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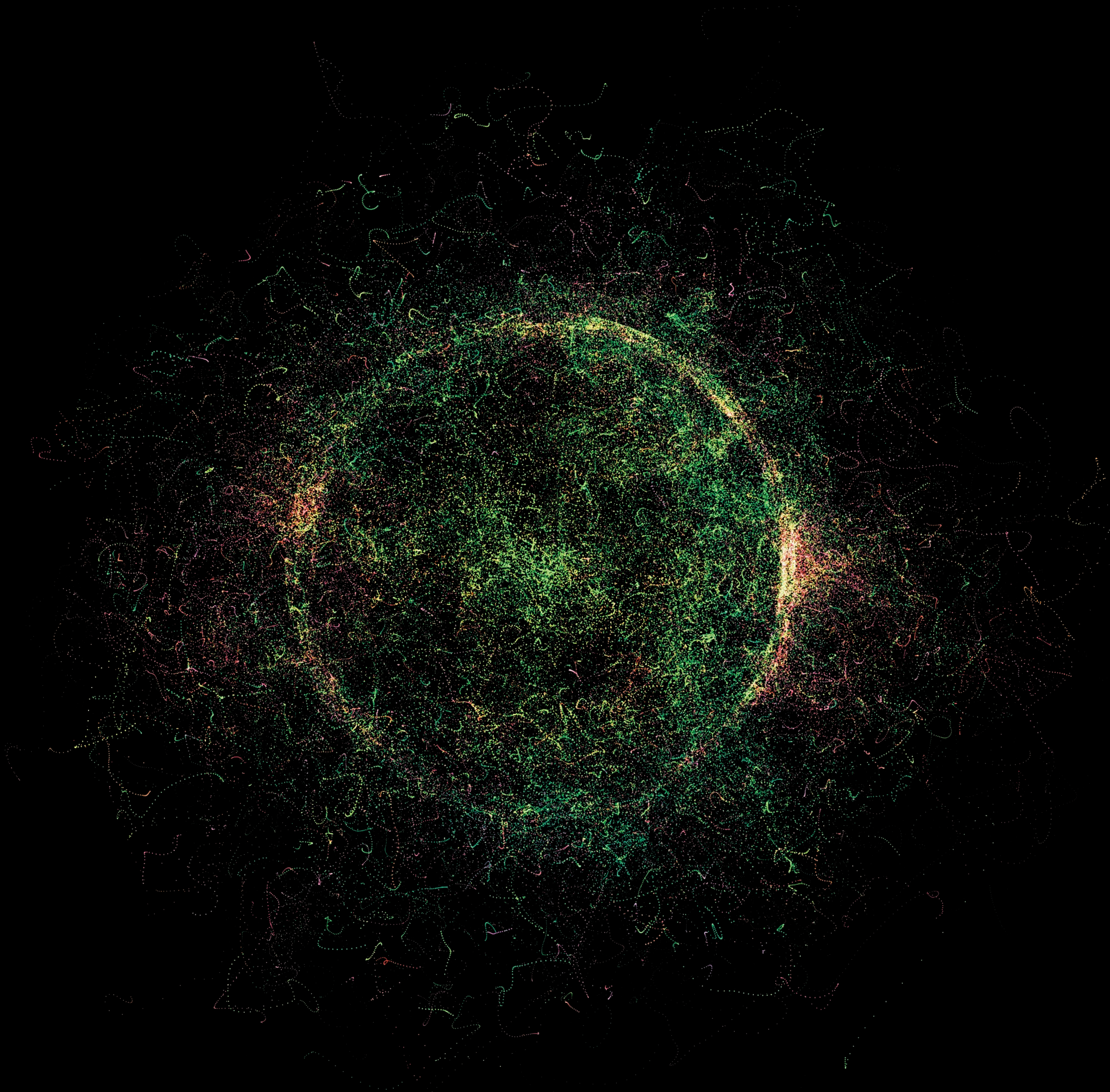
# Disruptive Growth and M&A

**A Market Survey**



# Introduction

Today, corporations and entire industries are facing business model disruption due to new technologies, changing customer behavior, and industry convergence. Examples can be found in all industries. For example, Fintech-Companies are threatening traditional banks and insurance companies; huge sales platforms are changing the rules in retail and car-sharing models and changed consumer perceptions regarding sustainability are putting pressure on automobile manufacturers.

