New Entrants – New Rivals

How Germany's top companies are creating a new industry world

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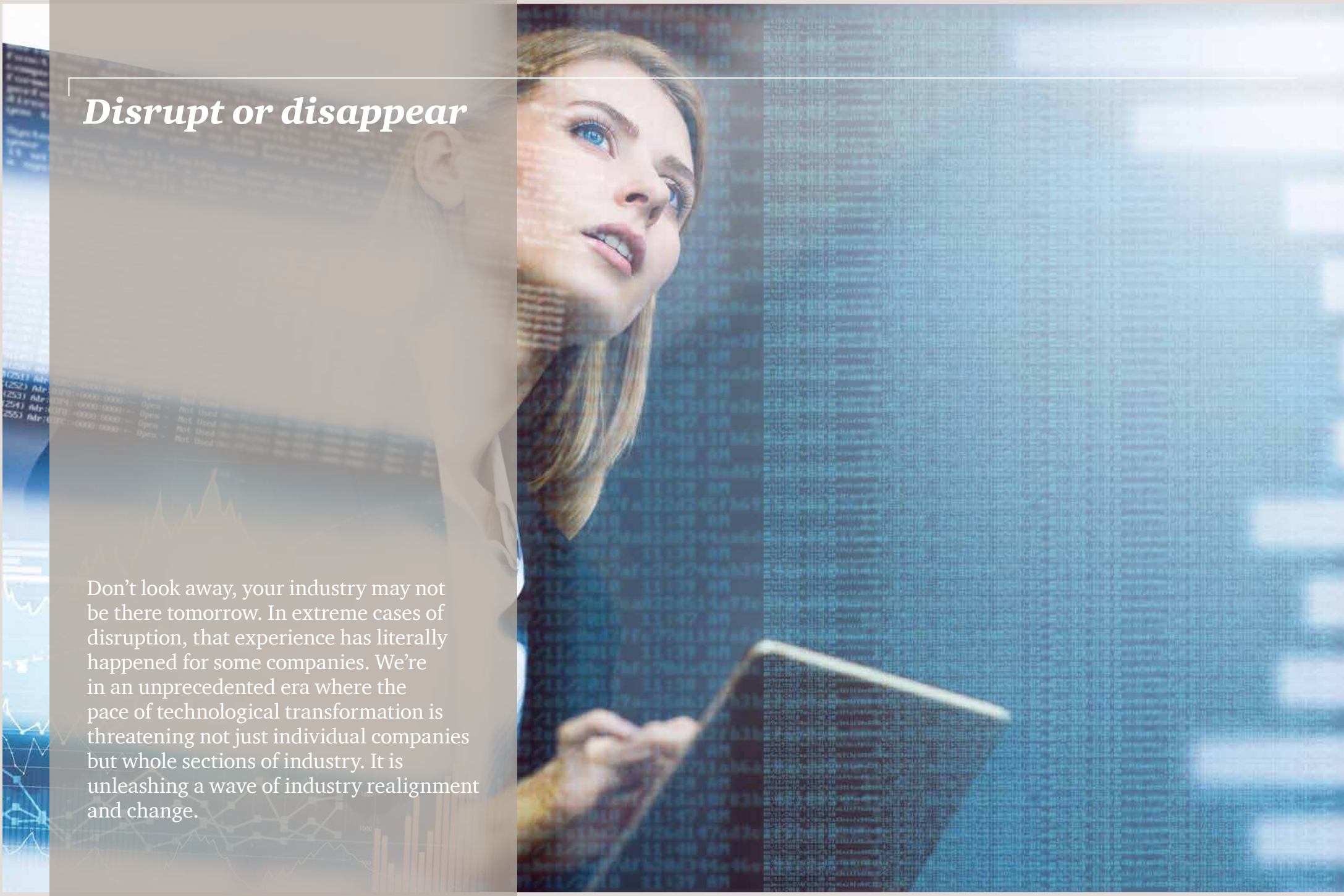
Contents

Disrupt or disappear

Don’t look away, your industry may not be there tomorrow. In extreme cases of disruption, that experience has literally happened for some companies. We’re in an unprecedented era where the pace of technological transformation is threatening not just individual companies but whole sections of industry. It is unleashing a wave of industry realignment and change.



Our study is based on two unique research initiatives – a six-year analysis of the cross-industry activity of the largest companies in Germany and their strategies across 11 industrial sectors and a separate survey of senior executives in 331 top German companies (referred to in the report as the 'Top 330 survey').

For the first time ever, it reveals a strong upsurge in companies moving into new areas outside of their traditional industry or product focus, with significant increases in start-up incubation activities, joint ventures, collaborations, mergers and acquisitions (M&A) over the last six years. In some industries, the volume of cross-industry moves of the top companies has surged tenfold. And across all the industries in our analysis, half of companies say they intend to expand into new industries in the next five years.

PwC's Chief Economist Office has conducted a similar study[1], focusing on M&A activities and joint ventures in Europe as a whole. The findings of that analysis support and supplement those of this report. Indeed, it suggests that new entrants can help increase productivity and growth of the industries they enter.

We are moving into a new borderless industry world full of innovation. It's a world where university researchers are developing a radical new, affordable electric car through to market maturity[2], where a supermarket chain expands into the housing sector[3], where small start-ups take on markets such as healthcare, and where the dividing lines between different industries are blurring or disappearing.

This wave of industry change is being fueled by technological change and the race to win customers. But it's also characterised by new ways of competing and co-operating. We see partners turning into rivals, and disruptors being converted into collaborators. New industry clusters are emerging with the capability to eclipse the old industry sectors they have grown out of.

We expect that the wave of new, disruptive entrants will continue to gain momentum. New opportunities are opening up for new entrants and incumbents alike to shake up industry boundaries, seize new competitive positions and create new industry clusters. More than ever, the race to stay ahead or risk being left behind is a high-stakes game. The time it takes for your fate to be decided has been shrunk by the sheer pace of change that is taking place. Companies of all industries and sizes should ask themselves how to win and retain customers in future and what strategy to pursue when entering new industries.

Dr. Klaus-Peter Gushurst,
Michael Burkhart and
Professor Norbert Schwieters

[1] PwC, Drive or be driven Understanding the third wave of industry convergence, 2018.
[2] e.Go, Bezahlbares Elektroauto durch Industrie 4.0, press release, 24 June 2016.
[3] Aldi, Auf ALDI kann man bauen: Discounter startet Immobilienprojekt im Raum Berlin, press release, 31 January 2018.

