# Redefining Competition

*Insights from the Global C-suite Study – The CEO perspective*

IBM Institute for Business Value

This report draws on input from the 5,247 C-suite executives (CxOs) who participated in our latest C-suite Study – the eighteenth in the ongoing series of CxO studies conducted by the IBM Institute for Business Value. We now have data from more than 28,000 interviews stretching back to 2003.

Here, we focus on the perspectives of Chief Executive Officers (CEOs).

| | |
|---|---|
| **Total number of CEOs interviewed** | **818** |
| North America | **66** |
| Central and South America | **60** |
| Europe, Middle East and Africa | **430** |
| Asia Pacific | **135** |
| Japan | **127** |

# Undiscovered country

CEOs say we are at a watershed moment. Technological advances are creating massive upheavals, with industries converging and new ecosystems emerging as never before. So how are the trailblazers guiding their organizations through this turmoil?

In the first installment of our latest C-suite Study, we interviewed 5,247 top executives to find out what they think the future will bring and how they're positioning their organizations to prosper in the "age of disruption." This report probes more deeply into the perspectives of the 818 CEOs who contributed to our research. We've also focused on what the CEOs of the world's most successful enterprises in this study do differently.

We identified a small group of organizations that have both a strong reputation as leading innovators and a superb financial track record. The Torchbearers, as we call them, comprise 4 percent of all enterprises represented by CEO interviewees. We also identified a group of organizations that lag behind the rest. Market Followers have a much lower market profile in the opinion of the CEOs who head them, and almost all are far less financially successful. They account for 26 percent of our sample.

Comparing the two groups reveals significant variations in their strategic priorities, go-to-market plans and organizational approaches – all areas where the CEO has great sway. It also shows what CEOs in enterprises that are struggling can do to strengthen their positions. And, as Schumpeter's "gale of creative destruction" blows around the globe with unprecedented force, CEOs will need all the advantages they can get.[1]

*"New competitors, many of them from outside the industry, are entering the picture. What they're doing will disrupt the market and our customer base."*

**CEO,** Banking and Financial Markets, Canada

“Technology is the epicenter of change. It enables businesses to leapfrog their competitors in meeting customers’ needs.”

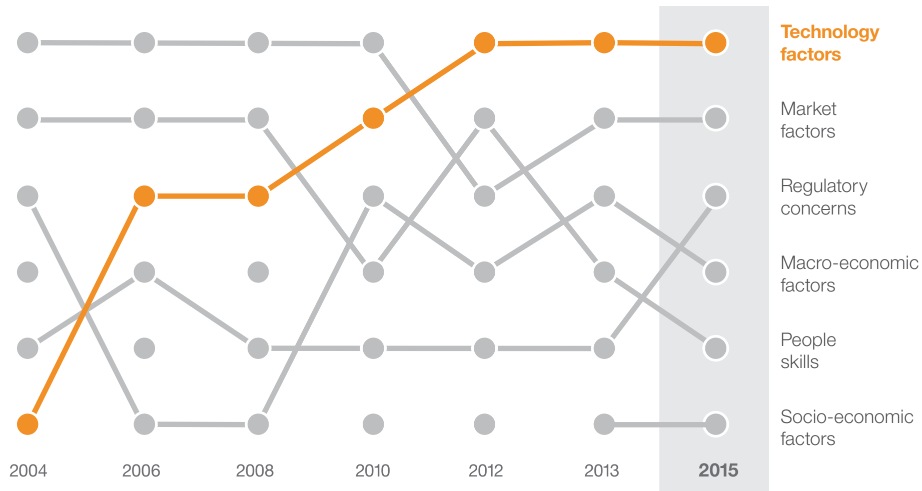
**Joshua Oigara,** CEO, Kenya Commercial Bank

# Disruption, convergence and emergence

One of the most notable trends of the past decade has been the increase in the significance CEOs attribute to technology. Ten years ago, they put it sixth on the list of most important external factors they expected to exert an influence on their enterprises. Now, it consistently tops the features that light up their radar screens (see Figure 1). And the other members of the C-suite have come around to the same view.

