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Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 podcast. With me today is Andy Noronha. He is a Director in the Cisco Digitization Office. Where he works to develop research and insights that will help guide the future of digitization for the company and its customers. He is also a visiting scholar at the Global Center for Digital Business Transformation where he conducts research and works with executives from companies seeking to remain competitive in an era of digital disruption. Andy, thanks for joining me and could we start the podcast off, by you giving an introduction to your new book, Digital Vortex?*

Andy Noronha: Absolutely. Well, thank you for having me on, Joe. Digital Vortex is a book that we published last month through the Global Center for Digital Business Transformation. This is a partnership that CISCO has set up with the Swiss Business School, IMD, and we worked together to look at how digital disruption is reshaping industries and markets and specifically what companies can do to respond, to remain competitive in the future.

In Digital Vortex, we took a very in-depth look at how industries are being reshaped by Digital Technologies and specifically by all of the new disruptors that are entering

essentially every industry. We look at how they're reinventing value for customers and what strategies today's companies, today's market leaders can employ to fight back and essentially beat disruptors at their own game. In the second half of the book, we look at specific approaches that companies can use to build something we call Digital Business Agility in the organizations, and we feel this ability to be agile. It's extremely important to any companies that are looking to succeed in the future, no matter what industry they're in.

Joe: *I'm going to throw a curve at you right at the very beginning and bounce away from the book for a second. How did you find working with 3 other authors? How did the material meld and how did it all flow? I'm always inquisitive about that.*

Andy: Well, it was a great process actually. Two of my co-authors are colleagues at CISCO and also our visiting scholars at the center. The fourth co-author is a professor, Michael Wade, who teaches at IMD. We were all geographically distributed. Mike is based in Lausanne, Switzerland. We have James Macaulay who's in Vancouver, Canada and then Jeff Loucks is in Columbus, Ohio. It was a very distributed way of working, sort of a follow the sun model. We each really brought our own and different perspectives to the project. I think it was a great example of bringing ideas together. It also helped, obviously, having 4 authors can do a lot of brainstorming, a lot of testing of ideas and really it's the opportunity to bring different perspectives to the table which is something we actually highlight in the book as being important to innovation.

In the appendix of the book we, the way we published the book is sort of a living example of digital disruption. We used all sorts of new digital tools to do our research. In fact, to

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publish the book we used a self-publishing model via Amazon. In the back of the book, we actually have several pages dedicated to how we ourselves employed a digital disruption to get this book out into the hands of readers.

Joe: I think it's interesting because that's the challenge in itself to work as a team and I can't think of anything that would bring people together but also have a diversity of ideas as much as what a book might.

Andy: Absolutely and we were very intent on making this book very informative in the sense of providing very specific things that companies can do. It's been a great collaboration, obviously, with Mike Wade from IMD and all the learnings that we are able to obtain from working with customers through the center. We work with hundreds of customers every year from all different industries, and we're essentially able to hear from them what they see in the frontlines in terms of digital disruptions. We have that perspective.

Of course, we have the perspective from folks at CISCO in terms of how technologies involving the role of the network in digital disruption and bringing those two together, I think, was particularly powerful.

Joe: Well, I would have to say what I got from the book is that when I looked at digital disruption, the disruption part didn't stick out to me as much as what is it you got have to bring to the table is value.

You started out with the idea of narrowing down how digital disruption looks through the

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lenses of three value models. Can you explain them?

Andy: Absolutely. We looked at hundreds of disruptors, and we did that to understand how they're driving disruption in their respective markets, what sorts of value propositions are they offering. Essentially we found that they could be categorized into 3 primary types of value.

The first is what we call Cost Value. It's really the ability to offer customers, whether they be consumers or even businesses more for their money essentially. We see a number of disruptors employing this approach.

The second is what we call Experience Value. It's offering a better experience for a product or service, and there are again many ways that disruptors are able to do this.

Finally, the third is particularly new, and we believe a very powerful type of value that we call Platform Value. It's the ability to build a platform, mostly, most often using software to connect parties, to deliver a completely new type of value.

These are three types of value that we see disruptors using. But, what we actually found when we looked at the most effective disruptors, regardless of industry is that they employ an approach that we call Combinatorial Disruption. Combinatorial Disruption is the approach of using all three of these forms of value in very compelling and innovative ways to reinvent what customers can get essentially and to upend existing companies.

Joe: If you can use all three of them, and with a mindset that that would be the thing that

would be the most successful but you don't have to.

Andy: You don't have to, we see, a number of disruptors using one or maybe two of these types of value, but I can give you an example of combinatorial disruption which is one the probably most of your listeners will know about Tesla. When we look at Tesla, we see that they definitely offer Cost Value. For instance, they allow their drivers to save on fuel costs. Their recent purchase of solar city, a value proposition there is lowering your electricity costs. Another example is, you wake up in the morning, and you have a better car than the one you bought through free upgrades.

