Make Disruption Work

a CEO handbook for digital transformation

Alexandra Jankovich & Tom Voskes

About this book

Digital disruption is going to continue its sweep across all industries. What's more, the disruption we've seen to date has been just the first wave. Digital behemoths like Google, Amazon, Facebook et al., have all sprung out of online and mobile, but a host of further technologies are already on the brink: robotics, self-driving vehicles, AI, IoT, blockchain. Every one is potentially as revolutionary, and in their combinations, even more so. We are entering a future of ceaseless disruption.

This presents risks, but also a tremendous opportunity for you to change your company — and indeed the world. New technologies allow you to think big. At the same time, you need to think practical. If the environment's moving fast, you have to have strong fundamentals, but also to be agile, adaptive, and data-driven. There is now a clear, evidence basis for defining how to do this in relation to online, and we firmly believe it will hold true for future waves of digital disruption. This is not least because the principles involved, e.g. serving the customer better, and organizing effectively, are timeless. What's new, and what this book provides, are the models and blueprints as to how to be timeless in digital landscapes. How do you organize to serve the customer better in digital? How do leading digital businesses do it? What rules do they follow, and what strategies do they apply?

We've worked with some of the biggest companies in the world — including Shell, Unilever, ING, eBay, Ikea and many others — on transforming their businesses in the context of disruption. Together with them, we've built digital capabilities, launched new disruptive ventures, and seen the success. These initiatives are now growing fast and booking profits. The advice we give is practical, demystifying and effective, and — the ideas underpinning it are crystallized in this book. This is stuff we've done with multi-billion dollar operations, and it works.

Our approach is structured around 5Ds: Discover, Define, Determine, Drive and Delight. All five need to be addressed, sometimes in parallel, and hard work is involved. There is no magic bullet here, and as with any kind of change, strong personal leadership is required, and in particular, a readiness to act, learn, and, when called upon, take tough decisions.

Being a company on the brink of disruption, or in the midst of it, is tough. Shareholders can be hesitant, and it doesn't help that digital often presents lower margins, and business cases that are negative in the short term. We understand why some companies don't want to change. We also understand why some frogs stay in the pot.

5D model

1. Discover the new world

CEOs ask us: 'How is my industry going to be disrupted?' Start by looking up.

2. Define how to act

The game has changed. There are six new rules, and strategies to match.

3. Determine what you need

Organize to deliver speed and disruption, and approach tech right.

4. Drive the change

Get your capabilities, get your team, go!

5. Delight in the new world

Lead, act, and tell the story.

We have studded the argument throughout with real-world examples in blue infobubbles like this one. The final section of the book presents three detailed case studies showing the 5Ds in action.

