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Thriving on disruption

How to become fearless in the face of devastating innovation

By Paul F. Nunes, Joshua Bellin and Ivy Lee

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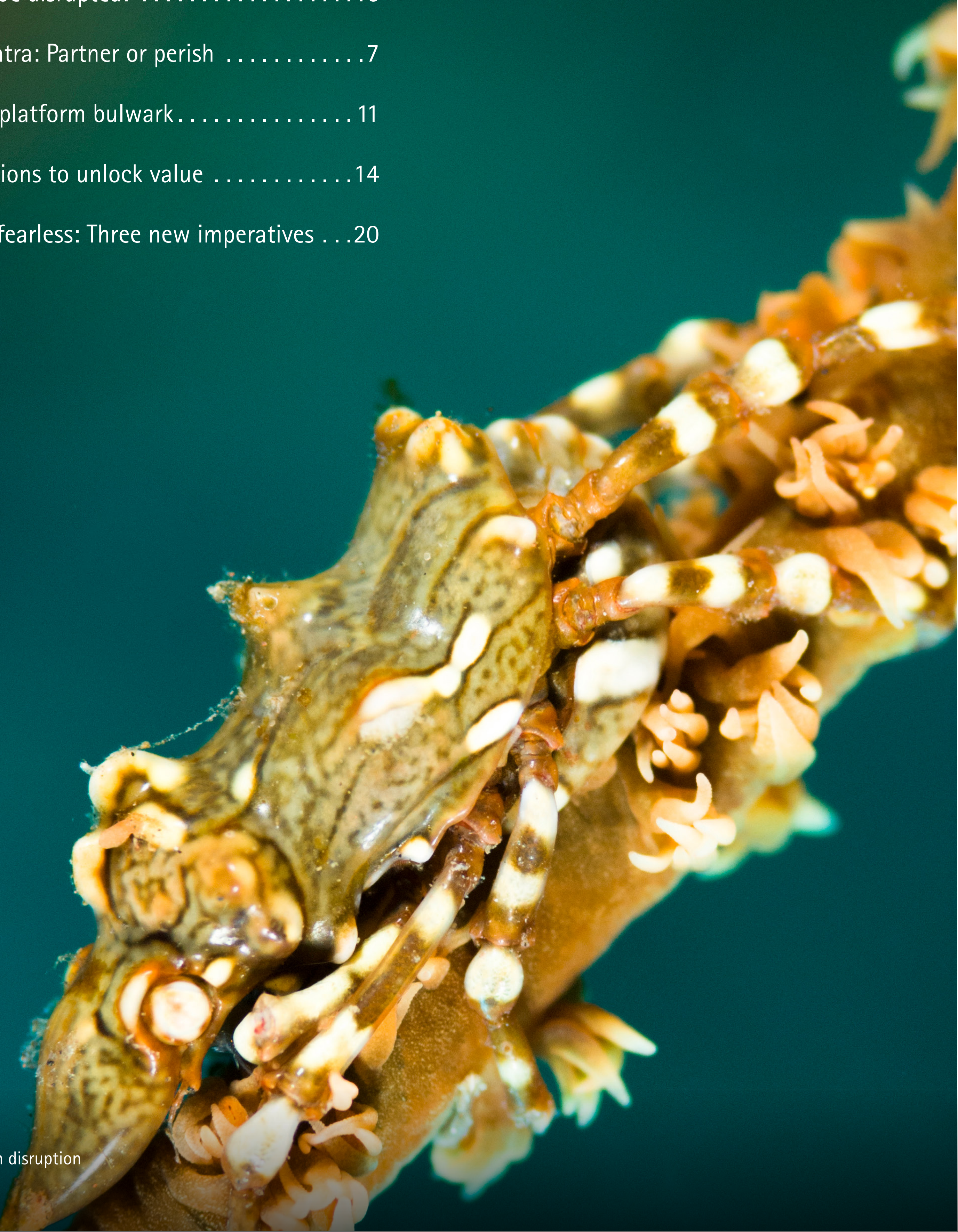


There has been a tremendous amount of discussion in recent years about the threat of disruptive innovation. In fact, nearly all Chief Strategy Officers we surveyed agree that, in the next five years, disruptive innovation will upend their industries and threaten today's incumbents. It is astonishing then, that only a small number of Chief Strategy Officers—just 20 percent—feel that they are highly prepared for that prospect. What makes some companies more ready than the rest when it comes to potentially sweeping and unpredictable industry change?

Our research finds that the most prepared companies today are taking a remarkably different approach than their less-ready peers. It is an approach based on strategic partnerships, platform business models and open collaboration. As this report details, it is a new playbook that all companies today—regardless of their size, their industry, and their recent performance—can learn to adopt, so that they too can become fearless in the face of devastating innovation.

Idea in brief

What's the big idea?

Just 20 percent of companies are highly prepared for unexpected disruptive innovation. We found that these companies are both **strategizing and operating** in remarkably different ways from their less-ready peers—an approach we call **thriving on disruption.**

Why does it matter?

Disruptive innovation will likely upend a wide range of industries over the coming years. And few companies today feel they are ready for the consequences. But all companies—regardless of their industry, their size, or their recent performance—can attain a greater degree of comfort by borrowing from the playbook of today's leading strategy executives.

What now?

Our global study of 561 Chief Strategy Officers reveals three new imperatives that will define successful businesses in the era of devastating innovation:

1. **Do not face disruption alone.** Deepen and broaden partnerships with customers, providers, and a diverse array of companies in and beyond your core industry.

2. **Make yourself indispensable.** Use your company's focus and expertise to become a critical part of the integrated solutions that customers demand.

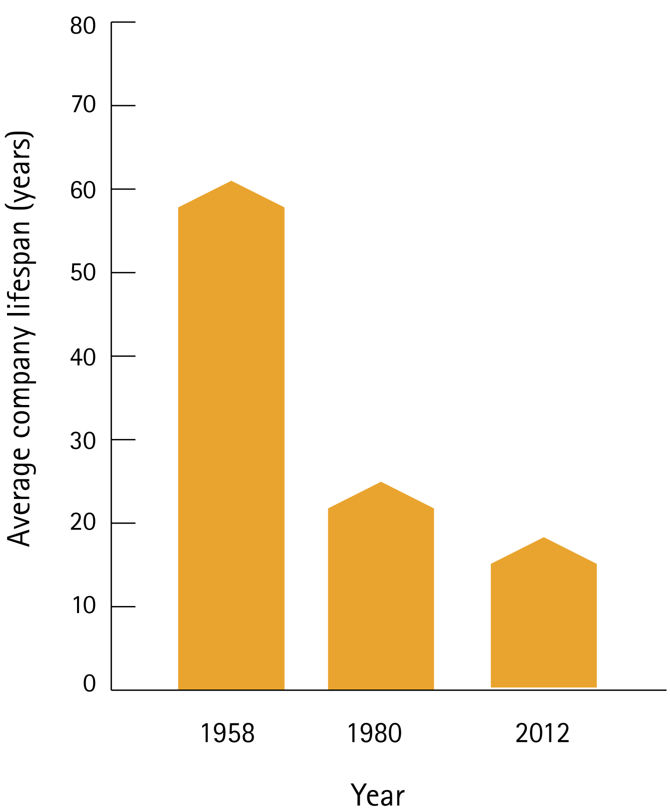
3. **Embrace operational flexibility.** Consider what organizational changes you will need to be more collaborative and open—both in terms of your processes and your employee mind-sets.

