

strategy&

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STRATEGY IN THE DIGITAL AGE

Why you need a strategy for the digital age, not a digital strategy



Strategy in the digital age

Developing a successful strategy in the new world of digital, data and AI is not, as some would tell you, a separate endeavour, it's now the most important and fundamental element of any modern business strategy.

What hasn't changed is that your strategy needs to be about hard choices: what products and services you offer and what you don't, who your customers are and who they are not and how you go about efficiently delivering these to create sustainable economic value. The strategy development process should contain a diagnosis of what you do now and where you create value; how this might change or be disrupted in the future; some well thought out options to create new services, customers and business models; a series of initiatives stemming from this, and a commitment to change.

However, what has significantly changed versus conventional strategy development are four things: the speed and magnitude of change that technology brings; the potential rapid destruction of old business models and value chains; the significantly greater level of uncertainty, and the higher costs of failure.

Simply put, you need a robust strategy for the digital age, not a digital strategy...and the one thing this strategy cannot be is incremental.

To avoid the pitfalls of incrementalism, we have developed a series of simple rules and processes to develop a strategy for the digital age.



Some new rules

- Assume your value chain will likely be destroyed. Find and fix the weak spots now and redefine how you create value before someone else does
- Vision, leadership and culture count more than ever
- Don't fall too far behind or you will never catch up. You can be a successful fast follower for a while but you should assume the cost of failure is high and that the winner takes all
- New digital native organisations play by new rules, they don't respect you, your industry or widely held conventions
- Banish hubris, ignorance, guesswork and apprehension from your executive team and replace the technology dreamers in your organisation with doers
- You cannot do it alone any longer. You will need an ecosystem of partners that is different from a traditional supply chain and you have to be prepared to genuinely share value
- Democratise analytical tools and technologies across your organisation so that everyone has the opportunity to learn and progress
- Be prepared to take on new types of employees skilled in technology and be aware that what motivates them is not what motivates you
- The path ahead is uncertain and opaque and you need to take one step at a time. You should be prepared to have multiple pathways, to fail often but to learn fast from failure.

Developing a strategy for the digital age – a roadmap

- Understand and debate the scale of disruption you and your industry could face in the next 2, 5, 10 years. Today's digital technologies are a never before seen combination of exponentially increasing data, exponentially decreasing costs of processing and storage, and smart algorithms. Together they form one of the most fundamental inventions of mankind. They have the power to transform humanity in the same profound way as fire and electricity did. Understanding the magnitude of this change is key to success
- So start by imagining what your organisation and your industry might look like in the future.
- How and where do you make money now and how will this be disrupted by technology?
- Which of your current partners, suppliers and customers would compete with you in the future?
- How would you remove 50% of the costs in your industry?
- What kind of organisations could you partner with to reinvent the value chain?
- What new products and services are required?

- **Win, or at least fight hard in, the war for technology talent.** You will need a significantly different workforce from today to remain successful. They will be a mix of full time, part time and contingent workers and you need to offer these skilled technologists a career and working experience that makes different and scarce people stay. Your traditional management pyramid needs to change, the nature of progression through your organisation will be different, and you may need an entirely new 'face' to this pyramid containing a distinct career model and a real path to the top for 'role model' technologists. The nature of leadership and management in your organisation also needs to change. You need to attract, retain and develop people who may, currently, be counter-cultural to your organisation: they don't work 9-5, they dress and speak differently, they don't have allegiance to you or your organisation, they get their role models, energy and reference points from an ecosystem you don't understand and they don't aspire to be you. Get over it. But, alongside these technologists, you need a similar new cadre of more recognisable business translators who will work alongside them to make sure their capabilities are put to best use for your organisation and your business priorities. The jury is out on which of these two groups is most scarce currently, but suffice to say there are far too few of either and you need to create a culture that appeals to them.
- **Start with value not data.** Don't think about how much data you have and then spend endless amounts of time working out how to use it. Data is not, despite the headlines, the new oil. To continue the oil analogy, most of it is hidden, polluted, unprocessable and too expensive to extract in a meaningful format. Much of it has little value internally and almost no value externally. You don't yet have a treasure trove of data that will create a new high margin revenue stream and a hedge fund won't come knocking to improve their investment strategies.
- Instead, you should start by being strategic and identify where your organisation might create more value than your competitors and then understand what data you need to make that happen. At that point you can develop a clear understanding of the investments you need to make in data. The investments need to be consistent with your business strategy and you will have to spend money on the boring things like data integrity and plumbing before you spend on 'shiny objects' such as predictive models and AI. You should consider hiring a Chief Data Officer, but one that understands that business strategy trumps technology.
- **Be prepared to fail often and develop a culture that learns fast from failure.** Many organisations are effectively 'throwing darts' at a technology wall, diffusing their technology spend and learning, then cutting short investments after a few months. Consequently, inexperienced executives are repeatedly being taken in by 'shiny object syndrome', chasing technologies they've seen being used by competitors or being offered by vendors.
- As a prerequisite, you should create a robust investment process that balances commercial as well as technological requirements in an objective and risk adjusted way. You need to take risks, you need to accept that you will fail often, but that you understand properly why you failed and that you can learn more from technology failure than from success. Failing to fail, which includes 'technology dart throwing', will be your biggest source of weakness. You should understand, and copy where appropriate, how VC firms make multi-year investments in technology, how they refine their processes, how they manage an opaque future for their investments and how they deal with failure. If you're not familiar with digital technology you should consider forming a Technology Advisory Board of non-execs who can advise specifically on this topic.

- **Partner and create a mutually beneficial ecosystem.** Unless you have a significant history of success in technology, software and managed services you ought to seek to develop a dynamic ecosystem of partners, large and small, who you can work with to develop new digital products and services. If you've not developed software before, don't try to build from scratch; you won't understand the demands of product development, sales, support and the routes to market and the economics of these. Even if you acquire a software business for your new products and services, you will likely still need a technology ecosystem.
- You will likely need this ecosystem to help you navigate and invest in big data, AI tools and to use these as intelligent 'lego bricks' to build services using your unique knowledge and IP. Managing alliance partners effectively is very different from managing supply chain partners. You need to be clear on why the 'pie is bigger' together and how you're going to share the value you create so that each continues to bring something unique to the alliance. But, as with your enemies, keep them close; be aware that those partners may easily become competitors and prepare an elegant exit strategy for the partnerships you create.
- **Train 'everybody' in your organisation.** Technology and analytical tools are now significantly easier to use and a self-service market readily exists. Make data analytics truly democratic, train the smart people in all your business functions in them, let them elect to become the business translators you need, but make them aware that there are experts on hand for the truly difficult tasks.
- **Don't forget the rule makers.** If there's one area where you have an advantage over digital native companies is that you know how the current rules and regulations work in your industry. Changing the rules often requires the rule makers to come on the journey with you - this is your possible unique source of advantage vs. new digital native competitors. If you can influence the pace of change you can determine what the technology bleeding edge is and be at the forefront, plus it encourages technology firms to partner with you rather than compete.
- **Finally,** if you feel you must take your executives on a tour of Silicon Valley, spend more time understanding the VC investment process than the shiny technologies on offer. The former has the longevity that the latter does not and they will likely own the good technologies already.



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