These trends can be perceived as threats to corporations. However, they mainly represent huge opportunities for growth, particularly Disruptive Growth. Therefore, corporations ask themselves how to profit from these opportunities. Approaches that leverage traditional R&D methods or standard inorganic growth are neither innovative nor sufficient enough.

In Deloitte's view, a venturing mindset and methodology are key to a successful Disruptive Growth strategy. The venturing methodology clusters options for growth in four channels:

**Build:** Use of an incubator or accelerator to build up disruptive capabilities within the corporation (e.g., Microsoft Scale-Up Berlin program)

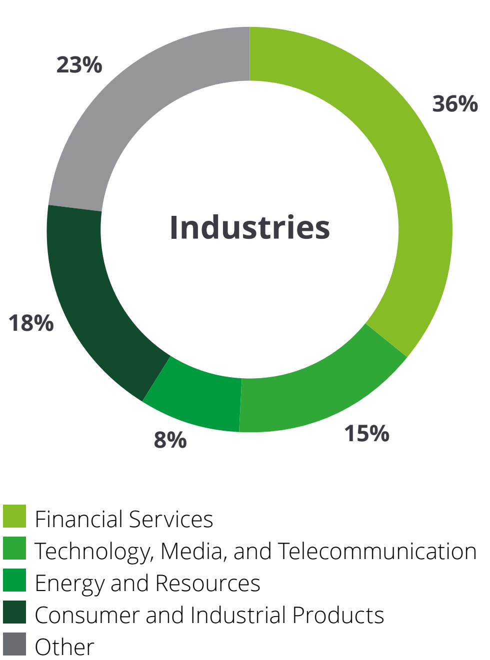
**Partner:** Establish a platform to cooperate with start-ups or set up a technology-driven joint venture (e.g., Volkswagen and Ford for the self-driving car)

**Buy:** Acquire technology-driven start-ups and find a suitable way to integrate/cooperate with them

**Invest:** Set up a venture capital fund to invest in promising start-ups without having to integrate them

Seeking deeper insights into how companies are using venturing methodologies, we conducted a survey, asking company leaders across several industries how they react to disruption in their businesses and how they use venturing channels to remain competitive. This paper provides an overview of Disruptive Growth and its major challenges, summarizing the survey responses as well as offering recommendations on how to keep up with the market.

**Fig. 1 – Survey participants per industry and company headquarters**



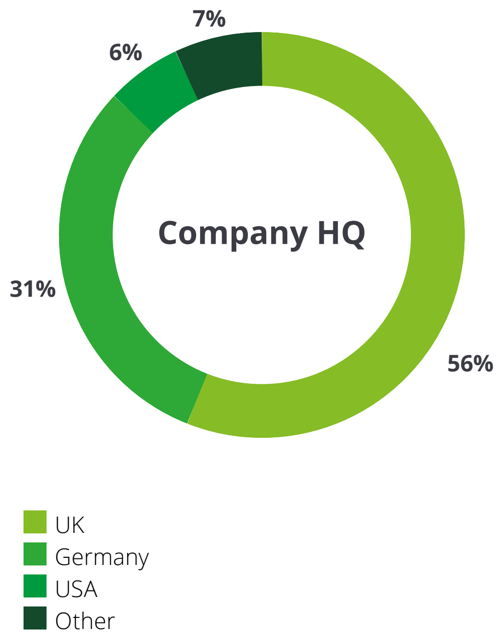
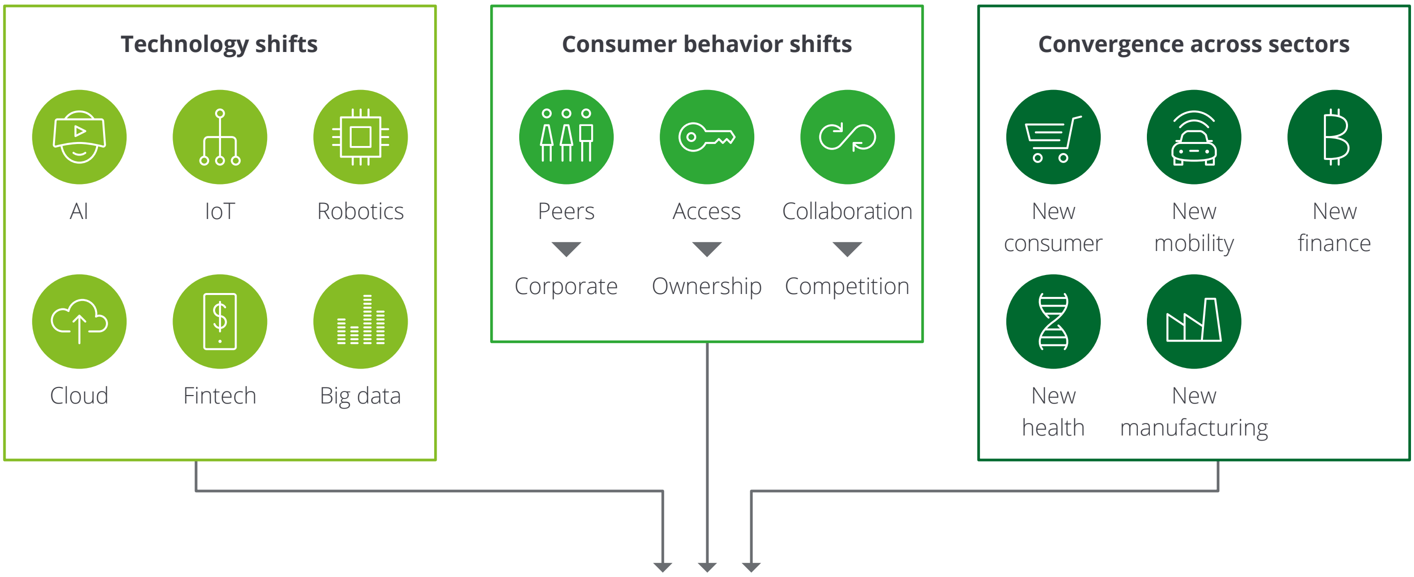



