Tuning your GPS: Redefining the rules of competitiveness in the digital age

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Since 2000, 52 percent of the companies in the Fortune 500 have gone bankrupt, have been acquired, or have ceased to exist.¹

41 percent believe that more than half of their competitors will disappear.²

Digital slingshot

Zenith. RCA. American Motors. Texaco. Polaroid. A handful of once titanic brands. Names that today are nearly forgotten. In their heyday, these companies were leaders of industry and an integral part of the business landscape. Yet since 2000, 52 percent of the companies in the Fortune 500 have gone bankrupt, have been acquired, or have ceased to exist.¹

It’s a pattern recognized by today’s business leaders. In fact, according to Accenture Strategy research, more than one-third of CFOs believe their organizations are unfit for future survival. And 41 percent believe that more than half of their competitors will disappear.²

Why? Because markets are being disrupted by nimble start-ups unfettered by the old rules of competition. Rigid operating models governed by command and control hierarchies that impede progress, and distinct views on industry boundaries, are being replaced by a culture of experimentation.
and innovation. Success in this new paradigm for incumbent players means determining where customer expectations and technology will go next, irrespective of traditional views on product or service. And at times partnering with “Davids” to create unassailable competitive advantage. Many companies have tweaked their strategy and operations – trimming costs, expanding geographically, increasing integration. But redefining competitiveness requires seismic shifts. It is a race for relevance in markets that are flat, transparent and unstable. Or do not even exist yet.

It’s something General Motors (GM) is doing with Lyft, a startup that allows users to share rides with nearby drivers through an app that matches supply and demand. GM invested $500 million in Lyft to create a concept like no other: offer a fleet of self-driving Chevrolet Bolts (a GM brand) electric taxis to Lyft customers. It’s a strategy that even a few years ago would have been inconceivable, and unbelievable—an OEM venturing into a space outside the realm of vehicle sales and partnering with a company that is essentially undercutting new vehicle sales. It’s a classic win-win. GM can break out of the low-margin manufacturing end of the value chain. Lyft leverages the scale of its massive partner. Customers get what they want: the convenience of mobility without the hassle of car ownership, all delivered sustainably via an electric service.

Digital compass

But while Digital has fundamentally changed the rules of competitiveness, it is also the tool used across the board to underpin the new rules. The old school approach involved companies developing their greatest competitive muscle on one or two of three areas: growth and customers, profitability or sustainability and trust. Executing with equal strength against all three was difficult, expensive, and unnecessary.

The old approach worked because customers were content with one and satisfied with trade-offs. Low innovation or quality meant low cost. Something highly customized needed to be expensive. Being first or innovation led meant that you paid through the nose. This is no longer the case. Thanks to digital, customers now demand value, performance, service, innovation, – and a wonderful experience – all at a low cost. And eschew brands that neglect social and other responsibility.

And therefore shareholders and stakeholders expect winning companies to be growth led, nimble and agile with their cost base, with a commitment to sustainability and trust. These are the new table stakes for competing successfully.
Digital intersection

Growth and customers. Profitability. Sustainability and trust. GPS. It's critical to excel in all three. But not in isolation. Companies need to understand the interdependencies between each. And more are. In fact, 64 percent of companies already report believing in the importance of an interdependent strategy. Yet only a third are showing signs of doing it.⁴

Growth and Customer

Traditional approaches to growth are no longer sufficient on their own to mitigate competitive pressures from both entrenched and new disruptive attackers. Asking the fundamental “Where to Play?” and “How to Win?” questions are not enough. Winners today must also ask, “What to Disrupt?” Answering that question requires combining brilliant basics with new pathways for growth, placing bets on where the market—and by default—customers are going. It involves keeping the bread and butter business on track while paving the way for new, wildly divergent strategies – strategies that will almost certainly have some new digital capability at their core (cloud based platform services, analytics, mobile availability etc.).

When electronics giant Philips explored what to disrupt, they recognized that for large industrial customers, owning Philips’ products—lightbulbs, lamps and lighting systems—isn’t necessarily desirable. But light is indispensable. Acknowledging that their traditional growth playbook was outdated, the company partnered with a start-up, Turntoo, to change the game and disrupt an industry they lead. Turntoo offers an intermediary digital platform that handles resource management between manufacturer, supplier and end-user. This allowed Philips to move from selling light bulbs to selling light while enabling energy saving. The move lays a path to growth by giving customers what they want, how they want it.

Critical questions companies should ask when it comes to growth and customer include:

• Do we understand where and why disruption is likely to occur within our business model and across our industry?
• Have we grounded our business through the eyes of our customers?
• Do we have the culture and capabilities to defend our core while at the same time proactively redrawing competitive battle lines?
• Have we clearly defined the business we are in, and is our value proposition still relevant?
• Do we make value-based/data-informed capability investment decisions?

But growth initiatives require investments. And that’s where profitability comes in.

Cost management as core competency at AB InBev

AB InBev considers cost efficiency to be a “core competency.” The ‘forensic visibility’ brought about by digitally enabled cost analytics is a key to ABI being able to drive their cost reduction program so effectively. And they continuously strive to convert administrative overhead—or non-working money—into growth investments.

