Business Innovation in Kenya 2019

Corporate Innovation through collaboration with startup eco system

Acknowledgments

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Viffa Consult

KEPSA
KENYA PRIVATE SECTOR ALLIANCE

The Voice of Private Sector in Kenya

The Kenyan innovation eco system is quickly maturing evidenced with reports from GSMA which indicates Kenya is part of Africa's innovation quadrangle which consists of ***Nigeria, South Africa*** and ***Egypt*** with a total of ***50 tech hubs***.

Further Kenya is ranked ***third most innovative country*** behind South Africa and Mauritius (Global Innovative Index GII).

The impact of innovation linked to Startups in Kenya has been felt socio economically both locally and globally with the most successful and recognized innovation being Mpesa which is present, apart from Kenya, in nine other countries namely ***Albania, the Democratic Republic of Congo, Egypt, Ghana, India, Lesotho, Mozambique, Romania*** and ***Tanzania***.

Mpesa has contributed to financial inclusion in Kenya with an estimated ***70 per cent*** of the adult Kenyan population uses M-Pesa compared to ***31 percent*** using banks, further according to studies done by economists from MIT and Georgetown University, M-Pesa has lifted ***194,000*** Kenyan households – or ***2 percent*** of Kenyan households out of extreme poverty.

The innovation was interesting enough to prompt Mark Zuckerberg to visit Kenya and personally observe how it works on the ground and the impact thereof. Other notable startups in Kenya that have had an impact in various industries are; Cellulant, Twiga Foods and M-Kopa among others.

The rapid rise of the startup ecosystem is to a high degree correlated to the progressive development and continued maturity of the innovative entrepreneur support community in Kenya constituted mostly of hubs, incubators, accelerators and co working space.

The Kenyan entrepreneurial support community has had notable success in hosting events that foster innovation such as The Nairobi Innovation Week, Nairobi Tech Week and SanKalp among others.

Despite the enormous synergy potential of the startup innovation eco system to corporate Kenya, the former save a few don't have a deliberate engagement strategy. Although startups and legacy entities may have differences in risk appetite the success of Kenya's business environment and unprecedented economic growth is dependent on successful sustained collaboration where legacy companies have a need for innovation through access to new business models as well as sourcing for new technology while startups have a need for resources such as financing, supply chains, rapid access to markets among others.

Viffa conducted a survey targeting large legacy companies to establishing current innovation strategies as well as exploring mechanisms of collaboration with the startup eco system. A legacy company for purposes of this study is an established entity in an old industry applying legacy systems and is experiencing diminishing market share

Methodology

The survey research targeted companies listed at the Nairobi Securities exchange (NSE) and members of The Kenya Private Sector alliance (KEPSA)

The survey targeted Chief Executive Officers (CEOs), Managing Directors (MDs), senior managers involved in Strategy or Innovation and Chief Technology Officer (CTOs).

A stratified random sampling procedure was used for selecting the participants in this study. This technique was employed to ensure a fairly equal representation of key economic sectors in Kenya. The stratification was based on economic sectors while selection of companies within each sector was simple random sampling

Sample size was 60.

Data collection was conducted using online survey as well as telephone interviews.

Survey Results

Turnover

Turnover (Ksh)	0-50 M	51-100 M	101-200 M	201-300 M	301-400 M	401-500 M	501-900 M	901-999 M	1-5 B	6-10 B	11-20 B	21-30 B
%	7%	14%	7%	7%	1%	7%	7%	1%	21%	7%	14%	7%

Innovation Status

Innovation is a priority hence constantly developing new ideas

Innovation is on watchist hence alert to new ideas and quick to adopt

Innovation is not a priority

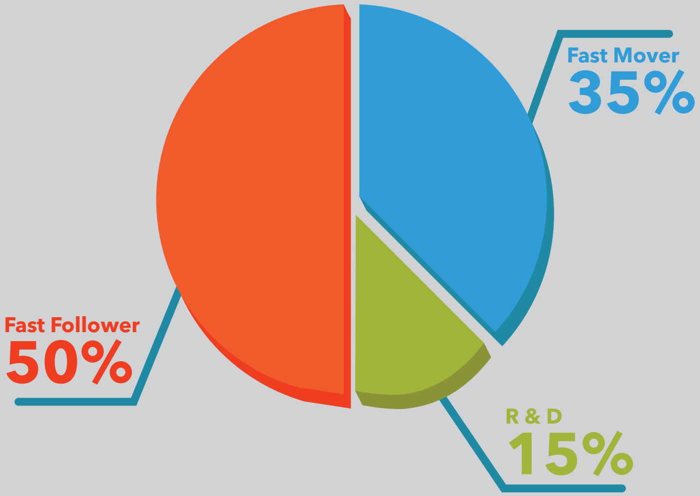
Innovation Status Insight

Companies in Health, Insurance, Aviation and Construction constituted 98% of respondents that indicated that Innovation is not a priority most likely to high regulation of their respective industries.

