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FINDING
OPPORTUNITY
IN THE AGE OF
CONSTANT CHANGE

TAKE CONTROL OF
DISRUPTION TO FIND
OPPORTUNITY

NORDIC
RESEARCH 2018

ACCENTURE

360 *Live*

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Industry disruption — a process whereby companies from either within or from other industries challenge established businesses — has a widespread reputation of being random, unpredictable and uncontrollable.

This may have been the case in the past. But no longer. To help leaders better understand industry disruption, Accenture Research has developed an index that measures an industry's current level of disruption as well as its susceptibility to future disruption (see next page).

Our research shows that industry disruption is, in fact, predictable. It is possible for business executives to assess how susceptible their industry is to disruption and why, and to do the same at a more granular level for their company. Armed with that knowledge, they will be better able to define the right strategic response and capture new opportunities with confidence.

By mapping the characteristics of Nordic industries to the index, we're able to identify the unique state of disruption for each, and the strategic focus that will be required to manage and control the impact of disruption.

HOW WE CREATED THE NORDIC DISRUPTABILITY INDEX

To help Nordic business executives better understand disruption, Accenture has created an index that reveals **19** Nordic industries' current level of disruption as well as their susceptibility to future disruption. The index is based on approximately **500** listed companies in the Nordic countries with annual revenues above €50 million.

To measure these industries' current level of disruption, we examined 28 metrics under two main dimensions: The **current level of disruption** in each sector, measured as the presence and penetration of disruptors, and incumbents' financial performance. To measure a sector's **susceptibility to disruption**, we examined: incumbents' operational efficiency, commitment to innovation and preparedness against attacks.

Ultimately, Accenture's Disruptability Index positioned 19 industry sectors — against those two axes. We then used the median scores as dividing points to highlight four distinct states of disruption: durability, vulnerability, volatility and viability.

1
CURRENT LEVEL OF DISRUPTION
0

VIABILITY

- High rates of innovation mean sources of competitive advantage are short-lived
- Disruption has become the norm

VOLATILITY

- Incumbents have been slow to act on warning signs
- Large disruptors unlock new sources of value

DURABILITY

- Structural incumbent advantages and consistent performance
- Relatively few large disruptors attracted to the sector so far

VULNERABILITY

- Structural weaknesses expose the sector to significant risk
- Barriers to entry inhibit disruptor penetration for now but are slowly crumbling

