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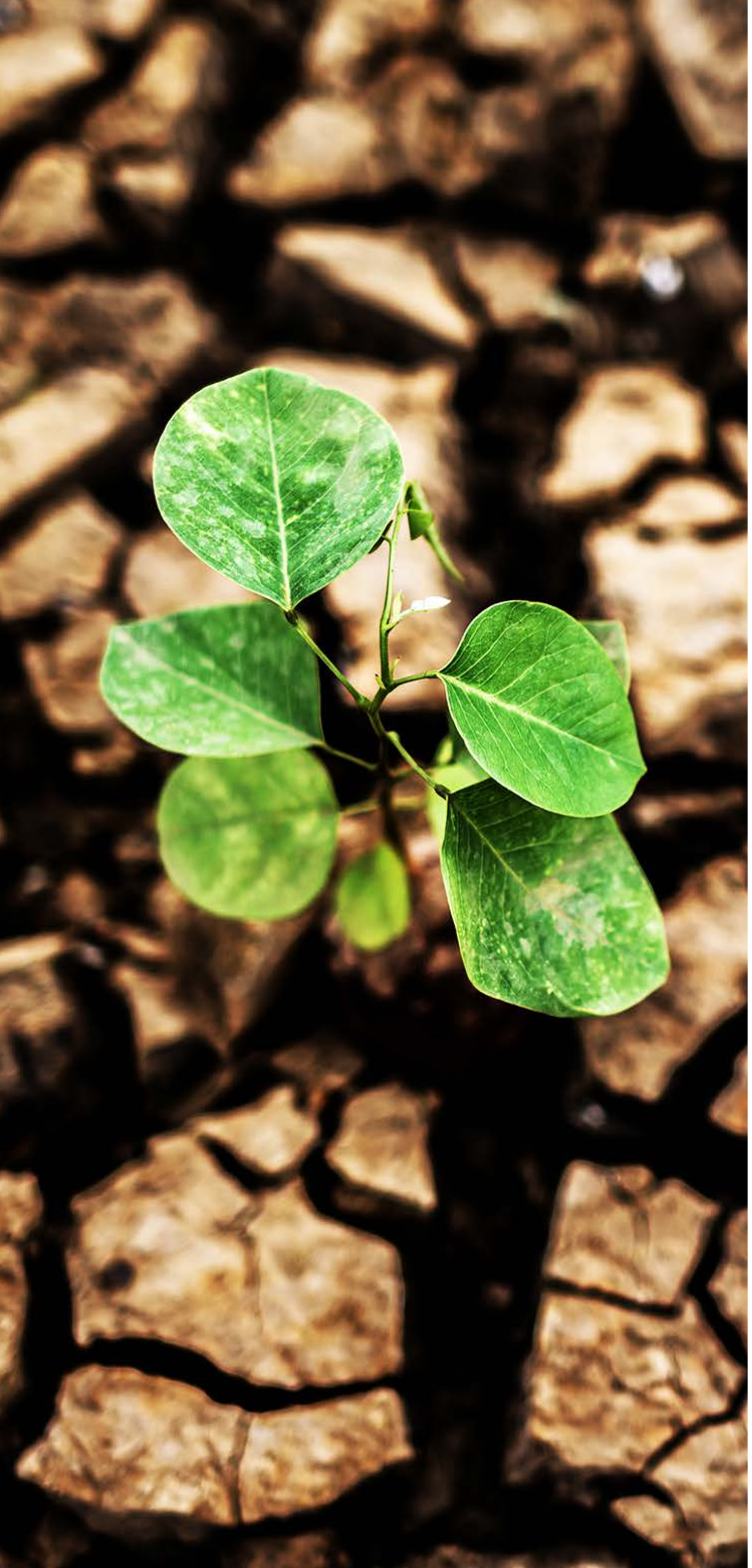
Growth in Turbulent Times

Future confident



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Growing in turbulent times

Author: Mike Vincent

Death and taxes apart, the only other certainty in the world is change. Nothing has brought this into sharper focus than COVID-19.

The 20th century experienced regular periods of relative calm, followed by calamities – two world wars, the great depression, the cold war, and even the Spanish flu. This 21st century appears to be following the same trajectory.

The financial crisis that started in 2007 saw the first contraction of the global economy since World War II and the largest decline of trade in 80 years[1] . It resulted in the collapse of large financial institutions, the bailout of banks by national governments and sharp declines in stock markets around the world. It contributed to the failure of key businesses, significant declines in consumer wealth and economic activity, the effects of which we felt for at least ten years. Many causes for the financial crisis have been suggested, including the result of high risk, complex financial instruments, corporate governance failures, regulatory dysfunctionality and the market failing to rein in the excesses of Wall Street.

Unsurprisingly CEO faith in global growth forecasting was eroded and many business leaders retreated into their shells, conserving cash and becoming internally focused. As a direct result of the crisis, by June 2011 South African businesses listed on the JSE had accumulated in excess of R470 billion in cash[2] deposits and investors began to call for improved returns from the cash piles. The period was characterised by credit tightening and a plunge in revenue. Unlike the 1930s, central banks around the world stepped in to keep credit flowing through measures such as "quantitative easing".

The SARS-CoV-2 (COVID-19) pandemic has caused the largest global recession in history, with more than a third of the global population being placed in lockdown. Global stock markets experienced their worst crash since 1987, and in the first three months of 2020 the G20 economies fell 3.4% year-on-year[3]. Between April and June 2020, the International Labour Organization[4] estimated that an equivalent of 400 million full-time jobs were lost across the world, and income earned by workers globally fell 10 percent in the first nine months of 2020, equivalent to a loss of over US$3.5 trillion.

The world that has been ushered in due to the pandemic has seen schools closed, businesses shuttered, staff working from home, social distancing becoming the norm, curfews, the wearing of face masks, and cities and provinces in lockdown.

Once again, companies locally and abroad, are typically looking to efficiency improvements and austerity measures to manage their way through the crisis. The focus once again is inward. However, in many cases, those sources of value have already been wrung dry.

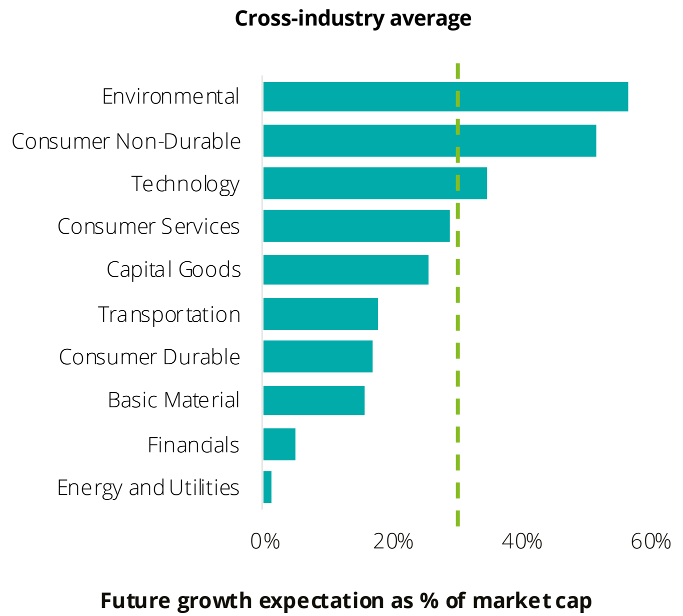
Might there be another approach to these calamities that positions companies for future growth in a sustainable way?

[1] The Economist
[2] Deloitte research
[3] The World Bank
[4] COVID-19: Stimulating the economy and employment: As jobs crisis deepens, ILO warns of uncertain and incomplete labour market recovery

Why is revenue growth important?

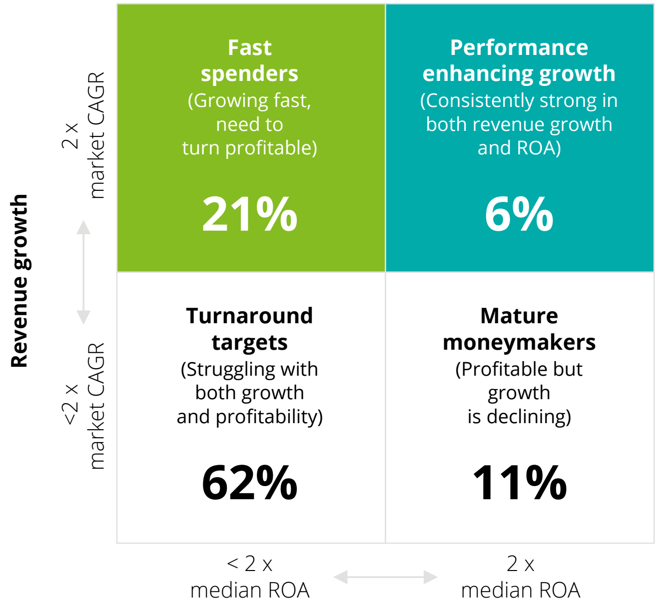
It is common cause that markets reward companies for sustainable growth but mercilessly punish those that don't grow. Research indicates that well over 70% of Total Shareholder Returns[5] are contributed by revenue growth. A significant part of a company's market capitalisation is driven by the market's expectation on growth achieved through investments yet to be made.

Figure 1: Growth expectations



Over the period of 1987-2005, Deloitte researched close on 5 000 companies in the USA to establish patterns for growth and critical success factors. What we found was that companies that attain critical mass (more than R3.5bn) have a greater chance of surviving than smaller companies. Of the companies that survived over this period, only 27% experienced high growth that is two times that of market CAGR. But significantly, only 6% achieved performance enhancing growth over a long run that is growth that also improves the bottom line and key performance metrics.

Figure 2: Growth performance



The research further showed that 87% of Fortune100 and Global 100 companies hit some type of growth stall. Of these, 54% experienced growth failures and posted slow to negative growth during the 10 years after the growth stall occurred. By far the majority of the reasons that led to the growth stall in the first place were within management's control.

Start with a growth target

Every journey must start with a destination in mind – so too the growth journey. Establishing the right growth target is difficult and requires bold leadership. The target should not be a thumb suck, but it should also not just be an extrapolation of historical achievements. Rather, it should emerge from the interplay between internal and external factors and expectations. The target is critical to galvanising the organisation and creating the momentum and excitement needed to start the growth journey.

[5] Boston Consulting Group Research

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Install a scalable and repeatable process

In a period of inward focus such as that brought on by COVID-19, getting back to growth requires a systematic process and organisational structure designed specifically to help companies sustain long-term growth. It is not a short-term, one-off solution, but rather a comprehensive approach to building "internal muscle" to deliver consistently against growth targets. This requires executive support and alignment in addition to a clear commitment to achieve the growth target.

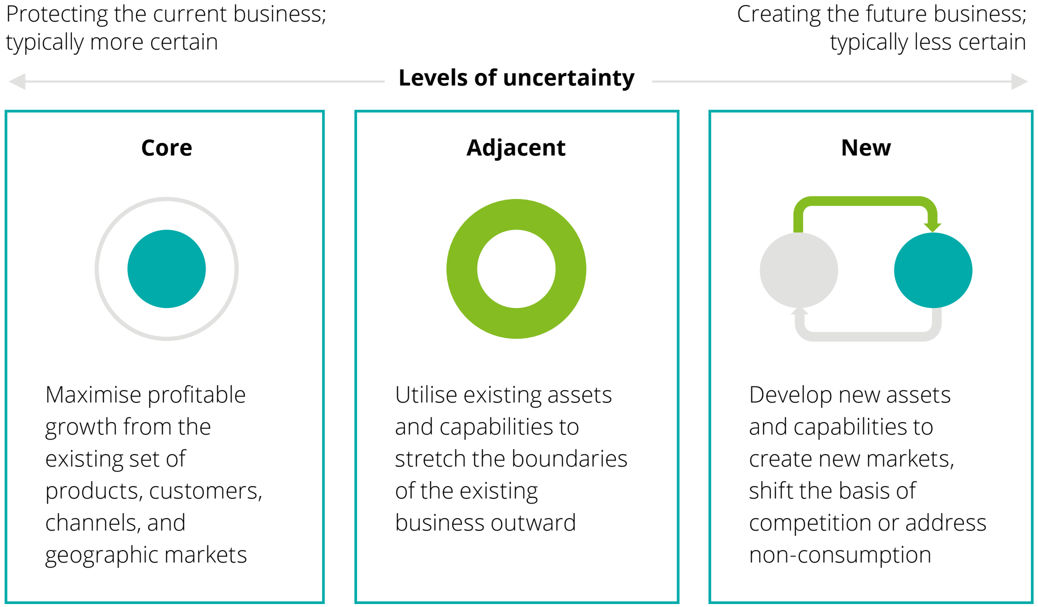
A key success factor is to establish appropriate governance processes upfront. Experience has shown that getting the governance right is the single greatest contributing factor to success for any growth strategy.

Cast the net wide

While there is no doubt that many growth ideas can be sourced internally, organisations need to cast their nets wide in order to source new revenue growth opportunities. Insights from competitors and peers together with an understanding of market trends are important for growth opportunity sourcing. These opportunities could also be sourced from adjacent or emerging industries.

As illustrated in Figure 3 below, there are three sources of growth – core, adjacent, and new opportunities:

Figure 3: Sources of growth



Protecting and extending the current business is the traditional focus of companies looking to sustain or extend advantage. However, core and adjacent opportunities are often not sufficient to achieve results ahead of market expectations – "new" opportunities are required to beat and sustain growth over the long term.

