

Make Disruption Work

a CEO handbook for digital transformation



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Introduction

how not to be a boiled frog

A few weeks ago we were at a business leaders roundtable, and the CEO of a big travel company was reminiscing: 'When I started as an intern in this industry, my first job was to get waiting times in the agency down from seventy to forty minutes.' Forty minutes was the ultimate goal — not bad

if you're the company. 'Oh,' he went on, 'we used to have it so good. We'd send customers off on brutally early flights to places they hardly knew, and then have them catch two buses to arrive finally at a crummy hotel that was miles from the beach. At the end of the season we'd get a couple of complaint letters, and next year do the same again.'

The travel industry has now changed dramatically. Customers know that early flights mean discounts, they know exactly where the hotel is — and if it's got a TripAdvisor rating of less than 3.5 then forget about it — and waiting times are counted in milliseconds. And the provider landscape has changed too: the frontrunners of today are all digital players that 20 years ago didn't exist (Airbnb, Expedia, Booking.com, etc.), and the previous incumbents have all either followed them online, having lost large swathes of market share, or been eaten.

But the most striking thing of all is that the actual changes involved (e.g. better choice of flights, decent hotels) aren't particularly *digital* or *technological* in character. Rather they arise out of what the digital technology facilitated, namely:

- enhanced transparency: customers can now access more information about what they're buying, meaning the knowledge asymmetry travel agents used to enjoy, and indeed exploit, has gone.

- enhanced accessibility: customers can now access products and services from anyone, from anywhere, 24/7, meaning incumbents are no longer protected by owning key physical locations, and there is a constant swarm of competitors all ready to make the customer service improvements that are there and begging to be made.*

The point of this story is that digital isn't about digital — it's about using digital to serve customers better, faster and cheaper than before. And importantly, it's also not about travel. Digital disruption is playing out in one industry after another, leaving none untouched, and in much the same way every time. This is because, regardless of sector or specific technology, digital is almost always just a catalyst for industries to get better at doing what they're supposed to do — i.e. serving customers.

There are good and bad things about this. The good is that if digital really is just about improving your product or service offering, it follows that you don't need to be a flip-flopped millennial tech start-up to do it (in fact if you're getting beat by millennials you were probably doing a bad job before). If you are an existing company, you've got valuable customer links and data already, and you absolutely should be able to tackle digital yourself, hiring some coders along the way.

* Notably had the digital players entered travel with the same offering only over the counter, and no online presence, they would still have disrupted the incumbents. The logical extension of this, and which we see in many sectors, is that once digital players have established themselves online, they often expand into brick-and-mortar and continue capturing market share.

The bad is that the changes digital demands are likely to be much more profound than just some minor tech problem you can fix and declare done. Enhanced transparency and market accessibility pose massive challenges that go to the core of every company, and ask, essentially, ‘How good are you?’ And the truth is, many large traditional incumbents are still deeply sub-optimal. They have over-sized, inefficient departments, bad internal communications, and leaders who neither know nor care about their customers, but just want to keep doing what they’re doing and cashing in the revenues. For such companies, the gas is on and the water heating up.

How to avoid the fate of the boiled frog? It’s counter-intuitive perhaps, but the solution to digital disruption is often not some radical new model, but a return to the fundamentals of good business sense. You need to be able to use digital to create value for customers in smarter ways, but crucially this means being customer-first — not digital- or technology-first, and not product- or company-first. And this in turn means you need to:

- know your customer (and care!): you need to appreciate for example that a 40 minute wait still sucks, and look to improve relentlessly. And you need to understand what more transparency is going to look like to customers, and what they’ll consequently start to expect (regarding pricing, choice, reviewing, etc.).

- have a little humility: this is not a quality always found in boardrooms, or business books, but for being an effective servant to customers, it is in fact very useful. You need to be able to ask, genuinely, what does your customer need or want, and be prepared to change accordingly. You need to come up with new ideas about how to serve those needs, and test your ideas, and be wrong. You need other people in the company to come up with ideas too, which may be right. This implies a form of internal transparency that isn’t always the most comfortable thing in traditional business environments. It will however get you a better result, which in the fast-moving, hyper-competitive landscapes that digital throws up, you’ll need if you want to survive.