Today, across a great variety of industries, incumbents are vulnerable. Take, for example, the average lifespan of firms in the Standard & Poor's (S&P) 500 Index. In 1958, those companies could expect to last 60 years, on average. Now, it is under 20 years—and all signs point to the average lifespan shrinking further still. Based on these trends, an estimated 75 percent of the S&P 500 companies in 2012 will be out of business by 2027 (see Figure 1). Part of the reason for this growing vulnerability is that rapid technological change is fueling a new form of innovation, and that, in turn, is upending traditional industries and proving devastating to established businesses. We call this Big Bang Disruption, and it is based on ground-breaking advances that usher in new products which are at the same time better, cheaper and more customer-intimate than predecessors. For that reason, big bang disruptions often make existing business models instantly obsolete.[1]

Based on our survey of 561 Chief Strategy Officers (CSOs), strategy executives almost unanimously agree that the era of big bang disruption has either already arrived or will be coming shortly. Eighty percent of CSOs feel that new technologies have already rapidly changed their industry over the past five years.[2] And, even more strikingly, 93 percent agree their industry will be disrupted at some point in the next five years (see "About the research," page 21).

Figure 1. Outlook for incumbent lifespans is poor

Average lifespan of S&P 500 companies



Based on current trends, 75 percent of S&P 500 companies from 2012 will fade into obscurity by 2027.

Source: Constellation Research/Innosight

Disrupt or be disrupted?

How should companies prepare for dramatic and ongoing disruption? It has become conventional wisdom that you need to find a way to disrupt your own industry before a start-up, a competitor or a company from a completely unexpected corner of the business world suddenly eclipses your primary business model or core product. According to this viewpoint, disruptive innovation is a winner-takes-all contest, and companies that want to survive and thrive must themselves drive disruptive change at all times. A handful of marquee-name technology giants have proven time and again capable of doing just that.[3]

The problem, though, with the mantra "disrupt or be disrupted" is that companies such as Google, Amazon and Apple are the clear exceptions. When we asked the 561 CSOs to tell us, in their own words, how their companies—ranging in size from US$1 billion to more than US$50 billion in revenues—were preparing for the possibility of disruptive innovation in their industries, not a single strategy executive mentioned any attempt at disrupting their own industries first. In fact, few had any specific plans at all for weathering disruptive innovation, and some confessed to being almost entirely unprepared. A strategy executive from a large French chemicals producer—a company in the *Fortune* Global 500—reported that not only was his company ill-equipped to face industry disruption, but that his company's response to sudden change would likely be simply "having a meeting," and other than that, he confessed, "I don't really know."

That response, while exceptionally candid, is not out of the ordinary. Just 20 percent of CSOs feel their company is highly prepared for disruptive innovation. If "disrupt or be disrupted" is not particularly actionable advice, then how else can these companies prepare for the disruptive forces that nearly all strategy executives agree are headed their way?

Only 20 percent of CSOs believe they are highly prepared for sudden industry disruption.

Source: Accenture analysis

A new mantra: Partner or perish

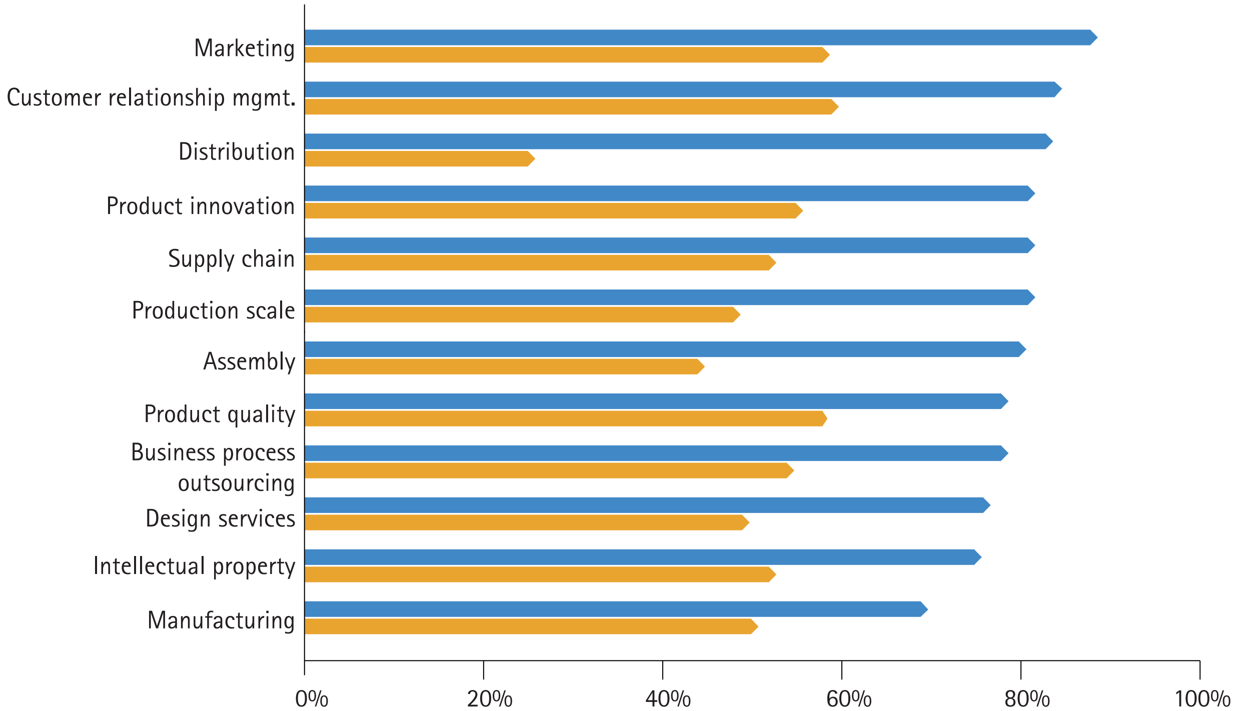
While only a few strategy executives told us they were armed with specific plans for how they are readying for disruption, a number of CSOs spoke in general terms about finding a safe harbor in more extensive collaborations—with academic institutions, known innovators, customers, players in other industries, and even competitors. These partnerships, some CSOs hoped, would help them maintain their relevance and responsiveness, even if their industry began shifting underfoot. The CSO of a US-based insurer, for example, noted how his firm "built partnerships across many fronts, to be prepared to adapt."

To explore the effectiveness of this approach, we compared the collaborative partnering activities of today's disruption-ready companies[4]—the 20 percent who reported being highly prepared for disruption—with the rest.[5] The goal: to see what, if anything, today's highly prepared companies are doing differently when it comes to partnerships. What we found is that the most disruption-ready companies are much more likely than peers to be collaborating and partnering more deeply around a wider variety of activities—from innovation, to distribution, to design, to marketing. And, they are more likely to have been actively ramping up partnerships around these activities over the past five years (see Figure 2).

