Disruption Deluge:
How Tomorrow's Leaders Will Survive the Storm

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The world has changed – and we haven't seen anything yet

"Half a century ago, the life expectancy of a firm in the Fortune 500 was around 75 years. Now it's less than 15 years and declining even further," author Peggy Noonan wrote in an article on why big companies die. We are living in a time of unparalleled business change and disruption; an era where 50 per cent of the Fortune 500 from 2000 no longer exist. An era where 40 per cent of today's Fortune 500 companies are estimated to disappear in 10 years, according to researchers at Washington University. Who will replace them? Professor Richard Foster from Yale University estimated that by 2020, 75 per cent of the companies that will be on Standard & Poor's (S&P) 500 index hadn't yet been founded.

What's changed? Mergers, acquisitions and bankruptcies have changed the make-up of global corporations as we know them, while new entrants to every market threaten the very existence of incumbents. Perhaps more fundamentally, the twin forces of digital disruption and the changing nature of the workforce (and of work itself) are unleashing vast changes across the global business landscape.

Erik Brynjolfsson and Andrew McAfee argue in their book *The Second Machine Age* that technology is *the* major catalyst for disruption. Unprecedented levels of innovation and technological improvement have inspired a new wave of disruption that goes far beyond helping businesses become more efficient or automating manual processes.

And it's only going to get faster and more disruptive. Klaus Schwab, in his book *The Fourth Industrial Revolution,* states, "We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before."

> Digital disruption and the changing workforce are unleashing vast changes across the global business landscape.

From established market leaders, to fast-growth start-ups, the impact of digital disruption is being felt at all levels of the business world. But what do we mean when we talk about digital disruption? Simply put, digital disruption is the change being wrought by the inexorable march of long-term trends: Moore's law driving more powerful computing, faster networking, and cheaper storage. The effect of these changes is cumulative, with each successive innovation building upon the last. The pace of change accelerates over time. A short list of what's impacting business today would start with the above and add cloud computing, big data, mobility, open-source software, in-memory computing, and the API economy.

These innovations have radically changed the playing field for businesses. Forrester's James McQuivey describes this transformation: "The force of digital disruption doesn't just reduce barriers, it obliterates them. This allows the disruptor to take new ideas… and rapidly pursue target customers at almost no cost and in the space of a few days, rather than years."

Smaller entrants to the market can approach mature markets with the goal of solving problems faster, better, and cheaper. Businesses no longer need to make huge investments in technology infrastructure or a large workforce in order to compete. Disruption is creating entirely new business models, and new types of products and services that are made possible by digital. In addition, today's workforce is more multigenerational, mobile, and global than ever before.

> Businesses built on legacy technology will not be competing on a level playing field with organisations using the latest technologies.

As Meg Whitman, CEO of HP explained, "We're in an era of relentless disruptive change for business and governments, with a huge host of new business models. No company survives without adapting, without the ability to rethink, to change and to renew."

We are entering the era of disrupt or be disrupted. As Rhys Grossman of Russell Reynolds Associates noted in the *Harvard Business Review*, the most disrupted industries typically face a perfect storm of two forces. First, low barriers to entry into these sectors lead to more agile competition. Secondly, they have large legacy businesses that often generate the majority of their revenue. These organisations have embedded cultural and organisational challenges when it comes to changing at the pace required.

If "faster, better, and cheaper" are key tenets of digital disruption, then, as we'll discuss later, businesses built on legacy models and technology will not be competing on a level playing field with more agile organisations using the latest technologies. We believe that legacy approaches to technology and culture are inhibiting established organisations and that 20th century businesses are poorly equipped to empower the potential of their people.

As digital technologies continue to transform the economy, many leaders are struggling to set a digital strategy, shift organisational structures, and remove the barriers that are keeping them from maximising the potential impact of new digital technologies. However, many long-established organisations are defying this perceived inability to adapt and are embracing self-imposed disruption before it comes to find them.