**Figure 1**

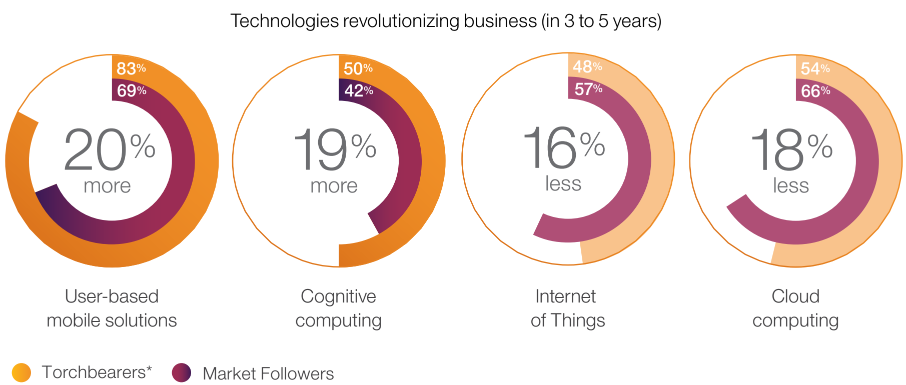
***Top factor:*** *CEOs say technology is the chief external influence on their enterprises*



CEOs think four particular technologies will be the main drivers of change in the near term, with mobile solutions at the forefront. Thereafter, opinion is divided. Torchbearer CEOs place more weight on contextual mobile and cognitive computing, whereas Market Follower CEOs stress the importance of cloud and the Internet of Things (see Figure 2).[2]

**Figure 2**

***Cutting edge:*** *Torchbearers focus on contextual mobile and cognitive*




**Note: In this instance, our findings are statistically reliable but should be regarded as directional only, due to small n-counts.*

> *"It's very difficult to recognize which technologies will create a breakthrough."*

**General Manager,** Industrial Products, Netherlands

*"We can't own everything, so we need more partners – even from other industries – to cooperate with us as part of an ecosystem."*

**Huang Tao,** CEO, Beingmate Baby & Child Food, China

CEOs recognize that the confluence of technologies magnifies the impact of those technologies across markets and economies. Emerging technologies intersect and combine in new and different ways, enabling enterprises to redefine how they engage with their customers and partners (see Figure 3). This opens up new opportunities for creating value.

**Figure 3**

***Net effects:*** *CEOs expect to engage more digitally over the next 3 to 5 years*


People's expectations are escalating – and few enterprises can single-handedly provide the compelling, individualized experiences customers now demand. But what organizations can't do alone, they *can* do together. This is one reason why a growing number of businesses are combining in cross-industry ecosystems.[3] In the automotive sector, vehicle manufacturers such as Ford and BMW are planning for an era of mobility solutions, in which fewer people actually own vehicles.[4] And in banking, companies such as DBS and mBank are working closely with fintech companies and customers to create unique experiences.[5]

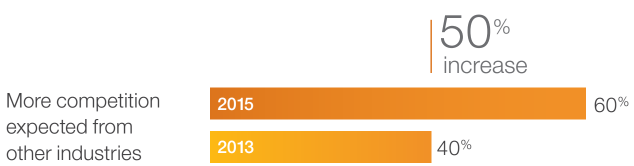
Operating within an open web of interdependent entities enables each enterprise to extend its reach and range far beyond what it could achieve as a solo entity. Collectively, the participants can create value in ways that were previously impossible. They can also get much more intelligence on customers and markets. "There will be more partnerships and consortia," the CEO of a Portuguese telecommunications company predicted, "and rather than controlling the value chain completely, companies will share it."

More than two-thirds of CEOs believe traditional industry value chains are morphing into cross-industry ecosystems. This "will give us access to new technologies, new manufacturers, suppliers and distributors, and new markets," the CEO of a consumer products company in the United Arab Emirates remarked.

