

# Business is being digitally reinvented

Strategy should be too

# The need for change

You can't open a business journal or newspaper today without reading about the impact of technology on business. All around us, industries are being altered, and – in many cases – reinvented by the transformative power of digital technologies. To stay ahead, executives are recognizing the need to change both what they do and how they do it. But change is not easy. Many companies are failing to adapt fast enough to avoid the negative, and at times dire, impacts of disruption.

## Digital disruption in context

Digital disruption is ubiquitous. It affects customers and markets, industries and economies, value chains and indeed, entire value systems. It impacts experience and engagement, marketing and distribution, operations and production, organization, collaboration and partnering. And customers and business leaders agree it's here to stay. Ninety percent of business executives say their industries will see disruption by digital trends.<sup>1</sup> This changing trend is already impacting customer behavior, with 88 percent of customers using digital channels at some point in their customer journey and 41 percent of customers wanting more digital options.<sup>2</sup>

Traditional strategy approaches are increasingly ill-equipped for a business environment that is being radically changed by technology. They need to adapt to remain useful and relevant. Today's market for strategy is reflective of these changes. By one estimate, traditional strategy consulting comprises only 20 percent of the current strategy consulting business, down 60 - 70 percent in the mid-1980s.<sup>3</sup> And heading into 2018, it's probably significantly lower than that.

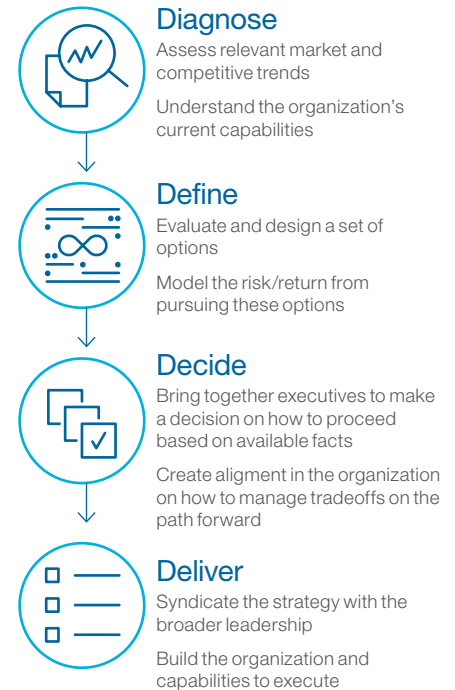
### Classical strategy development

Traditionally, strategists pride themselves on bringing structured approaches to solving unstructured problems. They make decisions based on which bets to place and not how to execute on those bets. Typically the classic process to decide on a particular path forward involves four steps (see Figure 1).

Until recently, this traditional approach was how most prevailing strategic problems were solved. Even though business executives might not have done their due diligence to execute on business decisions, strategy firms helped to ease risk and uncertainty by bringing the "best and the brightest" to support and justify decision making, often in collaboration with research groups or industry experts that helped close any knowledge gaps.

This approach also fit well with companies' annual planning cycles designed to regularly allocate resources and capital based on clearly articulated business priorities.

**Figure 1**  
Strategy development steps

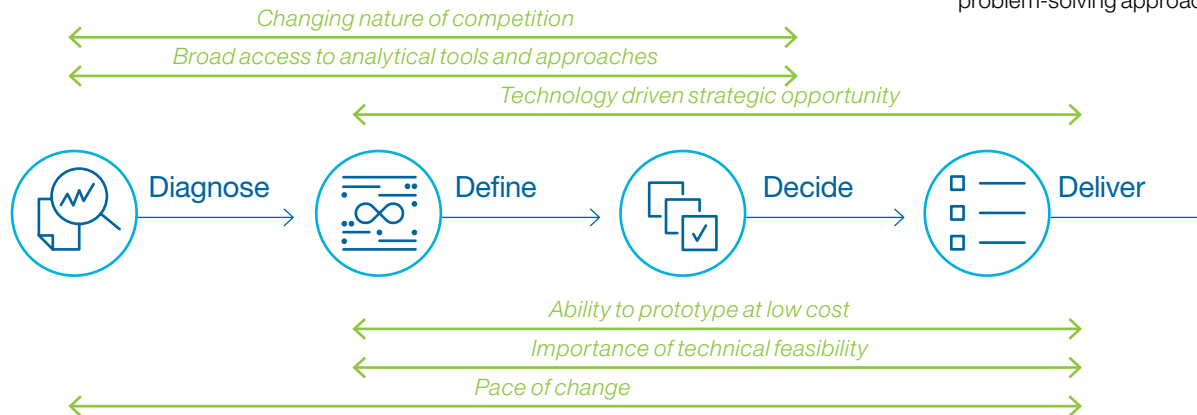


Source: IBM analysis.

## Forces disrupting the classic model

Strategy development remains a robust discipline. In fact, for certain topics, a traditional approach remains a compelling way to determine business direction. However, in a world of digital disruption, the traditional approach becomes less effective (see Figure 2).

**Figure 2**  
How strategy process is being disrupted



Source: IBM analysis.

