Focus on Value: What Your Company Does Matters more than Where It Sits

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Companies everywhere must find new sources of value creation both inside and outside traditional industry boundaries.

For decades, industry definitions have been used to both group certain companies and business activities together as well as to serve as the starting point for growth and operational business strategies.

In a pre-digital world, that thinking made a lot of sense.

Today, however, traditional industry boundaries are often blurred as companies jostle with convergence and consolidation. Strategy development in this boundaryless environment requires a new perspective. Companies need to think first about what they are famous for, and from which capabilities and services their business, employees and customers derive value, rather than their historical industry affiliation.

Profits Tell the Tale

To understand why the industry lens for strategy creation needs to be rethought, one can start by examining profitability across industries. Our analysis of the profit of the world's largest public companies by industry over a two-decade period found that approximately one-third of industries have seen a sharp decline in overall profitability, while in the other third, profit trends have been flat.

This trend began in roughly 2003, with accelerations in 2005 and 2015. It has continued through the COVID-19 crisis, with a widening gap between the top of the pack and the bottom. According to our analysis of the 2,000 largest public companies globally, using financial data from Capital IQ, industries that were in the top quintile before the crisis (such as software & platforms and life sciences) have pulled ahead from the less-profitable industries that were traditionally lagging. In the first half of 2020, the top quintile of companies overall had an average gain in profit of $3.4 billion while the bottom quintile lost money, by about $1.7 billion per company. That is a performance gap of almost $5 billion.

This and other research conducted at Accenture point to a clear trend: traditional industry-level approaches to value creation are not working in at least two-thirds of industries.

Classic industry strategies, such as Porter's Five Forces, are less and less effective in a converging marketplace. Ask yourself instead, "what is it that you actually do? What is your purpose?" "What do you uniquely contribute to the ecosystem you serve?" Looking at your strategy in a new way will allow you to identify untapped opportunities to create value.

The Role of a Lifetime

Our extensive qualitative analysis finds that leading companies are focusing on the roles they can play in creating customer solutions within their own industry and across new industries, often through their participation in large, complex, digitally-enabled ecosystems. Examples of roles include business activities such as creating intellectual capital, managing inbound and outbound logistics, or developing relevant, purpose-driven consumer experiences.

Our research identifies five business *archetypes,* each of which aggregates a set of roles that define how a business meets customer needs. These archetypes are not mutually exclusive nor collectively exhaustive; companies can, and often do, play more than one archetype.

Here are the five most important business archetypes:

- **Explorer**: invents new materials and processes and originates breakthrough components for use in many products.
- **Producer**: manufactures existing and newly invented materials and components at low cost and scale.
- **Assembler-Distributor:** brings together components, adds value and then distributes a final market-ready output.
- **Personalizer:** designs highly relevant customer solutions and experiences from the world of available components.
- **Networker:** facilitates the flow of digital and material goods across the roles.

Consider Apple's ecosystem of value creation. Apple is the *Personalizer* that designs what Foxconn the *Assembler* makes, bringing together thousands of components from hundreds of *Producers* and *Explorers,* such as Samsung and Corning, around the globe. Li & Fung is a central *Assembler* in the apparel industry, connecting thousands of cut-and-sew *Producers* to *Personalizers* around the globe.

Consider Fujifilm's progress over the past couple of decades. Had the company looked at value-creation opportunities only through the lens of the photographic-film industry, it might not have survived. But because it pursued value-creation based on its *Explorer* archetype, Fujifilm found a future in cosmetics, imaging, pharmaceuticals, and data storage. This lens adjustment proved critical for the company. By abandoning industry-centric thinking, Fujifilm could apply its competence in areas like collagen application to new high-value activities and high-growth opportunities, rather than continue to chase shrinking fortunes in the photographic film industry.

We believe roles represent the new fundamental strategic choice when finding value in digital transformation. In increasingly industry-blurring ecosystems, how you expand and exploit your role, or multiple roles, will determine the opportunities you can access and those you will be shut out of.

Seeing is Believing

In applying this new lens of seeking role-based excellence for value creation, we see four essential activities:

See Opportunity Differently

Look for a role you can play in underserved industries. Determine where profits are centered – by role – and where competition is likely to intensify.

