

Article:

Driving digital: welcome to the ExConomy

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Driving digital: welcome to the ExConomy¹



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Abstract

A first step in better applying the new digital technologies currently at our disposal is understanding what creating digital value really means. To give digital a more precise focus, we have coined the “ExConomy” framework, which breaks down what digital entails into four realities: customer experience is value, experimentation is necessary, collaboration reshapes strategy and business models, and digital ecosystem platforms rule. This paper gives a presentation of these four realities and provides a tool for self-assessment of an organization’s digital readiness.

1. Introduction

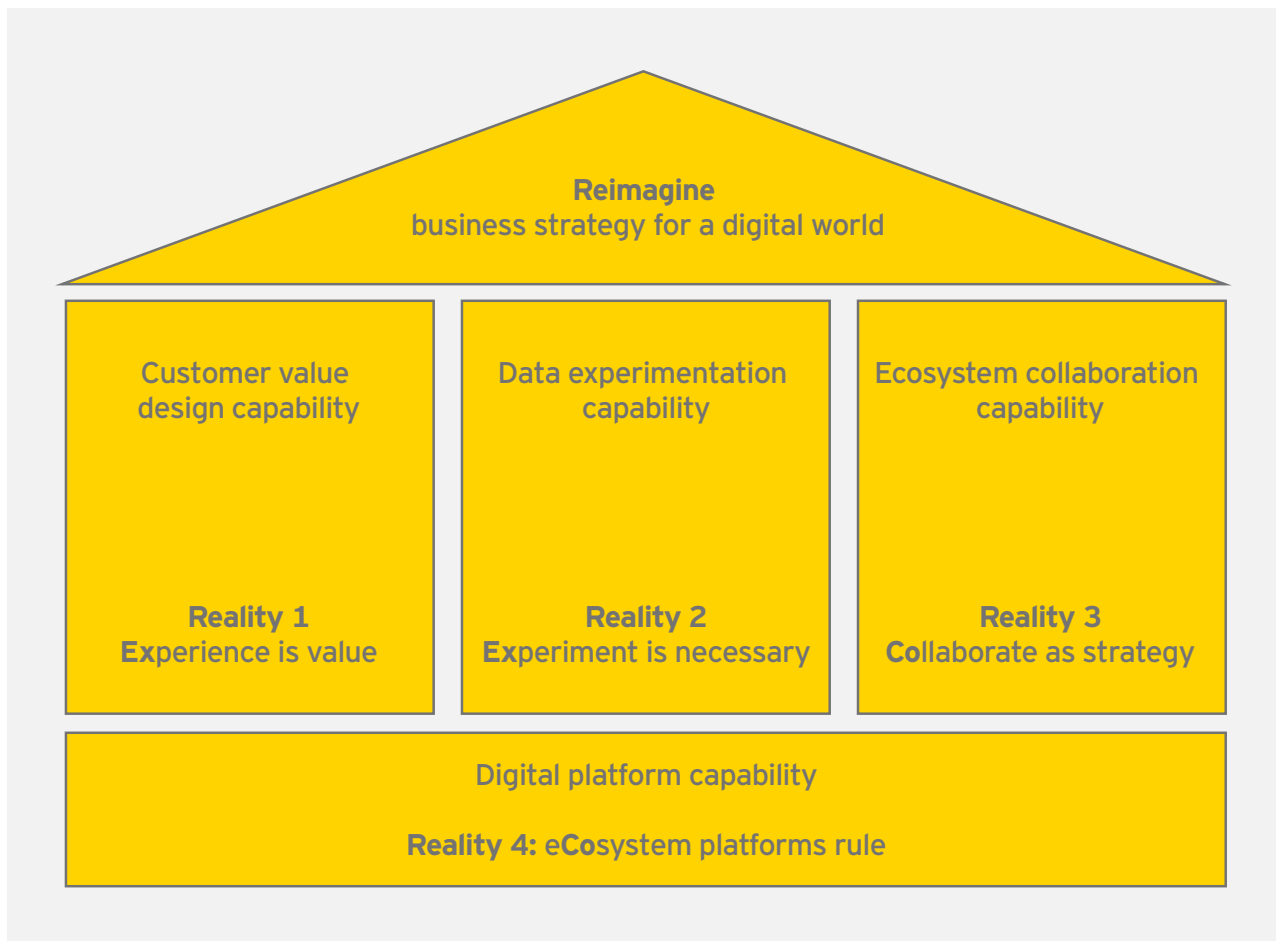
There is a lot of confusion among practitioners about what “digital” really means. Does it refer to a set of technologies (i.e., social, mobile, big data/analytics, the cloud, the internet of things), or is there more to it? To give digital a more precise focus, we have coined the term “ExConomy.” It defines what digital entails from a business-value point of view and pinpoints why it deserves consideration in executive committees.

