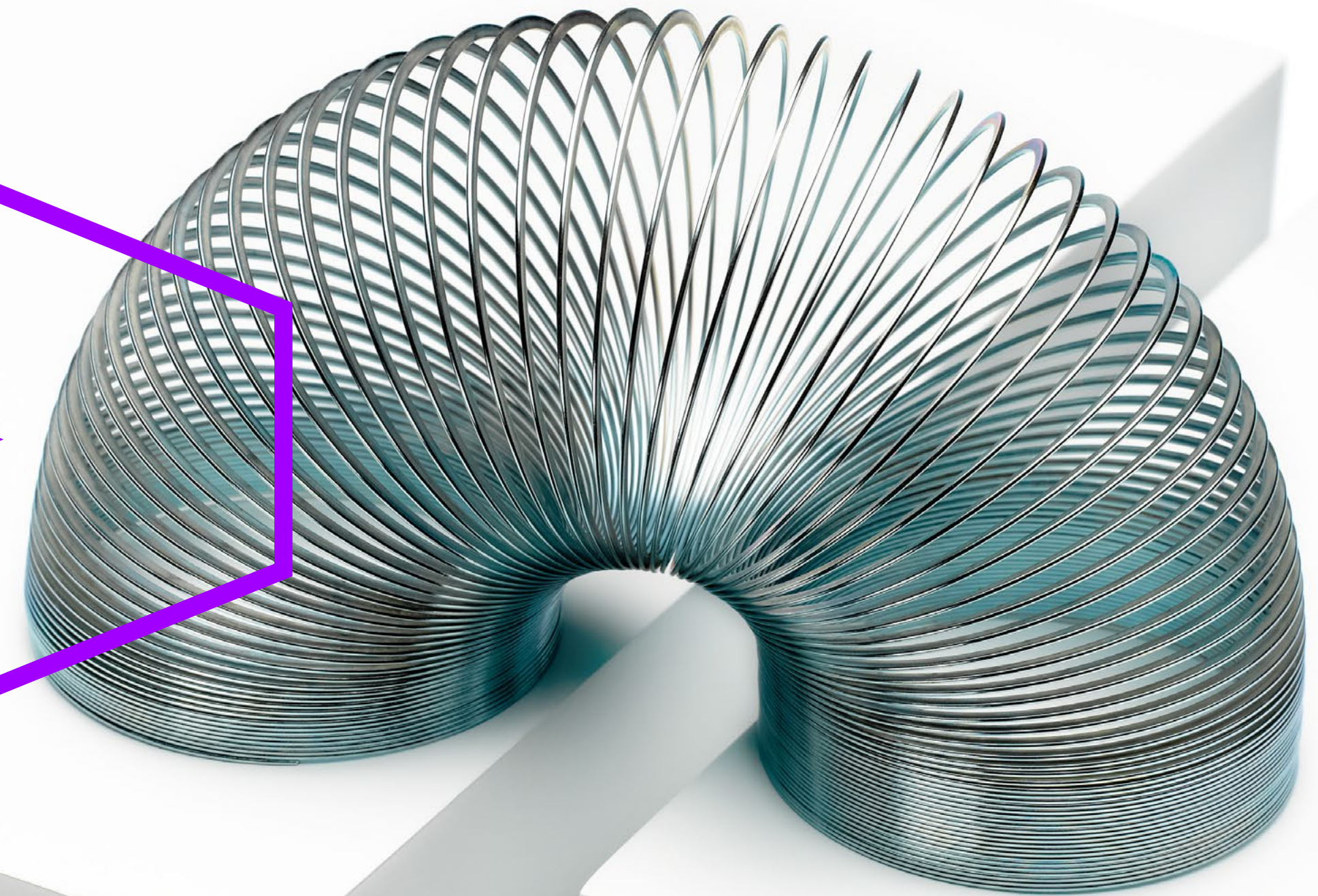


MAKE YOUR WISE PIVOT TO THE NEW

**How leading companies invest and innovate
to harness the power of disruption.**



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FOREWORD



Omar Abbosh
Chief Strategy Officer,
Accenture

CEOs are becoming more proactive in tackling the disruptive forces that are changing their industry. But many still struggle to pivot their organizations to new opportunities decisively or sustainably. Some companies remain overly focused on their core business such that they are unable to pursue new opportunities. Others neglect their core business in a dash to the New, leaving them on thin ice or short of the investment capacity they need.

Finding the right balance between these extremes takes more than skill. It takes courage. Courage to radically shake up legacy businesses, divesting some parts while revitalizing others. Courage to scale new investments at the right pace and scale so that they neither miss the moment, nor overreach themselves.

Those who succeed tend to lay the groundwork in advance. This paper shows the preconditions that make a difference. And it helps companies at earlier stages of their rotation to take the necessary next steps required to make their Wise Pivot to the New successfully.

Here comes the twist

C-level executives know that clinging to their legacy business can undermine their company's future health.

They also know that shifting into new business activities with speed and confidence presents significant challenges. But the right advance work can make a world of difference. Specifically, three preconditions pave the way to success for companies that want to embrace the future on their own terms.



THE FUTURE WON'T WAIT FOREVER

Virgin Group founder Richard Branson recently observed, “Every success story is a tale of constant adaption, revision and change. A company that stands still will soon be forgotten.”¹

Indeed, companies that survive disruption are constantly re-inventing themselves and striving to make their businesses relevant to the future. It’s extremely difficult to do; yet, a recent Accenture survey of 1,440 C-level executives found that most large companies are tilting toward the future, at least slowly. Interestingly, six percent of companies studied have embraced the future more decisively than most. These organizations reported that more than 75 percent of their revenues now come from business activities begun in the past three years. And their courage to forge into new areas is paying off: They have self-reported the strongest financial performances in that time.

To harness disruption as an enabler of innovation and growth, companies must learn how to shift with speed and confidence into new markets, activities, etc.—areas in which they have not previously participated at scale. Specifically, they need to follow the lead of the high performers we studied who have transformed existing businesses while expanding into new businesses, most decisively. These are the companies that made a Wise Pivot to the New using a new approach to manage organizational change.

This report draws upon our survey and our client work to examine what it takes to successfully make a Wise Pivot. In particular, we identify three preconditions that pave the way to success for companies that want to embrace the future on their own terms.

IT PAYS TO REINVENT

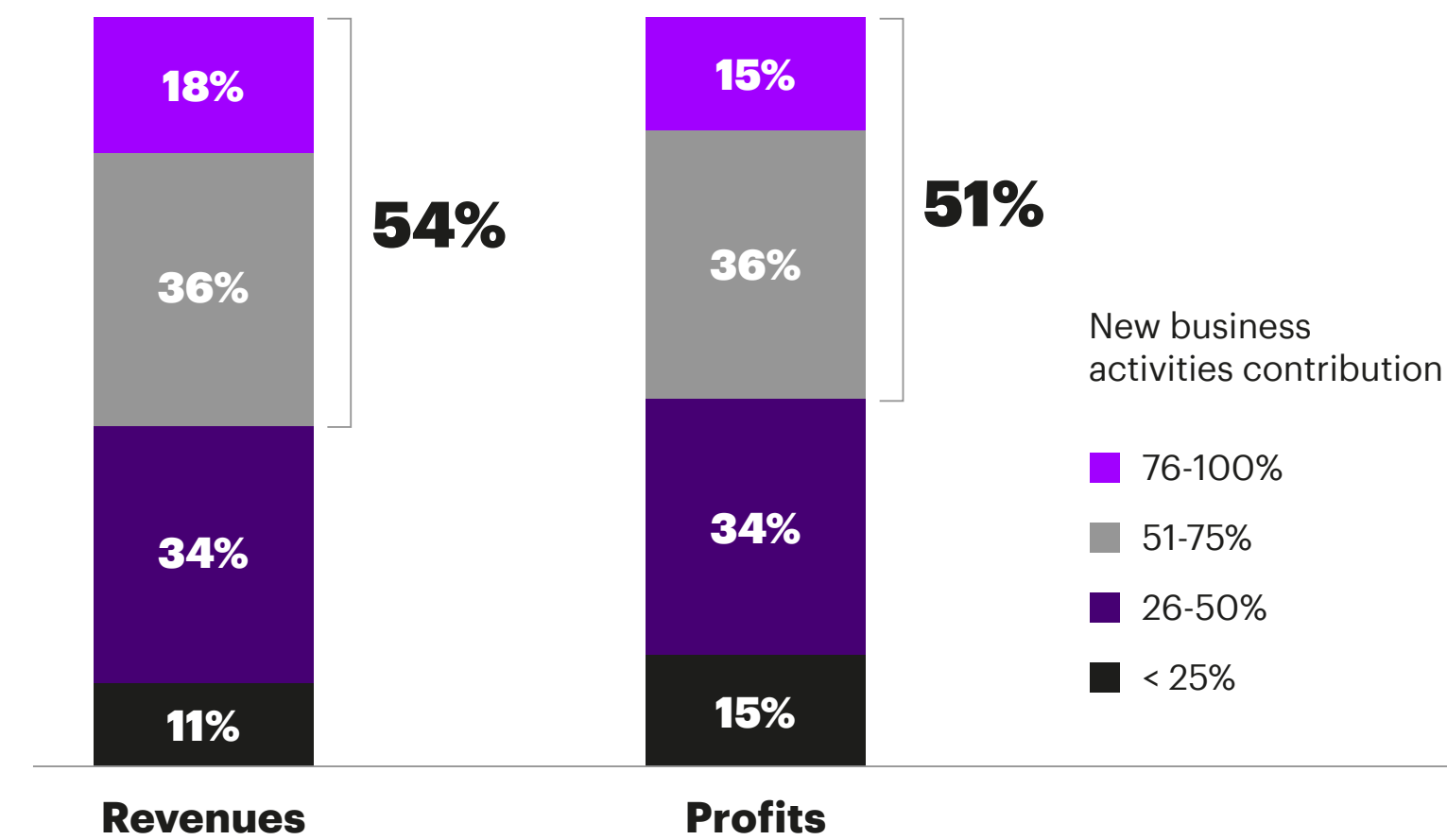
Our survey, which spanned 11 industries and 12 countries, revealed that 54 percent of large companies optimistically expect that new businesses will generate more than one-half of their revenues three years from now. By “new” businesses, we mean business activities, investments and ventures into previously unexplored markets and offerings, which the company has not previously participated, at scale.

Fifty-one percent believe the same about their profits (see Figure 1).