SUSCEPTIBILITY TO FUTURE DISRUPTION 1

Figure 1: The four stages of disruption



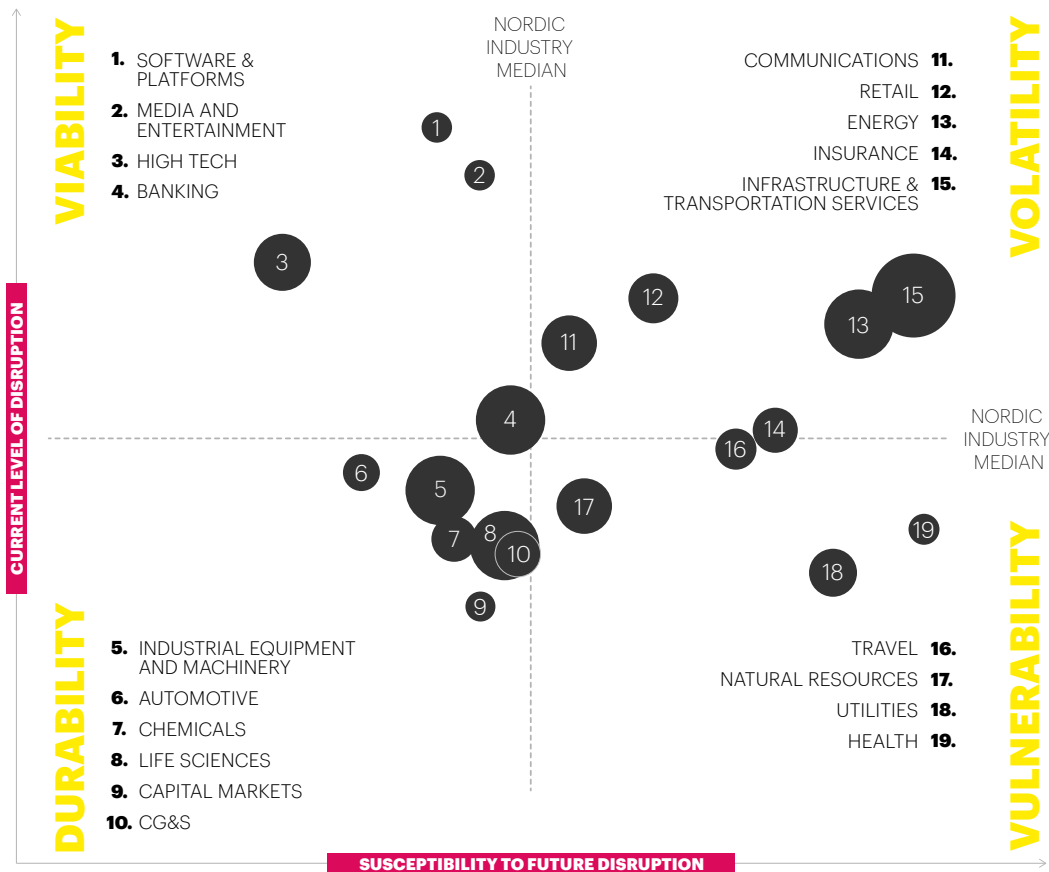


Figure 2: How susceptible are Nordic industries to disruption?

VIABILITY – GROW THE CORE

Industries located in the viability quadrant are already accustomed to disruption. For them, it's business as usual. To capture new opportunities, companies in this quadrant need to focus on the most successful parts of their business today, re-evaluate where they fit in the value chain and reinvent through new ecosystem driven business models.

Nordic businesses in banking, high-tech, media and software have all seen and responded to the impacts of disruption in their industries and they will need to keep doing so. Not only has technology impacted these industries dramatically, but their business and operating models are now also being transformed. To compete, many are having to partner with other players to create new ecosystems built around changing customer needs. That's what's happening to banks, for example, as a result of Open Banking¹ initiative, which is forcing banks to share financial data such as transaction history and spending patterns via APIs with third-party providers if the account holder requests it.

One example of a reinvented business model is Helsingin Sanomat, the Finnish daily newspaper. By offering exclusive content in the shape of long, high-quality

articles for digital-only subscribers, the newspaper has managed to grow online subscribers to impressive numbers.² And Finland is home to another conspicuous example of reinvention: OP. The finance group has set out its strategy to gradually transform the company into a digital multi-industry service company based on deep financial know-how. Health and wellbeing are its first new focus areas.³

DURABILITY – TRANSFORM THE CORE

Nordic businesses in industries such as consumer goods and services, industrial equipment, automotive and life sciences are relatively efficient and mature with well-established brands. They typically enjoy clear structural advantages from proprietary technology and control over distribution channels. They use these advantages to combat disruptive competition. But that's only if they are equipped to respond to fast-changing consumer needs and the growth opportunities these create.

So, what should be their priorities moving forward? Industries in this quadrant need to know and capitalise on their strengths. Where they lack core competencies to support their new strategy, they should have a plan for acquiring them. There's no room for complacency. Priority investments in intelligent systems and technologies such as automation must be directed to move the business forward at pace.

Essity, the consumer hygiene company, was spun off from SCA to become better at responding to changing consumer needs via new business models. For example, they are rolling out their "data-driven cleaning" concept, which uses sensors to help public facility operators remotely monitor the need for cleaning toilets, emptying trash boxes etc.⁴

VOLATILITY – PIVOT WISELY

More Nordic companies sit in this quadrant than any other. Already experiencing high levels of disruption, they are vulnerable to even more in the near future. For example, constrained by regulation and stakeholder demands, insurers are increasingly challenged by Insurtechs with ready access to venture funding. Outsiders are pushing industries to move faster, but up to now many incumbents have been slow to take action. Efficiency is no longer enough to drive competitive edge. And previously high barriers to entry have fallen; fixed assets such as car fleets, hotels, and landline infrastructure have become weaknesses. So how should incumbents take advantage of the changes taking place in their industries? It's all about focus. They need to understand how to change their course, reposition the business and create a change-ready culture. Non-core businesses should be divested. All remaining business models and operations should be organised around one thing only: the customer.

