



# Digital Disruption

SEIZE THE OPPORTUNITY TO DRIVE INNOVATION

*Every business and industry today faces digital disruption. The smartest organizations are seizing the opportunity to innovate on behalf of their customers and simplify and automate internal operations to deliver a better customer experience, realize improved cost and operating efficiencies as well as reduce risk. These organizations are launching a digital transformation.*

## Demystifying digital disruption

Digital Disruption. Digital Innovation. Digital Transformation. These are the buzz words that everyone knows but few can define.

We are in a period of business transformation in which information technology arguably plays the most critical role. Today's technologies are powerful, affordable and ubiquitous. They provide companies of all sizes the ability to meet more customer needs at lower costs than ever before.

Established, successful companies often find that the assets which once offered a competitive advantage—the strength of their infrastructure, legacy systems and processes—are now a hindrance to making rapid and decisive improvements.

New market entrants are able to leverage digital technologies to act quickly and perform better and this creates “digital disruption.” Now more than ever before, innovation is what creates real disruption.

Many corporate leaders think digital disruption only applies to their website or mobile app or that it doesn't apply to their industry or business. However, today's revolution is far reaching due to the applicability of a wide variety of technology.

Digital technology includes machine learning, managing tremendous volumes of structured and unstructured data, connected devices phoning home, predictive analytics, being able to leverage services and software that are hosted in the cloud and yes, your website and mobile apps.

## No industry or company is immune to disruption

We frequently hear the same examples about Amazon disrupting retail, Airbnb disrupting the hotel business, Uber disrupting taxi service and Venmo disrupting the payments industry. But digital disruption applies to more than just consumer facing industries or companies launching new products and services.

Companies in industries as diverse as healthcare, energy and industrial manufacturing are using digital technologies to operate more simply, cost effectively and creatively with regard to service delivery.

Many industrial companies are employing the Internet of Things and sensor data to improve B2B customer experience and increase revenues. Here are just a few examples:

- Tire manufacturer **Pirelli** leverages data from the sensors that measure tire pressure and wear-and-tear on trucks to provide monitoring data on the drivers to both fleet managers and insurers.<sup>1</sup>
- In the construction industry, **Caterpillar and Komatsu** are using digital monitoring devices and telematics to track the location and usage of heavy equipment. This may cost some sales in the short run as their business customers are able to better utilize their fleet and delay replacing equipment. But in the long run, it provides valuable data to help manufacturers improve designs, better forecast demand for replacement parts and increase customer loyalty.<sup>2</sup>
- Energy pipeline company, **Williams Companies Inc.**, uses mobile apps to deliver timely information collected from sensors across its 800 facilities and along 33,000 miles of pipeline to 1,500 technicians. The new app has improved operational efficiencies and, in one region, doubled gas production revenues.<sup>3</sup>
- **GE** is committed to the digital revolution in a big way. They have declared that GE is transforming itself to become “the world’s premier digital industrial company, by helping to drive greater asset reliability, lower operating costs, reduce risk and accelerate operational performance.”<sup>4</sup> As an example of their commitment, GE is developing what they call the Brilliant Factory which utilizes sensor data, connectivity, analytics and the cloud to maximize manufacturing production performance.<sup>5</sup> GE is able to share their innovations across business units through the GE Store.<sup>6</sup>

Digital technologies can modernize operations, streamline processes, overhaul supply chains or bring intelligence to marketing and sales, and make it easy for people and teams to communicate, collaborate and get work done.

## Focus your digital transformation

Companies should always start with the business strategy. Where is the business headed? Where do they want to grow? What are the roadblocks to getting there? How can technology enable those objectives or break down those barriers?

While it may seem obvious, we often see CIOs who are enamored by new technologies but lack a clear business objective for that technology, or are missing the opportunity to address the biggest business priority within the company strategy.