1.3

And it's only just beginning

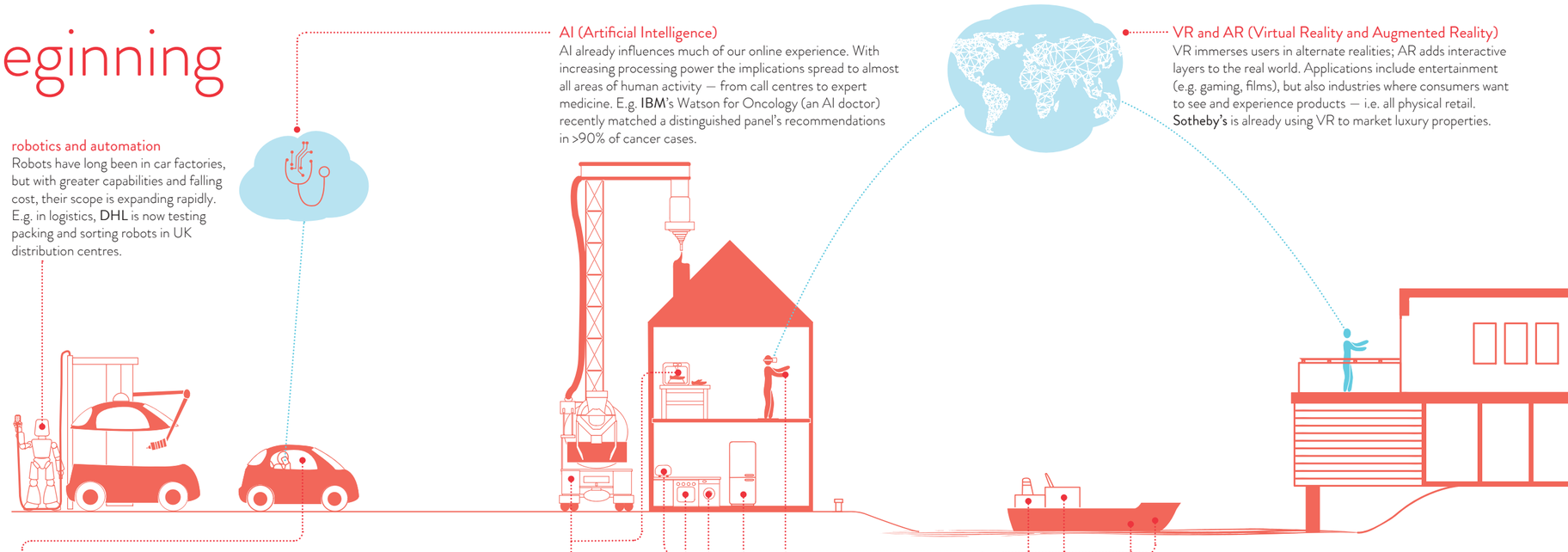
Exponential growth in disruption is made possible by technological advancement, *which is also exponential*.

Technological change itself is not new. Over the centuries it has hit in waves — repeatedly remodelling society, triggering large-scale economic shifts, and creating new business giants (e.g. Carnegie with steel, Rockefeller with oil, Ford with mass production...). The difference with digital however is that the key underlying technology — computer processing — roughly doubles in power every two years.* This means the technological possibilities it opens up become exponentially more sophisticated, thus setting off successive waves of change, each bigger than the last. The ones we have seen to date (and their giants: Gates with IT, and the likes of Bezos and Zuckerberg with online and mobile) are really only the first few. Many more are already on the brink, and propelled forward by ever faster and cheaper chips, are producing technologies that approach human levels of functionality and ubiquity. As these waves hit, they will create entire new landscapes, spanning every industry, and in each one giving rise to companies that will: fulfil unmet customer needs, unlock demand, remove barriers, and grow exponentially.

The level of change to the economy in the next 10 to 20 years will be enormous. However the fundamentals of how to make disruption work remain the same. It's about having the purpose, customer-first orientation, and fact-based, adaptive approach that are the subject of the rest of this book.

* Following Moore's law. Steady doubling since 1974 has led to a x2 million increase in the transistor count on a chip. x4m very soon. Once the physical limitations of silicon have been reached, new computing technologies are expected to continue the trend.

Discover: 1.3 And it's only just beginning



robotics and automation

Robots have long been in car factories, but with greater capabilities and falling cost, their scope is expanding rapidly. E.g. in logistics, **DHL** is now testing packing and sorting robots in UK distribution centres.

AI (Artificial Intelligence)

AI already influences much of our online experience. With increasing processing power the implications spread to almost all areas of human activity — from call centres to expert medicine. E.g. **IBM**'s Watson for Oncology (an AI doctor) recently matched a distinguished panel's recommendations in >90% of cancer cases.

VR and AR (Virtual Reality and Augmented Reality)

VR immerses users in alternate realities; AR adds interactive layers to the real world. Applications include entertainment (e.g. gaming, films), but also industries where consumers want to see and experience products — i.e. all physical retail. **Sotheby's** is already using VR to market luxury properties.

self-driving vehicles

Self-driving cars are clocking up thousands of test miles for **Google, Ford, Uber** and others; self-driving trucks are hauling iron ore at **Rio Tinto** mines; self-driving lorries hit UK roads in 2018. Impacts will be felt across commercial and private transport, traffic, logistics, car ownership, insurance, urban planning, etc.