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Use the growth levers that are at an executive's disposal

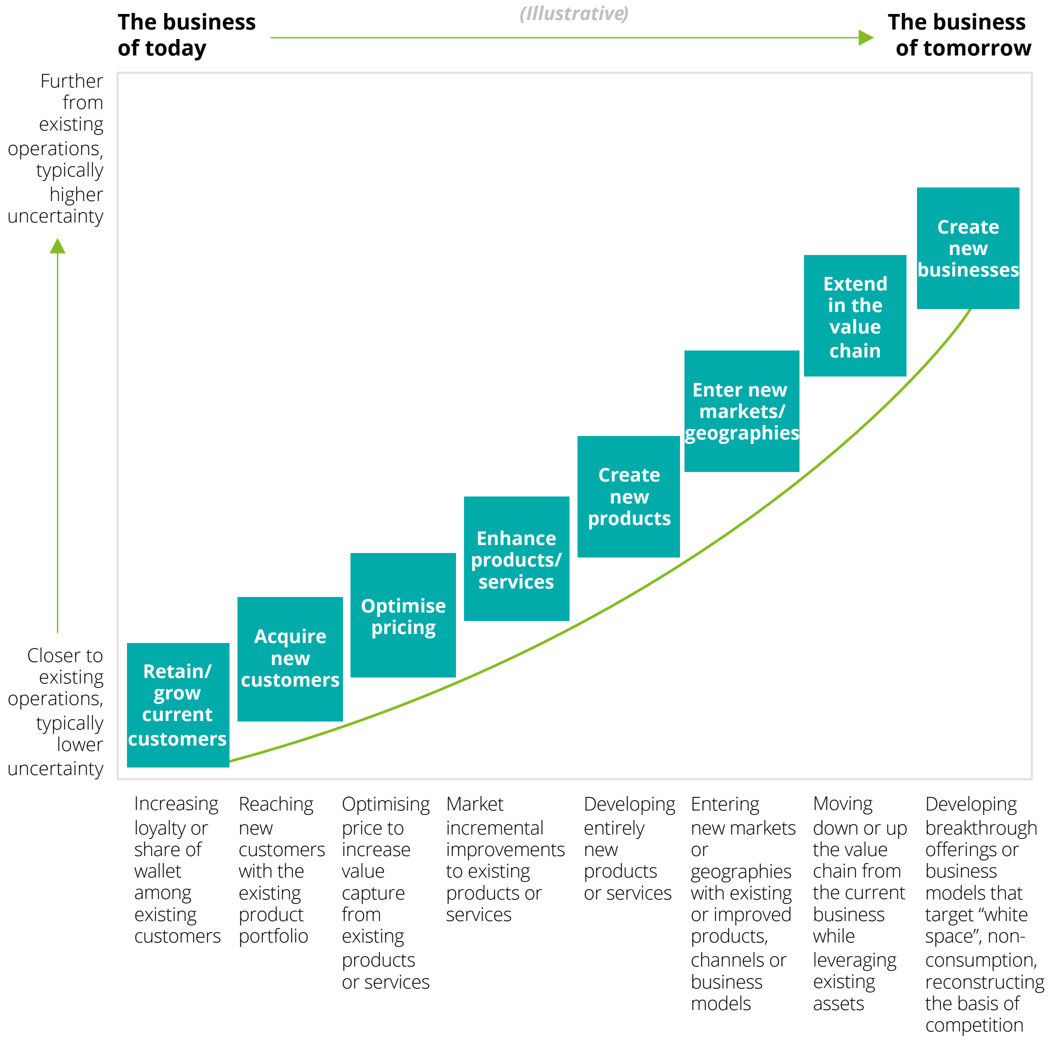
While this framework is a useful way to think about some aspects of growth, it fails to account for uncertainty and creating growth in current and future businesses. A sophisticated growth strategy should depart from the orthodoxy of core, adjacent and new as depicted above.

A comprehensive approach to growth looks at growth options along a continuum. In building the business of today, companies will typically turn to key areas of focus such as customer retention, pricing optimisation and improvements to existing offerings.

> Moving along the scale towards choices that carry higher uncertainty and lie farther from existing operations, companies will likely start the business of tomorrow by designing new offerings, intruding into new markets and geographies and creating entirely new business lines for entirely new customer sets.

Figure 4 below depicts the growth levers as they progress from greater certainty of the business of today to the greater uncertainty of the new businesses of tomorrow.

Figure 4: Primary growth levers

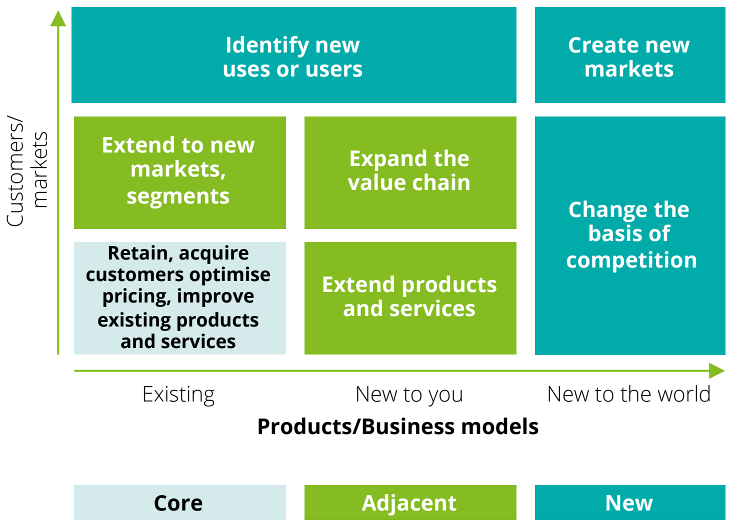


It is useful to understand the range of levers to pull but crafting the full growth strategy rests in knowing how to apply those choices to specific markets and offerings. As pictured in Figure 5 below, each axis measures a degree of "newness" – newness of customers and markets along one side, and newness of products and business models along the other.

Where existing offerings meet existing customers at the lower left, companies are engaging in core growth with relatively little uncertainty. Where entirely new offerings meet non-consumers at the upper right, growth is more uncertain. In between lies the realm of adjacent offerings and markets that aren't new to the world but are new to a particular company.

Combining these two axes yields seven distinct boxes, each of which is a potential growth strategy. Where growth strategy may once have been a dartboard, this model turns it into a marksman's target. A company can now match its capabilities, opportunities and risk tolerance with specific levers – then allocate effort among those to balance business of today and business of tomorrow growth, manage risk and exceed shareholder expectations.

Figure 5: Potential sources of growth

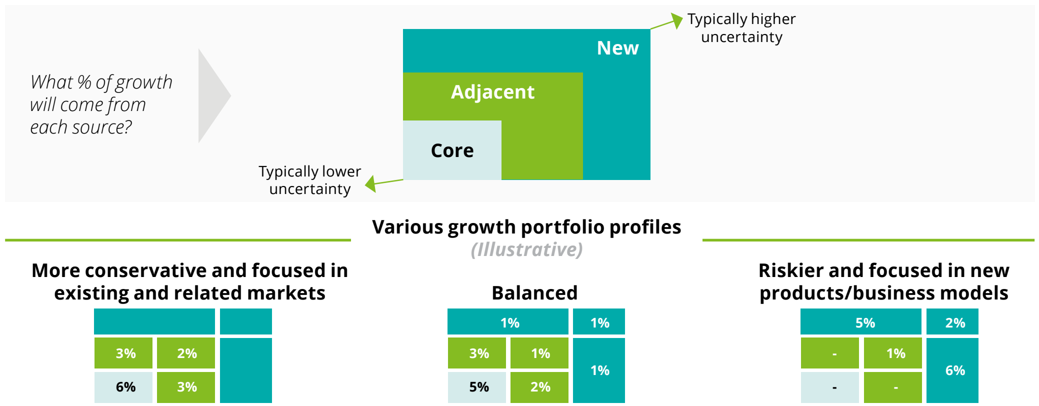


Seek a balanced portfolio

Noting executives' heightened risk awareness brought on by COVID-19 pandemic, risk management and mitigation are critical considerations. In Deloitte's experience, companies need to adopt a portfolio approach to growth. This means that they must both enhance and protect their existing business while also creating options for emerging businesses to sustain growth over time.

Because sources of growth yield different levels of uncertainty and risk, companies should construct a growth portfolio that aligns with their own risk tolerance. This requires both commitments and strategic bets (options) that can be exercised as future scenarios unfold.

Figure 6: Crafting a balanced portfolio



All three portfolio will provide the same projected annual revenue growth

Managing a growth portfolio that spans both the business of today and the business of tomorrow requires thoughtful governance and a clear understanding of key stakeholder requirements and expectations. In our experience, treating its new growth plans, especially those in the business of tomorrow area, as separate from the rest of the business, allows companies to give the fledgling opportunity protection from "corporate anti bodies", those forces opposed to change. In some cases, a "firewall" approach can benefit existing core businesses (by insulating it from new risks) and the growth-oriented operations (by freeing them from the legacy structures that may not fit their mandates).

Now go do it

To take a growth plan from theory to execution, an organisation needs to ensure that the following building blocks are in place.

- Get all key stakeholders to agree that a growth strategy is required. A growth mandate should clearly articulate the growth target, the governance processes, how growth funding will be accessed and the approach to staffing, rewards and incentives. The mandate can be used as a tool to align company executives and the Board
- De-link the business of today from the business of tomorrow. Recognise that the two are very different. The former typically leads to incremental growth, the latter to quantum growth
- Deploy the right dedicated resources. Capacitating the growth team to pursue the growth target can be from a combination of company employees, supplemented by external skills at critical junctures in the process. Industry knowledge is less important than being inquisitive, having a growth mindset and seeking the new
- The leader of the business of tomorrow growth team should report directly to the CEO, and certainly not through an innovation board or subcommittee
- The company should recognise that the way in which the business of tomorrow growth team is remunerated and incentivised will need to be different to the standard company policy. Growth requires a different approach to recognition and reward. Where the growth plan focuses on core offerings and markets, the imperative is to enhance and extend what a company is already doing. Where growth is aimed at new frontiers, it's time to be a pioneer – willing to explore, disrupt and create.

Finally, be in the game of killing bad ideas quickly – time really does equal money.

About the author

Mike Vincent is a senior Partner in Monitor Deloitte. He has held numerous leadership positions including running the Innovation and Growth business.

Mike has led the Management Consulting, Finance Advisory and Risk Advisory businesses in West Africa and he currently leads the Consumer Products and Industrial Products & Construction industries across Africa.

Mike's key focus as a consultant is on corporate strategy, specifically on revenue growth and sustainable competitive advantage.

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Using an adjacent growth strategy during turbulent times

Author: Mike Vincent

Companies already derive revenues from their core business. It is no big step to look at opportunities adjacent to their core business – less risk through leveraging current strengths.

The COVID-19 pandemic has been characterised by many business leaders treading cautiously, conserving cash and becoming internally focused. Companies locally and abroad are typically looking to efficiency improvements and austerity measures to manage their way through the crisis. However, in many cases, those sources of value have already been wrung dry.

It is completely natural for company executives to tread cautiously as markets emerge from the COVID-19 pandemic. However, company executives are expected to grow their businesses and the time is upon them to start considering a growth strategy.

One way in which companies can grow while managing risk, is through a targeted adjacency growth strategy.

Deciding to grow a business is the beginning, not the end, of a complex strategic planning process. One of the most important decisions to make is where to look for growth: in familiar areas that offer quick returns, or in products, services or markets that represent a departure and may take time to cultivate. The answer can determine not only what your business does next, but what it becomes. Should you seek growth opportunities close to the core, or further afield?

This article describes the Deloitte point of view on growth through adjacent plays and how leadership teams can systematically drive this growth to create the "Business of Tomorrow" for achieving sustainable shareholder value growth.

Revenue growth is important

It is common cause that markets reward companies for sustainable growth but mercilessly punish those that don't grow. Research indicates that well over 70% of Total Shareholder Returns are contributed by revenue growth. Shareholders demand company growth even although that growth expectations have recently been dampened by the COVID-19 pandemic.

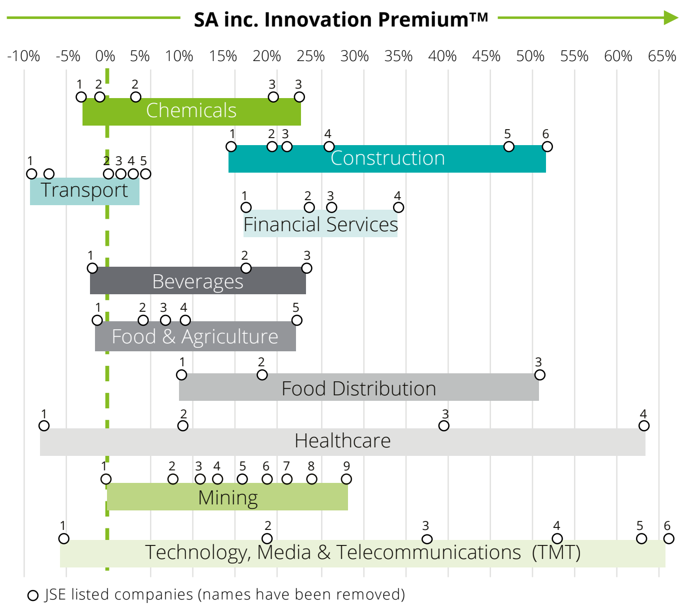
It is common cause that all shareholders expect that management teams will diligently apply their minds to growing the business in which they are invested. Increased operational efficiencies, while important, will typically only deliver incremental improvements in margins. What are the other potential sources of growth that could deliver ambitious growth targets and meet the insatiable appetite of shareholders?

A significant part of a company's market capitalisation is driven by the market's expectation of growth achieved through investments yet to be made.

The Innovation Premium™ is a proprietary metric developed by Deloitte and based on a CFROI calculation. It is used for measuring the percentage of a company's market capitalisation that cannot be explained by cash flows from current operations – reflecting the market's expectation and therefore the degree of confidence in management's ability to successfully identify and launch businesses that will create profitable new revenue streams for the company. In other words, even though these revenue streams have not yet been realised, the market has already given management credit for its ability to deliver this future growth. Whilst the market generally rewards growth, it mercilessly punishes companies with higher Innovation Premiums™ for not meeting consensus analyst expectations.

Every day, investors place their bets on the future performance of companies. Figure 1 below sets out some Innovation Premium™ performances by sector in 2012 for SA Inc. by sector. In looking at the ranges, it is important to remember what was happening in the market at that time.

Figure 1: Innovation Premium™



Within each market sector there are companies that continue to delight investors through growth, and there are companies that investors do not expect to grow. The dilemma for companies that had high Innovation Premium™ ratings is that they need to work that much harder to continually find growth opportunities. The opportunity for companies with low Innovation Premium™ ratings is that it does not take much to exceed the market's growth expectation.

Management typically makes investment decisions to either sustain current operations (sustaining innovation) and/or to establish new businesses that will drive revenue growth over the medium to long term (breakthrough innovation).

Why an Adjacent Growth Strategy?

An adjacent growth strategy utilises existing assets and capabilities to stretch the boundaries of the existing business outward. The focus should be to protect and enhance the current business or stretch the boundaries of the business outward to "near" adjacencies. In this way executives can manage risks by extending adjacent to current products and services and thereby leveraging those competencies that are inherent in the business of today. Primarily this means that companies seek opportunities to do what they do today better to getter a larger slice of the pie. Opportunities are typically more predictable, leveraging current capabilities and thus reducing implementation risk.

The objective of an adjacent growth strategy is to extend the company's advantage while capitalising on pockets of demand in near adjacencies.

Key questions that face executives when developing an adjacency strategy are how to win in related markets and what to leverage from the core.

In our experience, it is important for companies to start with the "best" customers or solutions, make the solution or service good before making it cheap.

Start with an adjacency growth target

Every journey must start with a destination in mind – so too the growth journey. Establishing the right growth target is difficult and requires bold leadership. The target should not be a thumb suck, but it should also not just be an extrapolation of historical achievements. Rather, it should emerge from the interplay between internal and external factors and expectations. The target is critical to galvanising the organisation and creating the momentum and excitement needed to start the growth journey.

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Install a scalable and repeatable process

Managing an adjacency growth strategy requires thoughtful governance and a clear understanding of key stakeholder requirements and expectations. It is important to set out a scalable, repeatable process that includes making opportunities compete against each other for investment, but that also allows for the use of stage gates to qualify opportunities and takes them from an initial idea through to bankable business case and implementation.

A key success factor is to establish appropriate governance processes upfront. Experience has shown that getting the governance right is the single greatest contributing factor to success for any growth strategy.

