

DIGITAL DISRUPTION CHALLENGES COMPANIES TO RETHINK BUSINESS STRATEGIES

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The business news is bursting with stories about how digital disruption is rapidly transforming markets. Digital disruption is caused by the effect of new digital technologies on business models that significantly changes the value proposition of goods and services.¹ Spurred by consumers' rapid adoption of mobile devices and the creation of millions of apps, many industries are now facing digital disruption.

Many companies are unprepared to enter this brave new world where traditional, successful business models no longer work. The technology consulting firm IDC predicts that by 2018 one-third of the top 20 companies in every industry will be disrupted by competitors that are digitally savvy and transforming their business models.²

Companies in the media, telecommunications, consumer financial services, retail and technology industries are the first being affected by digital disruption.³ But nearly every other industry will soon be impacted by new digital technologies that challenge their business strategies and how they interact with their customers.

The C-suite survey found that although 90% of media, telecom and consumer financial services companies claim to have a digital strategy in place, only 50% felt they had the right people to execute such a strategy.⁴

A survey of 2,000 C-suite executives across 15 industries found that business-to-consumer (B2C) organizations are on the forefront of this fast-moving change. The rise of Airbnb and Uber come to mind as examples of companies employing B2C business strategies that are transforming entire industries.

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Companies don't have much time to plan — digital disruption is coming fast. Business leaders can take several steps to meet the coming challenges:

- **Start at the top** — Many corporate boards are now recruiting digital directors, with 23% of the world's largest 300 companies adding this role to their board roster.⁵ These directors bring skills and experience that can jump-start a company's drive to digital transformation.
- **Bring in catalysts** — New employees, both at the executive and staff level, can help speed up digital transformation by challenging a company's long-held beliefs and business models. Many companies are adding the position of Chief Digital Officer (CDO) to their executive teams as well as creating roles for Chief Data Officer, Chief Customer Officer and Chief Growth Officer. The most progressive companies are beginning to move from having stand-alone digital teams to integrating digital roles into their core business groups.⁶



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- **Fund digital transformation** — McKinsey & Company analyst Chris Bradley believes that companies need to adopt a venture capital style growth plan for new digital endeavors while simultaneously executing a private equity type of workout plan for the older business where cash flow matters. This is tricky for executive teams and boards to navigate, as the tendency is to continue funding traditional operating models, but the future lies in the uncharted territory of digital ventures.⁷
- **Be data-driven** — The designation of a Chief Data Officer demonstrates a shift in emphasis to being a data-driven organization. The increasing reliance on data for decision-making shifts power in companies to those who possess and can interpret the data most effectively. The wealth of Big Data available to senior executives has never been greater, and precise analysis can be performed quickly.
- **Engage customers in your transformation** — Customers can tell a company exactly what makes a great customer experience. With data derived from customer interactions and other feedback, companies can improve customer engagement, create easier access, and innovate their products and services to improve the value proposition.⁸
- **Re-invent and repeat** — As Chris Bradley and Clayton O'Toole of McKinsey & Company note, adaptation to digital disruption is an iterative process. Companies must be prepared to engage in continual recreation and renewal to succeed in the digital marketplace.⁹

To discuss these topics in more detail, please contact your PNC Relationship Manager.

¹ Definition of digital disruption at [techtarget.com](http://searchcio.techtarget.com/definition/digital-disruption), available at: <http://searchcio.techtarget.com/definition/digital-disruption>

² "Think Digital Disruption Doesn't Matter? Your Customers Beg to Differ," editorial by Tim Clark, SAP, in *Forbes*, May 24, 2016. Available at: <http://www.forbes.com/sites/sap/2016/05/24/think-digital-disruption-doesnt-matter-your-customers-beg-to-differ/#4b9f60e841ad>

³ "The Industries That Are Being Disrupted the Most by Digital," by Rhys Grossman, *Harvard Business Review*, March 21, 2016. Available at: <https://hbr.org/2016/03/the-industries-that-are-being-disrupted-the-most-by-digital>

⁴ "The Industries That Are Being Disrupted the Most by Digital," by Rhys Grossman, *Harvard Business Review*, March 21, 2016. Available at: <https://hbr.org/2016/03/the-industries-that-are-being-disrupted-the-most-by-digital>

⁵ "The Industries That Are Being Disrupted the Most by Digital," by Rhys Grossman, *Harvard Business Review*, March 21, 2016. Available at: <https://hbr.org/2016/03/the-industries-that-are-being-disrupted-the-most-by-digital>

⁶ "The Industries That Are Being Disrupted the Most by Digital," by Rhys Grossman, *Harvard Business Review*, March 21, 2016. Available at: <https://hbr.org/2016/03/the-industries-that-are-being-disrupted-the-most-by-digital>

⁷ "How incumbents become digital disruptors," podcast transcript in *McKinsey Quarterly*, McKinsey & Company, June 2016. Available at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-incumbents-become-digital-disruptors>

⁸ "Think Digital Disruption Doesn't Matter? Your Customers Beg to Differ," editorial by Tim Clark, SAP, in *Forbes*, May 24, 2016. Available at: <http://www.forbes.com/sites/sap/2016/05/24/think-digital-disruption-doesnt-matter-your-customers-beg-to-differ/#4b9f60e841ad>

⁹ "An incumbent's guide to digital disruption," by Chris Bradley and Clayton O'Toole, McKinsey & Company, May 2016. Available at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/an-incumbents-guide-to-digital-disruption>

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