3D printers

You can now 3D print: metal parts, shoes, food, houses, human tissue. 3D printing is revolutionizing low-volume production, e.g. enabling **Tesla** to make prototype cars in a few weeks. Applications to finished products will disrupt manufacturing, shipping, warehousing, retail, etc.

IoT (Internet of Things)

IoT refers to networks of objects that exchange data. This includes smart home appliances and physical activity monitors (e.g. **Fitbit**), but also industrial and B2B applications. E.g. **Caterpillar** uses connected sensors on its ships to monitor equipment for optimization and predicting failure.

... and many other new technologies, such as blockchain, drones, quantum computing, etc.

2. Define
how to act

2.1 The new rules of the game

1. End customers are the real assets
2. Fat margins get stolen
3. Winner takes all
4. Digital is a new channel
5. People search for needs not brands
6. Customers expect the best, period

2.2 The winning strategy

1. Be customer-first
2. Be early
3. Be bold
4. Be active
5. Be acquisitive
6. Be strong
7. Rethink your KPIs

2.1 The new rules of the game

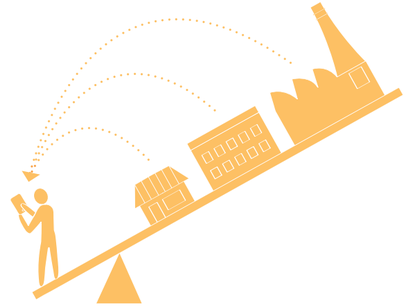
Digital technology is a game changer.

There are six new rules.

1. End customers are the real assets – own them

Value chains used to be asset-heavy, meaning that owning factories, warehouses and stores gave you leverage. Digital technologies conversely have created no-asset titans: Facebook is the world's biggest media company, yet creates no content; Airbnb leads hospitality while owning zero real estate.

How? Assets in the physical world used to have more weight because owning physical locations gave you privileged access to customers, and with it, protection of fat margins. But in the digital world the location is the digital interface, which is at once more exposed to competition, and more valuable because this is where customers now generate crucial data. If you own the interface you own the customer, and from this point can leverage the rest, irrespective of physical assets. The customer is the real asset.



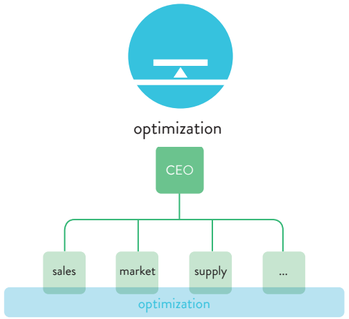
manufacturers in many industries are now seeking direct relationships with end customers to bypass retailers and capture data

Apple	Apple stores (online and physical)
Nespresso	Nespresso stores (online and physical)
Michelin	buying up online tyre stores in France and the UK
Gillette	direct-to-customer subscriptions at online store
BMW	i series customization and financing at online store

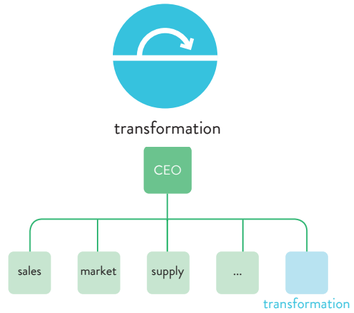
Tencent owns WeChat, a popular Chinese messaging, social media and payment app. Thanks to the vast amounts of data it collects about its 1bn users, it knows exactly what they want, and is now leveraging this knowledge to invest aggressively in other markets, including, recently, brick-and-mortar retail.

