Plotting the platform payoff

Chief Executive Officer

Global C-suite Study
19th edition

IBM Institute for
Business Value

This report is based on input from 2,148 Chief Executive Officers (CEOs), who were interviewed as part of the 19th IBM Global C-suite Study. In 346 face-to-face meetings and 1,802 live phone interviews, we collected both quantitative and qualitative responses. The analytical basis for this CEO report uses 2,020 valid responses from the total data sample collected.

The larger Global C-suite Study includes input from more than 12,800 C-suite officers, representing six C-suite roles, 20 industries and 122 countries. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Disruption goes mainstream

For years, Chief Executive Officers (CEOs) have told us that disruption is top of mind. Value chains, industries and business models have undergone sizable and unexpected shifts, keeping enterprise leaders the world over guessing what's next. CEOs today recognize the criticality of disruption, but in contrast to earlier reports, few feel intimidated by it. Most CEOs simply don't see disruption as disruptive. They've grown accustomed to the barrage of sudden change and have factored that reality into their day-to-day operations and strategies. They tell us they are well prepared. But are they really? A growing number are embracing radically new models. Instead of going it alone, they're innovating with partners on new business platforms in new ecosystems. The question now is how many of their peers will follow suit.

A broader context

Perspective from the Global C-suite Study

Two decades after the Internet became a platform for transformation, we're still wondering how it all might turn out. The signals aren't always clear. Today, winner-take-all organizations are on the rise, but collaborative ecosystems are flourishing as well. Even in industries where competitive concentration is increasing, innovation hasn't – as would be expected – flatlined. Which way to the future?

The organizations that are prospering aren't lying in wait to time the next inflection point – the moment when a new technology, business model or means of production really takes off. Remaking the enterprise, they recognize, isn't a matter of timing but of continuity. What's required, now more than ever, is the fortitude for perpetual reinvention. It's a matter of seeking and championing change even when the status quo happens to be working quite well.

Drawing from the responses to a survey of executives across the C-suite, IBM client engagements and our work with academics, the 19th edition of the IBM Global C-suite Study, "Incumbents Strike Back," covers four topics that describe the changing business landscape.[1]

Dancing with disruption: Incumbents hit their stride

Is disruption dead? Certainly, there's less of it than most C-suite executives anticipated. Just under three in ten say they're experiencing significant disruption – hardly the deluge expected. What happened? As industries consolidated, startups deprived of venture capital funding stalled at the gate – or were snapped up by incumbents. Confounding the situation, C-suite executives report that it's not the fearsome digital giants they're concerned about most, but the once lumbering, now innovative, industry incumbents that have gained the capacity to strike first and strike back.

Disruption hasn't gone underground; instead it's emerging as a capability incumbents are ready to embrace. They orchestrate advantage by continuously reallocating resources to invest in promising new areas. They have learned to move fast, experiment and iterate. They're reinventing themselves before they are forced by competitors to reconsider their options.

Trust in the journey: The path to personalization

Personalization is a huge opportunity to grow revenues and loyalty, but absent true customer insight, too many organizations are in danger not just of falling short of their targets, but disappointing their customers. Leading organizations are modeling a new path to insight; they are design thinkers. They use data to interrogate their environments, create context and reveal what's deeply human about their customers. To achieve the elegant and irresistible design of the customer experience, they don't start with solutions; instead, they seek to ask the next best question.

They excel at two activities – customer co-creation and detailed journey mapping. These activities generate insights in abundance, feed on-target personalization and have equally important second-order effects: they propagate trust. Trust between peers in co-creation communities is transferred to the enterprise and extended outside the community by a cadre of influencers. Likewise, journey maps cement trust by instilling a culture of accountability to customers inside the organization. Leading organizations dedicated to discovering their customers' unmet needs don't just ask for loyalty on the basis of personalization. They earn and provide reasons to trust.

Orchestrating the future: The pull of platforms

Who wouldn't want to be an Amazon or Alibaba? An intrepid few in every industry are venturing onto business platforms, creating dazzling network effects by orchestrating direct interactions between consumers and producers, and pulling others fast in the same direction. Organizations will need to consider whether they reinvent themselves to own or participate in a business model platform, or to do both. Regardless, the "rules" for success are shifting.

