

Outlook special

Staying relevant in the stampede of the Digital Giants

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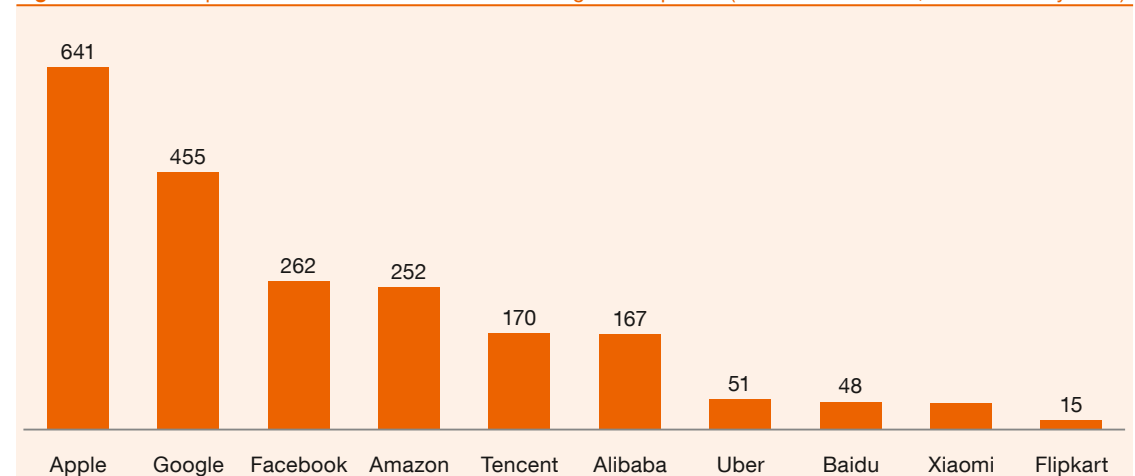
Digital Giants transform and disrupt markets at an incredible pace. Many incumbents across industries are responding effectively, while others struggle to adapt to the new reality. An important characteristic of companies that thrive in the stampede of these Giants, is the ability to recognise that they are not just disruptors but also enablers. Embracing change instead of fighting it will be key to survival. We present some guidelines that can help companies to remain relevant and not get trampled in the stampede of the Digital Giants.

The stampede of the Digital Giants continues

A select group of companies is pushing the boundaries of digital technology, transforming business and everyday life. Some of them – notably Google, Apple, Facebook, and Amazon – have grown into true Digital Giants. They are disrupting, exploring and creating new markets through an unprecedented wide range of complex activities. They do not shy away from entering new markets when they see potential in leveraging their technology and introducing innovative business models, thereby thoroughly reconfiguring existing value chains.

If we had written this article in the 90s, we would have included companies such as Microsoft, Yahoo, and Cisco. And ten years from now, this list may be quite different again with possibly companies like Microsoft (once again), Uber, Baidu, Alibaba and Tencent.

Figure 1 Market capitalisation for selected international digital companies (in billion US dollars, as of February 2016)



Source: Avention and Statista

‘Digital giants are disrupting, exploring and creating new markets, thereby thoroughly reconfiguring existing value chains.’



Digital Giants and the digital world they continue to build add huge value to the economy in a number of ways:

- new products and services: all Digital Giants have created a wide variety of new (never before seen) products and services and facilitate other companies delivering products and services through the ecosystems they built;
- matching supply and demand: Digital Giants and others have created platforms that enable people and businesses to connect, which would simply not have been possible in the non-digital world; and
- facilitating exchanges between market parties: once connections have been made, digital services facilitate transactions by allowing users to exchange information, goods, services, and payments almost instantly.

The economics behind the rise of the Digital Giants

The rise of Digital Giants in this environment was not a chance event. A number of economic forces have driven, and are still driving, consolidation in the digital ecosystem and have facilitated exponential growth of the strongest players.

First of all, network economies vastly increase the value of services to users as their number of users increases. At the same time, economies of scale reduce costs per-user significantly. In addition, digital technology breaks down (international) entry barriers due to near-zero transaction costs which has created the opportunity to reach international markets quickly. All these forces have created an environment where the Digital Giants have been able to expand quickly at remarkably low costs and with relative ease.

These economic forces interact to create an environment where large scale international companies thrive, allowing them to quickly build strong brands and services that drive sustained high growth rates in sales and market valuations.

So what sets these companies apart? We believe the following traits have allowed Digital Giants to rise:

A relentless focus on the consumer

Designing and delivering products, services and experiences to consumers that are superior to those of their competitors. Their consumer focus is accompanied by a long-term focus, often at the expense of short-term shareholder value, yet delivering impressive returns in the long run.

Speed of action

They are quick to roll out new services, launch test products, and fix problems on the fly, while quickly moving on to create value for their customers in new ways.

