

Digital Reinvention Versus Digital Sugar Coating

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Hi, it's Rob Llewellyn here and welcome to episode seventeen of transformation management. Thank you so much for joining me today. As always, I'm going to do my best to help you get better equipped to manage and lead transformation.

In the good old days, the biggest risk for companies came from rivals selling virtually the same product or service, in a slightly cheaper or better way. That kind of competition could be dealt with by improving or expanding the current range. Or by getting to market more efficiently and imaginatively. But the world has moved on, and today's competition is often invisible until it's too late for established firms to respond in way that has impact.

It's been less than five years since most companies started talking about transformation. While academics and other experts have been talking about disruption and transformation for decades, most leaders paid little if any attention to the early warnings because they were running companies that had been doing the same thing over and over for many years, and they were successful at that. So disruption wouldn't apply to them. Or so they thought!

As the years have gone by, an increasing number of companies have closed down, and the poster-boy disruptors like Amazon, Uber and Apple have served as free education to leaders that finally began to sit up and take notice of what's actually happening to the economy they compete in.

And these leaders have either read or been told that, "you don't need to be victims of disruption if you transform your business".

But before that happened, aside from software firms, there was one segment of industry which jumped onto the digital bandwagon early and that was the advertising industry. And the firms that operated in that space quickly re-labelled themselves Digital agencies.

Doing what they do best, they've blinded many managers and leaders with the notion that digital transformation is all about e-commerce and mobile apps. Many of these victims hold key roles in some very prominent firms.

Next on the digital bandwagon were the traditional IT system integrators that have now re-labelled many of their IT offerings as digital.

The outcome is that a huge number of people have been deluded into thinking that this is the meaning of digital transformation.

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In the last two years, digital transformation has really gone viral and everyone is suddenly involved in it. Or are they?

Transformation is about creating a new future, without the constraints of the past. You rethink the business, innovate with empathy, and use the technology, people, processes, and value proposition required to transform the business.

But right now, there are countless companies informing their workforces and stakeholders that they're undergoing transformation using digital when in fact they're simply undergoing a bit of change with some new technology.

The difference is that change fixes the past, while transformation creates a new future. Which means that many firms immersed in change initiatives right now, are under the illusion that they're undergoing transformation.

A line once appeared in SAP's Business Transformation Journal which stated, "When a snake sheds its skin it changes; when a caterpillar becomes a butterfly, it transforms".

And George Westerman of MIT articulated this point well when he said; "When digital transformation is done right, it's like a caterpillar turning into a butterfly, but when done wrong, all you have is a really fast caterpillar."

While enough people have latched on to the notion of transformation, too many don't know the real meaning of it. They're deluded by marketing material that reels them into the clutches of marketing departments, all with the aim of selling more of what fuels the current digital sugar-coating epidemic that's causing thousands of firms to fall further behind in their industry.

Instead of focusing on legitimate transformation and re-thinking their business, too many are caught up tinkering in the sweet and colourful world of digital sugar coating.

So what should companies be doing?

Well they should be re-thinking their business model. And the basic principle of re-thinking your business model is the same for a small company as it is for a large company. It's not easy. But neither is it rocket science.

Let me give you two examples.

For twenty years, my core business as an independent consultant was helping large companies with their transformation and change efforts. I generally helped one or two companies at any one time. And I did very well from that as a career.

With affordable digital tools becoming available, I then re-thought my own business model and I began to sell my knowledge online. So instead of charging hefty fees to help just one or two clients at a time, I launched an online platform and now hundreds of people pay for my

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expertise, but at a more affordable price. It's all done online, 24 hours a day, with customers in almost every country around the world.

It was a slow start but in just over two years, my new business model began to financially outperform my old business model.

My mission as a consultant used to be to help people in one or two companies manage and lead transformation. By shifting my business model, my mission has changed to helping thousands of people manage and lead transformation.

And none of that would have been possible without re-thinking how I do business and exploiting affordable digital technology to translate my new strategy into reality.

That's my own little story of self-disruption, and it's completely changed my life after spending more than two decades in business where I used an old and orthodox business model of exchanging my time for money.

At the other end of scale let's consider a company like Netflix.

After launching in 1997, Netflix was doing well in the DVD-by-Mail market and by February 2007 they'd delivered their billionth DVD.

But along came streaming video and Netflix began to struggle as customers abandoned what was fast becoming an antiquated offering for something far more convenient and cost effective.

With close to 150 million subscribers, the company is now the world's biggest online subscription video service.

But what would have happened if Co-Founder Reed Hastings was too tied to his old business model? - Even if it had enabled them to sell a billion DVDs. Where would they be now if they hung on to that old business model and instead of creating a new future for themselves by re-inventing their business?

Just days before recording this podcast in late March 2019, Apple announced Apple TV+, and of course it remains to be seen how successful that is.

Now, some might argue that Apple has the technical expertise to do something like that. But the reality is that they do what any other successful company is doing these days, including the likes of Facebook and Google. They acquire new talent with the skills that will help them create a new future for themselves.

Almost every company is capable of acquiring new talent with new skills - if they want to create a new future for themselves as badly as the tech giants want it. Facebook doesn't just rely on its old talent to keep transforming its business. Mark Zuckerberg is constantly buying start-ups to acquire their talent, and so are other forward-thinking firms.