6. Organize according to horizon

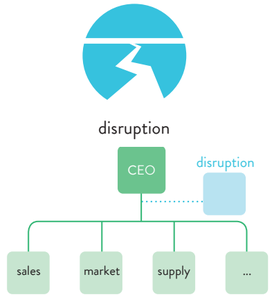
Chapter 2 defined three horizons to be active on for smooth growth (see *2.2.4 Be active*). Each has distinct implications for organizational structure and approach.



integrate and manage in line
Initiatives focus on and improve the existing business. They are usually comparatively straightforward, generate cash quickly, and are therefore appealing for annual targets (meaning they will get done in line).



set up adjacent dedicated units
Initiatives change the way you interact with your existing customers. Team leaders need to be part of current management to ensure alignment, but the longer lead time to the bottom-line requires a dedicated unit with its own resources and targets (ring-fenced from optimization). There may as a result be some doubling-up of roles, but this should be tolerated to prioritize growth. As transformation initiatives mature they move into the optimization horizon (typically when they reach c.10-20% of revenues), at which point efficiency gains can be made.



create as separate ventures
Initiatives are new business models that may disrupt the current one. Therefore they need to be run from outside the business and fully autonomously, reporting to the CEO (KPIs are likely to be different or have different target values). Disruption initiative leaders should be free to hire capabilities from the best sources, and eat into the existing business if they can.

Mistrustful of digital generally, a CEO had shipped anything 'digital-ish' into a separate organization, thus exiling innovation from the main business. We helped them rethink digital initiatives in terms of three horizons, and organize accordingly.

digital ≠ other

A brick-and-mortar retailer had hired external digital specialists to run its e-commerce arm. The specialists had put best-selling items on promotion to give themselves a boost, but sitting outside the business, had failed to tell the warehouse team. The result: sell-outs and frustrated customers. We helped bring e-commerce back into the business and build the team.

transformation ≠ disruption

A CEO had given existing employees targets for new revenues to be generated through digital, but nothing had happened. They'd all got on with their existing jobs, and the transformation had been dubbed a failure. We explained that:

transformation ≠ optimization

how not to do it
stories from a few of our clients

3.2 Technology-wise, you'll need to:

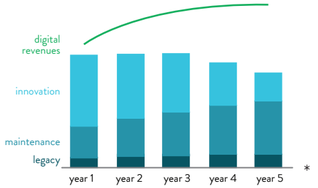
Business leaders worry they're not IT experts. In-depth knowledge is not the main objective here; being able to set the right challenges and priorities for the people who are is.

But this requires first making certain conceptual shifts.

1. See tech as a business driver (and invest and manage accordingly)

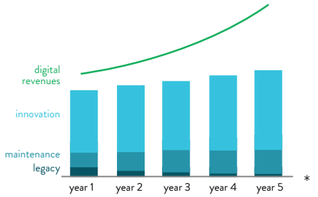
Traditional companies see tech as a cost and look to trim it. In digital this is self-defeating. Successful digital disruptors see tech as a business and profit driver. They link **IT investment** to top-line growth, **manage IT budgets** strategically, and bring business and IT together to ensure seamless **business-IT integration**.

IT investment



traditional company
The IT budget is variable, subject to cost pressure, and has to be defended year on year. Prolonged use of legacy systems dampens flexibility and pushes up the cost of maintenance, which eats into the innovation budget. Digital revenues consequently decelerate.

Investment in IT:
- fluctuates (especially if the business case is poor)
- shrinks relative to sales
- the IT team is come-and-go and knowledge gets lost



digital disruptor
The IT budget is structural and dedicated, and spending on innovation is linked directly to business KPIs (e.g. sales). An explicit allocation phases out legacy systems and the maintenance budget grows stably. Digital revenues accelerate.

Investment in IT:
- is predictable
- grows with the business
- the IT team is stable and builds up knowledge