Strong position in the digital ecosystem

They have created ecosystems that connect content providers, consumers, advertisers, and innovators. Many newcomers plug into this ecosystem to solve new problems for their customers. Digital Giants play a leading role both in the physical infrastructure (e.g. cloud hosting, rolling out services in developing markets) and in the digital infrastructure (e.g. ads, payments, analytics), devices, app stores, apps, and social networks.

Attracting the best talent

Finally, because of their tremendous success and innovative potential Digital Giants manage to keep attracting the best talent, sustaining their innovative potential and competitive edge.





Digital Giants leave a trail of destruction...

Many companies are fundamentally challenged by the rise of the Giants. Their impressive growth paths have left many casualties, ranging from mobile phone divisions of older tech companies and suppliers of satellite navigation devices to brick-and-mortar retail chains. Their recent advances and acquisitions of smaller digital savvy companies are likely to turn around other markets too, like the home appliances, energy and automotive markets.

This brings about a number of challenges for existing companies:

Digital Giants pose a strong threat in the new markets they enter

In the past, this has happened in consumer electronics, satellite navigation, and retail; health and fitness and mobility seem to be next in line. Still, digitisation of a market does not safeguard it against further disruption. Spotify, for instance, has reinvented the digital music business model, which disrupted Apple's iTunes, and Airbnb is disrupting Booking.com's online market by fulfilling the same need with a different customer experience.

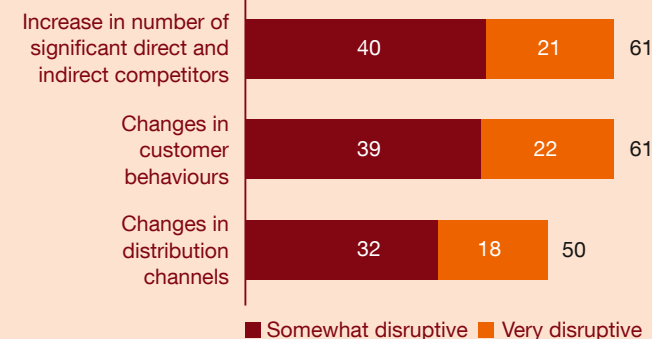
Digital Giants break down entry barriers for new players

They do this by lowering marketing and advertising costs, enabling a low-cost digital entry strategy for a wide range of start-ups that are disruptive in their own right. Google and Amazon's cloud services, for instance, create the possibility for online retailers to open a shop using a plug-and-play business

Box 1: CEOs see competition and customer behaviours as the top industry disruptors

In our 18th annual CEO survey, we asked CEOs to indicate the most disruptive trends facing their industries and rate how disruptive these trends really are.

61% of the CEOs who participated in our survey see an increase of the number of competitors as a significant disruption threat, 61% foresee disruptive changes in consumer behaviours, and 50% see changes in distribution channels that are potentially disruptive.



model without heavy investments. And Google Ads and Facebook provide powerful tools for quickly reaching a wide audience.

Digital Giants indirectly put downward pressure on margins

As mentioned, Digital Giants make markets more transparent in terms of prices and product or service characteristics. Various online retailers offer products at competitive price points, compared to traditional retailers. On top of that, consumers can more easily compare available products and retailers with regard to prices and product characteristics through Google, Amazon or Facebook.

The online world and traditional players are in direct competition for consumer attention

The online world and traditional entertainment and consumption opportunities compete heavily for the consumer's time. The availability of mobile Apps and games may, for instance, displace time and money spent on visits to arcades, shopping malls, and cinemas. At the same time, the digital world brings opportunities as it enables companies to reach an ever expanding group of customers that may not have been within their reach before the rise of the Digital Giants.



...Fortunately they also bring heaps of opportunities

Digital Giants are not just severe disruptors. They are also enablers for change. Many companies have been able to benefit from low entry barriers and have successfully found their way to a viable place in the new ecosystem. Start-ups like Tinder, Spotify, Lyft, and Uber have grown on the back of the infrastructures of Digital Giants. Many established companies also benefit from the presence of the Giants as they facilitate and accelerate innovation processes, thereby opening up new markets for established players.

“Business innovation in the digital age demands the appropriate blend of ‘design’ and ‘decision’ attitudes.”



