CIONET

OPINION PAPER

IS DIGITAL BUSINESS JUST ANOTHER BUZZ WORD?

On 3rd September the Pacific Telecommunications Council (PTC) hosted a webinar of thought leaders from the USA and Europe to discuss the subject of digital transformation. The exchange demonstrated a clear distinction between the progressive but largely incremental changes fostered by digital techniques amongst most Fortune 1000 corporates, and the distinctly disruptive transformations taking place amongst a few highly visible players such as Amazon and Google.

The macro backdrops

Over the last twenty years western equity markets have remained relatively stagnant except for the rise of the digital natives such as the FAANG group. These companies have contributed trillions of dollars of extra value to the S&P (around 23%) and NASDAQ, enabling investors to enjoy attractive returns from equities over bonds. Only a handful of incumbents such as Microsoft have been able to contribute to this remarkable uplift.

In contrast, the FTSE 100 continues to languish at levels achieved already in the late nineties. This is also the case for most EU equity markets. It highlights the fact that without hyper-scale digital natives these economies are flat if not in decline. Apple alone is now worth more than all the companies on the FTSE 100. FAANG exceeds the combined value of all European equity markets.

During the same twenty year period, productivity figures show an equal level of stagnation, and wages have fallen in real terms. Clearly the incumbent businesses are not pulling their weight. Many are beginning to argue that western capitalism is in danger of imminent collapse.

Applying the value disciplines

Digital transformation has had some progressive effects on large incumbents. In the three areas of competitive advantage covered in Wiersma and Tracey's seminal book 'the disciplines of market leadership', digital has contributed to incremental innovations. Examples discussed included:

- Increases in operational efficiencies – the use of cloud platforms and SaaS (Software as a Service) to streamline internal functions such as HR, CRM, IT and Finance, and to help improve supply chain efficiencies in areas such as pharmaceuticals and consumer products

- Acceleration in product innovations – embedded software, Wi-Fi and artificial intelligence is adding new capabilities to traditional products in areas such as healthcare and automotive. Even the Philips light bulb can now detect movement and help optimise power consumption
- Improvements in customer intimacy – digital techniques such as sensors, data analytics and 5G can help monitor and enhance the customer experience throughout the life cycle of a product. Disney's magic band is a leading example here.

All of these have helped incumbents to maintain their competitive positions rather than change the economic landscape. In 1987, Robert Solow, a Nobel laureate in economics, famously said: "You can see the computer age everywhere except in the productivity statistics". We are often left wondering where the trillions of dollars invested in IT over the last twenty years have gone.

God-bless the disruptors

Digital transformation has come into its own in areas where disruptors such as the FAANG group have threatened incumbents. There are many examples drawn from the last twenty years where newcomers have transformed entire sectors:

- In retail, Amazon has displaced many book retailers such as Borders, and is now challenging food retailers in the battle for the high street. In 2021 Amazon overtook Tesco as the largest UK retailer. It has opened Amazon Go stores in the UK without checkout tills.
- In media, digital streaming enabled Netflix to knock out Blockbusters and establish a new operating model for broadcasters such as the BBC with its iPlayer. It also induced private content providers such as Disney to enter the game with Disney Plus.
- In automotive, Tesla turned the entire sector on its head with the introduction of the electronic, semi-autonomous vehicle. Automotive companies were faced with an existential crisis which has challenged the entire German economy
- In healthcare, targeted medicines are revolutionising patient treatments and causing the major players such as Roche and GSK to enter partnerships with digital natives such as Babylon Healthcare in the UK and 23andMe.
- In financial services, FinTech companies are now nibbling away at banking franchises in areas such as payments, current accounts and credit cards. Blockchain may be the final blow in displacing the major banks who continue to dominate deposits

What are the implications for incumbents?

The message here is that over time all sectors will be threatened by start-ups and digital natives. Progressive but incremental change will not be sufficient to ensure survival. In a recent UK conference on 'digital Britain', a member of government issued a challenge suggesting that 50% of the FTSE's value in 2030 would be generated from digital hyper-scalers.

Incumbents will have to struggle hard to embrace true digital transformation. All are aware of the barriers that make such a transition difficult:

- Legacy cultures, structures processes and systems that could take decades to reform
- Low appetite for taking risks or experimentation in a business-as-usual environment
- Institutional investors who measure success in ninety-day chunks

Is there a viable way forward?

Our experience suggests that there are two possible ways out of this dilemma. The first is to recognise that core operations can only be changed incrementally, and that genuine transformation must take place out at the edge. Companies such as Swiss RE have appointed a senior director to launch new digital companies that take advantage of scale and scope of the parent company.

The second is to acquire or partner with digital natives that have the scale and resources to impact existing cultures and practices. Roche provides a good example of such a strategic approach as it continues to transform its business.

However, when surveying the industrial landscape of 2021, we are left wondering if there is sufficient digital momentum to help rescue western capitalism as we continue to endure stagnation at the macro-economic level?

About CIONET

CIONET is the leading community of more than 10,000 digital leaders in 20+ countries across Europe, Asia, and the Americas. Through this global presence CIONET orchestrates peer-to-peer interactions focused on the most important business and technology issues of the day. CIONET members join over a thousand international and regional live and virtual events annually, ranging from roundtables, programs for peer-to-peer exchange of expertise, community networking events, to large international gatherings. Its members testify that CIONET is an impartial and value adding platform that helps them use the wisdom of the (IT) crowd, to acquire expertise, advance their professional development, analyse and solve IT issues, and accelerate beneficial outcomes within their organisation.

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