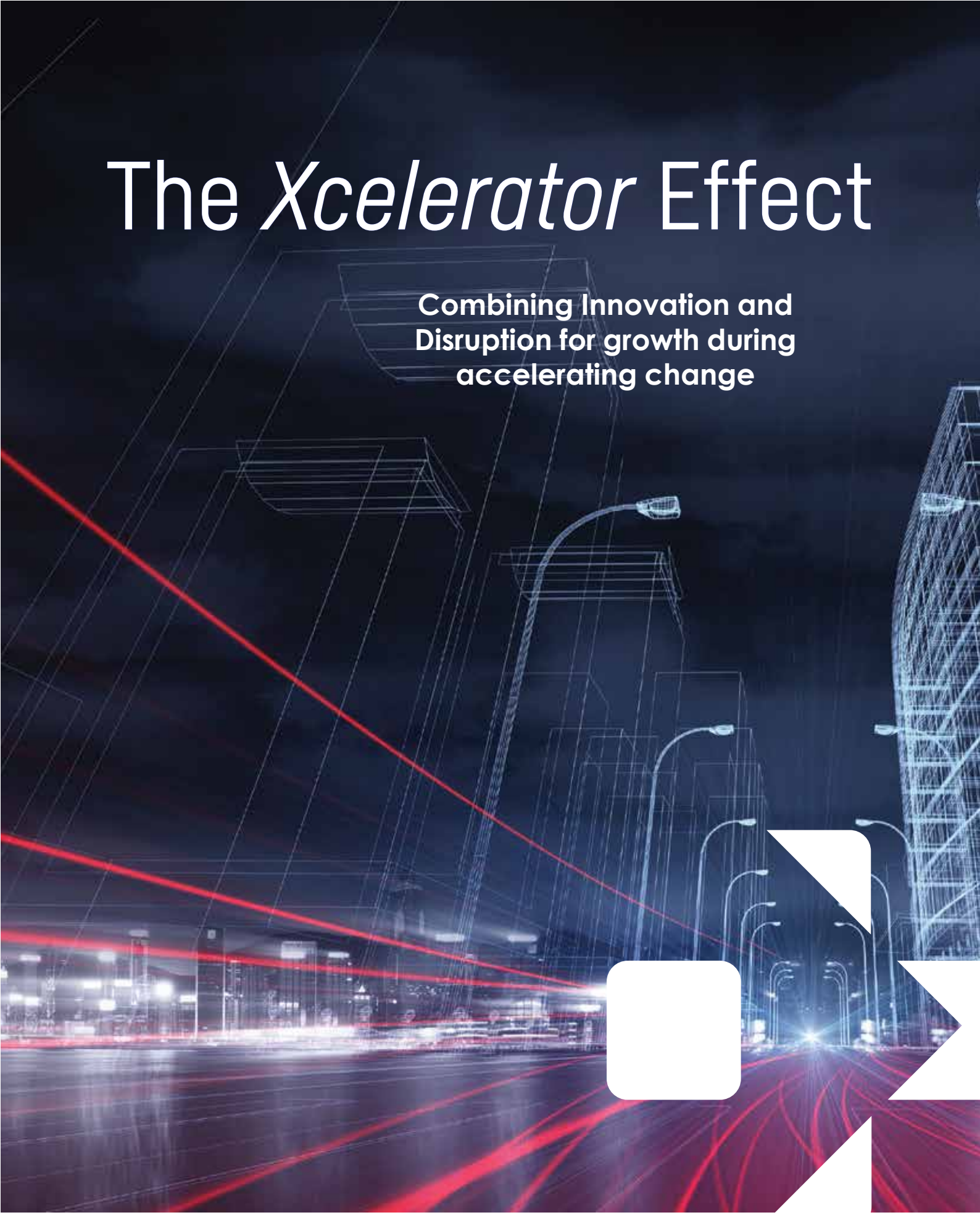
The *Xcelerator* Effect

Combining Innovation and Disruption for growth during accelerating change



Paul Broadfoot
thinking change, accelerating **next**

THE WORLD IS CHANGING. BIG DEAL. ALWAYS HAS AND ALWAYS WILL.

We don't write on stone tablets, use fire for heat much nor forage for berries. Well then, the pace of all that change has increased dramatically. Big Deal again. When we had the First Industrial Revolution[1] we used water and steam to mechanise production. Things got better. Then we had the second and third revolutions where electricity led to mass production and then electronic IT systems led to automation. Now we have washing machines and cheap toasters. Yay! Again, things got better. So why should we care that the world is about to be improved by the digital age in what is, according to Schwab, our fourth industrial revolution? (That's robotics, 3D printing, artificial intelligence, bio sensors, Internet of Things, genome sequencing, and incredible advances in materials science to name a few). Big Deal again? No, not this time. The reason we should all care, or let's face it, why the first movers should (and will) take heed, is that whilst human kind always, on average, ends up far better off after these revolutions, there are major winners and losers along the way. A Blacksmith's trade disappeared and a car mechanic's started.

"...THERE ARE MAJOR WINNERS AND LOSERS ALONG THE WAY."

