BUSINESS STRATEGY THROUGH DISRUPTION

Many thanks go to Fred Dekker MBA for his editorial support

Business strategy through disruption

By Ger Hofstee and Sybren Tijmstra

Second edition February 2020

Titel: Business strategy through disruption
Authors: Ger Hofstee and Sybren Tijmstra

Published by:
Uitgeverij U2pi BV, The Hague, The Netherlands
www.uitgeveriju2pi.nl

Printed by: JouwBoekdrukkerij.nl

ISBN: 978-90-8759-878-5
NUR: 780

Table of Contents

1. Introduction

Change has always been a fact of life in the business world. But never has change impacted business to such an extent and on such a wide variety of fronts as in the last fifteen to twenty years, and is expected to continue to do so in the near and more distant future. More and more we hear that we are living in a VUCA World referring to Volatility-Uncercainty-Complexity-Ambiguity to cover the various dimensions of our 'uncontrollable' business environment.

In many business sectors it stimulates strategic re-orientation and discussion around changing business models. Companies need to be more and more agile to be able to respond to all the new challenges they are confronted with.

The nature of the changes is so fundamental that in 20-30 years we might conclude in hindsight that during these years we have been witnessing a fourth industrial revolution.

The incredibly rapid development, for example, of the internet is a case in point and cannot be better illustrated than by the verdict of a German High Court which rules that access to the internet should be considered a basic need of people. This ruling puts internet access on a par with the safety and social needs defined by Maslow's hierarchy of needs. The implications are clear: internet has become just as important as food, clothing and safety, and if an internet provider cannot ensure a trouble-free connection to its subscriber, the provider should compensate the customer for his loss of access. A clearer signal that society is in full transition from 'analogue to digital' cannot be given. And if a company has not incorporated the use of internet in its strategy and operations, it is very likely to be lagging in its economic and social development.

The fourth industrial revolution is not only strongly based on technological breakthroughs like internet, digitalisation, robotics, nanotechnology, however, but also on globalisation and the changing economic roles of nations and continents, on demographic trends and different values of the younger generations, i.e. “the millenials“.

This changing setting for business is of course not only crucial for sectors and long- and well-established companies but also offers lots of opportunities for new start-ups which often have the advantage of not being burdened by past legacies which are difficult to get rid of.

Innovation of products and services but also of business processes is a condition sine qua non for survival. So both intrapreneurship in existing companies as entrepreneurship in new companies are crucial to assure a sustainable future in this “new business world”.

This book is therefore meant for both intrapreneurs and entrepreneurs, managers, professionals and students alike. It stresses the importance to them of looking at a business from the outside inward, of analysing trends and identifying game changers, so they can discover ways to innovate products, services and processes in order to be prepared for the digital age.

After the introduction, chapter 2 will give a comprehensive overview of the main world trends that create new challenges for business.

Chapter 3 “The digital age” will then zoom in on one of the most disruptive trends, i.e. the digitalisation and what it means for different business sectors.

After these “scene setting” chapters, different business disciplines such as strategy, marketing, finance, organisational culture are discussed to evaluate how they are influenced by the new setting. Ideas and tools will be provided and the validity of existing models discussed. Although many think that the old analysis/decision making models have to be replaced completely by newer versions, we will argue that old models can still be used but in different ways and possibly at different moments in time while being complemented by new ones. Whatever the situation, we should recognise that all these analysis and decision making models should never be used as absolute answers but as tools to stimulate and structure valid discussion.

Chapter 4 under the heading “The new normal in strategy” discusses how, on the one hand, long-established companies’ strategic thinking may change to address the new challenges and opportunities in today’s business world. Start-up founders, on the other hand, will find ideas indispensable for creating a good strategy for their business.

Chapter 5 , called “Disrupt the disruption” will show well-established companies how they can use disruption to their advantage i.e. act in a proactive way.

As we in these days often tread on new territory it seems valid to remind ourselves in chapter 6 of the “blue ocean” strategy approach of which a short comprehensive description will be provided.

In this day and age we need to deal with very different markets and market/customer needs, therefore chapter 7 covers “The new normal in marketing”. In this chapter innovative approaches around “fanbase” , “the new customer journey” and “branding in the digital age” will be covered.

Technology is not the only change factor in the business environment as far as market needs and the access to new markets are concerned. The amount of capital required -often much less than in the past- and the way by which it can be raised has changed as well. Chapter 8 “new forms of financing and venture capital” provides an overview.

As we have entered partly unknown business territory the ways in which value is created and risk managed need to be adapted. Chapter 9 “value and risk management” discusses these issues.

To be able to move to the implementation challenges of the new digital strategies, marketing approaches and financial and risk management, chapters 10 and 11 cover issues pertaining to “excellent operational implementation” and “corporate culture and the profile of the entrepreneurial team”.

The book concludes with chapter 12 “designing a smart business plan and pitching your business plan” where some tips are provided on how to formulate a smart business plan and how to sell it to the inside and outside world.