Figure 1.

Expectations of future contributions from new businesses are high

What proportion of revenues and profits do you expect your company to be generating from new businesses three years from now?



Source: Accenture C-level Survey, April to May 2017

All respondents, N=1,440

YOU CAN WRITE YOUR FUTURE STORY

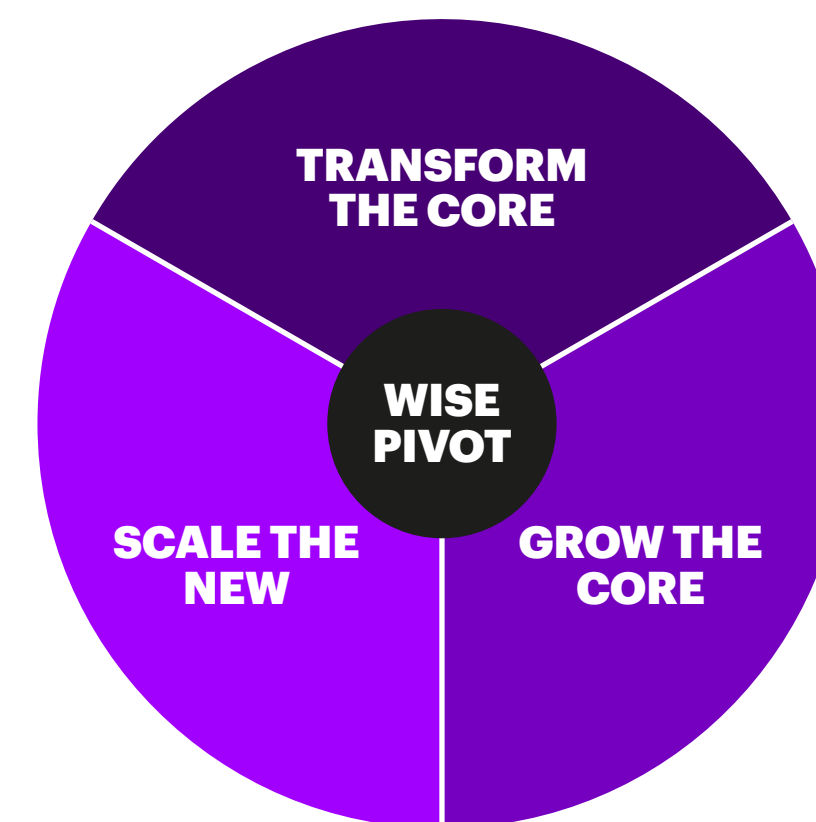
In reality, most companies will likely shift to new businesses very slowly. Today, around 70 percent of companies generate less than one-half of their revenues and profits from new business activities. Several factors prevent them from accelerating their journeys. These include capital-intensive infrastructures, contractual agreements, outdated technology and relentless devotion to legacy products, services, and brands. Being tied to the past in these ways is a serious challenge to overcome. Yet executives know that to thrive, their companies must exist in a permanent state of change. This was never as true as it is in our current digital age, with technologies and markets evolving so quickly.

To make a Wise Pivot successfully, companies need to adopt a new approach to organizational change—we call this approach rotation to the New. It involves a series of decisions about how to transform and grow the existing businesses, and how to scale new businesses, continuously and synchronously. Wise Pivot also requires the right investment strategy to ensure the timing, scale and direction of investments are calibrated adequately (see Exhibit 1).

This approach recognizes the potential of digital technologies to help large companies improve the relevant parts of their legacy businesses, as well as to create and power entirely new businesses.

Exhibit 1.

The digital age calls for a new approach to organizational change that enables companies to make a Wise Pivot to their new businesses



1 Transform the core business...
to drive up investment capacity.

2 Grow the core business...
to sustain the fuel for growth.

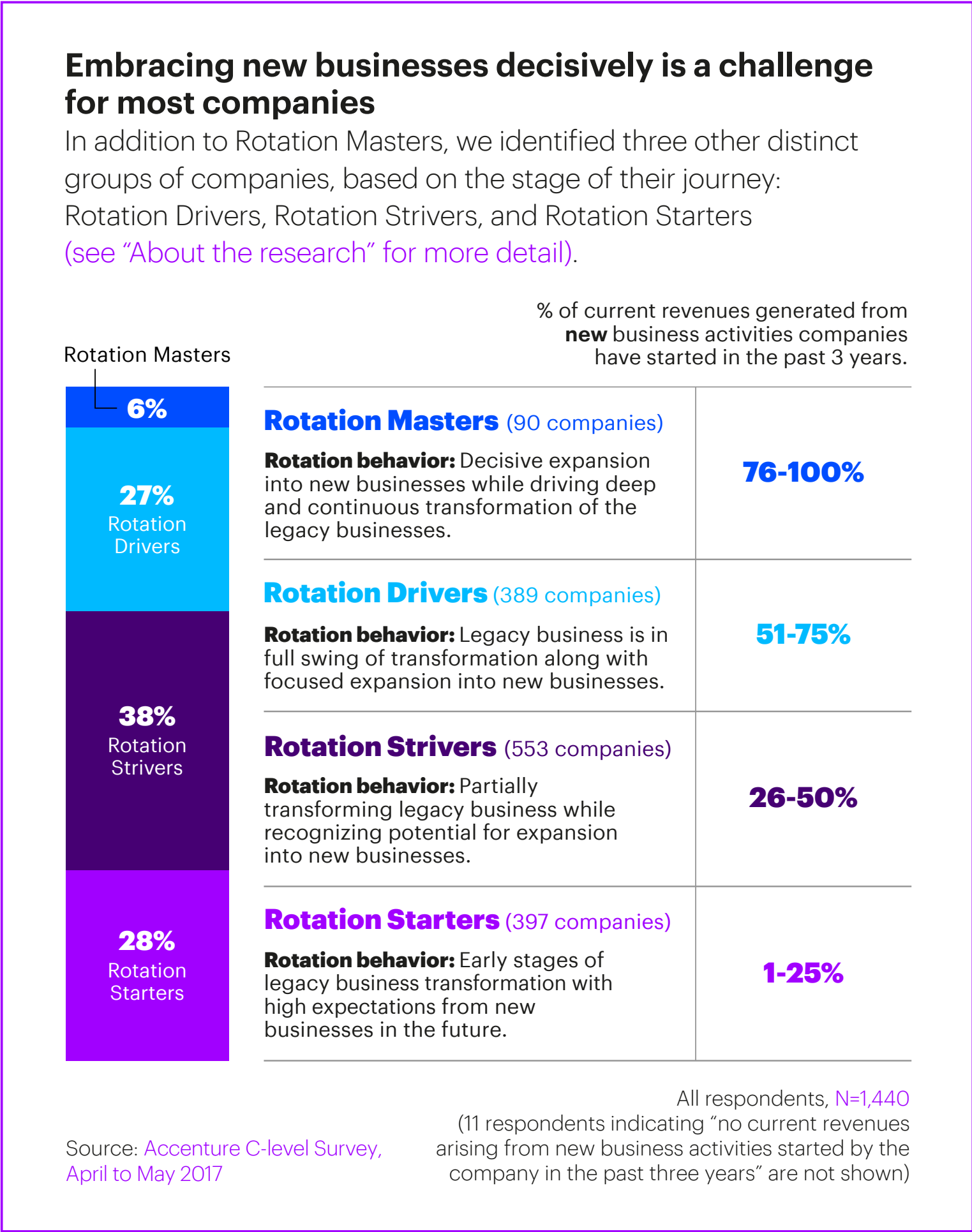
3 Scale new business...
to identify and scale new growth areas at pace.

A Wise Pivot also requires the right **INVESTMENT STRATEGY** to ensure that the timing, scale, and direction of investments are calibrated adequately.

Source: Accenture, 2018

One particular group in our study pursues these activities to their fullest extent. They are the top six percent of companies surveyed, and we call them “Rotation Masters”. They therefore differed substantially from those companies in the other three groups we identified, both in the percentage of revenues they have generated from new business activities in recent years and in their financial performance. Most notably, 64 percent of the Rotation Masters achieved double-digit growth (above 10 percent) in sales, while 57 percent achieved the same growth results in EBITD (see Figures 2 and 3).

Figure 2.



HAVE YOU GOT WHAT IT TAKES TO CHANGE?

In addition to financial performance, Rotation Masters stood out from the others in our study because of the work they did to ready themselves for a perpetual change journey.

Specifically, Rotation Masters create three preconditions to help them reinvent their organization. They build sufficient investment capacity for change, enable their organizations to innovate by design, and seek and create synergies between the old and the new businesses.



- 1 BUILD SUFFICIENT INVESTMENT CAPACITY FOR CHANGE**
- 2 ENABLE THE ORGANIZATION TO INNOVATE BY DESIGN**
- 3 SEEK AND CREATE SYNERGIES BETWEEN THE OLD AND THE NEW**