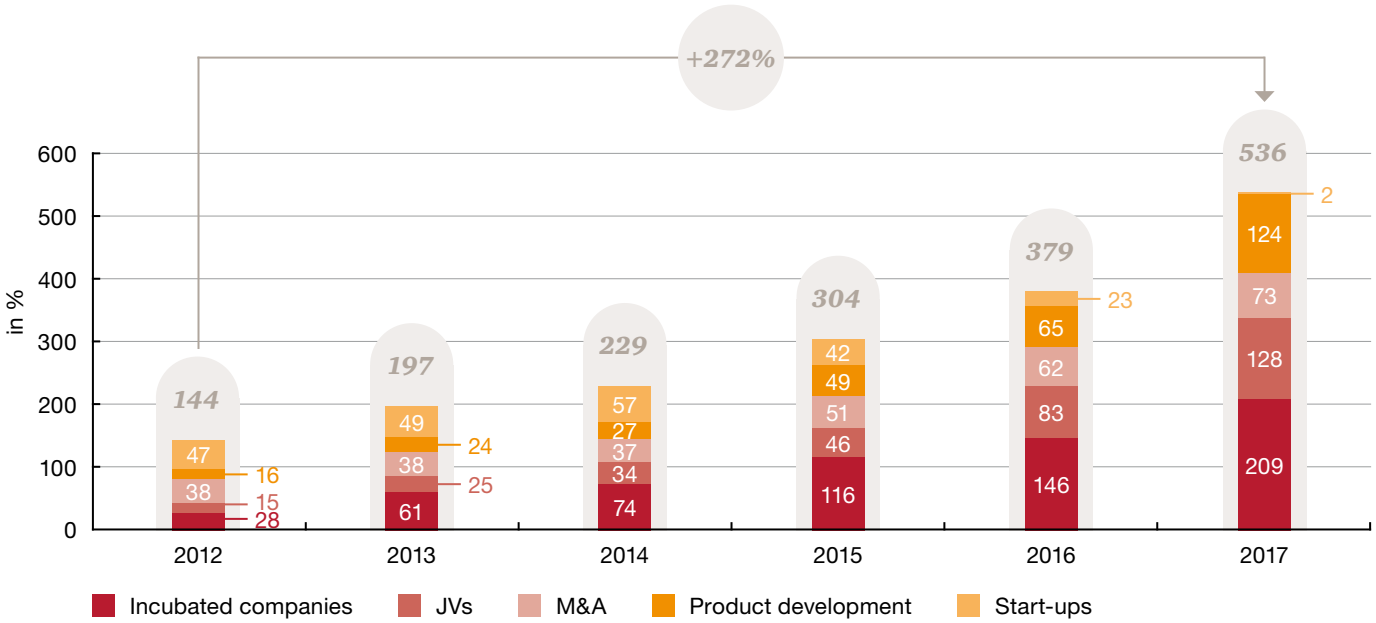
A fast-growing cross-industry world

We're seeing a surge in cross-industry ambitions and activities in Germany. In the last six years the number of moves by companies into other sectors has nearly trebled.

Our cross-industry analysis of the largest German companies across 11 industries shows that the combined total of new cross-industry activities has risen by 272% in six years in Germany, from just 144 in 2012 to 536 in 2017 (figure 1). And looking ahead to the next five years this trend looks set to intensify. Half of the senior executives we spoke to in our Top 330 survey in Germany say they expect their companies to expand into new industries in the next five years.

49% say: "We expect to expand into new industries within the next five years".

Figure 1 Cross-industry activities have skyrocketed over the last five years



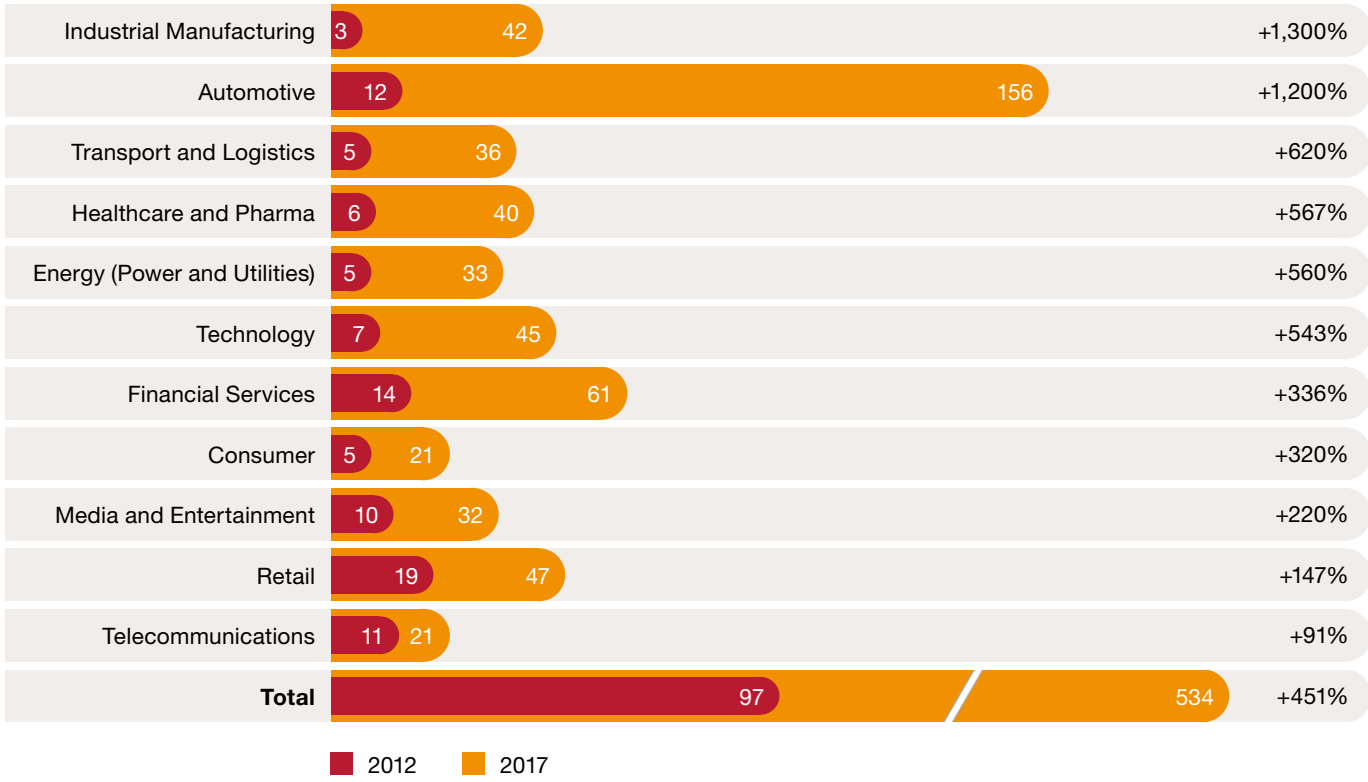
Notes: 1. Figures for start-ups refer to start-ups that were founded after 2012 and have received funding of >€1million and that are not part of an incubator programme.
2. Activities for which the year was not available are not included in this figure.

The top companies in Germany are using a variety of strategies to develop a cross-industry presence – product launches, mergers and acquisitions (M&A), partnerships and joint ventures (JVs), start-up activities as well as corporate incubation programmes. In the most recent year-on-year period from 2016 to 2017, the volume of cross-industry product development nearly doubled, JVs and partnerships rose 54%, incubation rose 43%, and M&A volume was up 18%.

The top players in all industries are stepping up their cross-industry game and, in turn, are seeing their own sector being disrupted by new entrants. 88% of the senior executives in our Top 330 survey report new entrants coming into their industry in the last six years or expect them to enter in the next five years. And while it is certainly the case that the top companies in some industries are more active in their outbound activity than others, the trend of looking beyond industry boundaries is evident across industries. Every single one of the 11 industries in our cross-industry analysis recorded significant increases in the volume of cross-industry activity in 2017 compared with six years earlier, with the top players in two industries – industrial manufacturing and automotive – recording tenfold or greater increases over this period (figure 2).

Figure 2 Outbound cross-industry activity per industry has increased significantly

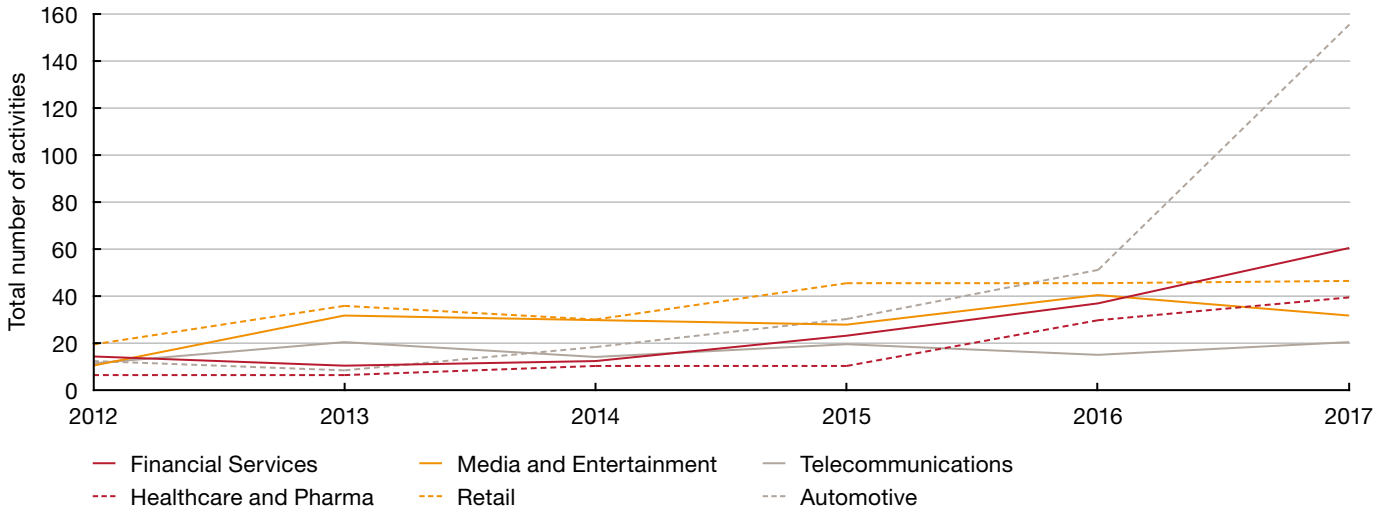
Level of activities[1] by the top companies per industry; increase between 2012 and 2017



[1] Activities in this figure: product development, M&A, JVs and incubation programmes.