**Fig. 2 – Trends leading to Disruptive Growth opportunities**




**79%**

of businesses have been disrupted or will be facing disruption soon

**87%**

of companies see disruptive technologies as a growth opportunity

## Definition of Disruptive Growth

Grow with a new business model that is different from the core business (e.g. mobility services for an OEM)

The initiative should be driven by corporate or business area level and supported by the respective board

Business model should be based on new/disruptive technologies or trends

Potential for exponential growth

# Opportunities and Challenges Related to the Transition to Disruptive Growth

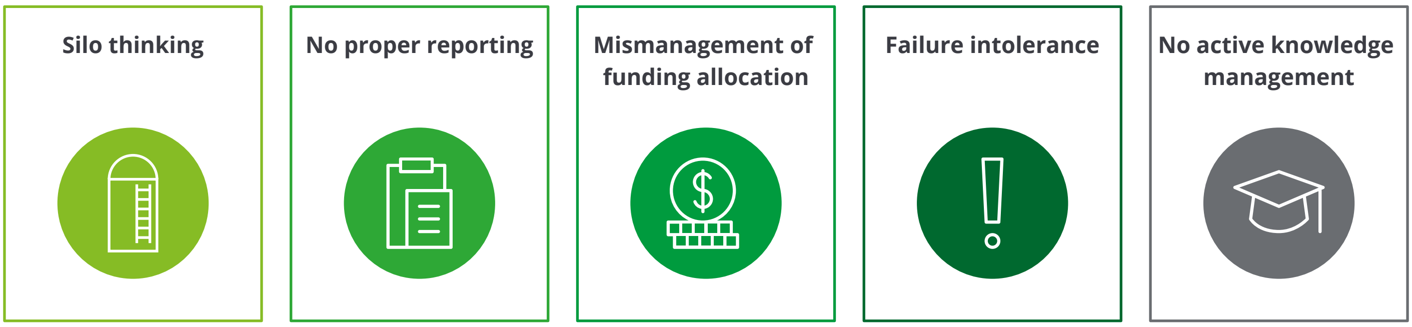
Our survey shows that 79 percent of all participating companies believe their businesses have been disrupted or will be facing disruption soon. More than 87 percent consider disruption a growth opportunity. In short, the topic is highly relevant for large corporations.

Our research revealed the following common patterns that hinder corporate innovation and a smooth transition from traditional growth to Disruptive Growth:

- Corporate venturing is often conducted in silos or in an intra-company competition for resources, leading to missed opportunities for synergies and wasted resources, such as double spending for similar aims.
- Portfolio projects and ventures are not tracked, prioritized, or managed in one central, transparent way, thus inhibiting measurement of the impact of innovation projects on strategic and financial objectives.
- Allocation of funding, either by channel or by individual project, is uncertain, inconsistent, and not tied to transparent Key Performance Indicators (KPIs) thus weakening the urgency and incentive to deliver results and reducing portfolio value.
- Failure is discouraged, and this affects both central managers and employees who become more risk-averse.
- There is an inability to harvest and share knowledge, which defeats a large part of the intelligence-gathering logic of corporate venturing.