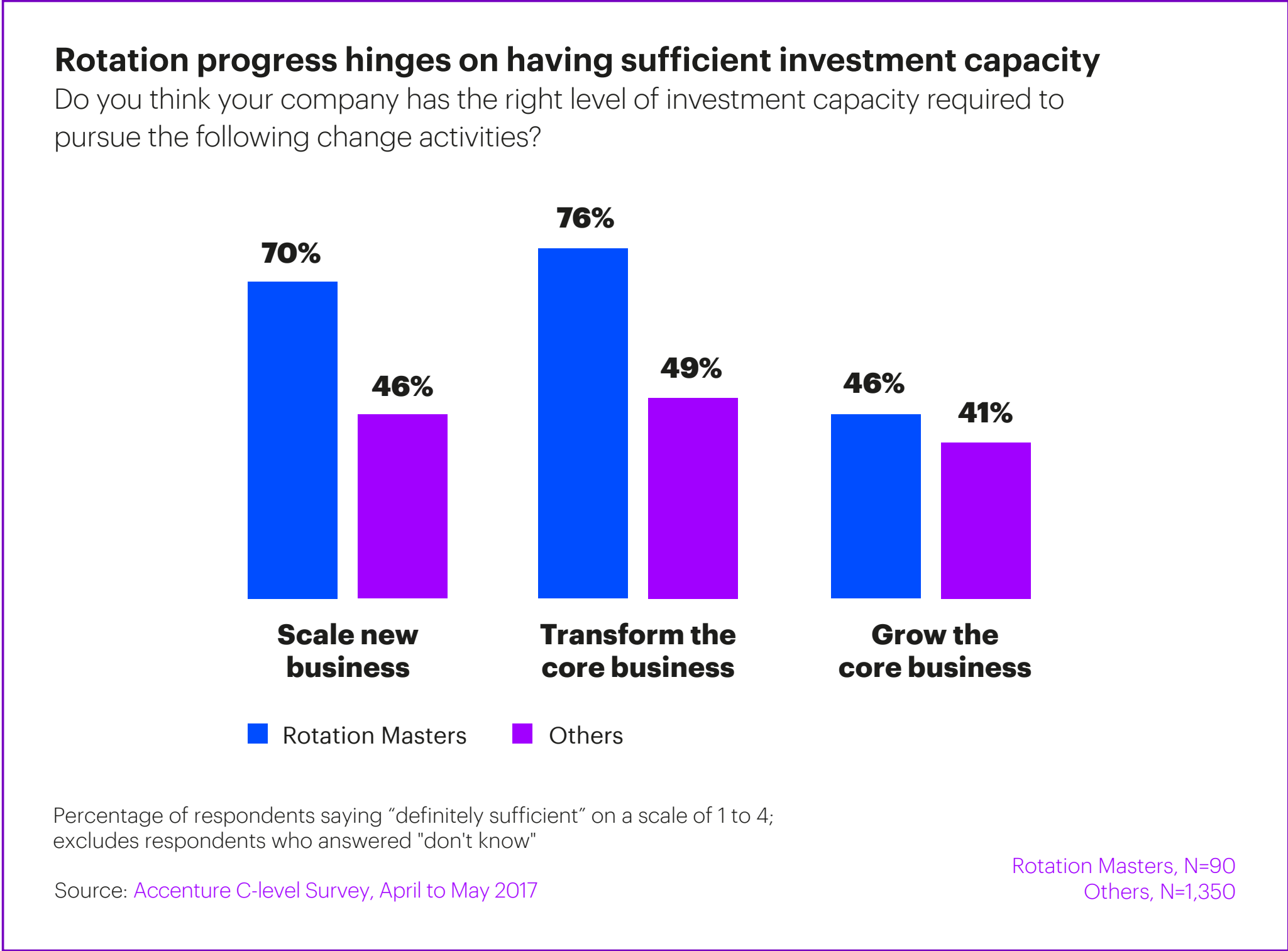
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BUILD SUFFICIENT INVESTMENT CAPACITY FOR CHANGE

1 SUFFICIENT INVESTMENT CAPACITY

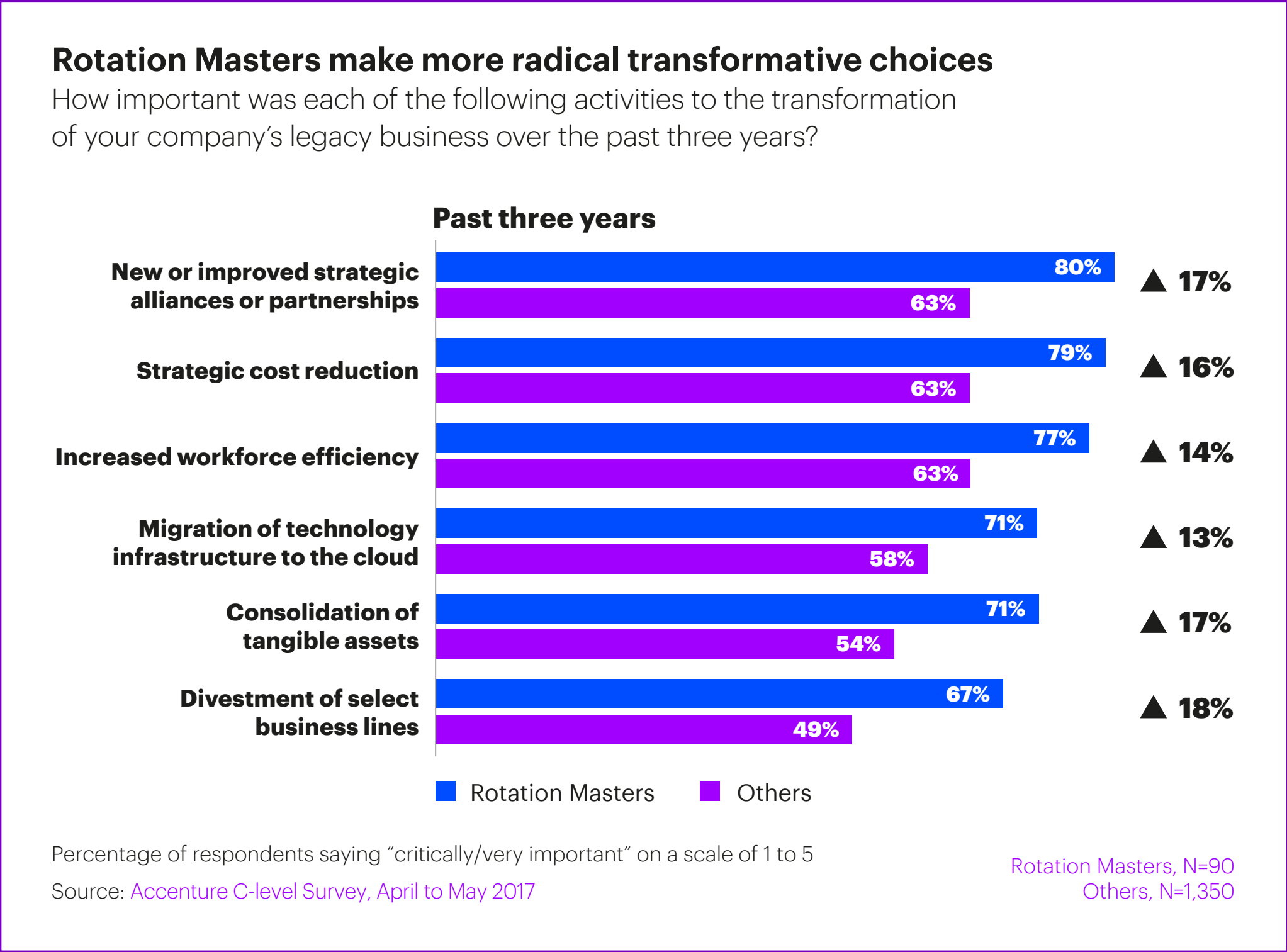
Rotation Masters understand the level of investment required to drive change. Therefore, they fine-tune their existing business activities by reducing costs, divesting non-core businesses and streamlining assets. As a result, more than two-thirds of those in our study were confident they held sufficient investment capacity to scale new businesses as well as reinvigorate their existing core business (see Figure 4).

Figure 4.



Rotation Masters also proved more likely to make investment decisions that create a deep-seated readiness for change. In the past three years, they focused on improving internal efficiencies (for example, through reducing strategic cost and increasing workforce efficiency) and by building external networks (see Figure 5). Other companies, however, hesitated to consolidate tangible assets or divest select business lines.

Figure 5.

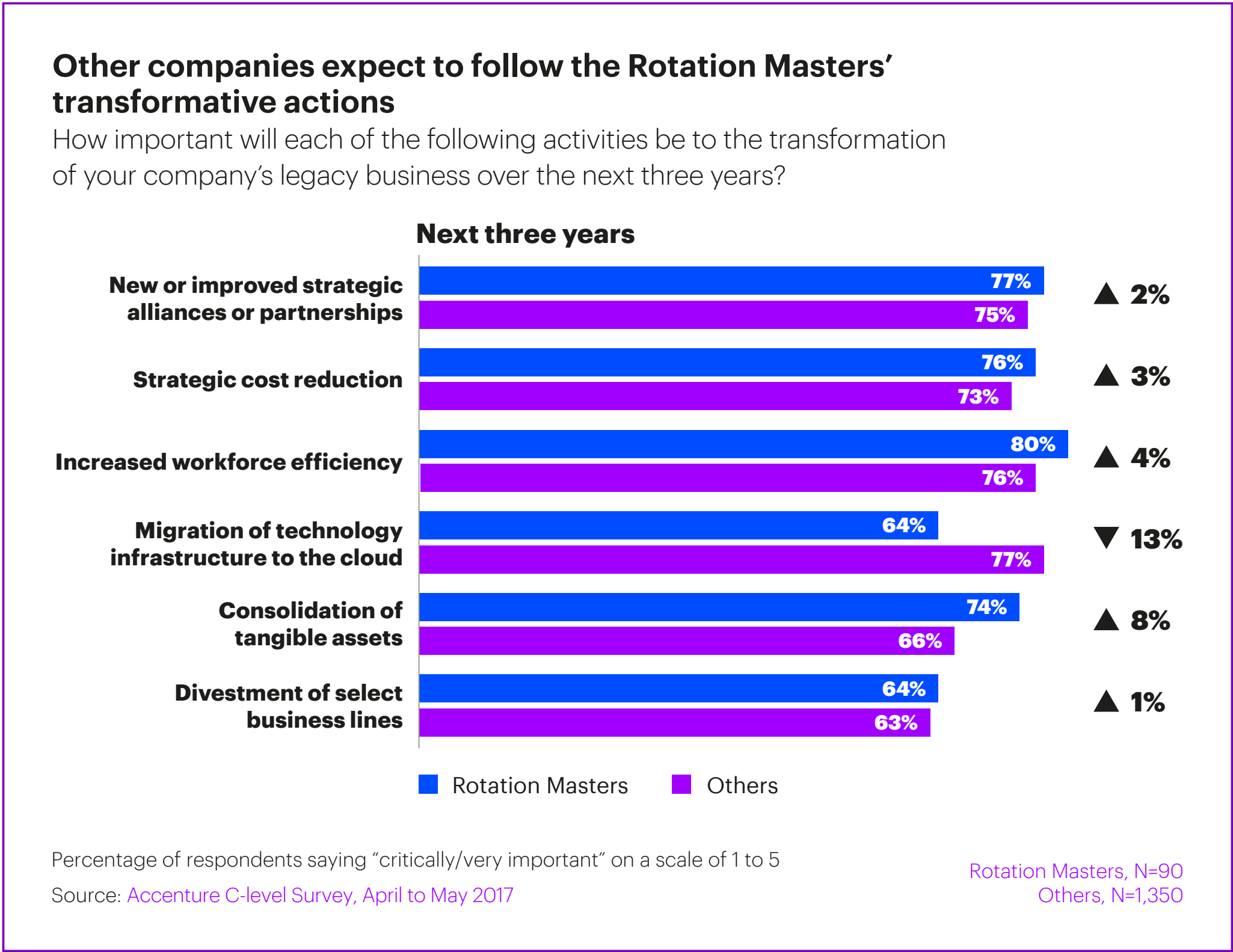


1 SUFFICIENT INVESTMENT CAPACITY

Despite such hesitation, we found that over the next three years, slower-moving companies are likely to mirror the transformative choices of Rotation Masters. Notably, 76 percent of other companies intend to increase workforce efficiency and 73 percent expect to pursue strategic cost reduction as part of their transformation efforts (see Figure 6). The portion of other companies that focus on migrating their technology infrastructure to the cloud will likely increase from 58 percent in the past three years to 77 percent over the next three years.