We were talking about all this recently to the CEO of a bank. ‘Yes I see,’ he said. ‘But the thing is, we’re just not ready for that level of transparency.’

‘Mm,’ we said. ‘Get ready.’

† A frog that’s dropped into boiling water will leap out, but if a frog is already in a pot of tepid water, and then brought to the boil, it will sit around and get cooked ... or so the fable goes. Biologists have commented that frogs generally don’t sit around nicely, making the experiment hard to perform.

About this book

Digital disruption is going to continue its sweep across all industries. What's more, the disruption we've seen to date has been just the first wave. Digital behemoths like Google, Amazon, Facebook et al., have all sprung out of online and mobile, but a host of further technologies are already on the brink: robotics, self-driving vehicles, AI, IoT, blockchain. Every one is potentially as revolutionary, and in their combinations, even more so. We are entering a future of ceaseless disruption.

This presents risks, but also a tremendous opportunity for you to change your company — and indeed the world. New technologies allow you to think big. At the same time, you need to think practical. If the environment's moving fast, you have to have strong fundamentals, but also to be agile, adaptive, and data-driven. There is now a clear, evidence basis for defining how to do this in relation to online, and we firmly believe it will hold true for future waves of digital disruption. This is not least because the principles involved, e.g. serving the customer better, and organizing effectively, are timeless. What's new, and what this book provides, are the models and blueprints as to how to be timeless in digital landscapes. How do you organize to serve the customer better in digital? How do leading digital businesses do it? What rules do they follow, and what strategies do they apply?

We've worked with some of the biggest companies in the world — including Shell, Unilever, ING, eBay, Ikea and many others — on transforming their businesses in the context of disruption. Together with them, we've built digital capabilities, launched new disruptive ventures, and seen the success. These initiatives are now growing fast and booking profits. The advice we give is practical, demystifying and effective, and — the ideas underpinning it are crystallized in this book. This is stuff we've done with multi-billion dollar operations, and it works.

Our approach is structured around 5Ds: Discover, Define, Determine, Drive and Delight. All five need to be addressed, sometimes in parallel, and hard work is involved. There is no magic bullet here, and as with any kind of change, strong personal leadership is required, and in particular, a readiness to act, learn, and, when called upon, take tough decisions.

Being a company on the brink of disruption, or in the midst of it, is tough. Shareholders can be hesitant, and it doesn't help that digital often presents lower margins, and business cases that are negative in the short term. We understand why some companies don't want to change. We also understand why some frogs stay in the pot.

5D model



1. Discover **the new world**

CEOs ask us: 'How is my industry going to be disrupted?' Start by looking up.



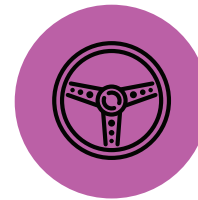
2. Define **how to act**

The game has changed. There are six new rules, and strategies to match.



3. Determine **what you need**

Organize to deliver speed and disruption, and approach tech right.



4. Drive **the change**

Get your capabilities, get your team, go!



5. Delight **in the new world**

Lead, act, and tell the story.

We have studied the argument throughout with real-world examples in blue infobubbles like this one. The final section of the book presents three detailed case studies showing the 5Ds in action.

1.3

And it's only just beginning

Exponential growth in disruption is made possible by technological advancement, *which is also exponential*.

