



TM Rio 2016

Innovating for growth

Johnson Emerging Markets Institute –
Innovation in Latin America

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The EY logo, consisting of the letters 'EY' in a bold, sans-serif font.

Building a better
working world

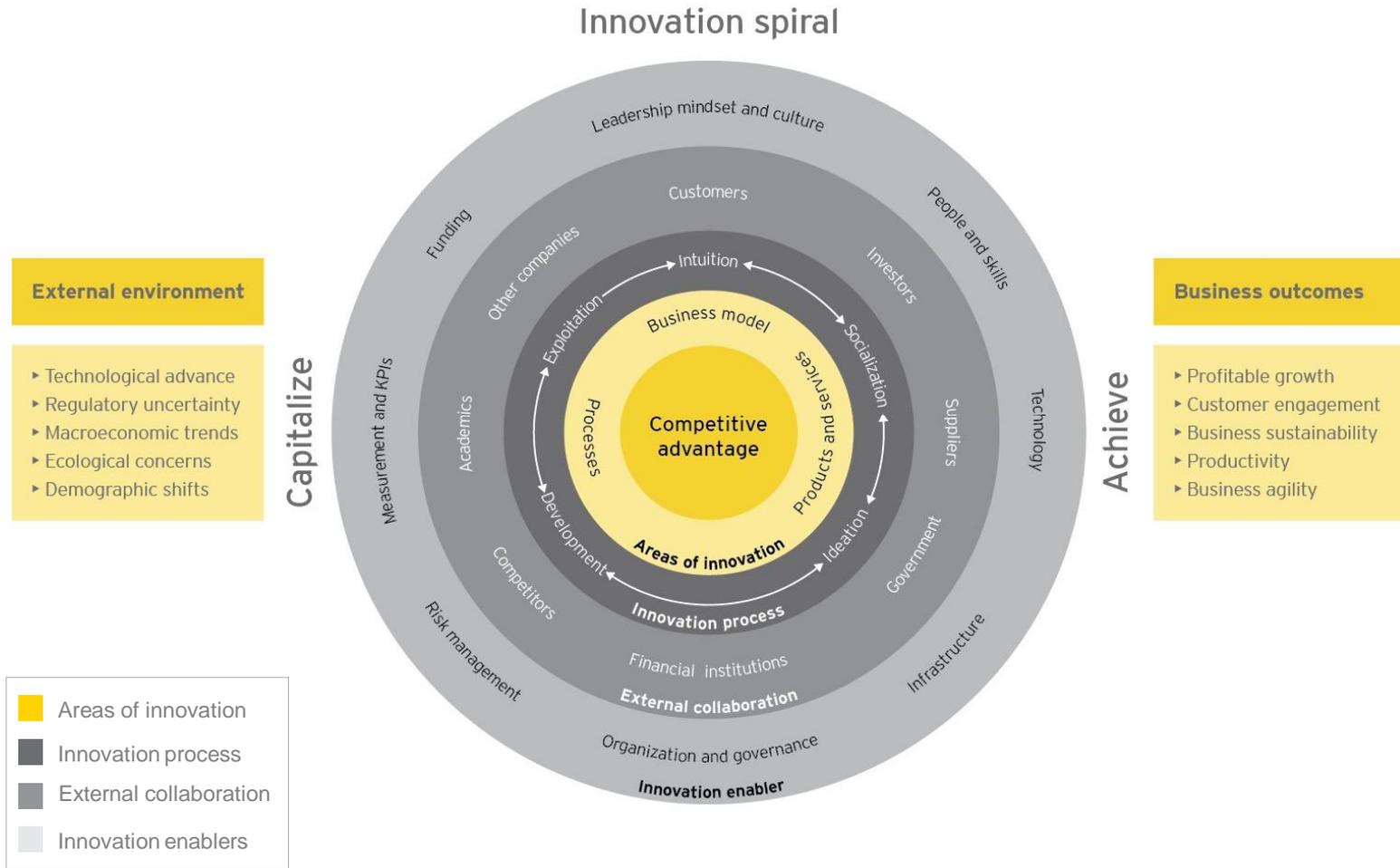
Setting the scene

This Innovation model and associated results are based on a research carried out by Ernst & Young and Meridian West. We used a hypothesis-led approach to explore how innovation is changing, with a special focus on business model innovation. A series of face-to-face and telephone interviews were carried out with participants, which included Ernst & Young professionals and academic and business leaders representing a range of industries in Europe, the US, Africa, Brazil, China, India and Russia.

- ▶ Innovation isn't a linear process – it's spiral.
- ▶ The most innovative companies are able to:
 - ▶ Take advantage of changes in the external environment
 - ▶ Continually revamp their business models to achieve competitive advantage
 - ▶ Innovate to obtain specific business outcomes, such as increased agility or customer engagement
- ▶ The research findings contributed to the development of a framework for strategic innovation.