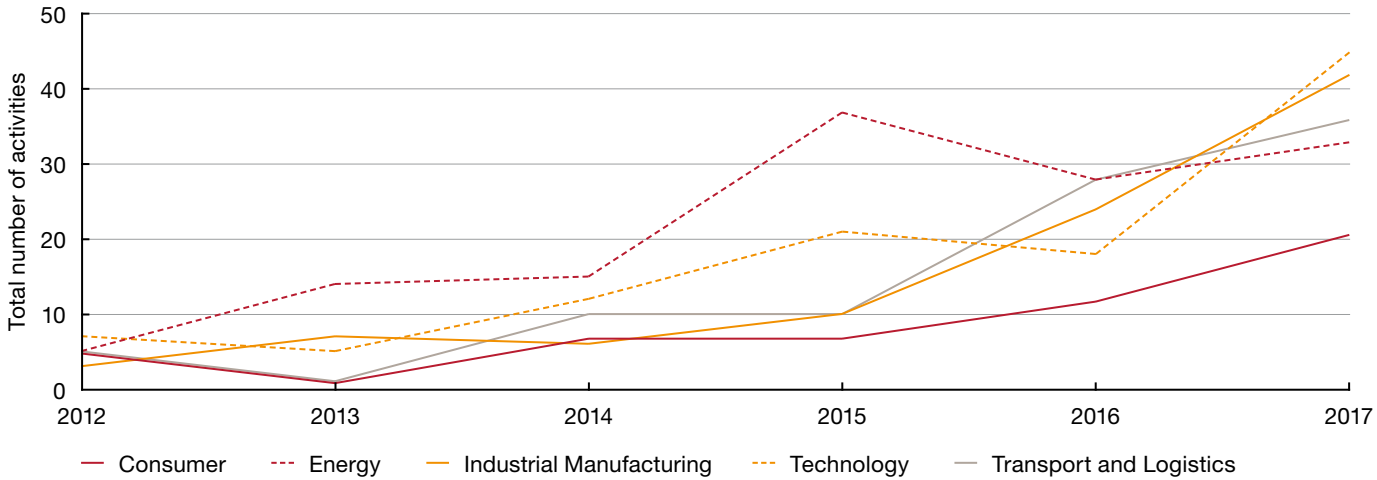
Some of these big increases highlight just how rare cross-industry initiatives were only six years earlier. By 2017 it was much more common across all industries. In terms of the share of activity, just under a third (30%) of all 2017 outbound cross-industry activity in our analysis came from the top automotive companies, followed by the top financial services companies (11%). The other sectors had a broadly similar share of activity (ranging from 6 to 9%) followed by telecommunications and consumer with a 4% share respectively. The increase in outbound cross-industry activity by automotive companies accelerated particularly between 2016 and 2017, more than tripling in that one-year period alone (figures 3 and 4).

Figure 3 Automotive top players have boosted their cross-industry activities in 2017



Note: This figure includes all outbound activities per industry excluding start-ups.

Figure 4 Technology top players have also increased their cross-industry activities



Note: This figure includes all outbound activities per industry excluding start-ups.

Customer-centricity and new technologies as gamechangers

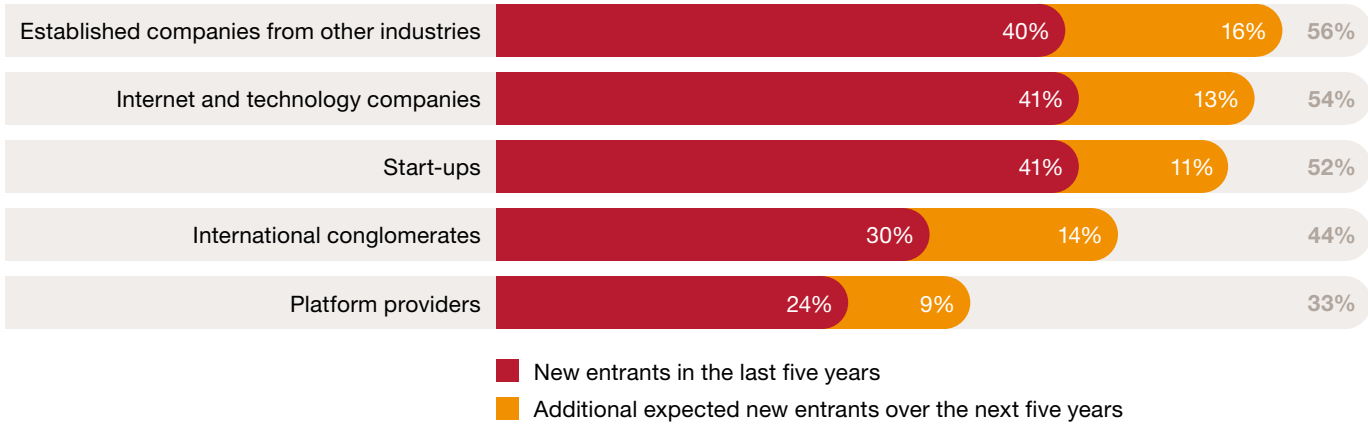
There are many factors behind this increase in cross-industry activity but number one is that the competitive environment of most industries is being transformed by technological innovation and changing customer expectations. Technological innovation is making it easier for new entrants to move into different industry sectors and increasing the potential for substitution of products and delivery channels. It is fuelling the development of new digital business models, many of which open up the scope for disintermediation of customer, supplier and producer relationships.

The speed of technological change is proving a game-changer for many industries – shrinking time and distance between companies and customers, making new relationships possible and creating frictionless connections. Crucially, the most advanced companies in Germany and globally are shifting from a product- and technology-driven mindset to one that is more focused on user-centricity and the overall customer experience. Customers expect on-demand control and transparency. And technology is making it easier for new rivals from other industries to move in, owning or at least disrupting established supply chains and customer relationships.

Technology companies entering other industries often grab the headlines, as the obvious examples of global internet companies like Amazon or Google have shown. The companies across all 11 industries that we surveyed, however, consider technology companies to be just one of a number of players. Indeed, when senior executives were asked which types of companies were making cross-industry moves into their own industry, established companies from other sectors edged out technology and internet companies (figure 5).

Figure 5 Who are the cross-industry movers and shapers?

Which types of 'new entrants' have you observed in the last five years in your industry? And which additional types are you expecting in the next five years?



Basis: 331 companies, multiple responses.

It is clear that the interplay between technology and other industries is far from one-way. Indeed, the technology sector itself is the most targeted sector for inbound activity. The top companies in all industries are stepping up their technological capabilities, with a mix of incubation, M&A, new product and partnership moves with technology players. Cross-industry moves into technology are being made particularly by companies from the healthcare and pharma, industrial manufacturing, automotive, transport and logistics, and energy sectors.

Over 90% of cross-industry activities by the top healthcare and pharma companies over the last six years have focused on the technology sector. The automotive and transport and logistics companies in our analysis have targeted two thirds of their activities on the technology sector, and energy companies have done likewise with nearly three-fifths. In contrast, the largest consumer players have devoted only a quarter of their cross-industry activities to the technology sector (see figure 6).