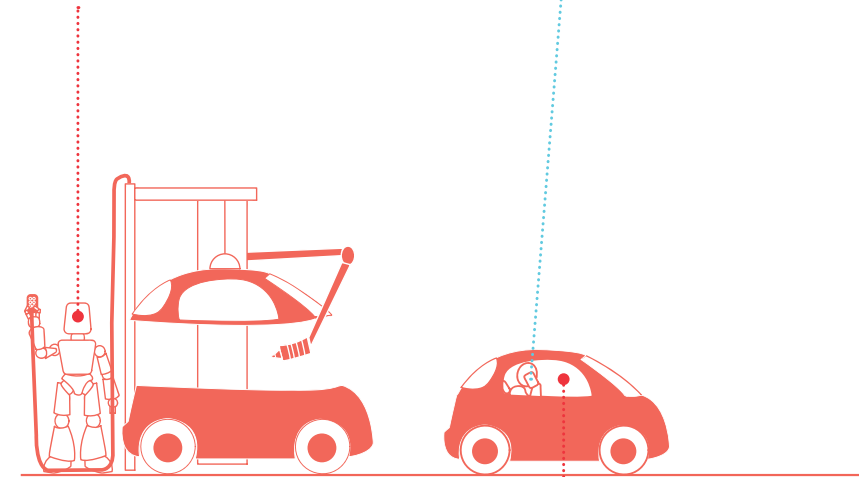
Technological change itself is not new. Over the centuries it has hit in waves — repeatedly remodelling society, triggering large-scale economic shifts, and creating new business giants (e.g. Carnegie with steel, Rockefeller with oil, Ford with mass production...). The difference with digital however is that the key underlying technology — computer processing — roughly doubles in power every two years.* This means the technological possibilities it opens up become exponentially more sophisticated, thus setting off successive waves of change, each bigger than the last. The ones we have seen to date (and their giants: Gates with IT, and the likes of Bezos and Zuckerberg with online and mobile) are really only the first few. Many more are already on the brink, and propelled forward by ever faster and cheaper chips, are producing technologies that approach human levels of functionality and ubiquity. As these waves hit, they will create entire new landscapes, spanning every industry, and in each one giving rise to companies that will: fulfil unmet customer needs, unlock demand, remove barriers, and grow exponentially.

* Following Moore's law. Steady doubling since 1974 has led to a x2 million increase in the transistor count on a chip. x4m very soon. Once the physical limitations of silicon have been reached, new computing technologies are expected to continue the trend.

The level of change to the economy in the next 10 to 20 years will be enormous. However the fundamentals of how to make disruption work remain the same. It's about having the purpose, customer-first orientation, and fact-based, adaptive approach that are the subject of the rest of this book.

robotics and automation

Robots have long been in car factories, but with greater capabilities and falling cost, their scope is expanding rapidly. E.g. in logistics, DHL is now testing packing and sorting robots in UK distribution centres.

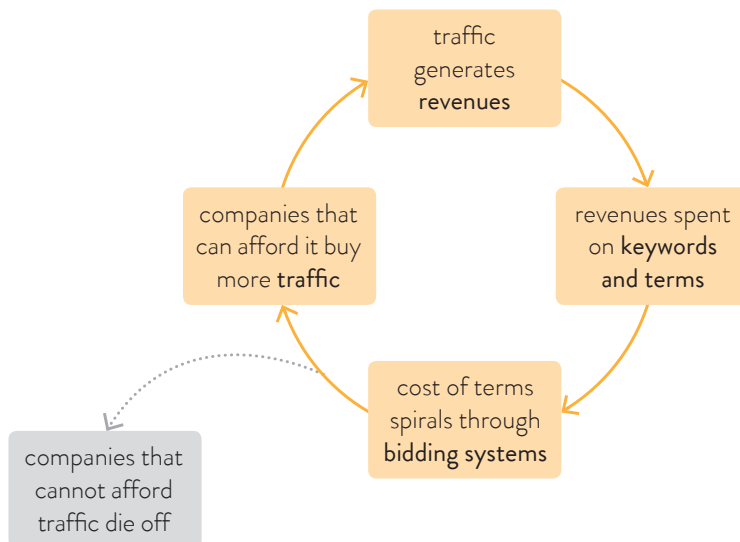
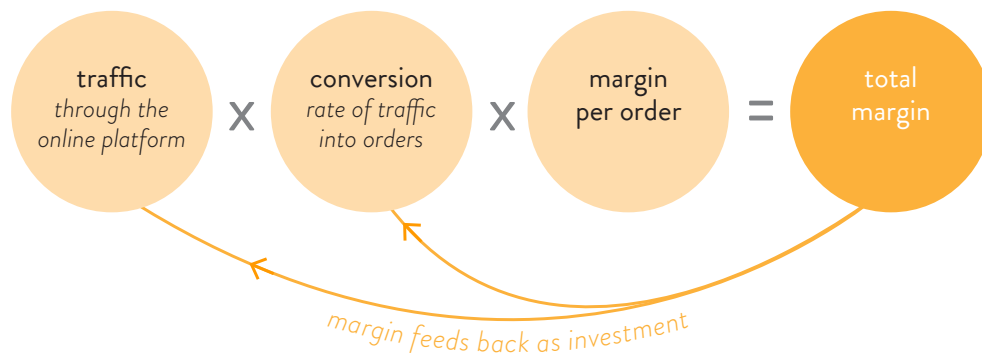


