

ESCAPING THE RED QUEEN EFFECT PART 2: LEARNING FROM DIGITAL BUSINESS LEADERS

IN THE FIRST PAPER OF THIS SERIES, WE USED THE NOTION OF THE RED QUEEN EFFECT AS A METAPHOR TO DESCRIBE THE PARADOX OF LEADERS "RUNNING TO STAND STILL"—THAT IS, STRUGGLING TO FUNDAMENTALLY TRANSFORM THEIR BUSINESSES IN THE FACE OF UNPRECEDENTED, AND OFTEN UNKNOWN, COMPETITION.

So, what can leaders do about this? How do they avoid becoming the next chapter in the book of companies who aced it the first time, but couldn't do it again? In this paper, we'll share our insights into how winners in the 4th Industrial Revolution are responding, and how technology sellers themselves need to adapt to become strategic transformation advisors to the C-Suite.

Before we go further, let's take a closer look at some of the reasons why transformation efforts can go awry. A bit more scrutiny is warranted, especially in light of recent research suggesting that only a tiny five percent of digital transformations meet or exceed expectations¹.

Perils and Pitfalls

What are some of the common running-to-stand-still dangers we see businesses succumbing to?

First, there's the two-headed pitfall monster of **cultural dogma and incremental innovation**. Oftentimes cultural dogma begets incremental innovation. Seen it? Felt it? There's a lot more of it around than one might think. Some of it's legacy, some of it's simply human nature, some

of it's fear, some of it's lack of the right skills, and some of it's just being a dinosaur! Regardless, it creates a moat of molasses around the "ivory tower" that slows business down and holds it back. As for incremental innovation, it's a great tactic to help defend the core and keep the business running, but it can't be the **only** thing a business does. It won't drive a new growth trajectory, nor will it garner market recognition. And, if the innovation is essentially emulating what the competition already does, the business will likely still be at the mercy of differentiation through price—a slippery slope.

Second, there's "**digital washing**," a term used to describe the temptation to preface everything with the word "digital" and simply use technology for its own sake without a clear understanding of priority and value returned. This leads to the automation and optimization of existing business processes whether or not their digitalization will make any material difference. Many times, we've seen change agents coming in, or being promoted, to great fanfare with grand plans to transform everything. The organization gets swept up in the "digital theatre," but when the lights go down and the dust settles, it feels like not much

changed, despite the hard work and expense. This isn't reinventing or transforming anything. Harsh? Perhaps, but this won't move any business forward.

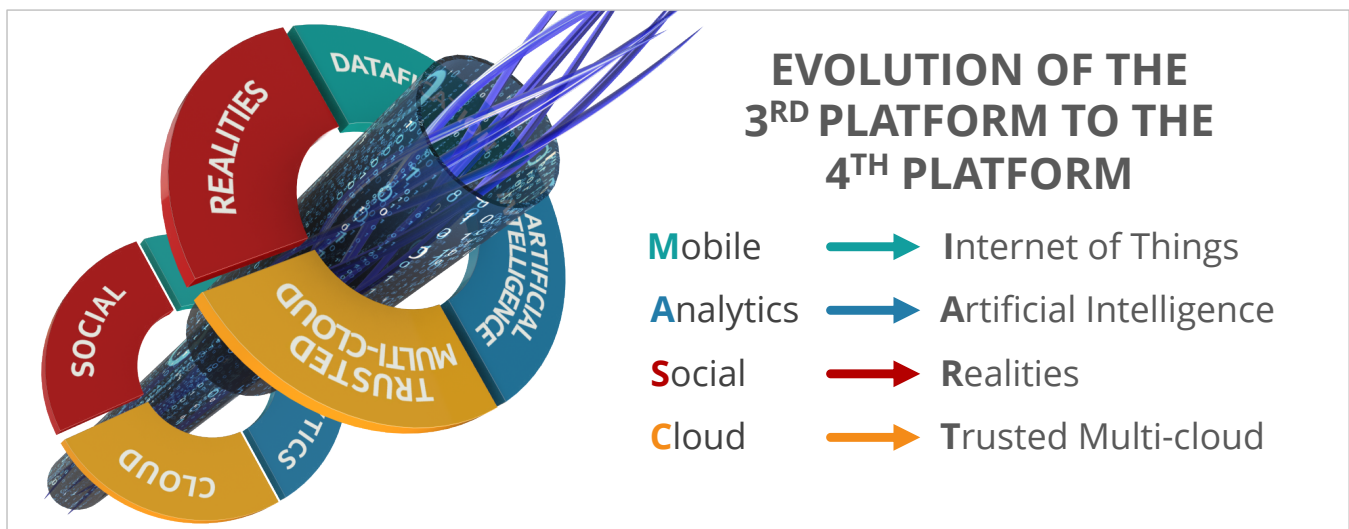
Learning From Leaders

So, who, in this 4th Industrial Era, is bucking the trend? What are they doing that others aren't? How are they able to sidestep the pitfalls and perils and instead deliver on their promises?