Those are all types of Cost Value. They offer Experience Values. The new types of capabilities that they're offering like autopilot, the ability to buy directly online rather than having to visit a car dealership and things like their service model, which is based on the concierge model.

You look at the third form of value, Platform Value; it's a very innovative set of approaches that they're using, right? I've often heard that Tesla called an iPhone on Wheels. Essentially it's a rolling software platform. I think their most ambitious type of platform value is what they're looking to do essentially replacing gas stations as a platform with their supercharging network. An example like Tesla shows how a company is able to combine all three types of value in a compelling way to reinvent the overall value that their customers are able to obtain.

Joe: *Are there others or is there one that was just kind of there that didn't make the cut. I mean you mentioned a hundred that you really categorized. Did you just about come up*

with the fourth category?

Andy: Well, we feel that these three categories do a good job of explaining these leading disruptors. Of course, you mentioned that there are examples where we see these disruptors use one or maybe two types of value. For instance, if you look at Wealthfront, the robo-advisor into, use machine learning and other technologies to reinvent wealth management. They are able to offer their services for a fraction of the cost, all right, of traditional wealth managers. Of course, we've seen a number of other disruptors enter that market and now responses from large financial services institutions building their own robo-advisers, buying robo-advisers or partnering with robo-advisers. It's not that just, the disruptors are pursuing these strategies. We see that quickly the market incumbents learn, right, learn from these disruptors and start to employ these types of values themselves.

Joe: *The chapter, of course, that caught my eye, and I think everybody will say it is, the one where you have extended the value of conversation to vampires and vacancies, okay.*

Can you start with vampires? Who are they and what do they do?

Andy: We have a lot of Vs in this book, Joe, vortexes, vampires, vacancies. Value Vampire is a particularly pernicious type of disruptor that we've identified in looking at many examples across industries. What Value Vampires do is to essentially drain a market or an industry of profits and or revenues. Most often they use Cost Value to shrink the margins of incumbents, but they may also combine it with Experience value and Platform value to drive market share. I can give you two examples.

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I think the original Value Vampire is Napster, right? We all remember Napster what they essentially did is reinvent the Cost Value for the industry and the Experience Value, right? Consumers no longer had to buy CDs with a lot of songs they didn't like. They were able to unbundle songs. Essentially, they were offering music for free, right, even in the sense it was violating copyright issues, but they did offer that Cost Value and they opened the door for other disruptors. That's one example.

One thing that we've learned is that once the Value Vampire is sort of out of the coffin, you can't put it back because it's not necessarily the disruptor which changes the market. It's the disruption. That first disruptor might fail but once that business model is out of the bag, and everybody knows about it there're going to be an endless number of other disruptors who are going to look to employ that business model and, in fact, large companies too.

It's really about the disruption, not the disruptor. Another example of the Value Vampire I can give is Whatsapp. We saw SMS volume increasing very rapidly, and as soon as Whatsapp came on the scene. I believe it was a 45 or a 50-person company. You saw immediate participants drop off in SMS volume. In fact, after Whatsapp launched their offering, that resulted in $27 billion in lost revenue for Telcos. These are just two examples and of course, there are many other types of disruptors, but we believe that the Value Vampire is a particularly dangerous form of disruptor.

Joe: *What about the vacancies, the other side of it is that just like "nobody's home," it's just wide open over there?*

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Andy: Value Vacancies, we believe, are actually the upside of the digital vortex and digital disruption for today's market leaders. We believe the strategy, the nature of strategy and strategic planning is changing. In the past, a company could set a strategy and then executed that strategy over a number of years. However, in the digital vortex, where we see industries dissolving and recombining, we see new disruptors emerging, markets are fleeting, right?

We've defined something we call Value Vacancy, and a Value Vacancy is a market opportunity that can be exploited profitably using digital disruption. But, these market opportunities, they appear very rapidly, and they may disappear very rapidly as well. If you can think of it, it's almost like a kaleidoscope, right, where you get markets emerging and markets vanishing very quickly. What that means is that in order to capitalize on these opportunities, we believe that agility is a key capability. The ability to enter new markets and, in fact, exiting new markets when it's appropriate.

Joe: *If I'm an established company, and I'm looking at these things, don't I have to fight it? How can I prevent it or delay that from happening to me or do these upstarts with digital vampires and digital vacancies start taking market share away from me? What do I need to do and is the book, does the book cover that maybe?*

Andy: In the book, we described the Strategic Response Playbook, which is a way to look at what strategies today's market leaders might employ in order to combat disruptors. If you're a company today, and you occupy a given market, maybe you have a dominant market share. You might face a disruptor. Maybe you're already facing a disruptor in your market. The question is 'what do you do about it.' You have several strategies.

