



Innovation Trends 2020

By KPMG Digital Delta

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Foreword



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Welcome to KPMG Digital Delta's Innovation Trends Report for 2020.

In recent years organisations have been striving to continuously innovate in order to remain competitive and relevant, ultimately to meet the growing digital demands of customers and citizens.

As a result, Australian organisations, like their global counterparts, have increasingly embraced a range of growth-focused innovation practices including crowdsourcing platforms, sprint-based product and service development, exploring new partnerships and building safe to fail innovation cultures. The complacent among us had started to view the phrase 'we live in a rapidly changing world' as somewhat of a cliché.

The COVID-19 health and economic crisis has shaken us from that complacency and created unprecedented disruption to individuals, families, businesses and government organisations. Leaders around the world have been struggling to respond to the crisis and balance the health and economic priorities of their citizens. Even organisations that have previously embraced disruption, and led the way with innovative solutions, are caught up in the maelstrom like everyone else.

Through this report, produced by Digital Delta's Innovation Consulting team, we aim to provide an understanding of the changing perceptions of innovation through this turbulent and uncertain period, and we hope that this will help to inform your future priorities.

KPMG Digital Delta helps organisations to re-imagine and re-invent themselves to become world-class digital enterprises using advanced technologies, data, innovation strategies and human insights. We have never been busier.

Enjoy the report and please contact me or a member of the Innovation Consulting team for further information or advice. Contact details are at the end of the report.

Best wishes
Guy

Background

An online survey of Australian business and government leaders was conducted by KPMG to discover the the impacts COVID-19 has had on innovation functions and the consequences. The survey was conducted between 2- 24 July 2020, with 158 respondents completing the survey.

For the purposes of the survey, innovation was defined as any strategy or activity that seeks to create new ideas, products or solutions for the respondent's organisation.

Key findings



COVID-19 is driving an increased focus on innovation.



Over 92 percent of respondents feel that COVID-19 has either increased their organisation's focus on innovation or maintained previous levels.

- More than two thirds (73 percent) of respondents feel that COVID-19 has increased focus on innovation.
- Less than 8 percent feel that COVID-19 will result in a reduction in focus on innovation.



However, many innovation leaders will need to do more with less.



Despite the increased focus on innovation, 65 percent of respondents feel that innovation funding will be reduced, or remain steady, as a result of COVID-19 related impacts.

- Approximately 30 percent of respondents anticipate a reduction in innovation investment while facing an increase (or no change) to their organisation's focus on innovation.
- One third of respondents expect an increase in both focus on innovation and funding available for pursuing innovation.
- Only 8 percent of respondents expect both innovation focus and innovation funding to greatly increase.



Organisations are focusing on more incremental/short-term innovation outcomes.

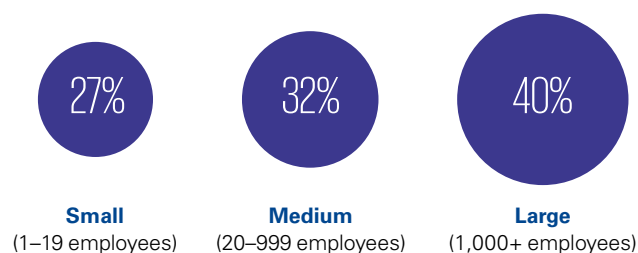


There has been an increase in pivoting and incremental innovations with short-term financial returns, and a decline in the pursuit of disruptive innovation.

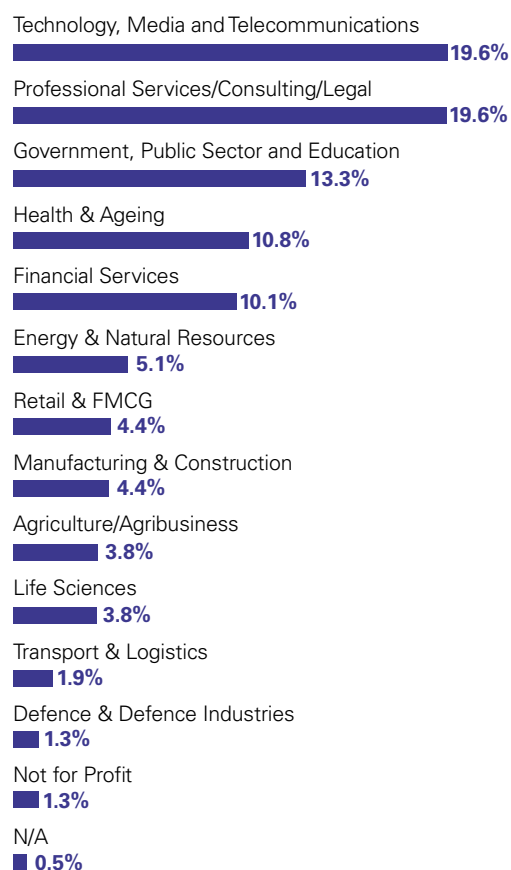
- An increase in the focus on pivoting or adapting current products and services to meet changing needs going forward is expected by 73 percent of the respondents.
- Incremental innovations will be pursued by 65 percent of respondents.
- The largest decline in innovation activities was reported for disruptive products or services, with 23 percent of larger organisations expecting a decline in the pursuit of disruptive innovation and 15 percent across all respondents.
- An enhanced focus on innovative ideas that create financial impact within 12 months was reported by 61 percent of respondents.

Respondent profile

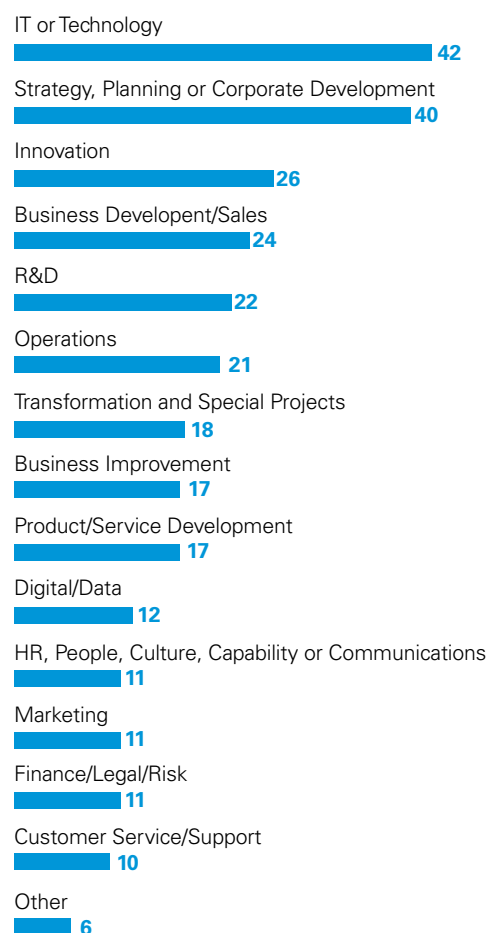
The profile of respondents who completed the survey is shown below:



Respondents – industries (by percentage)



Respondents – function (by number)



*Note: respondents were allowed to indicate more than one function where relevant.

Impacts of COVID-19

The coming innovation crunch – increased innovation focus, but often with reduced investment.

65%

of respondents expect that their organisation's investment in innovation will either be reduced or remain the same

30%

expect either an increase in priority of innovation or no change, while facing a reduction of innovation investment

Over 73 percent of respondents feel that COVID-19 will increase their focus on innovation (35 percent greatly increase, 38 percent somewhat increase), with less than 8 percent expecting a reduced focus.

