

5 insights for executives

Is your corporate strategy fit for a digital world?

Of special interest to
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Chief information officer



Building a better
working world



A leading US retail bank wanted to outperform its competitors by being first to market in offering mobile check depositing. This service enabled banking customers to connect to their accounts using their smartphones, take a snapshot of their check and deposit the money without ever having to go to a branch or an ATM.

The service proved so popular with customers that the bank's competitors had to scramble to catch up. Many, surprised by the disruption, found themselves having to develop in three months a feature that the pioneering bank had taken six months or more to create.

Yet as fast as the trailblazing US retail bank was to market with a new service for its customers, it was facing digital disruption of its own from challengers outside of the banking industry offering adjacent business models.

Fortunately for the bank, new entrants had yet to take on the risks of operating in the highly and strictly regulated financial services industry, particularly around the use of data. For as long as it could, the leading US retail bank was going to use this advantage to try to insulate itself from the disruption of external forces. But given the pace at which change occurs in today's digital world, the bank will need to innovate and adapt again before it gets left behind.

"In the banking industry, tellers continue to provide an important service and will remain a part of most banks' business models, but financial institutions will have to keep innovating digital products and services that allow them to keep pace with rapid advances in technology – and their competitors."

Peter Neufeld, Global Financial Services Digital Advisory Services Leader, EY

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What's the issue?

Financial services. Consumer products. Media and entertainment. Oil and gas. Power and utilities. Technology. Every industry in every country around the globe is experiencing some form of digital disruption. And even within industries – or within single organizations – digital is transforming business strategies, operating models and relationships with customers.

Although a constant barrage of new technology is partly responsible for driving this disruption, customers are the real disruptors. Whether it's B2C, B2B or B2B2C, customers are demanding more services and products at an amazingly faster pace.

Yet even as companies continue to ask themselves whether they should be investing in a digital strategy, we think they should be asking a completely different question: "Is my corporate strategy fit for a digital world?"

Although some organizations may be more digitally mature than others, few, if any, have yet to master a holistic digital strategy. The winners will be those who have made the mental leap in their strategy and execute relentlessly.

"The notion that companies should have a separate digital strategy is no longer relevant in today's digital-first world. That's not to say that traditional channels aren't relevant. They are. The newspaper business is a great example. But you can no longer treat traditional and digital channels separately. They now need to form part of the same corporate strategy."

Adlai Goldberg, EY Switzerland Advisory partner

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Why now?

According to Constellation Research, "digital disruption has demolished 52% of the Fortune 500 since the year 2000."¹ And according to Cisco's Chief Technology Officer, we haven't even reached the tipping point of disruption as "only 1% of what could be connected in the world actually is connected."² The number of internet-connected "things," such as RFID chips and sensors, is expected to be 50 billion by 2020.³

Where digital disruptions used to occur over the course of years and then months, today shifts can be counted in days. The most disruptive, viral technologies can now reach 50 million users in less than 35 days.⁴ Netflix, Amazon, Uber and Airbnb are only some of the examples of companies that have completely altered their industry segments. And even within these organizations, innovations in technologies and business models have fundamentally shifted their own organizational ecosystems.

Organizations that take a wait-and-see approach to digital could find themselves on the next Constellation Research digitally demolished list.

"Different industries are going through different digital waves. Media and entertainment has experienced a tsunami of change, but it's now causing ripples in life sciences, automotive, and power and utilities. These sectors and their value chains are on the cusp of top-to-bottom disruption."

Adlai Goldberg, EY Switzerland Advisory partner

¹ Wang, R. "Ray," "Big Ideas: Dominate Digital Disruption Before It Dominates You," Constellation Research, 17 February 2014, www.constellationr.com/users/r-ray-wang?page=5.

² Jennex, Murray, *Knowledge Discovery, Transfer, and Management in the Information Age*, IGI Global, 2014.

³ Burkitt, Frank, "A Strategist's Guide to the Internet of Things," strategy& (formerly Booz & Company), 10 November 2014, www.strategy-business.com/article/00294?pg=all.

⁴ "Reaching 50 Million Users," Visual.ly website, visual.ly/reaching-50-million-users, accessed 16 February 2015.

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How does it affect you?

There is no question that customers, combined with new and emerging digital technologies, are shifting how organizations operate. The question organizations need to ask is: how do I want to manage this disruption? The key is to align strategic decision-making and innovation investments based on the company's risk culture.

- ▶ **Sustaining.** Make incremental improvements to existing solutions to sustain and protect core value propositions.
- ▶ **Adjacent.** Change and expand the organization's core value proposition in a way that may alter the competitive environment.
- ▶ **Disruptive.** Redefine, disrupt the core and potentially deliver an entirely new value proposition that turns the market on its head.

Determining risk appetite and how corporate strategy fits in a digital world will dictate digital's individual and unique impact on each organization.

"Within the power and utilities industry, digital technologies and transformation sit on the periphery rather than infiltrating their core business. Instead, disruption is being perpetrated by new entrants from technology and telecommunications industries. The reality is that power and utilities companies are at the very beginning of this digital journey. And the risk of playing catch-up may be a real and present danger for them."

Alain Bollack, Global Power & Utilities Digital Advisory Leader, EY



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What's the fix?

Fitting an organization's business strategy to a digital world requires a holistic approach. Digital will impact every facet of the organization. As such, organizations need to break down silos to enable clear visibility into every business and functional unit across the enterprise. From innovation to technology; to operations and supply chain; to risk and cybersecurity; to transactions, accounting, tax and law, organizations need to infuse digital into everything they do.

"Within life sciences, there is a fundamental shift underway that is being enabled by digital. Rather than all parts of the health care system working independently to treat a patient, the patient is now at the center of healing, with all parts of the ecosystem working collaboratively to focus on patient outcomes." Sanjeev Wadhwa, Global Life Sciences Digital Advisory Leader, EY

Activate recommended solutions on a commercial scale to help clients capture economic value for the business; continually sense, monitor and adapt to maximize value.

Incubate recommended solutions through prototyping; test and validate initiatives and "de-risk" investments through small-scale experimentation. Evaluate teaming opportunities.



Challenge the organization to define and align around the real business problem.

Create a digital strategy, define the concept and design the products, services or experiences that deliver the right solutions and capture economic value within the business and within the organizational ecosystem.

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What's the bottom line?

Digital disruption isn't coming. It's already here. The question organizations need to be asking themselves is: what am I going to do about it?

By taking a holistic approach to digital and developing an agile business strategy that enables organizations to flex and adapt to a constantly changing digital environment, organizations can seize opportunities and manage risks at every stage of their value chain.



Want to learn more?



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