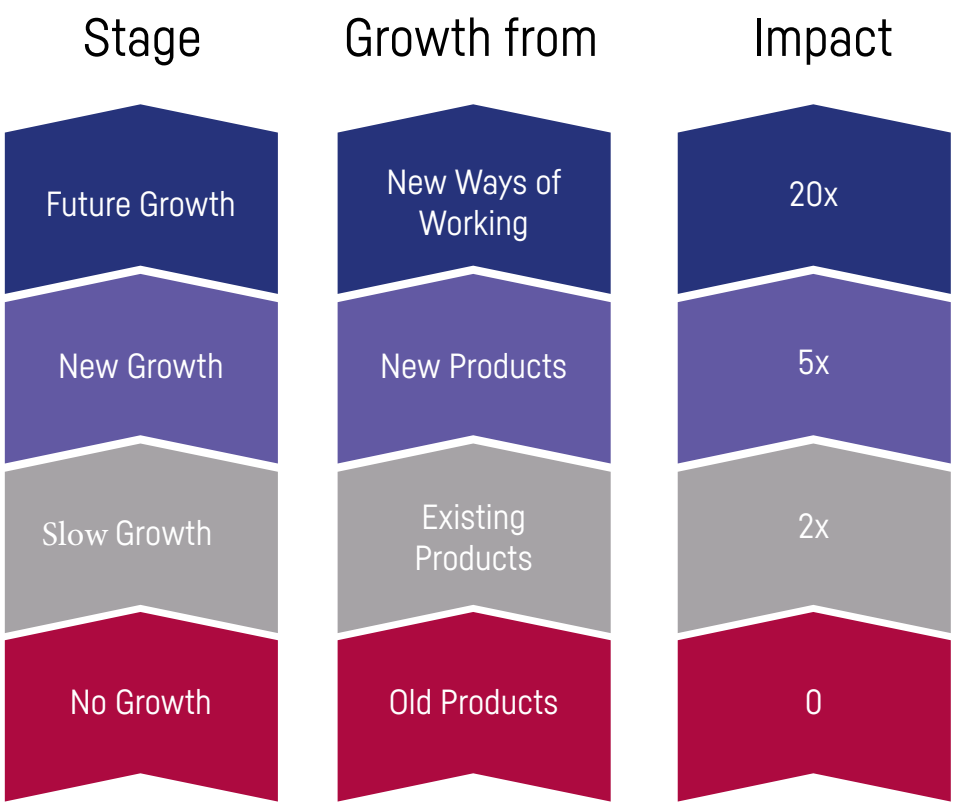
Feather quill and inkpot suppliers have long been replaced by pencils, then pens, then keyboards, and soon voice commands. Land lines lost out to mobiles and banks are about to lose out to fintech*. And what seems to be quite different this time around is that it's the large, established corporate world on the losing end. Why? Because this time, the scale and structure needed to run them provide less advantage than in the past and plenty of disadvantage. Technology, particularly, has lowered barriers to entry in a number of ways.

- Learning is easier, not as closely correlated to being in the developed world.
- Connection is easier. Small niche producers can now access a locally irrelevant but globally significant number of niche buyers. This funds growth and innovation from the small end of town.
- Costs are declining as we have tapped into the most minimum viable economic production location.

* Wikipedia - Financial technology, also known as FinTech, is an economic industry composed of companies that use technology to make financial services more efficient. Financial technology companies are generally startups founded with the purpose of disrupting incumbent financial systems and corporations that rely less on software.

THOSE WITH THE MOST TO BENEFIT NOW HAVE BETTER ACCESS TO THE TOOLS THEY NEED TO HAVE AN IMPACT.

What type of growth does your organisation have?



BEING BIG USED TO HELP A LOT, WITH INVESTMENT IN ASSETS CREATING GREAT BARRIERS TO ENTRY.

This helped with many things including geographic expansion, leveraging those large R&D budgets towards future breakthroughs and attracting the capital needed to advance company direction. Large organisations often had first access to new information. Leaders at these companies today can be very good at what they do but its no good being a great captain of a battleship when you need speedboats peeling off to new island destinations. Knowing this, big business is encouraging hanging out at business incubators and co-working spaces, collaboration with start-ups and hack-a-thons. Everyone is talking up efforts on disruption, business transformation and new business models. The fact is there is much more to do and with very few people able to navigate a successful course, making the right changes big enough and fast enough will be less common rather than more common.

THE FACT IS THERE IS MUCH MORE TO DO...

In a recent Boston Consulting Group research project[2] into 30,000 public firms in the US spanning 50 years, They very clearly identified that corporations are disappearing faster than ever before. Some of their findings were:

- Public companies have a 1 in 3 chance of being delisted in the next 5 years
- Average age at which companies disappear has almost halved over the past 40 years and
- The rate at which companies are disappearing is 6 times higher than 40 years ago

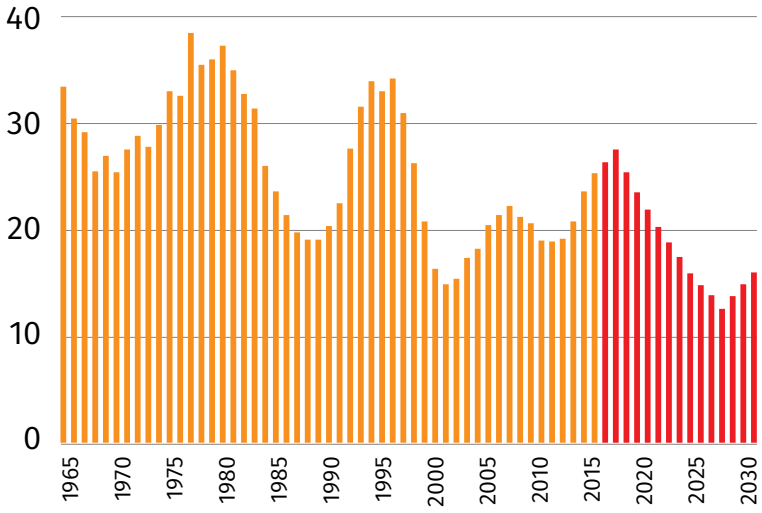
In another study contained in Innosight's latest executive briefing "Corporate Longevity: Turbulence Ahead for Large Organizations[3], they predict that 50% of current S&P 500 companies are expected to be replaced over the next 10 years.

