

# ESCAPING THE RED QUEEN EFFECT PART 1: PROMISES AND PERILS IN THE 4TH INDUSTRIAL ERA

## The Opportunity and the Crisis

**“HE WHO IS NOT COURAGEOUS ENOUGH TO TAKE RISKS  
WILL ACCOMPLISH NOTHING IN LIFE.”**

— Muhammad Ali

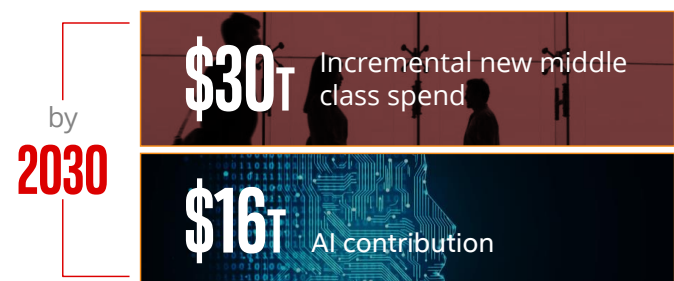
The man nicknamed “The Greatest” may have been referring to life inside the boxing ring, but his declaration applies equally in the context of today’s business world, as leaders square up to the relentless onslaught of “digital.” We live in seemingly paradoxical times, bookended by huge opportunity and existential threat. The crux of this conundrum, of course, is how to capitalize on the opportunity and get ahead of the pack.

Let’s be clear—the opportunity itself is not just big, it’s eye-wateringly huge! According to IDC, **60% of global GDP will be digitized in the next 3 years.**<sup>1</sup> For those in the business of selling technology, that includes an estimated **\$7 trillion in technology-related spending.**<sup>2</sup> Looking a little further out, the Brookings Institute projects the **middle class will grow from 3.4 billion people today to 5.5 billion by 2030**<sup>3</sup>, with a corresponding increase in spend

**from \$30 trillion to \$64 trillion.**<sup>4</sup> Put in real terms, that’s **one-third of global GDP.** Again, for those selling technology, the currently much-hyped **Artificial Intelligence (AI) is expected to contribute \$16 trillion to the global economy** in the same timeframe.<sup>5</sup>

It’s not as if business leaders don’t get this—they absolutely do. CEOs want their “piece of the pie,” and they’re taking decisive action—a fact supported by IDC, who stated, back in 2017, that **70% of CEOs would be centering their strategies around digital transformation.**<sup>6</sup>

All good then? Let’s hold that thought for a moment... Just how do those business leaders know if they’re making the requisite progress? IDC estimates that by the end of this year, **a digitally transformed business should be generating at least 45% of its revenue from new business models.**<sup>7</sup> Clearly this is not the case for the majority. In fact, with over **85% of large transformations failing**<sup>8</sup>, according to IBM, it seems fair to say that all is not good. Far from it.