Although 50% of respondents indicated innovation is priority and they are constantly developing new ideas, there seems to be an execution gap of winning products/services cognizant of the bearish performance of the Nairobi Securities Exchange in the last one year as well as underperformance of other large companies going by profit dips.

Studies have shown a direct correlation between company financial performance and innovation although in the Kenyan context performance can be pegged to other factors

Current Innovation Approach



Innovation Approach Insight

50% of respondents indicated that they applied fast follower approach to innovation which involves incremental improvement of existing products based on market analysis. Companies in Retail, Financial services and Hospitality constituted over 70% of respondents who adopted the strategy.

Despite fast follower being a safe and cost effective innovation option, it's not the optimal strategy cognizant of rapid change of consumer taste and preference underpinned on current phenomenon of short product life cycles as well as pressure exerted by the global supply markets.

35% of respondents indicated that they applied first movers approach to innovation led by companies in Media, ICT, Telecommunication and Manufacturing sectors. The strategy involves being first in market with new products based on superior user understanding.

15% of respondents indicated application of R&D which involves Innovation around data from sustained research by solving unarticulated user needs. Over 90% were companies in ICT and Telecommunication sectors majorly involved in accumulation of primary user data

Top Three Drives of Company Innovation

1. Rapid change in consumer taste and preference
2. Market saturation
3. In house R&D

Insight

Based on the drivers indicted, legacy companies are majorly innovating based on external pressures of customers and market saturation with proactive and deliberate research taking a back banner. This is in contrast with global practice that places research driven innovation at the centre of corporate strategy.

Portion of turnover allocated to innovation oriented initiatives/programs (Either actual or proposed)

79% of respondents indicated an allocation of 0-5%, 14% indicated 6-10% with 7% indicating over 10%

Planned areas of innovation for next 2 years

1. Products customized to local markets and geographies
2. Customer experience
3. Systems and processes
4. Superior Product performance
5. Superior Product Quality
6. Developing low cost products
7. Improved success rate of new products
8. Products for multiple markets
9. Speed to market of product

Top Four Innovation challenges currently faced by organization

1. Financial Resources
2. Weak leadership
3. Unsupportive corporate culture
4. Lack of Talent

Insight

The challenge of scarce financial resource can be tackled by paradigm shift in strategy that for most companies has always been inward looking and competition based to industry eco system based that relies on collaboration around innovation that can enable an industry.

For example the insurance sector has a paltry penetration of less than 3% with little to no innovation taking place in the sector. With value proposition based on price the industry will remain in a vicious cycle unless they co-pull funds to catalyze innovation and raise insurance uptake.

Potential challenges of collaboration with startups to drive corporate innovation

1. Brand Protection
2. Lack of finance
3. Intellectual property rights and management
4. Unsupportive corporate structure
5. Clashing corporate culture

Top 5 Optimal models for startup collaboration to drive corporate innovation

1. Strategic partnerships
2. Acquisition program - (Established firms purchase startups in order to access their products)
3. Challenge prize -(An open competition that focuses on a specific issue, offering an incentive to field innovators to develop the best solution)
4. Jointly funded outsourced incubators (JV with Industry players)
5. Hackathon - (A focused workshop where software developers come together to collaboratively find technological solutions to a corporate innovation challenge)

Corporate-Startup collaboration Insight

Corporate-startup collaboration matrix

COLLABORATION CHALLENGE	Brand Protection	Finance	IP	Corporate Structure	Corporate Culture Fit
COLLABORATION MODEL					
Strategic Partnerships	✓	✓	✓	✓	✓
Acquisition Program	✓	X	✓	✓	✓
Challenge Prize	✓	✓	✓	✓	✓
Jointly Funded Outsourced Incubator	✓	✓	✓	✓	✓
Hackathon	✓	✓	✓	✓	✓

Companies prefer collaboration with startups through strategic partnerships as the model best safeguards the corporate from potential hazards highlighted while unlocking new innovation channels.

Strategic partnerships manifest as:

i. ***Revenue share contracts: Corporate facilitates sale of startup product/ service through its supply chain with a clear contract on revenue share***
ii. ***Commercial Contract: Startup produces products/ services that fits into corporate business model. Corporate offers startup a supplier commercial contract.***

Collaboration through acquisition is second in terms of preference but is expensive to implement.

Challenge prize is a low cost collaboration model but its application may be limited to "light innovation" on matters such as rebranding as recently done by East Africa Breweries Limited (EABL) logo challenge.

Jointly funded outsourced incubator can be applied to companies in industries that are either; highly regulated or no single company commands lions market share due to penetration challenges. Such industries include Banking, Insurance, construction, transport and retail among others.

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