2016 technology industry trends

Three ways to enter an existing market
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About the author

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Introduction

It was a long time ago, but Wells Fargo & Company was once among the first U.S. “disruptor” businesses. In the Gold Rush boom towns and prairie villages of the 19th-century American frontier, Wells Fargo provided package services — similar to today’s armored car services — and later even mail delivery, along with traditional banking functions such as letters of credit, loans, insurance, and even gold dust storage. As it expanded into these sectors, Wells Fargo wrested business from the incumbents of that time — desperados, unscrupulous entrepreneurs, fly-by-night firms, and corrupt lawmen — gradually establishing itself as a major, modern financial-services company.

Today, financial services firms are watching this history repeat itself — from the other side of the lens. Literally every product they provide is being threatened by younger and smaller competitors. These are usually technology companies hoping to disrupt incumbent businesses with better service, more innovative products, lower prices, and the ability to respond flexibly to changing customer habits and preferences.

Consider the breadth of this attack by startups on financial services’ traditional business lines. Investment advice is available from a half-dozen automated systems, including those of Betterment and Wealthfront. Authorize.net, Stripe, Zuora, and several others track payments. Lendio offers business loans online. And companies such as CoverHound and The Zebra sell car insurance the same way.

And this broadside is not by any means limited to financial services. Entrants from the tech sector have already also reshaped the media and retail businesses. And other industries are feeling the heat: Apple and Google are developing prototypes for driverless automobiles; Silicon Valley startups compete with long-established defense contractors; battery makers are moving onto the electric power grid; and the health insurance industry is being overrun by companies that started out as SaaS (software-as-a-service) providers.
This entry into other sectors, which began in the early 2000s, has accelerated recently as the most promising path for growth for technology companies in 2016 and beyond. The incumbents are definitely concerned; in a 2016 PwC global survey of more than 1,000 CEOs from all major industries, 61 percent of global chief executives and 78 percent of U.S. respondents said that they were somewhat or very concerned about the speed of technological change in their industry. And with good reason: In a similar study the previous year, 45 percent of technology company CEOs said that their company had entered a new industry within the last three years, and an additional 23 percent said they had considered doing so.

Suppose, then, that you are a technology company leader with a plausible way to enter (and disrupt) another industry. What do you need to know to do it successfully? First, recognize that your technical prowess, alone, does not give you an unimpeded path. Hardware and software providers are, by and large, good at creating products that drive efficiency, improve communication, and help organizations move into better ways of doing business. But that skill set — the capabilities of a toolmaker, essentially — does not guarantee that you can address the ways that either consumers or business purchasers prefer to buy things these days. Two fundamental challenges, both related to the relationship between consumers and businesses, should be uppermost among your concerns.

The first involves customer behavior. The brick-and-mortar store no longer commands consumer loyalty. Retailers that offer a more seamless and integrated experience between their physical and online stores — taking the so-called omnichannel approach — have better, but mixed, results. In general, people are more willing to shop around for better prices and services on the Internet than they were when they had to use the telephone or travel from store to store. Customers are also more inclined to buy from multiple vendors instead of a single outlet, and are more likely to switch to new suppliers if they are even minimally dissatisfied. Even business-to-business customers are more fickle than they used to be; as transaction speed has escalated, they maintain less inventory and place smaller but more frequent orders. It’s worth questioning whether your company has the culture to be sufficiently dynamic and responsive for the large and diverse customer base of an unfamiliar market.

The second challenge is customer trust. People love technological solutions and the many new, efficient online channels for shopping, banking, doing mundane chores, ordering takeout dinners, buying a car, managing portfolios, and on and on — but they are profoundly concerned about breaches of privacy, misuse of their personal information, pesky and intrusive marketing campaigns, and
unresponsive or unintelligent customer service departments. Can your company strike a profitable balance between delivering and promoting a first-rate, innovative service, and satisfying the substantial and sensitive customer needs that are critical to your venture? Few technology organizations entering a new market can survive a viral outpouring of anger on social media after say, a blasé call center encounter or a logistics screwup.
Technology CEOs are robustly confident about their companies’ revenue growth prospects over the next three years...

Although their need to be strategically bold is reflected in their wariness of new market entrants...

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And their concern about the speed of technological change.