self-driving vehicles

Self-driving cars are clocking up thousands of test miles for Google, Ford, Uber and others; self-driving trucks are hauling iron ore at Rio Tinto mines; self-driving lorries hit UK roads in 2018. Impacts will be felt across commercial and private transport, traffic, logistics, car ownership, insurance, urban planning, etc.



3. Winner takes all – play to win



Winning is driven by the **conversion equation**.

By itself this is unremarkable, and many offline markets also consolidate around big players who reinvest and expand. However what is different in digital is that optimization of the conversion equation is much more powerful. For example, with the same \$100 spent on traffic, you can get 10x the number of customers onto your platform if you have the skills to optimize paid traffic. Similarly, the same 100 customers will be 10x as likely to convert into orders if you have the skills to optimize conversion, and the same is true again for margin (though to a slightly lesser extent). These 10x factors get multiplied through the equation to yield dramatic variations in the total margin produced, and therefore available for feedback into more traffic and more advanced optimization skills.

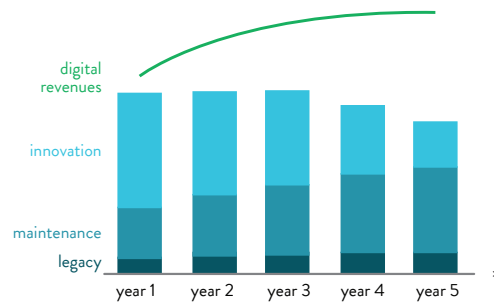
The effect is then made more acute still by the fact that in digital, the cost of traffic increases as the market matures. This is because as companies start to spend more (e.g. on online advertising with Google, Facebook, Instagram, Twitter, etc.), competitive bidding systems drive up the prices of the keywords and terms that drive traffic. Traffic in turn drives the conversion equation, thus creating a **secondary feedback loop**. The overall result is a hyper-appetitive winner-takes-all dynamic.



1. See tech as a business driver (and invest and manage accordingly)

Traditional companies see tech as a cost and look to trim it. In digital this is self-defeating. Successful digital disruptors see tech as a business and profit driver. They link **IT investment** to top-line growth, **manage IT budgets** strategically, and bring business and IT together to ensure seamless **business-IT integration**.

IT investment

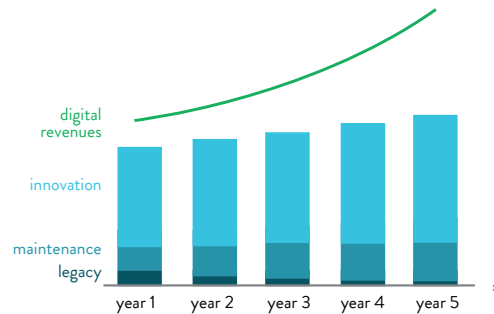


traditional company

The IT budget is variable, subject to cost pressure, and has to be defended year on year. Prolonged use of legacy systems dampens flexibility and pushes up the cost of maintenance, which eats into the innovation budget. Digital revenues consequently decelerate.