## The Red Queen Effect

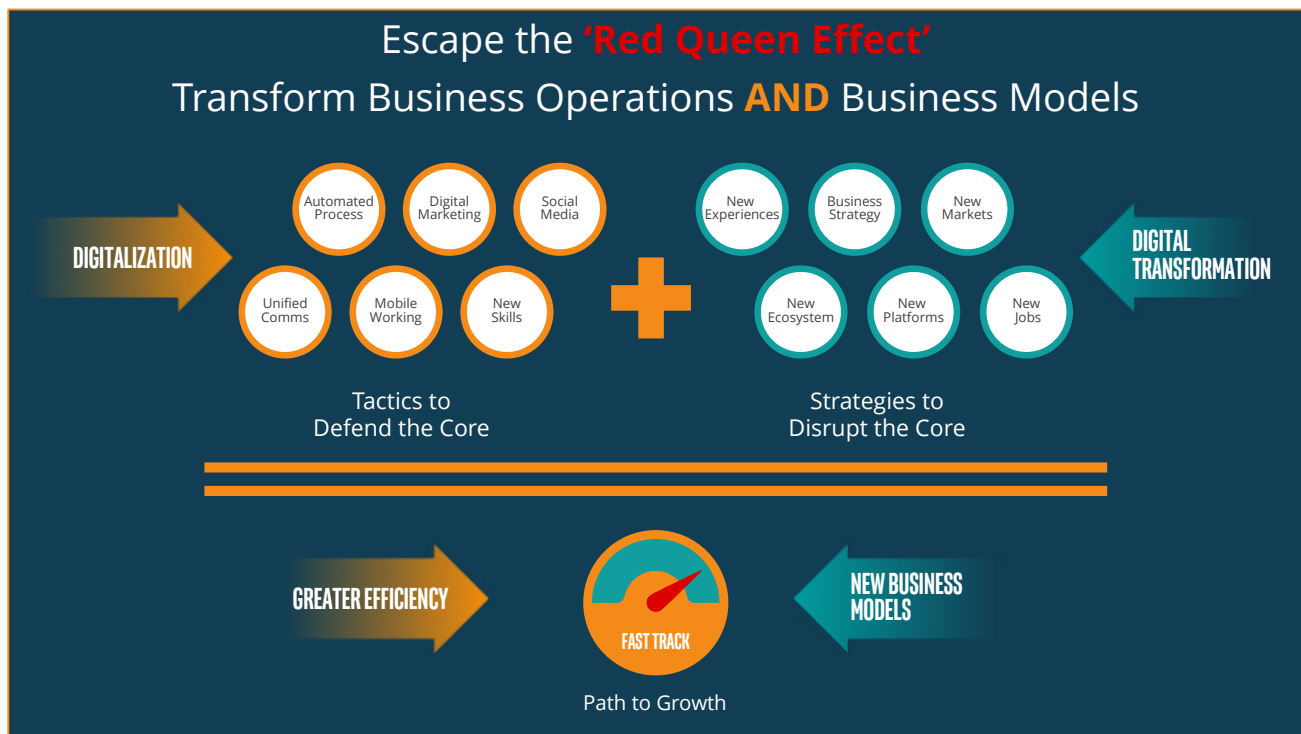
This begs the question: “Why?” What’s going on? From our vantage point, we believe many enterprises succumb to the **Red Queen effect**, a term derived from Lewis Carroll’s book *Through the Looking-Glass*. In Carroll’s story, the Red Queen states, **“It takes all the running you can do to stay in the same place”**—a pertinent metaphor for businesses doing more of what is essentially the same thing, with more intensity, yet not actually getting any further forward.

This exposes what we see as one of the great misunderstandings of **digital**—namely the difference between **digitalization and digital transformation**, terms that tend to be thrown around and used interchangeably. Caution is advised! Not for whimsical or semantic reasons, but because in doing so, businesses may, at best, miss out on that “piece of digital pie” or, at worst, put themselves in peril.

**Digitalization can be described as the application of digital technologies to transform business operations.** Examples include automating a key process, enabling users with mobile computing and collaboration tools, or reaching customers through new digital sales and marketing channels.

**Digital transformation, on the other hand, is about strategically reimagining a business model.** It’s customer centric—focused on meeting outcomes through radically new experiences and platforms, all made possible by digital technologies—and often entails cross-company engagement and change.

To put it in simpler terms: **Digitalization is about doing things better**, whereas **digital transformation is about doing better things**.



A business betting its future on a digitalization strategy, alone, will inevitably end up doing more of the same—just more effectively and more efficiently. But, ultimately, it won't move forward, as it is not fundamentally transforming its business model to be fit for a digital world.

## Competition Redefined

This line of thinking may lead one to question exactly why digital transformation is so necessary. After all, isn't an unyielding pursuit of business process efficiency a noble goal in itself?

To answer this, we need to take a step back and consider how digital technology has fundamentally rewritten the business rule book in recent years. The advent of Social, Mobile, Analytics, and Cloud technologies, collectively known as SMAC, or the Third Platform in IDC's parlance, signaled a fundamental shift in the nature of competition.