Here is the gist of things: companies embracing digital recognize the disruptive power of modern information technologies. As such, digital compels them to cultivate a profoundly new mindset and invest in winning capabilities for competing and doing business. They understand that the digital economy is ruled by four realities, which we summarize as the **ExConomy** (see Figure 1):

1. Customer **Ex**perience is value.
2. **Ex**perimentation is necessary.
3. **C**ollaboration reshapes strategy and business models.
4. Digital **eC**osystem platforms rule.

This article examines the four realities in detail and offers a real-world example for each. We conclude with a set of survey questions organizations can use to assess their current state of digital.

Figure 1: The ExConomy framework



2. Customer experience is value

Products and services are not enough to win over or keep customers. The digital space is notorious for how fast it commoditizes products and services. Ultimately, value is attributed to the total experience of engaging with customers in ways that fit with their modern connected and mobile lives. Furthermore, today's companies must make their customer's transition from the digital into the physical world of experiences, and vice versa, seamless.

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Digital leaders understand that it is crucial to take an outside-in perspective – putting themselves in the customer’s shoes – when designing value propositions. They embrace digital technologies as a way to enhance relationships with customers, offering truly relevant and appealing customer benefits. They also recognize that, to be successful, every part of the organization must contribute to this vision. This stands in stark contrast to the traditional functional approaches for creating the customer experience and the business routines that push products onto the market instead of pulling customers in.

Example: Procter & Gamble (P&G)

P&G has invested in a global CRM system that focuses on managing data and processes to enable all of its brands to engage with customers in meaningful digital ways and to provide a holistic customer journey experience. With this initiative, the company envisions facilitating a fundamental shift from mass to one-to-one, value-adding customer engagement. A significant strategic battle that P&G hopes to win is the “zero moment of truth” – the online point in time when the customer decides what to buy. To make this new customer engagement program work, P&G is seeking radical digital change in four complementary core areas: (1) from push to real-time supply network, (2) from what has happened in the past to real-time business intelligence, (3) from hierarchy to a flat, connected organization and (4) from low-risk to speed-to-market innovation.

3. Experimentation is necessary

Customer attention is hyperephemeral in the digital space. New experiences are introduced constantly and switching between competing value propositions is best regarded as the rule rather than the exception. Now you see your customer; now you don’t. In the digital world, customers want control over their own customer journeys.

Digital leaders treat customers as moving targets and avoid working with untested assumptions. They understand that being relevant once is not enough; they must remain relevant. The way to do this is to keep up with the customer’s digital self. Digital leaders deploy information technologies broadly to continuously monitor markets, sense customer needs and track behavior, systematically experiment with value propositions and respond by swiftly scaling propositions that work. This implies a strong and wide-ranging cultural focus on using data and business analytics as competitive weapons.

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For such digitally attuned companies, adoption of big data technologies comes naturally, as they allow businesses to move from being product oriented to offering a continuation of valuable experiences, and from mere transacting to building long-term relationships.

Example: Capital One

Capital One, one of the largest bank holdings in the U.S., has a reputation for performing leading-edge data analytics. Two decades ago, as a new entrant to the banking industry, Capital One succeeded in transforming the credit card business by radically betting on technology, data, and “test and learn.” By treating each credit card offer as a data experiment, the bank successfully executed its information-based strategy to get the right offer to the right customer, at the right time, and at the right price. Today, the company continues to enhance and expand its information-based strategy beyond the credit card business. Capital One runs tens of thousands of data experiments every year to serve its customers better. Its significant strategic investment in cutting-edge big data platforms aims to consolidate its position as an analytics competitor.

4. Collaboration reshapes strategy and business models

When moving into unfamiliar territory, established organizations can rarely reinvent themselves from within. In addition, no single organization owns all the data, skills and capabilities needed to compete for the customer in a digital world. The ability to partner strategically – going beyond transactional deals or outsourcing – is rapidly becoming a core capability to competing digitally.

Digital leaders are fundamentally open to collaboration. They bet their future not just on what their own companies are capable of, but on what others – including partner companies, customers and start-ups – can do. They reconceive their business strategies and business models through the function of business ecosystems of digitally connected partners that are able to successfully co-create and share value. Moreover, they do not just select partners to get access to scarce, complementary skills or capabilities; rather, they do so to accelerate their learning cycle through co-creation initiatives enabled by digital connectivity, collaboration and knowledge management opportunities. Such companies realize, however, that if internal collaboration is problematic, then co-creating with external partners is going to be extremely difficult.

Example: MasterCard

MasterCard has been working hard for recognition as a premier innovator in global payments. Its long-term vision: being the digital foundation of a cashless society in which every device is a commerce device. MasterCard Labs, a global network of digital innovation accelerator teams, is playing a pivotal role in facilitating this ambition by taking an outside-in view to accelerate time to market and by committing to win-win partnerships as its default innovation operating model. The MasterCard Labs for Financial Inclusion in Kenya, co-founded by the Gates Foundation, serves as a case in point: its purpose is to develop solutions for poor people living without access to mainstream financial services. MasterCard has committed to leveraging its proven innovation and product development methods as well as its existing infrastructure and solutions. Ultimately, however, success hinges on sincere co-creation efforts between profit-making companies, nonprofits, governments and individuals.