Figure 6 Technology is a sector most partnered with by other industries

Origin Sector	Target Sector											
Sector	Automotive	Consumer	Energy	Financial Services	Healthcare and Pharma	Industrial Manufacturing	Media and Entertainment	Retail	Technology	Tele-communications	Transport and Logistics	Total
Automotive	–	2.4%	9.2%	0.4%	0.4%	10.0%	0.4%	0.0%	66.4%	0.4%	10.4%	100%
Consumer	0.0%	–	2.8%	16.7%	5.6%	11.1%	25.0%	11.1%	25.0%	0.0%	2.8%	100%
Energy	28.6%	3.1%	–	2.0%	0.0%	0.0%	0.0%	1.0%	58.2%	4.1%	3.1%	100%
Financial Services	6.9%	2.0%	9.8%	–	14.7%	0.0%	2.0%	4.9%	51.0%	2.0%	6.9%	100%
Healthcare and Pharma	0.0%	4.7%	1.6%	0.0%	–	0.0%	0.0%	0.0%	92.2%	1.6%	0.0%	100%
Industrial Manufacturing	6.7%	0.0%	5.6%	1.1%	1.1%	–	2.2%	0.0%	77.8%	2.2%	3.3%	100%
Media and Entertainment	1.8%	8.1%	0.9%	16.2%	7.2%	0.0%	–	0.9%	56.8%	2.7%	5.4%	100%
Retail	3.6%	16.5%	5.8%	11.5%	2.9%	1.4%	10.8%	–	30.2%	3.6%	13.7%	100%
Technology	33.3%	1.1%	12.2%	18.9%	14.4%	4.4%	5.6%	3.3%	–	3.3%	3.3%	100%
Telecommunications	3.3%	3.3%	0.0%	4.4%	5.5%	1.1%	20.9%	3.3%	54.9%	–	3.3%	100%
Transport and Logistics	25.0%	1.3%	2.5%	2.5%	0.0%	0.0%	1.3%	0.0%	65.0%	2.5%	–	100%

Note: The above table shows the outbound activities of the 'origin' sector to multiple cross-industries. The percentage indicates the level of outbound activities of the total.
Total number of activities included is 1,150+ (all excluding start-ups, new clusters and other sectors).

High (>50%) Medium (25%–50%) Low (0%–24%)

The transport and logistics sector is ripe with examples of technology and customer-driven initiatives. For example, through its LogIndex subsidiary, the Kuehne + Nagel Group is moving into digital services for economic intelligence with the creation of a global trade analysis service called gKNi (global Kuehne + Nagel indicators). gKNi uses big data and predictive analysis to provide estimates for exports, imports, trade balances and industrial production.[4]

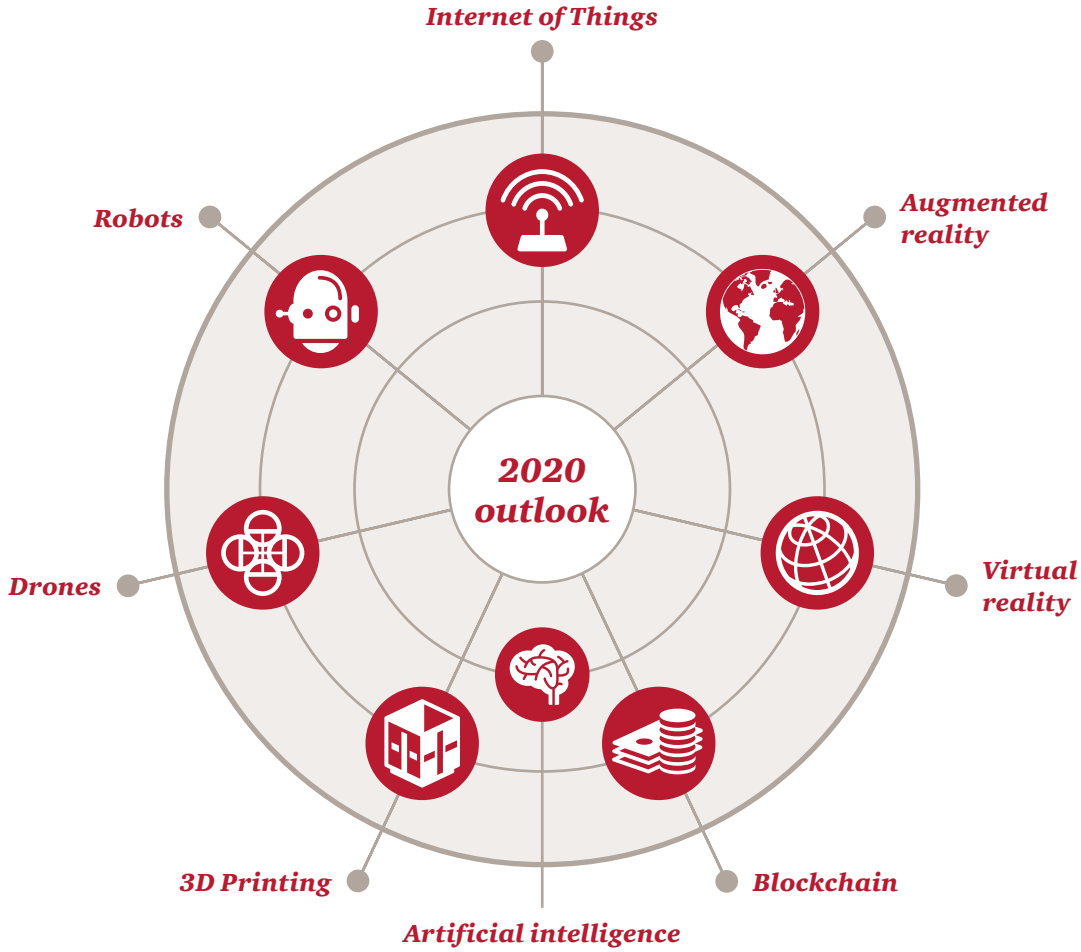
Deutsche Post DHL Group's experimentation with e-delivery vehicles has seen it become a supplier of clean energy e-transportation. It has 5,000 StreetScooters (e-vans) and 10,500 pedelecs (e-bikes and e-trikes) in service delivering mail and parcels and it has now begun selling them to outside customers such as municipalities or small businesses.[5] Besides other tech innovations, Deutsche Post DHL Group is also testing the 'PostBOT', a self-propelled electric robot for carrying mail as part of the Bad Hersfeld smart city initiative.[6] The automotive and healthcare industries are also rich with examples of cross-sector moves, as we see later in this report.

[4] https://logindex.com/.
[5] Deutsche Post DHL Group, Target met for 2017: 5,000 StreetScooters in service at Deutsche Post DHL Group, press release, 28 November 2017.
[6] Deutsche Post DHL Group, New delivery robot helps mail carriers make their rounds, press release, 4 October 2017.

In separate research, we found that companies which are technology leaders in their industries are twice as likely to achieve rapid revenue and profit growth as the laggards.[7] Much of the gain for such leaders is coming from eight essential emerging technologies – artificial intelligence (AI), augmented reality (AR), blockchain, drones, the internet of things (IoT), robots, virtual reality (VR) and 3D printing. Some of these technologies are of more relevance to specific industries than others and they are at varying degrees of maturity. Crucially, they are opening up new business models and routes to market, many of them accelerating and amplifying bigger shifts across and between industries: manufacturers' moves into service sectors, for instance, or fluid joint ventures with other corporate entities to leverage broad technology platforms for mutual advantage.

The development and application of these technologies is also spurring collaboration across sectors. For example, April 2018 saw the launch of the biggest pilot project for blockchain of its kind in Germany, with some 20 companies working in collaboration, including Beiersdorf, dm and Lekkerland from the retail and consumer industries as well as Deutsche Bahn and Container Centralen from the logistics industry, testing the use of blockchain in the pallet exchange process.[8] This open innovation project was initiated by GS1 Germany, PwC and SAP. PwC is responsible for the process definition and requirements engineering while SAP is in charge of the solution architecture and the technical implementation. The participants will test the technology under real-life conditions in Q3 2018 and report on the findings by the end of 2018.

The essential eight technologies



[7] PwC, Global Digital IQ Survey, 2015, p. 10.
[8] GS1 Germany, Beendet Blockchain die Zettelwirtschaft?, press release, 18 April 2018.

Technology and health: A digital doctor at your side

Munich-headquartered ottonova is targeting young high-income earners with a new, completely digital private health insurance product. The company hopes to shake up an industry that has been slow to digitalise and to gain market share by delivering much greater levels of customer-centricity and convenience.