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First, you might decide, There's really nothing I can do about this disruptor, and I'm just going to harvest. I'm going to move into what we call harvest mode, which is to, it's really a defensive strategy, and it's aimed at blocking disruptive threats. You might employ, for instance, regulatory barriers to competitors. You might drop your cost tremendously and try to put the disruptors out of business, right, but really your defensive strategies. But, the end goal is optimizing the performance of the business segments that are threatened for as long as you can. Eventually, you might choose to retrieve from that market which is also a defensive strategy, right, and that's aimed at a very strategic withdrawal from the segment. Now, obviously, those two are defensive. Now, what do you do if you don't want to harvest or retrieve?

Joe: *I want to be offensive.*

Andy: Exactly. If you want to be offensive, if you want to beat disruptors at their own game, we believe the strategy is essential to disrupt yourself and to disrupt the disruptors at the same time. It is using these strategies that disruptors are using and the ones that we described in detail in the book to essentially beat them at their own game, right. It starts with looking at the types of value that your customers obtain from your own company and then from disruptors and seeing if you can not only match but also beat the types of combinatorial value that the disruptors are offering.

All of that value is essentially the reinvention of a business model, right, it's business model innovation. But, that cannot happen without all of the operating model innovation to support that. That's going to have to take place across the organization in the area of

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people and culture, into your business processes, in the area of leadership and technology. In the book, we go into quite a bit of detail about how you can accomplish that sort of commensurate operating model changes required to drive these new forms of value. It all requires agility at the end of the day, right? We believe the digital vortex will never stop spinning. We're not going to see the end of new disruptors. Companies are really going to have to take a different approach to innovation and remaining competitive in the future.

Joe: That's what you spend the second part of the book on is agility and I kind of look at agility as the buzzword of the decade. You put some substances to it by breaking it into three specific segments, and I love the way you do that. Could you just cover those segments briefly?

Andy: Absolutely. Well, first, let me just start off with a quick observation of about why it's important, all right. We asked a thousand companies around the world, "What do you see as the relative advantages of disruptors versus the incumbents?" And, for the disruptors, I said, "It's really three things. It's innovation, agility and the ability to experiment and take risks." They said, "As market leaders today, our advantages are, we have capital, we have a strong brand, and we have a lot of customers. But, what we find is that those traditional advantages of large companies are fleeting."

When I checked a couple of days ago, there were 170 unicorns, right, so a tremendous amount of capital available to disruptors. Who had heard of Instagram 5 years ago? But, today, it's a global brand, right? You can build a brand very quickly, and a Whatsapp has a billion users. I can't even think of a traditional company or a current incumbent that comes close. We believe, therefore, that today's companies, their response is to develop what we

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call digital business agility, right, to become agile at disruptors in order to beat them at their own game.

We believe digital business agility is really comprised of three core capabilities. The first is what we call hyperawareness. It's the ability of an organization to sense the right information and that can be in the workforce, in its customer base, in its operating environment, and in its business environment. In the book, we described a number of case studies about how companies using digital to do this in very innovative ways. For instance, using the Internet of things in operating environment, who are using various types of analytics and to do things like work pattern sensing in the employee base. But, it's not enough to simply get that information, all right, to sense it. You're going to have to use it to drive what we call informed decision making, and that's making the best decision possible in a given situation, and this is not analytics as usual.

In many companies the belief is that analytics should be in the boardroom, or it should be in the hands of a data analyst. But, what we see are very novel uses and approaches. For instance, something we call ubiquitous analytics which is essentially unleashing the part of analytics to every employee in the company in a way that they can use it to benefit their work. It's doing things like simplifying analytics, embedding it directly in the work process so that somebody can use it to make a better decision as they're doing their job.

We visited DHL, their innovation center in Germany and they took us through a pilot that they've launched in their warehouse called, around vision something, called vision picking, right. In a warehouse, picking is the process of moving a box, maybe getting it ready for shipment and they have outfitted their warehouse workers with glasses, augmented reality

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glasses, which were tied into a backend analytics system but which provides a very graphical, intuitive way for them to locate packages or boxes and find out where they need to be put. They don't have to use a terminal. They don't have to take an iPad out or a tablet out. Instead, they can do it as they're working, right. We see this approach being mirrored across a number of industries.

And then, finally, yet again, it's not enough to make the decision, you have to act at speed, and we call this Fast Execution. Fast Execution we break down into two areas, the first is what we call Dynamic Resources. How do you build the technology foundations required to execute, all right, and then dynamic and then, talent, right there, the other area's talent? How do you get the right skill set in your organization into the right place, on the right team to drive progress? Finally, dynamic processes, this is the ability to create new processes very quickly which is very important if you're going to try and compete with agile disruptors. It's also the ability to intervene when necessary to adapt and change processes.

