Make Disruption Work

a CEO handbook for digital transformation

Alexandra Jankovich & Tom Voskes

Published by SparkOptimus

Edited and illustrated by Adrian Hornsby
Cover design and layout by Justine Miller
Illustration support by Deborah Tchoudinoff
A Falcon Windsor team production

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ISBN: 978-90-828382-0-6

SparkOptimus
Jacob Obrechtplein 1, 1071 KS Amsterdam, The Netherlands

www.sparkoptimus.com
www.makedisruptionwork.com

disruption | dɪs'rʌpʃn | *noun*

disturbance or problems which interrupt an event, activity, or process.

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what happens when companies harness new digital technologies and serve customers better, thereby breaking open markets and shattering existing orders.

Digital disruption — everybody's talking about it. It's going to be the end of jobs, society and human interaction. It's going to solve all our problems and wake us up with the perfect espresso.

It may not quite do either, but what is certain is that it will continue impacting every sector and industry on earth, and creating new ways for companies to serve customers better, faster and cheaper than ever before. Those companies that adapt and make disruption work for them, win big; those that don't get boiled like frogs.

This book is about how to make disruption work for you. It's based on our experience as Europe's top management consultancy focused 100% on digital disruption. We've worked with some of the biggest companies in the world — including Shell, Unilever, ING, eBay, Ikea and many others — building their digital capabilities, and transforming their businesses. Our approach with them, and here, is to be practical, demystifying, and effective.

Disruption needn't be a threat. It's a power, and it's in your hands.

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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

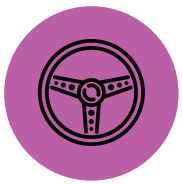
CEOs ask us: 'How is my industry going to be disrupted?' Start by looking up.

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.