* SparkOptimus, illustrative values

2. Teams: be multidisciplinary and co-located

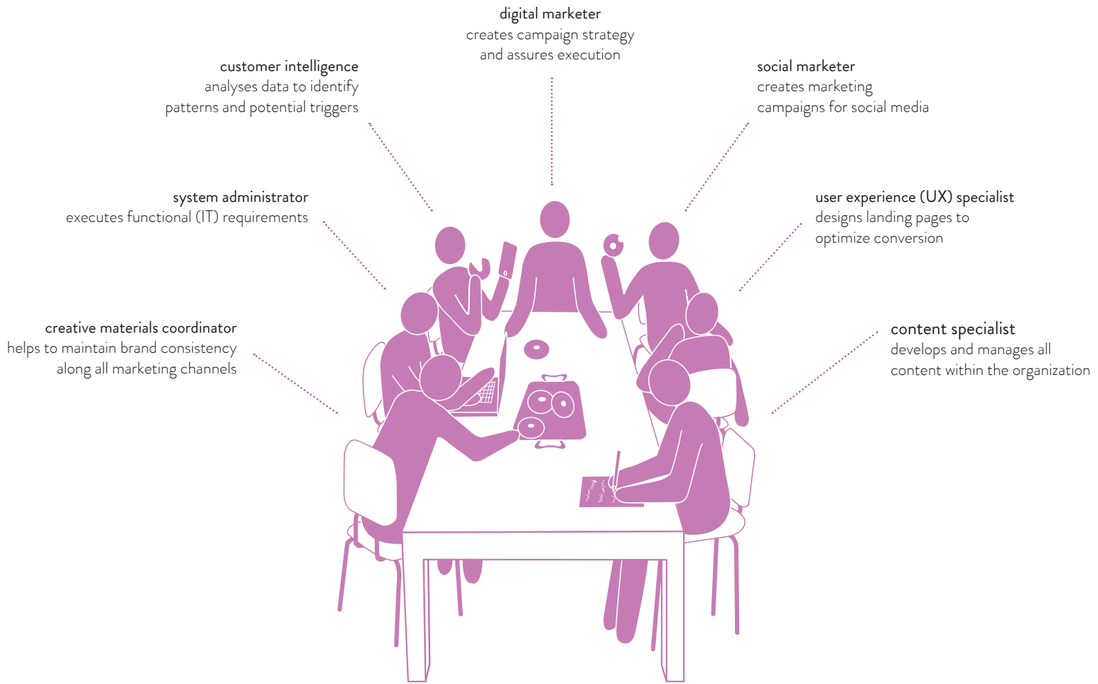
Traditional companies are often organized as a matrix with two dimensions: there are the functional lines, e.g. marketing, sales, etc.; and these run across the business domains, e.g. in the case of an FMCG (Fast Moving Consumer Goods) company, food, cleaning agents, personal care products, etc.

In digital, the functional lines, and the high skill specialists who work on them, are crucial because this is where you optimize your conversion equation (and thus achieve the 10x factors that drive exponential growth — see *2.1.3 Winner takes all*). Breaking them up across a matrix is a bad idea, but they do still need to align with the business domains, and so how else to do it? The elegant solution is co-location.

This can be as simple as creating shared multidisciplinary **tables**. So for the FMCG company for example, a marketing specialist may sit at a food table on Mondays, a cleaning agents table on Tuesdays, and so on. Face-to-face communication at the tables flows easily, facilitating learning, creativity and bonding. It also creates the foundation for:

- **seamless integration:** let's imagine the FMCG company wants to organize a campaign for Mother's Day (perhaps put nice soap on offer, but probably not cleaning agents). Marketing is needed to drive traffic to the right business domain, but to get it to convert, the right landing pages need to be in place (UX), the right content on promotion (content), and IT has to make it all work. Moreover everything has to keep adapting and optimizing as the incoming traffic changes by the minute. Team co-location makes it much easier to achieve this level of seamless real-time integration.
- **shared specialization:** if the FMCG company has 10 marketing people, one may be an Instagram specialist. By having this person rotate tables, all domains have access to this level of specialization.
- **understanding the customer journey:** customers don't think in functional silos when they shop, and nor should teams when they work. Co-location of functions and disciplines brings the various stages together, and helps create an understanding of the customer journey (see *2.2.1 Be customer-first*).

HEMA, a large Dutch retailer, was organized traditionally by function, but was struggling with e-commerce. Webshop managers had limited information and poor alignment. We supported HEMA in introducing 'e-category tables' — literally tables at which multidisciplinary teams worked together. Suddenly simple things that required two or more types of expertise improved, and online growth soared to healthy double digits.



multidisciplinary, co-located email marketing team

3. Keep driving

A common mistake is to think of digital initiatives as *projects* that get *done*. If they succeed — and it's better to think of them succeeding — they will become fully-fledged digital *businesses*: growing, maturing, evolving, and demanding continuous leadership.