Investment in IT:

- fluctuates (especially if the business case is poor)
- shrinks relative to sales
- the IT team is come-and-go and knowledge gets lost



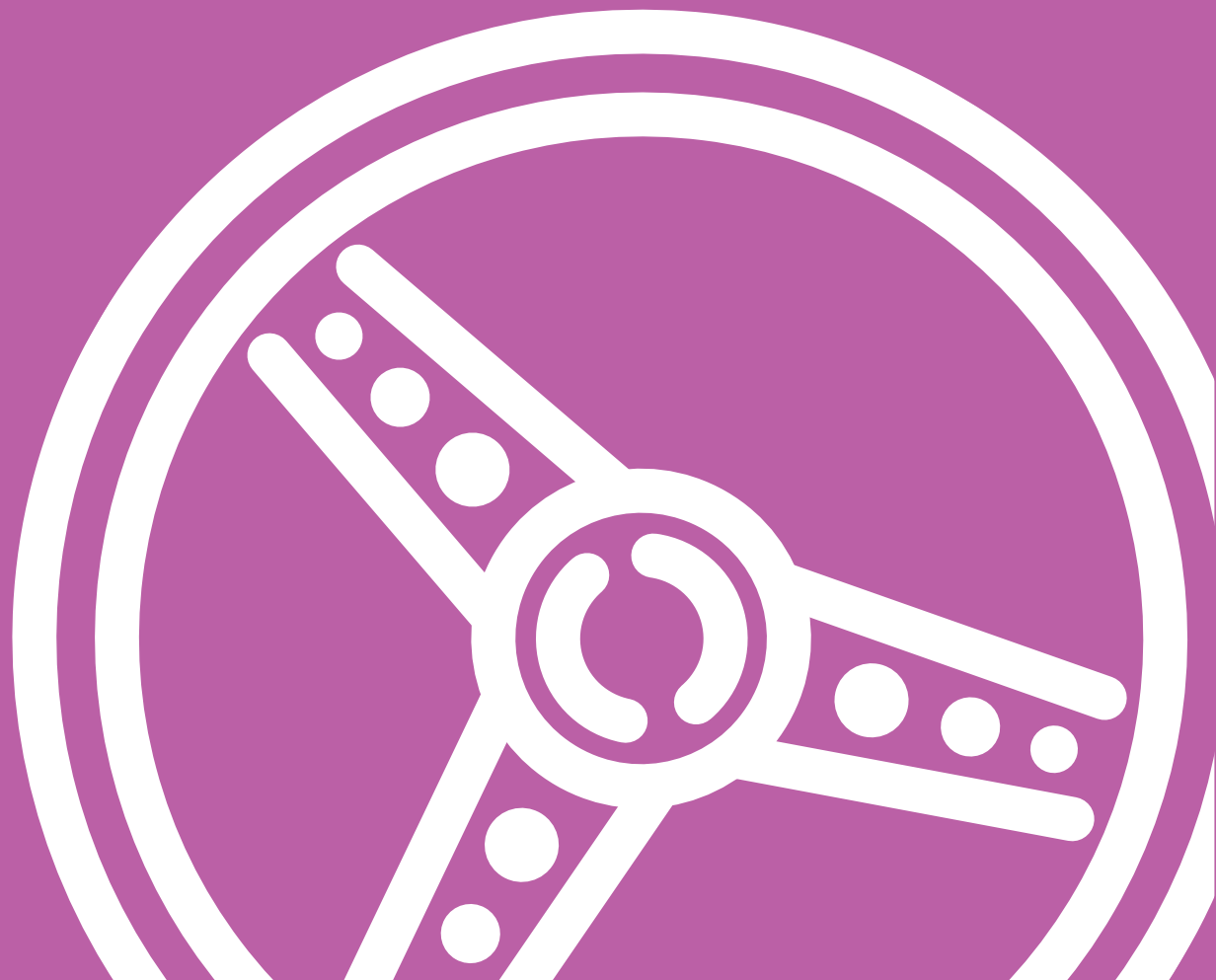
digital disruptor

The IT budget is structural and dedicated, and spending on innovation is linked directly to business KPIs (e.g. sales). An explicit allocation phases out legacy systems and the maintenance budget grows stably. Digital revenues accelerate.

