



BIG DATA MEETS STRATEGY

HOW BIG DATA IS CHANGING BUSINESS MODELS AT GE, LEGO AND OTHERS

By IMD Professor Carlos Cordon, with Pablo Caballero and VC 2020 Project Manager Teresa Ferreiro

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Big data is having a fundamental impact on companies' business models and ecosystems. Digital technology is transforming the consumer experience and purchasing journeys are now more complex as we use relatively new tools along the way like social media, online reviews and more. Companies are adapting to this evolution through the omnichannel, the concept of using all the channels at their disposal to make the purchasing experience more attractive to the customer.

Similarly, and as an adaptive response to this new situation, the big data revolution is transforming value chains into '[omnichains](#)'. As a logical consequence of the omnichannel, the omnichain is an ecosystem in which companies interact and complement each other's capabilities with a view to delivering the product or service to the customer.

The changes brought about by the big data revolution are making many of the strategies we have been using up until now obsolete.

Pre big data

For more than 30 years **industry analysis** was one of the key frameworks companies used to formulate their strategies. But it assumes that "industries" are well-differentiated. Today this analysis holds less value because the boundaries that delimit industries have become blurred. For example, which industry does Apple compete in? Is it manufacturing? Services? Electronics? Or is it part of the music industry (iTunes)?

To complement the external view of industry analysis, the next development was to look inside the company to understand and maximize its strengths in respect to its competitors. This view emphasizes **the core competencies of the corporation**. The main objective is for organizations to focus on what they do well, their core competences, and outsource the rest.

Finally, a practical development for implementation is the "**Must Win Battles**" concept (formulated by Peter Killing, Tom Malnight and Tracey Keys of IMD). It is a much more hands-on model that proposes that companies identify the key critical challenges or "must-wins" that are indispensable for success and to focus on those battles. This framework makes the critical link between strategy and implementation.

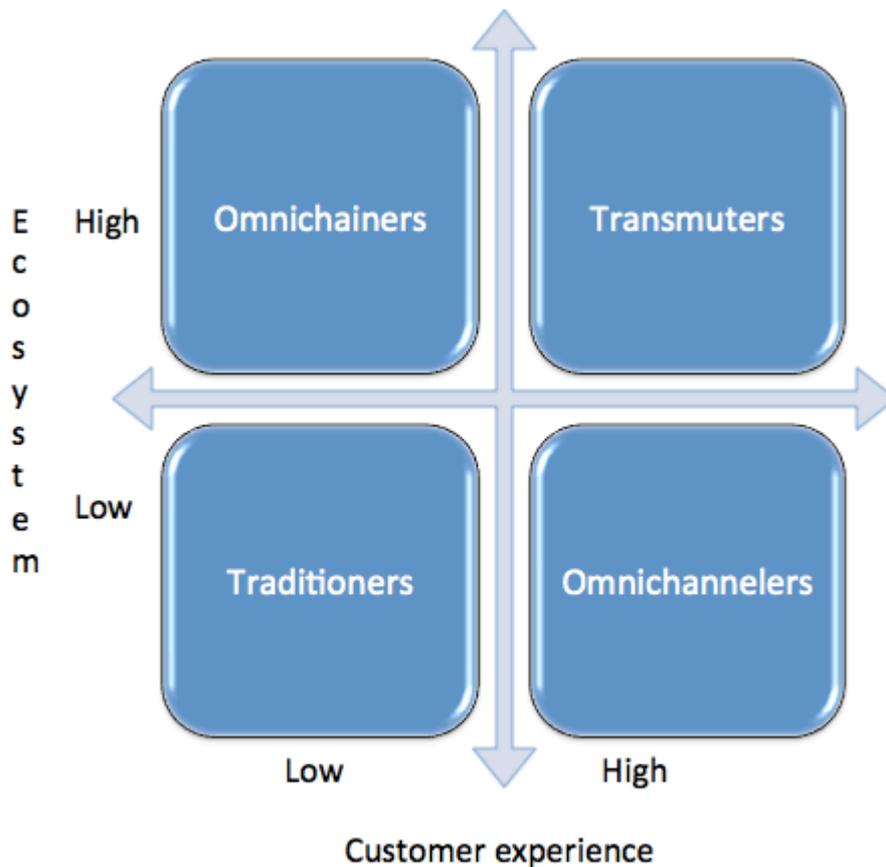
Adapting strategy to the new reality

The blurriness of traditional industry boundaries and the fact that many companies act as partners to others (not as competitors, suppliers, or customers) make the business environment an ecosystem, a network of organizations involved in the delivery of a specific product or service.