Disruptors look at opportunity in non-traditional ways. They gain a new advantage by staking a claim in the broader ecosystem, drawing heavily on innovation from outside traditional industry boundaries. Part of Netflix's early success came from seeing how badly Blockbuster was performing its primary job, which was fast evolving into making digital content available to consumers. Netflix saw the immediate benefit in expanding the availability and selection of content by mail and more recently expanded its reach across industries with the development of original programming. Similarly, Uber saw that the taxi industry was not fully satisfying the role of transporting people. Now it not only exploits technology to enhance its ability to fill the role of moving people, its *Networker* focus has allowed it to expand as a provider of food delivery with Uber Eats.

See Competitors Differently

Redefine your competitive landscape, specifically outside your industry, based on the roles you currently play.

Some disruptors place bets around the role they play, often to the consternation and confusion of industry analysts.

Look at Tesla. By adopting an "open source" position regarding its intellectual property, Tesla sought to secure its position as the indispensable *Explorer* within the broader electrical storage and battery ecosystem, especially as the invention relates to automotive applications.

Why did Tesla specifically choose to specialize around the *Explorer* role? One reason could be, because it recognizes that established *Assemblers* and *Producers* (automakers and their OEM suppliers) dwarfed it in size and would most likely continue to do so. Tesla has also been prepared to accept other automakers as *Personalizers* in the electric vehicle space. Tesla consistently seeks to cement its original innovations in the center of the broader ecosystem. This is especially true when it comes to battery storage and charging – a positioning that would enable further growth into an array of distinct industries like utilities that will increasingly be drawn into the battery and storage ecosystem.

See Industry Differently

Look for where scale and consolidation will blur industry lines.

Once a company becomes good at an archetype's set of roles, it can often accelerate its growth by crossing traditional industry boundaries. Amazon never limited itself to the industry lens of online book retailing. While viewed as a bookseller early on, the company has always been an *Assembler-Distributor*, facilitating the flow of goods through world-class sorting and outbound logistics capabilities. Now Amazon is seeing the opportunity in owning and controlling the *Networker* archetype in its businesses.

Similarly, UPS has been focusing on being the outsourced logistics provider of an ever-growing number of companies while continuing to improve in its *Networker* roles. With healthcare shifting to the home, UPS sees opportunity in using its residential delivery network to connect doctors and healthcare companies with patients.

BMW started off as a producer of luxury automobiles. In 2019, the car maker co-founded the Open Manufacturing Platform with Microsoft to launch a digital ecosystem to enhance efficiencies and identify innovations at scale through cross-industry collaboration, venturing into a *Networker* archetype. To date, members include Anheuser-Busch InBev, Bosch and ZF Friedrichshafen, among others.

See Organization and Governance Differently

Understand which archetypes can successfully coexist in a company. Then understand the governance structure needed to successfully manage businesses of multiple archetypes.

The case for collaboration is stronger than ever. It takes such a significant investment to develop new products and services and to penetrate new markets that few companies can deliver exceptional performance across all the archetypes on their own. Not every company can respond to changes in the business environment based solely on their internal resources or abilities. Seeing and exploiting the synergies between archetypes and deciding the best partnership and collaboration structure is key.

Firms like Apple and Samsung have chosen to work closely with other businesses to improve and sustain their own competitiveness. While Apple and Samsung compete aggressively for smartphone market share, inside the iPhone there have always been essential parts that are supplied by Samsung. While this may seem counterintuitive, it is essential for the survival of both companies. Chip manufacturing is asset intensive and prone to obsolescence. Therefore, chip makers need to sweat the assets, making and selling as many chips as possible as fast as possible. To override this primary *Producer* strategy to achieve its goals as a *Personalizer* would put Samsung's business in peril.

Business roles represent a fundamental strategic choice of the future. If you strip away the traditional industry category, what roles can your company play to create value? What unseen opportunities does that create for you, for your traditional space and for innovation? Moving from an industry lens to a role and value-based lens will give your company a frame through which to innovate and the ability to identify new opportunities for growth and collaborative connections to accelerate results.

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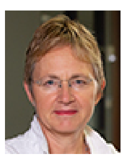

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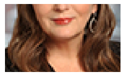

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