TOMORROW'S CHALLENGES

THE DIGITAL BUSINESS AGILITY IMPERATIVE

HOW COMPANIES CAN FIGHT DIGITAL DISRUPTION

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Digital disruption has the potential to overturn incumbents and reshape markets faster than at any time in history.

Many companies will benefit enormously from digitization. Others will not. The real question then is which organizations will succeed. More than anything, agility and speed of innovation determine 'digital business agility'.

Disruption for all

The difference between the digital disruption of the Vortex and traditional competitive dynamics comes down to two main factors: the velocity of change and the high stakes involved. Disruptors employ their digital business agility to innovate rapidly, and then use their innovations to gain market share and scale far faster than challengers still clinging to predominantly physical business models.

Digital disruption though is not just an issue for firms in high-technology sectors. The impact of digital disruption is being felt across industries. The relatively traditional high-end fashion sector, for example, has been disrupted by digitally savvy incumbents such as Burberry, as well as new entrants such as Net-A-Porter. Meanwhile, the hospitality and travel business has been disrupted by upstarts like Airbnb, LiquidSpace, and trivago. Re-intermediators such as Kayak and RentalCars have rapidly established huge businesses without the necessity of acquiring physical assets.

To counter these potentially existential threats companies need to change, but not just change, they need to transform. Digital business transformation is a journey to adopt and deploy digital technologies and business models to improve performance quantifiably. The first step of this journey is to grasp the need for transformation - an imperative driven by the inevitability of digital disruption.

How to respond?

This is the issue that preoccupies market incumbents today as they contemplate digital disruption. The three most common questions leaders ask about digital disruption are: 1) "How are digital disruptors going to attack my company?"; 2) "What steps should I take?"; and 3) "What capabilities do I need, not only to respond but to go on the offensive and disrupt others?"

The answer, difficult though it may be, is that no single strategy will guarantee success. Why? Because individual moves tend to focus too much on tweaking the company's existing value chain in order to compete with traditional foes, rather than transforming how the company delivers customer value.

Meanwhile, digital disruptors focus on precisely that: supplying the cost value, experience value, and platform value customers want – frequently, and most dangerously, in combination. When a company's most formidable competitor might be a start-up or a firm from another industry that uses digital technologies and business models to create 'combinatorial disruption', minor changes to existing processes and models will not be sufficient.

To win, companies must be dynamic enough to understand and respond to the risks disruptors pose. As margins from core models decline, the percentage of revenue from new businesses needs to increase. This puts pressure on companies to improve the ‘hit rate’ of marketable innovation, an area in which nearly all incumbents struggle. Incumbents are frequently less able to innovate and adapt at speed than the start-ups that are disrupting their core businesses.

Digital business agility

Companies need to develop ‘digital business agility.’ Companies that possess digital business agility respond quickly and effectively to emerging threats to their business, and seize new market opportunities before their rivals even notice them.

Digital business agility has three main pillars: hyperawareness, informed decision-making, and fast execution. These pillars are not technologies, but rather technology-enabled capabilities. Moreover, while they can be understood as discrete, they actually build upon one another.

Hyperawareness is a company’s ability to detect and monitor changes in its business environment. By ‘business environment’, we mean both the internal and external factors that impact the company’s opportunities and risks.

Hyperaware companies are less likely to be taken by surprise and are hard to disrupt because they can sense their vulnerabilities and adjust models and processes accordingly. For example, hyperaware companies understand when their customers are dissatisfied and why - zeroing in on what customers truly value about their products, as opposed to how those products are delivered through the current value chain. Likewise, when a company is hyperaware of its competitive landscape, it understands the strength and weaknesses of traditional rivals, and the potential impact of new lines of business or acquisitions. They also anticipate which non-traditional competitors could threaten their market position, and the models they could use to disrupt.

Informed decision-making is a company’s ability to make the best decision possible in a given situation. To do this, data collected as part of company hyperawareness processes must be analyzed, scaled, packaged, and distributed throughout the organization. To excel in informed decision-making, companies must develop mature data analytics capabilities that augment human judgment. However, many companies fail despite having the information they need to make the right moves. Often, this is because assumptions held by top management were not tested or questioned. Decisions based purely upon “gut feeling” or past experience have little chance of success.

Instead, companies must make decisions based on insights gleaned from data analysis, and ensure that experts from within and outside of the organization have access to these insights. Experts must be brought into the decision-making process at appropriate stages, regardless of their location, role, or rank. Diversity of perspective is a major contributor to informed decision-making but is only one element of a larger imperative of corporate inclusion.

Fast execution is a company's ability to carry out its plans quickly and effectively. Unfortunately, it is a rare capability, especially in large companies where execution is slowed by organizational complexity, cultural inertia, turf wars and a reluctance to invest in resources needed to get the job done.

As it grows, complexity becomes the bane of the incumbent. Time and again that start-ups out-execute incumbents in areas such as time to market, experimentation, and risk-taking that are essential to success. To cut through complexity and accelerate execution, incumbents can emulate the strategies of start-ups. For example, while most large firms struggle to launch innovative new products and services at speed, GE operates lean start-up principles in its FastWorks program. FastWorks accelerates the time from concept to 'minimum viable product', which customers can test.

Conclusion

Digital business agility - creating hyperawareness, informed decision-making, and fast execution capabilities is at the heart of competitive success in the Digital Vortex.

Younger companies are not inherently more competitive than older companies. As disruptors themselves mature, and take on the encumbrances of incumbents, they too fall prey to the next generation of disruptive players who benefit from the relentless march of technology-driven innovation. And as innovation costs plummet, agile disruptors of all stripes—and this includes incumbents—get more opportunities to create disruptive offers and business models. As a result, incumbents can tap into exciting new paths to customer value. Whether this is good or bad for an individual firm comes down to how effectively and efficiently it can create these models. And this in turn hinges on the level of digital business agility it possesses: the more it has, the greater its ability to "reset" its position and survive.

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