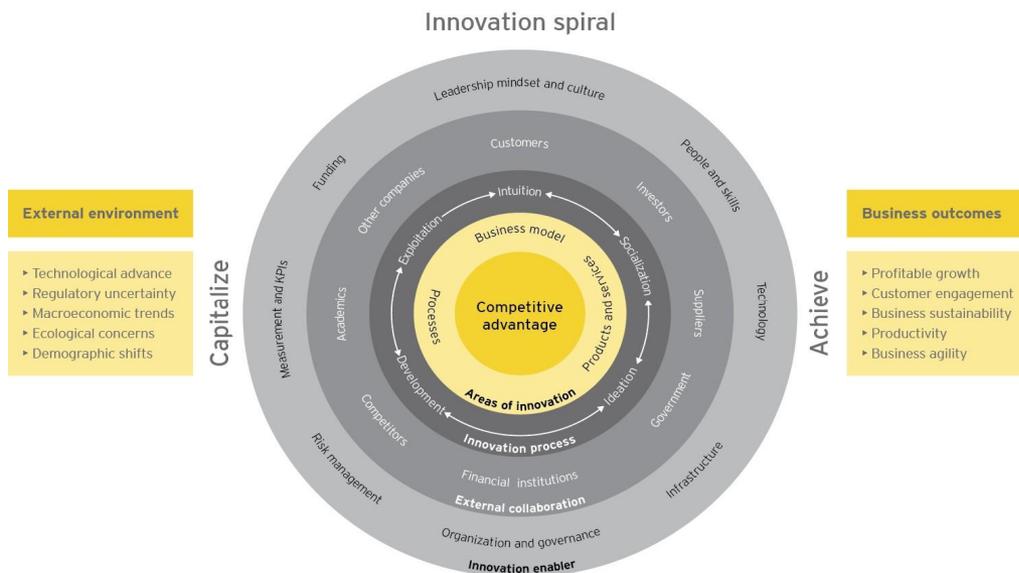
EY approach to innovation

Framework for strategic innovation



Understanding the framework

External environment	<ul style="list-style-type: none"> ▶ This element includes major market and economic circumstances that affect businesses. ▶ These elements increase global exposure to risk, but they also offer major opportunities. ▶ Innovative companies know how to capitalize on the external environment to turn even adverse conditions to their advantage.
Innovation spiral	<ul style="list-style-type: none"> ▶ The innovation spiral shows how innovative companies can gain a competitive advantage. ▶ Its key components are: <ul style="list-style-type: none"> ▶ Areas of innovation. While product and service innovations certainly help businesses obtain a competitive edge, business model innovation tends to confer more lasting benefits. ▶ Innovation process. Innovation has typically followed a three-step process; however, our research reveals a major shift toward a more spiral, iterative approach in which innovation can start anywhere in the framework. ▶ External collaboration. The most innovative organizations collaborate throughout the process to access diverse internal and external expertise. ▶ Innovation enablers. These are the internal factors necessary for the innovation spiral to work.
Business outcomes	<ul style="list-style-type: none"> ▶ Our research shows that these five business outcomes are what companies seek to achieve through innovation. ▶ Capitalizing on changes in the external environment and effectively navigating the innovation spiral increases a company's ability to achieve these five outcomes.



Practical Example

Response of the Brazilian Financial Services Market to climbing Fraud levels with banking transactions

▶ External Environment

- ▶ At the end of the 90s, Brazil was experiencing higher fraud / revenues rates than other markets (24 b.p. against 10 b.p. at US / Europe)
- ▶ The business model in place and the lack of the judiciary system robustness constrained effective remediation processes against frauds.

▶ Innovation Spiral – Ideas discussed, developed, discussed, tested....implemented

- ▶ Renovation of Pin Pad / POS terminals and substitution of cards by chip cards
- ▶ Implementation of Biometrics to authenticate ATM transactions

▶ Business Outcomes

- ▶ Remarkable reduction of fraud metrics in Brazil (which is still very high !!!!)
- ▶ Improvement on customer experience by minimizing the usage of combined passwords and combination of many functionalities at the same card
- ▶ Increase on effectiveness levels of IT platforms and at the velocity of the authorization process

Case 1

Renovation of Pin Pad / POS terminals and substitution of cards by chip cards

- ▶ First prototypes / tests of chip cards started to appear in Brazil during the beginning of the 90s
- ▶ Chip costs, memory limitations and the credit card market governance model limited the extension of the first prototype launched in the market
- ▶ After a few years, fraud levels were climbing, technology was improved and an easier governance model supported the full adoption of chip cards in Brazil
 - ▶ Chips started to handle more functionalities
 - ▶ Chip cards proved to be more durable than single magnetic stripes cards
 - ▶ The biggest Banks through their JVs (Visanet and Redecard) approved a huge investment to change every Pin Pad machine at the market place (more than 1 million machines)
 - ▶ Visa and Mastercard agreed on patterns to process chip related transactions (EMV)
 - ▶ Visa, Mastercard and big banks supported investments to change POS devices kept by outside participants as retailers, larger chains, etc



