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Digitize Your Traditional Business

Guest was David Rogers

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# Digitizing Your Business

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## **Transcription of Interview**

**Joe:** *Welcome everyone. This is Joe Dager, the host of the Business901 Podcast. With me today is David Rogers. He is a member of the Columbia Business School, is a globally-recognized leader on digital business strategy, and known for his pioneering model of customer networks and his work on digital transformation. He is the author of three books, including 'The Network Is Your Customer,' and his new book, 'The Digital Transformation Playbook: Rethink Your Business for the Digital Age.'*

**David:** *It's my pleasure to join you and your audience to talk about digital transformation.*

**Joe:** *Well, before we get there, I have to mention how relevant I think your previous book, 'The Network is Your Customer' is still today relevant.*

**David:** *Terrific. Well, thank you. I appreciate that. It's always great when you spend a fair amount of time working on a book and developing it and I do try to write the way it's not about the heat of the moment, what's happening this month or this quarter, because yeah, you hope that people can still draw value from it a few years from now, at least.*

**Joe:** *That was a great book, and that's how I did get to know you actually around your*

*work. Is there something that you would update in that book?*

**David:** You know, in a sense, the new book is, I don't know, an update. It's building on that book. That book really was looking at the whole change, the impact of digital technologies on businesses through the lens of customers and how we understand what a customer is and what the relationship is between an organization and its customers. By which I meant and clarified in the book, any constituents, so your customer network, it can be end consumers, it can be business customers, it can be channel partners, it can be your own employees. And it's really shifting from a model of looking at these customers as a lot of individuals and pretty much on the marketing point of view typically, these kind of aggregates that you slice and dice and target and push things out at and business growing to colonies of scale, through mass production of a product or service that would appeal to as many people as possible within that mass. And then communicating to them with a singular message, integrated drum beat, beating home that is designed to appeal to as many people as possible and communicated through mass media that reaches many of your target customers as possible.

The whole point of thinking about customers as a network is a paradigm from shifting your thinking from that whole view which worked very well in the 20<sup>th</sup> century, but is not how really we relate today because everybody customer, every potential customer has access to the same digital platforms and tools as a Fortune 500 company, so it's a much more just dynamic, more reciprocal, more interactive environment. It obviously presents new risks or challenges for business. You have to change really the way you're thinking about things like a brand that is no longer something you simply project out. Other people are influencing it as well, but it also creates new opportunities if you look at it through that network paradigm that you can gain all the value and learn a lot from observing these interactions going on in this networks. In some cases, you do more than just buy your

product or your service; there are a lot of other roles they can take. They can be a catalyzer, they can be an innovation engine for you, they can be a marketer at large. There are a lot of different roles that at least some of your customers who are most invested and committed can take on.

That was the whole view of the sort of framework of the last book, and I really built it around understanding these 5 core behaviors of customers in the digital era, which by my research has driven the adoption of all kinds of different technologies and platforms and digital experiences. And then this book basically is just stepping back from that book and taking a broader scope, because it's really trying to look at the entire view of the organization and saying, what is digital transformation.

**Joe:** *What makes it a playbook, though?*

**David:** Well the playbook is that the book is designed actually to give you the strategic context and then actual planning tools as well to act upon. So that's why it's not the encyclopedia or the digital transformation bible or the digital transformation, I don't know, codex of what is happening. I talk about these 5 domains, and customers are just one of them. Really the idea is that for businesses to adapt, and really I wrote this book for businesses who were started before the digital era or before the internet, and the big question they're faced now is how do we adapt, how do we need to evolve a change in order to not only not get disrupted, but find out next stage of profitable growth and creating value in new ways for our customers.

What I found working on the book was that really, the challenge is primarily not about technology. It's about strategic thinking and mindset. Businesses understandably have built up a mindset wave of framing questions, and viewing opportunities and challenges,



and defining their own business in the industry, and the vital market based on these. In many cases, decades of operation and growth and customer base and etcetera, and business practices developed in a pre-digital era. So really the hurdle of digital transformation is to uncover some of those hidden assumptions in a way that you as a new organization think and revisit them and think differently about these same key questions. It's customers thinking differently about competition. How do you find and who is your competition and what does it need to compete.