Meanwhile, companies with profitable core businesses are more likely to generate and sustain strong investment capacity. Our research revealed that companies that reported better EBITD performance (i.e., Rotation Masters), had a stronger focus on decisive restructuring of core business lines and operating assets. Clearly, companies must continually replenish their investment capacities by creating healthy cash flows through their existing business operations.

Figure 6.



1 SUFFICIENT INVESTMENT CAPACITY

Consider the UK-based home improvement retailer, Kingfisher plc. Increasing online product search and purchasing has rapidly disrupted the company's traditional brick-and-mortar retail model.

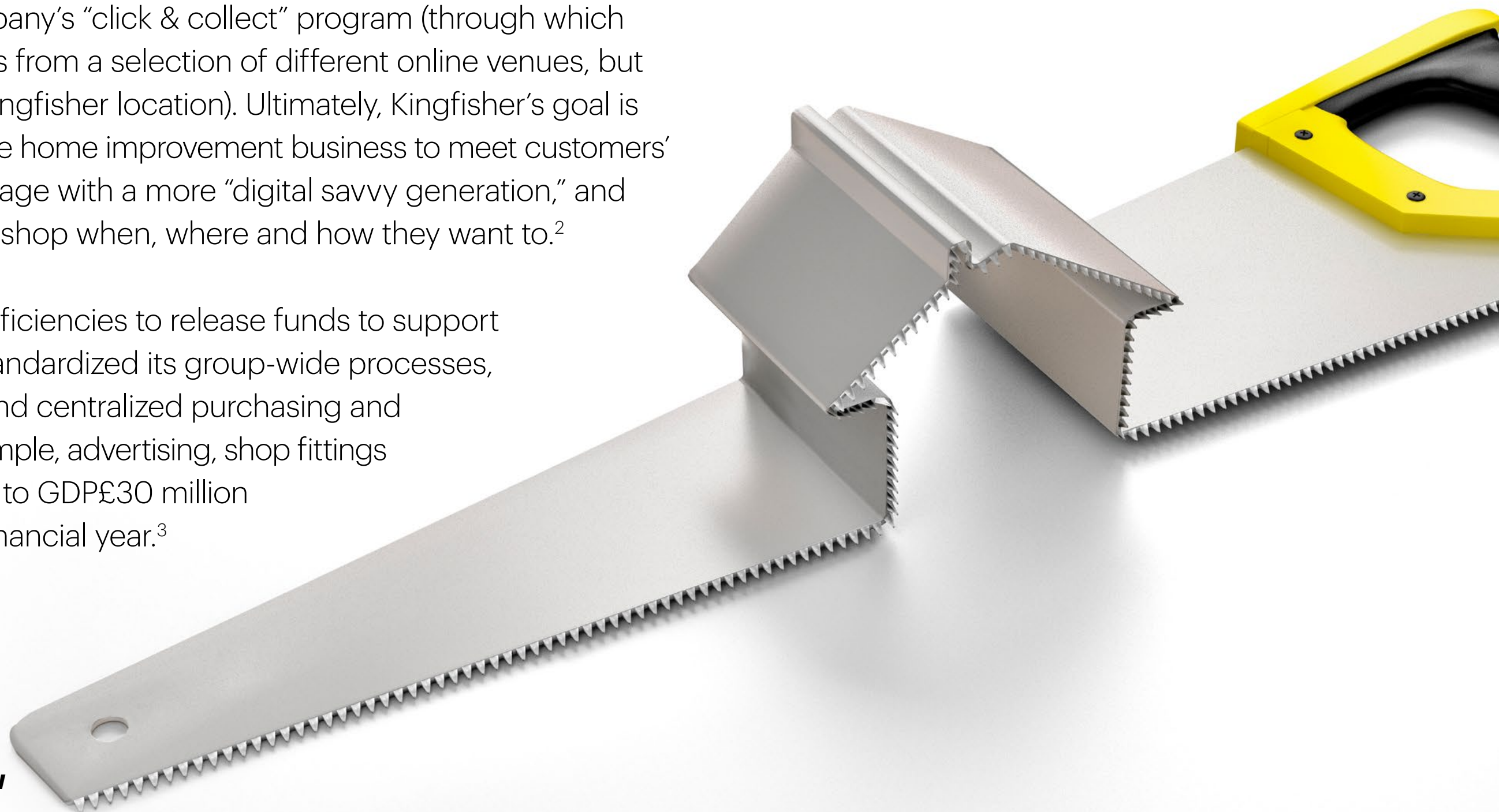
In response, Kingfisher has introduced a five-year transformation plan to infuse digital innovations into its customer experience and sales channels. The plan includes improving the search functionality of Kingfisher's websites, mobile technology, product content information, checkout experience, digital marketing efforts and the company's "click & collect" program (through which customers can make purchases from a selection of different online venues, but then pick up their goods at a Kingfisher location). Ultimately, Kingfisher's goal is to strengthen and realign its core home improvement business to meet customers' changing shopping habits, engage with a more "digital savvy generation," and make it easier for customers to shop when, where and how they want to.²

Kingfisher has already driven efficiencies to release funds to support this goal. For example, it has standardized its group-wide processes, consolidated its supply chain and centralized purchasing and inventory management (for example, advertising, shop fittings and so on). These initiatives led to GDP£30 million in cost savings in the 2016-17 financial year.³

Fuel investment from your core

Rotation Masters make confident transformative choices (not only including strategic cost-reduction decisions, but also divestment of businesses and consolidation of tangible assets).

These are preconditions for the Wise Pivot. Why? Because a strong core business helps fuel investment for a shift to new businesses.



2

ENABLE THE ORGANIZATION TO INNOVATE BY DESIGN

2 INNOVATE BY DESIGN

Our research shows that most companies believe they need a continuous stream of big ideas. But more Rotation Masters than others recognize the importance of fostering innovation throughout their organization and purposefully identifying and commercializing the best ideas effectively (see Figures 7 and 8).

Figure 7.