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As I said a few minutes ago, the principle of re-thinking your business model is the same for a small company as it is for a large company. What differs is the scale and complexity of turning strategy into reality. But the principle of being bold enough to re-think your business model and let go of your old beliefs is the same.

Established firms needn't be victims of disruption if they seize the opportunity to explore how new business models can be enabled and inspired by the integration of new technologies

But they first need to ensure they know the difference between change and transformation. And the difference between digital sugar coating and legitimate business transformation.

But they need to do that in time. Because the longer they suffer loss in market share, the less capable they'll be to invest in transformation, and the more likely they are to go to an early grave. Which is where 75% of today's S&P 500 companies are predicted to go in the next decade.

Already I've watched well-paid VPs and CEOs get ousted from their posts because they were deluded by what transformation means and what's required to get transformation done right. And plenty more well-paid professionals will follow suit - if they fail to upgrade their own transformation capabilities as managers and leaders.

While most companies now claim they're on a journey of transformation, the truth is that many aren't. They're on a digital sugar coating trip, which is sometimes colourful enough to delude even the most senior executives into thinking they're becoming fit to do business in the new digital economy.

While incremental adjustments can provide benefits and, in many cases, are a vital first step for a digital transformation, if these initiatives don't lead to more fundamental shifts to the core business - which are core to the overall strategy - the benefits will be too insignificant to prevent them from becoming obsolete in the not too distant future.

Companies need to be open to radical reinvention to find new, significant, and sustainable sources of revenue for themselves. If I'm brutally honest, the CEOs that don't facilitate that re-invention are being irresponsible, and their days will be numbered.

Too many companies have a strategy that looks very much like it has for the previous five years. They have a CIO with the usual technology projects underway, they have a Chief Marketing Officer with a new web site and some social media channels, HR wanting to change culture, and back-office functions like finance trying to get on with life with minimum disruption that new systems cause them.

Product owners are busy making old products slightly faster and cheaper - perhaps accompanied in some way by a mobile app - and sold on the marketing department's new web site. Woo hoo!

All this is nice. It's cute. It's fun. But this not a digital reinvention. Because reinvention requires a complete rethink of the business itself. If you disagree, let's talk about this in ten years from now and see what happened between now and then.

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A company's heart is the value proposition of its business, which should be core to strategy. And its soul is its people, processes, and technology. These business organs are so vital to a company's well-being that any transformation that fails to tend to them will ultimately allow the health of the company to decline and join the growing number that heading to an early grave.

The folk at McKinsey suggest there are four basic stages of disruption that companies are going through these days.

Stage one is the early stage of disruption, when established companies barely feel any impact on their business. Loss of market share is often put down to other factors, but none associated with disruption.

So they continue to respond in old traditional ways. What worked three years ago, or with the another company five years ago, etc. But they don't make any bold moves. They hang on to what worked well in the past and just squeeze harder on that. They are well and truly enshrouded in old orthodox thinking. And justifying why they couldn't possibly be disrupted.

The process of reframing these governing beliefs - that many struggle to let go of - involves identifying an industry's foremost notion about value creation and then turning it on its head to find new ways to create value.

In stage two, a new industry the trend becomes quite apparent. New business models have been validated on a small scale - often by start-ups run by young people who have little if any experience in an industry. It's critical that established companies commit to nurturing new initiatives so that they can establish a place in what their industry is morphing into.

They need to ensure that new initiatives have autonomy from the core business - regardless of any competition between them. But with disruption's impact still not big enough to significantly dampen earnings, old-timers aren't motivated and they stay stuck in denial.

The illusion that digital sugar coating is enough is one that many leaders are being deluded by, and their so-called digital transformation action is focused more on creating a better version of the past, than building a new future.

Stage three is when the future has arrived and new business models have shown themselves to be more superior than the old and trusted models of years gone by. At this stage of disruption, established firms are forced to prioritise transformation and changes in senior executives place because the previous lot were stuck in the past. Now it needs to shift resources to the new self-competing ventures that it hopefully launched in stage two.

As company performance starts to suffer, budgets shrink, and companies naturally have to cut back even further on new initiatives while focusing on their old core business, which is suffering badly. Politics plays out as key leaders point to where profits came from in years gone by, and transformation suffers more setback.

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In stage four, disruption has reached a point when companies have no choice but to accept the new reality, they had been warned about in earlier stages. Their industry has fundamentally changed and they finally realise that their old business model has finally run out of steam. The problem is, there's little time or money left to undertake a transformation that can recover revenue quickly enough.

It's a bit like not eating healthy and taking regular exercise. A lot of people don't care until they fall ill in their 50's or 60's, by which time they might have run out of time to turn their lives around.

The reality is, most industries are still in stages one, two, and three. That's why the early experiences of media, music, and travel companies can prove so valuable. It's free education.

The key - regardless of the size of your business - is to act before you have to, and ensure that action consists of legitimate transformation.

I appreciate you listening, and here's a quote to finish off the day from Clay Christensen.

“By doing what they must do to keep their margins strong and their stock price healthy, every company paves the way for its own disruption.”

How is your company avoiding being too caught up with its old business model to create a new future for itself?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.