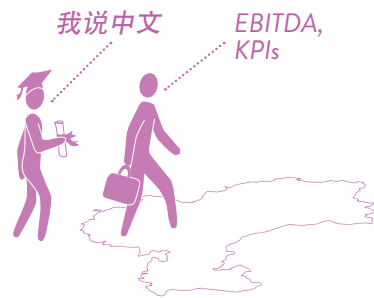
Investment in IT:

- is predictable
- grows with the business
- the IT team is stable and builds up knowledge

* SparkOptimus, illustrative values

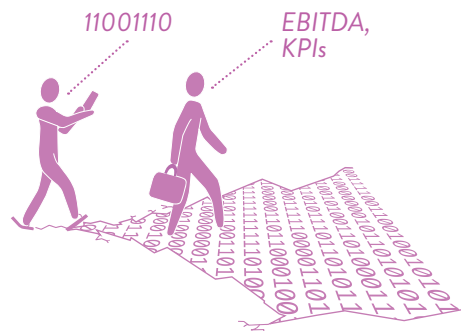


1. Leaders: business builders not guru geeks



China

When China started to emerge as the next big growth region, companies rushed to invest. They sent their best business teams out to set up, and got them the language and culture support they needed. What they didn't do was go round universities hiring China geeks and asking them to lead their businesses.



the parallel to digital

Pick a business builder first. For an existing business this is probably someone from inside the company, and preferably with experience of transformation and leading teams. Next, let them hire the digital specialists.

the mistake

We sometimes hear CEOs saying they want to hire a 'digital guru' from a big tech company and get them to lead. This approach will fail. Such people have exceptional digital skills, but have often never set a business up, much less transformed one. They won't understand your business, and will get frustrated trying.



What makes a good digital business builder?
4 linked characteristics

adaptable

Digital is highly dynamic: customer insights, product testing, technology, and competitors all move fast, creating constantly shifting inputs to the business model.

self-learning

This encompasses not just your own niche (niches are under disruption), but the ability to look up and learn from across industries.

bias to action

Wait-and-see = left behind. The test-and-learn rule (see Chapter 3) is the practical product of self-learning and adaptable.

analytically strong

Digital generates a lot of data. Successful business builders know how to use it.

S About us

We founded SparkOptimus because we want to advance society by tapping into the possibilities new technologies bring. We work with some of the biggest companies in the world (including Shell, Unilever, ING, eBay, Ikea and many others) on transforming their businesses in the context of disruption. Together with them, we've built their digital capabilities from the inside, and launched new digital ventures that are now capturing market share, and disrupting the disruptors.

We're also disrupting consulting itself. Since inception in 2010, we've been applying our innovative working methods, proprietary models, and leading strategic and practical knowledge, and for the last five years straight have enjoyed 70%-a-year growth. We are now Europe's top management consultancy focused 100% on digital disruption.

Alexandra Jankovich

Alexandra started in traditional strategy consultancy at McKinsey & Company, before moving on to set up the digital division at RELX (Elsevier Science) in New York, and later holding a number of senior digital management positions across the US and Europe. As Managing Director of Lastminute.com Benelux, she took the site to the no.1 spot in six months. Alexandra holds a Masters in Business Administration, and previously conducted research in Chile for the SHV board. She is co-founder of SparkOptimus, and appears on lists like TheNextWomen100. Alexandra lives in Amsterdam with her husband and three children.



Tom Voskes

Tom started at Proctor & Gamble in line management, before also working at McKinsey & Company – first in Amsterdam, and later Boston on the 'Diamond' programme for top consultants. He then headed marketing at KKR-owned Maxeda, the largest non-food retailer in the Netherlands. Tom holds a Masters in Astrophysics, and could previously be found conducting research at the ESO, also in Chile, at one of the world's biggest observatories, and publishing on the warped layers of the outer galaxy. He is co-founder of SparkOptimus. Tom lives in Blaricum, near Amsterdam, with his wife and three children.





SparkOptimus