of falling too far behind global development.

Some respondents mentioned that consumers were an obstacle in implementing digital solutions; that consumers did not see the value of digital products and services and hence the adoption of their digital solutions have been slow. Are customers right? Are digital solutions of little value? We believe that this is an issue of supply quality rather than poor demand.
Disruptors are global and from outside the industry

Digital destroys, merges, and creates industries. It also changes value chains and forces players to adopt new roles. According to the survey, digital disruptors seldom come from within the industry, and even more seldom are they local.

**Competition in digital is global**
The respondents believe that competition is becoming increasingly global and breaking industry boundaries. The disruptors in particular are global, often from North America or Asia. 68% of the respondents found competition to be global in nature, and only 13% considered the disruptors to be of local or Nordic origin. The health care industry was practically the only one where local competition was seen to be a potential driver of digital disruption.

In addition, the survey indicated that disruptors often come from outside one's own industry. Especially the industrial equipment and automation industry (37%) and public services (also 37%) saw new players from other industries to be the main disruptors. Another interesting discovery was that approximately one quarter of the respondents did not know where the disruptors are coming from (nevertheless, one fifth saw their own company as the industry disruptor).
Recognizing the disruption and disruptors is an interesting topic as such. Due to the rapid pace of disruption the disruptors are often not recognized until they have already made a breakthrough and won a share of the customers. For example, in the early 2000s the movie streaming service Netflix offered itself to the video rental company Blockbuster for USD 50 million (0.2% of Netflix’s current market value) but Blockbuster thought the company was a mere curiosity and turned down the offer. Blockbuster went bankrupt in October 2014.

According to the survey, disruptors come from two different directions. One group is formed by the already established companies that are shifting their expertise to new fields (Google, Amazon) or expanding their foothold within the industry (GE, Emerson, Danske Bank). A second group is formed by the so-called “bubbling under” companies, which are difficult to recognize and monitor but can take over markets quickly. As disruptors belonging to the latter group are more difficult to recognize, companies should have clear methods for tracking such potential future disruptors and agreed means to deal with the disruptors (acquisitions, partnerships, start-up financing etc.).

Identified disruptors and black horses
It is important to bear in mind that digital disruption is not a matter of IT or new technologies, but it is about finding new ways to add value through technology development.

Many start-ups were originally created in response to a need experienced by the founder. Along with the disruptors identified by respondents, our report features some of the most interesting participants of the SLUSH start-up conference across industries.

In the finance sector companies have for a long time invested in service digitalization and brought mobile solutions to their customers. However, some of the notable new trends are digital currencies, online payment traffic management systems, crowd funding, and peer-to-peer lending. One example of Finnish companies represented in Slush is Bitmex, with a derivative marketplace for Bitcoin. Another noteworthy company is the leading peer financing operator Lending Club, whose stock-exchange listing in December 2014 was well received in the U.S.

“Process digitalization; service digitalization; change in practices; shifts in purchase behavior – the industry will not be any safer from disruption than others. Our products will remain, but services will be integrated into them and those will form a part of an ecosystem.”

- CIO, manufacturing industry

“There Corporation offers solutions for energy efficiency and household electricity consumption management. The industry has been in the spotlight ever since Google bought Nest for USD 3.2 billion, and it is expected to revamp the traditional operating models of the energy sector.

The threat of disruption is particularly evident in the Healthcare industry, where digitalization is openly challenging traditional ways of working. Examples of this can be seen in major companies’ start-up farming, crowdsourcing of services, as well as new sensor and scanning methods that enable home measurements and remote diagnostics.

Betterdoctor is a well-known example of crowdsourced health care services. The platform enables the efficient search and comparison of doctors, and it also gathers feedback to further improve the usefulness of the marketplace.

IndoorAtlas develops solutions to pinpoint locations indoors. The company offers it’s earth’s magnetic field-based location service to retailer as the first focus industry. OIKIAN provides a location information based mobile targeted marketing solution that enables targeting of communication based on location and context information.

Sharper Shape provides its customers with an automatic asset inspection solution utilizing unmanned aerial vehicles equipped with sensor technology. The turn-key solution reduces inspection and maintenance costs for assets such as power lines, pipelines, and railways.

Intelligent materials with embedded sensor technology has been a hot topic for quite some time already. Modti is a company that is making this a reality – in a new and innovative way. The company has invented a 3D programmable material with a surface texture that can be modified. The practical application areas for such a material include at least 3D displays and programmable aerodynamics.

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Digital disruption – Do you have the courage to grasp the opportunity?

86% of the survey respondents saw digital disruption mainly as an opportunity. This can be seen as a positive attitude and a good sign for the Finnish economy – but, on the other hand, the apparent lack of preparation for the digital disruption makes this worrying.

The majority see disruption as an opportunity

![Pie charts showing the percentage of respondents from Finland, Sweden, Norway, and Denmark who see digital disruption as an opportunity, threat, or both.]