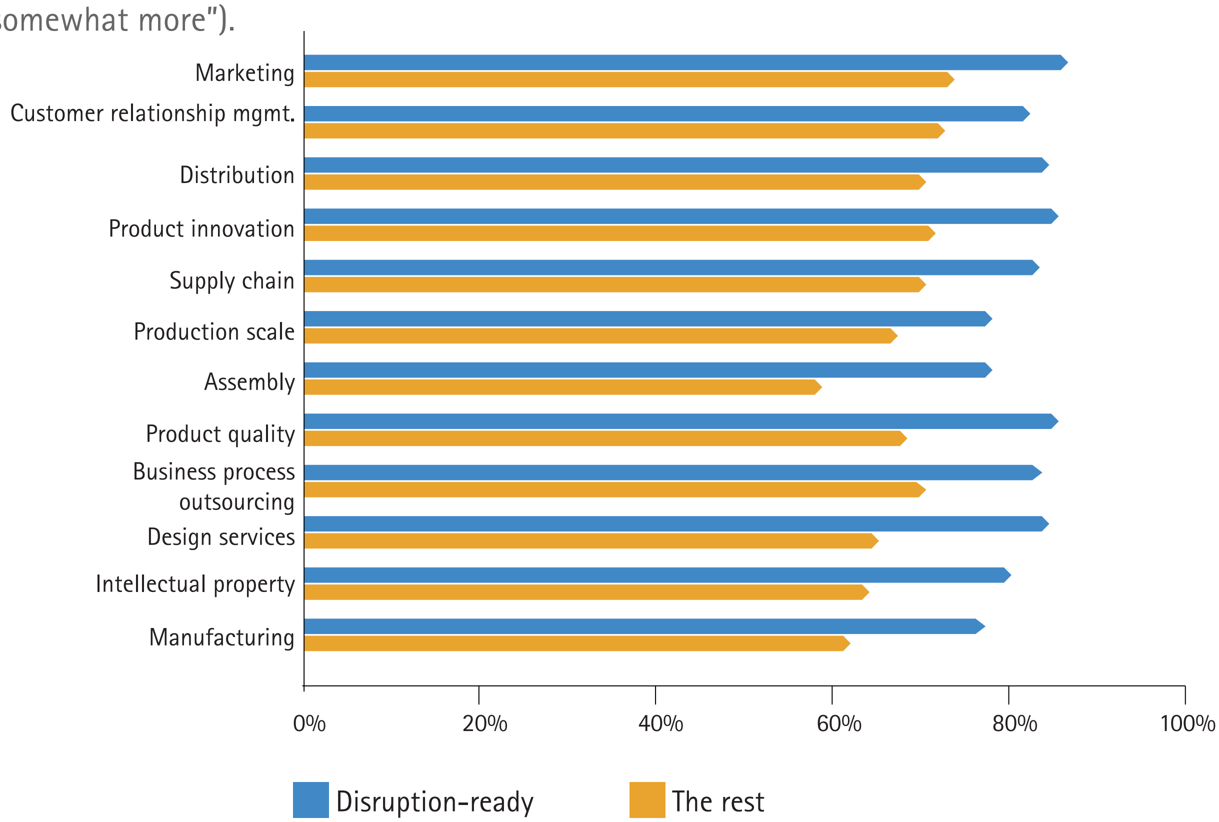
Figure 2. Collaborations of the disruption-ready: Higher frequency, greater depth

Companies that report greater readiness for industry disruption are much more likely to partner more deeply around a range of business inputs—and are more likely to have advanced these partnerships over the past five years.

On a scale from 1 to 10, please rate your company's level of collaborative partnering around the following business inputs (% top three responses).



Compared to five years ago, how has this level changed? (% responding "significantly more" or "somewhat more").



Source: Accenture analysis

In addition to asking CSOs about specific collaborative activities, we also asked them about the types of companies where these collaborations are taking place. Interestingly, the disruption-ready CSOs collaborate more deeply across a broader range of partners—and are more likely than their peers to seek out unusual pairings.

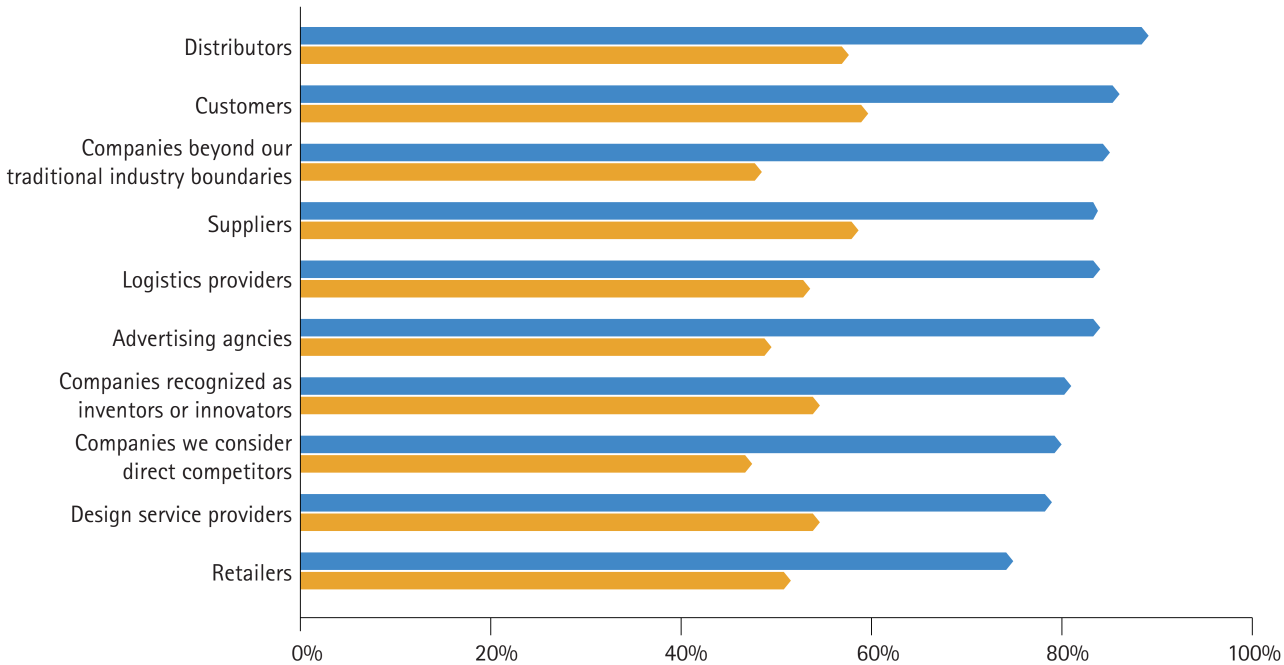
These highly prepared companies are engaged in deeper collaborations with partners in their immediate industry—for example, suppliers and distributors. And although these partners might be familiar, the relationships are not purely transactional: for the survey, we defined collaboration as involving shared resources and mutually-derived value. They are also more likely to be taking that approach with providers like advertising agencies, logistics firms, and designers. Most importantly, they are far more likely than the rest to be collaborating with businesses beyond their core industry boundaries, with companies they consider direct competitors, and with organizations that are recognized as inventors and innovators (see Figure 3).

The upshot: not only are these disruption-ready companies more likely to be collaborating with greater intensity and with a wider range of partners, but they are also more likely to be seeking out non-traditional partnerships that can help them adapt their existing business models to new market opportunities. Using collaborative partnerships, these companies are building a capacity to pivot on their core strengths—with the potential to grow into entirely new offerings as their industries shift and evolve.