Ecosystems provide avenues for increasing competition from unexpected quarters (see Figure 4). Some of these rivals are drawing on their existing expertise to break into adjacent industries. IKEA, the Swedish flat-pack furniture retailer, is currently building 1,200 houses and flats in East London, for example.[6] Other new entrants – such as online real estate brokers eMoov, easyProperty and PurpleBricks – are harnessing advances in connectivity and mobility to target the most attractive profit pools.[7] The risk for incumbents is thus that their business models will be turned into Swiss cheese.

**Figure 4**

***Hostile action:*** *CEOs are worried about outsiders invading their space*




*"Industry convergence is causing us to look at new clients from new industries – areas we didn't target before."*

**Bogdan Zborowski,** CEO, Sygnity International, Poland

> *"If you have a strategy, you have a target."*
>
> **Hakki Eren,** General Manager, Avnet, Turkey

## What to do: Embrace the ecosystem

So how are CEOs preparing their organizations to meet these challenges? They're starting with the big picture because they understand that focusing on operations can only solve the problems of today, whereas focusing on strategy can change the entire future of their businesses. Two-thirds of our respondents plan to reassess their strategic direction and explore the potential for novel, non-traditional forms of growth. They're actively pursuing opportunities to play a new or different role in the ecosystems they inhabit (see Figure 5).

**Figure 5**

***Business biome:*** *CEOs want to reposition their enterprises in the ecosystems they inhabit*


Torchbearer CEOs are in the vanguard. They're looking further ahead and have a sharper sense of what's going on: 58 percent are focusing on disruptive innovation, for example, compared with just 44 percent of Market Follower CEOs. The pioneers aren't simply tweaking existing products and services; they're reinventing their firms.

Torchbearer CEOs are also exploring opportunities to leverage emerging technologies and ecosystems to pursue entirely new revenue streams and models (see Figure 6). Born-in-the-cloud disruptors lead the way. For example, Uber, Airbnb and Etsy are using digital technologies to eliminate traditional market inefficiencies, by matching supply and demand directly and enabling customers to get what they want when they want it, without going through intermediaries. And disintermediation and market making continue to evolve in new areas, often fueled by sophisticated analytics and contextual mobility.

Furthermore, Torchbearer CEOs aim to reach the market first, be it with new products, services or business models (see Figure 7). Why? At one time, it made sense to hold off on launching a new offering until it was perfect, but consumers are increasingly tolerant of live fine-tuning to enhance products and services that are already on the market. Torchbearer CEOs have grasped this; they know it's important to get their offerings out as soon as possible and engage customers in the process of continuously improving them.

*"Growth doesn't mean simply becoming larger. It means strengthening competitiveness."*

**Toshiyuki Yamamoto,** President, Nifco, Japan

**Figure 6**

***Crucial link:*** *Torchbearer CEOs are more involved in adopting new revenue models*

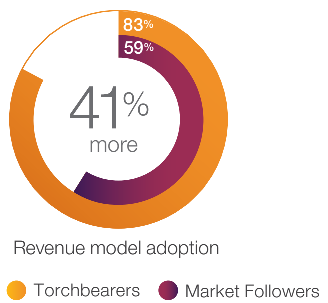
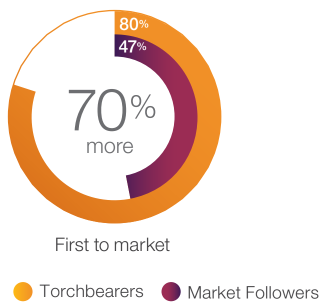



**Figure 7**

***Leading lights:*** *Most Torchbearer CEOs want to be market pioneers*



> *"We need to understand the needs of different customer segments. Then we can alter our products and services to support them and leverage new modes of customer engagement."*

**Gareth Evans,** CEO, Qantas International and Freight, Australia

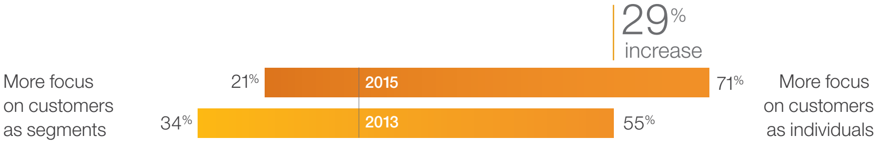
## How to do it: Expand customer reach

CEOs are not just changing their overarching strategies; they're reconsidering how they engage with the outside world. "The question I ask myself every day is, what could happen to my market? Is there a new trend I don't even know about that could transform my business?" the CEO of a French transportation company told us.

