WILL DISRUPTION
DOUBLE OR
DESTROY
YOUR BUSINESS?

We are all familiar with industries that have been upended by recent technology innovations.

Whether it is Wikipedia relegating encyclopedias to the history books, Netflix taking over the home entertainment industry, or Uber disrupting transportation, next generation business models are rapidly overtaking traditional ways of serving customers.

Many industries using traditional service models struggle to match supply with demand in an efficient, cost-effective way. Next generation models, however, deliver greater value by orchestrating and enriching interactions between producers and consumers using innovative platform technologies made possible by ubiquitous network connectivity.

How can today's CEOs ensure they are the disrupters, not the disrupted? By understanding these five trends, innovative CEOs can identify divergent strategies and rewrite the rules of their industries.

TIM HAMILTON is the Founder and CEO of Praxent, an Austin-based technology consultancy that designs and develops digital products and platforms for clients who aspire to grow aggressively through industry disruption.

Learn more at
PRAXENT.COM

DISINTERMEDIATION

Feeding America is a national charity that matches donors with food banks around the country. Historically, the central office handled distribution of donations to various food banks. This was problematic because the central office — the intermediary — had limited knowledge of the needs of each beneficiary. For example, a food bank in Alaska that desperately needed fresh produce received truckload after truckload of pickles, while a location in Idaho received a massive shipment of potatoes… that were grown in Idaho. This meant that while people were going hungry, valuable food donations went to waste.

To correct this, Feeding America built a digital platform where incoming food donations were auctioned off to the local food banks who bid against each other with fake money. The fake money was distributed by Feeding America to the communities with the greatest needs. This meant that if Alaskans really needed fresh fruit, they would bid more aggressively for it. By disintermediating distribution, Feeding America was able to efficiently allocate resources and solve the local knowledge problem.

> Longstanding markets are being disintermediated every day by disruptors who connect buyers & sellers directly. CEOs can maximize efficiency & preempt competition by providing customers with a more direct path to value.

INTERNET OF THINGS (IOT)

The "Internet of Things" refers to an increasingly ubiquitous trend of equipping everyday objects with network connectivity, enabling them to send and receive data to enhance performance.

For example, John Deere, the world's leading manufacturer of tractors, installs network-connected sensors in its tractors to capture diagnostic data while sensing weather and soil conditions. This information is used to notify customers of service issues while providing farmers with sci-fi grade "smart farm" technologies. For example, to save water, irrigation systems can be automatically deactivated if it is about to rain.

These Internet of Things (IoT) innovations are creating a formidable competitive advantage for John Deere. First, the diagnostic data collected differentiate the brand by providing owners with proactive maintenance information, eliminating costly downtime. Second, it increases the lifetime value of a customer by boosting sales for John Deere replacement parts and service. Finally, because various machines can be networked together, customers are incentivized to buy only John Deere equipment to ensure compatibility within the ecosystem.

How might smart, technology-enabled sensors be deployed to differentiate a product or service and grow the bottom line?

BIG DATA AND PREDICTIVE ANALYTICS

According to ghSMART, a leading HR consulting firm, 50–75 percent of hiring decisions made today are mistakes.

A 2014 NPR story discusses how a call center staffing company overcame these mistakes by analyzing a large dataset on current employee performance and traits, and designing a computerized assessment method for new employees. The company researched three groups of employees; members in each group completed assessments that tested them for traits like creativity, persuasion and time management and arrived at some surprising conclusions.

Consider, for example, prior experience. Managers interpreted call center experience as a positive predictor of future performance.

However, the data revealed that this was actually a negative predictor, as it typically meant the employee had failed in their last call center role. This analytical approach to hiring provided a difficult-to-replicate competitive advantage for the call center staffing company.

Whether they realize it or not, most companies are sitting on vast data reserves that, if harnessed correctly, could vastly improve operations and increase the bottom line. As Gartner's Peter Sondergaard said, "Information is the oil of the 21st century."

ASSET LEVERAGING

Airbnb, with a team of 8,000 employees, was recently valued at $25.5 billion — a staggering figure when you consider that the company does not own a single property. Marriott, by contrast, is worth $20.9B and employs roughly 200,000 staff, resulting in about 20 times less value per employee. By creating a platform that enables homeowners to convert their unused guest rooms into an income stream, Airbnb has proven businesses no longer need to own the assets behind their brand.

Asset leveraging features several compelling benefits: lowered risk, greater scalability and less waste. Because Airbnb does not own the real estate it sells, it is not responsible for empty

rooms. And, with fewer employees and physical assets to manage, the firm can be more agile in its market. Airbnb is no longer concerned with acquiring, maintaining and upgrading properties, or hiring and training staff to run them, and it can scale the number of rooms as quickly as it can add users to its platform. Finally, consider the amount of time a guest room in a house sits empty. That's a lot of expensive real estate doing a lot of nothing. By tapping into existing excess capacity, Airbnb reduces waste from our economy.

What costly assets are demanding management attention? Could those headaches be removed by leveraging the excess capacity of assets owned by others?

STAFF-ON-DEMAND

Innovative business leaders can employ on-demand hiring approaches to get access to better talent with more flexibility, saving money by accessing this talent on a short-term basis, rather than employing expensive specialists full time.

To illustrate, Prudential Life Insurance needed to update the inefficient process customers had to go through to get a quote, which took 30 days on average. To solve this challenge, Prudential hosted a competition on Kaggle. com — which allows managers with big data problems to access a network of over 500,000 data scientists — to develop a predictive risk model that would enable customers to get an instant quote, enabling Prudential to streamline the process and close more business. In just 84 days, 2,619 teams submitted approximately 45,000 solutions.

As competition swells and big data continues to grow, divergent, creative thinking is more important than ever.

Specialist designers, engineers, sales affiliates, or data scientists offer businesses the opportunity to gain an edge against the competition without the headaches of hiring.

CONCLUSION

Underlying these five trends is a fundamental change in the way markets are won and lost. Conventional strategic thinking encourages firms to acquire and control the most important resources of their industry and create a metaphorical moat around them. In the new game of competition, by contrast, more and more value is created outside of the enterprise by community members and customers alike. Embracing openness and learning how to grow and nurture these communities through technology platforms is key to winning at the new game of business.

• • •

⌘