In this environment, it is very difficult to predict which strategy is going to be the winning one, since companies depend very strongly on their partners. For example, the ecosystem of Google News is made up of publishers that feed it with content. In Spain, Google News is not available because no agreement was reached between publishers and the search engine giant about how to share revenues. In this case, what works for Google in some countries doesn't work in others because of its different partners.

In this situation, the best way to proceed is for companies to identify a **portfolio of strategic initiatives**, to test them and pursue the successful ones further. Every company should estimate what extent its business is likely to be affected by the [big data transformation](#). Based on the outcome of this exercise, firms should then develop their portfolio of strategic initiatives.

Future scenarios



A useful way to help companies to decide which direction to go in is to define future scenarios and check where they might stand in each one of them. To define the scenarios, we propose using two key indicators: a) the impact big data is likely to have on your customers' **experience and**, b) the impact big data is likely to have on your **own ecosystem (value chain)**. The matrix (pictured) then sets out four scenarios.

A. 'Omnichainers': Customer experience - Low impact; Ecosystem - High impact

This scenario could become real for companies like General Electric. Thanks to big data, it can have a much better idea how long its machines last and when they might need maintenance. This makes it possible for the company to sell services rather than products, such as selling flying hours rather than engines. GE can provide the engine to an airline and charge by time rather than unit, for example. The customer doesn't perceive a major change, but it is a big transformation for GE.

B. 'Traditioners': Customer experience - Low impact; Ecosystem - Low impact

This scenario could be the one that a chemical company could face. Big data may help save money by improving some processes and maintenance, for example, but it will not trigger a whole revision of strategy and business model.

C. 'Omnichannelers': Customer experience - High impact; Ecosystem - Low impact

Organizations that have a strong relationship with their consumers may see their ecosystem change, leading to a need for a full adjustment to the new situation. In these cases, communication channels will change.

To adapt to the new demands of its customers, these companies can create a new virtual world in parallel to their core business, which will enrich their value proposition without dramatically changing their business model or the way they are making their money.

Lego is a good example of this. The Danish firm's bricks are its core business but in addition the company is developing new ways to interact with its ecosystem, for example, by developing digital games similar to Minecraft. These open new possibilities without leaving behind its traditional product.

D. 'Transmuters': Customer experience - High impact; Ecosystem - High impact

Some companies will experience major changes to both their value chain and ecosystem due to big data.

For instance, MyLaps began making automatic sports timing systems in 1982. Whereas at the time MyLaps' ecosystem was restricted mainly to sporting event organizers, today, it includes athletes, racers and fans. In fact, it has placed these newcomers at the core of its businesses as part of a dynamic value chain that has become an omnichain. The customer experience MyLaps offers fans has little to do with the way we watched sports years ago. Thanks to big data, they now know exactly what's happening on a racetrack and can monitor in real time how their favorite drivers are doing.

By analyzing the impact big data is having on both your value chain and external ecosystem, you can better understand where your company is positioned and get a glimpse of what the future might look like.

Remember, regardless of where your company is placed in this matrix, with big data comes the need to change. It's time to get ready!

Carlos Cordon is LEGO Professor of Supply Chain Management at IMD, where he teaches on the [Leading the Global Supply Chain program](#) and is Director of the [IMD Global Value Chain Research Center \(VC2020\)](#).

Pablo Caballero is global lead of capability network operations at Accenture Strategy.

Teresa Ferreiro is the VC2020 Project Manager.

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