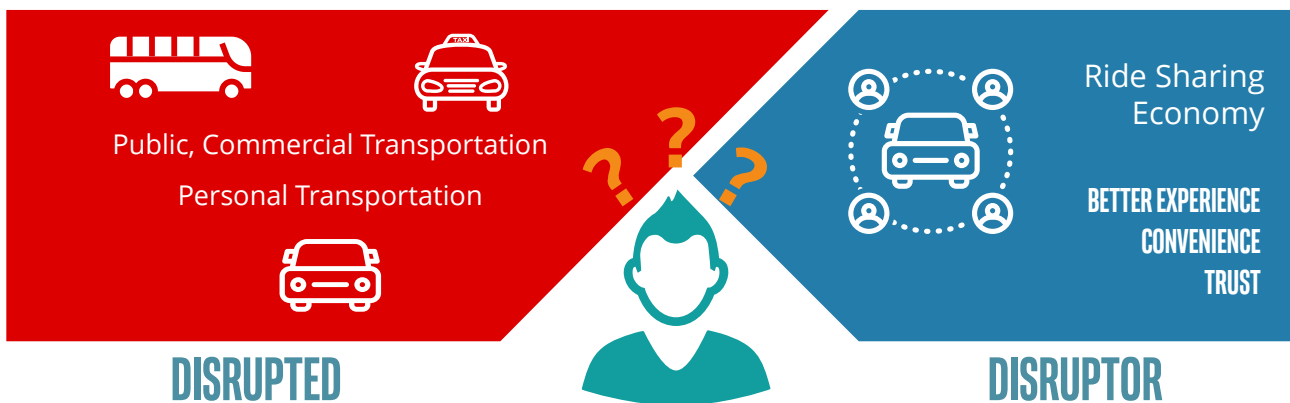
In a relatively short space of time, the SMAC-based unicorns developed from quirky startups

into household-name companies, valued in the billions. We are, of course, referring to the likes of Uber, Netflix, Amazon, Airbnb, Google, Tencent, Ebay, Alibaba, Facebook...the list goes on. But they all have one thing in common—they were able to beat traditional competition not through similar-but-better products/services, but through entirely new business models built on **experiences** and **platforms** not previously possible.

**"DIGITALIZATION IS ABOUT DOING THINGS BETTER, WHEREAS DIGITAL TRANSFORMATION IS ABOUT DOING BETTER THINGS"**

Of course, digital technologies aren't just the preserve of the unicorns. Take Nike, for example—they were quick to recognize societal shifts with consumer aspirations for both better health/well-being and individual expression. The response included the **Nike+ FuelBand\* activity tracker, which saw an 18% increase in the equipment division profits<sup>9</sup>**, and

## THIRD PLATFORM ERA (SMAC)



the launch of the **NIKEiD\* service allowing customers to personalize footwear, which itself enabled their Direct-to-Consumer business to grow consistently at 30% per annum!**<sup>10</sup> This conscious shift to transform into a lifestyle brand, selling experiences, has seen Nike move up the value chain and gain market share.

These are not examples of digitalization. However, they are examples of digital transformation in action, and they highlight why pursuing a strategy built on digitalization, alone, simply won't suffice.

## Goodbye 3rd Industrial Revolution, Hello 4th Industrial Revolution (4IR)

We all recognize that time and technology don't stand still, and laggards hoping to catch up and join the 3rd Platform/SMAC era are in for a sharp surprise. Given the pace of technological innovation, the World Economic Forum has declared that we're already on the cusp of the next great wave of change. The 4th Industrial Revolution (4IR), as it is known, is characterized as a somewhat Asimovian-sounding fusion of physical, digital, and biological systems—or, to put it in simpler terms, expect digital technologies to penetrate ever more deeply into ourselves and the world around us.