More than two-thirds of all CEOs anticipate adopting a more individualized approach to customers (see Figure 8). That entails acquiring a much better understanding of their customers, since it's impossible to personalize products, services or experiences without a clear idea of customers' core values and what's happening in their lives.

**Figure 8**

***One-to-one:*** *CEOs expect to adopt a more personalized approach to customers*



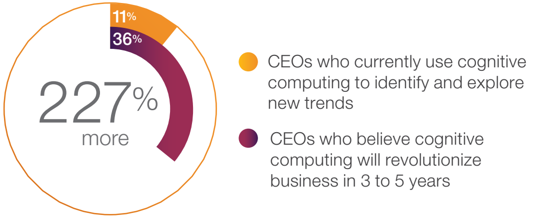

Again, Torchbearer CEOs are far better placed to realize this goal. Nearly two-thirds of them already turn to their customers for input on emerging trends and technologies. More than a third track blogs and social media sites as well. By contrast, only half of Market Follower CEOs consult their customers, and only a quarter tap into the social universe. Yet creating online customer communities is one of the best ways of detecting what the markets really want.

Torchbearer CEOs also employ more sophisticated techniques to decipher the data their organizations collect. Sixty-six percent use predictive analytics, compared with just 50 percent of their Market Follower peers. But it's cognitive technologies that will really revolutionize the way people work. Traditional algorithm-based systems are limited by what they've been pre-programmed to do, whereas cognitive systems learn through experience and apply what they've learned to new inquiries or tasks. Cognitive computing can help organizations better access unstructured data, scale expertise, discover ideas they wouldn't even think to look for and engage with customers at a deeply human level.[8]

Use of cognitive technologies in business is set to increase dramatically over the coming years (see Figure 9). "We need to have the best tools and technologies to leverage the data our clients give us," the CEO of a U.S. retailer explained.

**Figure 9**

***Revolution:*** *CEOs see the transformational impact of cognitive computing*




*"The importance of cognitive computing is that it not only gets at the way people think, but also how they are feeling. It is a combination of the emotional and the rational."*

**Ken Chenault,** Chairman and CEO, American Express, United States

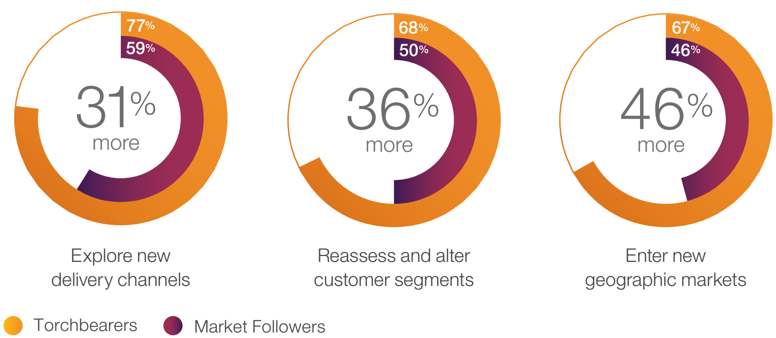
*"We want to open new markets in Asia Pacific. Growth in the tropical band, where there are remote communities, is exploding."*

**Professor Robyn McGuiggan,** Deputy Vice Chancellor, James Cook University, Australia

Torchbearer CEOs are ahead of the game in other respects, too. They're more likely to be rethinking the customer segments they target and exploring new geographic markets and delivery channels (see Figure 10). Participating in ecosystems provides synergies that enable the members to engage with new customers, both directly and indirectly, at far less cost than was previously possible. Moreover, location is a dwindling barrier to engagement, as evidenced by the growing amount of content delivered virtually. And new technologies are reinforcing the unprecedented scope of opportunity mature ecosystems offer by supporting contextual interactions when and where customers want them.

