Viffa Consult

BUSINESS INNOVATION IN KENYA 2020

Corporate innovation through startup collaboration

Acknowledgments

This report was prepared by Viffa Consult, led by the managing director; Victor Otieno.

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Contents

Kenya's Innovation Topography

The Kenyan innovation eco system continues to mature 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).
Startup is generally associated with young innovative tech companies or new businesses that leverages on technology to solve a problem or pain point of a population segment.

Startups world over are increasingly playing a critical role to a country's socio-economic development through development of innovation as well as aid in optimization of current economic sectors through collaboration.

On development of innovation, startups focus on solving problems focusing on new technology and cutting-edge innovation as compared to legacy institutions that focuses on incremental innovation or improving on existing technologies through improved efficiency.

The global startup economy continues to expand with value created between 2016 to 2018 standing at 2.8 trillion USD (Startup Genome) with startups constituting the largest top companies in the globe (Illustration 1)

Illustration 1: Largest global companies in 2018 vs 2008

2018	2008
Apple	Petrochina
Google	Exxon
Microsoft	General Electric
Amazon	China Mobile
Facebook	ICBC

Source: Startup Genome-Global startup ecosystem report 2019

Analysis: Viffa Consult

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 with 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.

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 its second edition 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), Kenya Private Sector alliance (KEPSA) membership, Retail Trade Association of Kenya (RETRAK) as well as Non-Governmental Organizations (NGOs)

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 50.

Data collection was conducted using online survey as well as telephone interviews in the period of 24th August 2020 to 2nd September 2020.

Survey Results

Turnover Distribution

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%	29%	7%	10%	11%	8%	7%	3%	2%	1%	1%

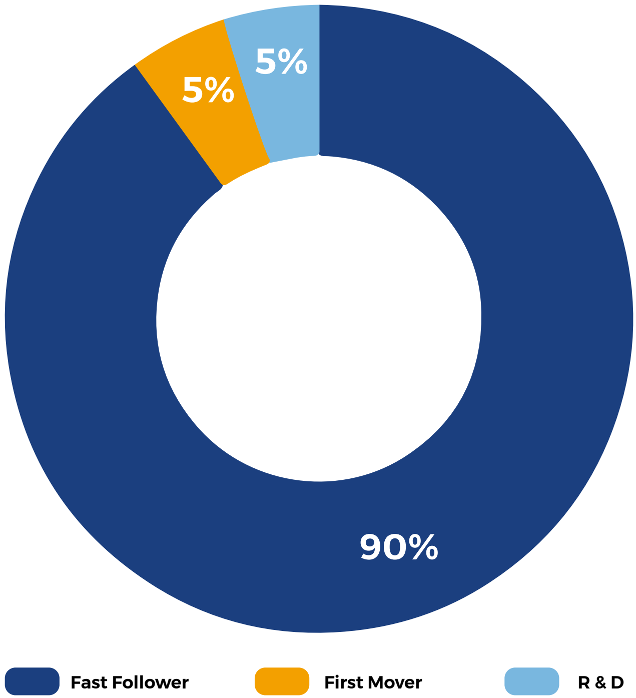
Innovation Status

Innovation Status Insight

Companies in Health, Insurance, Aviation and Construction who had constituted 98% of respondents that indicated that Innovation is not a priority in the 2019 study despite regulation in their respective industries seek innovation in response to Covid-19 as evidenced by Bima Hub; an innovation hub for insurance sector.

Kenya's media companies' legacy business performance has steadily declined in the past five years due to digitization. Media and publishing companies either are shifting or planning to change their business models with the digital reality as evidenced for example by Nation Media group. Studies have shown a direct correlation between company financial performance and novel innovation although in the Kenyan context performance is pegged on incremental and efficiency innovation that focuses on repackaging and efficiency respectively.

Current Innovation Approach



Innovation Approach Insight

90% of respondents indicated that they applied fast follower approach to innovation which involves incremental improvement of existing products based on market analysis which can be explained with a combination of factors such as risk aversion in light of Covid-19 as well as insufficient capital pegged on falling revenue.

This is in stark contrast with research and development led innovation accounting for 5 percent of innovation approach that focuses on solving problems focusing on new technology and cutting-edge innovation leading to significant value capture as well as competitive advantage.