Focus on core assets and competencies

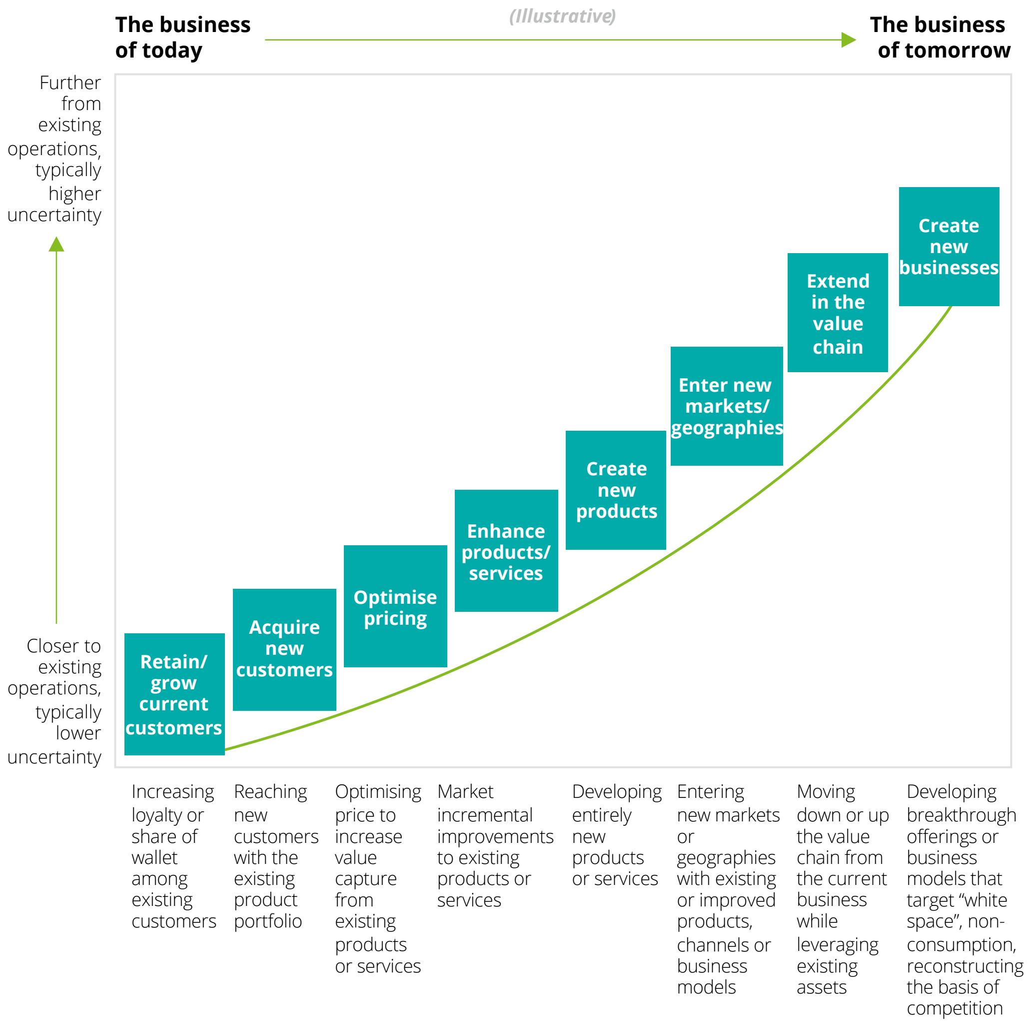
Every organisation has a set of core assets, competencies or services and products that it is good at. These should be the starting point for developing an adjacency growth strategy. No need to reinvent the wheel – leverage what you already have to become even better.

Developing an adjacent growth strategy will typically focus on the growth levers closer to the core.

Use the growth levers that are at an executive's disposal

Figure 2 below depicts the growth levers as they progress from greater certainty of the business of today to the greater uncertainty of the new businesses of tomorrow.

Figure 2: Primary growth levers



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Case study

How a retailer used its "Business of Today" assets to identify meaningful opportunities for growing revenue streams in adjacent and non-core business sectors

A large South African retailer had shown strong performance over an extended period. The market had recognised this growth trend and the company's shares traded at a premium based on the expectation of continued growth. The business was therefore under pressure to sustainably meet and exceed market expectations.

Key on the executive agenda was to identify an opportunity that would drive growth by leveraging existing assets and capabilities to enter into adjacent and non-core businesses. The company's executives assembled a team to confirm whether a growth opportunity did in fact exist and, if so, what the best opportunities for growth were.

The corporate venturing approach suggested by Deloitte achieved an executable growth strategy that provided the company with a de-risked market entry strategy that it could confidently pursue in its drive to deliver sustainable shareholder value.

Step 1

Identifying which gaps in the market offered the best opportunity for growth

An in-depth assessment of the market, both globally and within South Africa gave some initial clues as to the market potential. A market sizing exercise indicated that significant opportunity existed, with low penetration compared to other benchmarked countries in most sub-sectors. When penetration levels were mapped to the company's customer base it indicated that significant gaps existed where the business could leverage its "Business of Today" footprint to offer new products and services.

An analysis of the competitive environment indicated that while the market was dominated by a handful of key players, an opportunity existed for the retailer to enter via certain niche product offerings distributed through direct channels. Studies of international retail peers highlighted the success of this approach as it sought to counter the effects of a maturing core business by leveraging their brand strength and frequent contact with customers to diversify into adjacent opportunities.

Several key factors underpinned the success of those retailers that had developed profitable adjacent businesses:

- Leveraging its brand to market and sell new products to an existing customer base that identified with the brand
- Reducing costs by not initially investing in bricks and mortar but instead using on-line and call centre channels
- Leveraging its affinity programme to underpin offerings.
- Rewards programmes served to entice new customers with the promise of rewards and provide the company with key insights into customer purchasing behaviour relating to the new products
- Entering the market using a phased approach whereby the retailer-built customer trust in a limited number of products before expanding and increasing the complexity of product offerings
- Developing targeted and customised offerings for specific customers or customer segments based on deep insights into purchasing behaviour.

Step 2

Identifying the key assets to be leveraged for a growth play

An analysis of the key assets of the company highlighted that it was well aligned with the market opportunity and international peers and was well positioned for an adjacent play:

- The company had been operating in the retail space for a number of years and had created a strong and trusted brand with which customers identified. When considering expansion, trust was a critical determinant of customer purchasing behaviour in the new industry.
- The large and growing geographical footprint of the company's retail stores offered a low-cost, readily available marketing and distribution channel for the introduction of new products and services. The cost of acquiring a customer through existing stores was significantly lower than through other channels, such as media or call centres.

- Aside from retail stores, the existing marketing channels used by the company could be used to reach new and existing customers at nominal additional cost.
- An established call centre could also be leveraged for inbound queries and outbound calling related to the introduction of new products and services.
- The company's large and loyal customer base could form the core target market for the launch of new products and services.
- The company had a strong and established customer affinity programme that touched customers regularly.
- This "touch point" could be leveraged to introduce and launch new products and services in an innovative manner.
- Its affinity programme also boasted a high rate of redemption. Research had demonstrated that once customers redeem "free offerings", they tend to be more open to spending more with a particular company.
- The affinity programme was also considered a key asset in corporate venturing by virtue of the customer insights it provided. Customer purchasing behaviour could be used to identify specific growth opportunities, inform targeted marketing initiatives and define product ranges.
- Importantly, the company also had strong cash generation capabilities that could be used to fund market entry if required.

Step 3

Identifying specific opportunities to achieve value growth

Conclusions from the market analysis and assessment of the company's key assets were used to generate ideas for growth opportunities within the adjacent industry. These ideas were put through a stage-gate process to sift out those that were not worth pursuing. The parameters used to define the first stage-gate were defined in conjunction with the company executives to ensure strategic alignment.

Step 4

Confirming the opportunities that would deliver the most growth value

The key ideas that emerged from the first stage-gate were developed into Value Propositions (VPs) to inform the next step of executive decision making. Opportunity analysis maps and the stage-gate process were used to de-risk the company's investment decisions. Ideas were excluded when measured against risk parameters, investment size and required return on investment hurdles. The result was a clear set of opportunities that represented the best prospects for growth in the adjacent market. Together these provided the company with a new market entry strategy that it could confidently pursue in its drive to deliver ongoing shareholder value.

Critical success factors

Following a structured corporate venturing approach, such as the one described above, systematically de-risks the business development process while providing maximum return on investment. There are, however, several key factors that are important in defining the success of a new business initiative:

- Executive commitment to the corporate venturing process is critical. It ensures quicker and more informed strategic decision-making and typically ensures that the delivery team is held to account to ensure that the opportunity is implemented, and the benefits derived.
- The key decision-maker (CEO or MD) should be involved at all times. In the absence of the support of the key decision-maker, new venture projects tend to drift off the strategic course as "Business of Today" priorities and concerns relegate the new initiatives to a secondary position.
- A ring-fenced project team that is independent of the day-to-day running of the business should be appointed to focus on the research and implementation. If this is not the case, "Business of Today" issues take priority and new ventures never get off the ground.
- Corporate governance is perhaps the most important of all factors. Selecting the right participants in a steering committee is critical. Similarly, making sure that the "banker" is party to the decisions will save much heartache later in the process.

Conclusion

Companies have growth options in their core business just as they have growth options in adjacent plays. They should invest in both.

Focusing growth on core areas and short-term returns may feel more conservative because it involves familiarity and comfort. But in many cases, it may actually be the riskier strategy. Similarly, betting big on brand-new businesses and markets is also fraught with risk and uncertainty.

How then should management balance growth ambition and risk? The answer rests in the duality of growth: deliver and grow the "Business of Today" while simultaneously creating growth for the "Business of Tomorrow". Creating growth in this duality requires you to recognise the different needs of the "Business of Today" and the "Business of Tomorrow".

First, you must identify the capabilities you need and either build or obtain them. Exploring uncharted territory requires different skills, experiences and inclinations from driving growth in the core business. Different metrics are required to measure success. While traditional metrics such as growth rate or time-to-market may be appropriate for "Business of Today" initiatives, non-traditional metrics such as growth rate above market or percentage of revenue from first-to-market may be better predictors of success when entering new spaces.

About the authors

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Mike has led the Management Consulting, Finance Advisory and Risk Advisory businesses in West Africa and he currently leads the Consumer Products and Industrial Products & Construction industries across Africa.

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Her key areas of expertise include strategy and innovation, specifically customer and revenue generation strategies.

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Building a growth engine during turbulent times

Authors: Mike Vincent and Nkanyiso Hlongwa

In a low-growth environment, businesses often focus on reducing the cost base to increase efficiencies and improve margins. Although this is necessary to keep the business performing, leading companies often use this period to position themselves for growth.

CEOs of leading organisations firmly focus on driving new value creation and therefore sharpen their strategic focus on the opportunities in the future. These companies are carefully evaluating their growth plans to ensure that they grow faster than the imminent recovery. Based on our experience, achieving sustainable growth requires companies to design and deploy a Growth Engine – which is a systematic and repeatable organisational capability to achieve and maintain profitable and significant growth.

The business landscape is undergoing significant change

In a rapidly changing business landscape, CEOs need to constantly think about the key avenues to unlock growth in the future and how their companies can position themselves for success. Organisations need to think about new paradigms of future growth and recognise that what created the success today will not generate superior and sustainable growth in an increasingly turbulent future. This is a future where the intensity and frequency of market and competitive change makes sustainable growth even more important and elusive. In addition, advances in technology have transformed the playing field as new entrants and fast movers have the potential to leapfrog incumbents and redefine the competitive landscape.

In this dynamic market environment, shareholders require Executive teams to deliver more ambitious outcomes and executives are committing to higher stretch growth targets, with less-and-less defined knowledge on how they can achieve them. Furthermore, promising top-line growth is further complicated by shareholders' relentless requirement that it be both predictable and sustainable. This expectation is in contrast with a market that is undergoing significantly more volatility and increased competitiveness. For example, the average tenure of an S&P 500 company has declined from an average of 33 years to a projected average of 12 years by 2027, driven partly by the rapid speed of technological developments[1].

As a result, organisations are under increased pressure to achieve more in a rapidly changing environment. To address this, organisations need to focus on driving sustainable growth in order to participate in the value creation from the changes in the landscape. Achieving this requires a new approach to drive external growth opportunities that ensure organisations are well positioned to grow sustainably into the future.

[1] Innosight, https://www.ftadviser.com/investments/2020/12/02/tech-will-be-changing-the-s-p-rankings/

Growth platforms require structure and a dedicated focus

Companies can design and deploy a future-focused growth engine that is aligned to the corporate growth strategy, sanctioned by company leadership and dedicated to creating value on a sustainable basis. The four-step approach is as follows:

1. Understand the future megatrends changing the business landscape, set a Growth Target and focus on the growth strategy

When looking to create a Growth Engine, one cannot merely assume that past successes, processes and methods will stand a business in good stead for the future. Markets are changing in more dynamic ways than before and Executives need to understand that this unprecedented shift will shape their future. In this first phase businesses need to define their strategy by answering questions such as:

- What are the megatrends that will redefine/shift the business and markets of the future?
- What does the consumer and customer of the future desire?
- Which business models will most appeal to the markets of tomorrow?
- What are the major social shifts that will be part of the future of the world?
- What will be the growth industries?
- Where should you be investing your time and money today?

2. Follow a structured approach to identifying, prioritising and executing new revenue generating entities

As many CEOs are looking for investment opportunities to fuel future growth, it is critical that this ambition is supported by a strategic objective as well as internal processes and platforms to define and pursue new growth opportunities.

Our experience has shown that companies need to:

- Clearly articulate the growth strategy
- Be clear on how the growth strategy supports the Group Strategy
- Ring-fence the required capital to drive the growth strategy
- Implement a robust process and governance structure to ensure opportunities are progressed or killed quickly
- Define the appropriate framework and criteria for opportunity development and assessment
- Obtain commitment/buy-in upfront from the leadership team and shareholders. This can be done through the thoughtful development of a mandate that is signed off by the key stakeholders
- Don't constrain your growth team with existing business processes, but find efficient new ways to achieve the desired outcomes
- Define the investment and deal-making governance process – typically conforming to corporate venturing principles
- Establish the growth engine organisation structure – dedicated team, roles and responsibilities.

Once all elements of the eco-system are correctly configured, the team capacitated and deployed, opportunities will be sourced, prioritised and converted via a customised stage-gate process.

3. Develop a robust portfolio of opportunities focused on strategic themes

A properly diversified portfolio helps capture most of a growth engine's gains while reducing volatility. Diversification is the single greatest factor in determining long-term investment returns and avoiding the risk of "putting all your eggs in one basket." When investing, the less diversified, the more risk an organisation is generally taking.

Using the Growth approach, a dedicated team is not only working on one deal at a time, but rather engaging in a continuous process of enriching a portfolio with opportunities that are both adjacent and transformative to the current core business. In this portfolio, opportunities are themed into strategic priorities (as identified in Step 1) and are constantly prioritised and converted into deals on a repeatable basis. This ensures the "engine" characteristics are in place to make the entire process sustainable and repeatable.

Implement via a phased approach that is focused on value creation

Phase I: Design

This phase is primarily focused on creating a future-based strategy by defining the parameters and guidelines to support growth initiatives. This phase also defines some of the strategic choices available to the organisation and enables the Executive teams to understand the art of the possible.

Phase II: Build and strengthen

In this phase the engine is deployed by a dedicated team of strategic and entrepreneurial specialists.

Phase III: Maximising value

Once deployed, the team becomes completely focused on sourcing, prioritising and converting opportunities into tangible value.

Phase IV: Transfer/Support

A growth engine cannot be operated on a fully outsourced model – you will need to take on much of the process knowledge, recruit key skills and take control of the entire lifecycle to ensure self-sufficiency.