We wish you a lot of reading pleasure and above all we sincerely hope you will enjoy putting all this in practice. Our objective in writing this book is to stimulate intrapreneurship and entrepreneurship in the digital age. Only if, partly due to its contents, more companies are able to successfully meet this challenge and a greater number of start-ups is able to achieve sustainable success, the work on this book has been rewarding.

2. World business trends

To ensure the sustainability of a business it is crucial to scan the trends in the business environment on a continuous structured basis. This way challenges can be identified which require smaller or lager adaptations of the overall orientation and/or strategy of the company. Since the start of the second millennium the business world is confronted with disrupting discontinuities which in number, scale and pace are unique and which are hitting all at the same time. As a result companies have to respond quickly to ensure the continuity of their business.

In order to give a short description of these new disrupting discontinuities, they are split in five main categories; population, emerging markets, internationalisation, technology, societal attitudes.

Population

Aging population

Important economic regions like the United States, the European Union but also Asian economies like China and Japan are faced with a rapidly aging population. While in 2000 14% of the population of developed economies fell into the age category of 65 and older, this percentage will have increased in 2050 to 26% (1). This increase has all sorts of consequences.

First, over time, it leads to a substantially greying workforce (worldwide in 2010 14% of the workforce was 55 and older, in 2030 the estimate is 22% and in China even 31%) and therefore to a smaller labour pool (2). If productivity then does not increase GDP growth might shrink substantially. Fortunately some new technologies (see later in this chapter) may be able to boost productivity.

There is also a positive consequence of this demographic shift, as particularly in the United States and the European Union a senior customer group emerges with substantial purchasing power and therefore representing an interesting market.

The ageing of the population and the increased life expectancy (worldwide in 1950 the life expectancy was 47 years; in 2050 it will be 76 years (3) puts pressure on pension systems. In countries where pension systems are not based on the capital principle but instead on the "pay as you go system" (whereby the collected pension premiums are directly redistributed amongst the retired persons) this will be felt the most.

This substantially increased life expectancy also puts pressure on the health system, and more specifically on the area of chronical diseases. In this respect new technologies might be able to reduce the pressure somewhat, for instance by wearables containing sensors monitoring chronical diseases on a continuous basis.

New generations with very different attitudes and competences

The generation of Baby Boomers (born between the early forties and early sixties) – often very work-oriented and loyal to their employer – is retiring. Companies are now mostly managed by Generation X (born between the early sixties and early eighties) which is often more associated with characteristics like independent, tech savvy, pragmatic, self-managing, interested in work-life balance, changing jobs more frequently. The first members of the following generation, Generation Y Millennials (early eighties to mid-nineties), however, are already knocking on the doors of the board rooms. Anyway by 2020 millenials already represent 40% of the workforce. They, in turn, have different competences of which some are quite appropriate for these challenging times. They are often showing adaptability, flexibility, are often technology sophisticated rather than tech savvy. But they are also impatient, looking for instant gratification, changing jobs very frequently and have a very strong focus on work-life balance.

But even Generation Y already feels the heat of the next generation Generation Z (born in the mid-nineties) which processes information at lightning speed by social media and apps, is adapt to change, is looking for new challenges, has even less commitment and loyalty to companies, dislikes hierarchy, but still needs to improve on teambuilding skills and face-to-face conflict resolution.

Individualisation

Finally in most developed economies we are also witnessing an increased trend towards individualisation, which again leads to new customer behaviour to which companies must adapt. Different management skills need to be used in this individualised setting to create effective teams.

Emerging markets

Important role in world economy

The role of emerging markets in the world economy has grown substantially in the past twenty years and is still growing dramatically. Today these emerging markets already represent one third of the world economy and by 2025 the estimates it will be around fifty percent. We are not only talking about the “BRIC” countries (Brazil, Russia, India, China) but also about the “Next Eleven” (countries like Bangladesh, Indonesia, Mexico, Nigeria, Philippines, South Africa, South Korea, Turkey, Vietnam). Companies have to adapt their strategies to this new role of emerging markets.

Urbanisation

The growth of emerging markets has also led to an unprecedented urbanisation in the world; for some years for the first time in world history, there are more people living in cities than in rural areas. This trend continues with a growth of the population in cities of some sixty-five million per year. Four hundred and forty cities in emerging markets will account for nearly half of the global GDP growth in 2025 and two and a half billion people will live in Asian cities by 2025 (4). According to some of the latest estimates by 2050, 70% of the world population will be living in urban areas.

Industrialisation

The urbanisation trend in emerging markets is of course also a reflection of the industrialisation of those economies which in many sectors have become the production centres of the world. While in the beginning of the development process of emerging markets they were only seen as unlimited pools of low-cost labour and therefore as places to outsource to, the picture is now a much more diverse one.

Due to the outsourcing of production to countries like China and of services to countries like India these emerging markets have seen a quick development of their middle class. In the last twenty years some six hundred and twenty million people were lifted out of poverty. While in 2010 the size of annual consumption in emerging markets was some $ 12 trillion the estimates for 2030 are around $ 30 trillion (5). Emerging markets become more and more attractive as export markets for companies from developed economies.