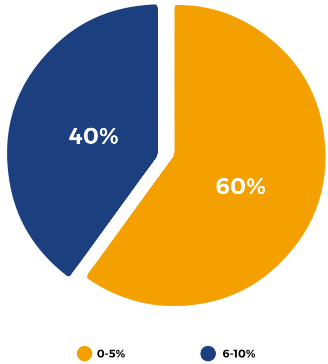
Drivers of Company Innovation

Innovation Driver Insight

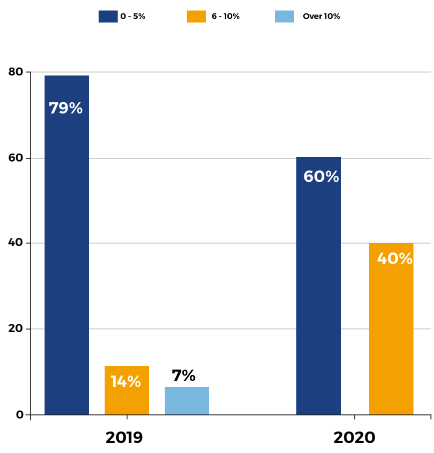
Based on the drivers indicted, legacy companies continue to innovate based on external stimuli of customers and market saturation with proactive and deliberate research and development led innovation taking less prominence.

This is in contrast with global practice that places research driven innovation at the center of corporate strategy especially industries under disruption pressures such as media and publishing, automotive and mobility, and financial institutions and insurance industries (BCG 2019).

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



Innovation Allocation Trend



Innovation allocation insight

60% of respondents indicated an allocation of 0-5% of their turnover to innovation initiatives while 40% indicated an allocation of 6-10%. There has been a 26%-point increase in 6-10 % allocation for period 2019-2002 attributed to a fall in both 0-5% and over 10% allocations for the same period.

Planned Areas of Innovation for Next 2 years

PRODUCTS CUSTOMISED TO LOCAL MARKETS
- Digital Product Delivery

SUPERIOR PRODUCT QUALITY & PERFOMANCE
- Success rate of new product

CUSTOMER EXPERIENCE
- Systems & Processes

SPEED TO MARKET OF PRODUCT

Innovation Challenges Currently Faced by Organization

SLOW MARKET ADOPTION

UNSUPPORTIVE CORPORATE CULTURE

FINANCIAL RESOURCE CHALLENGE

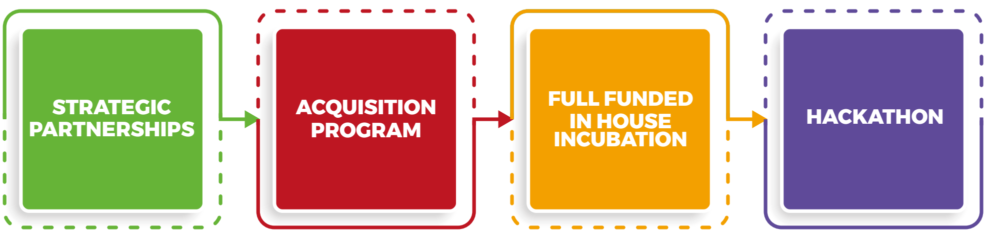
Insight

Slow market adoption is faced by over 40% of respondents but more so publishing companies as well as print media that are leading shift of business model towards digitization.

The challenge of scarce financial resource can be tackled by paradigm shift in strategy that for most companies is inward looking and competition based to industry eco system based that relies on collaboration around innovation that can adopted across the industry.

Potential challenges of collaboration with startups to drive corporate innovation

Optimal models for startup collaboration to drive corporate innovation



Innovation allocation insight

1. Acquisition program - (Established firms purchase startups in order to access their products)

2. Full funded In house incubation -(This includes mentoring and value-added services to support entrepreneurs building viable, market-ready ideas)Jointly funded outsourced incubators (JV with Industry players)

3. 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	√	✖	√	√	√
Full funded in-house incubation	√	✖	√	√	√
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.

Full funded In house incubation can be applied to companies that are well resourced as well as possess deep entrepreneurship culture that support startups through mentorship and building viable, market-ready ideas.

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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