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If you don’t find the consumer issues too daunting, then consider the other barriers to entry facing you. These can be segregated into four categories:

• **Capital.** How much will it cost to develop a product that will compete with existing options? If the implementation price is too high for stockholders to swallow, is there venture capitalist interest in backing such a venture?

• **Customer loyalty and brand awareness.** If the prevailing technology used in the industry has a broad customer base, and especially if most people have devoted some time to learning the product or entering data (such as for a bill-paying service), you will find it difficult to tempt consumers to switch to your new offering — unless its customer experience is exponentially better than the incumbent’s. If you can create easy-to-learn interfaces and facilitate movement of data from your competitor’s databases to your own, you may be able to overcome these issues.

• **Scale.** New companies sometimes find that as they increase their customer base, their functions suffer: The interface slows down, customer service becomes less responsive, transaction time expands. Will that affect your offerings?

• **Intellectual property.** What patents protect the industry’s technology from interlopers, and how strong are those patent protections? Which alternative technologies can provide the same functionality as the patented ones?

If your company can navigate the barriers to entry, then consider one of three possible moves forward: in-house innovation, partnering with other technology companies, or acquisition.

• **In-house innovation requires a bold concept that is truly disruptive.** If your idea is just an add-on product — a software application that organizes existing financial data, or a new type of online game sold...
through an app store — then making money can be difficult. An add-on product requires a larger player at the center of an ecosystem who takes a big cut of the revenue. Once those fees are paid, the amount left over is frequently insufficient — and success, as we saw from the rise and flameout of Zynga’s Farmville game on Facebook, is often unsustainable.

But if you have a truly disruptive product, like Netflix in video, Oscar in traditional health insurance, Zenefits in human resources systems, and Carbon3D in manufacturing — then there is a huge potential payoff. Try it only if you have access to substantial capital, technology that can handle consumer demand even if it spikes, and innovation that is so unorthodox and unique that it can readily attract customers with its novelty and value.

• The second option, partnering, makes sense in diverse markets or heavily regulated sectors such as healthcare and financial services. Here, you may lack skills and experience in specialized areas — for example, passing the scrutiny of rule makers. These considerations are behind the growing number of partnerships between established financial-services firms and financial technology (FinTech) startups. Typical is Visa’s recent investment in Stripe, a five-year-old payment processing firm. With this venture, Stripe hopes to use Visa’s global footprint to expand its international presence and also work with Visa to improve digital transactions. For its part, Visa wants access to Stripe’s technology and a better toehold in Stripe’s primary customer base, small and medium-sized online businesses.

• Your best option may be the third: acquiring another technology company that has already done the work of establishing its presence in an industry’s ecosystem. This is generally the option chosen by larger tech firms that have a lot of money on hand or a valuable stock to barter with. For these companies, it’s a relatively painless way to ply their skills as innovators in new sectors. That was the intent when Google acquired Nest Labs, a smart thermostat startup, in January 2014, for US$3.2 billion. With this dip into the pool, Google is building its own smart home ecosystem whose goal is to network and unify intelligent appliances and devices within a household. From that vantage point, Google can attempt an even more ambitious move: siphoning business from large utilities by linking on-site renewable energy sources to the tech company’s grid in the home.

Whichever approach you choose will be successful only if your corporate culture and capabilities are a good fit. If you are a recent startup yourself, with a creative culture vibrant throughout your enterprise, then in-house development could be the easiest approach.
If your company is older and more established, you may have to set up a separate skunkworks with few constraints and greater freedom of experimentation and ideas to satisfactorily attempt in-house development.

Partnering and acquisitions are more problematic because even for two relatively young companies, the differences in employee attitudes, business structure, research, design, development, and market strategies can be striking. In any joint venture or M&A, you would be wise to complete your due diligence up front, give the newly incorporated employees plenty of room to do their work separately as long as possible, and only gradually integrate the myriad parts of the organization into a single culture, as product launches and cross-functional cohesion dictate.

Although its exact shape is still unclear, disruption of all industries will be the most powerful feature of the larger commercial landscape in 2016 and beyond. As a technology company executive, you can take advantage of this extremely powerful opportunity only with a cogent disruptor strategy. Know the sector you're entering, your own capabilities, and how they fit together. Although the challenge is tough, it is critical not to be a laggard. The longer companies wait, the more difficult it will be to play the disruptor role and the more vulnerable you become to disruption yourself.
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