In addition to premium health tariffs, the ottonova app enables the customer to manage all health- and insurance-related issues via a smartphone. It provides users with a digital patient file with all of their health data stored centrally, including treatment recommendations and direct access to customer support via a chat function. The company hopes that direct contact with customers and the excellence of its customer interface software can position it as a key health platform orchestrator, transforming and shrinking the value chain. As well as targeting its own market, ottonova is making its software available as a service for other healthcare suppliers and health insurance companies.

The app also allows customers to consult directly with physicians. In a video chat with real doctors, it is even possible to get diagnoses, treatment recommendations and sick leave certificates. The tagline for ottonova's digital doctor is "Just stay in bed when you go to the doctor," contrasting the convenience of this service with the alternative of spending hours in waiting rooms with other sick patients.

It is a crowded marketplace, with around 40 companies already providing private health insurance in Germany, but ottonova believes that the convenience of its smartphone app, in combination with smart and premium tariffs, will win over its tech-savvy target demographic. The start-up intends to expand its offering over time. It has already added supplementary dental care to its digital product portfolio. There are also add-ons for other provisions, such as insurance to cover income replacement during illness and a plan enabling customers to save in advance, in order to offset rising health costs in old age.

Based on information from ottonova.

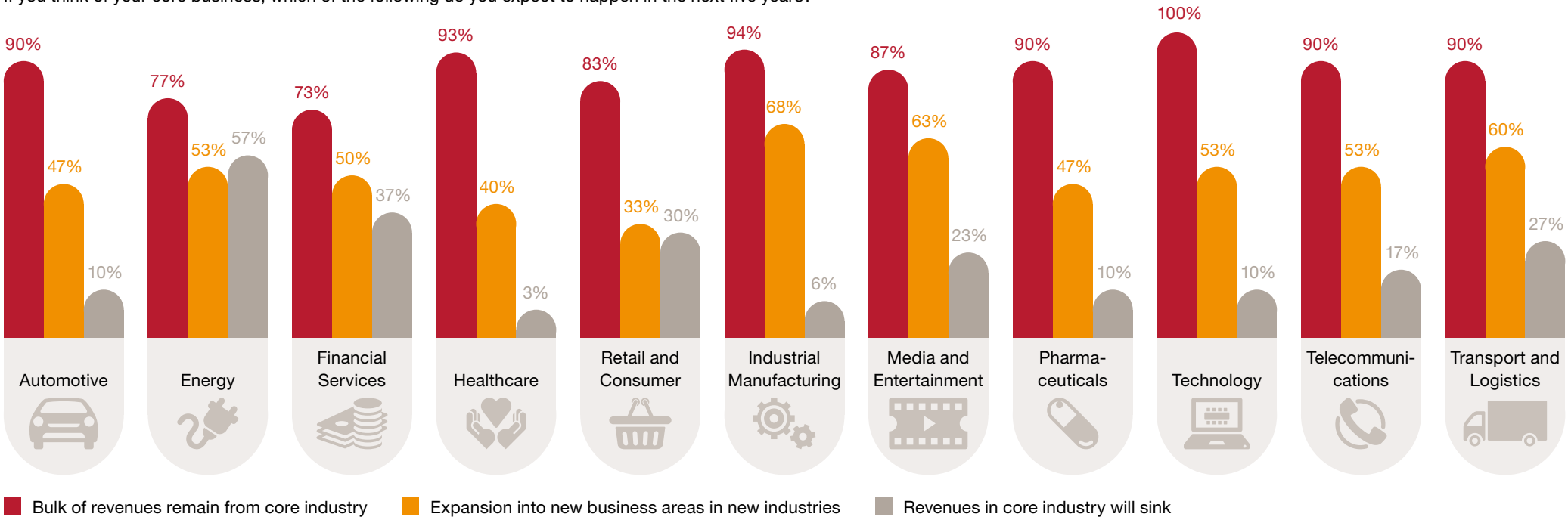
New revenues and strategies of working

The cross-industry world of the future that is emerging is set to become an increasingly important revenue source for companies.

Half (49%) of the senior executives in our Top 330 survey said that they expect to expand into new business areas in new industry sectors in the coming five years. Most expect cross-industry activities to be largely additional to revenues from their traditional core industry area. But in some sectors, notably energy (57%) and financial services (37%), companies expect revenues from traditional core activities to decline, heightening the importance of new cross-industry initiatives (figure 7).

Figure 7 Expected revenue composition over the next five years

If you think of your core business, which of the following do you expect to happen in the next five years?



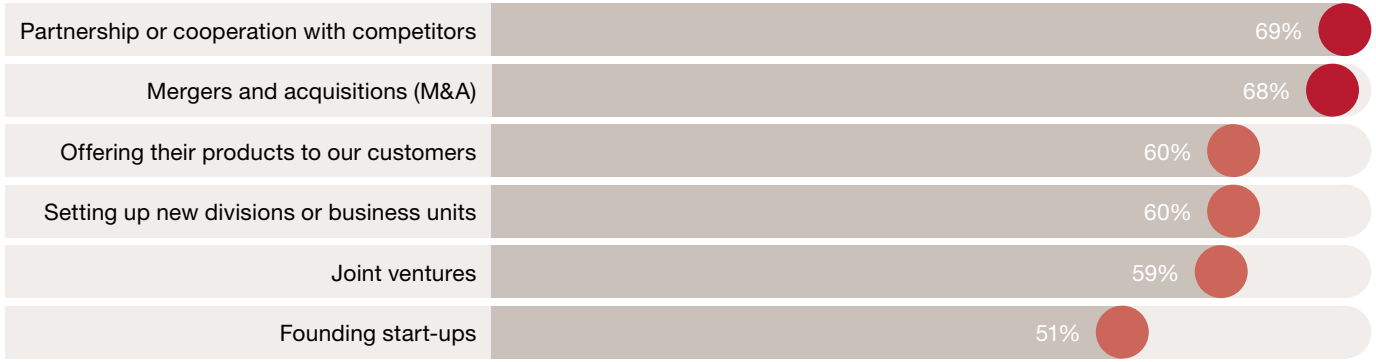
Basis: 331 companies, multiple responses.

Cross-industry moves are also heralding new ways of working. There is a greater emphasis on cooperation and collaboration. New entrants that might have played the role of disruptors are being converted into collaborators. Companies that would have traditionally been regarded as competitors are identifying shared interests, coming together to create platform opportunities and to work in partnership on innovation. In many cases, these initiatives are reaching across sector boundaries and are leading to new types of industry clusters. For example, in late 2016, BMW, Daimler, Ford Motor Company and Volkswagen Group with Audi and Porsche announced plans to form a joint venture for ultra-fast, high-power charging along major highways in Europe.[9] Not only does the initiative entail collaboration by competitors but it also reaches across sectors, taking the companies into the energy and fuel arena as the cluster of activities around mobility transformation grows and expands.

The senior executives in our Top 330 survey identify partnerships and cooperation with competitors as key to cross-industry working. Asked how new entrants entered their industry or how they expect them to enter their industry in the next five years, 69% pointed to partnership and cooperation, marginally ahead of M&A, which was selected by 68% of respondents (figure 8). And when it comes to the preferred route to cross-industry working for their own companies, more than half (53%) selected partnership and cooperation, slightly behind new product development (58%) but well ahead of M&A (36%) (figure 9). Interestingly, only 11% said they would consider founding start-ups as a way for their company to enter other industries, yet 51% said they thought that start-ups are one of the key ways that other companies from outside their industry enter their industry.

Figure 8 What are the market entry strategies of entrants into your industry?