Then benchmark the results against financial targets, increasing revenue, expanding margins and generating a cash flow that's the envy of the business world.

Today, less than one-third of companies prioritize reinvestment of cost savings in alignment with the overall business strategy.
In order to pull the profitability lever within an integrated GPS strategy, companies need to develop a relentless focus on enterprise cost reduction. Cutting costs judiciously—where there’s no value generated—then purposely reinvesting funds into the areas that drive growth.

Most companies today are familiar with the concept of zero-based budgeting (ZBB). But to drive profitability, simply budgeting from zero is too narrow. The focus has to be on driving cost reduction enterprise-wide—from operating models to manufacturing to supply chains and everything in between. What’s more, each cost reduction effort has to be completely connected to growth. Today, less than one third of companies prioritize reinvestment of cost savings in alignment with the overall business strategy. Instead they use a shotgun approach, reinvesting savings across multiple initiatives. Without getting the entire organization behind the end goal of growth—and its interplay with cost—the best efforts at cutting back fail over time. To maximize the chances of success, a robust and sustainable closed loop enterprise wide cost improvement program must be in place across the total cost base – spending on goods and services, investment in people and capabilities, optimizing supply chain and network, and optimizing revenue. It isn’t just ZBB anymore. It’s ZBS on spend, ZBO on organization, ZBSC on supply chain. Its answering the question “what should my costs be”—not how do I reduce them by a few percent.

Companies should ask themselves:

- Have we anchored all cost cutting initiatives against specific growth goals—ones everyone in the organization understands?
- Which activities, processes and resources in my organization add value to the business—and which do not?
- How do I design my organization for what it needs tomorrow rather than modify what it is today?
- Do we have the right visibility—driven through analytics—into exactly what we’re spending and where?
Both growth and profitability are hard wired to sustainability and trust. Thanks to digital, the world has a front row seat into your business’ operations. Accountability is no longer just to customers and shareholders, but to society at large. If a company fails to uphold its covenant with customers, they will never achieve profitable growth because they’ll never receive “a license to grow.” Today business value is created by building trust and transparency with customers, employees, shareholders and society. Leading CEOs are quantifying how sustainability generates tangible value down to bottom line P&L, and taking action. Action to reduce waste, improve labor conditions, invest in causes that their customers care about and that their brands stand for.

Philips, by making their Turntoo play about saving energy, will not only win the esteem of customers demanding the abatement of fossil fuels, they’ll also capture investors, have an easier time with regulatory authorities—and win the loyalty of customers by being a trusted company.

Questions include how can we:

- Increase profitability and growth by doing more with fewer resources?
- Leverage new business models of the circular economy to drive growth?
- Create value for the business and ensure a positive impact on society, then measure and communicate it?

A giant leap for incumbents

In traditional organizations, a full view of functional interdependencies is only obtainable at the highest level of the business. Down in the trenches, a function like marketing has its own remit separate and apart from sales. Likewise, manufacturing, delivery and every other function operates in parallel structures. As a result, executives don’t consider how one area impacts the other. And, in fact, the siloed structure and incentives of most organizations thwarts any attempt to do so.

The result: It’s impossible for those inside the business to view value from the perspective of stakeholders. To break this myopia requires companies to drive interventions simultaneously and interdependently across their business in support of a winning strategy.

Unilever and responsible growth

Unilever has managed to get all three parts of GPS right. CEO Paul Polman noted that, “Growth at any cost is not viable.” And he put his money where his mouth was by launching the Unilever Sustainable Living Plan which sets out to decouple growth from environmental impact while increasing positive social impact. Since the plan was unveiled in November 2010, Unilever’s shares have risen by more than 40 percent. The Sustainable Living Plan is benefiting people, the planet and the company’s profit.
Getting back to the intersections between these three aspects of strategy: It's about creating a virtuous circle of truly interdependent and interconnected traits (see Figure 1). It's critical that companies understand the interdependencies between the three strategies. Only when the links are made between them can companies achieve these competitive advantages:

**Secure a License to Grow.** By first understanding customer needs and then establishing a level of trust with consumers, shareholders and society—ensuring that business practices are sustainable and transparent. This allows scale at speed.

**Create Fuel for Growth.** Linking growth strategies and profitability efforts allows companies to have the required funds at hand to be able to invest quickly and capitalize on opportunities—and motivate the organization with a growth focused view of efficiency.

**Become a Trusted Company.** And the interconnection between sustainability and trust and profitability allows for companies to balance socially acceptable and efficient operations to create a solid foundation for the company.

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**Goliath vs. Goliath**

Before digital, competitiveness hinged on the ability to protect a company's core. But digital tears down those fortresses, eroding barriers and blurring industry lines. In the space of months, small competitors—in a David versus Goliath battle—can take a piece out of their gargantuan rivals. But what if Goliath could learn a trick from David and Redefine Competitiveness? Doing so will take an approach that drives the intersections between growth, profit and sustainability and trust. Those who manage will be able to thwart even the greatest rivals.

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Figure 1: Companies need to understand the interdependencies between growth, profitability and sustainability and trust to succeed in the digital age.
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Notes

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