BEYOND THE PRODUCT:
REWITING THE INNOVATION PLAYBOOK FOR SOFTWARE-DRIVEN COMPANIES
Software continues to ‘eat the world,’ with an appetite that shows no sign of diminishing. It’s a source of competitive advantage in nearly every industry. Software has become an increasingly important way that companies interact with their markets, partners, consumers and suppliers. Further, it’s becoming a principal driver behind business differentiation and performance, regardless of sector.

THE PIVOT TO SOFTWARE-DRIVEN SERVICES

Software drives features and value-added differentiation. For software businesses, as-a-Service and platform models are winning. Companies born in the cloud, like Salesforce, Workday and NetSuite, are recording huge valuations. Other, more traditional software businesses, such as Adobe, Oracle, Symantec and Microsoft with Office 365, are also pivoting (or have already pivoted) to these models. Yet, these models are also being adopted by other businesses in all industries.

For example, we’re seeing auto manufacturers, such as Ford, now employing large numbers of software engineers in dedicated units in Silicon Valley. Industrial giants, like GE and Caterpillar, are creating software-driven platform strategies (for example, GE Predix—designed as a platform for the Industrial Internet) that are reshaping their business models and go-to-market approaches for what, until recently, have been heavily manufacturing and engineering-led operations.

And consumer businesses are shifting, too. Apple, for example, has reported strong growth in its services business for 2016, with the app store generating $20 billion for developers using the platform, up over 40 percent from 2015.¹ What all of these developments show is that software-enabled services and experiences are true feature and experience differentiators. In other words, software and the services, platforms and experiences it supports will continue to capture an exponentially growing share of value and market share.


ACCENTURE’S INNOVATION DRIVEN GROWTH (IDG) SURVEY APPROACH AND METHODOLOGY

Accenture analyzed the innovation practices and value performance of 350 businesses from the Global 2000 across eight industries (automotive, industrial equipment, consumer goods, medical devices, enterprise technology, consumer technology, communications technology and software) and nine geographies (US, Canada, UK, France, Germany, Italy, China, Japan, South Korea). We interviewed Chief Technology Officers (CTOs), Division Presidents and Division Vice Presidents (VPs) of engineering and innovation, or their equivalent.

Leaders were identified as the top 20% of all companies as defined by their industry-specific financial performance along with their advanced innovation approaches and capabilities.
HOW LEADERS ARE CHANGING THE SOFTWARE GAME

The results of Accenture’s Innovation Driven Growth research (see sidebar on Page 2) underpin the pivot to software. When we look at the ‘Leaders’ in the analysis that we carried out, we see a marked difference between their innovation strategies and priorities, and the results they achieve when compared to industry followers.

The two key elements of successful, value-creating innovation are: improved customer experience and new business models. Both of these are fundamentally driven by software. The relevance of software as a standalone business segment is fading fast as all companies, in effect, are now trying to become software businesses. That’s not to say that they will sell ‘software’ directly to their customers. Rather, software enables new experiences for their customers and shapes new value propositions from products and services. Businesses as diverse as Disney and Delta are using software platforms to enhance their offerings and to develop completely new revenue streams.

Software is the primary mechanism for delivering product features and capabilities. But, rather than delineating between hardware and software, Leaders differentiate by creating an integrated, unified architecture that spans and connects all core and affiliated product data to enable one common data model.

THE TWO KEY ELEMENTS OF SUCCESSFUL, VALUE-CREATING INNOVATION ARE: IMPROVED CUSTOMER EXPERIENCE AND NEW BUSINESS MODELS.
DIFFERENT APPROACH, DIFFERENTIATED RESULTS

Of course, new approaches mean nothing if they are not delivering results. Accenture's survey and research uniquely demonstrates the quantifiable difference in high-performance, and the distinct strategic decisions that drives it. Leaders – defined as “Early Innovators and Value Makers” (versus “Market Share Protectors and Efficient Executors”) are nearly 4x more likely to outperform across a range of key metrics, as shown in Figure 1. Notable metrics to call out: speed to market and the ability to identify meaningful customer/market trends, indicative that Early Innovators and Value Makers are getting the right product out at the right time.

It should be no surprise than that these Leaders focus on different capabilities that they feel are most important to positively drive innovation and product development performance. As seen in Figure 2, the key capabilities they focus on are Innovation and Product Development Leadership, Digital Customer Experience and New Business Incubation and Integration.

Another clear difference between them is that successful innovations for Early Innovators and Value Makers focus clearly on new business models (see Figure 3) and improved customer experience—both of which are driven primarily by software. Being software-driven means being able to quickly and frequently tune business models and customer experiences. And those are the principal drivers of value in fast-changing markets, in which the ability to rapidly respond to evolving customer needs and harness customer data to create (and reinvent) business models are critical differentiators.