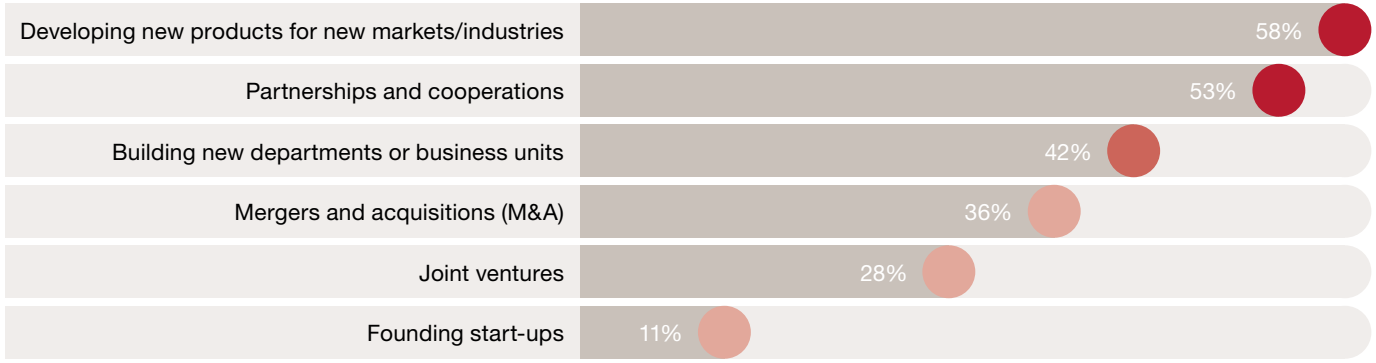
How did the new entrants, regardless of their original market, enter your industry or how do you expect them to enter your industry in the next five years?



Basis: 297 that observed new entrants or expect them in future, multiple responses.

Figure 9 How does your company plan to enter into other industries?

If you plan to expand into other industries and become a new entrant yourself, how do you plan to do that?



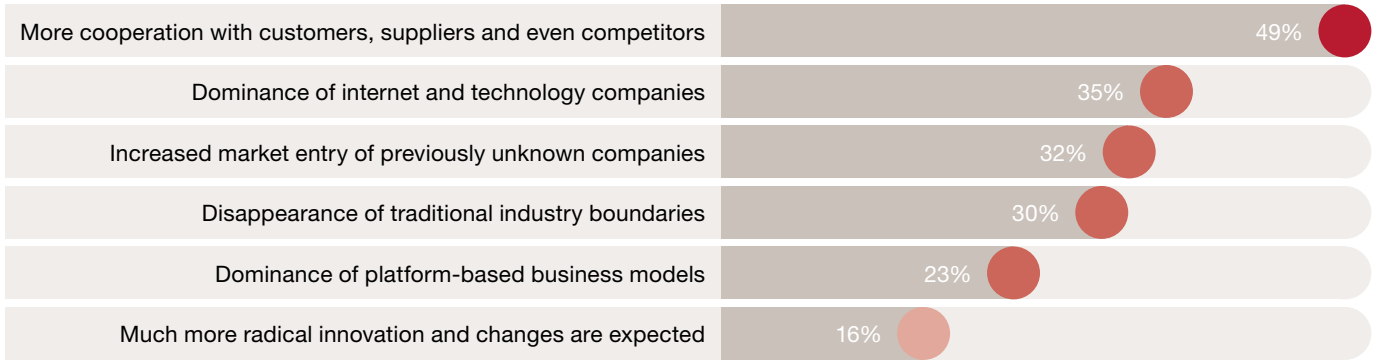
Basis: 173 companies.

[9] Daimler, BMW Group, Daimler AG, Ford Motor Company and Volkswagen Group with Audi & Porsche Plan a Joint Venture for Ultra-Fast, High-Power Charging Along Major Highways in Europe, press release, 29 November 2016.

Looking ahead over the next five years, the senior executives again single out partnership and cooperation, including cooperation with rivals, as their leading expectation for how their industry will change. Half (49%) highlight this trend. In addition, around a third highlight the dominance of internet and technology companies and the rise of previously 'unknown' companies, while three in ten are of the view that traditional industry boundaries will actually disappear (figure 10).

Figure 10 Expected changes in the next five years

What changes do you expect to happen in your industry within the next five years?



Basis: 331 companies, up to three answers possible.

Digital collaboration across industries

Digital innovation in healthcare has the potential to transform patient-clinician interaction, treatment processes and outcomes, as well as the business models that currently prevail in the sector. Sana Kliniken ('Sana') is one of the largest providers of integrated healthcare services in Germany and is in no doubt about the opportunities that lie ahead. It has embarked on a range of collaborative relationships with digital start-ups and established companies offering smart digital solutions to put innovative, forward-looking ideas into practice.

Among its initiatives, Sana is a founding partner of the Flying Health Incubator (FHI), which brings companies from inside and outside the health sector together with highly innovative start-ups. FHI acts as a catalyst by providing a common platform for networking and the exchange of ideas. It advises Sana on issues related to digitisation and establishes contacts with suitable and appropriate companies. It's a two-way process – both FHI and Sana, as well as the start-ups, identify and introduce innovations to the platform. Every partner does its bit for the mutual success; Sana benefits from the FHI expertise in screening digital innovation and FHI benefits from the healthcare experience and reach of Sana.

The FHI platform is highly collaborative and operates across competitive and sector boundaries. Other founding partners of FHI include pharma giant Pfizer, automotive company Audi and medical software provider medatixx. Reaching across boundaries in this way gives the initiative added potential to access and unlock future technologies and digital business models. It combines insider's knowledge and experience in healthcare with an outside perspective and start-up innovation. The interest of digital giants such as Google and Amazon in targeting the healthcare sector highlights the importance of initiatives such as the FHI.

Sana's commitment has already generated a number of success stories. Among the young companies it is working with, Swiss start-up imito has developed radically simplified visual documentation and communication in wound management via a mobile app solution. Medical and nursing staff in hospitals use a smartphone app to take photos of wounds, revise them, and then seamlessly transfer the data to the existing application architecture of the respective hospital. Heartbeat Medical Solutions successfully ran a pilot project regarding the use of a patient-reported outcome system to measure, present and compare the quality of results before and after surgery via tablet and email. Simplinic has successfully developed and proved the benefit of real-time hospital management by means of IOT infrastructure and software, allowing information about asset location and status to be used in complex live process steering.

Based on information from Sana Kliniken.

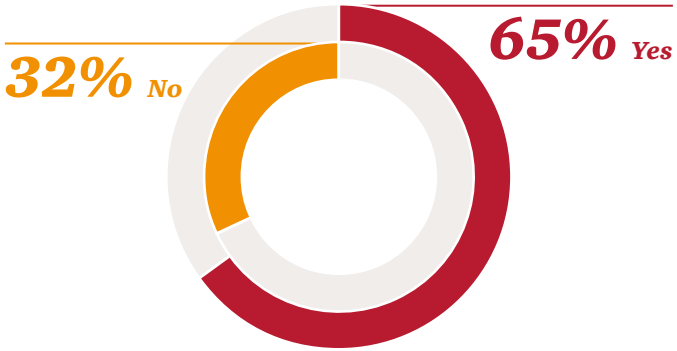
New industry clusters: transcending the old boundaries

We expect the trends identified in this report to gather pace in the next five years. Around half of the companies surveyed say they see at least one other industry as attractive for their own expansion.

A consequence of the substantial rise in cross-industry activity is the dwindling significance of old industry classifications and the increasing emergence and importance of new industry clusters. Indeed, around two thirds (65%) of those we interviewed in our Top 330 survey expect new industry clusters to emerge in the next five years (figure 11) and, as we saw in figure 10, three in ten actually expect traditional industry boundaries will disappear in that same time period.

Figure 11 Emergence of new industry clusters

Do you think there will be new clusters within your industry over the next 5 years that will bring together companies from different industries?



Basis: 331 companies, 3% don't know.

Our analysis of the cross-industry moves the largest German companies across 11 industries have been making over the last six years shows that a substantial volume of activity revolves around new industry clusters, especially Mobility Transformation, New Health, Digital Marketplace, Decentralised Financial Services and Smart Manufacturing. These 'mega' clusters accounted for just under 40% of over 2,000 activities covered in the analysis. So, although they are the largest clusters in terms of recent volume of activity, the universe of cross-industry moves is already much wider than this and we expect other new focal points to grow in the coming years.

Figure 12 shows the diverse range of industry players clustering around these new areas. The largest one – Mobility Transformation – is being led by moves from companies in the automotive and technology sectors, but there are also significant moves being made by companies in the energy and transport and logistics sectors. After more than a hundred years of being in the business of selling cars, for example, automotive companies are eyeing a future where instead they're facilitating and personalising 'on demand' mobility as a service. The horizons for mobility as a service are much wider than automotive. They reach across to other transport modalities, industrial suppliers, energy and into smart city, smart building and wider smart application capabilities.