Platforms break down conventions. Prime among those conventions is the value derived from proprietary advantage. Platform operators create value from reciprocity – they cultivate win-win propositions for the network of organizations on their platforms. Above all else, platform owners are ready to reallocate resources from defending markets to innovating in new ones. Attracted by the potential for outsized returns, 28 percent of the C-suite executives surveyed report their enterprises are reallocating some portion of capital to build out platforms. Past and future reallocation could approach an estimated USD 1.2 trillion in the next few years.

Innovation in motion: Agility for the enterprise

Asked to rank the capabilities most instrumental to their success, CEOs cited two characteristics above all others: a new willingness to experiment and the support of empowered employees. Leading organizations are rethinking the employee construct at its most elemental level: they're cultivating autonomy and learning on the fly by implementing a more fluid work structure made up of cross-functional teams. For many, the initial inspiration to do so is to get closer – and become more responsive – to their customers.

Leaders in these organizations look to employees to actively challenge and reshape their own views on the course the company should take next. They make it clear that they value smart experimentation and rapid response to market changes. Their employees aren't lined up neatly behind them; they're encouraged to explore as scouts on the front lines.

As part of the Global C-suite Study, we interviewed over 2,100 CEOs to better understand how the function is evolving in response to the landscape outlined in the Global C-suite Study. Our CEO research revealed three important points: 1) Because they have a clearer view of the threats their organizations face, CEOs can better anticipate disruption and no longer consider it so disruptive. 2) CEOs recognize the dramatic benefits of innovating with partners on new business platforms across ecosystems and the growing challenges of attempting to innovate alone. 3) Because not every organization can – or should – be a platform owner, some must carve out new value as essential platform participants.

Motivated by discussions with thousands of CEOs globally over 15 years, our biennial global CEO perspective is uniquely placed to track CEOs' perceptions of disruption and their responses to it.

In the 2012 IBM Institute for Business Value CEO Study, "Leading through connections," the 1,800 CEOs we surveyed expressed discomfort with the technological and industry changes they were experiencing. We concluded that "CEOs [find] themselves in a somewhat vulnerable situation. They are surrounded by technologies and ways of relating and working that new hires – and even their children – may understand better than they do."[2]

By 2014, many CEOs had determined that the rapid proliferation of digital technologies was impacting their organizations most profoundly. They saw the biggest threats emerging from unexpected places. In "Reinventing the rules of engagement," we found that "the biggest disruption most often occurs at the intersection of the physical and digital." We noted that "'Wallpaper stores' [including] virtual retailing... medical monitoring devices in everything from smart phones to asthma inhalers... and 3-D printing" were dramatically impacting customer expectations.[3]

In the 2016 CEO study, "Redefining Competition," we asked how businesses can best succeed in an age of continuous disruption, and what lessons can be learned from the most successful organizations in the world. We concluded, "CEOs know they need to prepare for a future in which disruption is pervasive: a future in which technological advances occur at breakneck speed, traditional industry classifications no longer exist and ecosystems revolutionize entire markets."[4]

CEO perspectives

Expecting the unexpected

Disruption as a consequence of technology is no longer the lead story. Seventy-five percent of the global CEOs surveyed in our latest study tell us they are experiencing only low to moderate levels of disruption in their industries. Moreover, they no longer rank technology as the most important external force impacting their business. A plurality of CEOs identify market factors as more important, with people skills rising in relative importance to its highest level since 2012 (see Figure 1).

Not only are CEOs telling us that the absolute levels of disruption are low, just 25 percent feel their industry is witnessing high levels of disruption, and only 19 percent see an urgent need to transform their enterprise as a result. These surprising findings beg the questions: Has disruption really dissipated or are CEOs now seeing it differently? Were CEOs overreacting to the threat of disruption in the recent past? Are they overestimating their ability to respond successfully to the possibility of disruption in the future?

> CEOs no longer consider disruption so disruptive.
>
> CEOs recognize the benefits of innovating with ecosystem partners on business platforms.
>
> But not every organization can be a platform owner; some serve as essential participants.