In contrast, 65 percent of respondents expect that their organisation's investment in innovation will either be reduced or remain the same (9 percent greatly reduced, 28 percent somewhat reduced, 28 percent no change).

Importantly, 30 percent expect either an increase in priority of innovation or no change to their current level of focus, while facing a reduction in innovation investment – i.e. they expect to be required to deliver more (or the same) with less.

One third of respondents (33 percent) feel their organisation is embracing the innovation challenge presented by COVID-19, anticipating an increase in focus on innovation and innovation investment, with 8 percent expecting both to greatly increase.

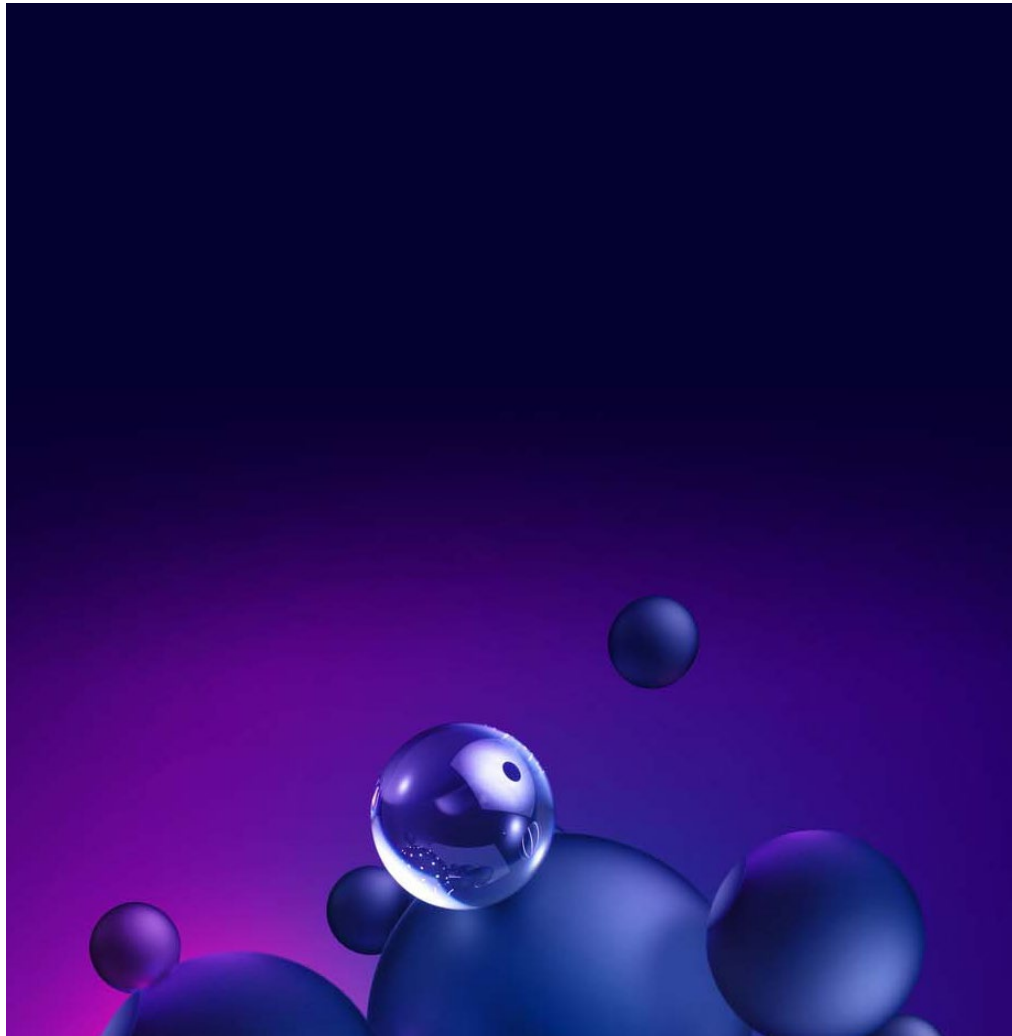
This will be important for innovation leaders and senior executives in certain industries, as organisations seek to invest in innovation either to respond to the challenges presented by the current climate or to capitalise on emerging opportunities. This is most notable in Defence & Defence Industries (50 percent of respondents expect both innovation focus and innovation funding to greatly increase), Health & Ageing (18 percent greatly increase for both), Retail & FMCG (14 percent greatly increase for both), Technology, Media and Telecommunications (13 percent greatly increase for both) and Government, Public Sector and Education (9.5 percent greatly increase for both).

Of the 8 percent of respondents that feel their organisation's focus on innovation will be reduced, larger organisations are more likely to believe this will be the case (12.5 percent of large organisations expect a reduction in innovation focus vs 4 percent for medium organisations and 5 percent for small organisations).

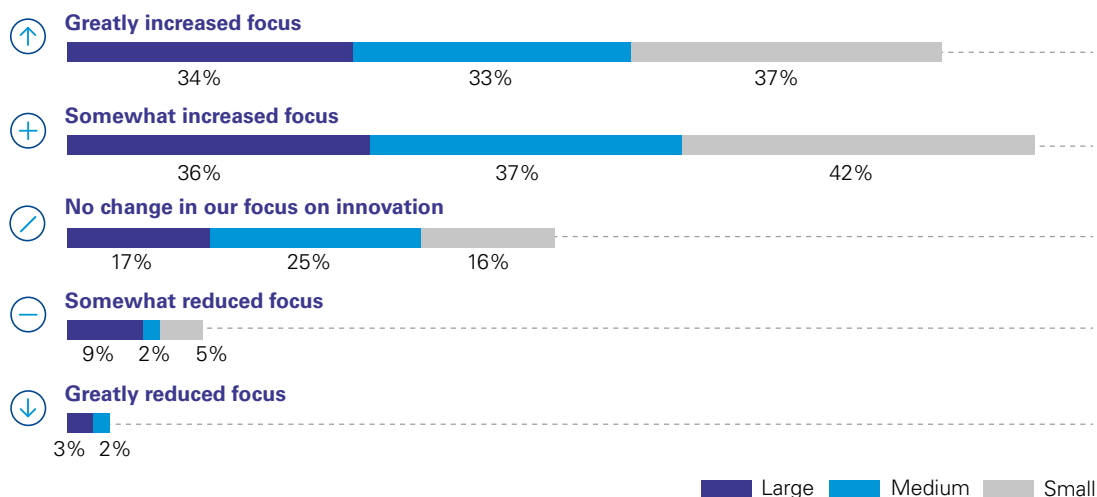
We see this continued support as both an acknowledgement of the value that innovation leaders are creating, as well as a need for innovation-driven growth within a tough operating environment. Importantly, business leaders recognise the value of promoting innovation agendas in tough times, as positive external messages around driving growth.

While the anticipated tightening of innovation funding is perhaps reflective of carefully managed financing across all functions, this should be seen as an opportunity for savvy innovation leaders.