Disrupt or be disrupted: How businesses can thrive in the digital age

Ten years ago, probably no one saw the taxi or hotel businesses as ripe for innovation. On the surface, neither Uber nor Airbnb looks like a particularly threatening competitor. Neither owns vehicles or hotels. For each, innovation was almost entirely driven by technology and has revolutionised their respective industries. Each company's ability to connect customers with transportation and lodging quicker, easier, and more efficiently than the old models has made Uber and Airbnb the "new normal" for consumers – and has massively disrupted existing competitors.

It's also worth pointing out that both Uber and Airbnb have created "platforms" that allow them to move into other lines of business, such as the UberEats food delivery service and Airbnb Neighbourhoods travel guides.

> It's not a matter of if your business will be disrupted – it's a matter of when.

Critics would say that not all businesses aim to be the new Uber. Even so, recent history is littered with organisations that have found themselves increasingly irrelevant or obsolete – for example, Blockbuster Video usurped by the rise of Netflix, physical bookshops hit by Amazon's digital offerings, and Warby Parker's direct-to-consumer eyeglasses experience shaking up the staid world of eyewear.

For established businesses, it's not a matter of *if* your business will be disrupted. It's a matter of when, how, and by whom. The only sane course of action is to meet disruption head-on and disrupt yourself before someone else does. It is worth looking at some of the organisations that have embraced disruption and transformed the way they think about doing business.

Adobe is a classic example of a business embracing disruption. It moved away from selling physical software to a subscription-based, cloud-driven platform where revenues are recurring. The old model was preventing Adobe from keeping its product, and more importantly customers, up to date with the most innovative software tools for their work. It also provided openings for competitors to exploit with a more-frequently updated product.

As Dan Cohen, vice president, Adobe, explained to McKinsey, "Moving to the cloud affected how we engineered the products, our operations, and our go-to-market and business models. In the past… we would take 18 to 24 months between major launches of new products. Nowadays, two years is an eternity."

According to McKinsey, Adobe's recurring revenue has climbed from 19 per cent in 2011 to 70 per cent of total revenue today. The number of paying subscribers is more than 4 million and rising.

HP, one of the most venerable technology companies, decided in 2015 to effectively split into two separate, and hopefully more agile, businesses. As two different entities, HP Inc. and Hewlett Packard Enterprise had the freedom to pursue the business model and innovations that make the most sense for each of the two new companies.

Breaking an established business into two new entities is not an easy task. In preparation for the split, HP built 4,000 servers and managed 500 projects across 170 countries. That meant the consolidation of existing tools accrued over many years, such as finance and HR systems. HP had to disrupt itself and the way it approached technology in order to be more nimble and empower employees to make data-driven decisions that would support the organisation's global operations and growth.

Disruptors recognise that it's their workforce that fields disruptive innovations.

Modern organisations, whether they're companies that disrupt others or ones that disrupt themselves, share some common traits. Embracing disruption means businesses must be agile, able to react quickly to changing market conditions, and roll out new products and services globally. They need to be able to scale up quickly. They embrace change and view innovation as a long-term strategy, not a short-term fix.

These businesses also share a recognition that regardless of what particular industry segment they participate in or the type of product or services they make, it's their workforce that fields disruptive innovations. People need access to the right tools and the right information to decentralise decision-making and base decisions on data, not instinct. They use that data to strategically bet on the future and decide where to invest money and human capital. Truly modern organisations effectively manage two key assets – people and money – as two sides of the same coin.

The dynamic nature of business today means constant change and the need for business systems that support this level of flexibility. And, therein lies the fundamental problem. The same technology that once provided great benefit is now preventing organisations from keeping up with other faster and more-agile businesses that are not bound by the same technological constraints. The technology they are using was simply not built for this world. Traditional systems were anchored around the supply chain rather than a unified view of people and money.

If businesses are to survive then they need to completely rethink how they approach technology.

> If your software vendor offers you a 10-year roadmap, then they're probably using a crystal ball.

