BIZCOMMUNITY

Converting scale to value in the digital economy

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The rise of the digital economy is developing at pace globally and is now probably the single most important driver of innovation and prosperity. The proposition of its potential to stimulate growth has become almost conventional wisdom among business and policy influencers. The digital economy can stimulate competition, improve trade, ease capital accessibility, promote efficiency and innovation as well as provide an inclusive platform for economic participation.

According to Accenture's Digital Disruption: The Growth Multiplier report, despite challenging conditions globally, the digital economy's contribution to gross domestic product (GDP) has been growing at a compounded annual growth rate of approximately 6 percent from 2010 to 2015. Excluding digital i.e the non-digital related component comes in at just 1.4 percent of growth.

In South Africa, the digital economy's growth from 2010 to 2015 has been negligible, however growth is expected to accelerate by 12.1 percent from 2016 to 2020 (vs the global average of 8.3 percent) indicative of the strong momentum South Africa is gaining as it rotates to the new digital era.

The digital economy now contributes up to 23 percent of the GDP worldwide (19 percent in South Africa), powering growth and creating jobs - as an example the development of mobile applications alone has created nearly 500,000 new jobs in the U.S. and the mobile ecosystem supported 3.8 million jobs in Africa in 2015, implying strong employment growth prospects. In addition, businesses adopting digital are benefiting significantly, according to MIT Sloan research, companies that are adapting to a digital world are 26 percent more profitable than their industry peers.

Together with government's plans to boost the current 52 percent internet penetration rate, the opportunities presented by the digital economy look promising for South Africa's future growth.

How do we measure the digital economy?

Most measures of the digital economy have focused largely on technology infrastructure, IT and communications sector investment, e-commerce, as well as broadband penetration rates. But this does not account for the whole scope of digital.

Accenture and Oxford Economics developed a new model that assesses how digital is adding value throughout the entire

economy – by tracing the use of digital skills, equipment and intermediate goods and services in the production of all goods and services – we have been able to derive a more comprehensive and rounded view of what constitutes a digital economy.

Our research found that 28 percent of output in mature market economies is digital – compared to the far smaller 5.2 percent of mature market economies that would have been considered digital using traditional methods – a deeper dive into the data highlights that even greater gains are to be had in productivity and growth.

Looking at individual countries for most economies, the digital share of GDP has the potential to grow by around three percentage points between 2015 and 2020. The U.S. leads the ranking, with a digital economy valued at around $5.9 trillion, which equates to 33 percent of GDP. Forty-three percent of employment in the U.S. workforce is digital. If we measure the accumulated investment in software, hardware and communications equipment, digital capital stock represents 26 percent of total stock.

By contrast, South Africa's labour force is 36 percent digital, however only 6 percent of its capital stock is digital – a relatively smaller capital investment than most other economies – resulting in a digital economy worth just 19 percent of GDP.

Moving from scale to value

Assessing the digital economy offers insight into its size and scope. But while it is vitally important to the overall well-being of an economy to calculate how much has been spent on information, communications and technology or account for the number of digital jobs, there is more to achieving a high-performing economy than accumulating digital assets and skills. Broad-based application of digital technologies – including the enabling environment, company behaviours and consumer attitudes – matters in driving productivity gains.

Our research also shows that a statistically significant relationship exists between digital density or the extent to which economies use digital technologies for economic activity and total factor productivity. A 10-point increase in digital density is associated with an approximately 0.4 percentage point increase in total factor productivity growth for advanced economies, and a 0.65 percentage point increase in total factor productivity for high-growth emerging markets.

So how can business leaders and policy makers deliver a 10-point increase in a way that works best for their economies?

Optimise digital investments to realise higher productivity and growth

By understanding which areas need improvement, high-performing economies could realise better returns by investing in the optimal combination of three levers: digital skills, digital technologies and digital accelerators. For example, countries may have invested heavily in digital technologies, but have neglected to prepare for the workforce of the future.

The levers consist of a collection of broad and specific indicators – digital skills measure elements such as the information, communications and technology expertise in the workforce or the use of digital to facilitate remote working. Digital

technologies include mobile connectivity and the economy's capacity to make use of the industrial Internet. Finally, digital accelerators include wide ranging parameters such as making use of the cloud or access to finance or the economy's regulatory environment.

Choosing the right combination of levers to maximise impact opens up the potential for countries to better exploit the digital opportunity – especially those disadvantaged by size. Our analysis shows a clear link between digital skills, technologies and accelerator levers and total factor productivity with the impact of digital accelerators being a key influencer of undiscovered value. Adjusting these levers can enhance overall digital intensity and act as a growth multiplier.

Adopt a platform strategy

Platform business models also represent one of the greatest opportunities for digitally driven growth. These models allow organisations to create new markets and uncover value by bringing partners and customers together across a common digital platform. In many cases, platform players can enjoy strong growth without having to own or manage assets, helping them expand with low marginal costs.

While 'born digital companies' dominate the platform economy today, traditional industry incumbents could be among the greatest beneficiaries of platform strategies by combining their customer reach and product portfolios with the networking power of the platform to offer new value added services. Adopting a platform strategy opens up new paths to strategic growth – essential for organisations to defend their position in the market and take advantage of digital disruption to become the new leaders of the digital economy.

Invest in developing the digital workforce

No economy will remain competitive if they do not invest in developing the digital workforce. For the digital economy to succeed, employment policies need to centre on the creation of digital-related jobs that are both direct technology jobs and jobs where technology is a key enabler. Take a motor mechanic as an example – the compositions of cars today demand that the mechanic be skilled in not only the mechanics but also the electronic aspects to be able to service or repair a car.

In addition, children starting school this year will potentially be working in the digital economy by 2030, therefore education needs to begin at the foundation level. This future workforce will require new skills types that enable them to manipulate and develop new and emerging technologies to be competitive in entering the job market. Reforming education and investing in skills is therefore critical. As the custodian of labour policy, the government must create the environment where businesses are encouraged and incentivised to start and grow new initiatives to sustainability.

Digital is not just a component of the economy anymore, it is becoming the economy and while businesses and governments are turning to digital to secure faster growth amid an uncertain global economic outlook, the size of the digital economy is no guarantee of growth.

Organisations need to act aggressively in shifting the focus of their digital talent and technology from making efficiencies to creating entirely new business models. That requires not just greater digital investments, but the degree to which digital practices, capabilities and skills are embedded into the fabric of economies.

ABOUT THE AUTHOR

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