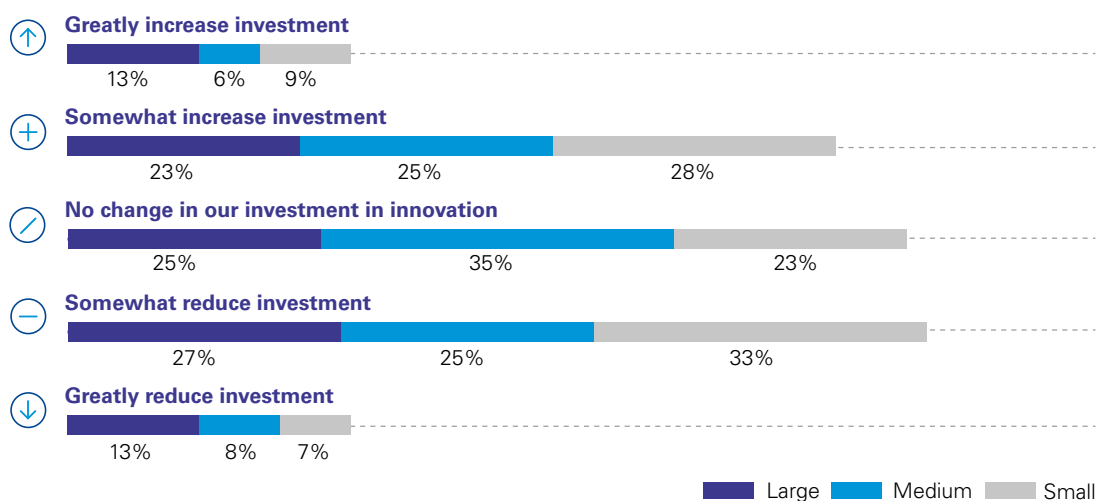
Considering historical trends, business instability can, in fact, work to an innovation leader's advantage. In good times, innovation can be viewed as a risky distraction to the steady returns of core business. However, in times of instability, organisations are more open to exploring non-linear, innovative bets on growth (within reason, of course). This could, and should, be a significant opportunity for leaders to advance an innovation agenda.



Q How have the social and economic impacts of the COVID-19 disruption influenced your organisation's focus on innovation going forward?



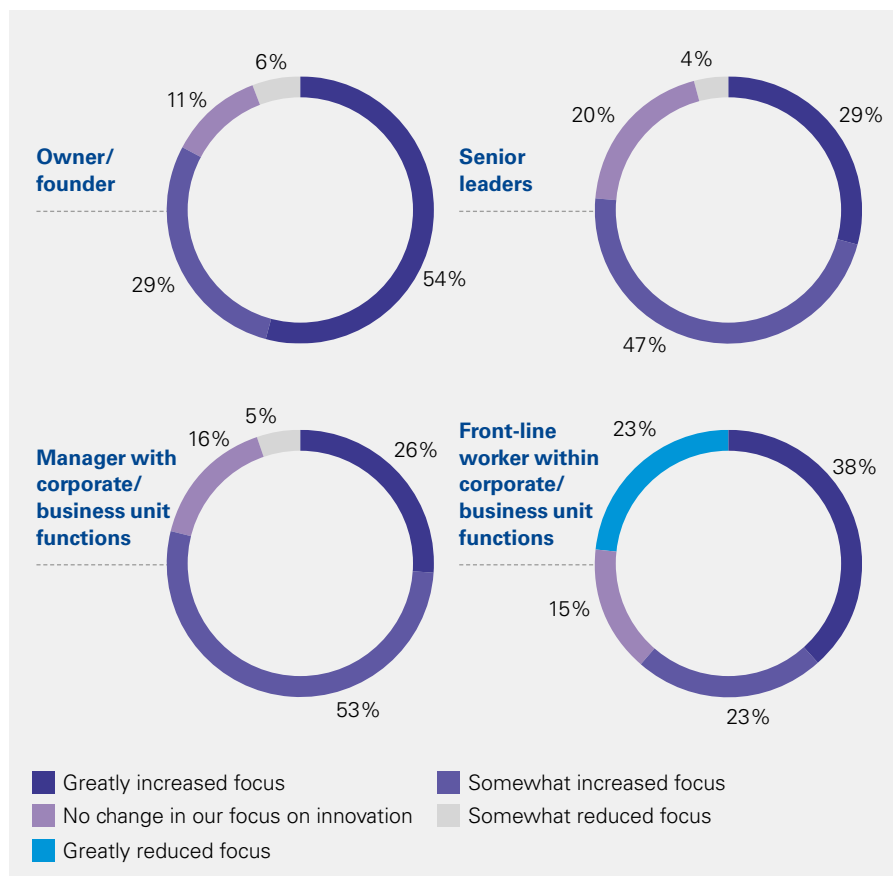
Q How will the social and economic effects of COVID-19 impact the level of funding available for pursuing innovation within your organisation?



Perception by level

The role that respondents have within an organisation also affects their view of the potential impacts of innovation impacts, with a disparity between the view of senior leaders and the view of front-line workers.

The majority of survey respondents, regardless of seniority level, felt that social and economic impacts of the COVID-19 pandemic will increase their organisation's focus on innovation. Owners and founders were the most bullish about ongoing innovation investment, with 83 percent expecting their focus on innovation to increase (54 percent indicating a greatly increased focus). Two-thirds (67 percent) of board directors and chairs feel it will result in a somewhat increased focus on their organisation's innovation and similarly the majority of both company/business unit leaders or executives (77 percent) and senior managers (79 percent) expect an increased focus on innovation.



“Every organisation type needs to embrace the opportunity to transform into the new normal.”

**Health & Ageing,
medium-sized business**

Front-line workers, however, are more likely than other levels to feel that COVID-19 has resulted in a greatly reduced focus on innovation (23 percent), whereas no other level believes the impacts to be more disruptive than a somewhat reduced focus (and only 7 percent on average feel this is the case).

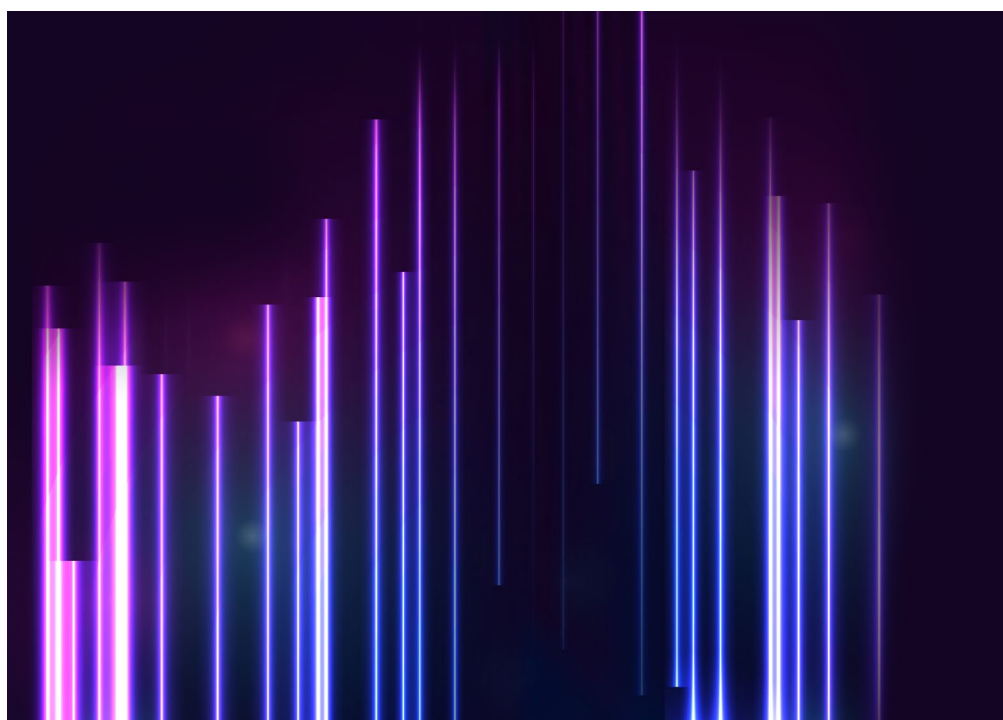
This reinforces the importance for boards and senior leaders to regularly communicate the organisational intent to maintain a culture of innovation. In addition, innovation leaders should continue to focus on both internal and external communication efforts, with messages of endorsement and support for innovative outcomes and actions by employees. Organisational innovation priorities need to be matched with walking the talk as perceived by employees at all levels.