What we believe is that companies need to have all three of these core capabilities. They need to have hyperawareness. They need to have informed decision making, and they need to have fast execution in order to have true digital business agility.

Joe: *How do I get started with that type of agility? We're all collecting information now it seems. Most of us just have too much of it, don't know what to do with it and how to process it to make it useful. Is that true?*

Andy: Today there's certainly no shortage of information. One strategy that we've

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discussed, it's the process of working backwards to the business outcomes that you want. Once you know what you want to achieve, then you can work backwards to understand the type of information that would be useful to capture.

I can give you one example. There's a company called HumanEyes, which is, emerged out of MIT which makes essentially badges that employees or workers can wear which detect about 40 different types of data points. All right, everything from whether somebody's leaning in, in a conversation to their tone of voice. They don't actually listen to the words that people are speaking, but it's about, it ends to being about 4 gigabytes of data a day. What HumanEyes does is it works with companies, essentially runs experiments. So, these are not badges that employees wear all the time, but they're able to give a company a snapshot into something we call work pattern sensing.

Peter Drucker called knowledge work 'grotesquely unproductive' because if you think about it, if you're a worker in a factory, right, it's fairly easy to measure output, to measure efficiency but for knowledge workers who spend a lot of time in meetings, communicating via e-mail and so forth, essentially a black box, all right, we have no visibility into things like that. There's one example, HumanEyes work with Bank of America and they ran an experiment in one of Bank of America's call centers, what they found actually is that by restructuring break time, so that everybody took a break at the same time instead of a staggered break and increasing it a little, they're able to drive productivity improvement up by 10%.

This is an example of maybe a not so intuitive finding that was, that emerged through the data and through these new forms of technology, in this case, an IoT, Internet of things

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application. Sometimes, you don't actually know the answer but you kind of know what you need to sense. Right, in this case, they needed to sense how their people were working, how they were doing their jobs and, luckily, they had the digital technology available to be able to accomplish that.

Joe: *Popping up in my mind here, "And he who wins is he who learns faster from their customers than their competitors."*

Andy: Yeah, I couldn't agree more. All right, so, the importance of continuous learning to the organization, I believe is more important than maybe ever before. That's the first step. And then the ability to translate those learnings into the right actions through agility, I think, is sort of the second, the second part of success. And so, absolutely to your point that 'learning can come from customers', but it can also come from many other sources, right. The ability to do something we call Insight Capture from the employee base. We're seeing all sorts of innovative approaches to that really move beyond sort of the annual survey, right, to being able to capture real-time insight, critical insight from the employee base and that can be used as a source of learning, the ability to be hyperaware about the business environment, all right, and to capture all sorts of data that were just quite simply not possible before.

Joe: *We're going to make better and better forecasting decisions because of the information we're learning and with this agility, is that really going to help us maybe from a forecasting perspective?*

Andy: First of all, we have many more ways to sense information, right, whether it be

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from a sensor on a robot on a factory floor to the smartphone that everybody has in their pocket which has many sensors inside it. I think, first of all, the opportunity to capture information puts us on the right foot, to begin with. But then the power of analytics technology, especially things like machine learning, allows us to get a lot more value from the data and to do it much more quickly, right. I think, finally, the benefits which you've just described in terms of improved forecasting and the lack of latency, it's only going to be amplified because of essentially the democratization of analytics, right, the ability to get those insights back to the people who are actually making the decisions and to communicate that across the organization. I really see that we are really in the midst of a renaissance in this area.

Joe: *It's exciting. I really enjoyed the conversation, Andy. Tell me a little bit about where someone can find out more about the book, connect up with you if they'd like.*

Andy: Yeah, absolutely. The book, Digital Vortex is available on Amazon. It's available in hardcover, softcover, and Kindle. We also have a website, digitalvortex.com, if you would like to learn more about the book or the Global Center for Digital Business Transformation, which again is the partnership between CISCO and IMD. And, in terms of contacting me personally, I mean probably LinkedIn would be the best way to do that. I'm on LinkedIn. So, please feel free to reach out. I'd love to discuss this stuff and would love to continue the conversation.

Joe: *Exciting things ahead. I'd like to thank you very much.*

Andy: Thank you, Joe. I really enjoyed it. Thanks for having me.
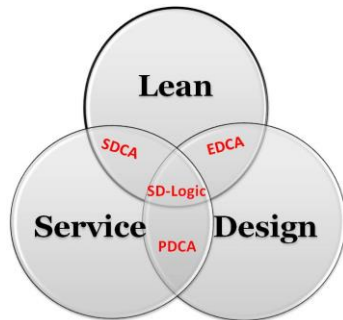
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Joe Dager is President of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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