When looking to undertake a wide-ranging business transformation at scale, it's important to note that there are two sides of the coin to balance. There are tactics to defend the core—

an optimized core business will generate the profits needed to fund transformation. Then there are strategies that will disrupt the core—new experiences and business models that create new value. We see a great deal of the former, however, the market leaders are clearly focusing on the latter.

As to be expected, the market leaders have also been first movers and early adopters of next-wave technology, initially embracing 3rd platform capabilities—Social, Mobile, Analytics and Cloud—and latterly, 4th platform capabilities, which we characterized in the first paper as Internet of Things, Artificial Intelligence, Realities and the Trusted Multi-Cloud.



Nevertheless, the technology is just an enabler—it's the way they approach rethinking business that's the game changer. We believe there are three characteristics they tend to exemplify:

First, **they lead with Customer Obsession**—They care deeply and go to great lengths to understand their customers' true outcomes. This thinking factors into everything they do. They walk the talk.

Second, **they role model what it means to be a Data-Centric business** – They have an appreciation for the true worth of data as an asset and have figured out how to use it to unlock value through stunning new experiences, often blending the virtual world with the real world. Put simply, they are competing through the creation of new business models.

Third and finally, **they have the courage to Re-invent the Rule Book** across the board – with respect to leadership, mindset, culture, disruptive innovation, risk taking, developing skills/talent, walking the talk on doing good, eco-systems, platforms, metrics for measuring success and more. They're not held hostage by the cultural dogma we called out earlier.

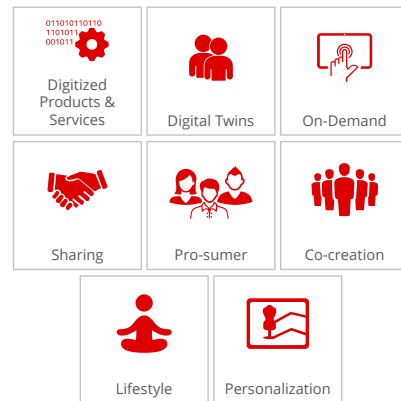
From Perils to Promises

With these three winning characteristics in mind, let's consider some of the ways the market leaders are harnessing the power of data to win.

Achieving growth in today's world requires a strategic pivot—a shift from competing with similar products and services to competing instead through new business models. These ever-evolving business models are designed to meet customer outcomes through intuitive, natural and compelling experiences. Examples include the following:

- »» **digitizing products and services** to optimize performance and convenience through on-demand delivery;
- »» the now well-known and thriving **sharing economy**, where access to an asset supersedes ownership (think Airbnb, Uber, and Lyft);
- »» the **co-creation economy**, which has grown substantially with a trend toward increasing individualization and personalization;
- »» while “further up the value chain,” the also-booming **lifestyle economy**.

NEW DIGITAL BUSINESS MODELS



Emerge, merge and evolve, meeting customer outcomes through new experiences

More recently, business models built around the notion of **digital twins** have begun to emerge. In this instance, a digital replica of a “thing” interacts with its physical counterpart. For example, the latest Land Rover Defender⁸ is born with a virtual sibling, enabling software patches to be applied to, and tested on, the digital twin prior to being installed on the physical car itself.

As these new business models develop, they merge and evolve at speed—hence their exact definition can sometimes be a little fuzzy. However, what is clear is the disruptive effect they're having on long-established markets. Here are a few examples of companies “bucking the trend” by blending 3rd and 4th platform capabilities with the characteristics of winners we outlined above.