Maintaining exponential growth in disruptive landscapes is not passive. You need to keep optimizing on every front and on a daily basis (the offering, the technology, the organization, etc.). This requires clear and disciplined programme management, by which: responsibilities are assigned to owners; teams meet on a fixed weekly basis and review progress on KPIs and workstreams; there is a strong emphasis on action and follow up; data from dashboards drives decisions at every level; and the data, overall structure, and headway toward milestones is transparent and made visible to all.

This sounds more like hard work than a beer-and-pizza coding party because it is. The maxim, *1% inspiration, 99% perspiration* — unfortunately or fortunately perhaps — is every bit as true in digital.

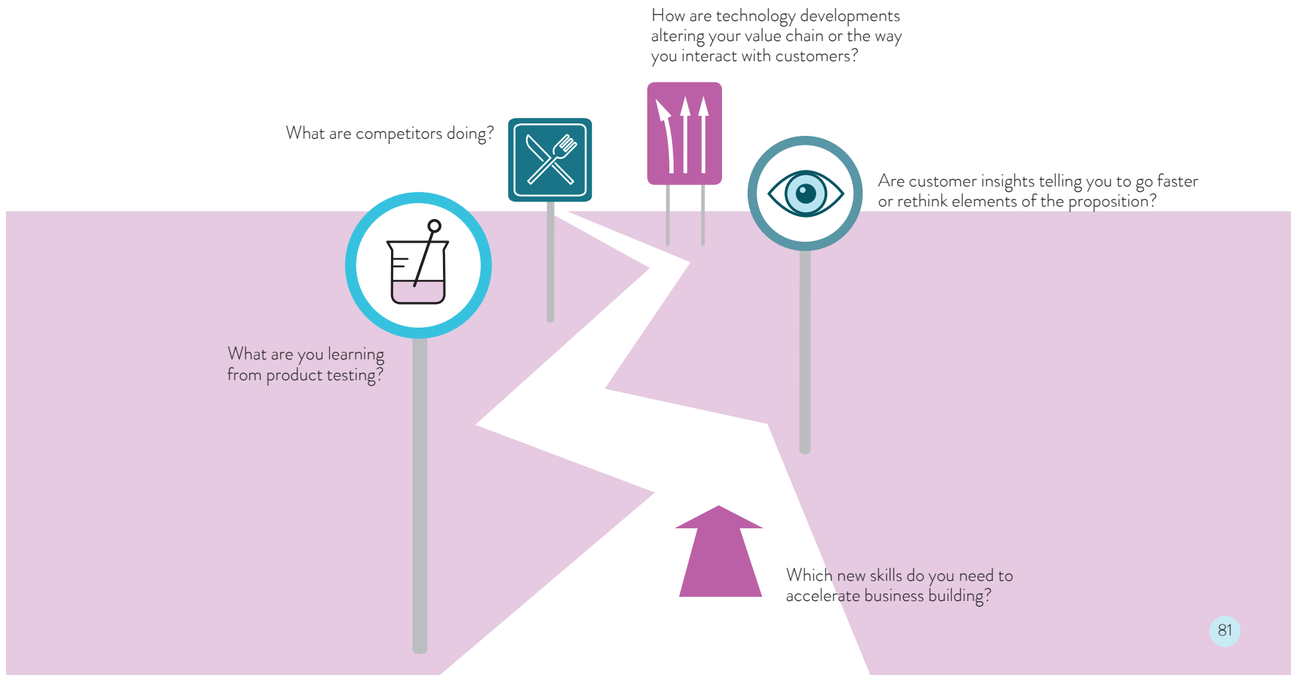
and winning (including quick wins)

But this doesn't mean perspiration can't be satisfying. It absolutely should be, and never forget that you are working with people, and they need to be enthusiastic about it.

