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CHANGEMAKERS

Capability transfer

Written by

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Commonwealth Bank viewpoint

Simon Gattorna, the general manager of Strategy & Operations, Institutional Banking & Markets, at Commonwealth Bank of Australia, says that when it comes to engagement with ecosystems, the bank has developed several strategic ways it shares its existing capabilities and acquires new ones.

“We’ve established innovation relationships with key global banks to actively share start-up, scale-up and opportunity intelligence. We also have partnerships with accelerators in Hong Kong, USA and UK, as well as with venture capitalists from USA and Israel,” he says. “These help identify new and emerging technologies that we can leverage and prioritise capability development internally and for the benefit of our customers.”

Mr Gattorna notes that a key channel for the Commonwealth Bank’s capability transfer is the network of Innovation Labs it has established in Sydney, Hong Kong and London. These are the ‘front door’ for many start-ups, corporates and banks, and have helped the Commonwealth Bank understand and develop applications using numerous new technologies. “To date we have built centres of excellence in Blockchain and Social Robotics and we are currently working on replicating this across AI & Data Analytics, Ag-tech and Reg-tech,” he explains.

Mr Gattorna says the ultimate vision for the Lab network is to create an experiments engine, on-board process and evaluation criteria, but that even in their present form they have proved to be an invaluable point of focus for the innovation ecosystem. “The simple presence of a physical space and team dedicated to communicating our innovation journey has given us significant traction with global banks, corporates, government, regulators and the broader innovation ecosystem.”



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Introduction

Ecosystems consist of a large number of participants that boast different and complementary sets of capabilities. The participants combine in short or longer term tie-ups to leverage their capabilities in pursuit of a common objective—developing a commercial application for an emerging technology, for example. They may also come together for the purpose of learning from or absorbing each other’s capabilities. In these respects Australia’s fast-growing collaborative ecosystems differ little from their counterparts in North America and Europe. Companies are leveraging ecosystems not just to find solutions to digital challenges but to acquire technology capabilities they did not have before. The interactions are not necessarily frictionless but, as we have discussed elsewhere, they are becoming increasingly collaborative. If these succeed, they can make some unique contributions to the world’s growing body of successful digital business models. ▶



Finding niches

In many ways, Australia's ecosystems are following in the footsteps of their European and American counterparts. Sydney's fintech community is an example. According to a report from KPMG, an advisory firm, six in 10 of Australia's close to 600 fintech start-ups are based in the city¹. Several got their start or secured different types of support from a burgeoning network of accelerators, incubators and co-working spaces. The most prominent fintech-focused accelerator is Stone and Chalk, but others with a broader remit such as the York Butter Factory and muru-D (backed by Telstra) also count several fintechs in their programmes. Australia's major banks are supporters of such structures and, according to the report, are invested in Sydney start-ups that are developing applications in payments, compliance ("reg-tech") and blockchain, the distributed ledger technology which underpins cryptocurrencies. KPMG makes it clear that Sydney pales next to London as a fintech hub, but believes it can rival or surpass Singapore and Hong Kong as a major Asian hub².

Australian ecosystems taking shape around innovation in agriculture, life sciences and mining have the potential to be influential on the world stage, believes Petra Andren, CEO of Cicada Innovations, a deep technology incubator. "Ag-tech is becoming extremely hot because nobody's really been doing it

and Australia has significant strengths in this area," she says, noting the substantial bodies of research that exist in universities and in CSIRO (Commonwealth Scientific and Industrial Research Organisation, the federal agency co-ordinating such activity). "Very few companies have actually gone out and commercialised agricultural technologies in a major way." The federal and state governments, however, are now setting aside substantial funding for ag-tech development, accelerators and VC firms are looking to back such start-ups. The latter are emerging in growing numbers with applications in predictive yield analytics, drones and robotics, field management, platforms for seasonal labour, and other areas³.

Med-tech, says Ms Andren, is another area ripe with potential, again due to well-established scientific expertise in universities and research institutes (in areas such as genomic medicine, digital health and precision medicine, for example), an increase of public and venture funding for start-ups in the field, and growing accelerator-type commercialisation support for them. Large organisations are also becoming part of the health ecosystem. An example being the insurance provider HCF, which is operating a "catalyst" programme of its own in partnership with Slingshot, one of Sydney's major accelerators⁴. ▸

1 Scaling the Fintech Opportunity for Sydney and Australia, KPMG, August 2017.

2 Ibid.

3 See, for example, "Why agtech is Australia's next \$100 billion industry", Financial Review, September 7, 2016.

4 "HCF turns to start-ups for healthtech innovation", IT News, November 2, 2015.

Changing capabilities

From a corporate perspective, such activities represent more than investment opportunities, even though the corporate equity investors stand to benefit should their start-ups make it past the early stages of growth and generate financial returns. At the moment, relatively few Australian start-ups can manage this, experiencing considerable difficulties in scaling up, says James Cameron, a partner with AirTree Ventures, a VC firm. This may be one reason why their corporate sponsors are looking for an additional type of benefit—gaining technology capabilities that they have difficulty developing organically

One such capability is building APIs (application programming interfaces), which small technology companies around the world have perfected to enable the sharing of data between organisations. Max McLaren, Australia general manager of software provider Red Hat, says that large organisations, in both the public and private sector, are realising that they need to open up data integration points both internally and externally to facilitate the data sharing they need to innovate. Mr Cameron agrees: “APIs are a critical area for large corporates,” he says. “Their leaders recognise that to become software- and data-driven, they must master the use of APIs. Most companies cannot do this

themselves; they need to collaborate with others to achieve it.”

Australia Post credits progress in its own digital transformation partly to its associations with start-ups and universities—including through a partnership with the University of Melbourne Accelerator Program (MAP), the largest accelerator in that city. A particular focus has been strengthening its online capabilities, enabling the company to offer new website functionalities⁵. Christie Whitehill, CEO of Hatching Lab, says similarly that internal and client-facing tools are the focus for its corporate clients. “We help by getting our start-up experts to co-create with them,” she says. ▸

We help by getting our start-up experts to co-create with [corporate clients].

CHRISTIE WHITEHILL
CEO, HATCHING LAB

⁵ “Making digital a new way of innovating at Australia Post”, CMO, March 8, 2016.

Lingering barriers

Absorbing expertise and acquiring capabilities from third parties, as described above, are complex projects that are not achieved overnight and can unravel easily. Risk aversion and resistance to change in larger companies all too often hinder acceptance of new ideas, whether they originate from inside or outside the organisation. Such cultural issues are the only significant obstacles to this type of interaction within ecosystems. Protective attitudes toward intellectual property have impeded it in the past, but as is made clear in another article in this series, these are also changing perceptibly in the digital era. ▸

Leaders [of large corporates] recognise that to become software- and data-driven, they must master the use of APIs. Most companies cannot do this themselves; they need to collaborate with others to achieve it.

JAMES CAMERON
PARTNER, AIRTREE VENTURES

Key takeaways

ONE



Experts believe **Australia's ecosystems can become influential globally**, particularly in fields where the country has a large reserve of scientific expertise and where funding volumes are **growing, such as agri-tech and med-tech**.

TWO



Beyond equity investment, large companies are also linking up with start-ups and other ecosystem partners to **gain technology capabilities they have difficulty developing internally**.

THREE



Risk aversion and resistance to change are the chief remaining impediments to the use of ecosystems for acquiring capabilities.

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