In 1965 a company was expected to be in the S&P 500 for 33 years. That is forecast to be less than half by 2026.

Interestingly in Australia we are not seeing the same churn in our largest companies. Only 18 of our top 100 are less than 30 years old with the equivalent number in the US being 63[4].

Average company lifespan on S&P 500 index in years

(rolling 7 year average)



Further [illegible] top 10 companies [illegible] value seem like the age of disruption is passing us by? The answer here is that Australia is not punching in its weight class on innovation. By any measure, (eg smart phone penetration, education, invention or entrepreneurship), Australia appears very well poised to create the environment for more companies to shake up the top tier. It would seem that we are in reasonably desperate need of more disruption before it becomes an issue for us.

The Top 10:

Our top ten hardly contains the likes of Apple, Microsoft, Google and Facebook. Perhaps we shouldn't, but we have other data. Australia[6] ranks near the bottom of the 30 OECD countries on commercialisation metrics. In the 2015 Annual Innovation System Report from the Office of the Chief Economist in Australia[7], only 16% of Australian companies are innovation high performers and 75% of Australian companies do not have an innovation mindset. Indeed, the report states "Australia would benefit from more targeted support for the innovative entrepreneurial ecosystem." Clearly places like Silicon Valley have that ecosystem. Here are just some of their success stories:

> Adobe Systems, Advanced Micro Devices (AMD), Agilent Technologies, Alphabet Inc., Apple Inc., Cisco Systems, eBay, Facebook, Google, Hewlett Packard, Intel, Intuit, Lockheed Martin, Netflix, Nvidia, Oracle Corporation, Salesforce.com, SanDisk, Symantec, Tesla Motors, Yahoo!

Just as China didn't need to spend decades in tech development to have a Huawei and Xiaomi which have a combined global smartphone market share of US$45billion, Australia doesn't need to have its biggest companies lose their mantle before disrupting themselves and becoming more innovative. It is incumbent upon them (pun intended) to innovate the way they work and innovate their thinking prior to innovating new products or directions.

The acquisition, equity funding or collaboration with start-ups may not be enough to avoid a far nimbler and inspired stand-alone start-up being first into port. Equally, overseas threats will multiply.

It is not inconceivable, nor even implausible, that a global fintech company will emerge as a strong new global alternative to local banks in much the same way as Amazon changed book purchases across the world or Facebook is a global platform. Country borders mean less and less.

The companies that have succeeded most spectacularly have done two things simultaneously:

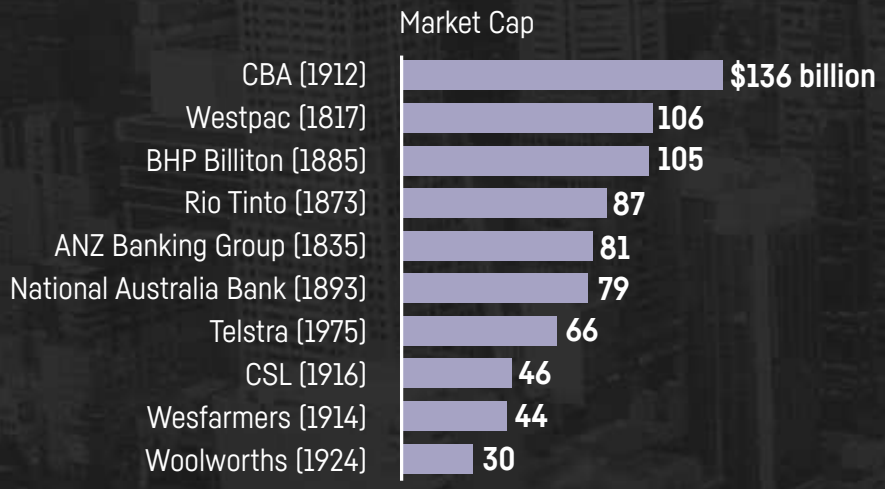
- brought to market a superior product, that drove rapid conversion from alternate products AND
- added new users to the market by providing extra time, money (savings) or enjoyment

TOP 10

Corporate Australia is very old - 2015

Biggest companies on the ASX in -2015 - [and the date they were founded]

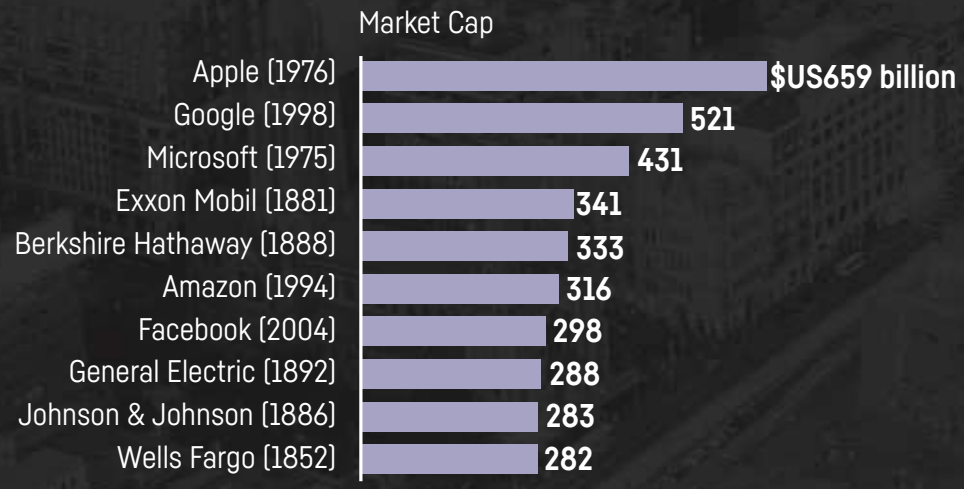
Fairfax Media | Chartbuilder Data: Bloomberg company websites