It's important to get some quick wins in, and so ensure these are part of your **roadmap** (e.g. in the first six months, as determined by your feasibility studies). When people are starting something new they need to see concrete results soon to be able to tell themselves, 'We can do this new thing. It's working.' As they do, they'll start to feel increasingly confident and good. As will the board, who you need to keep happy and funnelling in budget.

Keep winning and celebrating the wins when they come.

4. And looking up



We need to focus on current targets.

It's just not really a thing in our industry.

We're buying a digital company.

No one's done it profitably yet.

It'll hurt ROIC.

We're building a lab.

It's too expensive.

I don't want to risk it.

We've hired a big data analytics company.

We've appointed a CDO.

Our legacy issues are too big.

We need to hire specialists first.

We're working on a magic bullet — just you wait!

Digital's not my responsibility.

We're not leading in digital because...

Other players are better equipped.

We're busy!

We need to fix offline first.

The board won't buy it.

It's on the roadmap: 2020.

We're smart followers.

We're experimenting.

I'm not a digital expert.

Our competitors aren't doing it.

Our shareholders don't see it as a priority.

What if digital cannibalizes our current business?

Management won't do it.

It won't hit during my time here.

We're looking at longer-term disruption.

We just got a guy from Google!

It's outsourced.

30 top excuses we hear from leaders
If any look familiar, it's probably time to change.

5.1 Lead

Digital leadership requires a unique combination and vision and practicality, as well as social skills to understand the customer and employee perspectives.

We don't intend to provide an exhaustive list of leadership qualities here (there are enough books on this already, and we have touched on some key ones previously, see *4.2.1 Leaders*). However we have observed three common traits among successful digital leaders, and which they articulate in striking terms themselves.

'You can't connect the dots looking forward; you can only connect them looking backward. So you have to trust that the dots will somehow connect in your future. You have to trust in something — your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life.' Steve Jobs, **Apple**

lead with an active vision

Steve Jobs talks about having *trust in something*, but also about the *difference* this makes.

Vision is easy to find in company communications; much harder to find in the boardroom. Proven concepts, established benchmarks and positive near-term results all offer the very significant comfort of certainty, and boards are averse to giving these up. Digital landscapes offer the precise opposite: they're disruptive, fast-moving, unpredictable, possibly short-term negative.... Unsurprisingly boards are often hesitant to invest.

To overcome this, as well as general company inertia, digital leaders need to have a vision of the future that is so concrete and compelling it inspires — in themselves and others around them — the need to: be active, change things, and make the difference.

'Your team is not there to serve you. You are there to serve your team and help them do the best possible job for the company. This applies to me most of all. Leaders are also expected to work harder than those who report to them and always make sure that their needs are taken care of before yours, thus leading by example.' Elon Musk, **Tesla, SpaceX**

empower others

Digital is a talent-and-performance dogfight. To win you need to get the talent and let it rip — i.e. freely innovate and problem-solve.

For this, a data-driven approach with transparent KPIs is essential. It levels the playing field and encourages creativity; it helps ideas 'fail fast' (test-and-learn); and it ensures performance is rewarded, not pet projects, seniority, or biases that don't produce results.

Leaders in traditional companies often find it difficult to shift the culture in this direction. It is difficult. Empowerment is exciting and attractive to talent, but unsettling for those above who would prefer just to 'know better.' A significant reversal is required within the leader-mindset, as captured by Elon Musk's maxim: *you are there to serve your team*.

'We've felt that to succeed we need to keep this business personal. In order to do that, we depend on a culture of customer service and a willingness to jump through almost any type of hoop to make sure our customer service is superior from every angle.' Gillian Tans, **Booking.com**

live and breathe the customer-first mindset

In disruptive environments nothing is more valuable than being faster and better than the competition at understanding the customer.

Traditional companies often have a self-orientated view: they start with what they do, and think up reasons why people should want it. Successful digital leaders reorient their thinking around the customer and their needs, and restructure everything accordingly. They live and breathe the customer-first mindset, or as Gillian Tans puts it, *jump through every hoop*.