### Strategic nature of technology enablement

A decade ago, strategy consultants solemnly advised executives to take a “business strategy first, enabling technology second” approach. Today however, technology is central to strategy. Indeed, technology has become strategy. Technology now defines what is possible. It can improve customer and employee experience

while reducing cost. It redefines engagement while reinventing the enterprise. It enables radically different economic value propositions delivered in formats that drive rapid adoption by customers and businesses alike.<sup>4</sup>

In this environment, the underlying business question becomes different. Executives now ask what technologies are coming and how might they reshape industries. Generic single-issue, problem-solving approaches don't suffice.

Executives need to be more creative with approaches that explore what is possible first, then examine potential shaping and reshape strategies in real time.

### **Changing nature of competition**

Until recently, companies typically had few competitors and the game was about staying ahead of archrivals. But now, competition can come from anywhere, anytime. Technology companies businesses are disrupting businesses ranging from transportation to supermarkets. Added to this mix is a set of startups that are reshaping industries. In a recent IBM Institute for Business Value survey, 60 percent of global executives surveyed expect growing competition from outside their industry.<sup>5</sup>

Startups are built with different DNA. Unencumbered by earnings reports and legacy architectures, startups can move fast and take more risks. Unless traditional incumbents evolve to start up pace, they may be unable to keep up. Strategists need to ask themselves whether

their traditional businesses can stay relevant and continue driving economically viable value. They need to think more dynamically. How might an industry change or new business ecosystem emerge?

Value can be measured in several ways. For many startups, value isn't measured in profits and earnings per share. Often it's a stock price multiple, brand image, social media eminence or something entirely different.

### **Execution is embedded in strategy**

Strategy and execution were once two distinct domains. But that is no longer the case:

- As technology increasingly influences strategic decisions, feasibility and complexity become far more important, especially where the pace of execution is critical. Strategists need to pay detailed attention to what is technically realistic in the strategy development process, not afterwards.

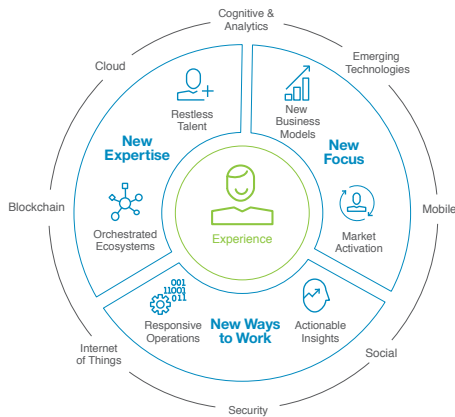
- Development techniques have evolved to the point where the prototyping and testing can be done rapidly and at low cost. Although traditional strategists might agonize over the choice of which path to take, more nimble competitors making execution part of strategy will build several options and test them with end users.

### **Availability of analytics**

Just a few years ago, the power of today's analytic tools and decision enablement was unimaginable. Companies now collect and analyze massive quantities of customer data every day. In doing so, many businesses find themselves able to solve many of the pain points that strategy teams once grappled with for months before reaching a conclusion – and with better results.

Machine learning and artificial intelligence, by automatically reading all public sources of information to augment executive decision-making, is further expanding the frontier of analytics-based decision-making.

**Figure 3**  
The Digital Reinvention framework combines the strengths of ecosystem partners



Source: IBM analysis.

The cyclical and holistic approach to strategy can best be summed up by a framework that we call Digital Reinvention™. This approach to environment, organization, operations and strategy reflects the customer-first paradigm prioritizing the centrality of customer aspirations – not only today, but in the future (see Figure 3).

### Moving forward with confidence

Those involved in strategy development have a weighty responsibility. Navigating business through the perilous waters of digital disruption requires a broader set of skills than ever before. Especially within the prism of Digital Reinvention. It requires harnessing innovation, embracing entrepreneurialism, and finding new and better ways to create and defend value propositions.

With so many competing priorities, strategy is harder than ever. Strategists must contend with quarterly goals, changing competitors, emerging technologies and an insatiable need for talent. When building or revising a strategy, or hiring a strategy consultant, here are a few points to keep in mind:

Recognize that strategy isn't theory. Successful companies experiment and iterate. Facebook didn't initially have a strategy to become a pre-eminent media platform.

Free shipping was first suggested by an Amazon employee in a virtual suggestion box. It turned into Amazon Prime. Prime is a loyalty program combining the powerful attraction of free shipping and the customer's desire to get products within two days. The result? Prime customers increase their purchases by 150 percent, leading to billions of dollars in additional revenue.<sup>6</sup>

Rethink who “owns” strategy and who participates in its development. Strategy doesn’t get decided in the ivory tower and then shared among employees only when it is complete. Participation leads to buy-in. Involving employees who are deep experts, business partners and other stakeholders in strategy development encourages ideation, and helps identify trends and adjacencies that otherwise would be missed.

Follow the value. Although music is more accessible and more listened to than ever before, the value has shifted from the traditional music companies to others in the value chain. Many companies have assets that aren’t monetized because they are more focused on traditional practice than on value. A strategy should incorporate additional opportunities no matter where they might originate.

Successful strategy development has moved beyond just diagnosing and solving problems. It now blends implementation processes in creative ways to steer business in a hands-on manner. Increasingly, it is about deploying, validating and scaling strategies quickly. And perhaps most importantly, it requires believing that strategy is never static. Strategy must evolve as customers, competitors, partners and others – and the technologies on which they rely – also evolve.

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