Returning to our survey results, we observe a significant mismatch between reality and the self-perception of companies. While most companies feel well prepared for the challenges ahead, the results show that the majority is not yet using the complete potential of Disruptive Growth. Therefore, our survey evaluation will initially focus on the usage of growth channels. Afterward, we will look at the self-assessment of companies along our Deal & Venture cycle model. This will be followed by our conclusion.

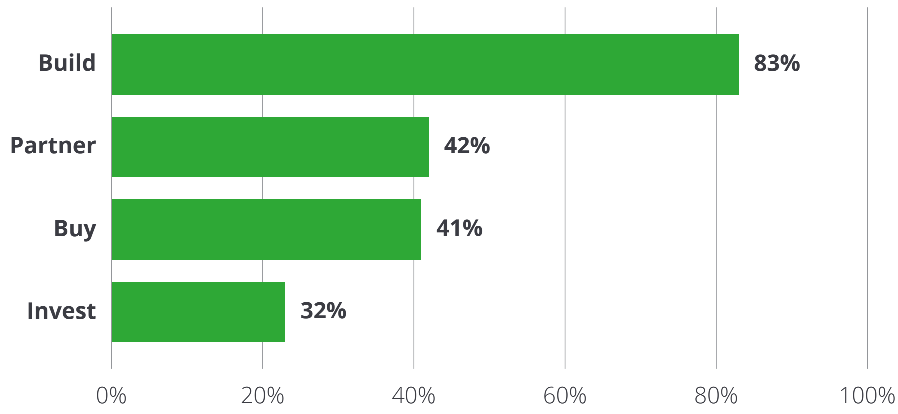
**Fig. 3 – Common patterns that hinder corporate innovation**



# Growth Channels

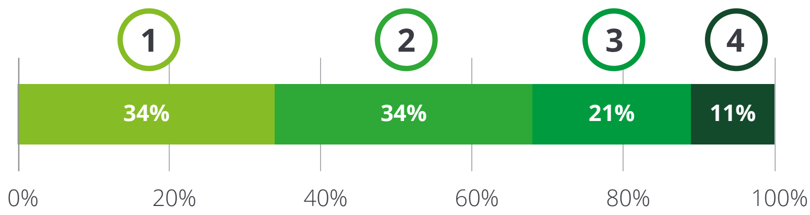
As mentioned, we have identified four main growth channels: Build, Partner, Buy, and Invest.