It is no coincidence that these three traits map closely to the three primary needs of a digital organization: purpose, talent, and a customer-first culture (see *3.1 Organization-wise, you'll need to:*).

Three case studies

1. **Chocolate World**
   de-decentralizing: autonomous-owners to everyone-wants-in
2. **Dealcraze.com**
   back from the brink: data saves
3. **Prospect & Micawber (P&M)**
   safety through risk

Other occasionally observed reactions from CEOs to this book

I was going to read it but then I started Season 8 of *Game of Thrones*...

So you're saying I need to take it slow and gentle with digital, right?

I gave it to my son — he's into digital.

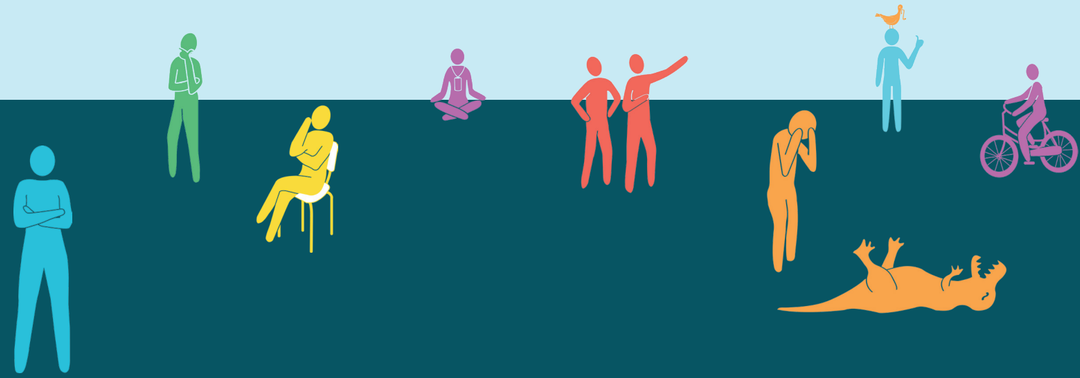
I haven't read it but I know it all already.

It's propping up the wardrobe — perfect thickness!

I gave it to my CDO.

I left it on the bus. Soz.

I was caught without a tissue and had to use p.48 to blow my nose. It was a bit scratchy.



SparkOptimus

We have entered a new era of technology-driven disruption, and no industry or sector will be left unaffected. For businesses, the water is heating up, and if you don't want to get boiled, you'll need to craft a winning strategy. But how? You don't have to be a geek-chic millennial, but you do need some new knowledge, and the practical blueprints for its application. That's what's in this book.

'With outstanding simplicity and deep insights, this book reveals the "how to" of digital disruption.'

Paul Polman, CEO Unilever

'Disruption is on every business leader's mind. Alexandra Jankovich and Tom Voskes have taken this complex topic and created a very clear, actionable path.'

Wiebe Draijer, CEO, Rabobank

'A powerful guide to help navigate disrupted waters. After reading, you feel convinced that, yes, corporates can beat start-ups!'

Franck J. Moison, Vice Chairman, Colgate-Palmolive

'Disruption demystified! This book is unique: in a realm of gurus and doomsayers, it offers practical perspectives and a clear manual for every company to master disruption.'

Annet Aris, Adjunct Professor of Strategy, INSEAD

'Easy-to-digest, visually appealing, and packed full of useful advice for senior leaders.'

Michael Wade, Professor of Innovation and Strategy, IMD

'Fantastic book!!!'

Menno Antal, Managing Partner, 3i Private Equity

'A must-read for any modern-day business leader.'

Rahmyn Kress, Chief Digital Officer, Henkel

'Concrete actions backed by real-world experience, and not just consulting "fluff." SparkOptimus has created a winner!'

Jan Derck van Karnebeek, Chief Commercial Officer, Heineken

Alexandra Jankovich and Tom Voskes are the co-founders of SparkOptimus. They work with some of the biggest companies in the world on transforming their businesses in the context of disruption.

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