Corporate America is a bit younger - 2015

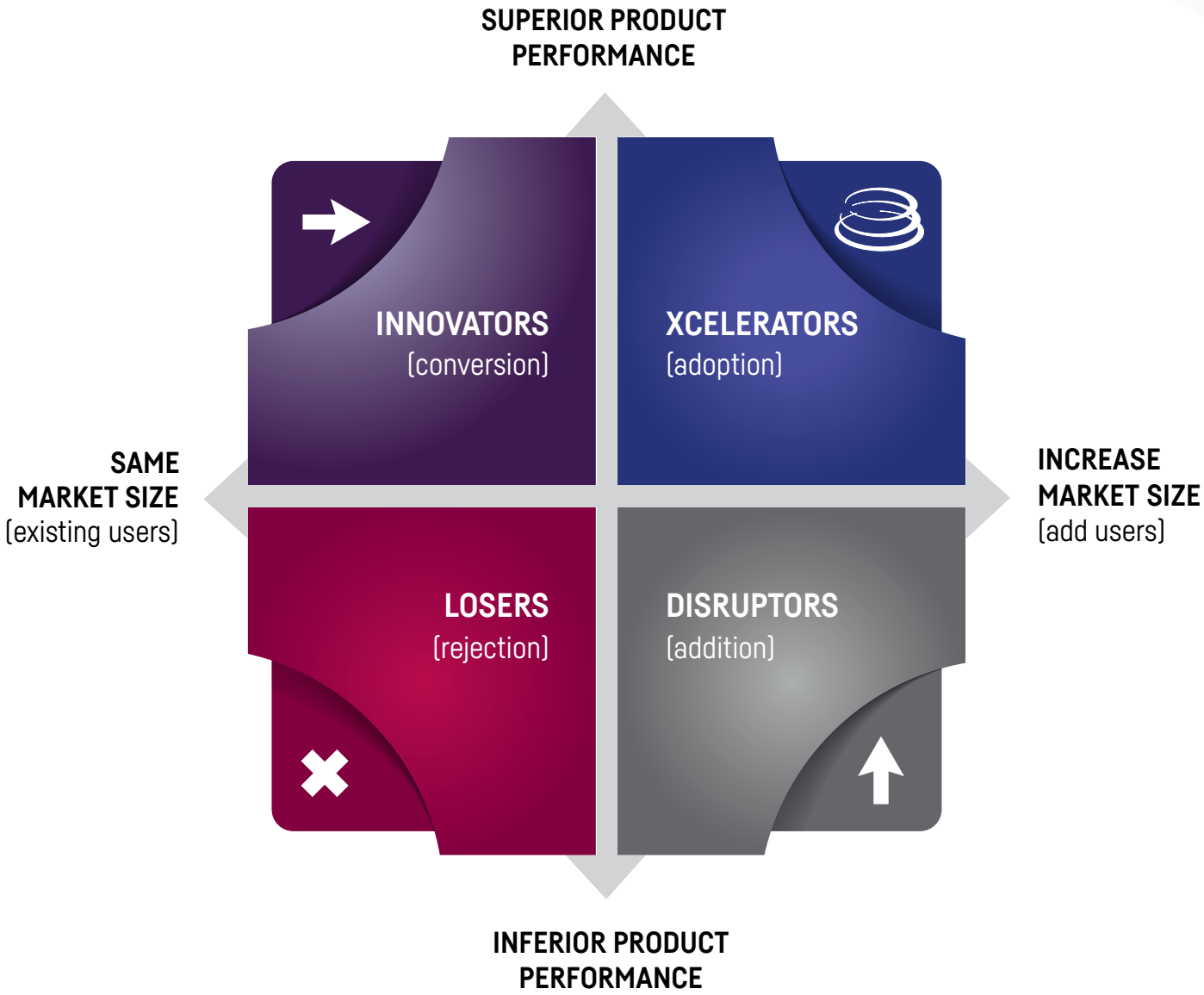
Biggest companies on the US S&P 500 - 2015 - [and the date they were founded]