**Fig. 4 – Use of growth channels**



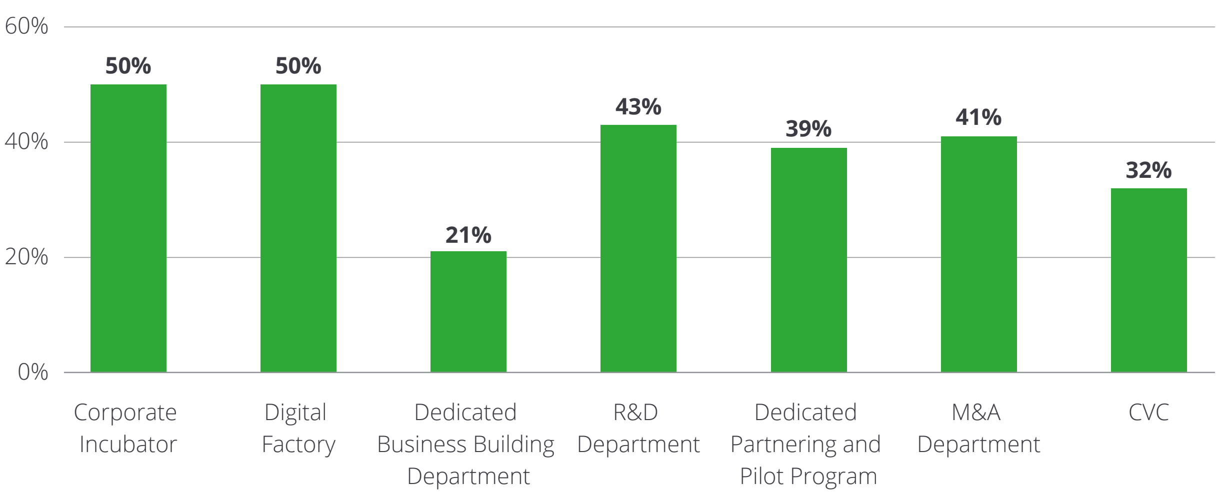

The results of our survey show that all companies use at least one growth channel. The dominant channel is Build (see Fig. 4), which we have detailed further to show the different disruptive and non-disruptive approaches (Fig. 6). This might limit companies in their development of truly disruptive business models. Considering that the majority of companies uses only two channels (Fig. 5) with a focus on Build and Partner, we can clearly state that the Disruptive Growth potential is not completely leveraged. Therefore, most companies lack the ability to effectively capture the full value of Disruptive Growth.

**Fig. 5 – Number of channels used by corporations to realize Disruptive Growth opportunities**




**Only 11% use all existing growth channels to benefit from disruptive trends**

**Fig. 6 – Approaches used by corporations to realize Disruptive Growth opportunities**




**Corporations do not use the full potential of growth opportunities.**

# Disruptive Growth Success Factors

The key question that arises from our findings is how companies can fully leverage the value of Disruptive Growth. In order to capture the potential and to use all four growth channels effectively, companies need to consider certain factors along the Deal & Venture lifecycle. This cycle consists of four re-occurring main phases a deal or venture has to pass through before completion.

All four growth channels are characterized by this lifecycle. Each phase requires different capabilities in order to successfully leverage Disruptive Growth opportunities.

These capabilities are summarized in the Deloitte Capability Assessment Framework below. As one of the study's goals was to assess companies' and industries' readiness to embrace Disruptive Growth, we used the framework to evaluate each company´s growth potential.

Below, we present the Deal & Venture lifecycle as a schematic illustration, showing the goals of each phase. On the following pages, each phase will be explained in more detail and evaluated using numbers from the survey.

**Fig. 7 – Capability Assessment Framework**

### 4. Deal & Venture Returns

**Deliver the promised value**

· Deliver the transformation and scale to realize value
· Management of a portfolio of "bets" with diversified timelines and potential values
· Maximizing value from portfolio exits

### 1. Disruptive Growth Strategy

**Develop growth and corporate venturing strategy**

· The right leadership mindset and risk appetite
· A clear corporate strategy, ambition, and vision of the future
· A clear definition of value measured by appropriate KPIs


### 3. Deal & Venture Execution

**Enable the deal & venture**

· Investment process that enables rigorous deal execution
· Manage and mitigate risks

### 2. Deal & Venture Screening

**Identify the deal & venture**

· Origination – access to the best deals and best networks
· Ability to rapidly filter early-stage targets and structure and negotiate the right opportunities

## Disruptive Growth Strategy

A well-elaborated strategy is key to deliver profitable growth. However, with disruptive trends constantly changing today's business landscape, it is hard to keep up. Therefore, a sound growth strategy that is able to adapt quickly and to anticipate shifts in the market two steps ahead of the change is highly important and essential for a company's success. Effective growth will always come from various sources that are spread over the four growth channels – whether they lead to organic or inorganic growth.

In fact, an effective growth strategy is different for each company and always needs to be defined individually based on factors such as the company's strengths, value proposition, and competitors. However, there are certain attributes that are required by every company and its leaders in order to develop and execute the strategy successfully. Many of the attributes are linked to the leadership's mindset, which needs to be suitable for a rapidly changing market.

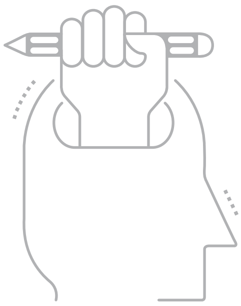
Disruptive Growth is an opportunity but also a risk; therefore, leaders need to have a certain risk appetite and be willing to accept failures. At the same time, the company objectives must be clearly defined and monitored through appropriate KPIs in order to not lose the strategic orientation. These attributes are essential for Disruptive Growth.

Therefore, to understand to what extent today's enterprises are able to develop and execute an effective growth strategy, survey respondents were asked to evaluate their capabilities with regard to this.

