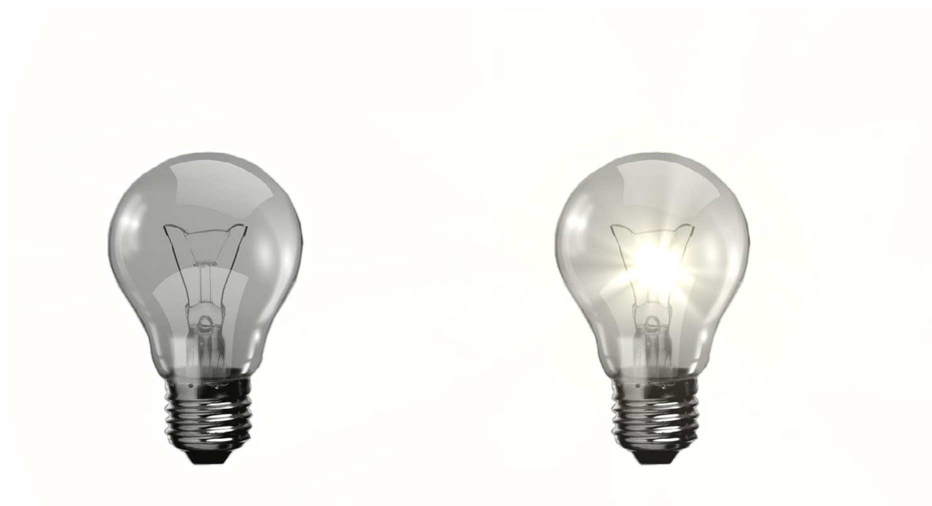
2020: Can You Get There?

A Business Guide to Overcoming Disruption

In recent years, technological and social innovations have toppled entire industries with little warning. As a result, many business leaders have realized how vulnerable they are to the next wave of change

This paper will examine past and future market disruptors. It provides case studies of businesses that have failed or succeeded to navigate large-scale changes. By reviewing these cases, business leaders will get a sense of how to prepare for inevitable disruptions.



Presented By:
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Four Major Sources of Change and How to Deal with Them

Many of the recent and impending market disruptions fall into the following categories:

Source#1: Disruptive Innovations

Some innovations completely displace old markets or create new ones. This can be devastating for businesses if they fail to adapt quickly.

The best example of this is the Kodak/Fuji Film rivalry that took place during the advent of digital media. Both companies were in the same dire straights: inexpensive digital photos would soon be replacing the lucrative camera film, decreasing profits by more than a quarter. However, when digital media eventually took over, Fuji Film was able to thrive, while Kodak nearly faded out.

As Fuji clearly demonstrated, the best way to handle disruptive innovation is through radical flexibility. In a 2012 article, The Economist summarized the rivalry outcome as follows:

“Kodak acted like a stereotypical change-resistant Japanese firm, while Fujifilm acted like a flexible American one.”[7]

While Kodak was complacent, Fuji developed new products, sold intellectual property such as chemical compounds, and sought new markets for film. By the time Kodak had gone out of business, Fuji had diversified enough to remain competitive, at one point growing to some $12.6 billion while Kodak’s value shrank to just under $220m.

The Business Obituary

Dead industries:	Cause:
Travel agencies	Web-savvy shoppers
There are less than 3,000 travel retail locations, down from a peak of 34,000 in the mid-1990s.[1]	
Video rental	Netflix
As recently as 2000, Blockbuster was a thriving business.	
Camera Film	Digital media
Fuji Film and Kodak knew as early as 1970 that the digital would be disruptive.[2]	
Nearly dead industries:	Cause:
Print media	Digital media
Ad revenues are now the lowest they've been since 1950.[3]	
Record stores	Downloadable digital music
-76.3% decline from 2000-2010[4]	
Wired telecommunications	Wireless technologies and VOIP
-6.5% growth from 2009-2014[5]	
Challenged industries:	
Banking. The industry faces a series of disruptions, including declining consumer loyalty.	
Non-profit. Only 44 percent were able to meet funding demands in 2013.[6]	
Insurance. The younger generations are proving difficult to engage.	
Associations. Individual businesses are more empowered than ever and rely less on associations to affect political and commercial change.	

"Whom the gods wish to destroy they send 40 years of prosperity."