Much of the activity in Mobility Transformation is focused on making vehicles connected, preparing for a future of autonomous driving that is already coming into view as well as sharing vehicles. Also, significant is activity around electro mobility or 'e-mobility', focusing on the technology and business models needed to take us into a new era of e-mobility transport. The goal of e-mobility requires ecosystems and infrastructure that reach across the traditional energy and automotive industry boundaries but also bring into play a range of other sectors as well. The mobility transformation cluster therefore mirrors the widely known 'C-A-S-E' logic of **c**onnected, **a**utonomous, **s**hared and **e**lectro mobility.

New Health, Digital Marketplace, Decentralised Financial Services and Smart Manufacturing are also the focus of significant volumes of cross-industry activity. Companies developing new health offerings are using digital technology to offer better medical care. As well as companies from the healthcare and pharmaceutical and technology sectors, the cluster is attracting interest from players in the financial services, retail, and media and entertainment sectors. A similar picture emerges in Decentralised Financial Services, with financial services and technology players at the core but with a range of other sectors also engaging in activity focused on providing seamless financial services to consumers.

Figure 12 New mega clusters are emerging from industry convergence

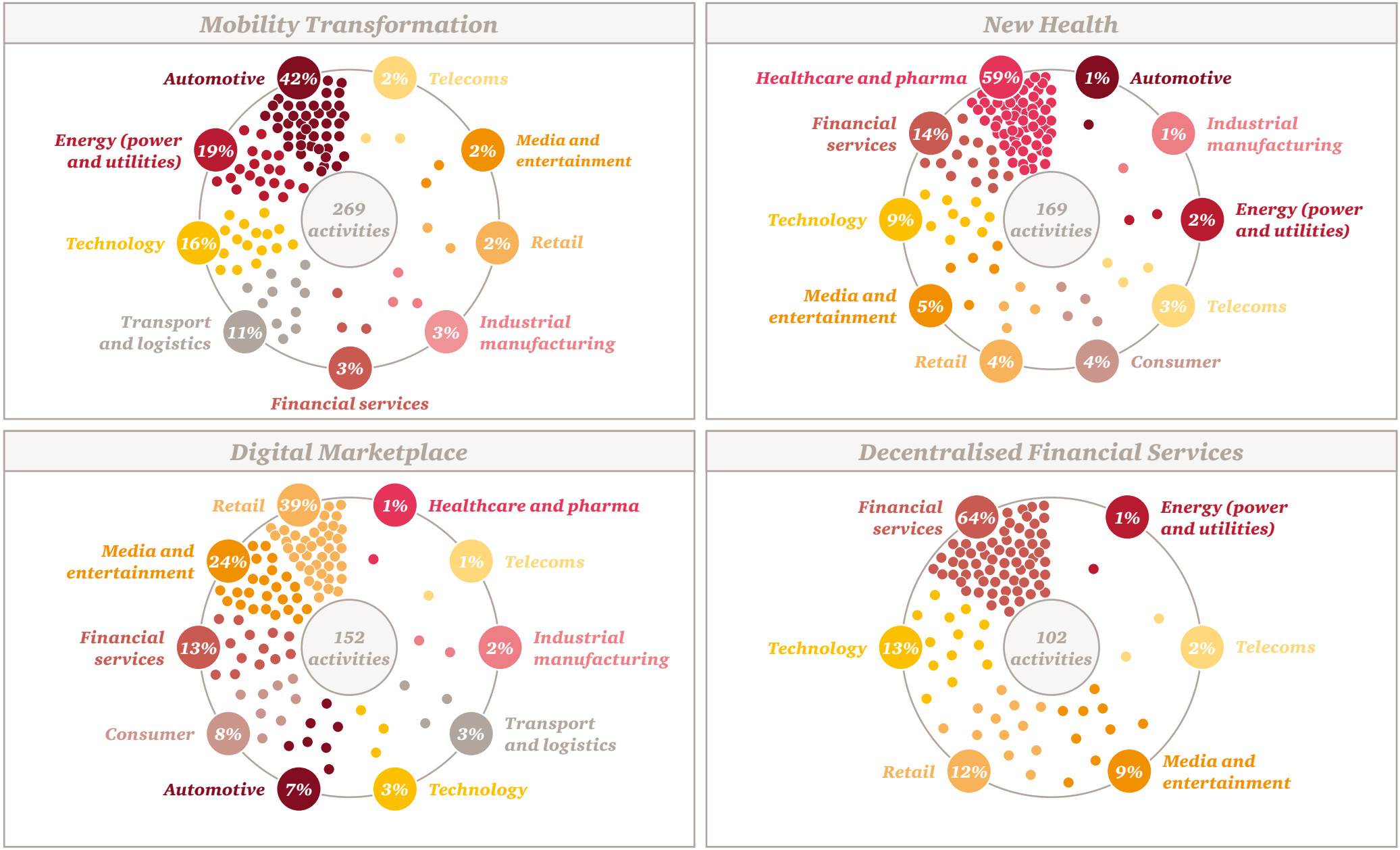
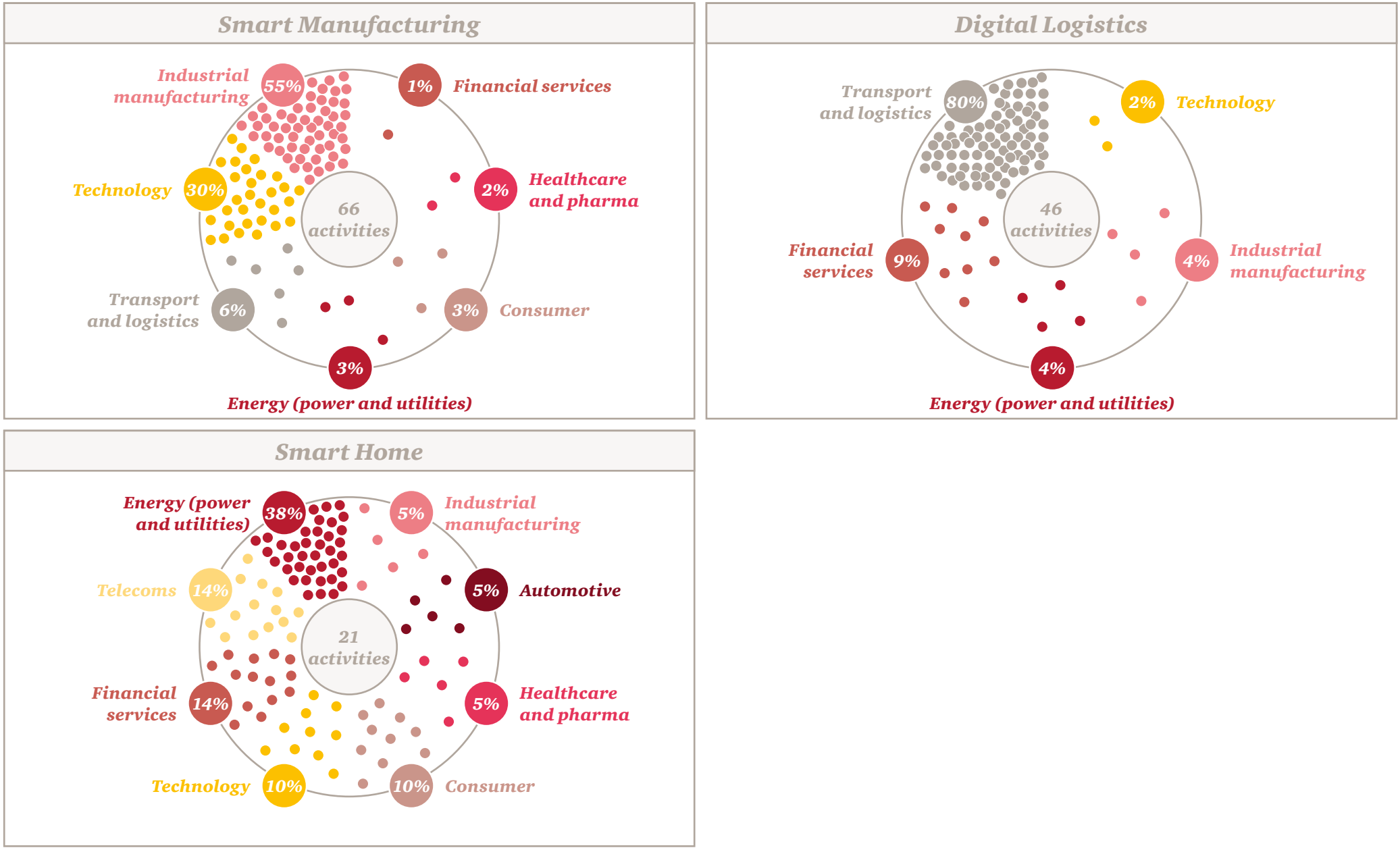