**Fig. 8.1 – The right leadership mindset and risk appetite**

**55%**

**agree that their company's leadership rewards failing fast**



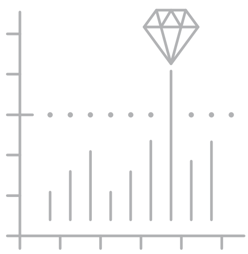
**74%**

**agree that their company's leadership has a high risk tolerance**

**Fig. 8.2 – A clear definition of value measured by appropriate KPIs**

**87%**

**agree that their company has a clear definition of the value it wants to derive from venturing**



**85%**

**agree that their company implements appropriate KPIs to measure value**

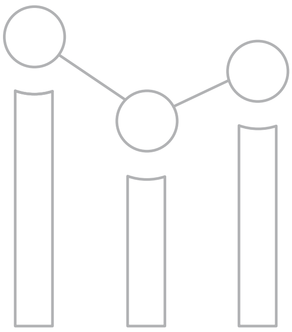
**Only the right leadership mindset enables successful Disruptive Growth.**

## Deal & Venture Screening

Once the growth strategy has been developed and implemented, companies will be able to identify a range of opportunities along all four growth channels. Successful companies screen these strategically to determine the most suitable ones. As the list of potential deals can be long, it is essential to follow a structured approach. Each company should start by defining and prioritizing the assessment criteria applied to the deals, followed by the collection of data and ending with a detailed screening and valuation. Following such a structured methodology ensures objective research based on the company's strategic orientation and avoids subjective decision making.

However, the business landscape changes rapidly due to the fast pace of disruptive trends. Moreover, as Disruptive Growth becomes more widely recognized as an opportunity, the deal market becomes increasingly competitive. Therefore, both a structured screening approach and other capabilities are required, including a deep knowledge of the market and the ability to build and maintain great networks that give early access to deals. Furthermore, it is essential to be able to take advantage of the early access by rapidly filtering early-stage targets. This helps companies to stay one step ahead of the competition.

**Fig. 9.1 – Origination – access to the best deals and best networks**



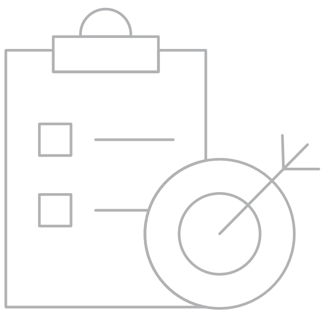
**89%**

**agree that their company has the capabilities to rapidly evaluate and prioritize opportunities**

**Fig. 9.2 – Ability to rapidly filter early-stage targets and structure and negotiate the right oportunities**

**81%**

**agree that their company assesses the full potential to deliver strategic and financial benefit when conducting due diligence**



**Solid screening capabilities form the foundation of successful ventures.**

## Deal & Venture Execution

Once a deal has been selected, the focus shifts to the execution. Confronted with limited timeframes and exclusive windows for options, it is essential that companies act quickly while at the same time not sacrificing diligence. Due to the fast pace of disruptive trends, this becomes even more challenging. Therefore, an operating model that enables the fast and successful execution of disruptive venturing opportunities becomes key. While the right managerial skills and commitment on both sides are crucial, the operating model needs to be structured around the right capabilities to generate growth from the opportunities. One prerequisite is an investment process that supports the execution by allocating the appropriate amount of funding. Moreover, the successful management and mitigation of risks must be considered and enabled. Overall, with Disruptive Growth challenging traditional value chains, the operating model must allow a certain degree of flexibility regardless of the growth channels being targeted with the deal.

**Fig. 10.1 – Investment process that enables rigourous deal execution**

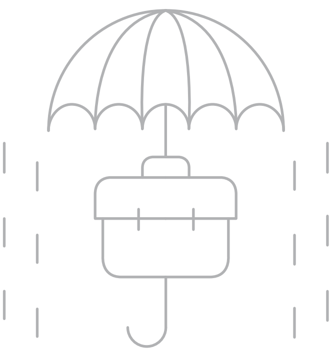
# 94%

**agree that their company's corporate venture fund has the right capabilities to generate growth from disruptive technologies**

# 87%

**agree that their company's operating model enables the successful execution of disruptive venturing opportunities**

**Fig. 10.2 – Management and mitigation of risks**



# 85%

**agree that their company effectively manages the risks associated with disruptive venturing opportunities**

**The definition of a suitable operating model is key for successful execution.**

## Deal & Venture Returns

Generally, a successful deal execution will create value and deliver returns. However, disruptive venture deals are highly complex because they are often focused on capturing talent and ideas instead of tangible products or technologies. Additionally, following a holistic approach and covering several growth channels the company's venture portfolio gets increasingly intricate. Therefore, the arising complexity needs to be managed effectively in order to maximize deal returns. This starts with a suitable operating model that allows the scale of a disruptive transformation and ends with effective portfolio management, which also includes considering portfolio exits if required.