This doesn't mean the concept of SMAC becomes obsolete—rather, we see it as evolving but at increased speed:

**Social** – the technologies that enable people to share experiences, opinions, ideas, sounds, and images will evolve into ever-more immersive **Mixed Realities**;

**Mobile** – digital communications which connect people, anytime, any place, will continue to extend into physical objects, growing the nascent **Internet of Things**;

**Analytics** – will continue its accelerated development into the realm of **Artificial Intelligence**, driving new capabilities such as conversational systems;

**Cloud** – and the Cloud continues on its journey towards a **Secure, Multi-Cloud environment**, stretching from an intelligent edge to the data center—with 50 millisecond latency, made possible through 5G.

Additionally, this “digital core” will enable supporting accelerant technologies, including **3D printing, robotics, and blockchain**, to come to the fore.

This might sound a little overwhelming for some business leaders. However, one possible consequence of the 4th Industrial Revolution is its potential to once again level the playing field.

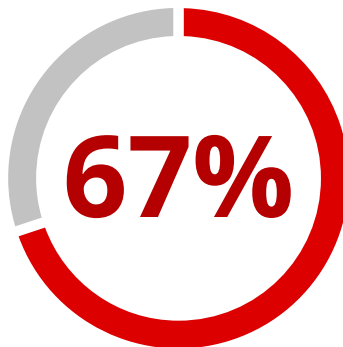
Take, for instance, the ubiquitous Uber, a poster child for digital disruption. **Last year they earned approximately \$37 billion in fares, of which 81% went to drivers.**<sup>11</sup> The advent of autonomous cars—made possible through embedded sensors, AI, and hyper-fast 5G connectivity—will remove the need for a driver.

**UBS recently estimated this could reduce fares by 70%.<sup>12</sup>** So, what happens to Uber's business model if the traditional automotive manufacturers decide to put the robot pedal to the metal, transform their business model, and put fleets of their own self-driving cars on the road? Is Uber's only value matching drivers to riders? In an ironic twist, is this 10-year-old unicorn about to feel the effects of digital disruption? The "Passenger Economy," as it's been named, is an area we'll be watching with keen interest.

Another fascinating 4IR entrant is Zume Pizza, a company fusing **digital** into pizza delivery. They have done away with traditional facilities, turning vans into mobile pizza kitchens. The vans are staffed with pizza-making "co-bots," and each van has 56 ovens equipped with GPS, ensuring every pizza is timed to be cooked to perfection

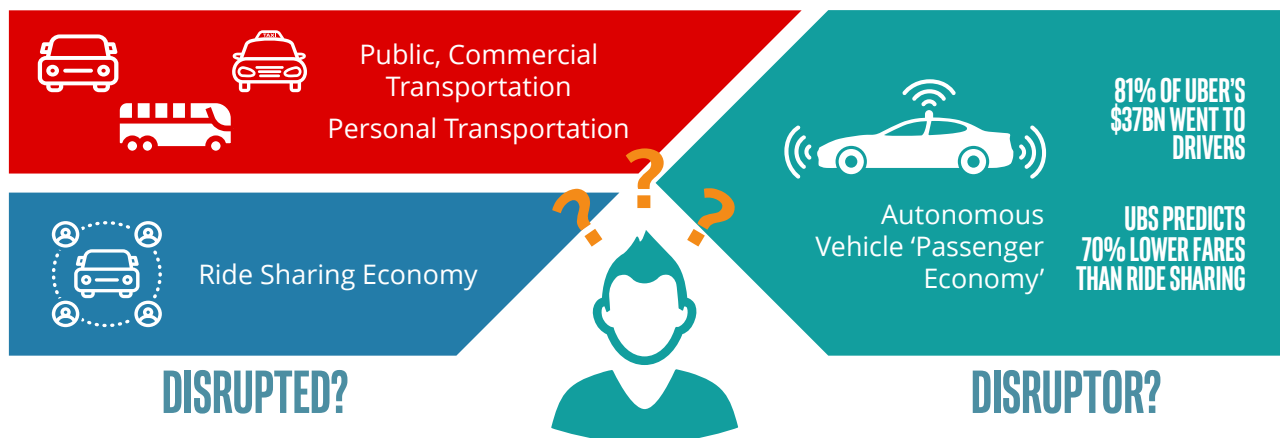
upon arrival. AI is used to predict popular pizza toppings and demand and is further used to refine recipes based on consumer feedback. The outcome? **Faster, better pizza that costs from \$10 for a 14-inch pie, compared to \$15.99 from a traditional competitor.<sup>13</sup>** Looking to the future, will fleets of self-driving restaurants be cooking our meals to order? An interesting, and perhaps slightly alarming, thought.