Conclusion

Transformational growth does not happen by chance in an organisation. The reasons are varied in this regard, but typically funding "Business of Today" projects will always beat investing in "Business of Tomorrow" opportunities. This is logical, the returns are clear, and the risk is understood. The impact however is that you develop a highly efficient but perhaps a too narrowly focused entity that is not well positioned for the future.

Sustainable, future-focused growth only happens when a dedicated team is deployed to operate as an engine for growth. This team provides unfettered access to unexamined opportunities, as well as the focus, discipline, infrastructure and market intelligence necessary for the discovery, evaluation, and commercialisation of new growth opportunities. Ideally the team should consist of dedicated internal company resources and external resources brought on at critical junctures during the growth journey.

The future should be a matter of choice and not chance. To get this right, a thoughtful, dedicated growth engine needs to be deployed to maximise the benefit.

About the authors

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Mike has led the Management Consulting, Finance Advisory and Risk Advisory businesses in West Africa and he currently leads the Consumer Products and Industrial Products & Construction industries across Africa.

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He has advised and supported several clients across various industries. His experience spans across strategy development, opportunity identification and development, as well as facilitating the M&A process for clients looking to accelerate their growth.

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Creating a sustainably advantaged portfolio

Authors: Andrew Lane

In 2014 Monitor Deloitte defined the concept of an "Advantaged Portfolio" (source: Armstrong, Goodman, McTavish – The Crux of Corporate Strategy. Building an Advantaged Portfolio).

The central thesis was that one of the central objectives of corporate strategy is for executive management to think holistically about a company's portfolio of businesses – conceiving and spearheading ways to make the aggregate value of a company's holdings durable over time, and greater than the sum of its parts. This vital mission comprises two central questions: In which businesses should we participate? And, how do we create value within and across our businesses? In other words, where will we play and how will we win, at the portfolio level? Monitor Deloitte found that the most successful portfolios exhibit three broad characteristics: They are *strategically sound, value-creating* and *resilient.*

Executives, academics and consultants have devised numerous frameworks for building and sustaining the optimal corporate portfolio. Our experience suggests that any successful portfolio design framework (as distinct from the portfolio itself) has to have three important features. To begin with, the portfolio framework must be multi-dimensional in its criteria, because portfolio evaluation and construction cannot solely be reduced to a simple 2 x 2 matrix; it must focus on the performance of the portfolio as a system, i.e., how the parts interact, and not just on the individual components; and it must be **tailorable** to the company in question, since each company has different goals and aspirations. Advantaged Portfolios is a framework designed to meet these criteria.

In the last few years, ESG has risen to the fore. The world has realised that business does have a role in society, beyond simply delivering profit to shareholders. Society now expects that business should play a positive role in meeting their social, economic and environmental requirements. Investors, customers and civil society are demanding this – to the extent that shareholder returns are now also compromised by unsustainable business models. Sustainability is now a core business issue. It belongs in the C-Suite and is core to the strategic choices that businesses make.

In this article we suggest that a Sustainably Advantaged Portfolio should not only be *strategically sound, value creating* and *resilient*, but that it should also be *sustainable.*

Create a Sustainability Advantage Portfolio

Investment choices used to reflect a portfolio view rather than asset by asset

1 Strategically sound

A. Competitively positioned

Is our business competitively positioned in attractive markets?

B. Balance innovation

Does out portfolio have the appropriate mix of core adjacent and transformational innovations?

C. Creates synergies

Do we have synergies that ensure the value of the portfolio is greater than the sum of the parts?

2 Value creating

A. Maximises intrinsic value

Does the portfolio as a system, maximise the present value of future cash flows?

B. Address market value

Is there a disconnect between intrinsic value and market value that the portfolio must address?

C. Finds the right owner

Are we the value maximising owner of each portfolio?

3 Resilient

A. Survives scenarios

Will the portfolio thrive if the macro environment evolves differently than the expected future?

B. Builds optionality

Does the portfolio allow he flexibility to change strategic course in response to uncertain short-term events?

C. Weighs feasibility and risk

Does the portfolio appropriately balance risk and feasibility against the upside potential?

4 Sustainable

A. Creates social value

Will the portfolio make the social impact that society expects from us?

B. Creates environmental value

Will the portfolio adequately improve the environment and address climate change?

C. Creates economic impact

Will the portfolio create economic value to host countries and communities?

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1. Sustainably Advantaged Portfolios first and foremost must be strategically sound. That means they must foster a strong competitive position, support multiple levels of innovation, and create synergy.

Competitively positioned

When a portfolio is competitively positioned, its businesses in aggregate participate in more structurally attractive markets and can win in their chosen markets.

Balances innovation

To be strategically sound, portfolios must also reflect an appropriate blend of innovation opportunities. The idea is to sow the seeds for growth across various time horizons (short, medium, and long term) and various levels of risk and reward in line with a company's ambition and risk tolerance.

Creates synergy

For a corporate entity to create value over time, it must add value above and beyond that which could simply be created (and captured) within its existing stand-alone businesses. In other words, the value of the whole must be greater than the sum of the parts.

2. The second core characteristic of a Sustainably Advantaged Portfolio is that it creates more value than alternative portfolio options.

Maximises intrinsic value

A Sustainably Advantaged Portfolio is simply one whose intrinsic value is greater than that of competing portfolio options. Intrinsic value is best represented by the risk-adjusted cash flows (net of investments) a corporation's existing (and expected future) businesses produce, and is best measured by discounted cash flow (DCF) analysis.

Addresses capital markets

As already noted, intrinsic (DCF) value should be the primary metric for assessing the value of a portfolio and different portfolio options. However, market value cannot, and should not, be ignored; it can be as important as intrinsic value in certain circumstances.

Finds the right owner

Even if a portfolio owner is creating significant intrinsic value for a business, the owner may not be creating as much value as another owner could.

3. A Sustainably Advantaged Portfolio is not only strategically sound and value-creating, it is also resilient.

Survives scenarios

A Sustainably Advantaged Portfolio is one that – in aggregate – is more likely to perform well in a variety of different, plausible, future environments, not just one that might reflect an executive team's official future.

Builds optionality

A Sustainably Advantaged Portfolio prudently builds optionality into its portfolio choices, thus enabling multiple potential routes to value in the future.

Weighs feasibility and risk

A Sustainably Advantaged Portfolio is one whose feasibility and risk are more attractive than alternative portfolios, given the company's ambition and risk appetite.

4. Finally, a Sustainably Advantaged Portfolio must be sustainable as well

Creates social value

A Sustainably Advantaged Portfolio is one that – in aggregate – delivers social impact to the society and communities that it operates in. Social impact is best defined by the intended beneficiaries in terms understood by them. This could include improved living conditions, better education, basic healthcare or other pressing social needs.

Creates environmental value

To be sustainably advantaged, a portfolio must meet society's expectations in terms of improving the environment and addressing climate change.

Creates economic impact

Host countries and communities expect that business should deliver economic impact to them. This could be in the form of jobs, local procurement, taxes, royalties or similar.

A Sustainably Advantaged Portfolio of businesses – one that is *strategically sound, value-generating, resilient* and *sustainable* – is at the heart of every successful company. The twelve attributes we discussed illustrate what a Sustainably Advantaged Portfolio looks like, at least at the most basic level for a typical company. They can serve as a valuable guide for executives in their ongoing work to define the businesses in which they should participate and the ways in which they create value within and across their businesses.

Of course, building a "Sustainably Advantaged" portfolio is not easy. It is not a matter of assessing things on just two or three dimensions. It is not simply a matter of evaluating the strength of individual businesses. Nor is it an arithmetic or algorithmic exercise or a matter of applying a rigid set of criteria to all companies.

Developing a Sustainably Advantaged Portfolio is more about creativity and optimisation than linear calculation. It requires viewing portfolio options through a wide array of lenses, as well as evaluating both individual and system effects. And it requires using criteria tailored to the company at hand and the societal context at hand. Most of all, however, designing Sustainably Advantaged Portfolios requires hard work: the hard work of wrestling with data, making trade-offs, and making tough choices. In fact, in our view, management must be prepared to hold challenging, data-rich, iterative discussions about what to do (as well as what not to do) when creating a Sustainably Advantaged Portfolio. Because at the end of the day, good strategy is all about choices. And making the right choices is fundamental to sustaining growth and competitive advantage in turbulent times.

About the author

Andrew Lane is a senior partner at Deloitte Africa, where he leads the Energy, Resources & Industrial, the Monitor Deloitte strategic transformation capability and the CEO programme.

His professional career spans more than thirty years – initially in Industry, mainly in general management in industrial companies; and subsequently in strategy and operational consulting. Andrew has led strategy, operational improvement, shared value, organisation redesign and implementation projects in several industries. Andrew has specific expertise in energy, resources, aviation, logistics and manufacturing.

Leveraging lazy balance sheets in turbulent times

Authors: Daryl Elliott and Jo Mitchell-Marais

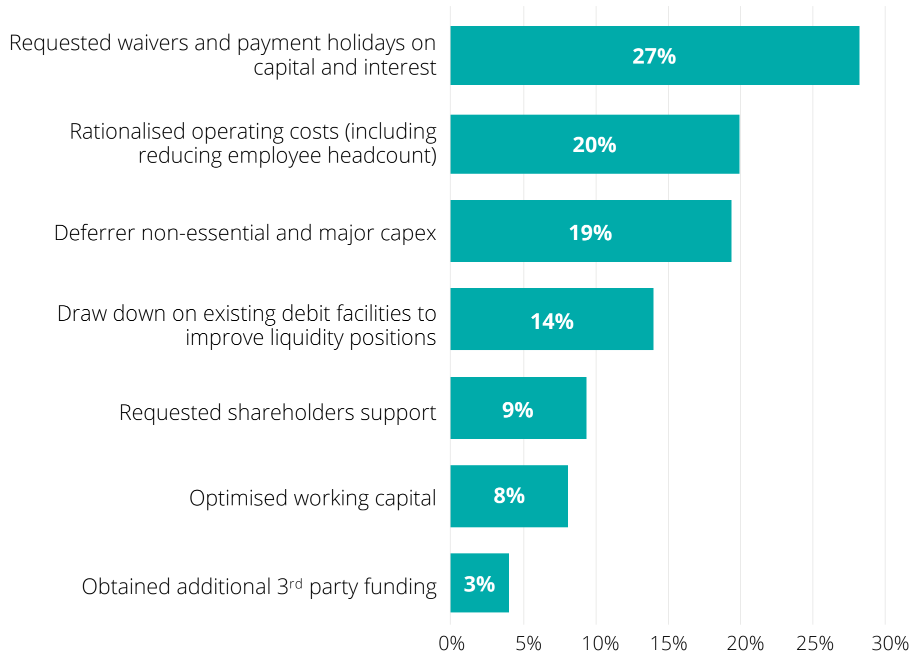
In times of crisis a strong resilient balance sheet is an investor's friend.

Corporate South Africa's response to the March 2020 lockdown as a result of the COVID-19 pandemic resulted in reactive, crisis management measures to generate and preserve balance sheet liquidity and protect their cash positions. This was done in order to navigate the uncertainty of the recovery timeframe. But now, as companies seek to recover and thrive in an uncertain future, lazy balance sheets may prevent companies from taking advantage of growth opportunities.

Our 2021 Deloitte Restructuring Survey highlighted that the main actions taken by companies at the start of the pandemic were to achieve "quick-wins" through requests to extend repayment terms with financial institutions, dramatic cost reduction initiatives and the deferral of non-essential and major capex projects.

Those companies that made rapid decisions and were able to implement cash-preserving strategies have been able to successfully navigate the COVID-19 fallout through the first lockdown and beyond. They have been able to increase the cash and cash equivalents on their balance sheets to the extent that the risk of the creation of "lazy balance sheets" has become a reality.

Actions taken by companies to bolster their balance sheet/ preserve cash in response to the impact of the COVID-19 pandemic



n=76: What was the most common action taken by companies to bolster their balance sheet/preserve cash in response to the impact of the COVID-19 pandemic

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What is a lazy balance sheet?

Lazy balance sheets are the result of carrying excess cash and cash equivalents and result in the notion that these assets are not "working" efficiently (other than earning bank interest) and thereby creating wealth. By not taking advantage of efficiency in the capital structure – and ensuring that excess cash is invested in assets that can generate a return greater than bank interest, the balance sheet is not optimised and is weighted with missed opportunity.

Excess cash is essentially that cash that is over and above sufficient working capital needs, together with a buffer for current market conditions. This excess cash is what needs to be put to "work" for shareholders.

A further indication of a lazy balance sheet is one that does not make use of the power of leverage, especially if the strength of the balance sheet is such that it could support highly favourable lending terms. This is not to suggest that organisations should shift to heavy debt positions, especially in turbulent times, but and unleveraged balance sheet possibly represents missed opportunity.

Courage to thrive

The challenge to those companies that carry excess cash or very low gearing, is to capitalise on the strategic or disruptive opportunities that are available and should not necessarily be ignored. The ability to deploy excess cash into return-generating assets, and potentially leverage that return through debt enhancements, creates a platform for against-the-cycle growth.

The investment strategy, however, needs to be very clearly and meticulously understood. This requires target companies to be well-defined and the benefits, synergies and disruptors appreciated. Available cash (both excess cash on the balance sheet and potential additional debt facilities) needs to be well articulated and agreed to allow for swift action and response to possible targets. The execution of strategy is paramount as cash leakage through inefficient execution compounds the cost of the lazy balance sheet.

It is important to mention that the ability to negotiate more favourable funding structures and terms is now – at the bottom of the cycle. We've moved from a covenant "heavy" framework pre-COVID-19 through to covenant "light" during COVID-19 and these structures are prevailing. The cost of credit is also at a low point and therefore suggests significant opportunity to raise cheaper capital to be deployed to enhance the return of assets.

A prudent approach to recovery from a crisis such as COVID-19 is advisable, but if you remain too cautious for too long, some significant value creation opportunities could pass by unnoticed.

Putting your cash to work: Organic or inorganic growth?

All companies, regardless of size, location or sector face a common challenge: how to fund real options for growth in their businesses to boost earnings and enhance value of their shares; or fall into the trap of being risk averse, focused on funding organic growth to exploit the skills and capabilities that have stood them in good stead in the past.

Funding organic growth is of course a less expensive way to grow as accountability for improvements can be delegated among managers and firms typically pay a premium for acquisitions. Yet studies have shown that only 29% of managers of major companies are highly confident that they can reach their organic growth targets – leaving any step-change or aspirational growth target firmly on the back burner and the "Business of Tomorrow" growth prospects at risk.

This is echoed by the fact that larger incumbent companies are finding fewer and fewer organic growth opportunities inside what have historically been "core" business areas, which have become increasingly mature and competitive. The result is lower overall market growth, fierce competition for market share and more consolidated industries, all of which restricts the ability to grow in existing markets.

The irony is that growth opportunities have never been more numerous for companies that are able to look outside of their historic paradigms of what is "core" to their business, and take advantage of the growth opportunities that are being created by, amongst other things, the rapid emergence of disruptive market innovations and widespread industry convergence. This allows new entrants into markets to leap-frog incumbents that hold on to the notion that what has historically helped them to succeed will continue to work into the future. An example of this is the increasingly blurred lines between telecommunications, financial services and retail, a convergence enabled through the ubiquity of mobile phone technology.