Here are three questions to help focus your digital initiatives:

- **What is the problem/challenge to be addressed or the business objective to be achieved?** Be careful not to try to boil the ocean. Focus your efforts on your biggest, most strategic objectives to ensure that the investment of time and money will “move the needle.”
- **How can technology increase efficiencies, reduce costs or improve service levels?**
- **What is the business case for the technology?** Increased revenue? Cost savings? Improved data? Faster time to market? You don’t need to overthink it. Work up a quick, back-of-the-envelope analysis to estimate the business benefit. If the return is positive, take the next step while always checking along the way if your assumptions are proving true.

## Drive value to the enterprise

It’s not enough to develop innovative digital solutions, you must be able to operationalize the strategies, spread the “goodness” around the enterprise and deliver business value. New technology for “innovation’s sake” can be dangerous.

For example, a financial services company stood up an R&D lab and pursued a wide range of enterprise technology (cloud, cyber security, mobile, data) products and services. They allocated people and money to develop digital innovations to address strategic issues.

But the company struggled to transition from the pilot programs to enterprise-wide change initiatives that would improve the company's results.

There is a fine balance between giving small teams the space and funding to innovate and creating enterprise value. It can be the greatest idea in the world, but if you can't operationalize it, it's a missed opportunity.

### **Tips to operationalize your digital initiative:**

- Look broad and deep – take an end-to-end view but tackle one process at a time.
- Challenge the status quo – Why is it done this way? What is the business value?
- Engage stakeholders early and often – capture “as is” expertise and institutional knowledge, invest in change management and take regular pulse checks.
- Use small cross-functional teams and give them decision making power and authority to break through silos.
- Coordinate your digital initiatives. A digital transformation will entail a series of initiatives executed in parallel. Success will depend on prioritization and coordination of these projects.

### **Kick start your digital innovation**

Take a leaf from Nike's playbook: Just do it. Be intentionally experimental and align with your business strategy. Mimic agile software development practices. Pick a strategic initiative and start experimenting. Start small, don't overthink. Experiment, learn and course correct. You will learn things that you can't conceive of today.

Provide an environment with tools and resources, where employees are encouraged to collaborate, and explore as well as build, model and test ideas. Some of the most effective prototyping can be done using white boards, paper and pens. Most important is top down support and commitment.

Hire resources with skills and experience using current technology and methods. Seeding your team with a handful of role models and coaches is a great way to develop your employees and drive the change needed in your organization. Build an R&D team dedicated to finding and testing innovations that are relevant to your business.

Some companies have invested significant resources in full-fledged innovation centers or labs, including Ford Motor Company, Expedia, BNY Mellon and Johnson & Johnson. But even a small investment in exploration and testing can reap rewards by increasing awareness of what is available in the marketplace and the impact it can have on your business.

Acqui-hire is a strategy to consider if you want to jump start your innovation efforts and don't see a clear path to hiring or finding partner(s) with the skills and experience you need now. Financial Services firm Capital One acquired two user experience and design firms and a mobile payments company over several years.

Don't be shy. Even innovative tech firms such as Google, Facebook and Twitter acquire talent using this strategy.

Corporate investing is another vehicle that has been widely adopted by Fortune 1000 companies. Walmart, Citibank, Intel and others have built in-house venture groups that invest in portfolio companies aligned with the business needs and future aspirations. For example, Citi Ventures invests in financial services and enterprise technology start-ups (e.g., fraud, cyber security, payments).

# SUMMARY

Embarking on a digital transformation can be daunting and it's tempting to think it's not an urgent imperative.

However, the pace of digital disruption is accelerating and every company and every leader needs to pay attention and get started now.

Technologies are more powerful, affordable and ubiquitous than ever before. Those companies that take advantage of what's available to innovate on behalf of their customers, reduce costs and increase operational efficiencies will be the leaders.

Those leaders who are overwhelmed by the pace of change or are feeling complacent based on their past business success, may wake up one day soon to find themselves disrupted.

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