In the energy sector, Statoil is investing in solar power and offshore wind power generation as the industry increasingly focuses on renewable energy sources to serve customers increasingly shying away from fossil fuels.⁵ Other businesses are responding to changing consumer behaviour by working with relevant ecosystem players. In retail, that's what IKEA is planning to do with the launch of furniture sales over third-party online portals.⁶ Others too are making ecosystem plays, like Danish insurer Tryg⁷ which has established a start-up incubator with Rainmaking, a facilitator of entrepreneurship. Tryg's strategy focuses on offering tech-enabled insurance services and by working with Rainmaking they are focusing on bringing together different services and capabilities to benefit their customers.

Another example is the Maersk digital venture Fromtu, a B2B marketplace which is a platform connecting African businesses to others around the world to enable easier sourcing from Africa⁸.

VULNERABILITY – SCALE THE NEW

Nordic industries in this quadrant from the health, natural resources and utilities sectors, have been protected from disruption up to now by substantial barriers to entry, such as regulation and capital requirements. But companies in this state often face increasing pressure to improve efficiency and reduce operating costs in their legacy businesses, and this pressure attracts opportunistic disruptors.

The barriers are also starting to crumble. What's more, structural weaknesses in their sectors are now exposing them to significant risk. The emergence of new business models will add to the vulnerability of large established players in these sectors. Examples include the shift to outcome-based approaches in healthcare and the development of new technologies that are eroding the reliance on large assets in utilities.

To address that exposure, they need to be decisive about the role they will play in the future. By assessing how to make the best use of their current assets and capabilities, businesses in the vulnerability quadrant can maintain an advantage over potential new entrants. And they need to develop ways to rapidly turn ideas into viable businesses – taking a more agile approach than has typically been required in these, to now, relatively slow-moving sectors.

In the mining industry, Boliden has created “transparent” mines to improve the efficiency of their fixed assets. By deploying sensors to enable full control of mines stretching far underground, Boliden can monitor equipment and staff remotely and more efficiently.⁹ The company is also trialling VR-enabled remote technology support on vital machines, preventing costly production breaks.¹⁰

TURNING DISRUPTION INTO OPPORTUNITY

So – how do Nordic businesses move forward and capture new opportunity in a time of continued disruption? As outlined above, understanding where your industry sits in terms of its susceptibility to future disruption serves as a foundation to take control of your unique state of disruption and move forward with clarity and the confidence to act.

Marie Curie, who was awarded the Nobel Prize in Physics in 1903 and in Chemistry in 1911, had a point of view that would serve today’s business leaders well: “Nothing in life is to be feared; it is only to be understood”.

VIABILITY

CONSTANT STATE OF REINVENTION

- Identify your place in the ecosystem to fuel innovation
- Create new ecosystem based business models
- Industrialize the ability to continuously transform

VOLATILITY

DECISIVELY CHANGE COURSE

- Reposition the business, de-couple high-risk from high-potential areas
- Focus on the core, divest non-core
- Align business and operating models

DURABILITY

EXPERIMENT TO GET AHEAD OF FUTURE DISRUPTION

- Build and sustain competitive advantage
- Identify how to acquire future competencies
- Invest to drive the future business, partner and learn from others

VULNERABILITY

DEFINE THE FUTURE

- Decide the business’s future role
- Leverage assets to compete, address structural productivity challenges
- Develop process to quickly turn good ideas into viable businesses

Figure 3: The four states of disruption - and our recommend response

REFERENCES

- ¹ [Open banking refers to the use of Open APIs that enable third party developers ex. fintech start-ups to build applications and services around the financial institution.](#)
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