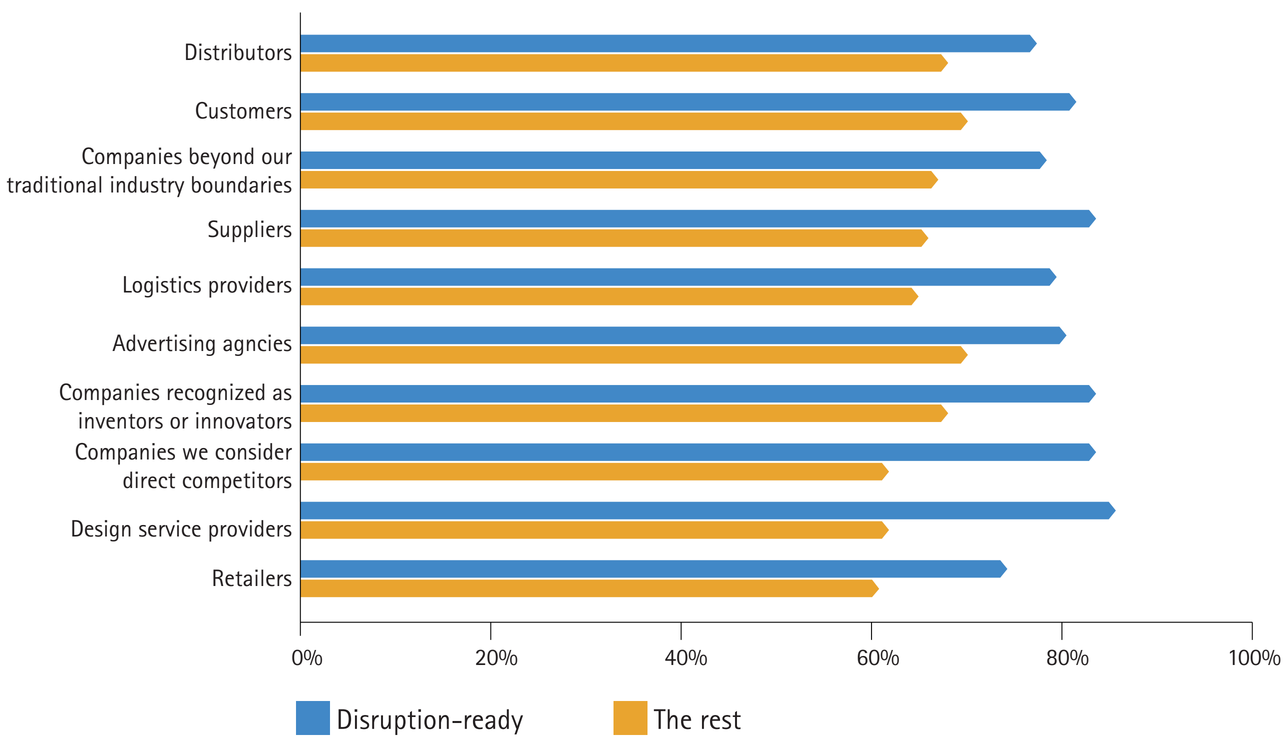
Figure 3: Partners of the disruption-ready: Not just the usual

Companies that report greater readiness for industry disruption are much more likely to collaborate more deeply with a wider range of partners—and are more likely to have advanced these partnerships over the past five years.

On a scale from 1 to 10, please rate your company's level of collaborative partnering around the following players (% top three responses).



Compared to five years ago, how has this level of use changed? (% responding "significantly more" or "somewhat more").



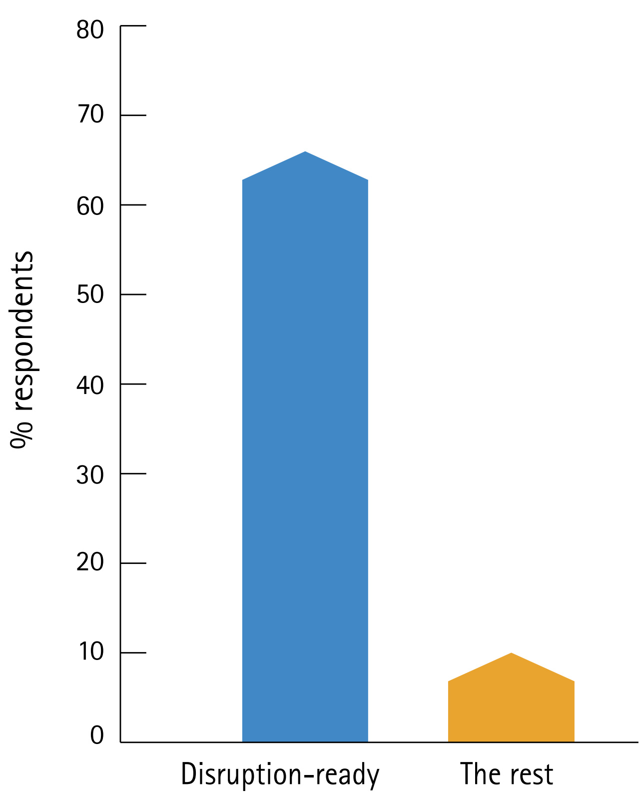
Source: Accenture analysis

What is more, strategy executives at today's highly prepared companies are committed to maintaining the momentum of their strategic partnerships. Just about all—95 percent—of today's disruption-ready CSOs said that their growth agenda over the next five years would rely on collaborative partnerships to a significant or very large extent. They were, in fact, twice as likely as the rest to make partnerships a significant pillar of future growth—and more than six times as likely to see it as a "very large" part of their five-year growth agenda (see Figure 4).

Figure 4: Collaborating for growth

Disruption-ready CSOs are far more likely to make collaborative partnerships a much higher priority for their growth agenda over the coming five years.

To what extent does your company's growth agenda for the next five years rely on collaborative partnerships? (% responding "to a very large extent" or "to a very significant extent").



Building a platform bulwark

We have seen that leading companies are partnering and collaborating more deeply and more broadly—and in ways which sometimes defy conventional industry logic. But how are these partnerships helping companies achieve preparedness for industry disruption?

The answer lies in the development of so-called platform business models. Thanks to advances in digital realms, like social, mobile, analytics and cloud computing, companies in every industry can now become critical nodes when it comes to connecting partners with customers, at scale and on demand. A successful platform approach should, in theory, yield a variety of positive outcomes—from offering greater value to existing customers to enabling growth into new markets. Platform investments should also benefit companies by enabling them to focus on those particular activities they do best, and then protect them by sharing market risks with a wide array of partners—a concrete way of safeguarding against sudden industry change.