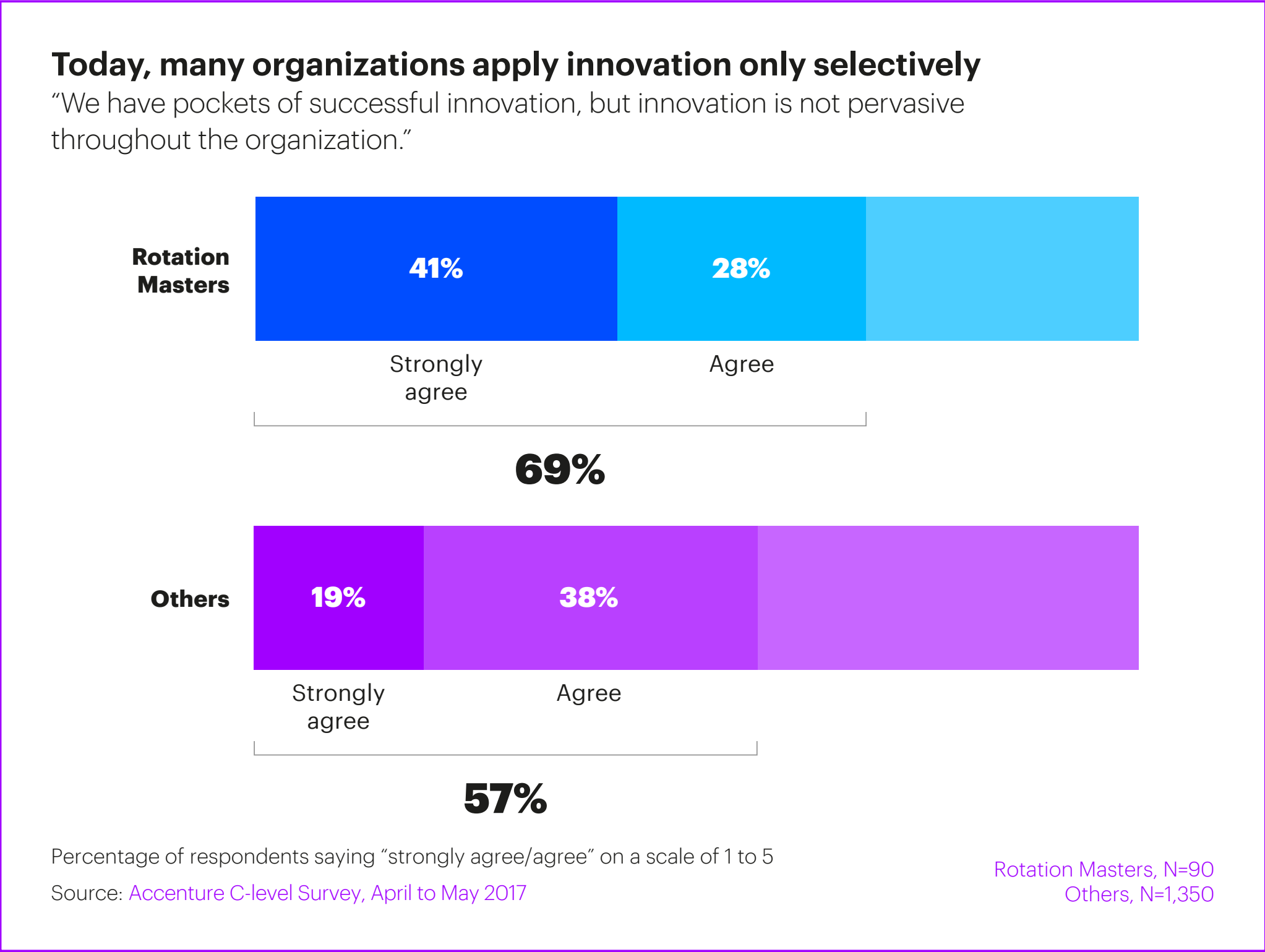
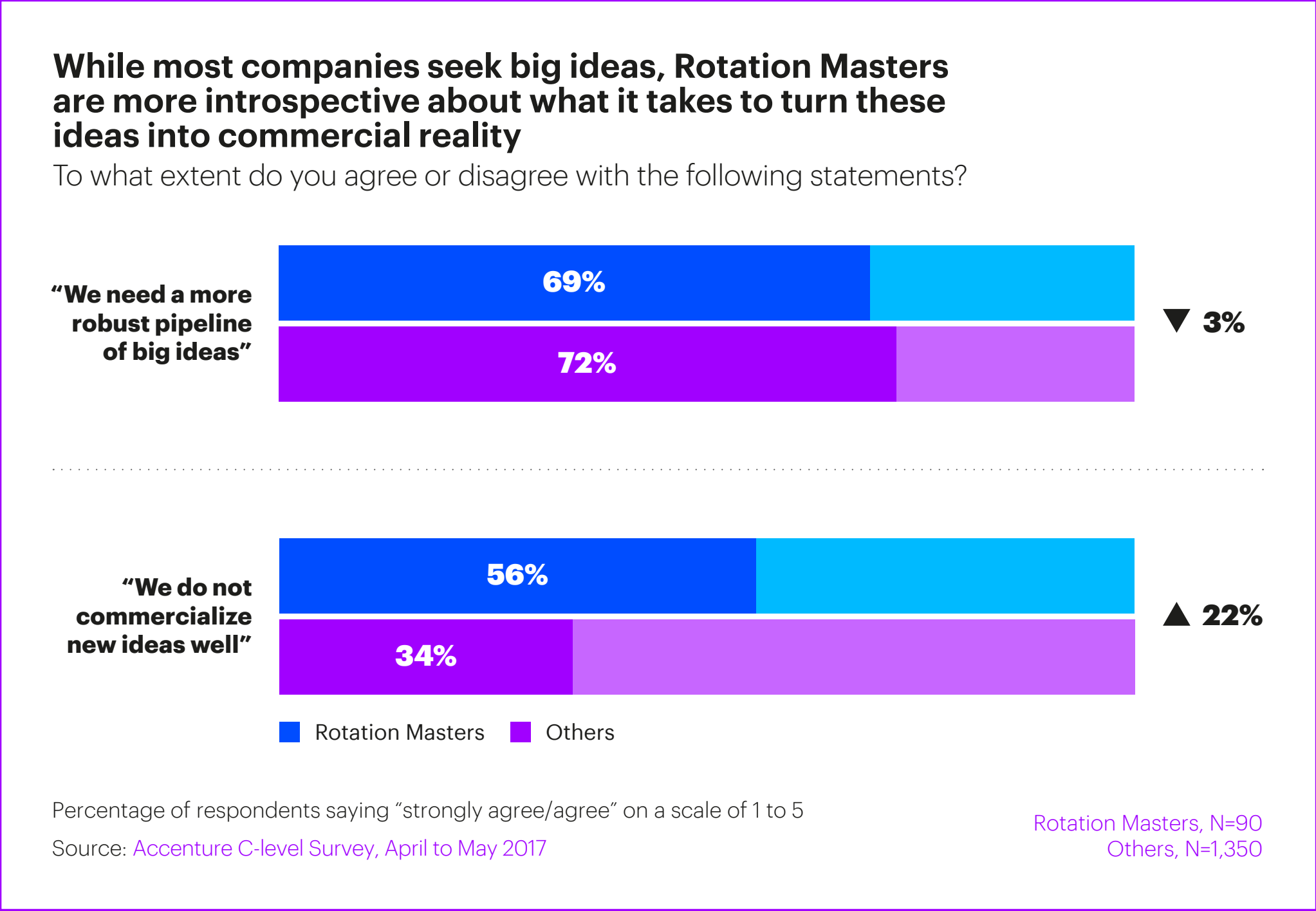


Figure 8.

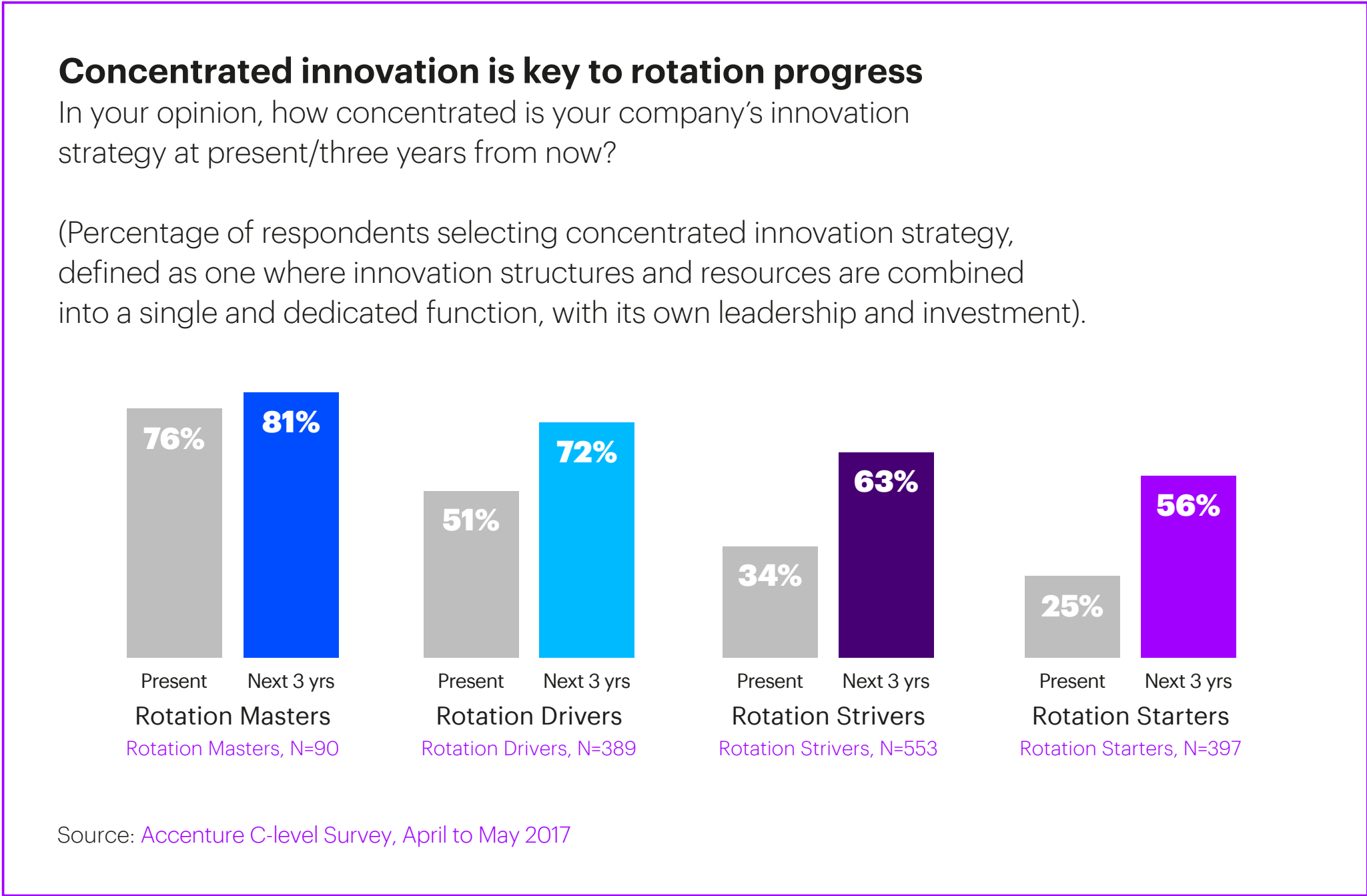


More specifically, when compared with their peers, Rotation Masters are more deliberate about structuring their organizations to innovate by design and get the most out of their innovation efforts. How? By concentrating innovation capabilities under a strong leadership team, with dedicated investment and a discrete structure—this enables them to embed innovation into their corporate DNA.

2 INNOVATE BY DESIGN

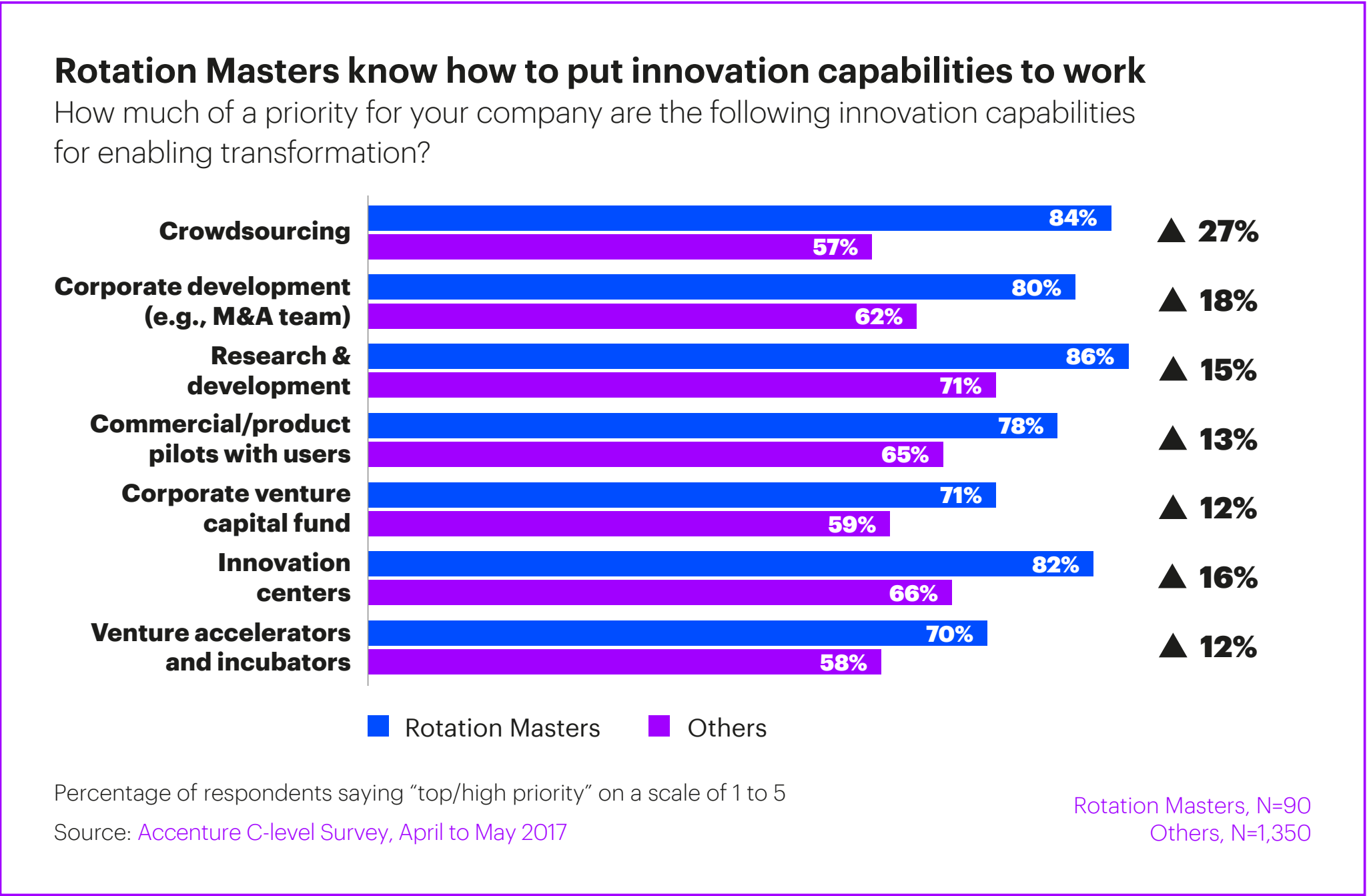
Most Rotation Masters (81 percent) will have adopted concentrated innovation strategies three years from now, and 63 percent of other companies will follow suit by then (up from 36 percent today) (see Figure 9). A concentrated strategy allows Rotation Masters to spot promising innovations, prototype, and test them early. As a result, they are better able to see those with highest potential and turn them into a commercial reality ahead of the competition.