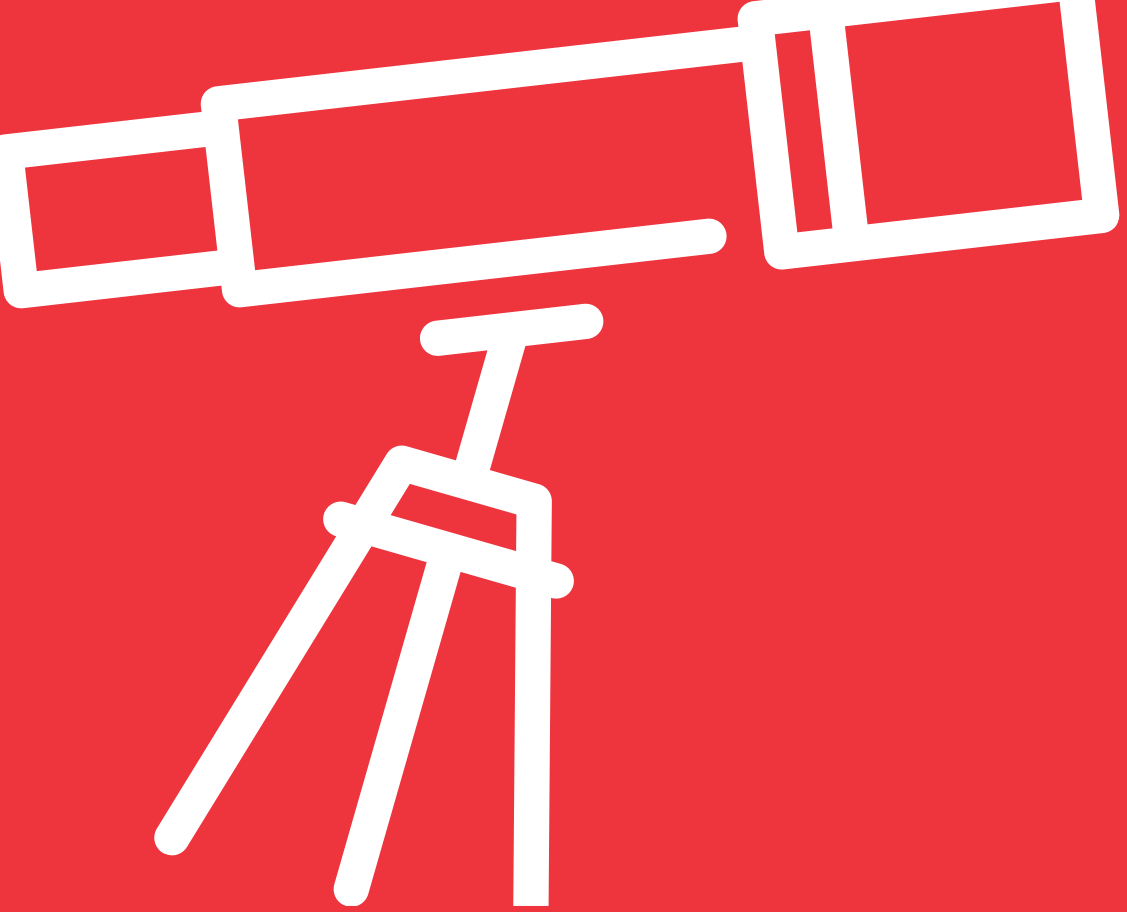
4. Drive the change

Get your capabilities, get your team, go!

5. Delight in the new world

Lead, act, and tell the story.

We have studded 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. Discover
the new world

1.1 Look up

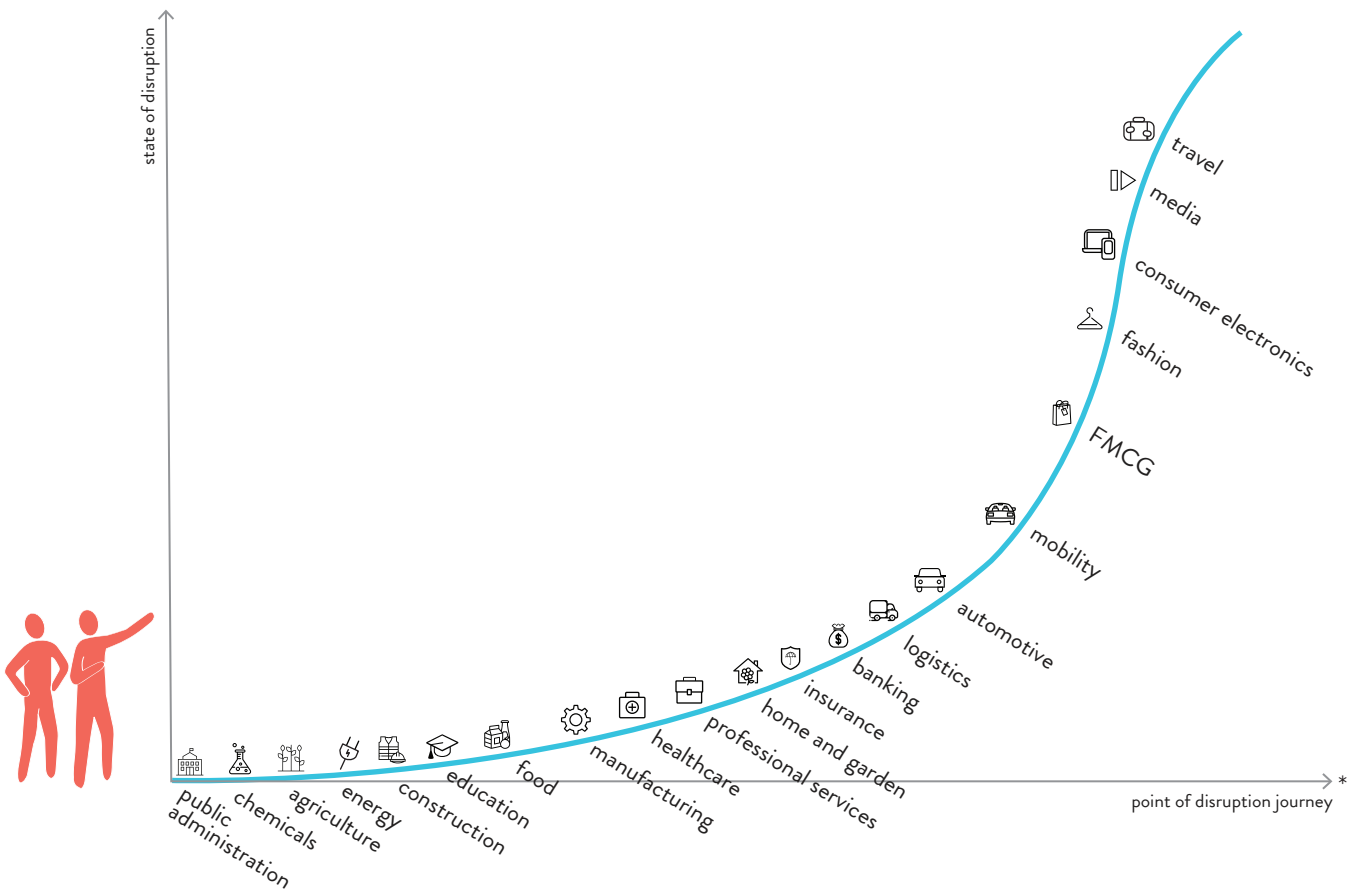
CEOs ask us: 'How is my industry going to be disrupted?'