The obvious dilemma is that of funding opportunities that are perceived as "non-core" and "not invented here". The other question growth-hungry companies will be asking themselves is how to appropriately structure and capacitate the organisation's growth engine, without losing the focus of line management on existing business operations. In considering the answer CEOs understand the traditional option of developing the capability internally or outsourcing to external investment partners that both offer companies some advantages and disadvantages. Yet a third option exists that combines the best attributes of both models.

Growth driven from within the organisation

Driving investment in growth from within the operating structures of the organisation introduces both opportunities and challenges. Clearly the benefit of an internal growth engine lies in a close alignment of investments in new revenue areas to the overall business strategy, and the ability to leverage existing assets with the business – including skills, intellectual property, customer bases and physical assets – to ensure maximum value creation.

In Deloitte's experience of managing growth engines for corporate clients, a critical driver of success lies in developing a dedicated and stand-alone growth function that does not divert the focus of line-management from the "business of today". In developing this growth engine, the structure, governance and investment criteria must be put in place early to provide a protected environment in which new opportunities can be incubated, developed and commercialised. This provides some challenges for companies looking to capacitate an internal growth engine without the skills and experience required. An internal function will also tend to see the world, and opportunities it presents, through a very specific lens that is determined by the nature and scope of "business of today" operations. This often prevents the ability of seeing the adjacent or even disruptive market opportunities that are emerging from unconventional spaces and limits the growth potential of the company.

There are examples of companies that have become skilled acquirers and have developed stand-alone internal merger and acquisition (M&A) capabilities to drive acquisitive growth. The danger with these "serial acquirers" is that the M&A function, once built, continually requires feeding, and acquisitions can become the strategy rather than an enabler of the strategy.

Growth driven by third party professionals

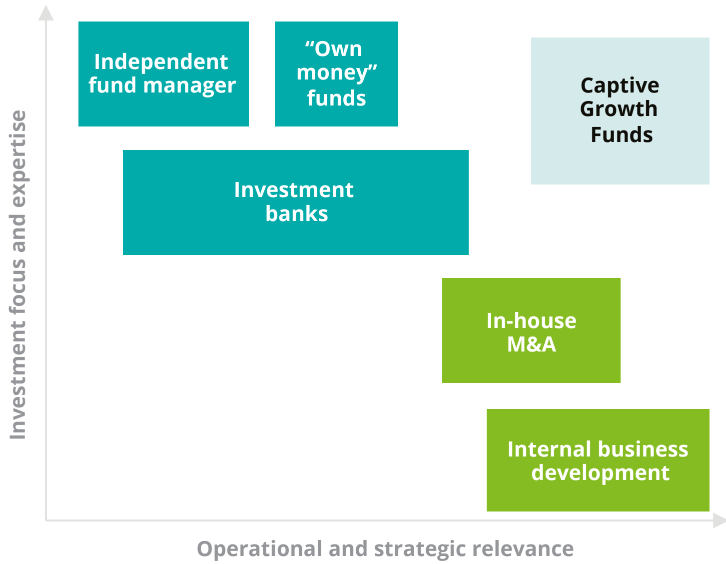
At the other end of the spectrum are professional fund and investment managers that are not involved in business operations, and drive investment returns through a structured process of identifying opportunities and managing investments loosely defined as private equity (PE) transactions. These firms typically bring a team of highly skilled and experienced investment professionals to drive growth through investment. Their expertise, market research capabilities and market networks position them well to source and develop opportunities across multiple industries and markets.

However, what PE fund managers lack, when applying them to a company's need for revenue growth, is the access to operating assets that can be leveraged to significantly increase the value of a transaction, and the alignment of the investment strategy to an overall strategic direction of the business. So, while outsourcing growth requirements to a professional investment manager may provide attractive returns on investment without diverting the focus of management, it is unlikely to yield the new revenue streams that are strategically relevant as the portfolio of future business operations.

Captive Growth Funds – combining investment experience with strategic relevance

A solution for companies looking to drive sustainable growth investments while sticking to their knitting in existing operations, is the **Captive Growth Fund**.

The Captive Growth Fund is essentially a ring-fenced investment pool dedicated to fuelling a company's corporate venturing process that is tailored to the strategic and financial criteria of the company. Managed by an external fund management team of experienced growth specialists, the company gets access to an investment vehicle with a unique and compelling combination of the skills, experience and focused attention on growth usually reserved for the more passive private equity investment space, together with a clear strategic and operational link to the core-business and active investment involvement that is usually the domain of an in-house M&A team. In this way, the Captive Growth Fund bridges the divide between 3rd party PE funds, and internal growth and M&A engines and brings the best of both models to bear on driving sustainable revenue growth.



Combining investment capability with strategic relevance

The operating fundamentals of a Captive Growth Fund

1. Building the platform for growth

A first and critical step in any corporate growth programme, and particularly when managed through a Captive Growth Fund, is to define the objectives, criteria and operating structures of the process upfront with clear buy-in and support from senior leadership and board members. This process will provide the investment mandate and governance process that the Fund Manager will use to drive opportunity development and decision-making throughout the investment process.

2. Maximising return on effort

The Captive Growth Fund uses a tried and tested approach that combines investment banking, strategy consulting and corporate finance techniques to identify and systematically develop investment opportunities. An in-depth internal analysis of the organisation's current capabilities and assets, and an external market intelligence function unearths relevant target growth opportunities. A Fund Manager should bring both the process experience and skills, together with expertise and networks that span multiple markets and industries in order to maximise the value from this process.

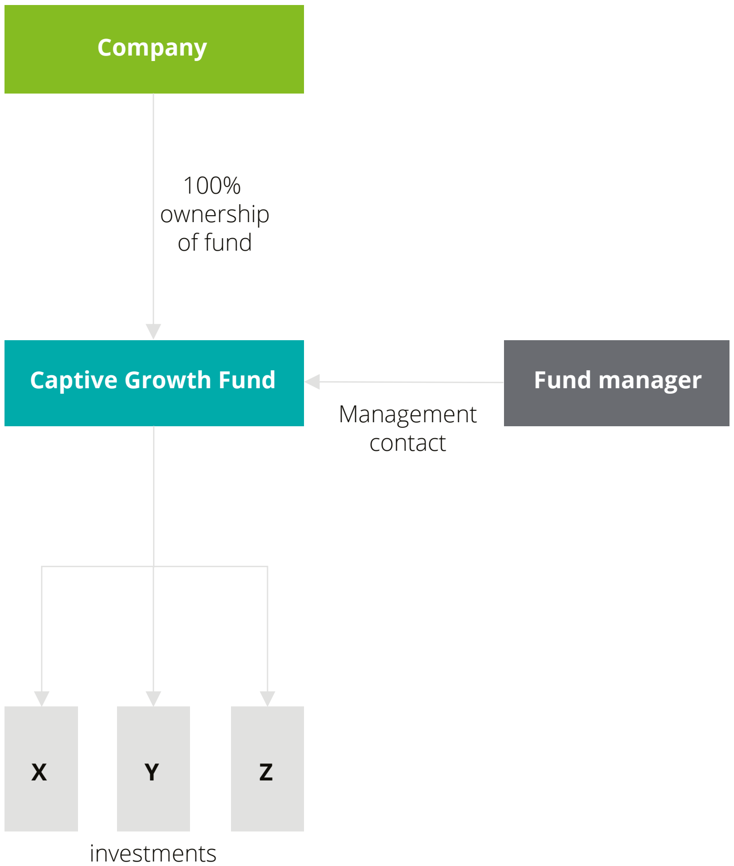
To maximise return on effort in the investment process, only the most attractive opportunities should be developed through to a stage where the investment case can be presented for the ultimate investment decision. This systematic development and filtering of opportunities creates an internal atmosphere of competition for the scare time and resources available to the Fund Manager, and ensures that only the most attractive investments reach the investment committee.

3. Actively managing value creation

Following a decision to invest, the Captive Growth Fund employs an active management strategy for driving value creation both in the target investment, and in the integration of this into existing operations. The focus here is on growth through cash flows generated by operations rather than the more passive PE investment approach that relies on purchasing under-valued assets and balance sheet restructuring to deliver value.

4. Fund structure

The structure of a Captive Growth Fund is extremely simple. The investor company retains complete ownership of the fund and veto rights on investments through the Investment Committee, and benefits from the returns generated through the fund. The Fund Manager will drive the investment process and will usually generate fees based on the funds under management, and be incentivised through a performance carry in the fund return.



Typical structure of Captive Growth

5. The Captive Growth Fund overcomes several of the downfalls of other growth models

- Introduces a stand-alone growth engine with dedicated funding that combines the operating capabilities and strategy of the company with external professional management, allowing the company to drive relevant revenue growth while maintaining a focus on existing business operations
- Provides a company with rapid access to proven investment capabilities without the time and cost of developing this capability internally, allowing for rapid deployment of tailored growth programmes
- Provides a partnership with a team of specialised and experienced growth investment professionals with extensive opportunity sourcing networks, a capability that would be extremely difficult to develop internally
- Eases the purchasing decision to acquire these investment skills as fund manager fees typically come as a percentage of funds under management and thereby soften investment returns rather than creating an additional cost burden
- Utilises existing and proven investment and governance structures to execute on the growth strategy
- Ensures, through the opportunity filtering process, that the best opportunities are presented for investment. This is in stark contrast to many corporate investments in opportunities that “land” on CEOs desks and trigger reactive or opportunistic investments.
- Allows for periods of high-growth investment followed by operational integration and embedding. This natural growth cycle is a requirement to sustainable growth and is often prevented by costly internal functions that cannot lie underutilised.

The Captive Growth Fund is one of many options available to progressive managers in order to put their lazy balance sheets to work. Inaction should not be the strategy of choice during these turbulent times.

About the authors

Darryl Elliot is a Director and leads the Strategic Cost Transformation and Business Design practice at Deloitte Consulting. He has lead numerous cost optimisation programmes, business design initiatives, and corporate growth programmes.

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Jo has worked with businesses which are exhibiting signs of underperformance and financial distress for the past 15 years and assists in the development and implementation of their turnaround plans.

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Accelerated growth in turbulent times

Author: Chris Barker

Innovation is a key lever to creating future advantage, but how to shape it to take advantage of turbulent times is something most companies struggle with. Here we offer a framework for what to do, but first we explain what not to do, as you're very likely trying that.

What not to do!

Most companies think that innovation and start-ups are about incubators and accelerators. The former is where one hosts multiple start-ups, hoping for a unicorn (R1bn valuation) that covers other start-up costs. The latter is where one believes one's access to the market positions one to seek out start-ups and introduce them to the market for an equity share. You could roughly think of the models as Venture Capital (VC) vs Private Equity (PE).

Both models are risky and can either enhance executives' careers or destroy them.

The VC Incubator flaw

To be confident of finding a unicorn, one would need to invest in 100 start-ups, each at an extremely modest R120k per month (i.e. entrepreneurs, very underpaid, in it for the upside). You'd do well to find a winner in 8 years, having spent near R1.2bn. Add to that the issue that South African (SA) start-ups are usually just slideware, as few parents in SA can fund kids to work in a garage for three years to produce a product with market traction, which is the starting point for VC in the US. There are few Innovation managers, or indeed CEOs, whose careers can survive that leap of faith.

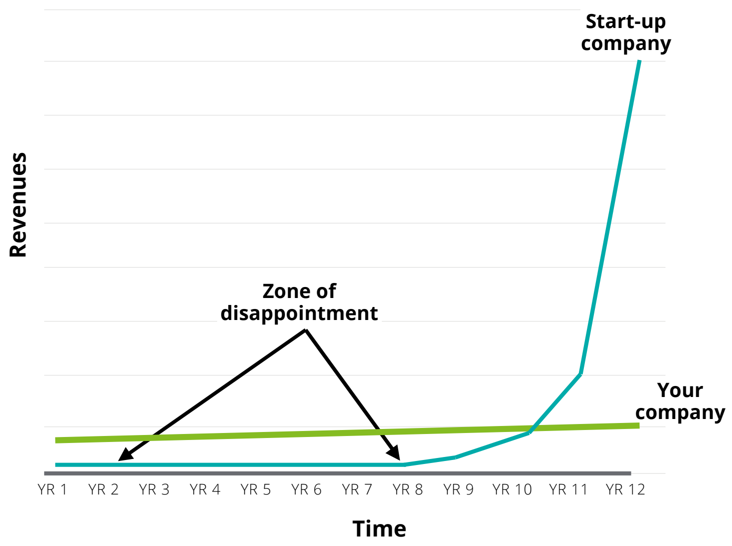
The PE Accelerator flaw

This model is premised on the belief that you can find a start-up and introduce them to your customer base. That may work somewhat in large scale consulting firms, where every corporate is a trusted client, but it holds for nearly zero SA corporates, particularly given that their competitors will be the last to adopt their start-up. The above SA immature IP also applies, plus you would own a modest share of the start-up profits, which in turn are driven by a modest share of the revenues they can derive from the market (less their expenses). That's not attractive at all. Yes, there are telecoms firms that are deriving great revenue from start-ups, but there's a far better model which is covered below.

Identifying a unicorn yearling

In the graph below we show a start-up on a unicorn trajectory, doubling revenues every 2 years or so. For the first 7 years it looks like a failure, and indeed we are typically in the "zone of disappointment". Think of how long it took 3-D printing, in-car wifi meshed networks, virtual reality (VR) and the like to gain traction. From year 11 onwards they get identified as successful unicorns, and their market valuation makes them too unaffordable for most SA firms to consider. So, we need to find ones in the zone of disappointment that hold out real promise. The problem is that these are hard to recognise, as projection of their revenues using even the two latest periods, misleads us to a low ultimate size.

Typical start-up revenue profile



So how do we find them. The answer lies in the 6 Ds of exponentiality, which we feel should be 7. Recognise these, and you'll see a potential unicorn hidden there:

01. Digitisation: It all starts when an industry is open to digital, which most now are (even complex travel, and call centres).
02. Disruption after disappointment: We don't understand the exponential curve, then we get surprised and it's too late to get in.
03. Dematerialisation: Think of the move from physical to virtual or electronic. There are countless examples, from Uber (not owning a single vehicle) to Airbnb not owning a single accommodation facility.
04. Demonetisation: You cannot compete with free. Today's phones are a good example. They contain technology that would have cost over $1m in 1985.
05. Democratisation: Available to everyone. Think of TripAdvisor.
06. Decentralisation: Tiny devices everywhere. Think of the blockchain distributed ledger.
07. Domination: Scale to achieve market ownership. Think of Google or Facebook.

How to afford a unicorn yearling

The secret here is not to buy a first world-based unicorn. Ideally you want to build an African or SA business and partner with the US-based unicorn. They typically have Africa way down on their list of priority markets and would welcome an approach from a large and credible SA company offering to take them into Africa. You can offer some funding for them, license fees, or a JV that ensures you own the majority of the African equity. For them the funding means a lot right now, but the credibility of an African success means way more than they can ever quantify.