**Figure 10**

***Outside edge:*** *Torchbearer CEOs are pursuing more ambitious external policies*

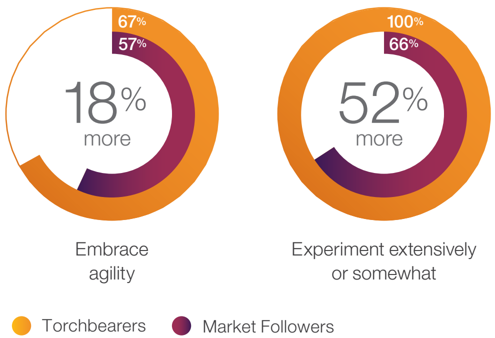


# What you need to do it: Accelerate innovation

The CEOs of the most successful enterprises also have different organizational philosophies. They place a higher premium on agility and experimentation, because they know these are prerequisites for disruptive innovation (see Figure 11). The CEO of a British financial services firm spoke for many when he said: "Controlled failure should be viewed as a good thing."

**Figure 11**

***Adaptable approach:*** *Torchbearer CEOs put more emphasis on agility and experimentation*




Moreover, Torchbearer CEOs understand that investments with the power to transform an enterprise often take more time to pay off than those that only deliver incremental advances. A full 68 percent are prepared to wait three or more years for positive returns on innovation, compared with 57 percent of Market Follower CEOs.

*"We need to shorten our new service development cycle and become more agile. As soon as we identify a trend, we should prepare a prototype, gain customer feedback and refine it continuously."*

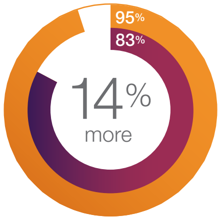
**Yutaka Nagao,** CEO, Yamato Transport, Japan

*"We need to institutionalize innovation. Innovation exists within our organization; we simply need to give it the time and the tools."*

**Chris Hilger,** President and CEO, Securian Financial Group, United States

**Figure 12**

***People power:*** *Torchbearer CEOs realize operating as part of an ecosystem requires different skills*




Hire new employees

Torchbearers Market Followers

In short, Torchbearer CEOs have the courage of their convictions; they invest in bigger, more disruptive initiatives and back their vision all the way. Witness the case of electric-vehicle manufacturer Tesla, which spends nearly half of its net sales on R&D and has yet to make a profit, but which enjoys a well-deserved reputation for radical innovation and a share price to match.[9]

Some Torchbearer CEOs are also looking for more imaginative ways to fund innovation. Forty-three percent believe the spread of alternative payment and financing mechanisms – such as crowdfunding and peer-to-peer lending – will have a marked effect on their businesses over the next three years. Success stories like Yu'e Bao, Alibaba's new money market fund, have opened up additional options. Founded in June 2013, Yu'e Bao raised USD 90 billion from more than 81 million investors in just 10 months, and now accounts for a third of China's entire money market fund business.[10]

One final feature distinguishes those CEOs whose enterprises stand out from the crowd: people are central to their strategies for organizational reinvention. Torchbearer CEOs are even more likely than Market Follower CEOs to be seeking new employees with the know-how to profit from future trends and technologies, in addition to training existing staff (see Figure 12). What these CEOs realize, more keenly than most, is how the nature of business is changing. Operating as part of an economic ecosystem takes very different skills from those needed to function as a solo entity. The single most important skill is the ability to cultivate and manage relationships.

# Seize the torch

CEOs know they need to prepare for a future in which disruption is pervasive: a future in which technological advances occur at breakneck speed, traditional industry classifications no longer exist and ecosystems revolutionize entire markets. So how can they prepare for a world in which competition has been completely redefined? The Torchbearer CEOs in our study provide guidance from which CEOs everywhere can learn.