Simultaneously we see that the increasingly prosperous consumers in emerging markets have also stimulated these markets to become the birth place of future multinationals. In many sectors the emerging market multinationals already play a substantial if not dominant role. Chinese companies like Alibaba (retail), Baidu (Chinese Google), Geely, SAIC and BYD (automotive), Haier (white goods), Huawei (telecom), Lenovo (IT) , Xiaomi (Chinese Apple) or Indian companies like Bharti (telecom), Infosys and Wipro (IT), Reliance conglomerate (petrochemicals, retail, telecom etc..),Tata conglomerate (automotive, food, IT consulting, steel etc..) are some examples.

The turnover of these emerging market multinationals is not only created by autonomous growth it is also often speeded up by acquisitions. Some examples are: IBM-PC by Lenovo, Corus by Tata Steel, Arcelor by Mittal Steel, Jaguar and Land Rover by Tata Motors, Volvo by Geely.

As these emerging market multinationals started from scratch they could often generate disruptive product-, service- and process innovations leading to new price/ performance levels thereby changing “the rules of the game”.

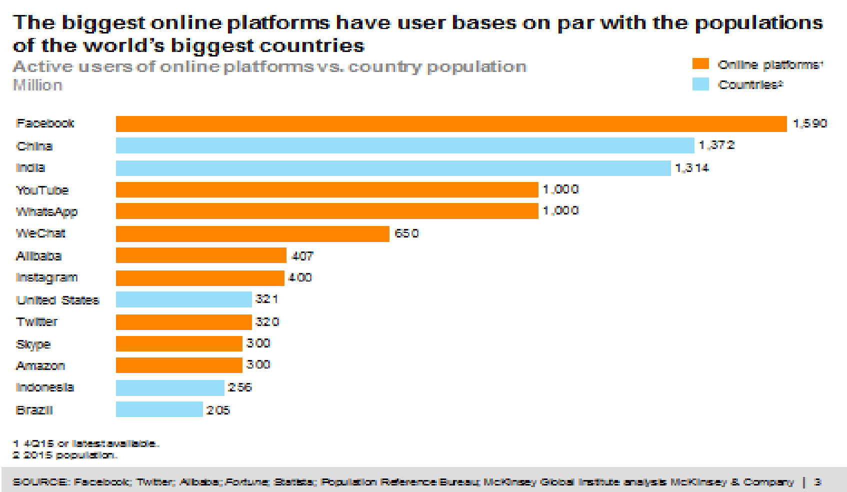
Internationalisation

Dramatic increase of international flows

The role of the emerging markets and their multinationals (MNC’s) is an important aspect of the dramatically increased internationalisation of business we have witnessed in recent years.

While in the past most internationalisation was concentrated around exports/imports of goods and some foreign direct investment of mostly American , European and Japanese MNC’s this has drastically changed. More and more, due to deregulation and technology (ICT), the service sector is also internationalising while we also see a substantial increase in money and data streams and in labour mobility across borders.

The internationalisation of the goods sector has between 1980 and 2014 grown more than ten-fold from $ 1.8 trillion to $ 19 trillion. Due to recent tariff wars the trade in goods has however stabilised around the 2008 levels. The service sector has more than tripled between 2002 and 2014 from $ 1.6 trillion to $ 4.9 trillion while foreign direct investment more than doubled between 2002 and 2014 from $ 0.7 trillion to $ 1.65 trillion. In the last years; amongst others a result of recent world trade tensions and Brexit we have seen a reduction of foreign direct investment. A lot of companies are careful with investments in these uncertain times. Data traffic increased five hundred times in global on-line traffic between 2000 and 2012.



Individuals are participating heavily in internationalisation as well; 914 million have cross-border connections via social media, 429 million travel abroad, 361 million participate in cross border e-commerce, 244 million are living outside their home country, 44 million are cross-border online workers, 13 million are cross-border online students and 5 million students study abroad (6). Quite a human internationalisation network!

All these global flows contribute between $ 250- $ 450 billion to the yearly global GDP growth. By the way, highly connected, i.e. high internet density, countries (like Singapore, USA, Germany, Ireland, UK , Netherlands) realise 40% more GDP growth than less connected ones.

The increased international outsourcing and trade trends have led to complex global supply chains which we would be unable to manage if ICT technology would not have progressed so much in recent times.

These global flows and their resulting complexity contribute to a more volatile and uncertain business environment, which is exemplified amongst others by the increasing unpredictability of the stock exchange and other business indices like the S & P 500.

As a consequence risk management becomes crucial for companies.

Globalisation; great regional rebalancing

Not only have flows of goods, services, money, data and people increased but the economic importance of world regions has drastically changed as well. While in former times the emphasis of the world economy was mostly on both sides of the Atlantic, viz. USA (NAFTA) , Europe (EU) and Japan, we have witnessed in recent times a great rebalancing of regions and of countries within regions. We are witnessing a shift to the East with a strong emphasis on China and India instead of Japan. Of course these trends are cyclical: in 1860 China and India dominated the world economy, while at the beginning of the 20th century, due to the industrial revolution, the UK had taken over that role. By 1950 practically 50% of the