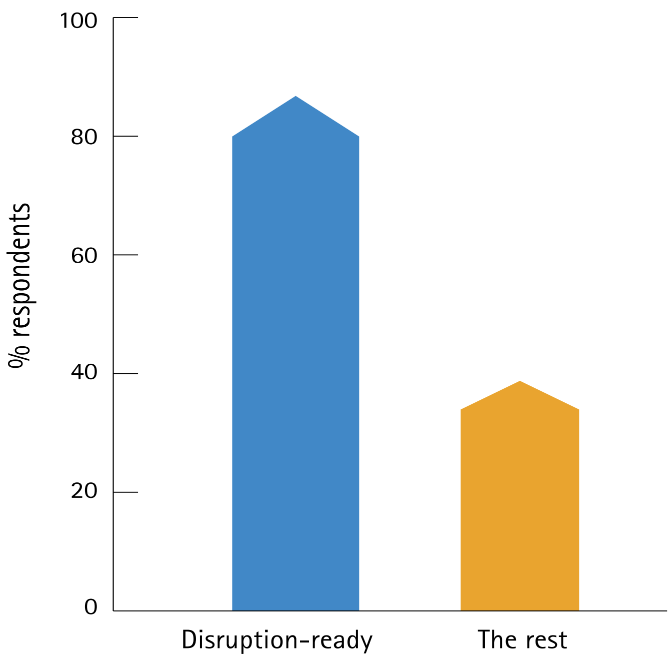
A platform business will not of itself make a company invulnerable to big bang disruption. But it does give a strategic advantage when cataclysmic industry change threatens. Not surprisingly, 88 percent of disruption-ready companies have both significantly invested in platforms in the past, and also plan to continue investing in platform businesses in the future. That makes them more than twice as likely as the rest to be committed to platforms at that level (see Figure 5).[6]

Source: Accenture analysis

Figure 5. Platform investment, a key ingredient for disruption preparedness

Disruption-ready CSOs are highly likely to have invested in platforms—and will continue to invest.

Percentage of companies who have invested in platforms in the past and intend to in the future.



But, just investing in platforms does not guarantee a tremendous advantage. In fact, our survey reveals that few platform investors actually achieve many of the positive outcomes that are typically associated with platform strategies. From a list of six benefits that are most commonly cited, many platform investors could point to having achieved one or two of them. But, we found, only 14 percent of platform investors are realizing five or more of these benefits.[7] We defined this 14 percent as "highest value achievers."

Highest value achievers realized at least five of the following six benefits from their platform investments:

- ✓ Enabled our business to **offer more value to our customers**
- ✓ Enabled the growth of our company's business through **network effects**
- ✓ Enhanced the **sustainability of our business** compared to peers in our primary industry
- ✓ Enabled our business **to focus more on the activities it does well**
- ✓ Attracted new customers from **outside our traditional customer base**
- ✓ Enabled us to **share market risks** with a wider array of partners

Source: Accenture analysis

From industry roles to market activities

Successful incumbents connect to a wider ecosystem by channeling their strengths into what we call broader "market activities." Even as industries and technologies change, these activities are likely to remain relevant.

That is what makes a market activity different from—and more advantageous than—a traditional industry role (see Figure 6).

An industry role takes a static view of key players—for example, who the customers are and what they want, who the logical partners would be, where to find suppliers and how to contract with wholesalers. By contrast, a market activity is defined by a core set of capabilities that can be adapted in other contexts beyond today's product, service, customer or partner focus.

Figure 6. Traditional industry roles versus market activities

Thriving on disruption involves looking beyond your own industry to consider broader market activities that serve a wide-ranging ecosystem.

	Industry role	Market activity
Defined by	• Contractual and business relationships with other key industry players	• A core set of capabilities that can be adapted beyond today's product and service focus
Believes in	• Static conception of industry boundaries to define key players	• Dynamic conception of industry boundaries to include an ever-changing cast
Assumes	• Enduring customer value proposition • Stable supply chain • Predictable innovation model	• Unstable industry structures • Ephemeral business models • Survival is never guaranteed

Source: Accenture analysis

New directions to unlock value

How are the companies that benefit most accruing so many positive outcomes from their platform investments? What are these companies doing differently that sets them apart from their peers?

We found that, to a greater extent than other platform investors, those achieving the highest value are likely to be moving in particular strategic and operational directions. These fall into three broad categories:

1. Branching out beyond the primary industry
2. Adopting business models that best leverage the platform
3. Building openness and collaboration into day-to-day operations

Platform investors in general are more likely to be moving along these lines than their peers who are not investing in platforms to any significant extent. But our analysis shows that the more dedicated a platform investor is to taking initiatives in these three areas, the more likely they are to be realizing concrete benefits that, in turn, prepare them for sudden industry disruption.

Direction 1: Move from industry to ecosystem

One reason why big bang disruption can prove so devastating to incumbents is because many find themselves firmly locked into a particular industry role—that is, they are tethered to a particular set of products and services, and to a longstanding conception of how their industry functions. Lacking flexibility, it is no wonder that their business models can be quickly upended and made obsolete by rapidly emerging digital technologies.

We have already seen how companies that are most ready for disruption are more likely to be partnering with organizations beyond their primary industry. And, our analysis shows, the ability to unlock value from those partnerships stems from broader shifts in strategy. What we found: Platform investors who realize the most value are more likely to be increasingly divesting from core offerings, and re-investing outside their primary business lines. They are more likely than peers to be focusing attention on changes that are happening outside of their industry, and accounting for the possibility of rapid and unexpected technology changes in their forecasting and planning activities (see Figure 7).

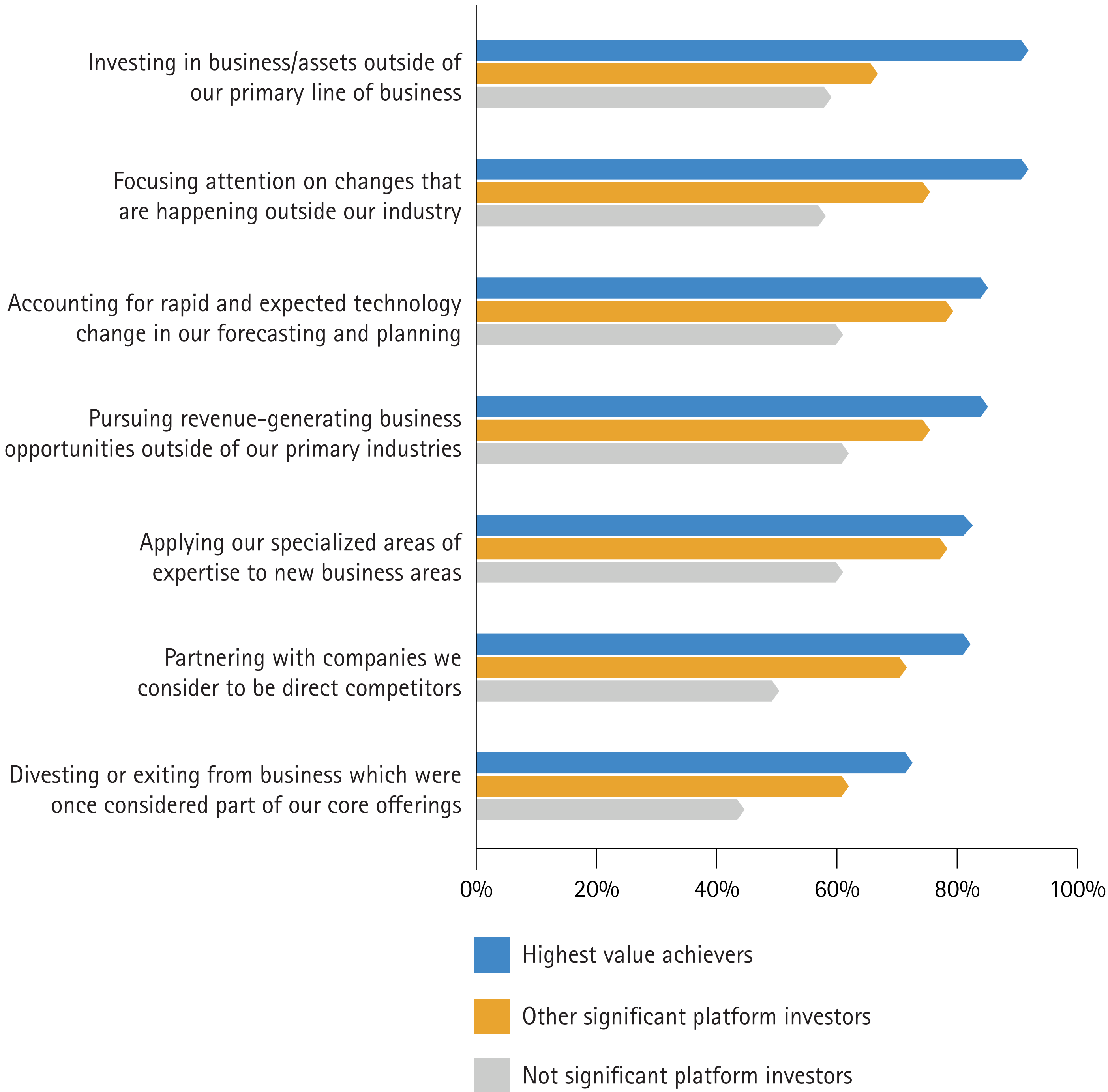
It is not that these companies are looking to fundamentally transition from one industry to another. But, realizing that their industries are unstable and that today's successful business models could well be ephemeral, they are increasingly moving away from traditionally-defined industry roles. Instead, these companies are orienting themselves around areas of expertise that will be relevant in a broader ecosystem (see "From industry roles to market activities," page 13).