Prioritisation of innovation

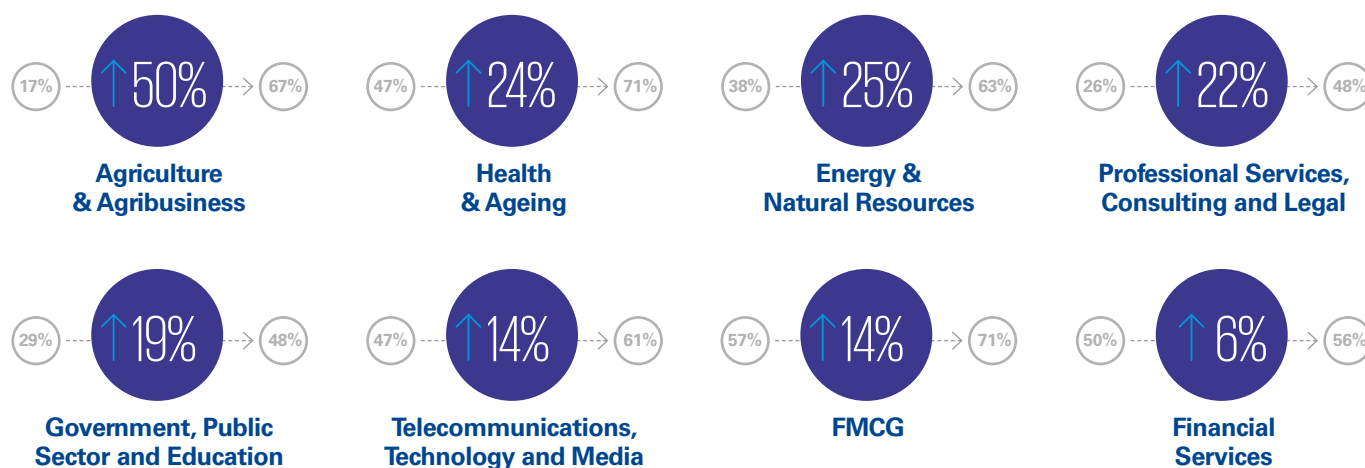
Innovation is among the top priorities for most organisations

Innovation is absolutely a top priority for 55 percent of respondents which represents an 18 percent increase over the previous six months.

The Health and Ageing sector saw a significant increase in prioritising innovation compared to six months ago, and currently has the equal highest priority (71 percent of respondents feel it is absolutely a top priority). This is very likely in response to the significant health crisis presented by COVID-19 and the wide-ranging impacts and implications on service delivery and ways of working.



Other sectors seeing large increases in the prioritising of innovation include:



Overall, 79 percent of respondents feel that innovation is among their top priorities (either absolutely a top priority or somewhat of a top priority), up from 73 percent six months ago).

30 percent of respondents believe that the priority of innovation in their organisation has gone up compared with six months ago, 59 percent feel that it has not changed and 11 percent feel that it has slipped in priority. Where respondents felt that innovation was absolutely a top priority six months ago, it has largely stayed that way. Only 10 percent feel that the priority has slipped from 'absolutely, a top priority status'; however it still remains somewhat of a top priority for all of those organisations.

For organisations where innovation was somewhat of a top priority six months ago, 46 percent feel that it has now increased to absolutely a top priority, 37 percent feel this has not changed and only 14 percent feel that the organisational priority of innovation has slipped from somewhat of a top priority, to no longer being a top priority.

Given the challenges presented by COVID-19 this is a strong endorsement by respondents of the value expected to be generated by innovation in the current and future operating environment.

“The current COVID-19 climate has not changed the priority of much of our innovation agenda, but has accelerated a variety of consumer behaviors, tech and corporate trends, causing us to accelerate a number of our initiatives accordingly.”

**Financial Services,
large organisation**

| To what extent was innovation a priority for your organisation 6 months ago? | Is innovation still a priority for your organisation today? | | | | | Total |
|--|---|----------------------------|---|---------------------------|-------------------------------|-------------|
| | Absolutely, a top priority | Somewhat of a top priority | Neutral, an equal priority to other initiatives | Not really a top priority | Definitely not a top priority | |
| Absolutely, a top priority | 33% | 3% | 1% | 0% | 0% | 37% |
| Somewhat of a top priority | 17% | 13% | 1% | 4% | 1% | 36% |
| Neutral, an equal priority to other initiatives | 3% | 6% | 10% | 1% | 0% | 20% |
| Not really a top priority | 3% | 1% | 1% | 2% | 0% | 6% |
| Definitely not a top priority | 0% | 0% | 0% | 0% | 1% | 1% |
| Total | 55% | 24% | 13% | 6% | 2% | 100% |