**What to do: Sharpen your strategy**
Pursue disruptive innovation, not purely incremental improvements. Investigate the opportunities to exploit new and emerging technologies or business models, or apply old technologies in new ways, and look at other industries for ideas. Experiment with new revenue models that might provide additional sources of value and a stronger customer interface. And when you're launching something new, aim to cross the finish line first. Ensure the rest of your ecosystem is also primed to go; your partners need to be ready when you get there.

**How to do it: Energize your engagement**
Use predictive and cognitive analytics to investigate new trends, identify new customer segments and make smarter business decisions. Share customer feedback with everyone else in your ecosystem to help you acquire a better understanding of your customers and develop deeper, richer customer experiences. Be bold about exploring new geographic markets and delivery channels, and draw on the diverse resources within your ecosystem to take advantage of market opportunities you can't realize alone.

*"There is a tension between preserving current revenue streams versus accelerating to new models that will disrupt them."*

**Anthony Healy,** CEO, Bank of New Zealand, New Zealand

*“People skills are the first ingredient of new business model implementation.”*

**Carlo Mazzantini,** CEO, Sonepar, Italy

**What you need to do it: Turbocharge your transformation**
Build a culture of rapid experimentation and prototyping to accelerate the release of new business models, products and services. Be prepared to make long-term investments in innovation, not just the sort of investments that deliver better quarter-to-quarter financial performance. Communicate your plans and payback horizons clearly to shareholders. Define the skills your enterprise will need in the future, as industries converge and ecosystems predominate. Bring in new and necessary talent.

Any enterprise that follows these steps will be in a much better position to navigate the tempestuous winds of disruption and lead like a Torchbearer.

You can find “Redefining Boundaries,” the first installment of our latest C-suite Study at ibm.com/csuitestudy, or via the IBV tablet and phone apps on iOS and Android.

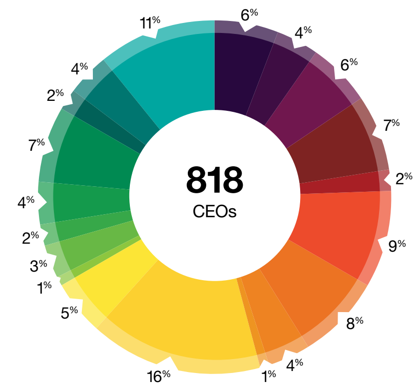
# How we conducted our research

This report is the second part of our new C-suite Study, the eighteenth such IBM study to focus on the C-suite. In 2015, we surveyed 5,247 business leaders from 21 industries across more than 70 countries. The current installment focuses on the responses of the 818 CEOs who participated in our study (see Figure 13).

We used a two-dimensional rake weighting process to correct for oversampling issues arising from differences in the number of respondents in a given role or region. Our research also included an analysis of the traits that distinguish the most successful enterprises. We asked each CEO to rank his or her organization's position in the industry in which it operates on two dimensions: market perception of its innovativeness; and financial performance over the past three years, measured in terms of revenue growth and profitability (or budget growth and efficiency for enterprises in the public sector). We cross-validated the responses to our second criterion by comparing them with two objective financial measures – compound annual growth in revenue, and profit before taxes between 2009 and 2014.

**Figure 13**

***Sector spread:*** *We spoke with CEOs from 19 industries*




**Communications sector**
- Energy and Utilities
- Media and Entertainment
- Telecommunications

**Distribution sector**
- Consumer Products
- Life Sciences and Pharma
- Professional and Computer Services
- Retail
- Transportation
- Travel

**Financial Services sector**
- Banking and Financial Markets
- Insurance

**Industrial sector**
- Aerospace and Defense
- Automotive
- Chemicals and Petroleum
- Electronics
- Industrial Products

**Public sector**
- Education and Research
- Healthcare
- NGOs, Public Services and Government

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**IBM Institute for Business Value**

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical public and private sector issues.

**Notes and sources**

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