Figure 9.



Ultimately, Rotation Masters apply their innovation capabilities to enable transformation in their business. They employ a combination of internal and external innovation capabilities. And notably, they tend to prioritize the deployment of crowdsourcing strategies and in-house corporate development teams (who can identify and acquire the right innovation capabilities externally) more than other companies. They also have a strong preference for the use of innovation centers and research and development capabilities, and they seek opportunities to pilot and test product ideas with end users (see Figure 10).

Figure 10.





2 INNOVATE BY DESIGN

Ecolab provides a good illustration. The US-based company's business model, which combines chemistry, digital technology and on-site customer service, has enabled it to become a leading global provider of water, hygiene and energy technologies to the food, healthcare, hospitality, energy and industrial markets.

Ecolab has been an early pioneer in driving innovation through digital technology; such as introducing its 3D TRASAR™ Cooling Water Technology more than 30 years ago. This technology combines chemistry, remote services and sophisticated monitoring/control to improve a range of industrial operations. For example, using connected sensors, nearly 30 billion data points are collected and analyzed across 36,000 systems at customer sites annually. The data is used to make adjustments to the “dose” of chemicals needed to keep the water clean and flowing efficiently.⁴

As of March 2018, the company has more than 1,600 R&D personnel (scientists, engineers and technical specialists) in 19 global technology centers. They are developing highly specialized solutions that improve product quality, safety and efficiency, while simultaneously reducing energy and water usage and waste. In five years, Ecolab expects to generate more than US\$1.2 billion in total annual revenues from products and services in its 2017 innovation pipeline.⁵

**It is time
to practice
innovation
deliberately**

**Rotation Masters do not
only create an architecture
of innovation capabilities.**

They apply it to deliberately transform the legacy business today, while helping to identify and ultimately scale new business opportunities for tomorrow.

3

SEEK AND CREATE SYNERGIES BETWEEN THE OLD AND THE NEW

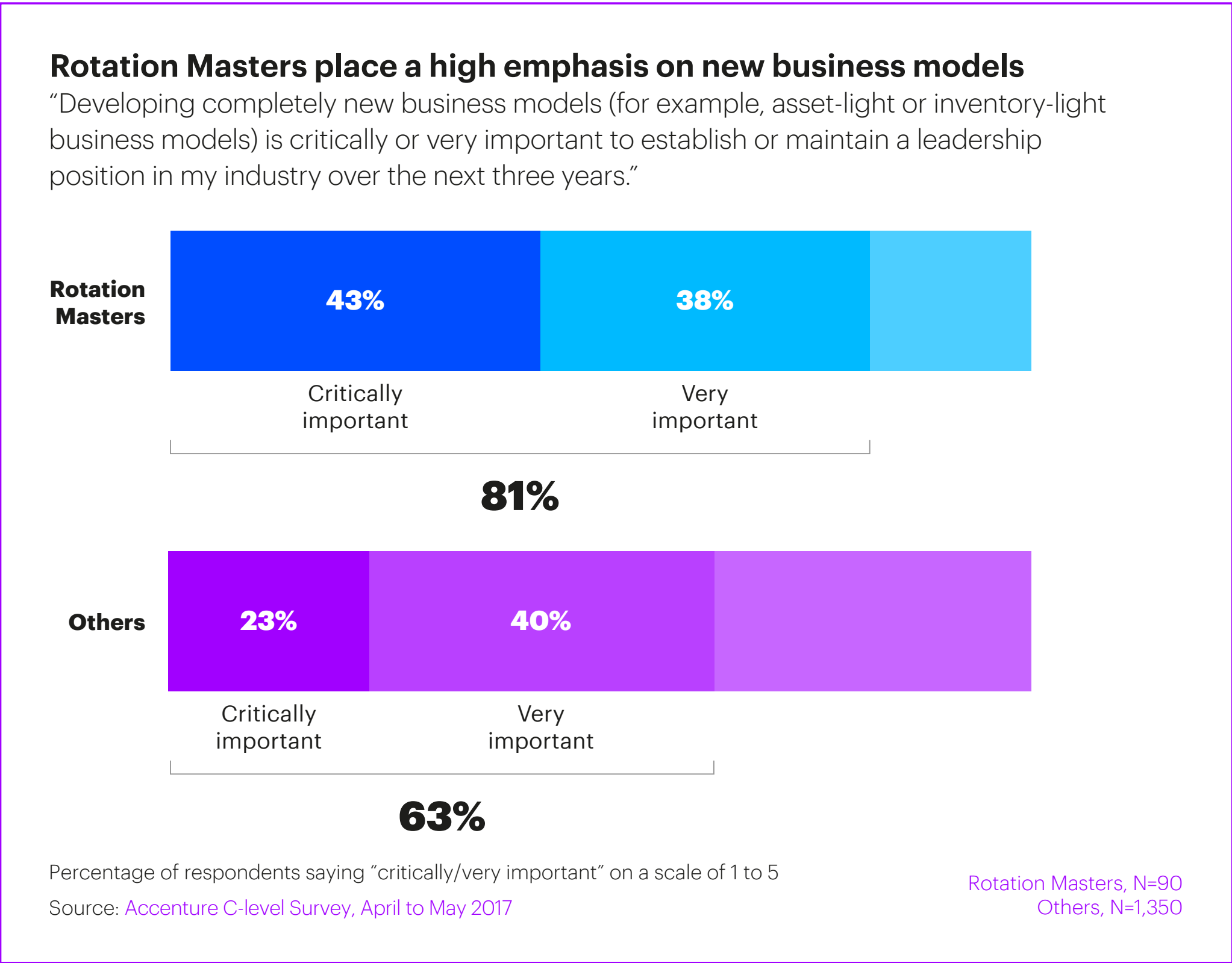
3 SYNERGIES BETWEEN THE OLD AND THE NEW

Pursuing new business opportunities does not have to come at the expense of the legacy business.ⁱ We discovered that more Rotation Masters than others are focused on tapping into the potential to cross-sell between the new and legacy businesses. In addition, most Rotation Masters (60 percent) consider the potential to leverage new business in order to reshape the culture of the legacy business (compared to 28 percent of Others).

Rotation Masters are looking explicitly for ways to update their legacy businesses and find synergies between the old and the new. Our research further revealed that developing completely new business models is a high priority for companies well-advanced on their journey. Most of the Rotation Masters in our study (81 percent) consider that moving beyond their existing business models is vital to cementing future leadership positions in their industries (see Figure 11).

i: By “legacy” business, we are referring to the main revenue-generating business activities that have been in operation for more than five years.

Figure 11.



3 SYNERGIES BETWEEN THE OLD AND THE NEW

This point is well illustrated by the leading US healthcare company, CVS Health, which has a long history of pursuing growth strategies and building new businesses alongside its strong core pharmacy business.

Established as a discount health and beauty store in 1963, CVS added in-store pharmacy departments four years later. The company pursued a steady transition of its business model in subsequent years, which accelerated in 2006 with the acquisition of MinuteClinic, the pioneer of in-store health clinics. This move created a highly innovative network of in-store walk-in clinics offering affordable non-urgent, acute healthcare with extended hours.