Intuitive Surgical—a manufacturer of robotic surgery equipment **leads with customer obsession**, quite literally putting the customer, or in this case the patient, at the center of everything they do! Today nearly 5,000 of their Da Vinci robots are used in one million surgeries per year². Benefits include a faster recovery

time, fewer complications, less need for pain medication, and shorter hospital stays that free up valuable resources. Further, the FDA recently gave the company clearance to use artificial intelligence-enabled, 2 mm-wide robotic catheters to perform minimally invasive biopsy in lung cancer treatment. Are we seeing the dawning of Surgery as a Service? As for Intuitive Surgical, their customer obsession and appetite to adopt new technology has led their valuation to grow to a market-leading USD 60 billion².

Aero Farms – described as a vertical farming business, but they're also a great example of a **data-centric business**. They've pioneered ways to grow crops entirely without sun or soil! Production is around 130x – 390x that of the traditional field farm while using 95 percent less water³. Data plays a pivotal role in this. Thousands of sensors capture around 200,000 pieces of data per crop cycle, which allows creation of a digital twin of each plant⁴. Every aspect of the growing process is then analyzed and controlled using artificial intelligence to regulate heat, moisture, and nutrient levels—they can even improve tastes and textures. The outcome is not just greater production—it also means lower costs, improved quality, and greater sustainability.

Tesla – not just a car company! They have significant core competencies around battery design and manufacture, solar roof tiles, wall capacitors and energy management. Using a diversified “shaping strategy,” they envision households being able to purchase solar generation, energy storage, and an electric vehicle “under one roof” with a fully integrated energy solution potentially leading to a severing of ties from the electricity grid, or contributions to it, as part of the rising shared-power economy. Tesla is a good example of a company

that has had the **courage to re-invent the rule book** with vision (much of which comes down to its CEO), the willingness to take risks, and a culture of disruption and innovation. This is perhaps best characterized by their mission statement which is “to accelerate the world’s transition to sustainable energy.”

Digital Business Platforms

The examples above highlight the leadership attributes and 3rd/4th platform capabilities. However, another variant of new business models—Digital Platforms—is deserving of special attention. Right now the digital platform business model is going gangbusters, accounting for seven out of the world’s top 10 most valuable companies⁵. Their key to success? Once again, their value is centered on data.

Platforms typically sit between supply side and demand side, controlling the value intersection between a product/service and the customer, on a global scale.

Whereas today’s “platform giants” are clearly in the business-to-consumer space, the industrial business-to-business space is still fairly green field.

Opportunity abounds in the industrial arena for digital business platforms that capture and monetize data. At present there is no “winner takes all” on the horizon, but the first movers are already out of the starting blocks.

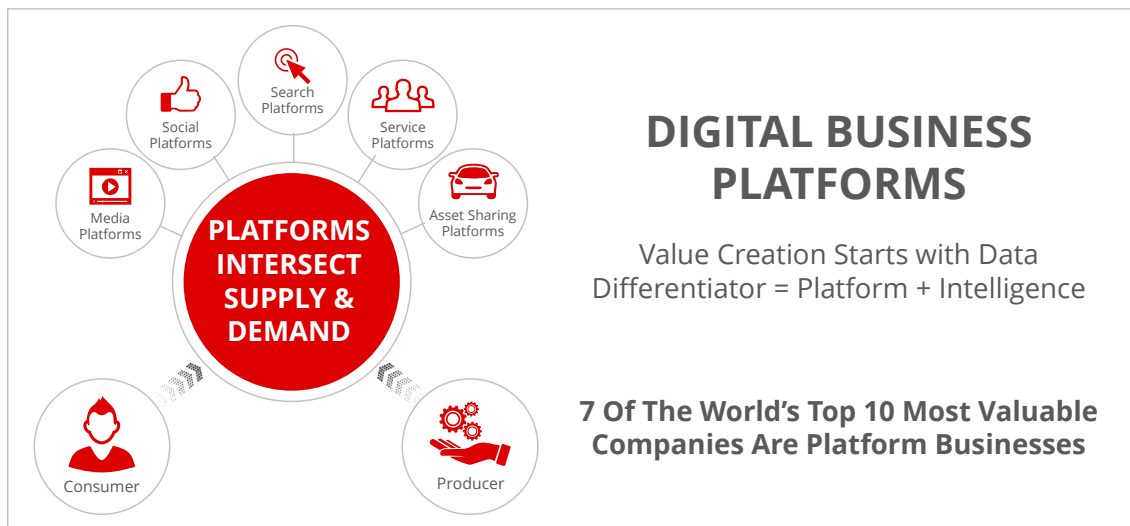
On the one hand you have companies such as Airbus that have invested in building out their own platform—in this case, “Skywise.” By way of an example, an A350 airplane has 250,000 sensors that constantly check around 900,000 parameters⁶. A single day of use generates 300 GB of data⁶. Previously 98 percent of this data

was disregarded, but now that it's captured, Airbus is able to "learn" about their fleet. Further, Skywise is an open platform, meaning it can potentially be used for other manufacturers' planes, for example, Boeing's. Today insights are used to work towards zero downtime for planes, however, this is only just the beginning.