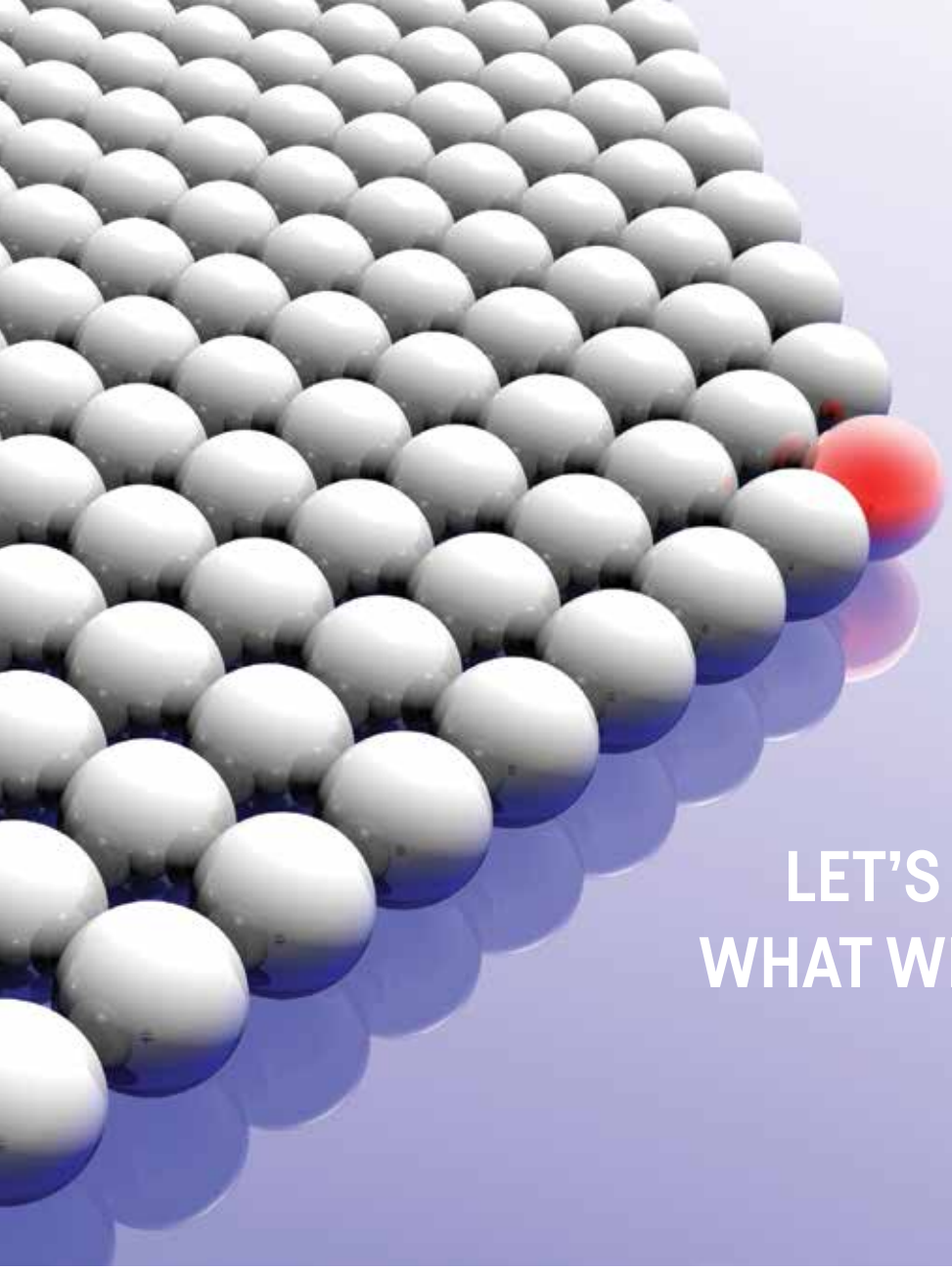
Fairfax Media | Chartbuilder Data: Bloomberg company websites



Source: [5]

THESE XCELERATORS ARE DIFFERENT FROM INNOVATORS OR DISRUPTORS.





LET'S TAKE A LOOK AT WHAT WE HAVE TERMED XCELERATORS.

