



Beyond the Buzz – Guiding Digital Ecosystem with Grounded Strategies

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It's clear that companies have latched on to "digital" as a buzzword, but in practice, most have an inadequate corporate strategy for digitization. [A recent article by McKinsey](#) points out that most digital strategies do not reflect how technology is changing economic fundamentals, industry dynamics and the competitive landscape. Many companies still make the mistake of thinking they have executed a digital strategy after launching an initiative or two. Then there's opposite end of the spectrum, when executives declare "I want everything to be digital", indicating a total lack of strategic prioritization vis-à-vis opportunities and challenges. We've seen this dynamic before, in the website-building hysteria of the late nineties, for example. Many traditional brick and mortar organizations hurriedly created websites that did little or nothing to boost their business. More recently, we've seen executives boldly tell their companies to immediately get into the Cloud. In some cases, companies wasted money and assets by quickly ripping out in-house systems that worked perfectly. During both of these "hype cycles", leadership failed to develop a comprehensive strategy for harnessing technology properly to gain market share or break into new markets.

How can executives avoid making the same mistakes with the latest technology bandwagon? How can they formulate digital strategies that will serve them well — operationally and financially— in the years ahead? It's important to crystallize the results are you aiming for once "everything" is digital? How will your organization channel the data and apply the capabilities they develop? These questions get harder to answer in bigger companies.

Digital Competition is Here, There, Everywhere

Thinking outside of your usual industry confines is a valuable preliminary exercise. McKinsey notes that strategies must be developed beyond the context of a specific industry. Only paying close attention to what rivals are doing is a recipe for failure. Companies are emerging with ecosystems that encompass far more than one industry or product line.

After all, Amazon didn't stop at selling books. They offer everything from tablets and streaming movies to cloud services and computing platforms — and now groceries! Amazon's strategy, designed to disrupt multiple industries in parallel, is built on a strong digital foundation. Courtesy of Amazon's acquisition of Whole Foods, grocery stores must now consider Amazon a serious rival, drawing their focus from the usual competitors down the street. To avoid joining the recent spate of retail bankruptcies, companies must understand that there are now invaders descending from outside traditional industry boundaries.

Apple Pay and PayPal, both owned by eBay, have likewise disrupted the financial sector. McKinsey uses the label “ecosystem providers” for companies like Apple, eBay and Amazon. Their evolved platforms facilitate businesses across vertical sectors. When entering a new field, they leverage millions of existing customers representing a diverse range of industries.

These dynamics are turning accepted business patterns upside down. Students are taught that there is a trade-off among price, quality and speed of delivery, and that not all three attributes can be acquired simultaneously. Ecosystem giants are busy disproving this axiom. Amazon, for instance, claims to have the largest inventory, fastest delivery, greatest customer experience and lowest cost in ecommerce. They are able to stay far ahead of the competition by leveraging the economies of scale enabled by their massive customer base, by developing a digital platform for service delivery and by deploying artificial intelligence and analytics tools to optimize service levels, efficiency, and value.

Digital Ecosystems Are Shaping the Future

McKinsey's research predicts that, by 2025, digital ecosystems will account for more than \$60 trillion in revenues. This will add up to more than 30% of global corporate revenues.

Incumbent giants controlling the lion's share of various markets may appear sluggish and outgunned by more nimble technology rivals, but they have the advantage of entrenched brand recognition across large customer bases. Some will be smart enough to form partnerships to enable rapid digitization. Expect a few of these slumbering giants to suddenly wake up to the potential of digitization with some bold moves of their own and turn industries on their head just like Google, Uber, and Airbnb.

Survivors must adopt a broader frame of reference when evolving their competitive strategies to counter ecosystem players such as Alibaba, Alphabet (Google), Amazon, Apple, Facebook, Microsoft, and Tencent. Failing to strategically account for the 12 largest companies in the world, when it is likely several of them directly impact your industry, leaves you blind to the future.

Unfortunately, many companies have only devised shallow attempts at digitization strategy or created ad hoc defenses to stave off heavy competition. Only three percent of executives have adopted a strong offensive platform strategy to counteract potentially catastrophic disruption.

Building Your Ecosystem with Purpose

Makers of digital solutions have to avoid the same pitfalls as their clients. For starters, they have to avoid building systems that are too proprietary. The best ecosystems are built with the best of breed components. Closed proprietary ecosystems are not the most agile way to solve problems. Digital solutions providers should aim to empower their customers to do what they need to do; vendor lock-in is not empowering.

This means it is increasingly critical to build interoperable solutions. It's a big global economy and there are so many flavors of systems being run. All players — vendors, buyers, partners, suppliers — need to be able to evolve along with the tech that's in the market. Enabling companies to create their own platforms characterized by flexibility and customizability supports

their success, growth, and innovation. The widespread development of hybrid and multi-cloud environments is evidence that this adaptable approach makes sense to leading companies in many industries.

Global manufacturers have long been experts at assembling the best components into world-class automobiles, aircraft, and more. Long gone are the days when every part or sub-assembly was made in house. Now, global manufacturers are applying the lessons they've learned from assembling vast, complex value chains to the challenge of digitally transforming operational and business processes from design to shop floor production to maintenance, repair, and overhaul.

And so we circle back to the fundamental importance of a carefully considered digital strategy. It's tempting to dive into emerging technology, to invest in jump-starting the latest and greatest quickly before falling behind competitors. When companies are big and have lots of money, they easily fall into this trap. They have bandwidth to experiment, but then they lose focus. Often, top executive push their teams toward the buzz — Big Data, Cloud, IoT, AR, AI — driven to stay on the bleeding edge. But they too often fail to look at business use cases, how new tech will improve their operations or finances, and how they will extract an ROI.

Throwing money (or software) at problems, challenges, and opportunities isn't a panacea. Tech is only as good as the diligently outlined use case driving implementation. Staying centered on solving substantial, ongoing challenges and meaningful opportunities will guide digital strategy and investment towards sustainable, business-aligned outcomes.