Why businesses cannot digitally transform

In 2016, Cisco's Executive Chairman, John Chambers, said of digital transformation, "The majority of companies will be digital within five years, yet the majority of their digital efforts will fail." One of the major contributing factors for this failure is that much of the technology that's in place was not designed for the reality of business today.

Given the factors we discussed earlier, and the accelerating pace of technological change, it's not surprising that businesses have struggled to keep up. In fact, if your software vendor offers you a 10-year roadmap, then they're probably using a crystal ball and educated guesswork. No one can predict the future – but you *can* build for it.

Old-world systems were not built for change. They were designed as monolithic systems, required extensive customisation to meet specific needs, and were painful and expensive to update. In these systems, scaling up as businesses grow is a long and drawn-out process.

The emergence of cloud computing, increased processing power with falling storage costs, the rise of mobile, and the advent of the consumer internet have been among the catalysts for transformation. The cloud has transformed the notion of adapting to change, putting the responsibility back on technology vendors to create software that can be changed to stay in tune with evolving business processes. Businesses today need to have systems that can quickly and efficiently bring together actionable information on an organisation's people and money.

Particular areas, such as finance software, were designed to do a very specific job, such as automating transactions and accounting. Finance software was created to report a very limited amount of data, throw away everything else, and report that back to a small set of business stakeholders. For this purpose, and with the technology available at the time, it was very effective.

That kind of approach is completely unsuited for the demands of today's business. Many organisations with significant investments in legacy technology are often understandably wary of a "rip out and replace" approach to ensure they have the systems they need to effectively transform their business. Yet, legacy systems don't provide the visibility and actionable insights into people and money that's needed – not to mention that they're costly and time-consuming to maintain and manage, leaving little room for businesses to think about innovation.

According to McKinsey, "More connected consumers, automated processes, and sophisticated analytics place unprecedented demands on IT functions. Many companies are struggling to cope, and they seek to deliver on new demands by adding piecemeal elements to their existing operations."

The "piecemeal elements" refer to how legacy vendors, unable to keep up with changing requirements, have tried to adapt by bolting on missing capabilities. Fundamental business applications, such as finance and HR, became a hodgepodge of acquisitions, connections, and middleware. While bolt-ons may address specific functional gaps, they can't support business transformation, and they make contending with rapid change pretty much impossible. They're also not designed for how people work given that each bolt-on likely has a different interface and can't easily share data with other systems (even ones from the same vendor).

> Start from the same base as disruptive brands, by completely rethinking your technology approach.

Martin Gill, a vice president with Forrester Research, told CIO.com, "This is more than bolting on a few new websites or apps to your existing business. Think of it as a reboot of your company's operating model."

Digital transformation can't be accomplished with cobbled-together systems. It's a "start with a clean sheet of paper" mindset requiring a coordinated rethinking at all levels of the business. That is understandably a scary concept for organisations with investments in legacy IT infrastructure. However, as we saw earlier, even some of the most established global brands, with their roots in the legacy world, have succeeded when they were willing to challenge their own assumptions.

The global banking sector is a great example of how technology has been a huge barrier to transformation. Many institutions are plagued by computer systems that have been built up over several decades through acquisitions and new product launches to form a costly and complex patchwork of systems. The cost of maintaining these ageing and unwieldy systems eats up three-quarters of banks' IT spending, according to research from Celent as quoted in the Financial Times.

That leaves only one-quarter to spend on innovations to keep up with rapidly evolving start-ups trying to grab market share in areas such as payments. The approach of simply fighting fires, rather than building a new vision from scratch is having a negative impact on how banks operate, including how they deliver products and services, manage customers, and report back to the business and its broader constituents.

For companies across all sectors, the answer is not to continue on the path to transformation by adding piecemeal elements to a legacy system. Organisations must start from the same base as disruptive brands, and that means completely rethinking their approach to technology from scratch. Businesses looking to disrupt before they are disrupted have embraced cloud computing, understand the importance of real-time access to data, and want agile systems that can support changes to business processes. That's the best way of dealing with a storm that shows every sign of becoming more powerful over time.

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