By focusing on those distinct capabilities, Leaders are supporting critical business goals that will serve to further cement their position at the front of the pack.

Figure 1: Early Innovators and Value Makers achieve significantly better results, almost 4x more likely than Market Share Protectors and Efficient Executors.

![Bar Charts](image-url)

**BEING FASTER TO MARKET**
- Early Innovators/Value Makers: 67%
- Market Share Protectors/Efficient Executors: 18%

**IDENTIFYING MEANINGFUL CUSTOMER/MARKET TRENDS**
- Early Innovators/Value Makers: 67%
- Market Share Protectors/Efficient Executors: 23%

**INCORPORATING “DIGITAL” AS PART OF THE CUSTOMER EXPERIENCE**
- Early Innovators/Value Makers: 67%
- Market Share Protectors/Efficient Executors: 18%

**ACHIEVING MORE SUCCESSFUL PRODUCT INTRODUCTIONS**
- Early Innovators/Value Makers: 42%
- Market Share Protectors/Efficient Executors: 13%

Source: Accenture’s 2016 Innovation Driven Growth Survey.
Figure 3: Early Innovators and Value Makers focus on distinct innovation and product development capabilities that drive outsized financial return.

Early Innovators / Value Makers (cited as Very Important)
- 67% Innovation and Product Development Leadership
- 67% Digital Customer Experience
- 58% New Business Incubation and Integration

Market Share Protectors / Efficient Executors (cited as Very Important)
- 55% Hardware and Software Integration
- 53% Digital Customer Experience
- 53% Sources of Innovation

Figure 3: Early Innovators and Value Makers drive business model innovation.

MOST SUCCESSFUL INNOVATION OVER PAST TWO YEARS

<table>
<thead>
<tr>
<th>Early Innovators/ Value Makers</th>
<th>Market Share Protectors / Efficient Executors</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW BUSINESS MODEL 25%</td>
<td>NEW PRODUCT/SERVICE 28%</td>
</tr>
<tr>
<td>NEW PRODUCT/SERVICE 25%</td>
<td>IMPROVED CUSTOMER EXPERIENCE 43%</td>
</tr>
<tr>
<td>IMPROVED CUSTOMER EXPERIENCE 50%</td>
<td>NO SIGNIFICANT INNOVATION 3%</td>
</tr>
</tbody>
</table>
MAKE SOFTWARE AN ENTERPRISE-LEVEL PRIORITY
Companies who wish to be distinguished as leaders will embrace software as an enterprise-wide responsibility across all facets of the organization. Experimentation and prototyping should be expected, which will produce diverse inspiration and a continuous pipeline of new ideas and new business models. Today’s analytical capabilities have transformed product innovation and product definition to a fact-based, as opposed to intuitive, activity. The very best companies engineer their software products to enable constant feedback on customer reaction to new features, so they can change them and innovate quickly in line with customer responses. In combination with powerful analytic capabilities, they have transformed product definition from an art to a science. In addition, other parts of the organization—from finance to marketing—all need to adopt a software-driven mindset, so they can support the rapid development cycles that software-based approaches require.

ADOPT LEAN AND AGILE WAYS OF WORKING
Software Leaders are opening up a sizable gap from a field of followers, as they further increase the rate of product releases through continued investment in automated build, test and deployment systems. Early Innovators and Value Makers have recognized the value of lean, design led-thinking throughout the product lifecycle, with the mantra that agile adoption is no longer just for engineers, but assumed in the entire product value chain. Ultimately, this allows them to devote more time and resources to creative innovation. The core goal is continuous flow, where established teams consume and deliver against an enterprise-managed backlog of feature requests in a continuous model. This is in contrast to the traditional model of assembling project teams for discrete engagements, and the waste that model incurs.

HARNESS INSTRUMENTATION AND ANALYTICS
Software Leaders should make use of powerful instrumentation and analytics to observe, enhance and understand how their software-driven products are being used, and to feed insights and strategies for future iterations and agile developments. The cloud, connected devices and the platform economy have generated more data to analyze, creating new opportunities to monetize. Leaders who embrace this opportunity can determine which products and features will generate the most revenue and margin uplift.

FIVE IMPERATIVES TO BECOME A SOFTWARE-DRIVEN BUSINESS
Competitive advantage is hard to come by and maintain in an industry where high worker mobility, open source platforms and best practice sharing are the norm. The following are five imperatives that companies should pursue to become a software-driven business:
As these five imperatives show, becoming a software-driven business requires real transformation. It’s not simply a matter of being digital on the outside. Being adaptable to dynamic markets and digital inside—and all that implies in terms of agility and responsiveness—is equally important. The results for businesses that have made the required changes demonstrate that the rewards they reap ensure their continued success.
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 more than 394,000 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.