Figure 12 cont. New mega clusters are emerging from industry convergence

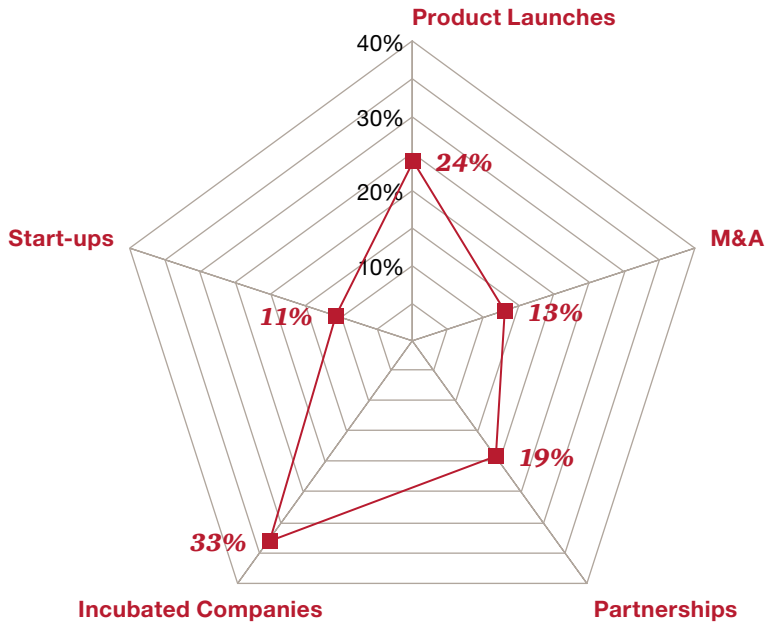


Digital Marketplace is a cluster mainly driven by retail top players, but it also features activities by companies from many other industries. The cluster goes well beyond traditional 'e-commerce' to encompass the formation of digital platforms connecting different buyers and sellers, of software-as-a-service solutions to drive customer engagement, and of social shopping platforms for ideas exchange among users.

Industrial manufacturing and technology companies are leading the charge in Smart Manufacturing as they advance further down the road of connecting entire value streams and developing ecosystems – from procurement and manufacturing processes to intralogistics and external logistics. The formation of the Smart Manufacturing cluster is also influenced by new 3D, 4D and even autonomous printing technologies. As figure 12 shows, this cluster also features moves by transport and logistics and energy companies.

Figure 13 shows that the key strategic driver behind the clusters are start-ups that are part of a corporate incubation programme. A third of all cluster activities can be ascribed to incubated companies, followed by product launches in these clusters (24%) and partnerships (19%).

Figure 13 Incubation as key driver of cluster formation



Total number of cluster activities: 825.

Disrupt your own industry to drive growth – recommendations

Company footprints are shifting constantly in modern market environments but the shift in industry boundaries that we are currently witnessing is much more epochal. Across all sectors, we believe we are at a historical inflection point where companies and sectors will either develop to be the advanced industries of the future, some of them with different focal points from the industries of today, or decline to become uncompetitive and obsolete.

This is a process we expect to intensify, with potentially existential consequences for companies that don't recognise and act on the implications in their markets. The need for action is urgent – the next five years will be make or break for many companies. We have eight recommendations for companies to consider if they are to thrive in this new industry world.

1. Adopt a disruptor's mindset.
Relentlessly focus on how you can meet customer needs more effectively, how you can make their life easier and more convenient, how you can offer consistently lower prices and make better use of assets. That's the focus of your potential disruptors and it needs to be your focus as well.

2. Maintain a balanced footprint.
When your industry's changes reach a tipping point, you'll be caught off balance if you haven't carefully developed positions in the new industry alongside your core industry footprint. Planning for both worlds will enable you to move deliberately and strategically, rather than frantically and reactively.

3. Compete through collaboration.
Identify opportunities to convert disruptors into collaborators when assessing partnership and joint venture opportunities. Within your core industry consider the potential to develop communities of shared interest with competitors where such initiatives could strengthen the readiness of the industry for the new industry world.

4. Focus on customer outcomes.
Products are being replaced by outcomes and experiences. Customers will no longer interact with industries and product sectors based on the physicality of their product, but on the outcomes, convenience and value they can offer. Remove the friction in your customers' lives. Make things easier and less complex, while reducing the price they have to pay.

5. Develop the vision of a digital champion.
Becoming a digital champion will be integral to success in the new industry world. Look at what it takes to become a digital champion across the four essential ecosystem layers of your customer solutions, operations, technology and people.

6. Build from a solid defence.
A good defence will be the springboard for a successful attack. A clear digital vision, the development of distinctive capabilities, the ability to shape your market, strong internal integration, and connected ecosystems are five key pillars for your defence and build-up play.

7. Know your attack strategy.
Different industry areas will require different kinds of growth and entry strategies but it will be vital to understand the implications of each and the balance between them. Can you rely on your own new product development or will it be more effective to acquire it through M&A? Can you use collaboration to good effect or do you need to go it alone?

8. Embrace difference and culture change.
When industries coalesce, when new combinations form and when digital and traditional come together, things can get messy, not least when it comes to internal culture and employee understanding. Make sure you understand mutual expectations and anticipate the hazards by sharing a clear vision of what lies ahead. Build on that if necessary with an explicit programme for culture change.

Further reading

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Methodology

Companies that are expanding their scope of operations from their core industry to relatively unrelated sectors are referred to as 'new entrants' in this report. The companies could be following one of many new entrant strategies, including but not limited to:

- companies acquiring targets in other industries,
- companies forming partnerships and joint ventures
- companies cooperating with start-ups as part of an incubator programme
- start-ups bringing new business models to established industries
- companies developing products for customers in other industries

This report is based on two research initiatives:

1. A telephone survey of senior executives in 331 top German companies (referred to in the report as the 'Top 330 survey'), and
2. A six-year analysis of cross-industry activity by the 25 largest companies by revenues in Germany in 11 industrial sectors in Germany based on a diverse range of data sources (referred to in the report as the 'cross-industry analysis'). The industries covered in the analysis were automotive, energy (power and utilities), industrial manufacturing, financial services, healthcare and pharma, media and entertainment, retail, consumer, technology, telecommunications, and transport and logistics. The analysis covered the period from January 2012 to March 2018.

In order to identify cross-industry activities, the six-year cross-industry analysis is based on a Global Data review of new product launches, mergers & acquisitions activity, partnerships and joint ventures (JVs), incubation programmes and start-ups. Incubation programmes include start-ups that are part of a corporate incubator that supports them in establishing their start-up. Over 2,000 activities were identified in the period 1 January 2012 to 30 March 2018, comprising 368 new product launches, 315 M&A announcements, 381 partnerships/JVs, 790 start-ups incubated and 231 start-ups which were founded after 2012, are not part of an incubator programme and have received funding of >€1million. The following source material was used: company annual reports, investor presentations, press releases, regulatory filings, financial results, published interviews with senior executives, and the databases of Crunchbase, Factiva, GlobalData Energy, Investext, Market Line, Pitchbook and Thomson. Telephone interviews for the separate survey of senior executives were conducted by a market research institute between 7 February 2018 and 12 March 2018.

In the report, we use the term 'new industry cluster' to refer to the coalescing of companies from a multiple number of industries around new business models and/or value creation strategies that begin to pose a competitive threat to the original industries.

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