The typical internal response is for companies to research their own industries and look for strategic threats. The problem with this however is that disruption often goes unnoticed until it hits hard. A second option is simply to wait for the hit, at which point the threat is apparent, but it's already too late — disruptors are making vast inroads into the market.

A better strategy is to look to other industries, and especially those where disruption is more advanced, and see how it has played out there. Common patterns can be extracted (discussed in greater detail over the following chapters), and used to inform a forward-looking, industry-adapted response.

The **disruption curve** shows the state of disruption for a range of industries and their points along the journey. The steep section shows the moment at which disruptors are growing exponentially and things changing very fast. It is critical to have a response in operation before this, which means starting well in advance.

Always be looking up the disruption curve, rather than at your peers, to gain insights into what might happen next. How did disruptors enter those markets, and what did they target?



the disruption curve

* SparkOptimus conceptual curve

1.2 How it works

it's about customer needs

Disruption occurs when companies — often new players, though they needn't be — harness digital technologies to serve customers better, faster and cheaper. Notably this is only possible if service was poor before, and it follows that the true driver of disruption is not technology, but unmet customer needs.

The **travel industry**, as discussed in the *Introduction*, provides a spectacular example. Disruptors presented a new booking channel with better options, and the fact that customers then switched so fast, and en masse, proves that a lack of demand didn't hold anything up.

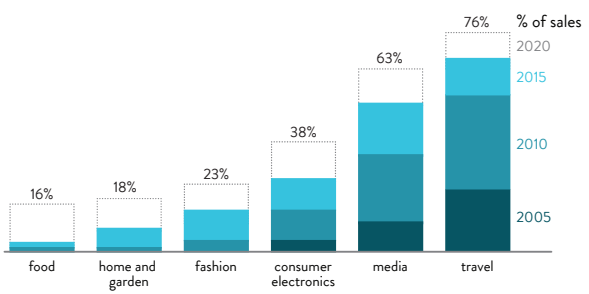
demand is already there

The same thing happens in one industry after another. Once the online channel opens, **market share** switches to it in big chunks, driven by demand that is always already there, only waiting to be unlocked.

poorly met customer needs	offering made better, faster, cheaper
long waits in travel agency	fast and easy booking
no independent advice	price comparisons and customer reviews
high cancellation fees	free cancellations

travel dinosaurs of 2000:	digital disruptors of today:
Tui, Thomas Cook, All Leisure, Cox & Kings (all have either gone bust or followed online having taken a big hit)	**Airbnb, Expedia, Booking.com, Skyscanner, TripAdvisor** (now dominant and capturing the financial rewards)

how travel was disrupted

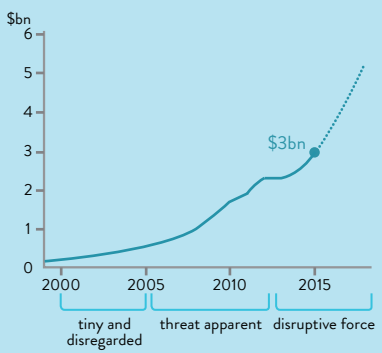


market share of sales via online channels

industry	barrier	removed by disruptor
clothing	people need to try things on	**Zappos:** free 365-day return policy
bedding	people need to lie on a mattress	**Casper:** free mattress try-out for 100 days
consumer electronics	people need expert advice	**Coolblue:** expert tutorials and customer reviews on the website; third-party tech review sites and affiliate marketing

disruptors remove barriers

Shipserv entered marine trading with an online platform in 1999, was disregarded by incumbents as tiny, and grew exponentially. By 2015 it had 20% of the market ($3bn in trade); competitors were scrabbling, and had no technology to match. It is now the largest marine procurement platform in the world.



just remove the barriers

So why are some industries ahead of others? Because there are often barriers to online.