The third area is data. The role of data within every organization is radically different from what it's meaning was, and it's use and how we operationalized it in the pre-digital era. Innovation is the fourth domain. The way that we innovate really has to change. I know that's something a lot of your speakers and folks on this podcast have talked about, so it's a really important topic. And then the last is a value; how do we think differently about and how do we differently define our value. We're used to thinking about the value of our enterprise in terms of the industry we're in. This is what we make. This is what we do. We're a car company. We're a newspaper business. We're a museum. That's fine in a fairly static environment, but in an environment where category definitions in industries and markets are changing so rapidly, how do you think about constantly evolving your value proposition and understanding what your value is to the market is going to be different in the future in this today and not waiting until you're in a crisis, that you're about to fall off a cliff of relevance to your customers but staying ahead of the curve and seeing where, whether you provide transportation, or professional services, or artistic inspiration – whatever it is that you as an organization delivers via their customers, who do you understand where that value is, is going and evolving.

So that's sort of the 5 broad area, it's a big canvas. There're 5 broad areas but in each of them in the book, again it's a playbook because not only are there cases and analytical

frameworks for thinking through these changes, but there's also strategic planning tools to take these ideas and put them to work hopefully in your own business.

**Joe:** *Well I have to say, besides your previous book and through the title that I looked at and everything, the reason I purchased the book was because I got a glimpse of the value proposition roadmap.*

**David:** That's one of the tools.

**Joe:** *Tell me how that emerged in your thinking and then how it developed.*

**David:** This is one of the strategic tools in the book, and it's a 6-stage process. Basically, it came from looking and spending a lot of time looking at and working with and talking with companies that were in a process of change and were questioning what's our value to the market and where is this going. Including even higher education, faculty member client business school; we and all of the other top businesses schools are really rethinking what is the value of a business education today, tomorrow, where is it going, how are the needs of the market changing. And I've worked with lots of other industries and companies through consulting and advising and seeing what is the process, and really it's identifying, and you're really getting deep into your customers. And really, if you want to do a roadmap of your value proposition, you have to understand, it's very useful to segment your customers based on the value that they receive from you, which is not necessarily the traditional way of saving the customers, and then to define clearly your value proposition for each of them.

I find it most useful in the businesses that I've always worked with to look at a value proposition, not as a singular statement, but it's a collection of elements. I usually call

them value elements. So getting that list, what are those key elements of value that are going to vary somewhat, you're going to have some overlap between the customers, and how does come together to create an overall value proposition for each of these segments.

Then you're in a position to start looking at a granular level, what are the emergent threats. It's just typically new technologies, changing customer needs, your competitors, substitutes, a non-traditional asymmetric competitor, and once you have looked at that, you're able to assess the strength of the various elements you have. You're going to say, well we're a business school, there are certain things we've always provided for rising business leaders, and some of them you may find are still uniquely in demand, some of them you may find are no longer quite as relevant as it were in the past, and some of them would even say, oh the customer actually needs us but now they have a lot of other ways to answer that need, so maybe it's no longer a uniquely important role for our organization.

In addition, once you've identified the relative strengths of the different elements of your current value proposition, the next stage is generating new value elements and looking at the same changes, new technologies, new social-cultural or business trends in the market, unmet needs that you can identify for your customers to generate new elements of value that you can create.

A great example, I talk in the book about the Metropolitan Museum of Art in New York and how they are thinking about changing role of art, and history, and culture, and aesthetics in human society and saying, look we have these incredible galleries and incredible art, but what are other ways that we are now sharing and connecting and experiencing all these things? So they're using digital tools very smartly. It's not just about jumping on everything, and they've got to open the first snap chat and this account and this and that,

but looking at which ones are really relevant to our experience of the kind of value they create and using those to generate additional elements of value for your value proposition and then finally synthesizing it. This gives you a forward-looking strategy.

Again, the goal is not to wait until you have been disrupted by a series of changes in the market but to stay one step ahead of the curve and to be constantly adapting, always around this non-defensive orientation, but proactive in customer-centered orientation. It's a real difference from looking at every new change in the environment, every technology, a new trend as asking yourself, well how is this going to affect my current business model. Instead, what you want to be asking yourself is how could this open up a new opportunity for the next new kind of value that I can create for customers, and I wasn't able to leverage them in the past. That's sort of the mindset orientation behind the roadmap.