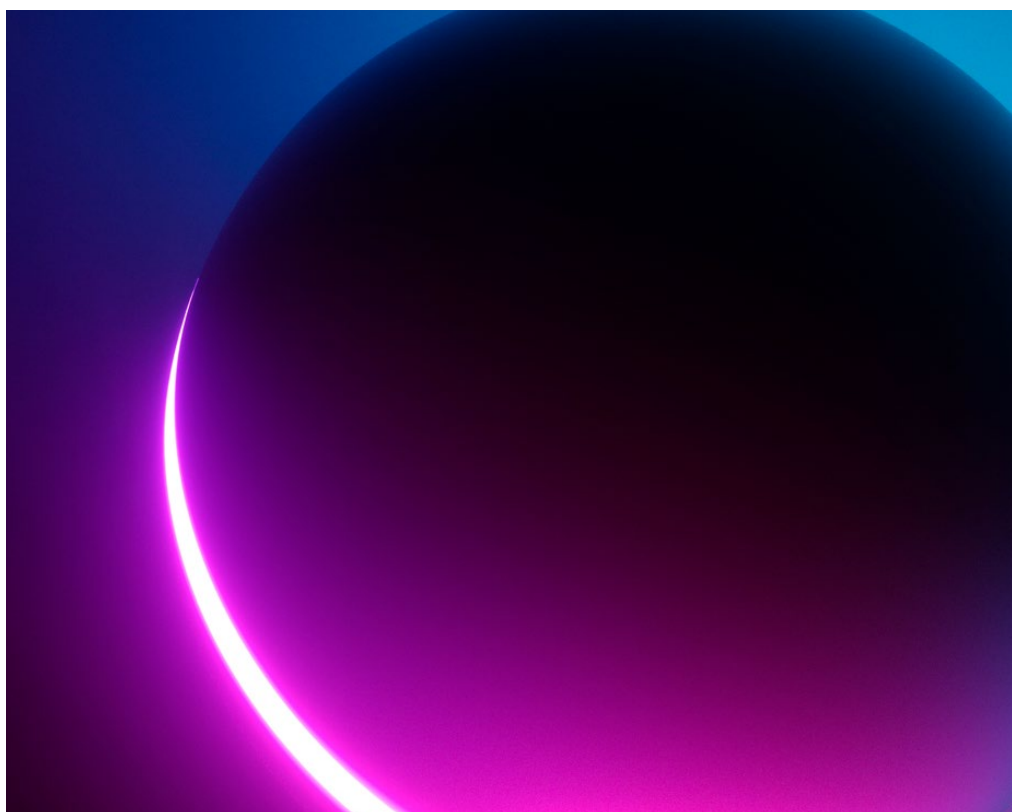
Approaches to innovation

Changes to our methods of innovating

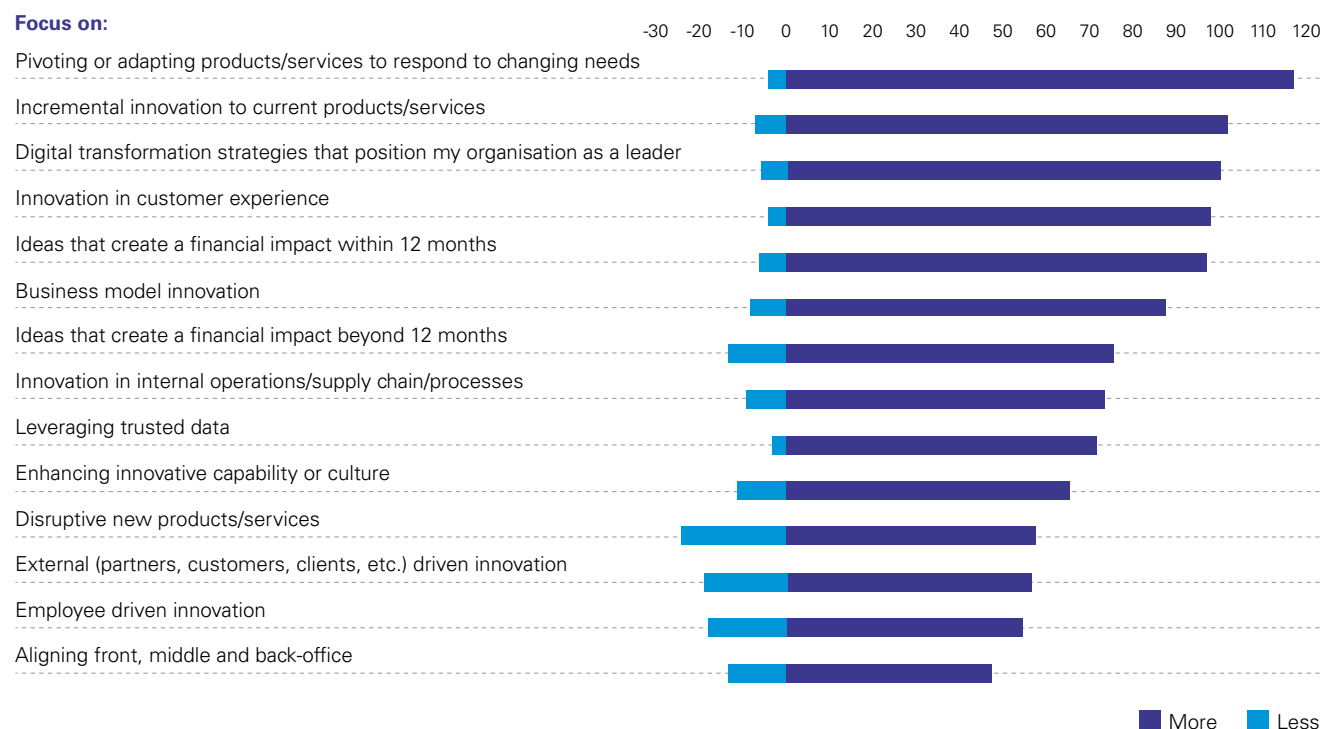
Most organisations are adjusting the methods they will use for innovation.

Regardless of an organisation's size, the method of innovation seeing the largest increase in adoption is 'pivoting or adapting products/services to respond to changing needs', with 74 percent of organisations indicating they are using this method more (81 percent of small organisations, 73 percent of medium organisations and 72 percent of large organisations). Conversely, the method of innovation experiencing the greatest decline in adoption is 'focus on disruptive new products/services', with 15 percent of organisations responding that they are using this less (10 percent of small organisations, 13 percent of medium organisations and 23 percent of large organisations).

This indicates both a response to defending core products and services that have been impacted through changes to consumer behaviour and consumption patterns, as well as a change in organisational risk appetite amid uncertain economic times and the shift towards shorter term, more incremental approaches to innovation.



All organisations



Some additional points of interest include:

- The decline in external partner-driven innovation is perhaps associated with the shift towards a focus on incremental innovation and shorter payback period for innovation investment. While, in recent years, we have observed a general increase in collaborative innovation, particularly within larger organisations, the reality is often that working with external stakeholders and partners on innovation initiatives can be challenging and takes a comparatively longer time to translate into tangible products or solutions.
- The continued focus on digital transformation as a driver of innovative activity reflects recent marketplace moves, where there is an increased merging of innovation and digital transformation functions within organisations.

“Clients have a heightened focus on digital transformation programs that need to be revised to meet new consumer CX lens with COVID-19.”

Professional Services, large organisation

“HR process innovation – fast-tracking recruiting, onboarding and training processes for several hundred new FTE within two weeks to meet federal governments COVID-19 response demand.”

**Professional Services,
large organisation**

- Customer experience (CX) innovation continues to be an important driver of innovation activity across all company sizes. This reflects the increasing emphasis on human-centred design/ design thinking approaches within the Australian marketplace.
- Perhaps surprising was the relatively low focus on employee-driven innovation which, in recent years, has been a relatively consistent focus for innovation efforts. This may reflect the current need to drive short-term impacts through dedicated internal teams, rather than expending the effort required to drive successful broader employee focused initiatives. This is perplexing given the drawing of innovation focused resources in helping support new ways of working in response to the disruption.

This indicates an opportunity for innovation leaders to link innovation programs with employee engagement and wellbeing initiatives as organisations adapt to larger numbers of remote workers.