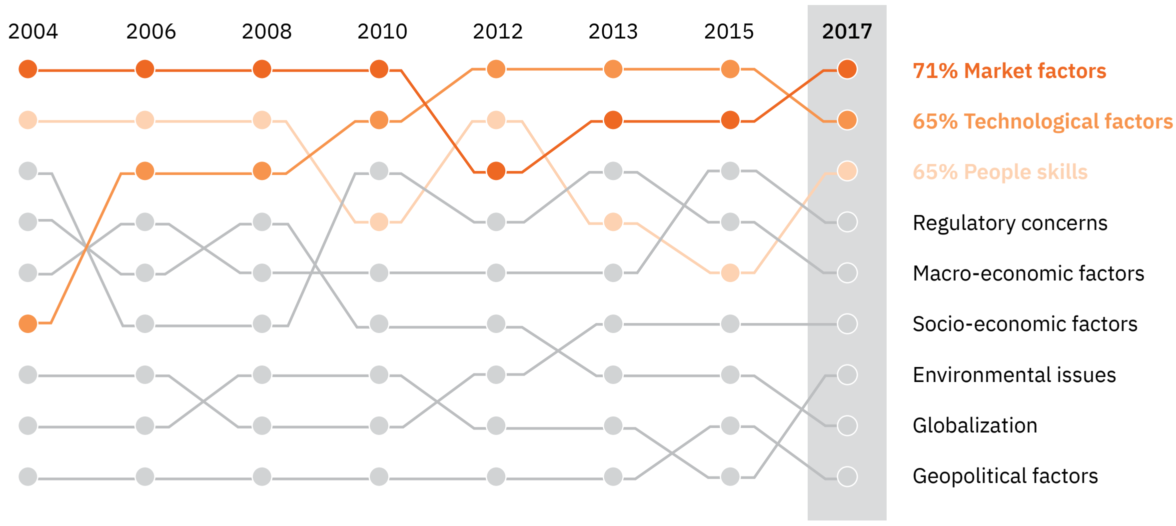
The banking industry is emblematic of the change underway. As recently as two years ago, commentators were predicting a terminal future for banks and the traditional banking model due to the rise of financial technology businesses (fintechs). Fintechs, they suggested, would eat the banker's lunch. However, rumors of the death of banking turned out to be greatly exaggerated.

Rather than being disintermediated by fintechs, leading banks began partnering with them. Fintechs brought their tech savvy and the impetus for radical innovation to the partnership. For their part, banks, attuned to the customers they served and well-versed in navigating complex regulatory environments, learned to share their space. In collaboration with fintech communities, traditional banks are now creating extended ecosystems and banking platforms that help drive compelling new experiences for customers – employing innovations derived from the deep synergies and converging objectives of fintechs and banks.[5]

Figure 1

Demise of the machines?

Technology now ranks number two



Q: What are the most important external forces that will impact your enterprise in 2–3 years? (Select up to five.)

Dismantling disruption

In every industry, this propensity to collaborate – to discover and create new forms of value in tandem with partners – has absorbed much of the shock of disruption. Once the four walls of the enterprise came down and organizations began participating in ecosystems, many organizations experienced fewer blind spots and a wider field of vision. Disruption in many respects became a team sport.

Indeed, disruption has become part of everyday corporate life. Seventy three percent of CEOs tell us that innovative incumbents are leading the disruption underway in their respective industries. But although disruption, by its nature, often results in the unexpected and unpredictable outcomes, most major inflection points have been long in the making.

Tellingly, two trends remained constant between this year’s CEO study and the previous report two years earlier. CEOs continue to rank industry convergence as the top trend necessitating new strategies. And they expect business partnering and business partners to grow in number – often within ecosystems. Indeed, six in ten CEOs share these beliefs in the continued predominance of ecosystem advantage.

“Technology and digitization have created a platform for exponential growth.”

CEO, Telecommunications, Germany

Our analysis shows that fewer organizations are finding it possible to successfully pursue innovation on their own. In the case of self-driving cars, for example, given the complexity of the tasks at hand, partnering among traditional car manufacturers, auto parts manufacturers, electronics manufacturers and software technology firms has proved to be essential. And initiatives like these are springing up in the most unexpected places. Autonomous cars, for example, require new technologies and standards, resulting in a web of partnerships among new companies, many of them startups. Chipmaker Nvidia is working with eight different automakers, as well as automotive supplier Bosch and technology firm Baidu, to build embeddable computers for self-driving cars.[6]

While the shock of disruption may have waned, threats remain. Fifty percent of CEOs report that their current business model is being threatened by competitors using technology to create more compelling value propositions. Twenty-six percent say new entrants are taking market share. And only 18 percent say their business model is secure from threat. What's changed most fundamentally is how CEOs are responding to challenges today. The rules for success have shifted – from possessing the ability to weather unexpected upsets, to realizing the capacity to continuously reinvent the organization and choosing the right partners when doing so.