Incumbents typically mistake these barriers for insurmountable walls, while disruptors innovate and **remove them**. For example, in the clothing industry, many retailers initially ignored online, reasoning that customers need to try things on before purchase. Zappos blew the barrier away with free 365-day returns. Suddenly market share started switching in great chunks, and incumbents were several years behind the technology.

Barriers are different for different industries, as well as at different times (e.g. trust in online payments was once a barrier), and in different markets (e.g. payment by credit card in places where many people don't have one). Think about barriers in your own industry and how they may be removed — possibly in ways similar to what's happened already a little way up the disruption curve.

the result: exponential growth

With the barriers gone and customer demand driving sales, growth is exponential. It's easy to forget quite how powerful this is. For example, a 1% market share growing exponentially at 50% a year becomes 1.5% in year two, and almost 40% by year ten. A €3m company growing at the same rate becomes €170m in ten years; €1.3bn in 15. In another year it's €2bn. And many digital players grow much faster than this.

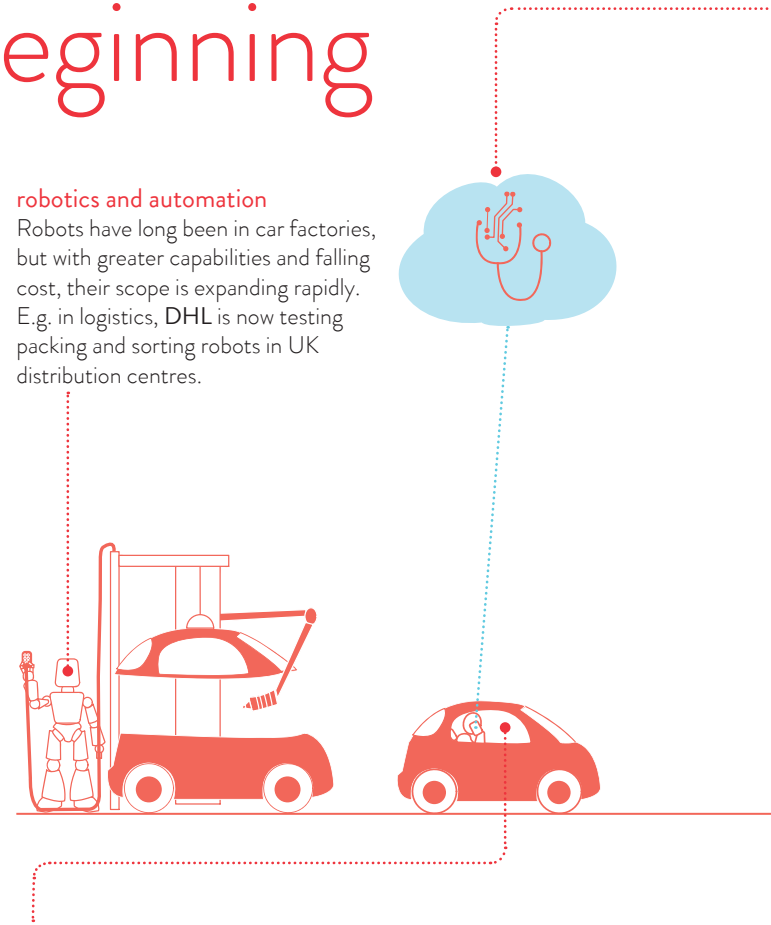
1.3 And it's only just beginning

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.

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.

* 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.