**Fig. 11.1 – Delivery of transformation and scale to realize value**

**81%**

**agree that disruptive ventures have transformed their core business**

**87%**

**agree that their company's operating model enables the successful execution of disruptive venturing opportunities**

**Fig. 11.2 – Management of a portfolio of "bets" with diversified timelines**

**88%**

**agree that their company's portfolio is managed successfully**

**Fig. 11.3 – Maximization of value from portfolio exits**

**78%**

**agree that their company has realized the full potential in the past when exiting disruptive ventures**

### Effective portfolio management maximizes deal returns.

# Keeping Up with the Market

Our research has shown that there are four main prerequisites which are necessary to be successful in Disruptive Growth:

- Only the right leadership mindset enables successful Disruptive Growth
- Solid screening capabilities form the foundation of successful ventures
- The definition of a suitable operating model is key for successful execution
- Effective portfolio management maximizes deal returns

While the majority of respondents replied that their company is meeting these conditions and have built up sufficient capabilities along the Deal & Venture lifecycle already, other survey results show that growth opportunities are not fully leveraged yet. Disruptive trends are mostly recognized as a growth opportunity rather than a risk, and therefore, companies have started first initiatives. At the same time, however, only 11 percent of surveyed companies use all growth channels. Industries as for example, life sciences and healthcare still tend to focus on traditional approaches, such as R&D. Moreover, our research has shown that many innovation challenges are still applicable today and are often not covered by a company's existing capabilities. Therefore, there seems to be a mismatch between the assessed reality and the survey respondents' perceived readiness for Disruptive Growth. Such a mismatch can pose a high threat to a company if it means that competitors are leveraging Disruptive Growth opportunities more successfully and eventually leaving them behind. Therefore, ask yourself the following:

## Have you built up the capabilities that are required to keep up with and eventually beat the competition?

## Are you fully leveraging all your opportunities?

In order to answer these questions affirmatively and thus maximize returns, companies need to optimize their capabilities along the complete lifecycle (see Fig. 12) considering all four growth channels. Deloitte can support companies along the way.

**Fig. 12 – Optimizing capabilities along the Deal & Venture Lifecycle**

### 4. Deal & Venture Returns

· Allow the transformation and scale to realize value
· Actively manage a portfolio of "bets" with diversified timelines and potential values
· Maximize the value from portfolios exits

### 1. Disruptive Growth Strategy

· Implement the right leadership mindset and risk appetite
· Define and communicate a clear corporate strategy, ambition and vision of the future
· Develop a clear definition of value measured by appropriate KPIs


### 3. Deal & Venture Execution

· Implement an investment process that enables rigorous deal execution
· Actively manage and mitigate risks

### 2. Deal & Venture Screening

· Obtain access to the best deals and best networks
· Gain ability to rapidly filter early-stage targets and structure and negotiate the right opportunities

# Disruptive Growth and M&A Expertise

Deloitte has built up comprehensive experience in the different growth channels and offers a holistic approach to capture value.

**Fig. 13 – Deloitte offerings per growth channels**

| Build | Partner | Buy | Invest |
|---|---|---|---|
| Disruptive Growth Maturity Assessment | | | |
| • Corporate Accelerator<br>• Business Building | • Ecosystem – S@S Program<br>• Joint Venture Set-Up | • Deal Screening<br>• Start-up Integration | • Venture Capital Fund<br>• Deal Screening |

By leveraging our network of Deloitte experts, we can support you over the whole Disruptive Growth and M&A lifecycle in all available channels:

**1. Detailed assessment of your capabilities**
We have developed a holistic maturity assessment to evaluate your Disruptive Growth capabilities and to identify gaps.

**2. Development of your capabilities**
We have built up extensive experience across all channels considering all levels of maturity (from implementing the growth strategy to the actual transaction) and thus offer a holistic approach to build up capabilities.

**3. Execution of your deals and/or ventures**
We have a large network of Deloitte experts that can help you execute your strategy for Disruptive Growth by supporting deals or ventures in all channels.

**Now it's your turn: Increase successfulness and address and embrace opportunities.**

**We will support you along the way. Get in touch.**

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