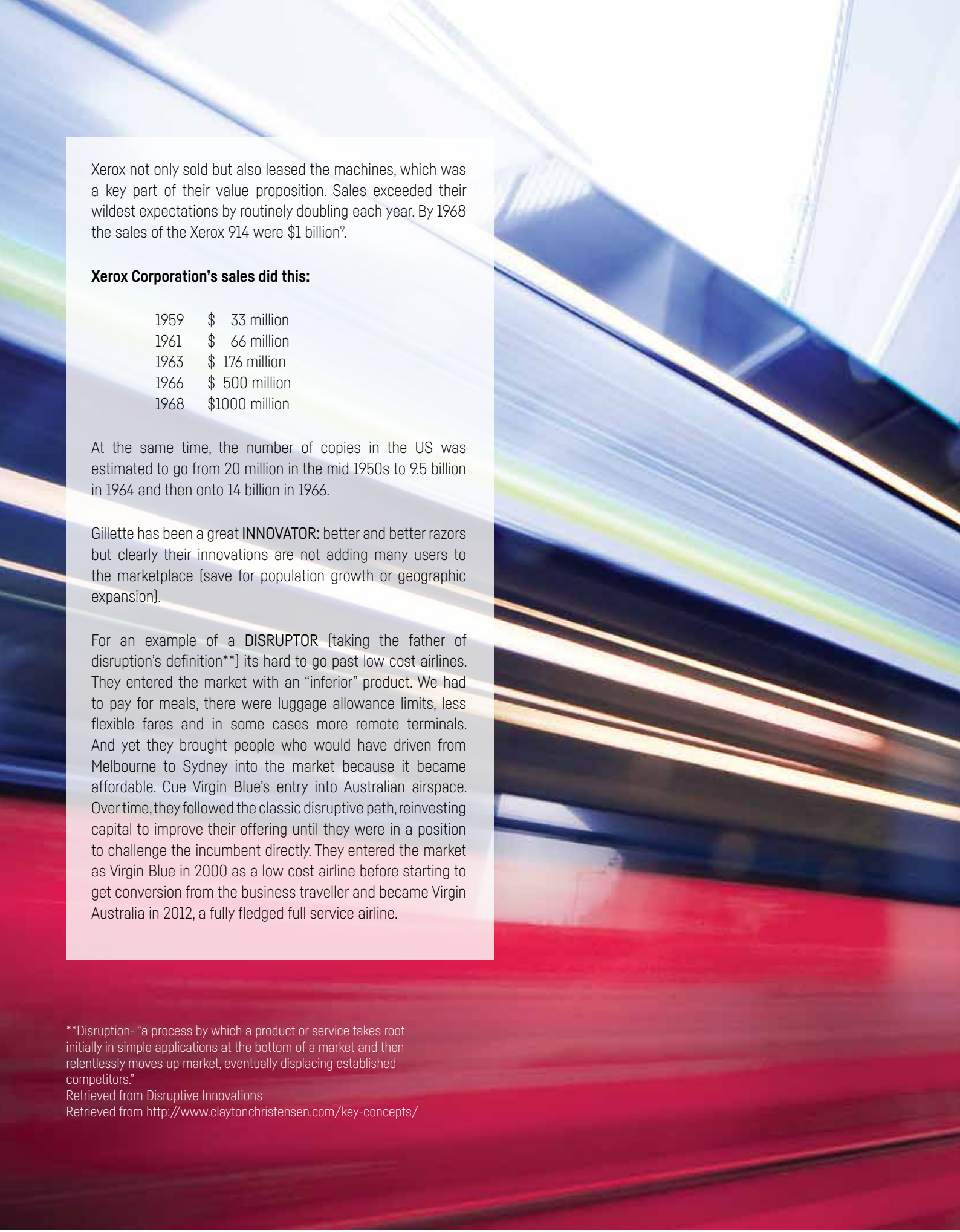
A great example of an ***Xcelerator*** has been the smartphone. Sales[8] of the smartphone went from 330.4b in 2013 to 401.3b in the Q1 of 2016. Smartphones were clearly far superior to regular mobiles because they could also take photos, surf the net, do emails and play better games. They increased the size of the market by bringing new entrants in the form of younger and younger users who would have been far less interested in owning a phone than having a gaming device for messaging their friends on social media.

When we have ***Xcelerators*** we have tremendous change to industries turned on their heads, rapid expansion once the price point becomes mainstream.

A remarkable ***Xcelerator*** in its day was the humble photocopier.

The Xerox 914 photocopier was one of the most successful products of all time. It was launched in 1960 after a long and expensive research program. It rose to complete dominance.

It replaced duplicating machines that had sprung up in the 50's that used other technologies related to heat treated paper and photography. In some cases, they were painstakingly time consuming and in others they were messy with quality issues. And in all cases they involved buying special paper from the suppliers of the competing machines. Xerography solved a lot of that. It could be used on plain paper and the quality was more reliable.



Xerox not only sold but also leased the machines, which was a key part of their value proposition. Sales exceeded their wildest expectations by routinely doubling each year. By 1968 the sales of the Xerox 914 were $1 billion[9].

Xerox Corporation's sales did this:

1959	$ 33 million
1961	$ 66 million
1963	$ 176 million
1966	$ 500 million
1968	$1000 million

At the same time, the number of copies in the US was estimated to go from 20 million in the mid 1950s to 9.5 billion in 1964 and then onto 14 billion in 1966.

Gillette has been a great INNOVATOR: better and better razors but clearly their innovations are not adding many users to the marketplace (save for population growth or geographic expansion).

For an example of a DISRUPTOR (taking the father of disruption's definition**) its hard to go past low cost airlines. They entered the market with an "inferior" product. We had to pay for meals, there were luggage allowance limits, less flexible fares and in some cases more remote terminals. And yet they brought people who would have driven from Melbourne to Sydney into the market because it became affordable. Cue Virgin Blue's entry into Australian airspace. Over time, they followed the classic disruptive path, reinvesting capital to improve their offering until they were in a position to challenge the incumbent directly. They entered the market as Virgin Blue in 2000 as a low cost airline before starting to get conversion from the business traveller and became Virgin Australia in 2012, a fully fledged full service airline.

**Disruption- "a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors."
Retrieved from Disruptive Innovations
Retrieved from http://www.claytonchristensen.com/key-concepts/

THAT IS NOT TO SAY THAT INNOVATORS OR DISRUPTORS

do not make a dramatic impact on their markets nor user population. In the best cases they achieve rapid change and can significantly alter the competitive landscape for other players.

Sometimes the distinctions aren't completely clear between where a company starts and finishes but the concepts are always powerful. We may not know if home brand products of Aldi brought new users into the market or just generated conversion from Coles and Woolies. (They have probably followed a disruptive path)