**Joe:** *I took the roadmap as two pieces. Here're my core capabilities, here's my... kind of like a SWOT and do it per market segment or however you're going to break it out. As you mentioned there, breaking it out into what you value, you supply different customers. And then the second part was taking my future value proposition, what I need to be offering and what I need to do. For a startup, how does a startup use that roadmap? Do they jump just to the second part?*

**David:** It depends on how fast your startup is moving. I mean startups can be a lot of things. The book is designed really... All of these strategic concepts within the book apply completely just as much as to a new startup, as to an existing enterprise, but the book is sort of written towards an audience of existing companies because I found them to be very underserved. There are so many books that I have read about... here's how you can create the next Netflix and the next Uber for pizza. I think the same analysis of the value proposition roadmap could be used to think about even a new company to say, you know I



was just talking to a firm last week at the CMO Academy that I was teaching with Google, affirming in this streaming music business and I think there between first and second round of financing and he's already seeing the market changing. And he's thinking about can we go fast enough to shift because we had a great product, a great value proposition we started working on 12 months ago, 18 months ago. But now the market in terms of customer's needs and behavior is moving and how do we adapt to stay ahead of that. So it's not too early to start.

**Joe:** *I have to compliment you because the value proposition roadmap was worth the price of the book. It was one of the better descriptions that I've seen on value propositions and how to organize your thoughts around it and how to build it out, and I want to compliment you for that.*

**David:** Well thank you, Joe. I appreciate that.

**Joe:** *But there's other stuff in the book.*

**David:** Yeah, that's just one chapter about adapting your value proposition.

**Joe:** *I can talk about that the whole time. But, you talked about those 5 domains – customers, competition, data, innovation and value, but then you have 9 tools. Do you use different tools in different places or how do those relate?*

**David:** Well, the tools are really there. The point of the tools is to be as useful as possible. Some chapters based on the concepts that were in it, and the key message it's trying to get across, one tool that I've actually developed and used with companies and found to be useful set it all. So I had to put in one. In other chapters, there were two tools. For

example, in addition to the 5 domains, the last chapter, the book is actually about disruption and looking at why are traditional, or sort of classical model of disruption has broken down and didn't work anymore. It doesn't capture most of the dynamics of digital disruption in the current year because it was developed in an era where all the cases it was based on were industrial cases and it was all based on the behavior in industrial markets.

Not to trash it or throw it out, but what I present is an updated theory. It's looking at disruption through the lens of a business model, so it's a disruptive business model theory. And that has to tools; it needs two tools. The first tool is based on this updated theory. How do you understand and identify whether or not you are generally facing a disruptive business model if you're the incumbent, or if you are the challenger, understanding whether or not you really pose a disruptive threat to existing industry or category businesses? So that's one question you really need to understand, so I built one tool around that, and I've used it with companies.

But there's a second one which is critically for the incumbents. Okay, so what if you are facing a disrupt. What if you are facing someone who has a business model that creates value for at least some of your customers that vastly outstrips your own value proposition for them so you cannot compete in a way that you would with a traditional competitor, on adding a little feature here, or adjusting the price there, engineering your way out of the problem. At the same time, also, there is something in the value network; all those components that allow them to create, deliver and capture profits from that value proposition. There is something in the way that is built, the rest of their business model if you will that you can't imitate. You're not able to simply imitate exactly what they've done. What do you do? That's the second tool. It's what I call the disruptive response planner, and there's basically 6 options, 6 possible strategic responses to a disruptive challenger.

I identified and gave cases for each but also the first part of that is actually there are certain analytical questions you have to ask to figure out which of these 6 options are available to you because as a general rule, you won't be able to choose among all 6, depending on certain factors, customer trajectory, disruptive scope, the existence of other incumbents threatened by the same challenger. And once you understand those, you can figure out which of these possible responses you might be able to avail yourself of and try to proceed accordingly. So again, there're two tools because there're two sorts of very practical decision questions that you need to do to apply this theory.