The opportunities, as well as threats, related to digital disruption were widely present in our survey interviews. Naturally, it is difficult to fit disruption in one category alone and, on the other hand, in the highly digitalized world, it is easier to see digital as an opportunity. This was also reflected in the survey responses.

In general, Finnish companies (86%) clearly see digital disruption as a business opportunity.

Moreover, Finnish companies seem to understand the dangers of disrupting technology, at least slightly better than in the other Nordic countries (5% see it as a threat and 6% as both a threat and an opportunity). On the other hand, these figures might reflect the severe structural changes that are currently taking place in Finland.

There isn’t much difference between industries, and even processing industry companies (89% of respondents) as well as the industrial equipment and automation industry representatives (100% of respondents) expect to benefit from the new digital development.

A notable finding is that unlike in other Nordic countries, Finnish companies have not responded to the disruption through organizational changes, e.g. by assigning clear ownership over digital in the company. This we will discuss in greater detail in the latter part of the article.

Insight is being generated irregularly although investments in digital are expected to grow

Setting digital disruption in motion or just responding to it requires not only agility to change but also an understanding of the weak signals that affect the industry.

Our survey indicates some differences in how companies in different industries monitor the disruption and changes in their industry. When observing the situation across industry boundaries, the group of companies that actively generates digital understanding is in the minority.

Only the traditional means such as customer insight generation and collaboration between business and IT are being actively leveraged according to over 10% of the respondents. On a worrying note, 29% of companies do not monitor trends outside their own industry at all or monitor them very little.
Is your company planning to increase investments in becoming a digital business?

- Yes: 64%
- No: 15%
- Don’t know: 21%

The findings related to the above question were interesting to say the least, especially in light of the fact that most companies do plan to increasingly invest in digital development in the near future.

The willingness to invest can be seen as a confirmation to the notion that digitalization is an important tool for Finnish companies, but the pursuit of new growth through digital development is probably not the key objective. The results illustrated in the graph above can be explained by companies’ focus on cost savings. The topics addressed through the questions of this study indicate development areas for digital products and services.
Wake up! Finnish companies think that they are ready for digital disruption – even though they do not have clearly assigned responsibilities or plans for this area.

According to the survey, 79% of respondents think that their company is at least fairly well prepared to respond to digital disruption. Nonetheless, only 17% of the companies have a clear strategy regarding digital disruption, and the majority (54%) have allocated responsibility for responding to digital disruption to the members of top company management or have not defined these responsibilities at all.

Finnish companies think that they are ready for the disruption
According to the survey results, Finnish companies are ready to face digital disruption. 9% of the respondents state that their company is very well prepared to capitalize digital opportunities, and 32% feel that they are well prepared. Likewise, 21% of respondents see their company as a digital disruptor in its industry.

In a corresponding studies elsewhere in Nordics, the portion of companies that see themselves as well prepared were 76% in Denmark, 53% in Norway and 43% in Sweden. In Finland, companies operating close to consumers in the fields of media (100%) and finance (83%) perceived they were in a good position, and engineering workshops (78%) that had made large investments in digital also saw themselves as well prepared in comparison to other companies in the industry.
How ready is your company to grasp the opportunity and utilize the possibilities offered by digital disruption?*

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<thead>
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<th>To a large extent</th>
<th>Well prepared</th>
<th>Moderately</th>
<th>Total</th>
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<td>38%</td>
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<td>34%</td>
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<td>Denmark</td>
<td>31%</td>
<td>45%</td>
<td>20%</td>
<td>96%</td>
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*(Very little, Not at all and I don't know-responses excluded)
Only 17% of respondents have a clear, communicated strategy for digital disruption. What stands out in the survey results is that although Finnish companies think they are prepared for digital disruption, they have not done much to show it. This is unlike companies elsewhere in Scandinavia, which have assigned people responsible for managing the change more often. In response to the question how the company had decided to respond to the digital disruption and whether it had a clear, communicated strategy for this purpose, only 17% of the companies stated that they had such a strategy. The proportion of companies in which preparations for digital disruption had been made at least at the top management level was 39%.

In this respect, Finland is behind its neighbors. The proportion of companies that had a strategy was 44% in Sweden, 50% in Norway and 75% in Denmark. It appears as though Finnish companies rely on being able to respond once the disruption is at hand.

At the industry-specific level, the highest rates of having clear plans on utilizing digital opportunities were reported for telecommunication (33%) and, maybe a little surprisingly, for public services (21%). In the retail industry approximately 20% of the respondents stated that they had a clear plan in place. It was also surprising to notice that even in the finance industry, the majority of companies (79%) had just an idea but no management group consensus or shared strategy in place.