More than one third of CEOs expect to launch entirely new complementary business models within three years, and more than half expect their primary business model to change over the same period. Often, these new business models are powered by new sources and new flows of data from partners, customers or Internet of Things (IoT) devices. Equipment manufacturer John Deere, for example, embraced IoT technology to develop sophisticated predictive maintenance models and build an expansive database that is used to support multiple new business models. John Deere now views tractors and other equipment as a business platform embedded with sensors that can gather valuable meteorological data, provide information about soil quality and such, and support a range of new business activities.[7]

Denmark-based transportation business Maersk intends to leverage blockchain technology to improve efficiency and security in global trade for supply chain players including manufacturers, shippers, freight forwarders, ocean carriers, ports and customs authorities. Transactions that have remained largely paper-based due to concerns about authenticity and fraud can now be safely digitized and automated using blockchain technologies. Initial pilots demonstrate that administrative costs associated with trade documentation and processing – which can be as high as one fifth of total transportation costs – could be significantly reduced. Other benefits include improved coordination, security and reliability, as well as fewer delays and less spoilage.[8]

Power in partnership

Innovative incumbents have learned a thing or two in the last waves of disruption. As they began to form new ecosystems, they were able to evolve their culture to realize the speed and agility required for organizations to work in concert. At the same time, the strategic triumph of digital giants proved the extraordinary value created by orchestrating entirely new customer experiences. Not surprisingly, many traditional industry incumbents learned to emulate these digital forerunners and up their game. Accordingly, 65 percent of CEOs now believe that the overall business landscape is shifting from a product-centric focus to an experience-centric one.

Finnish firm Kone, for example, is adding sensors and other functionality to the elevators it makes to significantly reduce downtime. By employing unique data-based insights, the company can better predict and resolve issues, improving customer service and user experience.[9] U.S. air carrier JetBlue is also applying digital technologies in new ways across its customer touchpoints.

"Companies must understand the entire ecosystem that they are serving. They should try to learn how [to] deliver [more] value to customers."

CEO, Media and Entertainment, Sri Lanka

The airline is testing a simplified and streamlined check-in process that uses facial recognition technologies to identify customers as they arrive at the airport for more efficient check-in, security and boarding processes.[10]

Kroger – the largest supermarket retail chain in the United States – is changing the grocery shopping experience by deploying cameras, sensors and algorithms to monitor foot traffic and schedule cashiers in real time. The company is also testing interactive shelves that can detect shoppers via their smartphones and offer them personal pricing and product suggestions.[11]

Consumers are demanding deeper, more meaningful experiences in everything they do, far beyond the traditional conceptions of omnichannel. Accordingly, 66 percent of the CEOs surveyed plan to broaden the range and variety of products and services they offer. Even more, 69 percent, intend to innovate their products and services offerings more actively.

Global clothing brand Tommy Hilfiger, for example, has partnered with the Fashion Institute of Technology (FIT) in New York to create a series of new design concepts. FIT students can leverage AI capabilities, including machine learning and analytics, to gain insights to create new Tommy Hilfiger designs.[12] In a similar vein, France-based cosmetics leader L'Oréal's new "connected brush" uses sensors and algorithms to analyze the idiosyncrasies of an individual's hair and provide customized recommendations.[13]

"We are establishing a position in developing industries that is disruptive and innovative. And we are creating new business models."

Hiroki Totoki, CEO, Sony Mobile Communications Inc., Japan

The view from the top

To understand how top-performing organizations, in particular, navigate disruption differently, we applied cluster analysis definitions established in the Global C-suite Study specifically to CEOs. The Global C-suite Study defined three archetypical groups: Reinventors, Practitioners and Aspirationals.

Reinventor organizations, which represent 21 percent of all CEOs surveyed, outperform competitors in both revenue growth and profitability or operating efficiency. Their IT strategy and business strategy are in synch, and they have optimized business processes to best support their strategic objectives. Specifically, leaders of these organizations express confidence in their ability to reinvent their organizations from the ground up. And they have well-defined strategies in place to manage disruption.