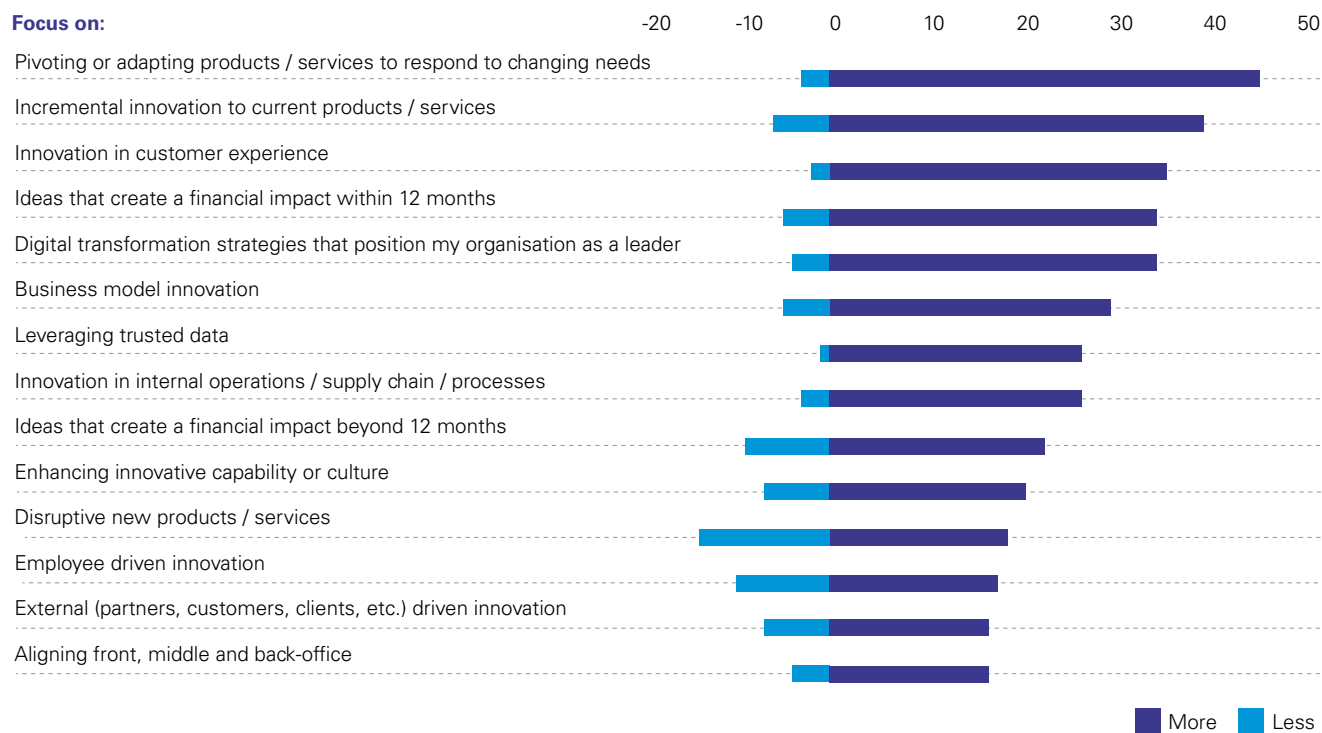
- Similarly, we were surprised by the relative low rankings of operation/supply chain/process innovation, especially in light of the significant disruption to global supply chains. This may be in part due to supply chain resilience and supplier diversification initiatives being seen as priority operational transformation programs, rather than innovation initiatives, and in part due to the fact that many of the innovative solutions anticipated in response to the pandemic are likely to be longer term developments (such as geographic diversification of manufacturing operations and supply chain tracking and transparency initiatives).

“COVID-19 has forced us to accelerate how we do things, less bureaucratic, less internal friction, focus on doing rather than planning.”

Professional Services, large organisation

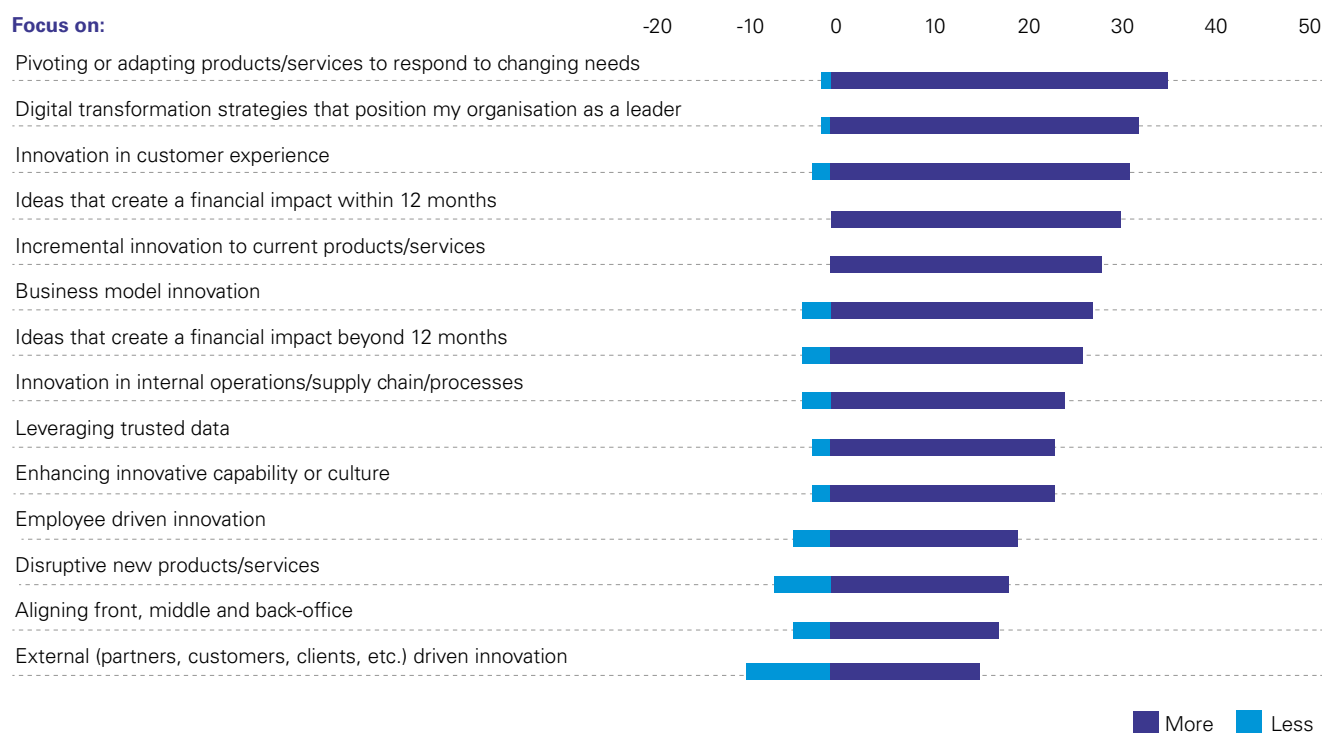
Large organisations

Focus on:

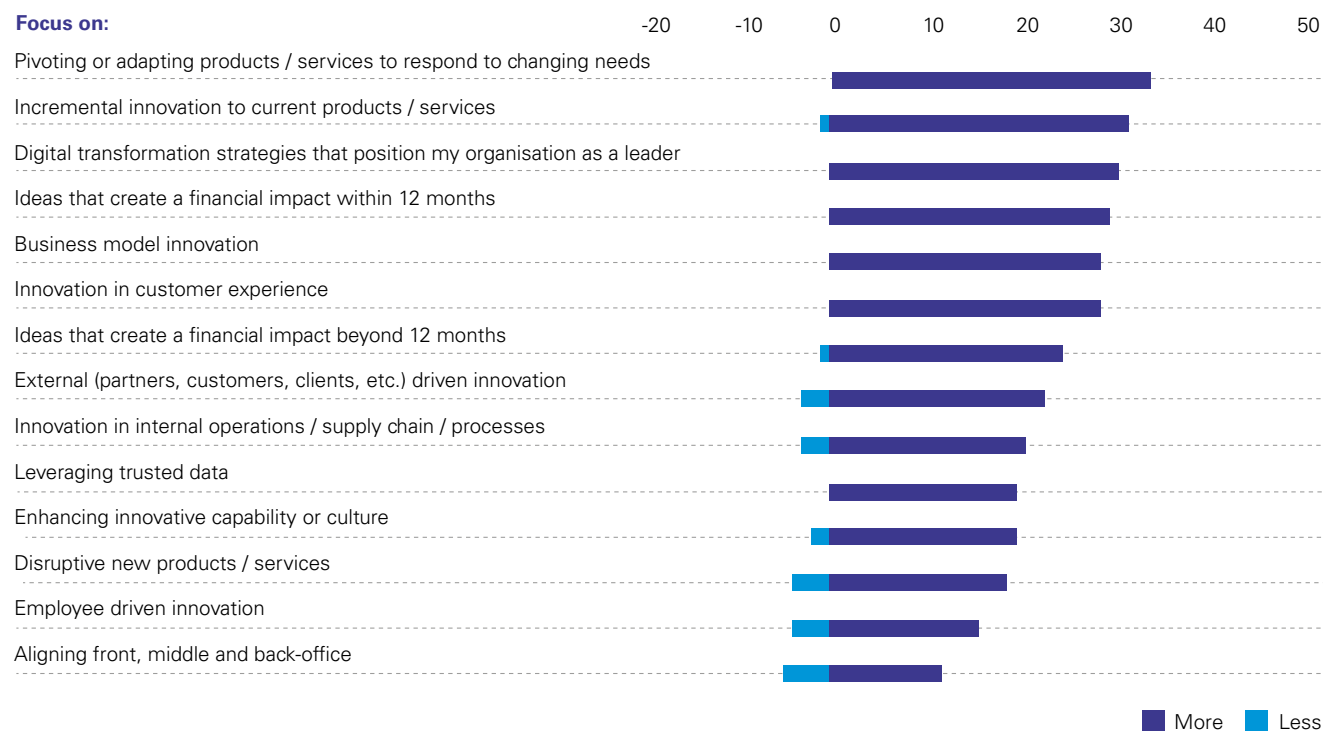


Medium organisations

Focus on:



Small organisations



Period to financial impact from innovation

Heightened focus on short-term outcomes

The majority of respondents, regardless of organisation size, feel that there will be a greater focus on ideas that create financial impacts within 12 months (71 percent of small organisations, 61 percent of medium organisations and 56 percent of large organisations).

Although there will also be an increased focus on ideas that create financial impact beyond 12 months, the emphasis will be greater for ideas that can deliver value in the shorter term. Almost half of the leaders surveyed from large organisations (49 percent) feel that there will be no impact on the degree of focus given to ideas that create financial impacts beyond 12 months.

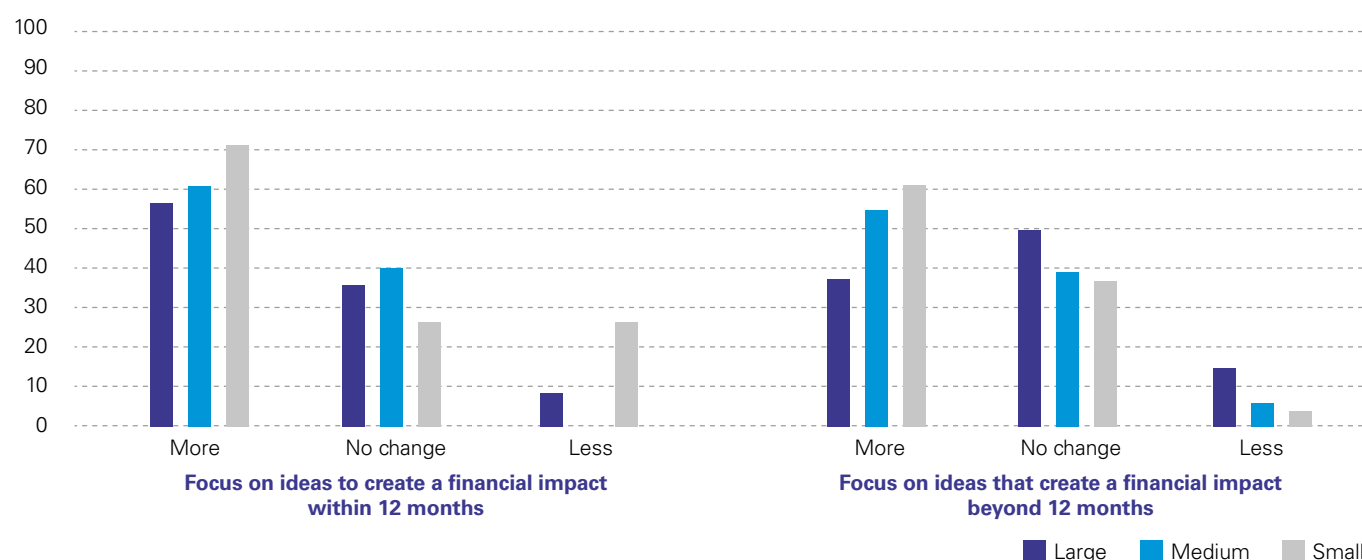
The sectors with the greatest increase in focus on ideas with a shorter time to value are Technology, Media and Telecommunications (77 percent more), Health and Ageing (76 percent more) and Energy and Natural Resources (75 percent more), the latter also expecting a shift away from ideas that generate financial impact beyond 12 months (25 percent 'less'). Respondents from the Manufacturing and Construction sector also see a decline in focus on ideas that deliver financial impact beyond 12 months (29 percent less).

In conjunction with the increase towards pivoting or adapting existing products and services, this increase in the emphasis on innovation payback in the short term indicates a narrower focus for organisational innovation and a lower tolerance for longer-term experiments.

“Economic conditions have caused us to focus on those projects/ideas which have a much shorter payback period.”