How to find these unicorns

In our experience, there are a few proven approaches to identifying unicorns:

- **Create a team** of smart people, with an appetite for career risk, and task them to Google, speak to experts, phone, fly around the world, and seek out these unicorns. It's expensive, but it works, and we highly recommend it for a company with a R20-50m/year budget.
- Another option is **focused study tours** to Silicon Valley, or more easily Tel Aviv. Firms there exist to help you screen for a list of start-ups and VC firms, and then spend a week in-country meeting up to 5 targets per day. It's fun, eye opening, and great for opening the minds of execs. But it also costs a few million Rands.
- The **hackathon** approach works in the US; invite start-up companies to solve one of your problems by using their tech. We haven't seen that work so well in SA (outside of tech-heavy telecoms firms), due to the immaturity of start-ups, given the lack of rich parent funding.
- But the model that has recently emerged, **is mining of start-up databases**. Not the massive Pitchbook database, with all its VC and funding info, but databases of start-ups that have been through a qualification process, and now include metrics such as proven industry interest, field of tech (e.g. AI), use cases (e.g. sales cost reduction), and most importantly, market traction (i.e. proven revenues). This approach costs very little and can be used to quickly hunt opportunities that fit your business, your customer base, and your market. This has only become available recently, as firms have built on Pitchbook to create these qualified start-up lists and have used their client engagements to enrich the database with winning and failing inquiries.

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A comparative analysis of these options:

	Team search	Silicon Valley tours	Hackathon	Start-up database
Cost of search	R20-50m/yr	R3m/trip	R3m/event	R2-20m/yr (scales easily)
International reach	Global	One country, but good	SA only	Global
Speed of discovery	+1 year	6 months	3 months	3 months
Breadth of search	Limited to chosen sectors	Limited to chosen sectors	Limited to chosen problem	Unlimited
Skills required	Extensive	Executive team	Management team	Business team
Probability of success	+50% in 1 year, 100% in 2	20%	5%	100%
Returns	+8 years (on acquired company)	+8 years (on acquired company)	2 years	5x value created in first year

How to enter this start-up database space gently, and safely (start-up venture client unit)

A recent model, building on the access to these databases, is the VCLU (Venture Client Unit). Here a team uses the database to find opportunities to license or JV into Africa, but the trick lies in a phased approach, that de-risks everything, and gently builds the company's confidence in this approach

In year 1, the process is used to identify start-ups to solve BAU (current business as usual) costs. Much like a hackathon's benefits. The start-up is then adopted as a service provider. Not bought, not JV'd, not even licensed. That is a proving process, that'll come later. Worldwide experience is delivering savings in year 1, of 5x the costs of the search process, and start-up service provider costs.

In year 2, one steps out a little further to find start-ups that improve BAU revenues. Previous revenues, just make existing ones better. The same 5x return is usually promised.

In year 3, you are ready to step into a full-blown innovation programme, finding opportunities for new business lines, new growth, and even NMB (New Model Businesses). By now your company is comfortable that the process works, and large-scale investments in a new green-fields business is more easily embraced. But mostly, you will have built the team capable of doing this adventurous and seemingly risky work. Returns remain far out, as with any new business, but now you have bought the time to see you through perceived career risk.

Doing this with at-risk support to minimise your career risk

There are advisory firms that will do this at risk, discounting their fees in return for capped upside. If they fail you, you still look good for having managed your exposure. If they succeed, their proceeds are insignificant compared to the value created.

Further, once you are through phases 1 and 2, you have a list of start-ups you can truly believe in; after all they are working for you. What a nice place to start an acceleration unit; to take equity in them in return for exposing them to the African market. Or why not rather license them and create new revenue streams as part of phase 3?

Now go and succeed.

About the author

Chris Barker is and Associate Director and is a Mechanical Engineer, with BSc, GDE and MSc degrees.

After working for Unilever, ultimately running Lipton's Teas, he somehow managed to get into McKinsey where he stayed for 3 years.

Chris spent the last 18 years building businesses in SA, ranging from co-founding Neotel, leading MTN on the winning bid for Iran, taking over and rescuing TopTV and Aquarius Platinum, founding and building Africa's largest weather biz, SA's 3rd largest pharmacy retailer, and pioneering everything to do with HIV treatment in SA resulting in the co-founding of Africa's largest NGO.

After selling out of Neotel in 2017, Chris joined Monitor Deloitte, where his focus is on blue ocean opportunities, helping corporates react to the insane pace of change the world is going through.

Chris is firmly attached to an over-the-top fashionista, and has a 8yo Xhosa princess, who clearly cherry-picked from both gene pools.

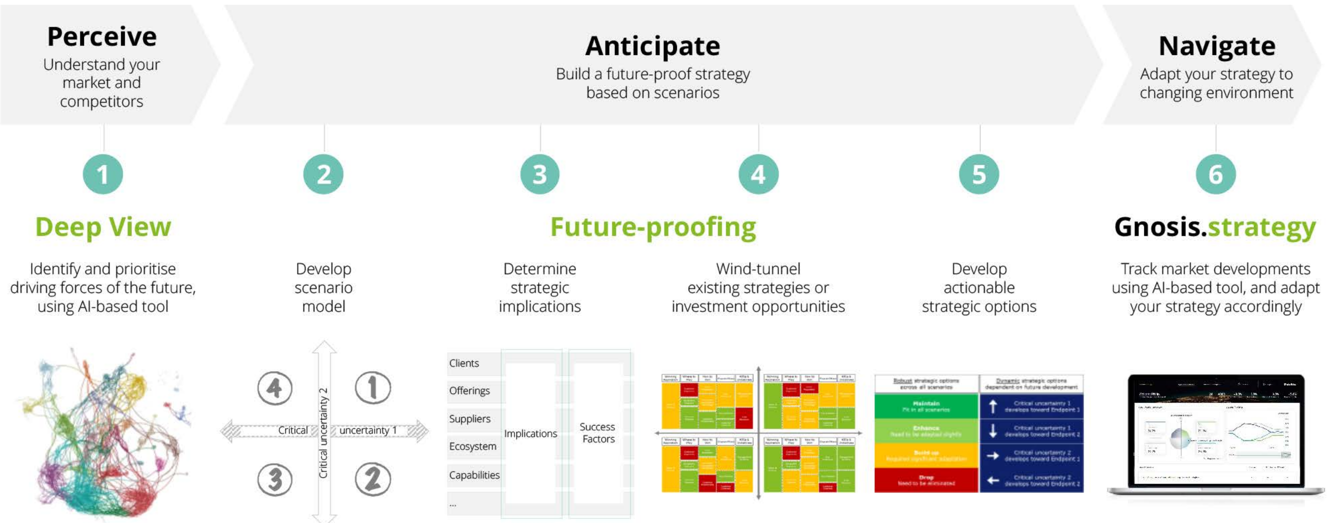
Strategic sensing during turbulent times

Authors: Dr. Jacek Guzek and Mike Vincent

The future isn't what it used to be.

Most people would agree that it is more difficult to make sense of the future in today's rapidly changing and unpredictable world, compared to the more linear and largely binary world of the past. The number of drivers and uncertainties that could influence the future are seemingly countless, but they always combine into a very specific, often surprising, always complex, reality, to which each and every organisation and business must respond. Organisations should always be well attuned to their competitive environments but particularly during turbulent times. Failure to sense impending threats and opportunities on the competitive horizon may be devastating. Conversely, if the directional shifts are detected early enough, this may provide a competitive edge and early mover advantage that allows your company to win in the market.

Overview of the Deloitte Dynamic Strategy approach



At Deloitte, we have developed Dynamic Strategy, which helps organisations and businesses to identify the drivers and uncertainties of a turbulent future, anticipating the impact of plausible and divergent scenarios on an organisation's strategy and navigating that future by adapting the strategy to an ever-changing environment.

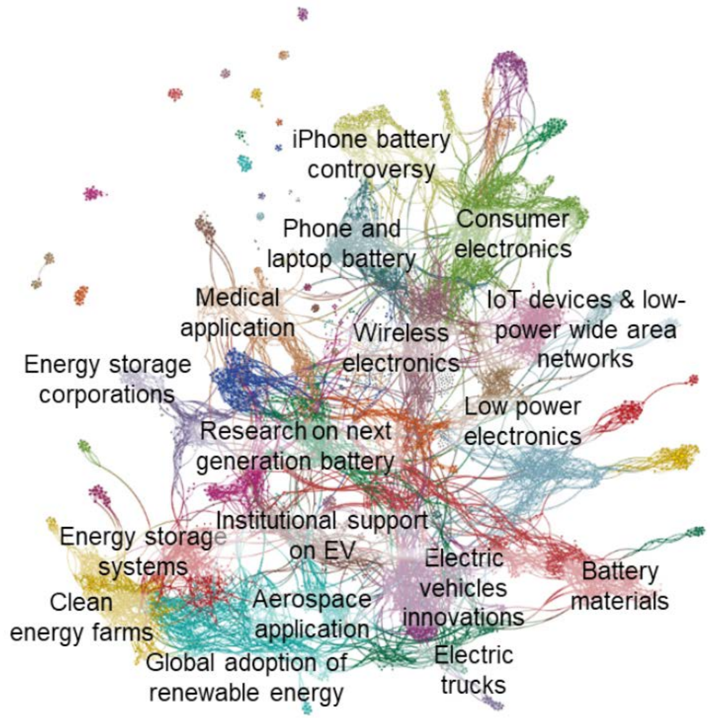
Perceive

Through using our Dynamic Strategy approach across different markets and industries, there is one striking insight we have discovered: the set of drivers that form the general background to the scenarios we draw are surprisingly stable. They change slowly over time, and vary insignificantly across industries, geographies and sectors – we have grouped them in ten global megatrends (empowerment, polarisation, hyper-connectivity, disengagement, ageing, dematerialisation, scarcity, blurring boundaries, erosion of governance and displacement)1. However, the ways in which these drivers coincide and interact with each other is never the same and is extremely specific to the focus of the scenario being developed. Companies may significantly improve their competitive positioning by systematically scanning their competitive environments. They need to look for shifts and discontinuities, explore the threats and opportunities they face and formulate guiding strategic questions before conducting targeted analyses to address them.

While specific tools used for scanning the competitive environment are less important to the structured, systematic and regular process, we found that artificial intelligence-based insights-generating tools provide real advantage. Scanning all Internet news, research papers, blogs, discussion groups, user content, patent data, merger and acquisition activities, etc. can deliver real insight. But to make sense of this data will require an automated cluster algorithm to build associative topic networks or knowledge clouds. This approach allows for a rapid analysis of vast information sources, practically inaccessible through alternative means, and removes typical bias associated with traditional desktop research.

This approach will result in an objective analysis and comprehensive understanding of the industry or sector and their respective ecosystems and can be used to identify new potential opportunities and risks.

An illustrative example of an associative topic's network for the most discussed applications for medium to large size batteries (extract from a Deloitte study)



Anticipate

Making sense of various drivers and uncertainties of the future and their interlinkages can be a daunting task. Using a scenario planning approach2 can provide us with a structured way of thinking by making strategic choices despite the uncertainty. Scenarios are rich, data-driven stories about the future that can help organisations make better decisions today. They are not predictions about the future, but rather hypotheses that describe a range of possibilities for the future, imaginative narratives that stretch thinking, but are always plausible and logical.

Scenario planning challenges executives and managers to revisit their assumptions about their industry and consider a wider range of possibilities about where the industry may be heading in the future. Consequently, creating scenarios requires executives and managers to question their broadest assumptions about the way the world works so that they can anticipate decisions that might otherwise be missed or denied. This exploration results in a broader, more innovative view about future growth opportunities and risks.

To develop a scenario framework, drivers and uncertainties of the future should first be grouped into broader themes. Then, the two most impactful and independent themes should be placed on the intersecting axes, across which the scenario narratives should then be articulated (typically four different plausible yet divergent scenarios are created). The process should be highly collaborative and interactive and result in a common understanding of the alternative futures the organisation may be facing. The process should also deliver alignment on the key uncertainties in which the organisation is operating.

A strategy wind-tunnelling exercise completes this step of the process. An organisation's strategy is successively immersed in all scenarios with the objective of understanding the implication of each scenario and validating strategic choices. The outcomes are robust strategic choices that should hold true regardless of the scenario. This is an important approach to future proofing organisations during turbulent times.

Navigate

Scenarios give organisations the ability to make mid-course adjustments to correct their strategies in a more agile manner. However, they must have an idea how the future is unfolding, and which scenario is most likely to unfold. How to monitor this dynamic reality? Leading indicators are early warning signs of potentially significant change that can be monitored in order to determine if a particular scenario is beginning to unfold. Leading indicators can be very obvious, like the passing of a debated piece of legislation, or quite subtle, like small signs of a gradual shift in social values. This monitoring allows an organisation to course correct their strategies according to which scenario is likely to play out.

Defining and monitoring these "red flags" (events, processes, shifts, discontinuities, etc.) requires a focus on leading indicators of the key uncertainties determining a company's competitive future. These red flags are aligned to previously articulated scenarios, and knowing their current status informs the interpretation of which scenario or combination of scenarios, is currently at play. The monitoring of red flags can be supported by a range of AI-based tools, and is a sure way to avoid risks and take early advantage of developing opportunities.

Be vigilant and prepared

Embracing the process of the Dynamic Strategy will not guarantee that you will always detect and correctly interpret the signals that markets are sending. But having a process in place will make you more vigilant and sensitive to what's important for maintaining and improving your competitive advantage. Threats and opportunities are often difficult to separate, more so in particularly turbulent times. But having a proper process in place is a good place to start and will help in turning your organisation into an agile, alert and more competitive player.

Start now!

About the author

Dr. Jacek Guzek is an Associate Director in the Monitor Deloitte strategy practice in Johannesburg.

He is leading the strategic sensing and insight team. Jacek's key focus is future-proofing of corporate strategies by helping organisation sensing vital shifts in their environment and assisting them to take advantage of the emerging opportunities.

Jacek is a PhD nuclear physicist and prior to consulting career he led large R&D programmes in mining and mineral processing industry.

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2. Think like a Futurist: The key to ensuring organisational success in an uncertain future, Part 2: Scenario Thinking and Design, Monitor Deloitte

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Leading in turbulent times

Authors: John Brodie and Fortune Gamanya

Recognising that the world is constantly changing is a first key step, but insight doesn't create change. To lead through change requires leaders to actively engage, think, explore, learn and ultimately adapt how they do things to ensure their organisations make the changes required to survive and thrive.

Business leaders find themselves in a highly disrupted environment, where many of the rules of doing business, expectations of their stakeholders and ways of work are being fundamentally re-shaped. The challenge for leaders is that they need to move from having the change happen to them, to beginning to shape the change in a way that will enable sustainable and potentially exponentially successful organisations of the future.

Don't waste a good crisis

Crises can be incredibly transformative because they directly threaten our survival or the status quo and "force" people to make changes to survive. The cause of the crises is not what drives the disruption to businesses, societies, economies..., but rather how people responded and changed the way they saw the world and adapted by doing things differently. It is in these changes of perceptions and behaviour that the opportunity exists.

If we think of two recent crises in world history, the Global Financial Crisis (GFC) and the COVID-19 pandemic. The GFC shifted perceptions of financial institutions by breaking trust in these organisations and launched an exponential growth in the "risk" management and continues to shape how these institutions do business as one example of the impact.

The pandemic restricted access to the workplace and forced many people into remote work. It has begun to change perception of where work gets done and how many organisations do business with their customers. The disruption has seen the adoption of new technology and digital platforms in the workplace at an unprecedented speed, as well as the acceleration of e-tailing and platform-based businesses.