Representing 35 percent of CEOs, Practitioners – while ambitious – have not been able to develop the capabilities required to successfully achieve their objectives. Unlike Reinventors, they are less likely to partner extensively and less likely to have an organizational culture conducive to rapid change.

Aspirationals, reflecting 44 percent of all CEOs, have fallen further behind. They are less motivated by technology and are slower to pursue new opportunities that require organizational change.

Analysis reveals that CEOs from Reinventor organizations do two complementary things differently. They've changed their culture to be more proactive in seeking change. And, having learned that it's harder to innovate on their own, they're pushing ecosystem advantage to its ultimate conclusion. Sixty nine percent of Reinventor CEOs, for example, report they have the right ecosystem in place today, compared to just 49 percent of Practitioners and 32 percent of Aspirationals.

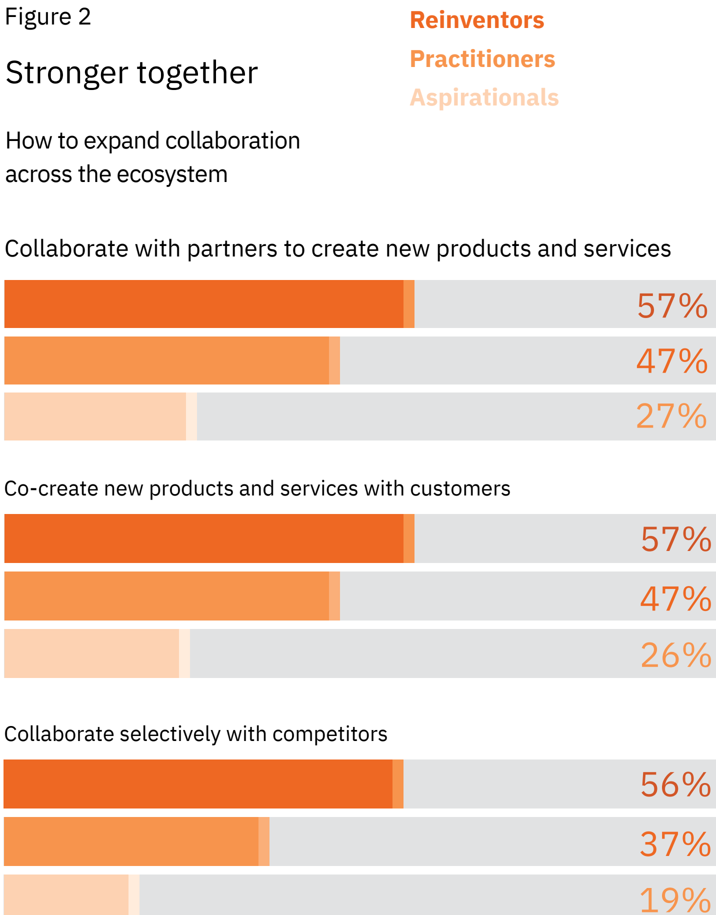
Reinventor CEOs turn to ecosystems to bridge gaps in their capabilities, not just in creating the types of experiences now demanded, but gaps in human expertise, assets and other resources. One-half of Reinventor CEOs share human resources with ecosystem partners, compared to just 30 percent of Practitioners and 19 percent of Aspirationals. And 43 percent share physical assets compared to 31 percent of Practitioners and 22 percent of Aspirationals.

Six in ten Reinventor CEOs collaborate with partners to create new products and services and access new and different customers or segments along with critical skills. Six in ten co-create new products, services or experiences with their customers (see Figure 2). Moreover, in pursuit of new and mutual advantage, 56 percent even collaborate with their competitors – a relationship sometimes called "frenemies." By contrast, just 37 percent of Practitioners and 19 percent of Aspirationals dare to frenemy up.

Figure 2

Stronger together

How to expand collaboration across the ecosystem



Q: To what extent does your enterprise collaborate with partners, competitors and customers?

> "Remain agile, accept failures, empower employees and create a culture of collaboration. Be focused and show perseverance."

CEO, Travel, Portugal

“We are embracing digital transformation through co-creation with ecosystem partners.”