**Does your company have a transformational strategy for digital disruption?**

![Survey Results](image)

- **Finland**: 28% (We have a written, formalized and widely communicated strategy), 27% (Management has a joint and agreed upon strategy), 7% (We have an idea about it), 17% (Not in a notable or formalized way), 22% (I don't know)
- **Sweden**: 37% (We have a written, formalized and widely communicated strategy), 27% (Management has a joint and agreed upon strategy), 3% (We have an idea about it), 17% (Not in a notable or formalized way), 17% (I don't know)
- **Norway**: 35% (We have a written, formalized and widely communicated strategy), 25% (Management has a joint and agreed upon strategy), 15% (We have an idea about it), 17% (Not in a notable or formalized way), 25% (I don't know)
- **Denmark**: 37% (We have a written, formalized and widely communicated strategy), 38% (Management has a joint and agreed upon strategy), 5% (We have an idea about it), 1% (Not in a notable or formalized way), 20% (I don't know)
Who is in charge of ensuring that Finnish companies position their troops wisely at the battlefield of digital disruption? According to our survey, the majority of companies (41%) have allocated this responsibility between its management group members, and 15% have assigned it to the CIO/CDO.

It is, indeed, wise to distribute this responsibility, as digital disruption influences many different areas of business. On the other hand – as is pointed out in the sub-header above – this entails the risk that no one actually bears the responsibility and that the company is left drifting in the riptide of digital disruption.

One of the interviewed executives asked: “If digital disruption really does change the fundamentals of company operations, who else could be responsible for it if not the CEO?”

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**Shared responsibility = no one's responsibility?**

Who is in charge? (Please select one option)

- The management team
- Head of IT
- Generally more junior staff
- Appointed groups not central in the organization
- All employees or several groups
- None of the above
- Someone else
- Don't know

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**Who is in charge?**

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Digital disruption is reality
The interviewed executives stated that disruption is already here – we concur with this. The disruption is mainly seen as an opportunity, and Finnish companies believe that they are well prepared to tackle the consequent challenges and utilize the opportunities. Competition is global and often crosses industry boundaries.

Nevertheless, Finnish companies lack a clear vision of how to proceed, as well as clear knowledge of who the disruptors of old models are or will be, and companies have not consistently allocated responsibilities for responding to the digital disruption. Are we taking the issue too lightly? Do we believe in coincidence rather than planning?

In conjunction with the digital disruption, a considerable volume of customers, market shares, and money is in play in all industries. The greatest benefits from this revolution will be reaped by the most innovative companies and organizations with clear plans and organizations in place.

Is your company or organization one of the winners in the digital disruption?

Heading forward
Finnish companies do not see themselves as disruptors in their own industry, unlike Danish companies, for example. However, major Finnish companies are in a significantly better position than start-ups or industry-external disruptors. The keys to responding to digital disruption are in the company’s own strengths and factors of superiority.

Major, well-established players have a couple of clear benefits compared to newcomers. Narry Singh, Accenture’s Managing Director in charge of Digital Strategy consulting, lists among other things the following:

• Market knowledge: Never has it been easier for a well-established player to disrupt the market. Local market knowledge and quick scaling ability are difficult to copy.

• Competence in the operating environment: Local regulations and permit processes are self-evidently familiar for long-term operators, whereas newcomers need to put a lot of effort into these matters.

• Solid cash flow and reserve: These assets can be used to catch up on others who may have gotten ahead. Most start-ups would trade their agility and leading technology for these any time.

How to come out of digital disruption as a winner?
Finnish companies must wake up and start taking the challenges of digital disruption seriously. Monitoring trends, detecting disruption at an early stage, and taking immediate action should be minimum requirements.

Finnish companies should learn the principle of failing fast: they should strive to drive new innovations for the market to test at a rapid pace and make the consequent decisions on scaling or discontinuation at least as rapidly. Traditional theories of large-scale development projects are helplessly outdated in the new digital reality.

Companies that seriously want to make sure they won’t be caught ‘with their pants down’ by digital disruption must start disrupting their business from within before the competitors beat them to it – even at the risk of cannibalization. It is better to keep the next disrupting technical development in your own hands rather than to wait for a new player to come and take over the market. If we won’t change the market, someone else will.

Suggestions based on the survey results
1. Allocate responsibilities. Establish clear responsibilities and organization for digital disruption. The responsibility for digital matters belongs to the company CEO or another separately assigned person.

2. Communicate. Prepare and communicate an unambiguous strategy to increase digital business. You cannot be prepared for everything, but not being prepared for anything risks your entire business.

3. Recognize early. Identify and monitor potential disruptors at an early stage. Particular attention should be paid to challengers coming from outside your own industry, because they may be difficult to detect early enough in order to take protective action.

4. Try. Develop and test digital solutions at a quicker pace than before. Apple, Uber (the digital taxi service), Netflix (online video service) and AirBnB (digital apartment rental service) are examples of winners taking it all.

Summary: Stronger and wiser in the wave of disruption
Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 319,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

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