Change at CVS Health is a continuous and deliberate journey. Notably, through the transformative merger with Caremark Rx, Inc. in 2007, the company created CVS Caremark, the nation's leading Pharmacy Benefit Manager.⁶

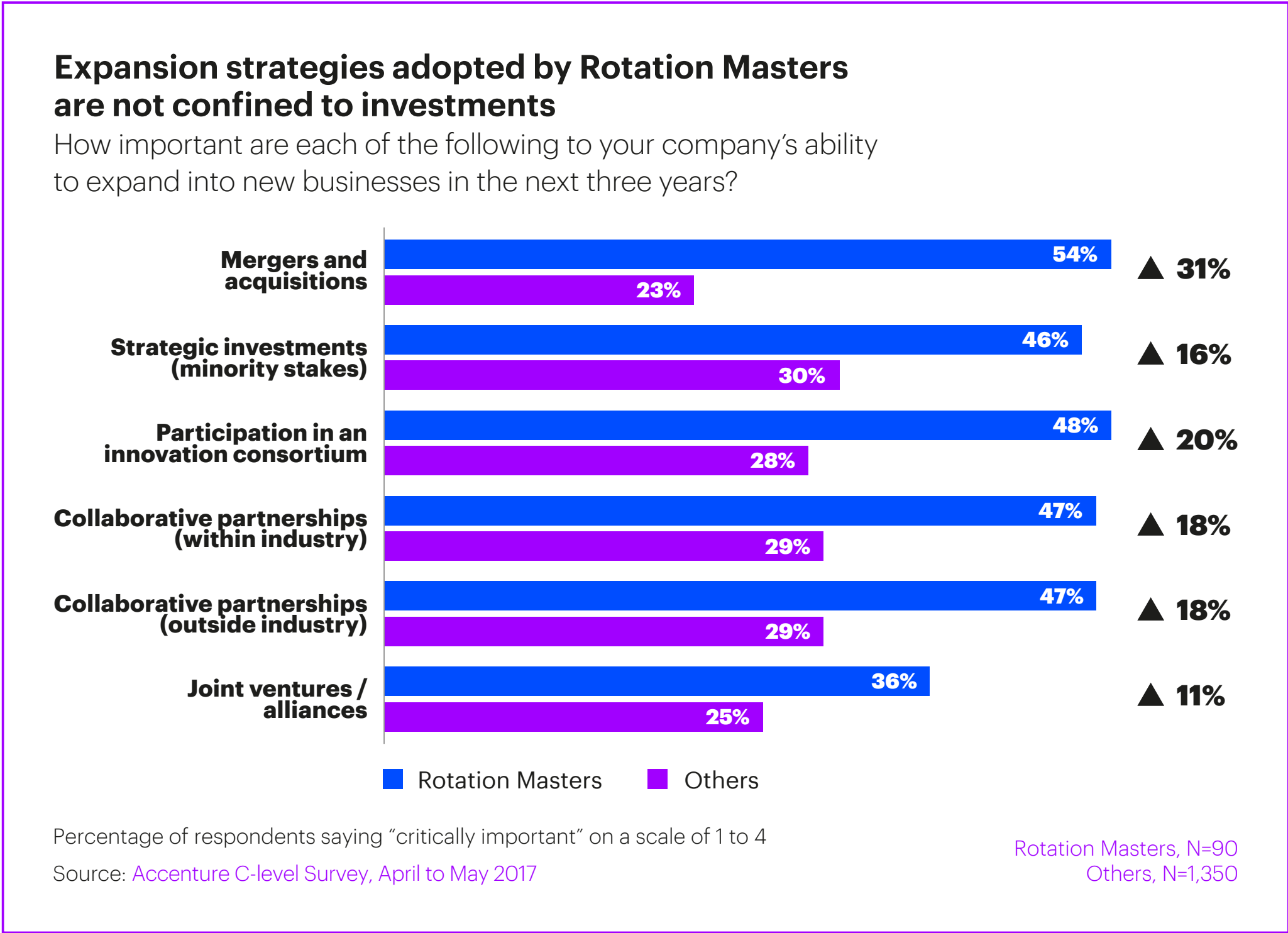
Furthermore, the company rebranded itself as pharmacy innovation company "CVS Health" in 2014, and the committed investments show that its change journey continues. For example, in September of that same year, CVS Health became the first pharmacy retailer to stop selling tobacco. In addition, the company has invested substantially in digital technology and analytics tools across their enterprise to help facilitate patient care coordination and improve health outcomes.⁷ At present, CVS Health is one of the largest healthcare providers in the U.S., with over 9,800 retail pharmacy locations and over 1,100 MinuteClinics in 33 states and the District of Columbia.⁸



3 SYNERGIES BETWEEN THE OLD AND THE NEW

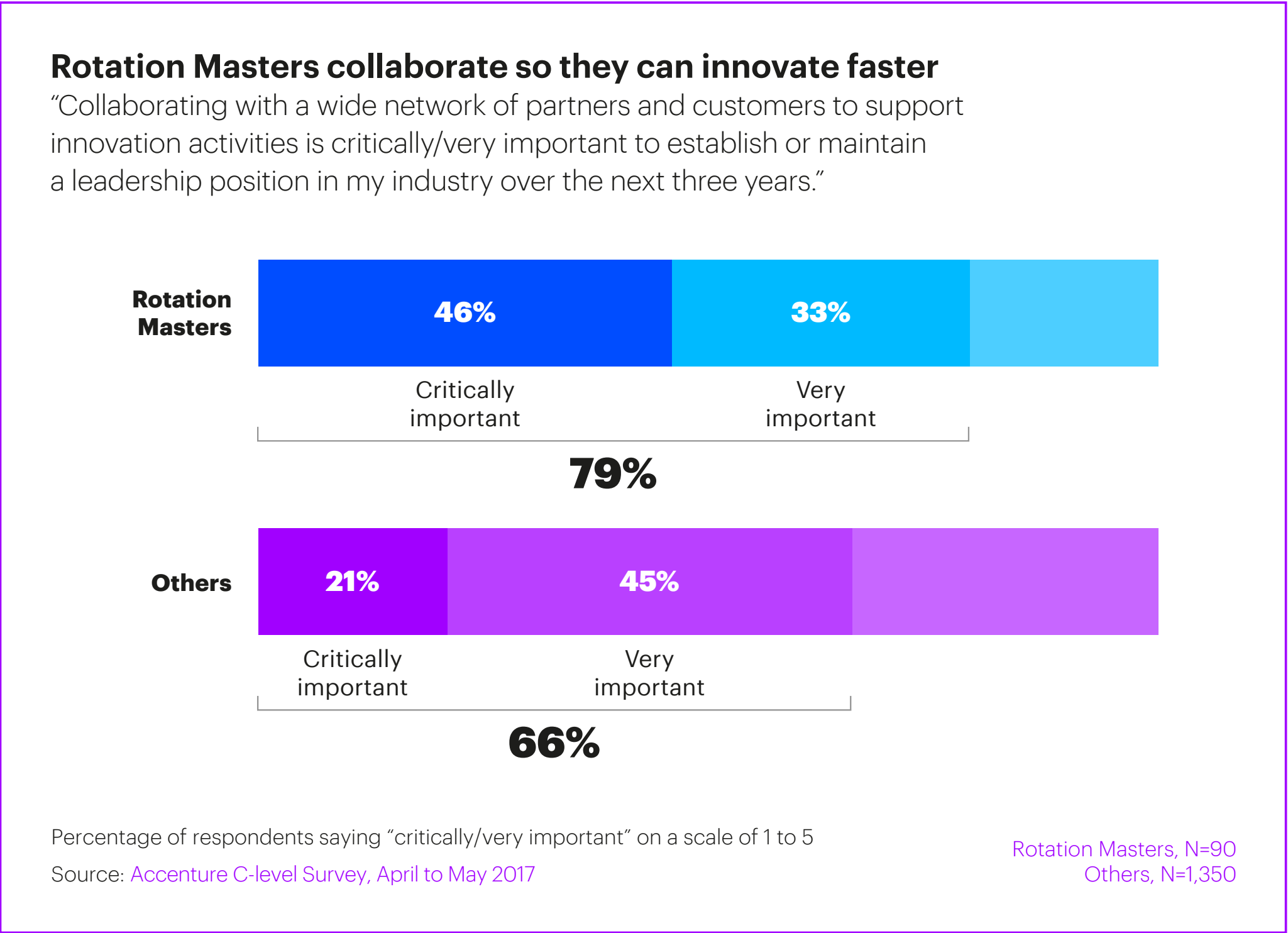
Expanding into new businesses clearly requires access to investment. But it also depends on a strong appetite for collaboration, particularly when seeking synergies to build on the strengths of a legacy business. Most notably, Rotation Masters know how to leverage the power of external networks, such as innovation consortia, collaborative partnerships and joint ventures (see Figure 12).

Figure 12.



Such collaborations matter, because they enable Rotation Masters to innovate at higher speed. Nearly 80 percent of Rotation Masters consider it essential to support innovation activities with a wide network of partners and customers (see Figure 13).

Figure 13.



3 SYNERGIES BETWEEN THE OLD AND THE NEW

Consider the collaboration between biotechnology innovator Biogen, 1QBit (a quantum software company) and Accenture Labs.

The early phases of drug design and discovery require comprehensive molecular comparisons to predict the likely effects of a new drug. This process depends heavily upon intensive computational methods. To support that, each partner brings unique and vital capabilities to the relationship—such as pharmaceutical research and development, quantum computing capabilities, business optimization and application development.

In just over two months, team members designed, tested, and developed to enterprise-readiness a new quantum-enabled application that generates molecular comparison results with unique, deep insights about how, where, and why molecules match.⁹ The collaboration markedly reduced costs and time-to-market while accelerating drug discovery for complex neurological conditions (such as multiple sclerosis, Alzheimer's, Parkinson's and Lou Gehrig's disease).

As Govinda Bhisetti, head of Computational Chemistry at Biogen, notes: “**Collaborating with researchers at Accenture Labs and 1QBit** made it possible to pilot rapidly and deploy a quantum-enabled application that has the potential to enable us to bring medicines to people faster.”¹⁰



Can you keep it together?

Rotation Masters have a clear expansion strategy for new businesses.