**Joe:** *Sometimes, you do get blindsided as a company. You're not looking at it the same way an outsider might be looking at it, right?*

**David:** Absolutely, absolutely. You're used to competing with companies that look like you. That's the key message of the chapter on competition. Competition used to be mostly it's a zero sum game was the idea. It's a black and white; you're either with us or against, you're one of our business partners, or you're a competitor. If you're a competitor, you're a peer. You're a business that has the same business model similar sorts of products. You know, one car company competes with another car company who each manufacture cars, and sell them, and lease them, and we have a similar maybe range of price points and models, and we have similar assets, and we have similar types of employees.

You may be facing an asymmetric competitor like a Google who's going to come in and develop software that even if Google doesn't make the car, if they take the Android route and say we're not going to be the primary hardware manufacturer, they may want to be becoming the center value within the new version of what a car is, and you become a commodity, so that's a natural threat. Or maybe you have another asymmetric threat, somebody like Uber that the challenge is, and this is already happening, of course, Uber

still needs cars to operate, but there has been a reported trend that the presence of Uber is impacting decisions about buying a second car for the home or family. It's not that they stop buying cars, but they may be buying fewer because there's this more liquid asset in the market. So again that's not an asymmetrical, traditional competitor.

That's what I find that these businesses that are used to competing with a certain class of companies like them, it's really useful for them to have some of these tools to think differently about the organization of the businesses that are around them.

**Joe:** *In the back of the book, you put a self-assessment and asked are you ready for a digital transformation. What if I flunked that? What if I'm not?*

**David:** Well, then hopefully, I guess the good news of that is you bought the right book. If you ace it, everything on it, then you're like, oh okay. You might find this book is helpful. Typically in a given organization, one or more of those domains is more of a problem. You are further away from... you have more ground to cover in shifting your thinking and orientation for the digital age. One of the interesting things, using this actual self-assessment tool... The executive education programs are what I teach at Columbia Business School. That's for senior executives and businesses around the world who want to take a few business days off and dive deeply into a topic like digital transformation. I had a group, 25 executives, 25 companies from 16 countries, all different industries and it was very interesting.

They took the self-assessment and data actually wound up being one of the most common challenges for them in terms of their strategic thinking at their organizations. Particularly, it what this is a statement, choosing between does you either say our data strategy... No, it was we are focused... The third one, we use our data to manage the day to day operations

versus we manage our data as a strategic asset that we are building over time. And a lot of organizations reported that they were not there yet. They hadn't really embraced this idea of thinking about data as a strategic asset. We can sort of pinpoint what are some of your areas that you most need to drive change in the organization

The second half of the assessment, it's not that long, but the second half is on organizational agility. This is more looking at even if you have the right strategies and ideas, are you able to change what you're measuring. Are you able to change what people are recognized and awarded for within your organization? Are you able to change how you allocate funding and resources? Because a lot of times, you may have people at the top or a great strategy team who develops this vision of where the industry is going and where your business should be going, but if resources are held hostage to traditional aspects of the business that are cash cows in decline or if nobody is rewarded and promoted based on taking on assignments to develop these new risky or emerging ventures and opportunities, if your metrics for success are all based on how you measure and establish a line of business, all these kinds of things can hinder your ability actually to move quickly even if you have the right strategic mindset.

**Joe:** *The agility and the flexibility because that value proposition is going to be changing the different models that would be disruptive, so it's really about constantly monitoring and being on the edge of what's going on with our customers, and really kind of staying in tuned with our customers is the way we keep ahead.*

**David:** Yes, absolutely. I talk about this idea, what I call continuous value creation and really the point is to be continuously focused on the customer and always asking yourself, how do I create, how do I find new sources of value that I can deliver to the customer that weren't possible before? It's not enough to even be customer-centric and say, well here's



how I have always run my business and what I do that's valuable to the customer. In an environment where business is changing so rapidly, you also have to be saying, always on the lookout for what are the new needs, what are the new opportunities, what are the things that I could do for my customer tomorrow that I couldn't do for them yesterday, and that's really the defining hallmark of organizations that are going to continue to grow and thrive.

