Turning Digital Disruption into Competitive Advantage

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BCG’s Technology Advantage Practice is a partner in this research.

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World Bank
SMACIT: Disrupting your business

Social
Mobile
Analytics
Cloud
Internet of Things

How companies are inclined to respond to SMACIT\(^1\)

1Social, Mobile, Analytics, Cloud, Internet of Things

IT Strategy

Mobile Strategy
Big Data & Analytics Strategy
Cloud Strategy
Social Media Strategy
Cognitive Computing Strategy
Biometrics Strategy
Internet of Things Strategy
Blockchain Strategy
Your Digital Strategy

Business strategy inspired by the capabilities of powerful, readily accessible technologies (like SMACIT), intent on delivering unique, integrated business capabilities in ways that will improve your customers’ lives.

A great digital strategy provides a grand vision

<table>
<thead>
<tr>
<th>Company</th>
<th>Vision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schindler</td>
<td>Providing urban mobility solutions</td>
</tr>
<tr>
<td>Kaiser Permanente</td>
<td>Patient-provider collaboration</td>
</tr>
<tr>
<td>USAA</td>
<td>Ensuring the financial security of the U.S. military</td>
</tr>
<tr>
<td>BMW</td>
<td>Enabling individual mobility</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>Intelligent energy management solutions</td>
</tr>
</tbody>
</table>
Digital Characteristics: What does digital mean?

- Seamless across all channels and consistent across sales and servicing
- Responsive to changes in customer expectations
- Engages customer in a personalized relationship, differentiated by customer segments, supported by deep insights
- Connects customer with related community when desired
- Differentiated from customer experience at competitors
- Integrated to provide a customer solution
- Responsive to emerging opportunities in the market
- Enriched with meaningful information and insights
- Seamlessly includes partner products and service as appropriate
- Differentiated from competitor products

Companies tend to have neither or both of these sets of outcomes.

Source: Survey of 171 senior executives, August 2016.

Digital Business Basics

- Personalized Customer Engagement
- Integrated Digitized Solutions
- Operational Backbone

Operational Excellence/Integration

Nordstrom Inc. focuses on customer engagement

Fashion specialty retailer known for outstanding customer service

Disrupted by increasing popularity of online shopping options and discount retailers

50% sales increase since 2009; 10-year total shareholder return of 14% (compared to 8% for S&P 500)

Nordstrom’s digital strategy is to provide a seamless, empowered customer experience

Source: Nordstrom Investor presentation, June 2015
Nordstrom is continuously enhancing customer engagement

<table>
<thead>
<tr>
<th>ONLINE</th>
<th>MULTI-CHANNEL</th>
<th>SEAMLESS EXPERIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Creating customer experience around Pinterest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recognizing opportunities to sell through Instagram</td>
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</tbody>
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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>NORDSTROM.com</td>
<td>Store to Store Fulfillment</td>
<td>National Shopping Online</td>
<td>Mobile Optimized Site</td>
<td>E-Newsletter</td>
<td>Store Alert App</td>
</tr>
</tbody>
</table>

Source: Nordstrom Investor presentation, June 2015

LEGO’s Digital Strategy: Developing the Builders of Tomorrow

<table>
<thead>
<tr>
<th></th>
<th>2015 Revenue</th>
<th>USD 5.3B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015 Profit</td>
<td>USD 1.4B</td>
</tr>
<tr>
<td></td>
<td>Revenue from new products (12 mos)</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Source: WWW.LEGO.com
To become digital, Lego’s platforms expanded beyond operational excellence

![Optimization and Innovation Diagram](source)


To succeed digitally, an operational backbone is not enough

![Agility and Innovativeness Venn Diagram](source)

Big old companies know how to architect the operational backbone. Map the target state!


A digital services platform grows organically

The digital services platform is like a coral reef

- Constantly expanding set of API-enabled common business services
- Analytics engines with growing set of data repositories and dashboards
- Developer platform enabling an increasing number of partner offerings
How to achieve operational excellence, agility, and innovativeness: Two management environments

<table>
<thead>
<tr>
<th>Operational Backbone</th>
<th>Digital Services Platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Objective</td>
<td></td>
</tr>
<tr>
<td>Efficiency, Scale, Security and Reliability</td>
<td>Innovation and Agility</td>
</tr>
<tr>
<td>Funding</td>
<td></td>
</tr>
<tr>
<td>Major project/program investments</td>
<td>Localized funding by product/capability owners</td>
</tr>
<tr>
<td>Quality Control</td>
<td></td>
</tr>
<tr>
<td>Release management; thorough Q&amp;A</td>
<td>Test, learn, enhance or discard</td>
</tr>
<tr>
<td>Data</td>
<td></td>
</tr>
<tr>
<td>Single source of truth for operating data</td>
<td>Sensor/social/purchased data repositories</td>
</tr>
<tr>
<td>Architecture Principles</td>
<td></td>
</tr>
<tr>
<td>STP and workflow management; transparent view of data</td>
<td>Isolate common functionality from products</td>
</tr>
<tr>
<td>Key Roles</td>
<td></td>
</tr>
<tr>
<td>Process and data owners</td>
<td>Product and service owners</td>
</tr>
<tr>
<td>Key Processes</td>
<td></td>
</tr>
<tr>
<td>Roadmapping; architecture reviews</td>
<td>Cross-functional development; User-centered, iterative design</td>
</tr>
</tbody>
</table>


Some first steps to competitive advantage

- Commit to a digital vision
- Create critical operational capabilities
- Experiment with digital services
- Adopt and continuously improve agile methodologies