Take, for example, the automotive industry. Like some other forward-looking automakers, high-end manufacturer BMW no longer considers its strategy in terms of the automotive industry, but rather as a broader ecosystem centered on "the experience of urban mobility."[8] Starting with a small initiative in 2007, and growing rapidly since then, BMW has ramped up partnerships around a whole suite of nascent services including car rentals, parking aids, electric vehicle charging stations, and location-based mobile lifestyle apps. Although BMW continues primarily to design and sell automobiles, the company notes that it considers these new platform ventures integral to its future success.[9]

Figure 7. Leaders shift focus to ecosystem horizon

Successful platform investors have been shifting their strategic focus away from their core industry and toward broader ecosystems.

For each of the following please indicate to what extent your company engages in this practice more or less often than five years ago (% responding "significantly more" or "somewhat more").



Source: Accenture analysis

Direction 2: Leverage the platform

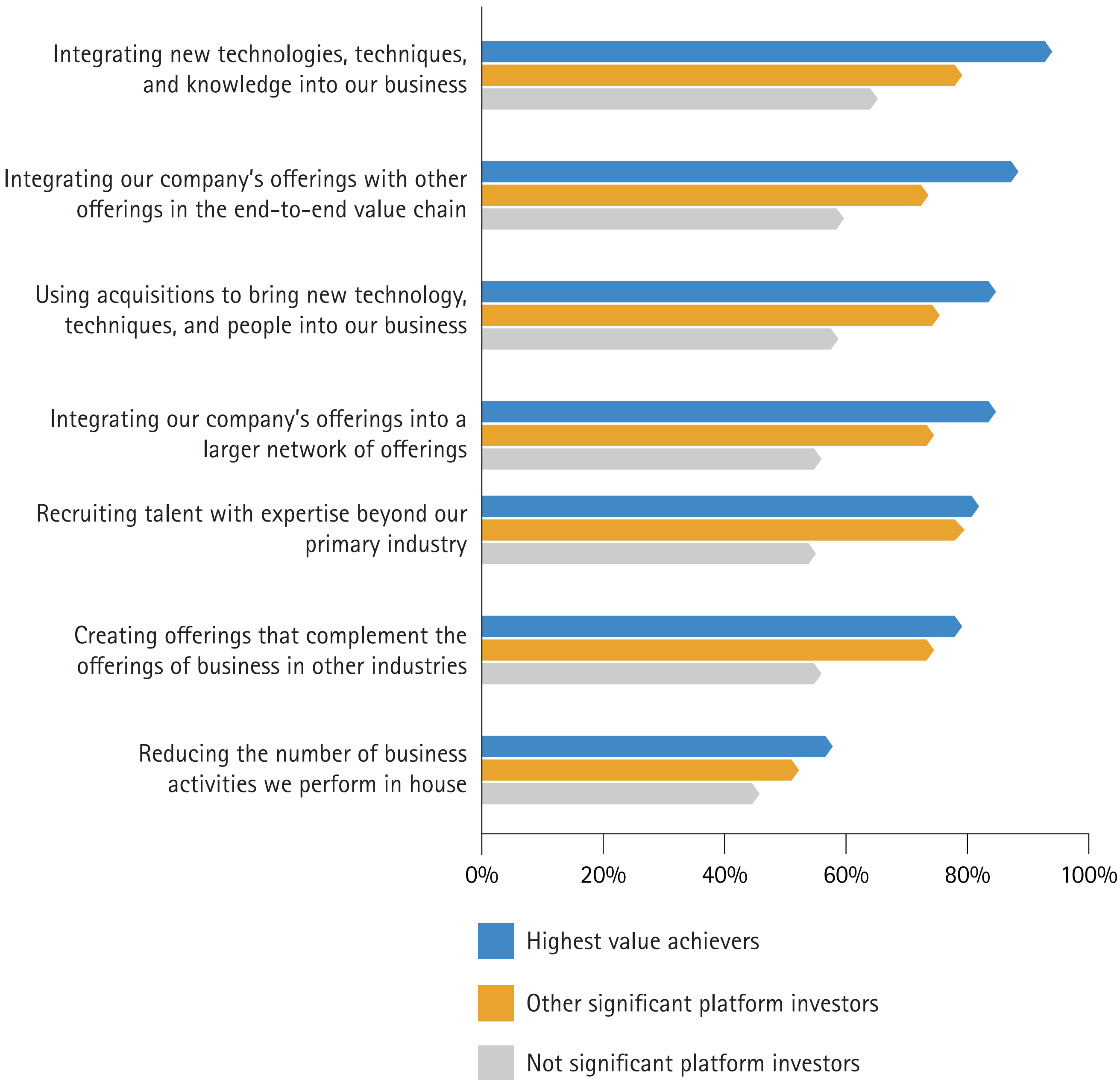
To complement their evolving strategies, companies that are unlocking the most value have been focused on becoming indispensable partners. Our analysis shows that today's successful platform investors are using platforms to more firmly link their core offerings with those of other businesses, all integrated into end-to-end customer solutions. The resulting synergies benefit not only these companies, but also their partners and their customers (see Figure 8).

Platform business models are increasingly important across a diverse array of industries and ecosystems—even in areas that have not traditionally been digital or technology-focused. Take, for instance, the apparel industry, in which companies like athletics clothing designer Under Armour are building and leveraging platforms. Instead of thinking only about the future of its core products, Under Armour has instead been considering its role as part of a "connected fitness" ecosystem. To that end, the company spent more than half a billion dollars in 2015 to acquire two popular fitness metrics services in a bid to become the world's largest tracker of fitness information. The two services—one based in the United States and one based in Europe—had a combined 100 million subscribers when they were acquired. Under Armour intends to enable these platforms to grow independently, while reaping aggregated data that can inform and expand its apparel designs. Ultimately, the goal is to link its customers into new services—whether through an alliance with HTC around mobile fitness apps or with innovative start-ups that are developing embedded sensors and biometric readers for apparel. In the words of its CEO, "Brands that do not evolve and offer the consumer something more than a product will be hard-pressed to compete in 2015 and beyond."[10]

Figure 8. Leaders link core offerings to other businesses

Successful platform investors are rethinking how their existing business models link to those of other companies.

