



HOW COMPANIES LIKE WHATSAPP ARE RADICALLY RESHAPING INDUSTRIES

NEW RESEARCH FROM IMD AND CISCO IS CRACKING THE CODE ON
ORGANIZATION AND BUSINESS MODEL CHANGE IN THE DIGITAL ERA

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Digital disruption has the potential to overturn incumbents and reshape markets faster than at any time in history. Given the chaos and complexity of digital disruption, it can be difficult for firms to figure out what to do in this rapidly-evolving competitive landscape. But companies need to know how disruption works if they want to survive.

Digital vortex

Digital disruption is like a vortex in that it exerts a rotational force that draws everything that surrounds it into its center. A company can be on the periphery one moment, and then sucked into the middle the next. There is no uniform or predictable path for industries in the digital vortex. As industries move toward the center of the vortex, they become more digital, and physical components, to the extent that they inhibit competitive advantage, are shed. Whatever can be digitized, is digitized.

When confronted with the specter of such disruption, companies must understand the nature of the competitive change that it represents, which technologies and business models will be most disruptive, and what they can do about it.

All industries will be affected by the digital vortex, even those that have been more stable in recent years, and will see competitive upheavals as innovations become increasingly exponential in nature.

What's up with WhatsApp?

WhatsApp illustrates well how a start-up can “use digital” to disrupt multiple revenue streams within an industry – or even multiple industries – with a single offering.

WhatsApp was bought by Facebook in 2014 for a whopping \$22 billion. Its impact on the \$100 billion global text messaging market is a perfect example of a major digital disruption.

Digital disruptors are particularly dangerous because they grow enormous user bases seemingly overnight, and are agile enough to convert those users into business models that threaten incumbents in multiple markets.

In addition to free text messaging, WhatsApp now allows users to make free mobile voice calls. Facebook, having also introduced P2P payments via Facebook Messenger, is poised to extend this service to WhatsApp's 800 million users.

WhatsApp is also testing a business that would help Facebook challenge Google's mobile ad hegemony by charging businesses for the right to contact its users directly. So WhatsApp has successfully disrupted two major revenue streams for telecommunications service providers, and could soon go after a mobile payments space that will approach \$2.8 trillion in the next five years, as well as the lucrative ad revenues of Facebook's principal adversary, Google.

This, all from one innovative platform that has the seemingly simple function of allowing consumers to send messages to each other via smartphones for “free”.

The success (or potential failure) WhatsApp may find in these ventures is, in a way, beside the point. Today's environment is a “living lab” in which disruptors continually test and refine such models, often in a cheaper and lower-risk incarnation than was possible in years past, supporting greater levels of experimentation. As ever, some strategies bear fruit, and others do not.

But there is no question that the stakes are incredibly high, not only for Facebook's potential revenue, but for the fate of the many companies WhatsApp disrupts. WhatsApp and other similar services are projected to drain global telecommunications companies of \$386 billion in revenue between 2012 and 2018 from the use of mobile voice calling alone.

Digital disruption — good or bad?

It is human ingenuity and a pervasive desire to make things better that power the digital vortex. But digital disruption does result in displaced industries, and entire professions being sideswiped. Moving toward the center of the vortex is neither good nor bad inherently. But it is inevitable as digitization is certain to increase. 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 are what characterize a company that is comfortable living in the vortex.

New research on digital business transformation

The new Global Center for Digital Business Transformation – An IMD and Cisco initiative is to be inaugurated in June 2015. It is focused on organizational and business model change for the digital era. Coinciding with its launch it published the findings of a survey of worldwide business leaders from twelve industries on how digital disruption is impacting their industries. Their responses show that digital disruption has thrown many industries into flux, and that the magnitude of change is accelerating rapidly.

Do you want to know how many of the top ten market share companies leaders think will soon be displaced, what surprising number of companies don't think digital disruption is worthy of board-level attention, or how many companies are taking a wait and see approach? Read the study "Digital vortex: How digital disruption is defining industries".

Is your company on the right road to digital business transformation?

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He is Director of the Global Center for Digital Business Transformation and co-Director of IMD's new [Leading Digital Business Transformation \(LDBT\)](#) designed for business leaders and senior managers from all business areas, who wish to develop a strategic roadmap for digital business transformation in their organizations.

He is also co-director of the [Orchestrating Winning Performance Program \(OWP\)](#) which runs from June 21-26, 2015.

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