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

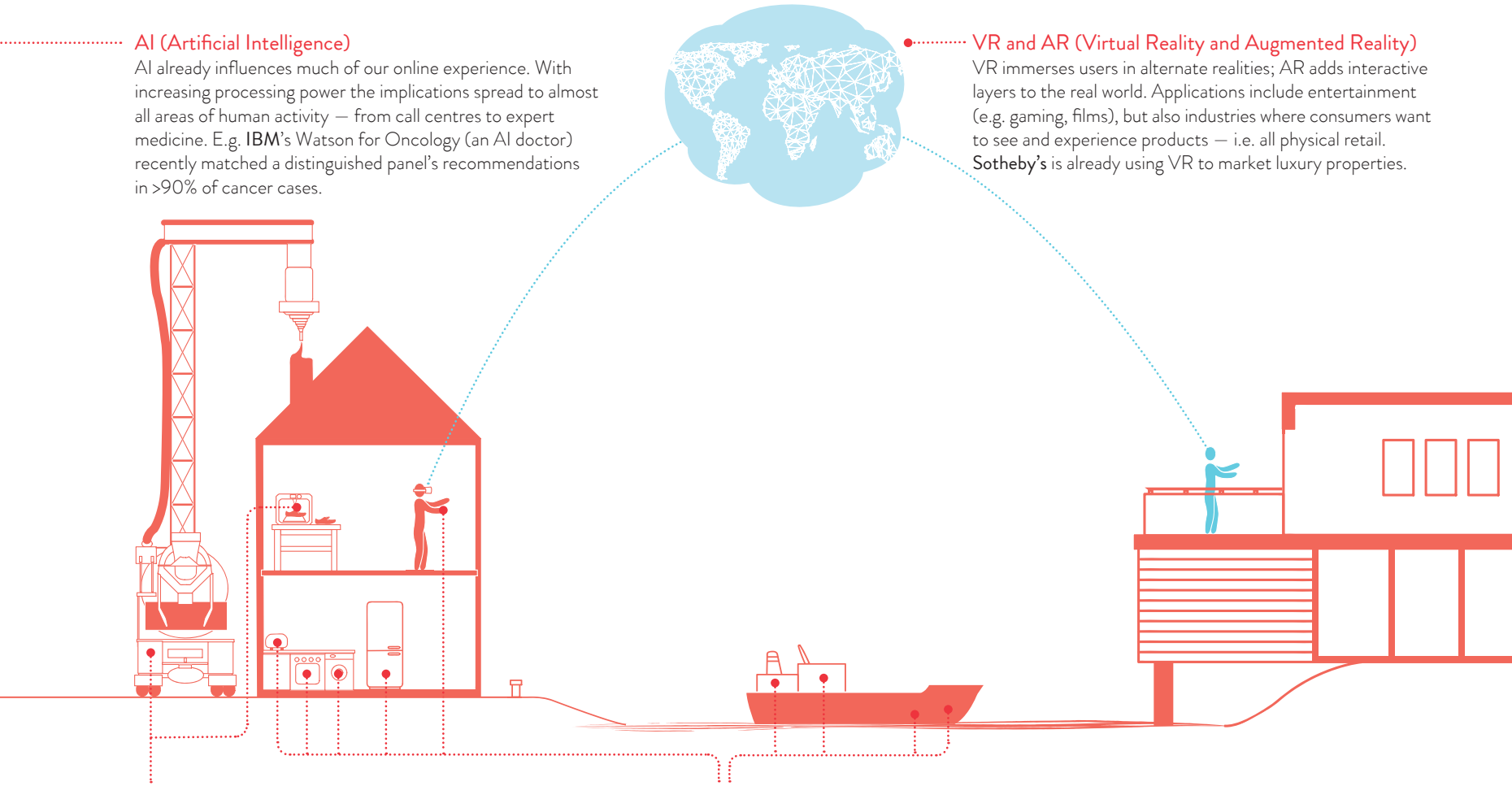
Self-driving cars are clocking up thousands of test miles for **Google, Ford, Uber** and others; self-driving trucks are hauling iron ore at **Rio Tinto** mines; self-driving lorries hit UK roads in 2018. Impacts will be felt across commercial and private transport, traffic, logistics, car ownership,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

AI (Artificial Intelligence)

AI already influences much of our online experience. With increasing processing power the implications spread to almost all areas of human activity — from call centres to expert medicine. E.g. **IBM**'s Watson for Oncology (an AI doctor) recently matched a distinguished panel's recommendations in >90% of cancer cases.

VR and AR (Virtual Reality and Augmented Reality)

VR immerses users in alternate realities; AR adds interactive layers to the real world. Applications include entertainment (e.g. gaming, films), but also industries where consumers want to see and experience products — i.e. all physical retail. **Sotheby's** is already using VR to market luxury properties.



3D printers

You can now 3D print: metal parts, shoes, food, houses, human tissue. 3D printing is revolutionizing low-volume production, e.g. enabling **Tesla** to make prototype cars in a few weeks. Applications to finished products will disrupt manufacturing, shipping, warehousing, retail, etc.

IoT (Internet of Things)

IoT refers to networks of objects that exchange data. This includes smart home appliances and physical activity monitors (e.g. **Fitbit**), but also industrial and B2B applications. E.g. **Caterpillar** uses connected sensors on its ships to monitor equipment for optimization and predicting failure.

… and many other new technologies, such as blockchain, drones, quantum computing, etc.

make disruption work for you

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.

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