Case 2

Implementation of Biometrics to authenticate ATM transactions

- ▶ Bradesco, one of the largest Brazilian Banks, decided to invest a huge amount of money and years of dedication of their executives on the creation of a biometrics based solution to authenticate transactions
- ▶ The adoption / publicity around the solution increased with time, considering the effects around this solution implementation
 - ▶ 14 MM Customers already registered
 - ▶ More than 36 thousand ATM terminals with sensors implemented
 - ▶ In 2013 more than 25 % of transactions are being processed using biometrics authentication
 - ▶ Since 2012 Clients can register to make cash transactions at ATM machines without a card
 - ▶ Solution already being tested for Internet Banking transactions\
- ▶ This solution adoption allowed Bradesco to get important business outcomes
 - ▶ Fraud Levels on transactions with biometric validations are close to 0%
 - ▶ The market recognized it as an innovative solution (aligned to the Bank market positioning)
 - ▶ Clients recognized it as a user friendly solution
 - ▶ Transactions approval velocity has improved

Case 2

Implementation of Biometrics to authenticate ATM transactions (cont.)



Key findings from our quantitative research

In October 2012, in collaboration with the Economist Intelligence Unit, we carried out quantitative research of 516 executives from multinational corporations across the globe representing a range of industries. Our key findings included:

- ▶ Of our survey respondents, 78% agreed that innovation now makes it possible for companies of every size and in any geography to compete.
- ▶ Only 15% of survey participants feel that business model innovations contribute “very much” to meeting company objectives compared to 19% of new processes and 37% of products and services.
- ▶ Our survey participants believe that leadership (92%), culture (87%) and people (81%) are most important in enabling innovation.
- ▶ Only 44% of survey respondents have regular formal innovation meetings with teams outside their function or division, 29% have meetings with teams at other company locations, and 22% sponsor regular company social events, such as visits to art galleries or sports matches to encourage employees to talk about innovation ideas.
- ▶ Nearly a quarter (23%) of respondents said their companies offer no particular incentives for innovation; of those that do, 54% can expect mention in a publication or online, 35% have the promise of a promotion, 34% offer cash, and 28% offer vouchers for food or sports tickets.

Customer reach – key findings

High performers are more outward-looking and focused on the market

- ▶ They seek deep understanding of their customers' demands and expectations and are increasing marketing spend to attain this.
- ▶ They focus on finding new markets for existing products and services. High performers are nearly three times more likely than low performers to generate sales in new markets.
- ▶ They plan more carefully when entering new markets. They identify a clear demand for a current product or service and assess the scale and growth projections of that market.
- ▶ They prioritize innovation. Nearly twice as many high performers as low performers generate more than 10% of their sales from products or services developed in the past three years, focusing on incremental innovation of new products for current customers and current products for new markets.

Source: Global Economist Intelligence Unit survey among 1,500 business leaders, August-September 2012, for *Growing Beyond: how high performers are accelerating ahead*

Operational agility – key findings

High performers respond smartly to change but, more importantly, respond speedily

- ▶ They understand that the risks of being first to market are beginning to outweigh the opportunities, but that speed of response is always critical.
- ▶ High performers continue to accelerate, while low performers are reaching the limits of their organizational capacity to respond.
- ▶ They understand that consistency can have a market cost that outweighs its management value. It can reduce their ability to respond to an increasingly varied and volatile world.
- ▶ They adapt flexibly to fast-changing circumstances, by deploying technology, devolving decision-making and enhancing the skills of their workforce.

Source: Global Economist Intelligence Unit survey among 1,500 business leaders, August-September 2012, for *Growing Beyond: how high performers are accelerating ahead*

Cost competitiveness – key findings

High performers understand what drives cost and what drives value

- ▶ They are externally focused on value creation and opportunity. They place more emphasis on customer segmentation and market analysis. High performers recognize that understanding what customers need, what they expect and what drives them is crucial when determining pricing strategies.
- ▶ Because they understand their customers, high performers can be more confident about increasing prices.
- ▶ They know the difference between eliminating waste and simply cutting cost. They identify the actual organization-wide costs involved in supplying their service or product.
- ▶ High performers focus more on efficiency than on reducing headcount. Just a quarter of high performers have reduced headcount, compared with 43% of low performers.

Source: Global Economist Intelligence Unit survey among 1,500 business leaders, August-September 2012, for *Growing Beyond: how high performers are accelerating ahead*

Stakeholder confidence – key findings

High performers engage more with stakeholders and unleash their talent

- ▶ High performers seek to make the value they create visible to their external stakeholders and have significantly increased the scope and frequency of reporting.
- ▶ They understand that future success is global and value the ability to lead effectively in a global business environment. They offer their talent opportunities to operate internationally and see access to talent as a reason to enter rapid-growth markets.
- ▶ High performers place a greater focus on the individual. They place greater emphasis on linking pay with performance and providing customized development.
- ▶ High performers unleash their talent onto the market by devolving decision-making as far as they can and refine roles and job descriptions to make them more flexible.

Source: Global Economist Intelligence Unit survey among 1,500 business leaders, August-September 2012, for *Growing Beyond: how high performers are accelerating ahead*