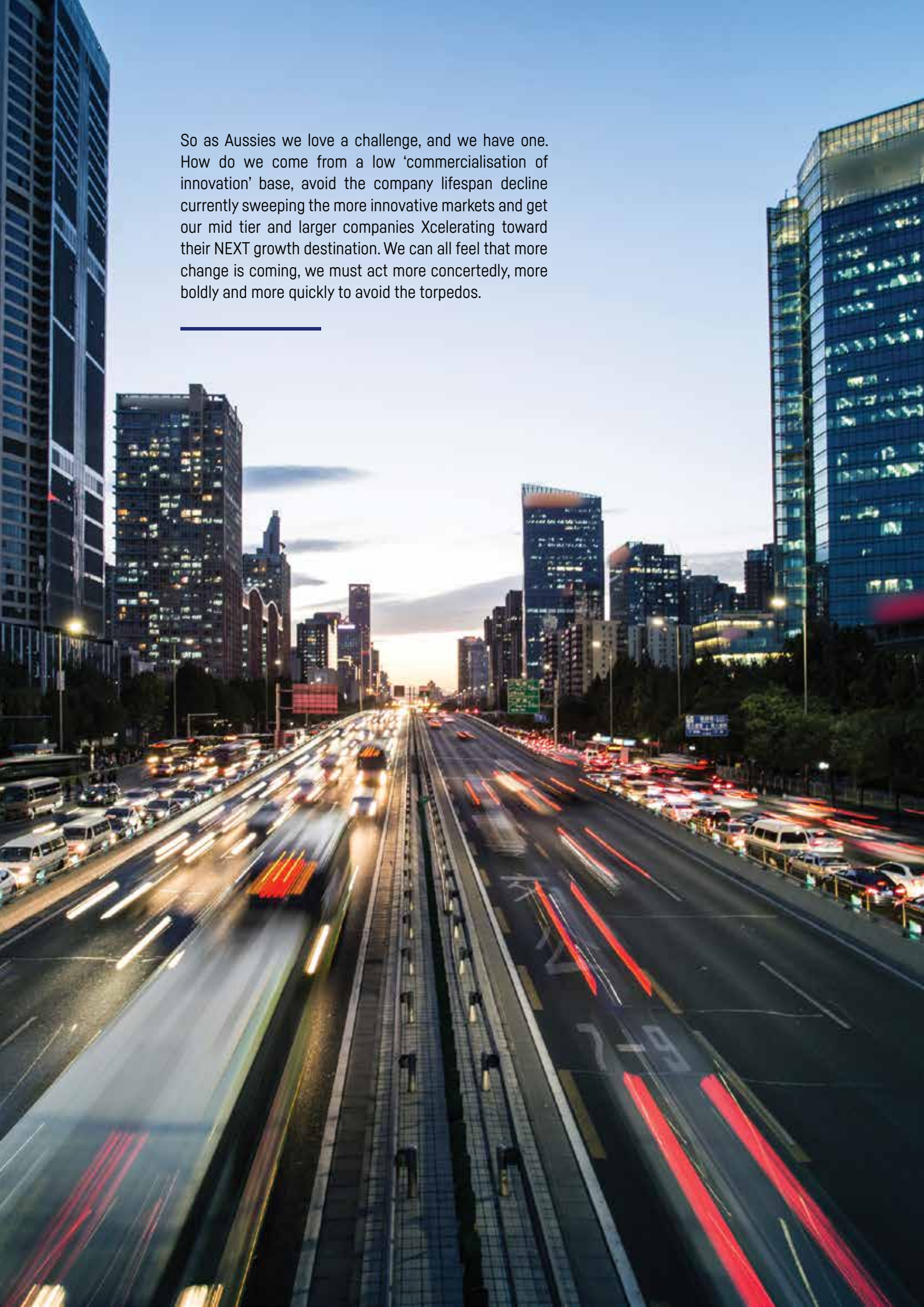
The power of the model is to use it to ask – "where is our focus?". There are two tricks to becoming an Xcelerator. The first is that they usually change the way things are done in a market not just the product that is launched. That is, they innovate the way they work from the prevailing standard as well as change the product. How many companies are focused on innovating how they work as much as their next product?

Common to an Xcelerators performance is the presence of catalysts. Just like certain chemical reactions require a catalyst to be present to speed it up or indeed even make it start, so too there are catalysts to create an Xcelerator. These catalysts involve a landscape of conditions upon which clear landmarks can be seen that represent both inputs to the Xceleration process and payoffs for the end users. This codified set of catalysts can be grouped as:

- **ENABLERS** – a set of inputs in the landscape of the Xcelerator that foster iterative change
- **ELEMENTS** – specific input conditions present, like landmarks, that increase the potential for change
- **EXTRAS** - a set of payoffs to the user that generate attention and attraction for change
- **ENERGY** – a set of payoffs that speak to the human psyche, providing higher order motivation for change

For more information on these catalysts, book an advanced copy of the upcoming book Xcelerate by emailing melissa@paulbroadfoot.com.au or by contacting Paul Broadfoot at paulbroadfoot.com

So as Aussies we love a challenge, and we have one. How do we come from a low 'commercialisation of innovation' base, avoid the company lifespan decline currently sweeping the more innovative markets and get our mid tier and larger companies Xcelerating toward their NEXT growth destination. We can all feel that more change is coming, we must act more concertedly, more boldly and more quickly to avoid the torpedos.



About Paul Broadfoot

Paul Broadfoot is an expert in what to do NEXT to achieve sustainable growth in the face of market change. He has honed an approach to business growth improvement, developed from analysis of business disruption utilising a proprietary business model and revenue model assessment tool.

After years in corporate life he grew tired of the lack of real conversations about business improvement. He instead started his own firm and sought to work with companies that were serious about the need to change. Paul works with a select group of clients that are determined to improve and for these he runs growth strategy programs. In addition to this, Paul speaks at conferences and events to get people thinking differently about future business for their roles and their organisations, inspiring them to act.

AUTHOR OF UPCOMING BOOK:

Xcelerate - A handbook on how to design a future business.