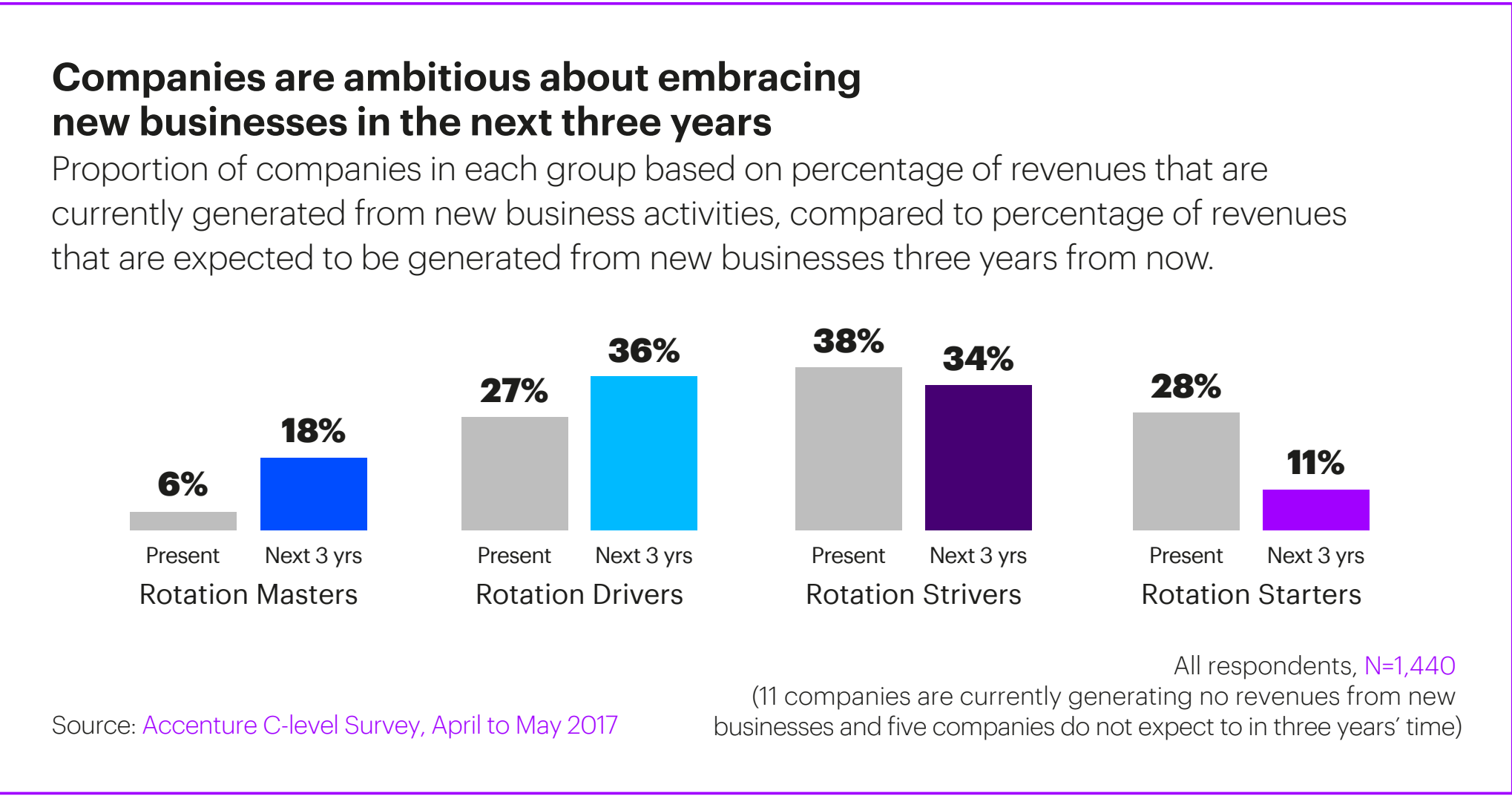
Yet, that strategy does not live in isolation. Instead, it considers the synergies with the legacy business and external networks.

IT'S YOUR MOVE

Globally, as noted at the beginning of this report, ambition among C-level executives to accelerate their company’s shift into new businesses in the next three years is high. In fact, the Rotation Master footprint is expected to triple in the next three years (see Figure 14).

Given these goals, all large companies need to know how to generate sufficient investment capacity, then deploy that capacity to scale new businesses, while designing the organization to innovate more pervasively.

Figure 14.



They also need to be able to do so continuously. In that spirit, depending upon their current stage of progress, companies should focus on the following priorities to successfully make a Wise Pivot:

Making a Wise Pivot: key priorities

	BUILD SUFFICIENT INVESTMENT CAPACITY FOR CHANGE	ENABLE THE ORGANIZATION TO INNOVATE BY DESIGN	SEEK AND CREATE SYNERGIES BETWEEN THE OLD AND THE NEW
<div><div>ROTATION DRIVERS</div><div><div></div><div>27%</div></div><div>of companies today</div></div>	Drive growth in the legacy business to replenish investment capacity (e.g., via digital marketing)	Deliberately direct investment to scale new business activities (e.g., through serial acquisition of new assets)	Reinvigorate the culture in the legacy business using new capabilities and new talent (e.g., recruitment of data scientists)
<div><div>ROTATION STRIVERS</div><div><div></div><div>38%</div></div><div>of companies today</div></div>	Develop a clear expansion strategy for new businesses and determine how much capital funding is needed	Create a core set of innovation capabilities to enable faster transformation of the core business	Invest in upgrading the technology infrastructure required to support new businesses
<div><div>ROTATION STARTERS</div><div><div></div><div>28%</div></div><div>of companies today</div></div>	Prepare to drastically restructure the legacy business (including divestment of underperforming activities)	Establish the essential innovation capabilities (e.g., innovation labs and centers) to start incubating new ideas	Invest in collaborative partnerships to improve ability to test new commercial ideas, and access new markets early

Source: Accenture C-level Survey, April to May 2017



Are you ready to make your Wise Pivot?

**The success stories of tomorrow
will be determined by C-level
executives who know how and when
to focus on innovation-led initiatives
that can release value fast in the
legacy and new businesses.**

Rather than waiting, these courageous
leaders will tilt toward the future before
others do—and in doing so, reinvent
their organizations on their own terms.

ABOUT THE RESEARCH

Accenture conducted a global online survey in April to May 2017 with 1,440 C-level executives from companies with revenues exceeding US\$500 million, across 11 industries and 12 countries. The research examined how large companies prepare to respond to disruptive change, both in terms of transforming their well-established legacy business and expanding into new, scalable businesses.

Respondents in our primary research included professionals who serve as Chief Innovation Officers, Chief Operating Officers, Chief Strategy Officers or in equivalent roles, or direct reports to these positions. More than one-half (51 percent) had occupied their position for more than five years. The sample provides a balanced view between mature and emerging economies and a wide spectrum of industries. Illustrative case studies were researched using publicly available sources including company annual reports and industry reports (see Exhibit 2).

Transformation

By “transformation,” we are referring to the evolution and modernization of the legacy business to create new high-performing businesses suited to today’s competitive environment and that of the future.

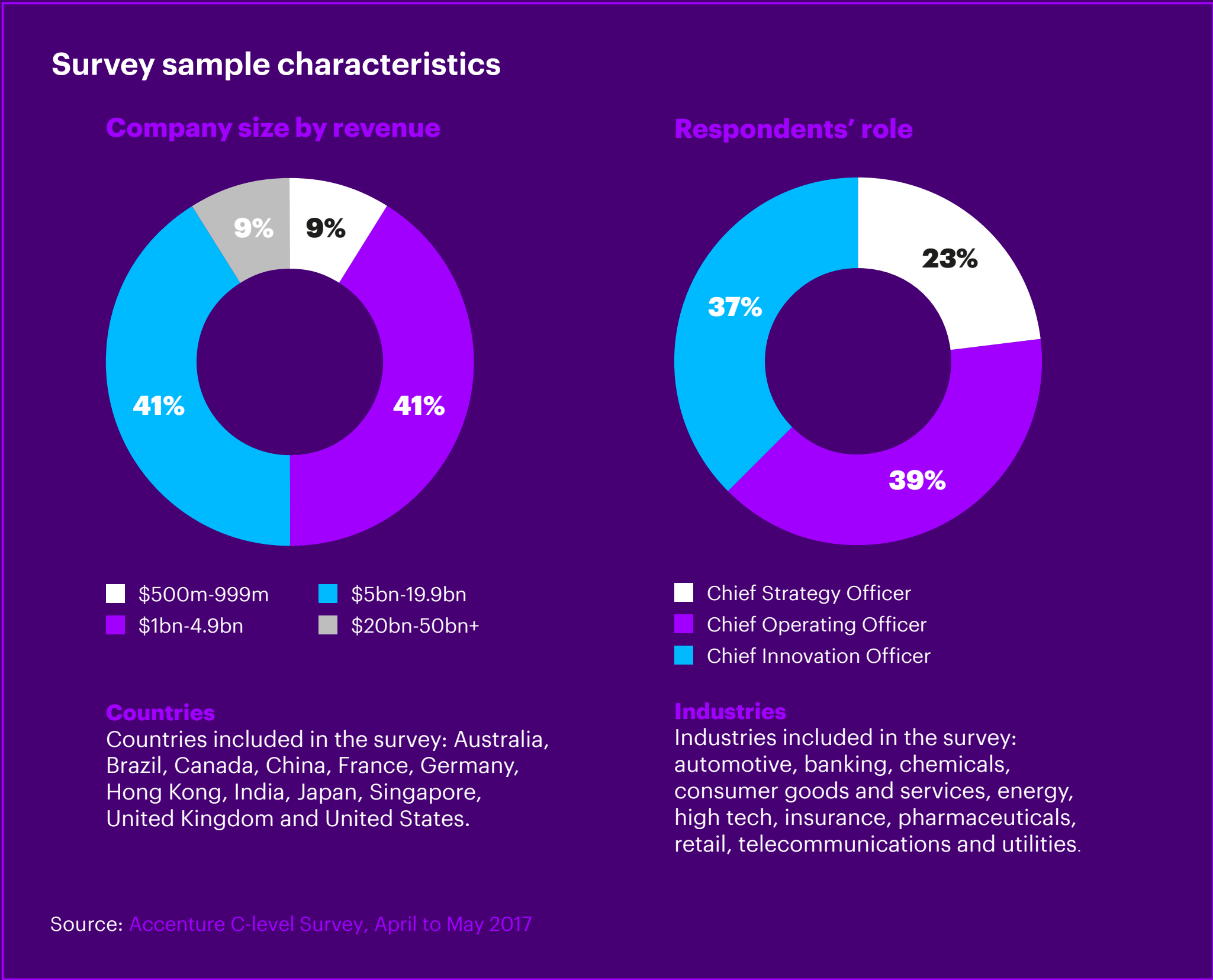
Legacy business

By “legacy” business, we are referring to the main revenue generating business activities that have been in operation for more than five years.

New businesses

By “new” businesses, we are referring to business activities, investments and ventures into unexplored markets and offerings, where the company has not previously participated at scale.

Exhibit 2.



Our study identified four distinct groups of companies at different stages of their rotation to the New journey. Progress on this change journey was measured by assessing the (self-reported) contributions to overall revenues of new activities commenced by the company in the past three years to overall revenues. Rotation Masters (90 companies) generated 76 to 100 percent of current revenues through new business activities begun in the past three years. In the second group (389 companies), 51 to 75 percent of current revenues were generated by new business activities begun in the past three years. The third group (553 companies) generated 26 to 50 percent of current revenues through new business activities begun in the past three years. The final group (397 companies) generated 1 to 25 percent of current revenues by new business activities begun in the past three years.

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He is responsible for overseeing all aspects of the company's strategy, innovation programs and investments. He is a member of the Accenture Global Management Committee.

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His research focuses on IT-led changes in business and marketing strategy, with a specific focus on the changes occurring in consumer behavior and marketing channels.

Dr. Vedrana Savic is a Managing Director of Thought Leadership at Accenture Research.

Her current research focuses on business disruption, enterprise innovation, investment strategy and organizational change in the digital age.

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