The challenge for leaders is that the threat a crisis creates often compromises our ability to think and engage our creativity to develop new and innovative solutions. To lead, one needs to choose. That is explore options and make decisions, which requires leaders to take time to think. In times of crises the ability to access our pre-frontal cortex (the part of the brain that holds our executive functioning that is our ability to think about future consequences, connect the dots, explore options and the like) is compromised. In times of crises the more primitive areas of our brain take over as we kick into survival mode. The amygdala takes over and pushes us into learnt responses and habits, because based on our evolution in times of crises the danger was imminent and we needed to act immediately "flee or fight", there was no time to think. Paradoxically for business leaders when they are faced with significant disruption that is upending key fundamentals of how business is done, they find themselves reacting, rather than thinking and acting strategically.

What are the fundamental shifts we need to make?

Many leaders demonstrated their ability to react appropriately to the recent pandemic-led crisis and have managed the crisis effectively through the implementation of their business continuity plans and managing to operate in a shifted reality. The critical question is how effective have they been in creating a platform to thrive, by beginning to make fundamental changes to their business' strategies, operating models, real estate, technology, organisational structures, people skills and cultures as we move into recovery? A recovery that needs to recognise that some fundamental shifts linked to the 4th industrial revolution that were in their infancy have been significantly accelerated, and that we are no longer at the beginning but moving toward the middle of this significant economic shift.

The most fundamental shift that needs to be recognised is that to the nature of **work**. What was spoken of until recently as the Future of Work is now been shifted significantly to the recognition that the world of work has now changed and will continue to significantly evolve over the next few years. As with every industrial revolution this has been the key disruption for humanity as work evolves to align with the new economic drivers, so does the need for humans to develop new skills and evolve their social and organisational structures. In this revolution humans are needing to strengthen their uniquely human qualities such as empathy and creativity to leverage the insights that significant amounts of data enable. Learning to collaborate in a digital economy where we move from functional specialisation to the ability to collaborate in non-hierarchical team structures and can effectively leverage the capabilities in our broader eco-system to innovate and scale at speed.

The above changes are shifting the capabilities we require, how we design our organisations, structure and access skills. Leaders need to base their organisational shifts on **how they are evolving work** (what and how we do it) to create the next level of value. Why is this the fundamental task of leaders? As with the disruption it is ultimately the shift in human perceptions and behaviour that is driving the shift in the economy, similarly until we shift the perceptions and behaviour of our people in our organisations we will not be able to respond effectively and deliver the next level of value. The technology is the enabler, that is shaping change, however, it is what we do with it and how we use it that creates value.

A key concern with the current industrial revolution is that machines will take over the work of humans. The above applies particularly to repetitive tasks where automation, machine learning and ultimately AI (Artificial Intelligence) can processes things faster, more accurately and efficiently at enormous scale. The businesses that are beginning to thrive and grow are those that are leveraging these shifts and using them to fundamentally shift their business models and more importantly the work that their people do and how they organise themselves. We all are aware of Google, Amazon, Uber and Netflix. The shifts, however, are now accelerating in traditional industries. Many banks are now evolving into platform businesses, Telco's are becoming digital operators, retailers are moving to e-tailing, mining is seeing operations become increasingly automated and leveraging data an AI to operate more efficiently and safely, automotive companies are building business models around a world where people don't drive, or own cars.

If leaders are going to lead their organisations to take advantage of the changes that are happening and enable the shifts, it needs a fundamental shift in thinking around the work we do. **Every business model has at its centre work:** what we do and the unique or optimum way that the way we do things to deliver value. If what and how we do things do not deliver the right level of value, we will initially perform poorly and then ultimately go out of business. Recognising that at the core of the disruption is the shift in work and how we think about creating value requires a fundamental shift in thinking and perhaps more importantly how we do things as leaders. A core function of leadership is to translate the strategy into how we do things differently to deliver on the strategy. Plans don't execute, people do, and if we are facing a key disruption the key requirement is to understand how what we do needs to change, and how we need to do things differently to achieve the results we want.

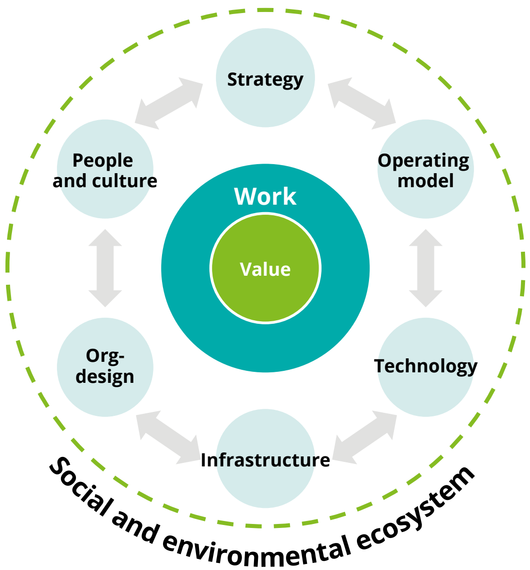

Figure 1: Designing with work at the centre

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The change needs to start with leaders doing things differently

Leaders can have an immediate and real impact on their organisations thinking and ways of doing things, by beginning to shift some key behaviours and ways of doing things (habits) across their leadership group. A key first task of leaders as they begin to shape the shift in their organisations is to break some of the learnt habits of their leaders that would perpetuate traditional thinking and ways of reacting to situations within their business. Remembering that we want to enable our leaders to engage their pre-frontal cortex, and not slip back into learnt habits and ways of doing things. Shifting habits such as making meaningful change in the way you do things as an organisation requires consistent and deliberate effort, because you are rewiring the brain.

The way we interpret information and therefore react to situations is wired into our neurophysiology in the way that our neurons are linked through the different synaptic connections. As we learn and experience new things, we create new synaptic connections. The more we repeat something the stronger and more entrenched these connections become, and ultimately these shape our habits. Electricity follows the path of least resistance, so when we are learning a new way of doing things, the challenge is that without persistence in grooving a new neural pathway we will quickly revert to our old way of doing things. It literally requires less effort, because we don't have to think. Recognising that ultimately the key task of leaders is to drive change, thinking about new things requires more energy, and changing the way we do things requires lots of persistence. It is a different way of thinking about why real leadership is hard, because the leaders have to do the hard thinking work, and then persist in shaping the way things are done differently in their teams and organisations, when you have a whole lot of people doing things in the older "easier" way.

It is therefore key that leaders are extremely deliberate, clear and simple in the behaviours (habits) they want to change in their organisations. Success is based on making some key changes to key habits, however, as the above illustrates trying to change to many will most likely result in limited long-term change, as there is not enough energy to change so many habits at once.

The below are 3 key habits that should be considered:

Align for continuous change and integration (slow down to speed up)

Planning needs to consider two fundamental shifts in ways of working: Firstly, change is continuous, and therefore planning needs to be a continuous process. Secondly next level value requires the ability to leverage your eco-system, not break things into their functional siloes. Strategic planning traditionally is an annual event, which starts at the top and is then cascaded down into functional areas or disciplines. If there is a large transformational programme, we may have a temporary Programme Office to integrate, co-ordinate and drive continuous engagement. However now we need to recognise that changes are constant, and there is an increasing requirement to integrate and manage multiple changes that are happening in our organisation.

Leaders need to begin to create consistent space in their monthly agendas to review, align and integrate their strategic initiatives, rather than delegating these to leaders that are not positioned to integrate or make decisions. This is a shift away from a management mindset into a leadership mindset that recognises the need to balance strategic and operational work, by continuously working on, and not only in the business. Creating a fixed set of slots 1 or 2 in the monthly calendar where the time is spent understanding the key initiatives, looking at key integration requirements and aligning this with other leaders i.e. what decision is needed from Leader X to enable leaders in Function Y to proceed is fundamental to speedy and successful execution.

The formation of these strategic "governance" alignment forums and ensure they work effectively requires some deliberate effort and persistence. It is about breaking the habits of avoiding conflict or focusing on specialisation for efficiency and delegating to a functional silo rather than developing a cross functional leveraged solution. If the forums operate optimally, they reduce hierarchy and encourage consensus, which by default creates conflict. Learning to effectively manage conflict and align on priorities has a significant impact on the speed at which change can be implemented within the organisation. The default habit is to move to action, before the right level of alignment work is done. The conflict and often misalignment manifests in the next level of leaders, and often derails any real ability to implement change, especially not at speed. Alignment across a historically functional divided value chain takes time and effort but is a key shift that is required to move towards faster and more leveraged problem solving. Borrowing from "agile" principles we need to "slow down to speed up".

Communicate for purpose

As we move to a world where we need to make consistent changes that require higher levels of integration across our organisation, a core role of leaders is the ability to consistently mobilise and align teams across a complex eco-system. An old habit was to reference a 5-plus year vision. Now leaders must articulate shared purpose statements that will focus teams on solving problems, that ultimately will enable business success.

An example is if you are a business that is moving increasingly onto a digital platform for your transactions. The vision probably reads something like "Be the No.1 choice for customers in our market…". The multi-skilled, cross-functional and supplier team solving and delivering on the customer experience needs a purpose that focuses them on a simple definition of how value is created, and success is defined i.e. Why are we doing what we are doing e.g. the purpose for the team could be: "Make it easy to pay." Purpose statements articulate the problem to be solved, and definition of success that is not an end state, but rather requires continuous iteration to enhance and evolve the experience. We have made it easier to pay, however, the market is continuously moving so how are we continuously making it easier to pay if this is a key market differentiator.

The shift from vision to communicating with purpose recognises some fundamental shifts in the world of business and work. Firstly, you must keep improving and changing to stay in the game, purpose statements focus on how we create value together and aren't defined by an end state or goal. Secondly, we need to mobilise and align multi-skilled and networked teams to solve increasingly complex problems. Purpose statements need to appeal and make sense to a broader group of individuals than those I have direct control over or manage in my function or organisation. Finally, people are more motivated to solve problems than achieve visions i.e. people are more likely to change behaviour because they are avoiding something, than if they see the potential for future success. Purpose statements direct our thinking to the "problems" we need to solve to achieve our mission with a clear definition of how success is measured.

Resource for the future

If you are a hammer, everything is a nail. One of the fastest potential accelerators for change is to bring in fresh thinking and skills, that can change the perspective and provide completely new and alternate solutions. In a crisis as discussed earlier our tolerance for new thinking is compromised, and often the habitual response is to pull one's trusted colleagues to develop solutions. Trusted colleagues, however, are that often because they share our beliefs and experiences. The key question we should ask ourselves when looking to create shifts and changes is **"do we have the right team?"**.

The question unlocks thinking on two levels. Firstly "what is the right team?" that is, what capabilities, experience and attitude do we need to succeed based on how things have changed. Secondly "where do these people sit – inside or outside our organisation?" Very often it opens the door for others in the organisation to participate in solutioning, which helps to unblock or unlock value that already exists in our organisations. It can accelerate change by pushing the team to bring in new skills and capabilities, that perhaps would not have been considered previously. A key shift by introducing new people is that they often introduce new habits "ways of working." This shift in how we do things is most often the key to unlocking the next level of value.

Making these shifts in personnel is not easy, and it initially creates greater uncertainty by introducing new ways of working and thinking. One must balance how much a team can tolerate, not only because it disrupts the team, but also it often activates organisational anti-bodies that resist the change in people and thinking.

Leadership is tested on how the team engages and deals with the changes, and therefore it needs to align with the previous two habits. Make sure leaders are aligned on "why" we are bringing in the new people, and they understand the purpose of what these individuals are supporting the business to solve.

Conclusion

Leaders need to be very deliberate in making time to think and engage their executive functioning to ensure that they can tap into their creativity and develop new solutions and ways of working. It can be practically done by focusing on 3 key habit shifts:

1 **Slowing down to speed up** and ensuring the right level of alignment before solutioning and executing

2 **Communicating for purpose**, by defining what problems need solving and how success will be defined

3 **Resourcing for the future**, by bringing in new skills, thinking and ways of working

3 key habit shifts

About the authors

John Brodie is a Statutory Director and a member of the Organisational Transformation team, and also leads the Future of Work and Leadership Services practices for the Africa firm.

He focuses on working with leaders as they transform their organisations and shift their people practices, capabilities and ways of working to adapt to the requirements of an evolving digital economy. He has extensive experience in integrating business strategy with organisational change, and culture shifts to support the realisation of a business' aspirations.

Fortune Gamanya is a Director and an Organisational Development Strategist with extensive experience in strategy formulation, design and delivery or organisation wide leadership development initiatives, strategic cascading of organisational objectives and Lean management transformation .

She is passionate about creating organisations that are fit for human beings.

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Managing risk in turbulent times

Author: Mark Victor

As organisations shape their growth strategy, it is important to embed a level of transparency and challenge into organic and inorganic growth to avoid pitfalls and costly mistakes.

A considered and systematic approach to growth is important to minimising risk. This requires appropriate levels of engagement and communication with key stakeholders and the use of key business enablers that need to be leveraged to support growth initiatives.

The role of the board

The board has ultimate responsibility for organisational performance realised through the strategy and should be leveraged as a key ally in driving growth. At the very least, the Board will need to be convinced that identified growth priorities have strong potential to generate value for the business, while not compromising long-term sustainability.

The collective knowledge of the Directors should be actively leveraged in assessing and challenging potential growth opportunities, with consideration of:

- Timelines, assumptions and dependencies inherent in each growth initiative
- Impact on resources, relationships and material stakeholders
- Capital implications
- Potential impact of risks and challenges that need to be managed.

The use of a Board's Investment Sub-committee to act as a sounding board for growth strategies has been used by many companies to good effect. However, it will be critical that there is clear alignment between executive management and the Board on the growth imperative, how funds for growth will be unlocked.

Good decisions are made using good information

It goes without saying that the formulation of any strategic priority requires careful consideration of information. Leveraging market intelligence and trends is critical in making the right choices.

Strategy formulation needs to embed market intelligence and research capabilities and methods at its core. This should not be only for initial context setting. Current market volatility demands a rigorous approach to information collection and interpretation with a key focus on:

- Understanding current and anticipated market trends
- Regular environmental scanning and market sensing to identify both strong and faint signals that may inform market opportunities
- Detailed competitor analysis to identify common and unique selling propositions, strategic direction and how competitors deliver value. Scanning should also focus on potential new market entrants
- The formulation of a forward looking, long view of the market and segments, based on technological advances, changing customer preferences and sentiment and market innovation, and legislative frameworks and potential changes to help direct the growth focus.