**Joe:** *To be enabled to monitor and evaluate and be part of our customer's experiences is really what it's..., maybe it's not as digital as we may think it is.*

**David:** It's a good and fair question. You could say, well it doesn't necessarily need to be digital and in a sense, I would say, and a lot of actually the strategic tools and the concepts in the book and I point that out. Like when I talk about platform business models, I really break it down and look at the strongest theories for understanding platforms, coming out of Noble Prize winning economics and point out that these are not new. There were platform businesses before the digital area. Now, they are supercharged because of certain dynamics of digital technologies. It is why platform business models are becoming more powerful, faster growing, more influential than ever.

A lot of these forces, when I talk about the shift towards innovation through rapid experimentation and reducing risk through smarter cycles, you know these things, they've been forces that have been in the works and in many ways are driven partly simply by rapidly changing the environment, therefore the need to more constantly test assumptions. But they're also the digital revolution is creating new tools and more ways that you can build a business, as an Amazon and a Google where basically everything you're doing is a constant experiment.

There is no uniform product or business model or service. It's all being driven by, and you might say accelerated by the digital revolution, but the core tenants are things like custom centricity, value to the customer, changing the way that you innovate and learn, driving learning in the organization. It is not a book about what's the right Cloud technology I need to plugin and how do I use this or that social media tool. It's really more about a business strategy.

**Joe:** *I'm going to deviate just from that a little bit. As the consumer, how do I evaluate companies now? I mean do I want to be part of a continuous learning process? Do I just have to accept it? I mean, do I want to be constantly prototyped? There's a comfort of knowing what you're going to find when you open the door, isn't there?*

**David:** I mean as a customer, what you care about is the value that's being delivered to you. The whole reason why constant experimentation works for Google is because they're using it to improve constantly their search results and test it out in real time, and likewise other companies, like Netflix. The way that they're constantly showing and trying to figure out what is the content that people really want at specific moments in different contexts and times of day and so forth, and what's relevant to you versus someone else. For them, they see it as experimentation and testing; for you experience as a constantly evolving and improving customer experience. If you don't, then that's a problem.

I actually talk about that as one of the key lessons in the chapter on innovation is it's kind of about translating some of these concepts of the Lean Startup and things that come out of the world of small businesses, how do you translate them to the enterprise level? And they do need some adaptation and particularly this idea of the minimum viable product. I talk about minimum viable prototypes because sometimes this should all be going on before the main customer ever gets it, and when you do it in the process, and you've got

an opportunity that you've identified through your innovation process and you're going to take it to market, it's very important to think about the different paths to take that out. I talk about 4 paths of scaling up in innovation.

If you did it wrong, what you get is like Google Glass is one of the examples that I talk about. They tried to scale up and roll out the innovation the way that you would Gmail, and that was a completely wrong fit for that kind of product. It's not what you do with a consumer electronics hardware product which is going to be much slower to iterate upon launch and which do to its nature, basically because of its video recording features, as well as the visibility of the brand of Google, there was no way you could contain that launch. They thought, oh well, just to a limited release. The entire world was watching Google Glass. And so they really took the wrong path. They didn't understand that it was not the same kind of product as a Gmail or Google Maps.

Understanding what path you can and can't take to scaling up in innovation is really important because yeah when I buy a car, I don't want to feel that it's somebody minimum viable product in the sense that they're still figuring it out whether the seat is comfortable this way or that way. I want them to figure that out before I bought the car because they can't update this car seat the way you can a software with a bug the next week. It's important to understand these distinctions.

**Joe:** *The part that I like about and I didn't probably even say it enough is that you seem to have a tendency which is a firm belief of mine is that you can really build from understanding your core customer.*

*Your book sort of had the Ansoff Matrix in it, and that's kind of how I look at things. I look at that, a customer with a regular product is our standard work, what we do, and we try to*

*create efficiencies and affect in this and that room, and then, of course, the next is the market we explore is given new products to existing customers, and then much more difficult is giving our regular products to new customers, right? When you go to the new customers and new products - and new value, I like that - that's when you go to that Lean Startup, that MVP type thing and now in that area and that is extremely difficult but if you understand those core capabilities and how you're approaching those other two quadrants - there are all 3 quadrants I should say. That fourth one is as difficult, but just a jump to that fourth one is really difficult. Would you say you agree with that analogy? What am I missing there?*