For each of the following please indicate to what extent your company engages in this practice more or less often than five years ago (% responding "significantly more" or "somewhat more").



Source: Accenture analysis

Direction 3: Operate with openness

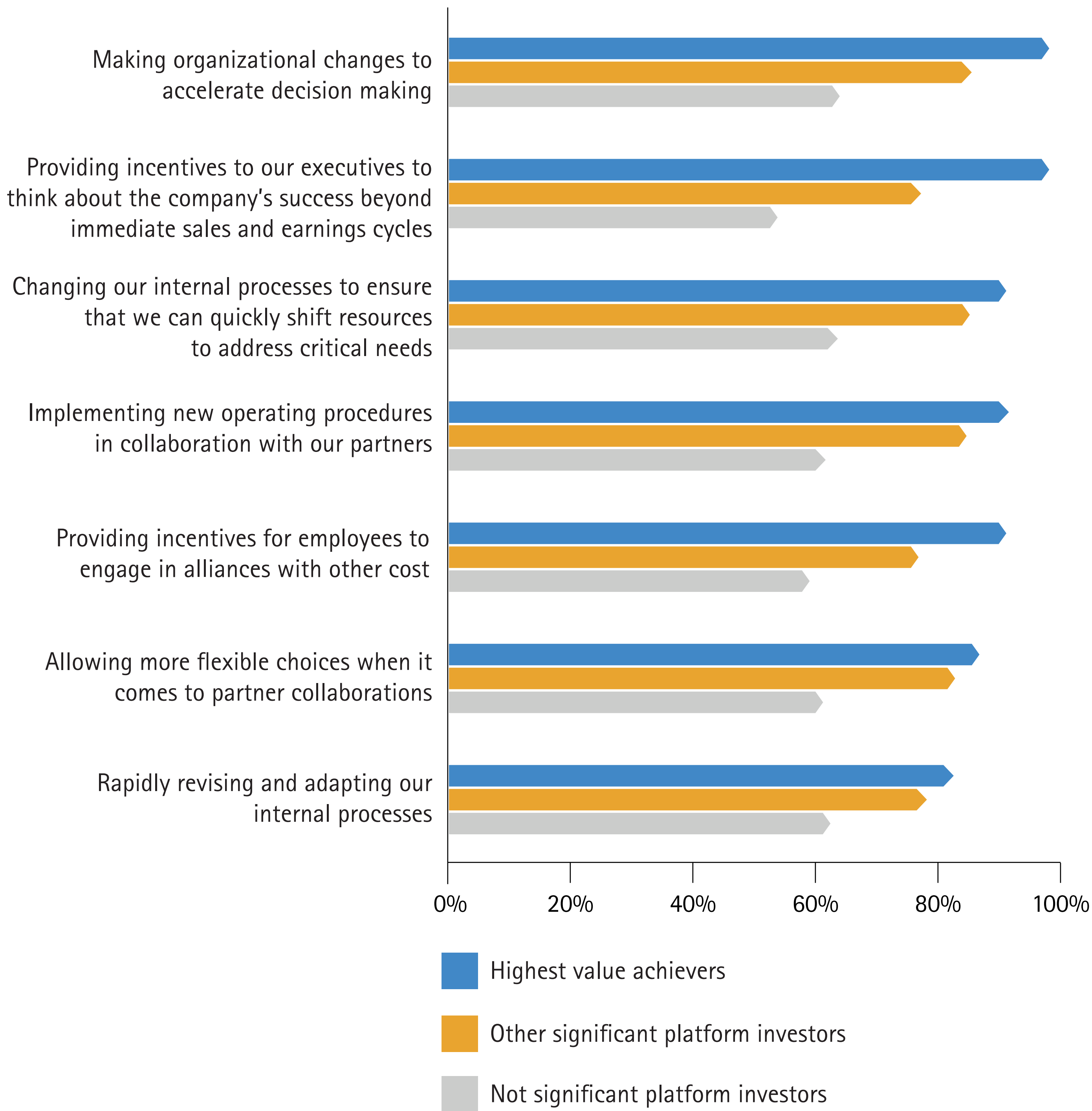
Unlocking value within a broader ecosystem means fostering real-time collaboration with partners, customers and even competitors. Companies that today are unlocking the most value know that their entrenched business processes and also their established corporate cultures could both be potential roadblocks. That is why they are more likely than peers to be increasingly focused on providing the right kinds of incentives to encourage collaboration at all levels, and are also more likely to be accelerating on-the-ground decision making and building greater flexibility into their operations. The goal: to make external collaborations simple, effective and routine (see Figure 9).

The Dow Chemical Company, as just one example of this growing practice, has sought in recent years to become a solutions-oriented partner of choice for its customers—and has taken several important operational initiatives to meet that goal. One such initiative has been opening what they call "Pack Studios,"[11] first in Texas, United States and now also in, Brazil, China, Italy, and Switzerland. These Pack Studios offer customers and other partners in the value chain a cutting-edge testing lab where they can collaborate with Dow technical teams to experiment with new food and beverage packaging applications—without the inconvenience and expense of using their own production facilities. In addition to directly benefiting their customers, these on-the-ground collaborations contribute significantly to Dow's top-line growth. Over five years, 25 percent of the company's sales of packaging products in North America came from products initially conceived or tested at these facilities.[12]

Figure 9. Leaders rethink operations

Successful platform investors have taken concrete operational steps to grow and maintain collaborative partnerships.

For each of the following please indicate to what extent your company engages in this practice more or less often than five years ago (% responding "significantly more" or "somewhat more").



Source: Accenture analysis

Becoming fearless: Three new imperatives

The bad news is that only a few strategy executives feel well-prepared for the possibility of sweeping industry disruption. And, even worse, many see themselves as at least somewhat prepared, but are not actually adopting the right characteristics and practices to help them succeed in the face of disruption. The good news is that today's disruption-ready leaders are playing by an observable set of new rules—and all companies can now borrow from this effective playbook.

Time, though, is of the essence. A few companies in each industry have already made many of the connections that seem to matter, and are today unlocking tremendous value from their broader ecosystems. That action threatens to permanently shut out the laggards who are late to the game. In the era of big bang disruption, companies that remain cut off from a broader ecosystem could be forfeiting their future relevance entirely.

That is why all companies, regardless of their industry, their size, or their recent performance, should start immediately focusing on the three new imperatives that will define successful businesses in the era of devastating innovation:

1. Do not face disruption alone

Leaders are now busy deepening and broadening their partnerships with customers, providers, and a diverse array of companies in and beyond their core industry. The best partnerships for your business may not always be conventional, and they certainly will not always seem obvious. But, if done well, they can unlock new opportunities that pivot on your core strengths toward new markets and greater gains.

2. Make yourself indispensable

Leaders are not just investing in new platform business models; they are doing so in such a way that unlocks hidden value for their customers, their partners, and themselves. Like today's highly prepared leaders, you can use your company's focus and expertise to become a critical and indispensable part of the integrated solutions that customers are expecting more than ever.

3. Embrace operational flexibility

To a larger extent than their peers, leaders have been asking themselves how they can become more open and collaborative on a day-to-day basis. Consider what organizational changes you will need to realize the benefits of your partnerships—whether in terms of your standard processes, your technology infrastructures, or the different incentives that drive your employee's mind-sets and behaviors.