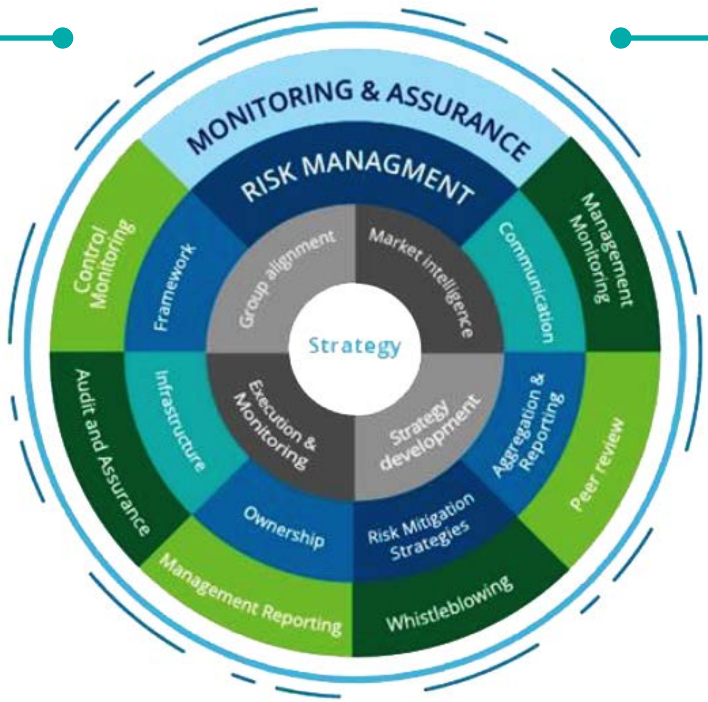
The value of market intelligence and research will always pay dividends in the setting and effectively executing of strategic priorities and is an essential capability to support sustainable business performance while reducing risk. A leading proactive role is even more essential in the turbulent times we are current experiencing.

Impact on organisational capabilities and maturity

A growth strategy in the current market will almost certainly have an impact on the organisation’s current structures, capabilities and ways of work and organisations run the risk of throttling their growth potential if they do not consider the new skills and capabilities needed to successfully deliver on a growth strategy.

The graphic below captures the interrelationships between strategy development, the impact on the organisation and the management of risk:

Governance and Organisation
- Leadership and tone
- Operating model
- Governance model and framework
- Policy and standards
- Stakeholders management
- Change management



People and performance
- Culture
- Roles and responsibility
- Capability
- Supervision and performance training

Systems and Data
- IT governance and strategy alignment
- Business relationship management
- Architecture and asset management
- Programme and project delivery
- Change enablement
- Solution delivery and support

Process
- Business architecture and control framework
- Financial processes
- Client delivery
- Infrastructure
- Information, communication and reporting

Consideration should be given to required changes to the current operating model, systems, staff capabilities and the new skills and resources required to deliver on the growth strategy. There will also likely be an impact on current processes and ways of work and the growth agenda may present a unique opportunity to re-engineer current ways of working and enhance operational efficiency.

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Continuous monitoring of strategic initiatives and performance targets

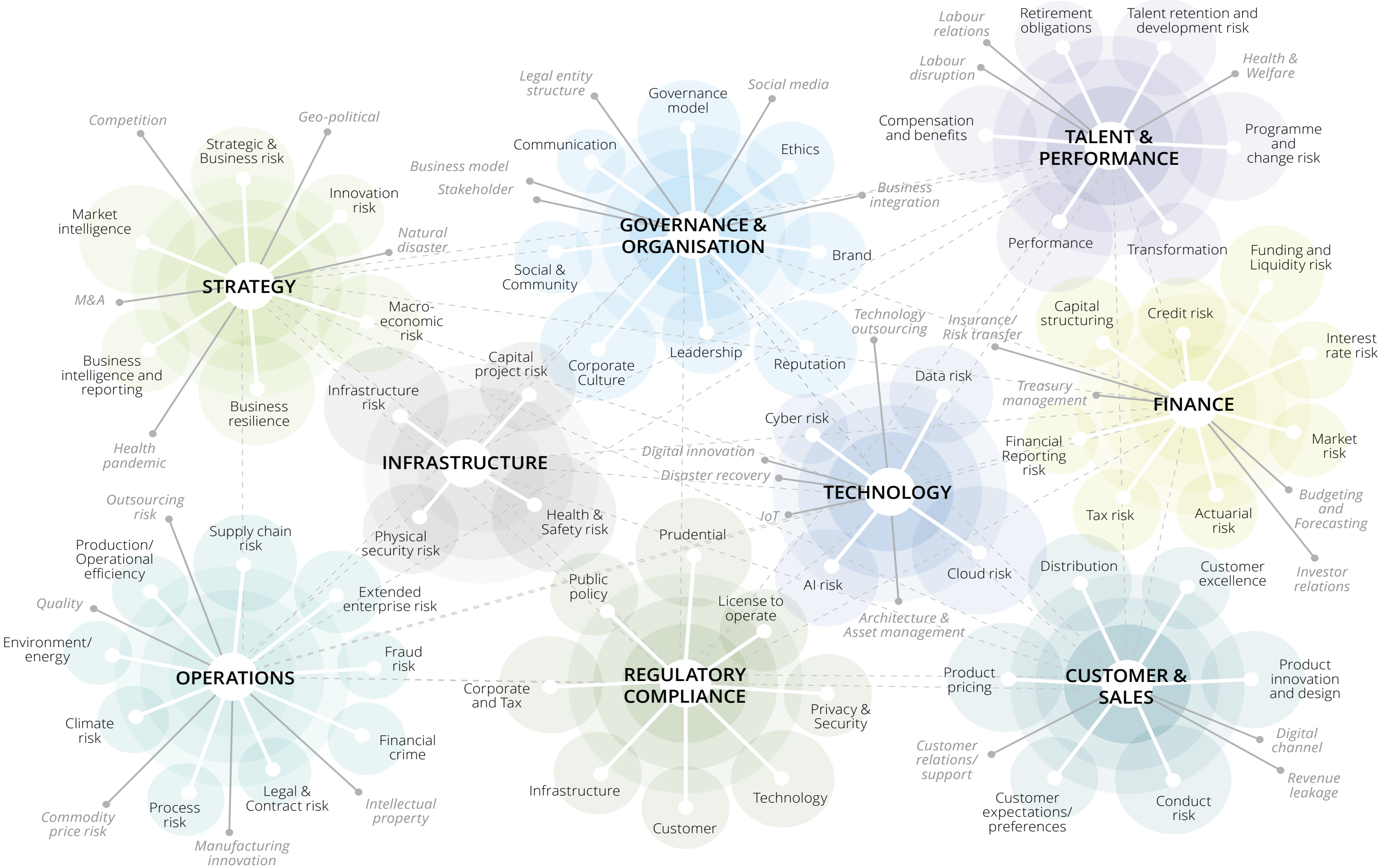
The old adage, "What is measured gets done.", is even more relevant to the execution of your growth strategy. While the formulation of the strategy requires significant consideration the majority of the hard work lies in execution. Adequate consideration of the execution timeline, milestones and measures of success will increase probability for success, and may be the real differentiator between an organisation and their competitors pursuing the same growth agenda. Strategy execution and monitoring capabilities within the strategy team play a key role in this and focus areas need to include:

- Developing a detailed implementation roadmap
- Challenging the appropriateness of targets and how actual achievements may inform decision-making and the need to pivot or redirect the strategy in execution
- Defining and challenging all key assumptions, critical success factors and uncertainties, and monitoring any changes and the impact on performance
- Providing regular, clear and transparent reporting and status updates to all key stakeholders, including board, to avoid group think and inform the right decisions in execution
- • Revisiting forecasts and identified strategic scenarios to provide updates on the achievement of targets.

Understanding of relative risks and opportunities to enable informed decision making

Any change in strategic direction will impact the current risk landscape faced by the organisation and while it is important to avoid a conservative approach that seeks to find reasons why a specific strategy will not succeed, it is critical to consider the potential uncertainties and challenges that may impact on the achievement of the specific growth objectives. This requires a deep understanding of what could go wrong, understanding the lessons that can be learned from the market, and clear visibility of the critical success factors, to actively manage any risks and embed risk intelligence into decision-making. An organisation should consider both internal and external risk factors, and the impact of strategic, financial, operational and compliance dimensions, including:

- Macro-economic, geopolitical factors and the impact of competitive pressures on the strategy
- Increased financial requirements, cash-flow forecasts/payback period, and infrastructure investment requirements
- Impact on operational capacity, demand and quality
- Customer expectations and changing preferences and how this supports the defined growth strategy
- Opportunities to leverage technology advances and innovation to drive market differentiation, and enhance brand equity and customer trust
- Supply chain and production implications.



The investment in risk-sensing capabilities is key in providing forward looking risk insights to enhance strategic decision-making and should be embedded as a core element of strategy formulation and execution.

About the author

Mark Victor is a Partner in Risk Advisory at Deloitte leading the Enterprise Risk Management Market Offering across Africa.

He has deep experience providing risk advisory and transformation solutions to clients. Mark has specialised in the areas of Governance, Risk Management and Control, and Business sustainability and works with Boards and Executives to enhance organisational capability and maturity.

War gaming for business during turbulent times

Author: Mike Vincent

COVID-19 has had a devastating impact on companies around the world. Could the use of war gaming assist companies to respond, recover and thrive?

Impact of COVID-19 on global economies

While there is no way to tell exactly what the economic damage from the global COVID-19 novel coronavirus pandemic will be, there is widespread agreement among economists that it will have severe negative impacts on the global economy. Value lost in economic output in 2020 was in excess of 3.5 trillion U.S. dollars[1].

The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand as consumers stop, delay or scale down the purchase of goods and services. This has been exacerbated by countries placing restrictions on movement (travel, social gatherings). The impact has been widespread – cancellation of flights, holidays and business trips, staff layoffs, reduction in manufacturing output, have all had severe economic impacts.

Governments around the world have learned from previous crises that the effects of a demand-driven recession can be countered with government spending. Consequently, many governments are increasing their provision of monetary welfare to citizens, and ensuring businesses have access to the funds needed to keep their staff employed throughout the pandemic. It is true that some sectors have benefited from the crisis – e-commerce, food retail, and the healthcare industry among others.

While the South African government has attempted to follow suit, its modest means have placed a ceiling on exactly what it can do to support industries and companies.

COVID-19 is a Black Swan Event

While COVID-19 was not the first pandemic faced by humanity, it will also not be the last. Recent history shows that COVID-19 had precursors in previous pandemics such as HIV/AIDS (1981-present) and the Spanish Flu (1918-1920). In 2004, US virologists warned about a strain of swine flu but the warning was widely ignored and the pandemic came as a surprise even to many virologists. In recent years, virologists have warned about potential pandemics from bird flu to coronaviruses like those behind SARS and MERS – warnings that came true with COVID-19.

It is common cause that COVID-19 has had an extreme impact on the world and has forced us to rethink the way we work, how we shop, the role of government, how the economy works at a national and global level. Above all, it has shown us how fragile everything is.

Against this background, the challenge to executives is how they can manage in an environment where the only constant is change, and what tools they might use to navigate their way to exceeding shareholder expectations.

[1] Impact of the coronavirus pandemic on the global economy - Statistics & Facts | Statista

What are war games?

With the advances in armed warfare that accompanied the industrial revolution in the 18th and 19th centuries, new techniques were developed to test strategies and tactics. Big leaps were made by the Prussian military in the 19th century which continued with the German General Staff in the early years of the 20th century. The increasing complexity and scale of warfare, together with rapid improvements in technology and equipment, forced the pace of change following the first and second World Wars.

The Cold War, with its static armies and emergence of nuclear deterrence, spawned new mathematical and game theory approaches, many of which have not had the same staying power as developments in the human-centric approach to decision-making. Modern war games use techniques and insights refined over many years and are an essential part of any military operation.

While much of this knowledge has not yet transferred widely to the non-military and private sectors, there is a small and growing adoption of war gaming techniques in these sectors. Organisations have used elements of war gaming to develop crisis management capabilities such as dealing with civil emergencies. Some private sector companies have used business war games as educational tools and to test marketing strategy. The idea being that war games can be used to evaluate strategies, explore scenarios and reveal unexpected weaknesses.

A war game or simulation forces participants to make decisions and respond to the external environment (represented by experts) in a "war game", to test the robustness of their assumptions and see the consequences of their decisions in a "safe" environment.

How are war games used in business?

Business war games employing role-playing and competitor analytical techniques are most beneficial in business strategy at the business unit, market, brands, product and project levels. War games have been applied with great success to new product launches, offensive and defensive moves against specific competitors (whose response is analysed using advanced competitor analysis techniques), in organisational development (training the next generation executive cadre) "competitive landscape" games, and in brand revival and new market entry situations.

Most war games are oriented in some way to the future either explicitly or inherently; accordingly, the predictive value of knowledge emanating from a game is critical. Corporate war games which simulate the interactions of multiple actors in a market provide fantastic insight and improve organisational agility.

The secret of successful war gaming does not simply lie in mathematics, however. Interaction, not algebra, is the best way to win support for a new strategy. Game players must be senior for the same reason – although having the top boss on a team can stifle feedback. Strategies also must capture competitors' hard-to-quantify corporate cultures highlighting the need to seek out employees who have worked at competitors for that reason. But perhaps war games' greatest value lies in the way they encourage managers to think differently about the consequences of their actions. To know your enemy, you must become your enemy, as Sun Tzu would say.

We are seeing increasing demand from our clients for sophisticated testing, simulation and validation of strategy and contingency plans through predictive analysis that war gaming can provide.

Deloitte has harnessed the war gaming methodology and applied it to businesses, using the years of experience among the senior staff at King's College London. Each Deloitte simulation is a role-play of a dynamic situation involving a number of players who each have their own identity within the game. Political, economic, social, environmental and technological factors are simulated; these are regarded as important external factors that may influence and impact upon the future. Deloitte can generate simulations that can be applied to businesses in various ways: from modelling changing market patterns, to ensuring business continuity during unexpected events. Deloitte simulations can help businesses to plan by producing data and intelligence; which companies can then act upon. Deloitte simulations can also be applied to test the robustness of businesses' existing plans and to train and equip employees to deal with the unexpected. In fact, Deloitte simulations can be used to model virtually any possible business scenario, and to train people to deal with it.

There are numerous benefits to war gaming, they include:

- Improving collective decision-making and focusing attention on the human dimensions of decision-making. As Paul Bracken, professor at the Yale School of Management wrote: "The problem with many strategy techniques is that they are too cold and bloodless. They fail to capture human emotions, and because of their icy rational character, people don't really pay attention to them. They are soon forgotten... Gaming is a profound learning experience, one that is not soon forgotten."
- The experiential impact of war games means that participants have ownership of any resulting decisions, strategy and actions
- Developing and testing strategy. War games have a unique advantage in the ways they can deal with time and scale. A 2-day war game can comfortably cover a period of 10 years, simulating as many players and functions as required
- Within this framework, ideas, proposals and theories are put under pressure and can be examined to breaking point if required. This takes place within a benign environment and in confidence, if required. Improving business resilience, crisis management and negotiation skills are extremely receptive to the dynamic and progressive nature of war games
- Improving consequence management through a better understanding of unintended consequences, which can be factored into game play
- Addressing risk and safety and optimism bias
- Competitive intelligence
- Education and training are key elements for participants within the war game itself but can also extend throughout the organisation after the event to ensure that all staff are aligned with the top-level strategy and decisions. The military have made particular progress in this area, joining the tactical actions of junior soldiers to the strategic mission of commanders
- Business war games are repeatable.

Using War Gaming techniques during turbulent times allows executives to stress test various scenarios for better outcomes.

About the author

Mike Vincent is a senior Partner in Monitor Deloitte. He has held numerous leadership positions including running the Innovation and Growth business.

Mike has led the Management Consulting, Finance Advisory and Risk Advisory businesses in West Africa and he currently leads the Consumer Products and Industrial Products & Construction industries across Africa.

Mike's key focus as a consultant is on corporate strategy, specifically on revenue growth and sustainable competitive advantage.

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