**David:** You know it's interesting, I think it depends on what's going on in your market. I mean I use the Ansoff Matrix, and I slightly adapt it because I'm applying it to the scenario where your current market is shrinking. It was looking at what do companies do when you can't keep delivering the same product to the same customers. It's declining their relevance or they no longer need it or something like that, and I gave some examples of the Mohawk Fine Papers and some of these other traditional newspapers, the Deseret News, and the Encyclopedia Britannica. They couldn't keep saying, all right we'll just keep delivering the same product to customers and iterating it. That wasn't an option.

It's the variation on Ansoff when one's quadrant is taken out of the equation, what do you with the other three or how do you make them work? And my observation is that at least today, actually simply selling the same thing to new people is least likely your opportunity because markets are so flat and connected at this point that the idea that you're going to have a bunch of new potential customers who could use your current value proposition that hasn't discovered it yet is just less likely.

Really that winds up putting the onus on adapting your value proposition as the title of the

chapter. Certainly you want to start by saying how can I create a new value to my current customers because that's who knows you, and that's who you know, and should know best. But very often, simply doing that will lead you into the fourth quadrant. Once you're doing that right for your current customers, new customers may start to be attracted to you. My council is in the current market; usually, you do better by looking at how can I create more and better and different value for my current customers, and that will take you down the right path.

**Joe:** *I know, and I think I read it in your book and correct me if I'm wrong but the Encyclopedia Britannica when they actually stopped printing their books, there was only...*

**David:** It was 1% of their sales at that point.

**Joe:** *Yeah, it was nothing, right?*

**David:** Yeah, yeah. So It's fascinating. And some people actually, I've met people who have been using it as an example of disruption. Because all they read was the headline, 'Encyclopedia Britannica stops printing after 200 years...' Yeah, but what about the business case? The business actually survived. And it was tough; it didn't happen overnight, but it's a really interesting story of exactly, by adapting their value proposition and figure out well, what can we do for this same kind of customers we've served, they were able to make a transition. I think it's a surprising and hopefully inspiring story for companies who feel threatened by a lot of change in their industry.

**Joe:** *Oh, definitely some motivating story. I didn't remember the particulars of it, but when I read that, it was like, yeah! If they can, why can't I, right? It's very well said, and I think your book does a great job of it. I think it's much more than a playbook. I think it's a*



*bit underselling of it a little bit. Your book does give you an idea of how to put things into practice. Maybe that's the playbook side, and you did an awesome job there.*

**David:** Well thank you, Joe. I appreciate that. That's my hope.

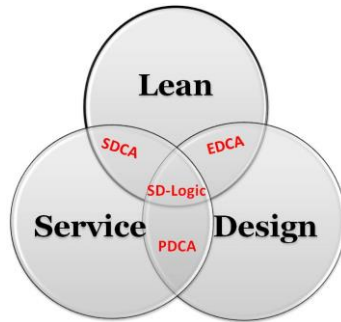
**Joe:** *Is there anything you would like to add about the book that maybe I didn't ask?*

**David:** Just to let people know where to find it and that I've got some tools online on the website. If you go to [digitaltransformationplaybook.com](http://digitaltransformationplaybook.com), that will take you to my Website. If you sign up, you can get copies of all the tools within the book so that you've got PDFs you can share with your team and fill out and so forth if that's so helpful, and there're some additional supplementary materials on the Website. But the book is available on Amazon, Barnes, and Nobles, 800-CEO-Read. Every major bookseller now, it's been out for a couple weeks in the US, and it's now out in all European Markets they print from, so hopefully check it out if you want to look on the Website and learn a bit more about it, but I hope it's useful for some of your listeners.

**Joe:** *I think it will be, and I think it's a great book, and I would encourage everybody to buy two books if they don't have the first one or 'The Network is Your Customer' book.*

**David:** Terrific. Thank you, thank you, thank you, Joe.

**Joe:** *Well, I would like to thank you very much, David. This podcast would be available on the Business901 iTunes store and the Business901 blog site. Thanks, everyone.*



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