- Peter Drucker, reknowned management-consultant and author

Source #2: Technological Upheaval

Some new technologies change the way businesses operate from within. The best example of this is analytics software. Analytics refers to the use of sophisticated mathematical techniques to produce new value from data.

The adoption of analytics will become virtually universal. According to technology-research firm IDC, big-data technology and services will grow at a 27-percent compounded annual rate through 2017 to more than $32 billion worldwide.[8] As well, a joint study by conducted by MIT Sloan Management Review and IBM found that organizations that excel in analytics usually outperform new adopters of analytics by three to one.[9]

To manage technological upheaval, businesses are thinking creatively about new possibilities presented by new technology. For example, Sky Italia, a satellite TV provider, uses analytics to predict what kind of content its customers wanted to see, based not only on their watching habits but on their social media activity.[10] Also, casinos use analytics to gauge customer behavior based on such fine points as when patrons order drinks, where they play the most, and even when they smile.

Source #3: Consumer-Culture Shifts

Digital technology has a widespread impact on culture that affects customer/vendor relationships. One prominent outcome of this is that buyers are moving much further down the sales funnel before interacting with salespeople.

For example, in 2012, Ernst and Young completed a global survey of 30,000 banking customers and found that those that were unhappy with their banks were twice as likely to switch to a competitor as they were in 2011. Because accounts can be transferred with just a few clicks of the mouse, banks now have to work harder to keep their customers from leaving.[11] Further, banking clients are increasingly performing their own research without input from bankers.

The same is true for B2B customers, as one CEO of a B2B company described in an interview with Forbes:

"My sales team has called on every possible client and they don't know where to go next."[17]

According to member-based business advisory company CEB, buyers now go through about 57 percent of the purchasing process before ever talking to sales.[12]

To react to changes in consumer culture, marketers must replace the old sales models with "facilitated buying" strategies.[13] Vendors are increasingly interacting with prospects right where they are and provide more value on the front-end. By acting as buyers' guides rather than salespeople, sales teams will grow relationships through trust. This is why content marketing strategies are displacing traditional advertising in many marketing budgets.[14]

Source #4: Price-Determination Fluctuations

In the present consumer culture, price determination has become more elastic and complex. As such, many businesses are re-inventing their pricing structures.

The health insurance and health benefits industries are examples where large-scale pricing shifts are taking place. Due to new legislation in the Affordable Care Act, health benefits brokers will now have to disclose their commissions, which will give clients more negotiating leverage. As such, those brokers who have the most technical skill and that can flexibly price products and services are having the most success.

Another contributing factor to pricing shifts is in the spending habits of "millenials." These young people ages 13 to 30 are increasing in purchasing power by about three percent per year. Their spending is unpredictable, mostly digital, and will account for nearly one-third of total spending by 2020.[15]

To meet consumer demands for pricing options, businesses are becoming more inventive with pricing models. For example, the Silicon Valley start-up Uber offers a crowd-sourced taxi-like service that employs "surge pricing." Under this model, Uber services cost more when demand is high and the supply of cars low. [16]

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>
> *- Mike Manes, Consultant and Thought Leader*

"Sympathetic" pricing is another new pricing trend with humanistic intentions. According to business trend firm Trendwatching.com, waning consumer loyalty brought on by digital empowerment has made businesses are eager to show consumers that they care.[18] This has lead to a series of new warmer, fuzzier relationship-building strategies.

For instance, "painkiller" pricing is an emerging strategy meant to provide relief. An example of painkiller pricing is where bars give discounts to patrons who have been served a ticket that day. Another example is "compassionate" pricing, which typically involves sliding scales for lower-income customers. Finally, "purposeful" pricing is meant to affect social change – such as through offering free public transport to alleviate inner city traffic.

Past technological upheavals. These past technologies changed existing markets and created new ones.	Imminent technological upheavals. Consumers and businesses should begin examining how the following will affect them.
Email	Wearable technology
Smartphones	3d printing
Downloadable digital media	Driverless vehicles
Wikipedia	Embedded sensors; "The Internet of Things"
Analytics	Genomics (genetic engineering)

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Conclusion

For most industries, disruption is inevitable. Often times, those businesses that are most accustomed to success will have the most trouble adapting.

The first essential step in planning for disruptions is to gain a basic understanding of what the incoming challenges will look like. Once this is accomplished, businesses can begin applying lateral and creative planning strategies to successfully navigate the change.

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