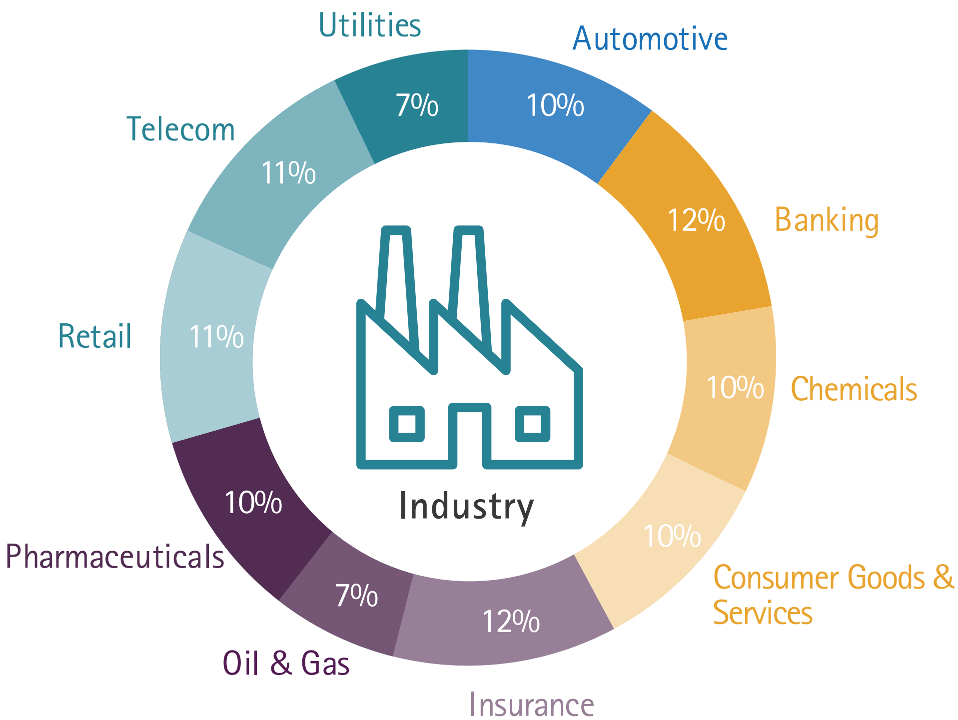
The most successful companies in the age of big bang disruption will not necessarily be the storied disruptors. Rather, they will be the companies which are most connected and plugged-in to the future, and which will prove most agile in pivoting toward new opportunities. No matter how quickly their core industry changes, these companies will be able to build from their core strengths to deliver value to customers and partners alike.

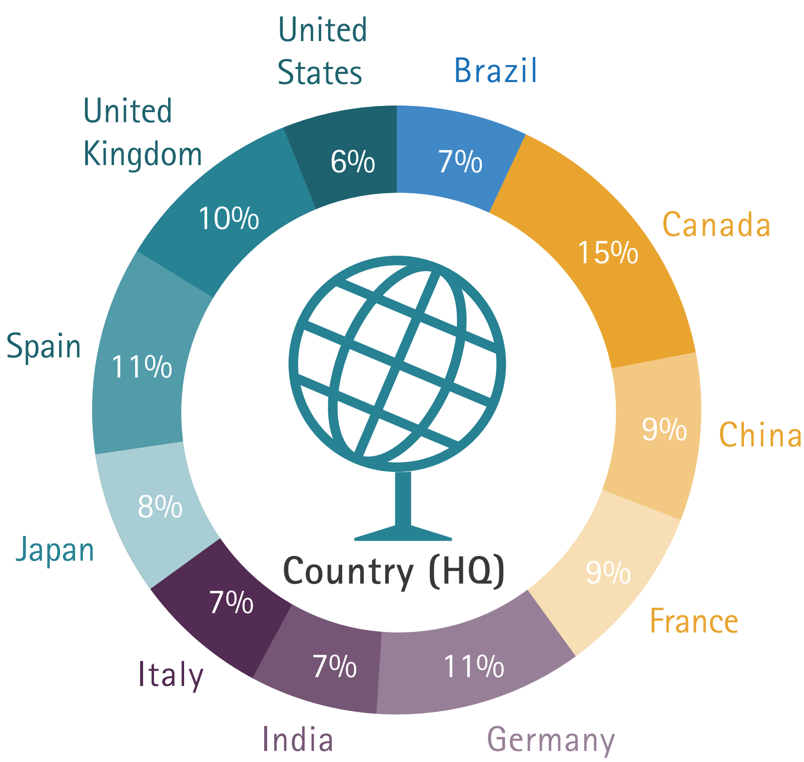
It is not too late to join their ranks. It might mean overhauling many elements of your strategy, your business models, and your operations—but, as the strategy executives we surveyed know, the alternative could be far more devastating.

About the research

The Accenture Institute for High Performance surveyed 561 chief strategy officers between November 2015 and February 2016. Our goal was to identify the attitudes and behaviors of companies that reported being most prepared for disruptive innovation in their industries. The questionnaire was a combination of open-response interview questions as well as closed-response single- or multiple-choice selections. Participating CSOs represented companies headquartered in 10 industries and 11 countries, all with reported revenues of more than US$1 billion (see Figure 10).

Figure 10. Accenture research: Industries and geographies





Source: Accenture analysis

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1. Larry Downes and Paul Nunes, Big Bang Disruption: Strategy in the Age of Devastating Innovation (New York: Portfolio/Penguin, 2014).

2. This number would have been higher without automotive executives, who stood out from executives in other industries in being less likely to agree that their industry had rapidly changed at any point in the past five years.

3. Paul Nunes and Joshua Bellin, "Thriving on Disruption," *Outlook*, Accenture 2015.

4. Defined for the survey as "Agreements and actions among two or more organizations to share resources (such as finances, knowledge, and people) with the goal of mutually benefiting from working together."

5. While another 40 percent of CSOs said they were prepared to a "significant extent," our analysis revealed that those 20 percent who chose the highest category—"a very large extent"—were more likely to differentiate their responses on a wide array of other survey questions, making this group in particular relevant for comparative purposes. The 20 percent reporting that they were prepared to "a very large extent" represented a cross-section of industries, geographies, and company sizes. Recent performance relative to peers was not a strong factor in predicting readiness for disruption—meaning that these companies were not simply prepared for disruption as a result of enjoying strong recent performance.

6. When asking strategy executives about their investments along these lines, we defined platforms as "Infrastructure that facilitates external direct interactions or exchanges between your company's customers and desired business partners."

7. We focus on companies that achieved five or more positive outcomes as opposed to all six because a very small handful of companies—a set that was too small to study with any precision—realized all six benefits at once.

8. http://www.bmw.com/com/en/insights/corporation/bmwi/mobility_services.html.

9. *Engadget*, March 2016, http://www.engadget.com/2016/03/16/bmw-project-i-2-self-driving-tech/.

10. *ZDNet*, February 2015 http://www.zdnet.com/article/under-armours-grand-big-data-app-experiment-will-it-pay-off/.

11. http://www.dow.com/en-us/packaging/innovation/pack-studios.

12. *Plastics Today*, December 2012, http://www.plasticstoday.com/42-plastic-packaging-products-launched-dow-2012/446732918262.

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