5. Digital ecosystem platforms rule

Digital innovation capability depends on the effectiveness of combining your unique digital assets with those of others. Today's most valuable digital partnerships are built around "digital ecosystem platforms" (i.e., carefully managed architectures of reusable and integratable digital assets).

Digital leaders open up their existing digital asset base as services to a wide array of ecosystem partners. Accessibility and convenience are key to leveraging the often sizable investments in creating digital platforms. Leaders also "virtualize" – or information-enable – physical assets to make the physical world digitally accessible. This allows them to use these assets at maximum capacity on demand and to develop sharing economy business models. They understand that digital ecosystem platforms are the key to long-term economies of scale as well as scope. To enjoy the positive network effects enabled by successful ecosystem platforms, such companies develop prowess in governance as well as architecture. Governance regulates access to, and interactions on, the platform to stimulate productivity and resilience.

Example: General Electric

General Electric's (GE's) competitive strategy for the internet of things revolves around Predix, a unique software platform that allows machinery and equipment to be information-enabled as smart devices in order to connect seamlessly to each other via the platform.

The ultimate goal is to make any device Predix-ready, regardless of vendor, and offer an API layer to customers and developers who want to develop new big data and analytics solutions for various industries, including mining, manufacturing, energy and healthcare. GE positions Predix as the foundational platform for the Industrial Internet ecosystem. Predix's unique selling proposition is to guarantee an architecture and governance built around open, elastic, secure and resilient access to sensor data, processing and communications. GE has partnered with Cisco and Intel to make this happen. The company has also forged global alliances with SoftBank Corporation (formerly known as SoftBank Telecom), Verizon and Vodafone to provide a range of wireless connectivity solutions.

6. Are you ready?

How can your organization understand where it stands today and how it should proceed into the ExConomy?

One way to assess your readiness is by completing the survey² presented in the Appendix. Via three questions for each of the four ExConomy realities presented in this article, you can evaluate your organization's current situation relatively quickly.

Ideally, you should support the assessment with analysis of recent successes and failures, which helps ground discussions and make them real. Try to cover your own experiences, if any, but also expose interesting cases from beyond your normal benchmarking horizon. Since modern information technologies have a tendency to lower industry barriers, it is good practice to examine what is happening in adjacent industries as well. The output of this exercise makes an excellent discussion starter, allowing management to articulate the organization's disposition and commitment to competing in a digital world. It is a great way to start reimagining your business strategy for the digital world.

Today, not only investors and analysts, but customers, suppliers and employees, too, are challenging executive committees with regard to investments in modern information technologies. The realities of the ExConomy serve as their reference. In our experience, the need for transformation is likely high.

² If you would like to participate in an online version of the survey, please visit https://vlerick.eu.qualtrics.com/SE/?SID=SV_bebOMFt9oJ8HOLz. The authors will reveal the results in a future Cutter publication.

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Appendix: Assessing digital

In the survey below, each ExConomy reality is followed by three questions. Using the following scale, to what extent does each question apply to your organization?

- 0 - Nonexistent
- 1 - Emerging
- 2 - Institutionalized
- 3 - Leader

The results will reveal your organization's current strengths and weaknesses – and its overall readiness – with regard to the ExConomy.

Customer experience is value	
Everything we do contributes to a great digital customer experience.	<input type="checkbox"/>
We create valuable experiences that fit perfectly with our customer's modern connected and mobile life.	<input type="checkbox"/>
Our customer experience seamlessly blends the digital and the physical worlds.	<input type="checkbox"/>
Experimentation is necessary	
We continuously follow our customer's digital self and run many small data experiments to stay relevant.	<input type="checkbox"/>
We excel at collecting, analyzing and acting on data to cater to end-to-end customer journeys.	<input type="checkbox"/>
Everyone in our organization is capable of – and committed to – data-driven decision making.	<input type="checkbox"/>
Collaboration reshapes strategy & business models	
We use digital means to foster strong employee empowerment and internal collaboration.	<input type="checkbox"/>
We boost co-creation with partners and customers by using digital collaboration opportunities.	<input type="checkbox"/>
By systematically sharing value and learning, we create win-win relations in an open partner network.	<input type="checkbox"/>
Digital ecosystem platforms rule	
We promote convenient reuse of digital assets with internal and external parties, who do the same for us.	<input type="checkbox"/>
We virtualize all physical assets and leverage the data as part of our digital platform.	<input type="checkbox"/>
We monitor platform usage in real time to improve the productivity and resilience of the platform.	<input type="checkbox"/>

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