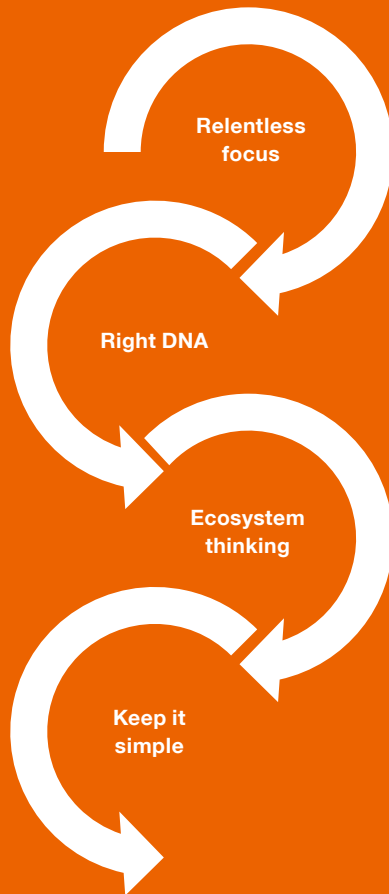
Companies that are successful in the ecosystem of the Digital Giants generally have at least one out of three of the following characteristics:

- Owning a unique asset;
- Providing a niche offering due to product/service specificity or regulatory barriers;
- Fully embracing the change created by the Giants.

As digital technology has broken down old entry barriers, companies need to build new barriers.

In order to optimally position the business in the digital world, we believe it is possible to learn from the Giants' experience and emulate their success factors. To be successful in a digital world, we encourage companies to:

- Maintain a relentless customer focus, combining left and right brain thinking;
- Think in ecosystems and position accordingly;
- Keep it simple in order to act fast; and
- Restructure the organisation's DNA.



Maintain a relentless focus on the customer, with left and right brain thinking

Digital technology has provided customers with a growing set of service offerings to choose from. This enabled digital players to make a shift from manufacturer to user centred innovation. The Digital Giants have led the way in developing intuitive design solutions and, as a result, grew into the hugely successful corporations they are today. The 'design attitude' – or 'left brain thinking' – they embody thrives on empathising with end users and exploring beyond traditional courses of action. It leverages valid (human-centred) insights and appreciates that the cost of not conceiving a better course of action than those that are known, is often much higher than making a 'wrong' choice. The 'design attitude' is the opposite of the traditional 'decision attitude' – or 'right brain thinking' – which is about using (statistically significant) evidence to decide which out of the known alternative courses of action to take. Business innovation in the digital age demands the appropriate blend of both these attitudes as part of an iterative approach to problem solving.

Restructure the organisation's DNA

This may seem like a no-brainer – the success of an organisation is of course fully dependent on its available talent pool. However, the assets and capabilities that are needed to be successful in the digital age are very different from the skills needed previously. This means it is necessary to keep abreast of developments by hiring and retaining the right talent for the future organisation. Moreover, this talent needs to be deployed and managed in a different way than before. The digitisation of the organisation therefore becomes an immediate cause to shed closer light on the organisation's DNA – this means its people, and its formal and informal business structure, including the decision-making structure, incentives, and the division of responsibilities.

Think in ecosystems and position themselves accordingly

We are moving from a world of rigid relationships between customer, supplier and competitor to a world of ecosystems and strategic alliances. In this new world it is essential to determine how to cooperate with partners in order to create win-win situations for everyone involved.

This 'win-win thinking' can be applied to all stakeholders of the company. Customers can be increasingly involved in the production process and marketing process. Supplier relationships are also changing as these are no longer defined by price discussions and because competitors are increasingly working together to create more value for the customer. Obviously, traditional companies can also decide to collaborate with digital players, instead of building capabilities from scratch. Through collaboration, traditional companies can try to harness the power of the Digital Giants and other digital players to improve their own propositions and compete more effectively.

Keep it simple in order to act fast

Digital innovation is a comprehensive and ground breaking activity that brings about change. We believe it is essential to keep digitisation projects manageable in order to minimise execution risks. This can be achieved in several ways:

- Breaking down large, ambitious projects into smaller, bite-size pieces will make it easier to keep track of progress and manage the interdependencies with existing business processes and with other business transformation projects. An additional advantage is more controllable stakeholder management as it will be easier to assign clear roles and responsibilities.
- By limiting the interdependencies between projects and continuing operations as much as possible so that project execution risks are minimised.
- By combining short and long term projects. Doing this will allow the organisation to reap early synergies, making it easier to keep stakeholders aligned. Additionally, the financial benefits may be invested into longer term projects that fundamentally alter the operations and value proposition of the organisation.
- By adapting the project approach to the full body of knowledge and skills in the organisation. Use approaches that the organisation is familiar with, such as Agile or Rapid Prototyping. The familiarity with these approaches should play a role in deciding how to innovate.
- By going "beyond PowerPoint" as soon as possible. Rapid prototyping or an alternative tangible representation of product or service innovation creates buzz/energy and facilitates support in the organisation.
- By using state-of-the-art tools to enhance cooperation (e.g. Google for Work IT-stack).



Conclusion

‘Digital Giants will continue to make their mark on the development of our society with their ever evolving digital technologies. They provide an opportunity for other companies to re-invent and push themselves to generate innovative ideas by learning from them and leveraging their technologies and ecosystems. Digital Giants should be embraced to co-innovate and create new sustainable business models and customer propositions, which will benefit the society at-large.’

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