On the other hand, you have industry competitors who've decided to come together

to create joint ventures that share not only the development costs but also the proceeds from a platform. A good example of this is HERE Technologies, a platform providing mapping and location services that's co-owned by Audi, Daimler, BMW, Intel, Siemens, and Continental.

Platforms that combine data capture with intelligence can become true differentiators.



Short Tails Versus Long Tails!

So, what does all this mean for technology vendors, their sales organizations, and the way they go to market?

One of the first things to recognize is that customer influence points have changed dramatically. Over 50 percent of technology spend decisions are now made outside of IT⁷. If sellers want to graduate to become strategic advisors to the board, then they must change the conversation from being roadmap and product centric to one focused on creation of business value. Hence, our mantra: "In sales you talk to the person you sound like." Typically,

this means sellers need to pivot to drive digital transformation, which in turn throws up the short tail versus long tail challenge. Namely, how can one balance the short-term tactical sales targets needed to keep the business running with the longer-term digital transformation initiatives that will open the aperture and drive growth? If sellers are compensated only for driving quarterly sales of product, it's going to be a real stretch to drive the behavior change needed. To this end, we've seen progressive sales organizations experiment with commissions plans that, for example, base some elements of compensation on hitting milestone goals that move transformation projects forward over multiple quarters.

Improving Executive Digital Literacy

When embarking on a journey of change, it's crucial for leadership to have a clear and common working knowledge of what's really transforming the world, and its implications, beyond the borders of their current market. A broad contextual perspective is needed because the disruption facing an organization is more likely to come from outside its sector than within it. Without this consistency of understanding, getting consensus at board level on the need for change is hard to achieve—and it can significantly slow down transformation efforts.

Addressing this challenge, through teachable perspectives, is often a starting point for sellers with the challenger mindset and approach. It serves as a way to earn credibility while adding real value. Hence we believe sales organizations need to focus their professional development programs around building these skills and increasing sellers' **Digital IQs**.

Helping Customers Envision Their Future

However, increasing customers' digital literacy is only the beginning. One of the central challenges leaders face when embarking on

transformation is being able to envision the future state of their business. To become a trusted advisor, sellers need to get comfortable in being able to help their customers envision and plan—and leaders really do need help.

The big question is, "How do you do this?" In our experience, the best way is through a workshop process. While this may sound daunting to some, and perhaps a little out of the traditional seller's comfort zone, it is nonetheless a teachable method.

The objective of an envisioning workshop is to enable business leaders to define their organizations' future digital state in terms of the business model/s and the digital platform needed to support it. Conversation often begins with an overview of the relevant disruptive forces at play, from which key strategic focus areas are identified. These act as guardrails for a use-case ideation dialogue designed to drive an understanding of how customer outcomes can be met through data-centric, radical, new experiences and business models. This, in turn, drives a discussion on how 3rd and 4th platform capabilities can be applied to make it happen. The process is enriched with examples from inside and outside a customer's own industry to stimulate innovative thinking.



The outcome should result in an evolution of the account engagement, focused around the areas of greatest relevance. It identifies investment priorities and big bets. This also helps drive transparency and shared accountability on both sides—important in developing a partnership and shared path to success. A salesperson who is intimately familiar with their client’s digital transformation plans will see a whole host of new opportunities open up. And, as a trusted advisor, they will be in pole position to understand the “sweet spot” where the customer’s technology portfolio delivers the greatest business value.

Putting It Into Practice

So, how effective can this be? In the engagements tackled this way, we generally see a 3-4x increase in visible pipeline over a 24-month period. In an example from our own background, what began as a straightforward USD 5 million client refresh opportunity turned into a USD 250 million effort to define our customer’s workforce/workplace of the future!

Of course, this **approach isn’t the cure for the common cold, nor will it happen overnight, as it does require training and development of sellers. However, it is a shift sales leaders ought to address, else run the risk of being commoditized by others.**

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