Industrial Manufacturing, large business

Target financial impact period for innovation





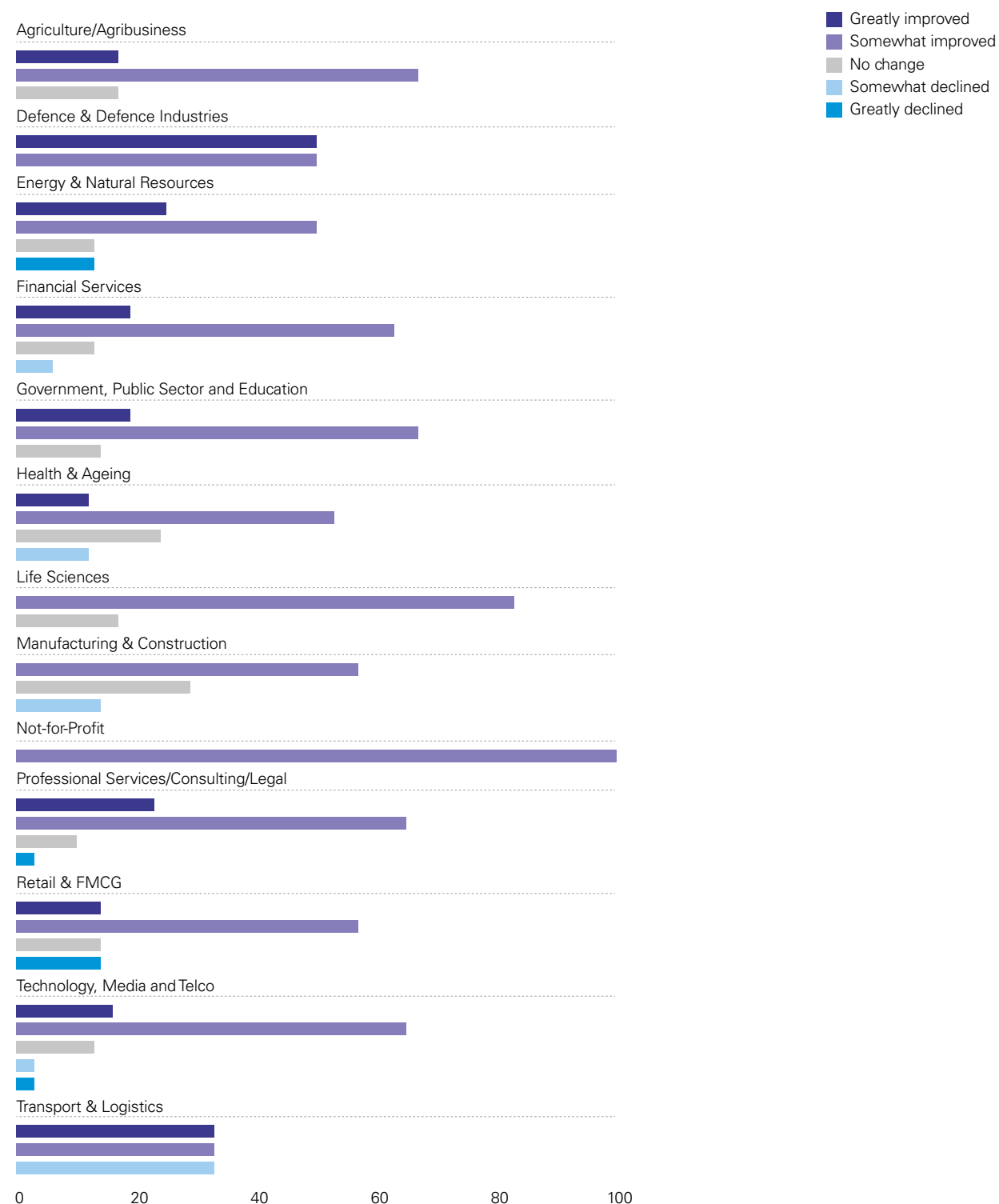
Improvement in innovation processes

The majority of respondents (80 percent) feel that innovation processes within their organisation have improved over the past 12 months. The sectors that feel that they are making the greatest improvement in their innovation processes are Defence & Defence Industries (50 percent greatly improved), Transport & Logistics (33 percent greatly improved), Energy & Natural Resources (25 percent greatly improved) and Professional Services, Consulting and Legal (23 percent greatly improved).

Tellingly, the sectors with the greatest rates of improvement are also relatively new to the innovation competency and so perhaps have the most room for improvement. Many of these sectors are also relatively insulated from the direct economic fallout of the COVID-19 crisis.

Leaders within these sectors should take stock of their most recent efforts and define what has worked well, what can they further improve, and look to benefit from the experience (both positive and negative) of leaders across a range of sectors. Too often we see innovation leaders looking only to their sector cohorts for models of success, which can limit creativity and impact.

Improvement in innovation processes over the last 12 months, by sector



Final thoughts

Observations and recommendations

COVID-19 is impacting innovation within Australian organisations in unexpected ways. While some organisations expect innovation investment to be cut, others will be increasing their funding in this area. Regardless, the imperative for innovation remains as strong as ever.

The overall message is of the strength and resilience of innovation in a time of massive disruption. More than ever, leaders in organisations, large and small, across a range of sectors, will be expecting more activity and impact from innovation leaders and their teams.

As we progress through this current period of disruption, it will be critical for senior leaders and innovation professionals to understand the top priorities facing their organisations and redefine the role of innovation in supporting these strategic objectives. Whether this is about pivoting and adapting current products and services to meet changing customer needs within our new reality, or shifting

innovation portfolios to have a greater emphasis on incremental innovation with shorter payback periods, it will be essential that innovation functions, practitioners and their leaders adapt, given its ongoing importance for senior leaders. This imperative is even more pronounced for innovation professionals facing an increased focus on their activities and impact within organisations where cuts to innovation funding are expected. Innovation leaders will no doubt need to revisit innovation processes and practices, and be creative in adapting methods and experiments to fit their new economic reality.

The results of this study also highlight the importance for senior leaders to clarify and regularly communicate the role and importance of innovation throughout all levels of their organisation, so that innovation imperatives are clearly understood and opportunities are not ignored out of a mistaken belief in their irrelevance within the current climate.

Comments from respondents

Business leaders were invited to provide any additional feedback on the topic of organisational innovation. Many focused on the scale of the challenge that had been faced and the successes that had been achieved in responding to COVID-19. Common themes included the enabling capabilities provided by modern technology platforms and architectures, enabling organisations to rapidly pivot or adapt to new ways of working, as well as the importance of people and organisational culture in facilitating innovation.

“Huge shift in IT support models with staff and students now 100 percent remote. We were built for face-to-face support, all in the same location.”

Higher Education, large organisation

“The pandemic has altered the way we connect to and keep in touch with our clients.”

Life Sciences, small business

“In healthcare, having to achieve 130 percent of patient volume to treat the backlog is stressing a range of areas including equipment, people, supply chain – hence innovation focused on how to support an additional 30 percent is current focus... which will then become the new normal.”

Health & Ageing, large business

“Needs government support and shareholder empathy to allow appropriate timeframes and resources to be utilised.”

Life Sciences, small-to-medium business

“I think we will see an increase in transformation projects that focus on employee attraction, retention, engagement and productivity and new technology products implemented that supports this.”

Professional Services/HR Consulting, medium business

“Innovation is something everyone is talking about, need to cut through the hype and focus on delivery of meaningful change.”

Manufacturing & Construction, medium business

“Still a high level of apprehension towards taking that unknown risk and investing for a potential return.”

Transport & Logistics, medium-sized business

“AI combined with modern enterprise architecture will drive massive changes to how companies adopt and deploy solutions. Changes in speed, cost and flexibility of solutions has reduced risk and allows for fast fail/succeed models, reducing reliance on large scale enterprise solutions to solve traditional transformation strategies.”

Technology, medium-sized business

About



KPMG Digital Delta

New digital technologies and disruptive business models mean many organisations are struggling to keep pace with the transformative changes required to drive growth and meet customer demands.

KPMG Digital Delta provides end-to-end digital innovation and transformation services to help overcome this.

We work with clients to re-imagine and re-invent their organisations to become world-class digital enterprises using advanced technologies, data and human insights.

We work with clients to:

- formulate strategies that re-imagine organisations to help them digitally transform to position their business as a leader
- harness innovation from the Fourth Industrial Revolution to adopt advanced technologies that transform performance across their business
- action insights from trusted data to enable clients to consistently and quickly make the right decisions for their business
- build an adaptive organisation that can respond to change with speed and confidence and one team
- thrive as a connected enterprise, aligning the front, middle and back office to consistently deliver on the digital promise.

We bring together leading practice knowledge and technology, along with deep expertise across all industries.

KPMG Digital Delta's Innovation Consulting team

If there's one constant in business today, it's change and the need for innovation-driven growth.

Sitting within KPMG Digital Delta, we are a team of recognised leaders in our field. We take a holistic perspective to build innovation strategies, processes and systems that supercharge your organisation's strategic objectives.

We operate at the nexus of digital transformation and the need to drive sustained innovative impact. Looking beyond generating new ideas, we consider all aspects of customer needs, execution paths and strategic alignment of efforts. We look at impact, rather than activity to drive your success both now and into an uncertain future.

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