Endnotes

[1] Schwab, K. (2015). The Fourth Industrial Revolution, What it means and How to Respond
Retrieved from https://www.foreignaffairs.com/articles/2015-12-12/fourth-industrial-revolution

[2] Reeves, M., Levin, S., Ueda D., (2016) The Biology of Corporate Survival. Retrieved from https://www.bcgperspectives.com/content/articles/stratregy-strategic-planning-biology-corporate-survival/

[3] Anthony, S. D., Viguerie, S. P., Waldeck, A. (2016) Corporate Longevity: Turbulence Ahead for Large Organizations. http://www.innosight.com/innovation-resources/strategy-innovation/upload/Corporate-Longevity-2016-Final.pdf

[4] Ross, J. (2015) Why The Lack Of Competition In Australia Is Basically Bad News For Everybody. Retrieved from http://www.bandt.com.au/marketing/why-the-lack-of-competition-in-australia-is-basically-bad-news-for-everybody

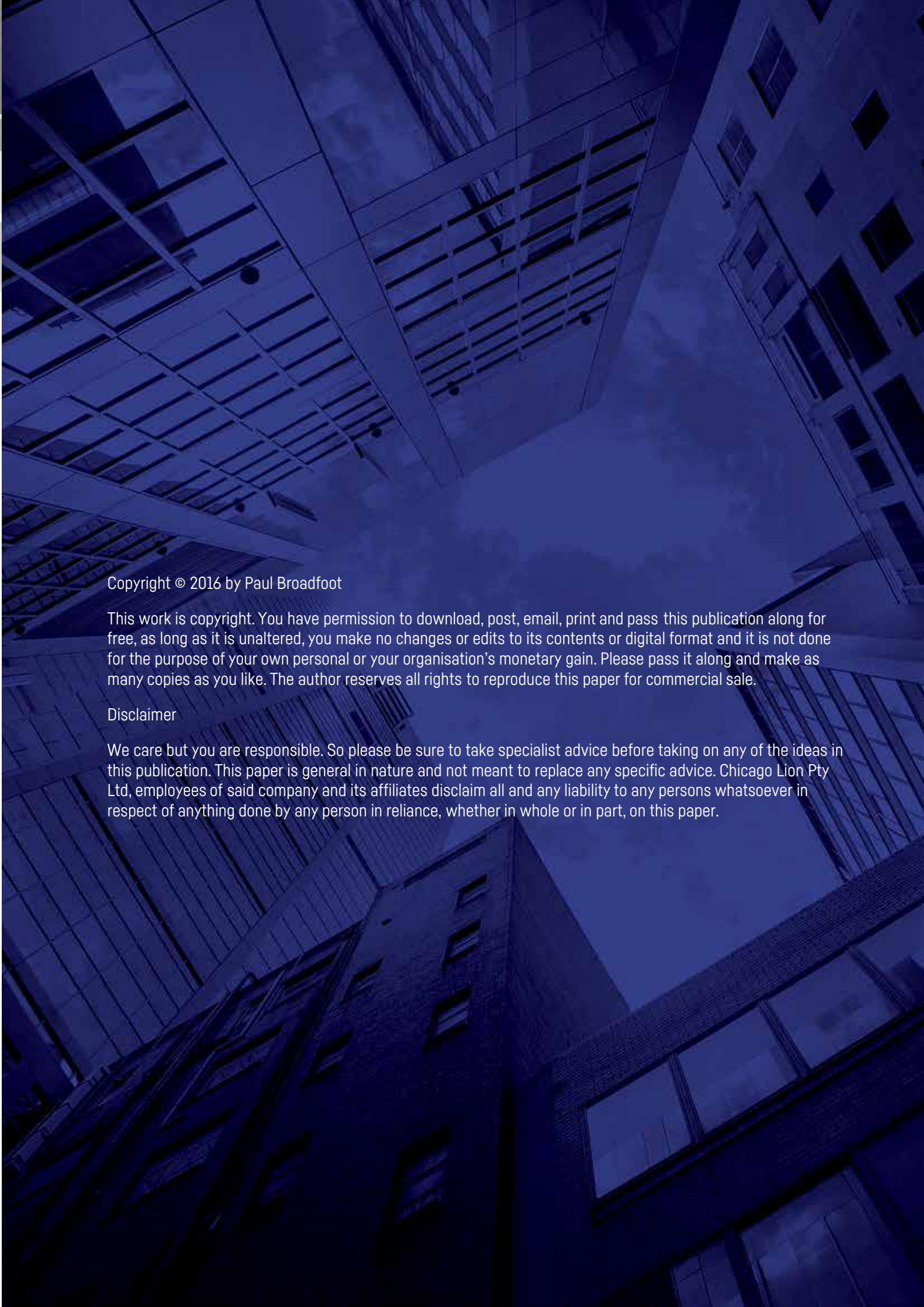
[5] McDuling, J. (2015) Corporate Australia's real problem: ancient companies. Retrieved from http://www.smh.com.au/business/the-economy/corporate-australias-real-problem-ancient-companies-20151125-gl7wu2.html

[6] Australia failing to commercialise research: Bill Ferris. Retrieved from http://www.theaustralian.com.au/business/australia-failing-to-commercialise-research-bill-ferris/news-story/bf69179c3d8653806b77d3b2df6ddd18

[7] Department of Industry Innovation and Science, (2015) Australian Innovation System Report 2015. Retrieved from http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Innovation-System/Australian-Innovation-System-Report-2015.pdf

[8] Statistica – Global revenue for smartphones

[9] Brooks, J. (2014). Business Adventures, Great Britain: John Murray Learning



Paul Broadfoot
thinking change, accelerating **next**

1300 98 77 44 | www.paulbroadfoot.com.au