This relentless pace of change is set to test the mettle of the even the most passionate of digital believers and may cause some to gravitate back to the comfort zone of what made them strong in the past. As great as the temptation may be, consider IDC's estimate that a **two-thirds reduction in total addressable markets (TAM) risk awaits companies that don't digitally transform by 2022.<sup>14</sup>**



Reduction in **TAM** risk by **2022** for those who **don't** transform

## 4<sup>TH</sup> INDUSTRIAL ERA INNOVATIONS COULD 'LEVEL THE PLAYING FIELD'



## In Sales, You Talk to the Person You Sound Like

It's clear there's a new business as usual, one based on constancy of change and necessity of innovation. So, what does this mean for sales organizations?

Andy Grove, venerated former CEO of Intel, said, "Success breeds complacency. Complacency breeds failure. Only the paranoid survive." In other words, don't bank that doing what made you successful in the past will make you successful in the future. It clearly won't.

Information Technology has gone beyond the point of simply enabling the business to becoming seamlessly blended into the business—the two are inseparable. This shifts the influence points. Investment decisions with regards to technology are no longer solely down to IT—they have also become the purview of line of business and, ultimately, the board.

Leaders need help. As one CEO said to us recently, "I don't have time for the theory to become real. I need help. What don't I know? What haven't I fully considered? What are others doing that I'm not?"

This encapsulates one of the greatest challenges for leaders in today's VUCA (volatile, uncertain, complex, ambiguous) world—being able to envision their company's future state. There's also the added twist that regulation, environment, social, and corporate digital responsibility are part of the mix.

The sales executive who is best able to bring teachable insights and new ideas to challenge

the status quo will get the executive attention. This begins by ensuring all salespeople have learned, and internalized, a foundational level of "digital IQ." To be clear, this isn't about demonstrating depth of technical knowledge but about providing a broader understanding. Examples include the following:

- »» The shift from competing products to competing business models
- »» Fulfilling customer outcomes through experiences and platforms
- »» Risks and rewards of building new ecosystems and working with the co-opetition
- »» Meeting consumer expectations for social, environmental, and digital responsibility

In other words, it's an environment where we expect the "sales challengers" to come out on top—that is, leading to the opportunity through the process of envisioning, the output of which can be captured in a jointly developed, multiyear/quarter account plan.

The extent to which a sales executive can start to operate and contribute at this level determines their value as a trusted and strategic advisor.

**"IT IS NOT NECESSARY TO CHANGE.  
SURVIVAL IS NOT MANDATORY."**

— W. Edwards Deming



Sales organizations that focus on developing this type of digital IQ should see their sellers improve relevance, widen the aperture of engagement (i.e., go beyond the CIO), expand portfolio sales, and generate greater revenue.

Of course, all this is just opinion—it's not compulsory. We'll leave you with this thought from noted professor, author, and advisor W. Edwards Deming in his book *Out of the Crisis*—**"It is not necessary to change. Survival is not mandatory."**

We'll say more on this in the next issue. In the meantime, **if you want to jump-start the process, check out some of these ideas, and let us know if we can help.**

Andrew Moore  
Jim Henrys  
Digital Nexus Associates

To find out more about the authors, visit  
[www.digitalnexusassociates.com](http://www.digitalnexusassociates.com)

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