CEO, IT and Professional Services, Taiwan

Accordingly, innovative partnering relationships are becoming ever more prominent across industries. German automotive business competitors Audi, BMW and Daimler, for example, have announced a collaboration to augment and improve autonomous mobility capabilities. As part of the plan, the companies purchased HERE mapping service from Nokia, which they plan to use as an open source platform to encourage future applications including car-sharing.[14]

In life sciences, U.S. pharmaceutical giant Pfizer is partnering with leading technology companies to improve capabilities in machine learning and natural language processing to accelerate new drug identification, combination therapies and patient selection.[15] And in retail, leading grocer Costco is partnering with grocery delivery startup Instacart to offer expanded same-day delivery service for groceries purchased through Instacart’s platform.[16]

Asked what would accelerate their performance in the near future, Reinventor CEOs rank a more dynamic business strategy among their top initiatives. In terms of leadership traits, they cite learning to think in more agile and flexible ways as their prime advantage. And the organizations led by Reinventor CEOs are steeped in agility. They demonstrate restless organizational momentum. What’s more, they are most likely to do it in tandem with ecosystem partners.

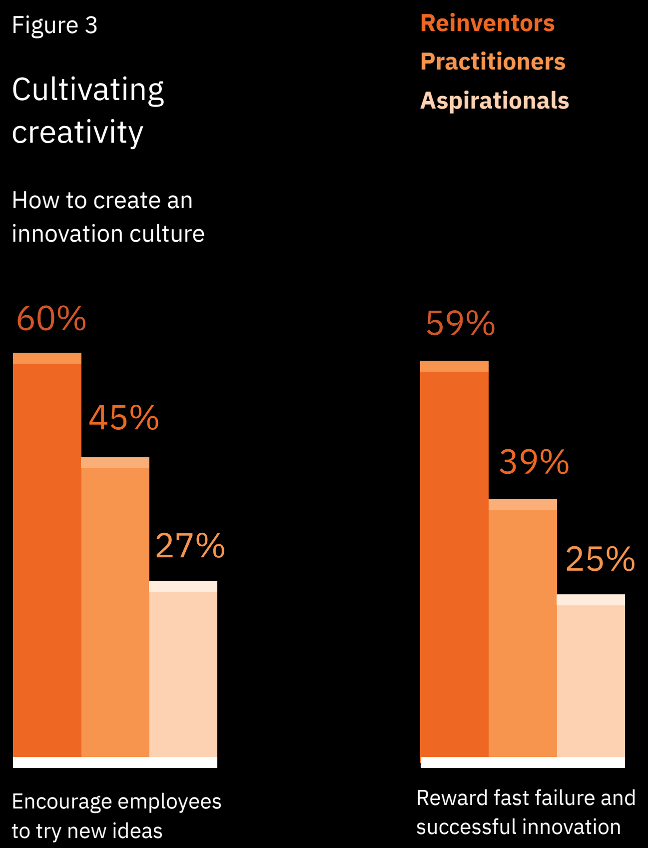
Reinventor CEOs, in stark contrast to Practitioners and Aspirationals, have created a culture that excels at empowering employees, creating fluid cross-functional work teams and promoting the open sharing of ideas between the organizations' leaders, employees, partners and customers. Among the biggest gaps between Reinventor CEOs and others is their attitude toward risk and experimentation. Fifty-nine percent of Reinventor CEOs reward fast failure (see Figure 3).

There are prominent examples of highly successful organizations with these open and agile characteristics. Airbnb structures its organization around an agility-first philosophy and is a leader in assembling and employing interdisciplinary product teams.[17] Tesla embraces an open knowledge sharing philosophy including making patents available to anyone with zero license fees.[18] To help promote wider collaboration, Amazon encourages employees to get out from traditional workspaces, for example, by building a huge rainforest complex in its headquarters in Seattle.[19]

Figure 3

Cultivating creativity

How to create an innovation culture



Q: To what degree does your enterprise empower teams to experiment and try new ideas?
Q: To what extent does your organization reward fast failure equally to success?

Propagating the platform

Results of our main C-suite Study reveal the growing importance of the platform economy. Leaders of many organizations – especially the high-performing organizations we surveyed – highlight near-term plans to reallocate capital to platform business models, which are expected to generate a broad range of new opportunities.[20] Indeed, investment in platforms could approach USD 1.2 trillion within three years.[21]

> "We have digitized our business platform so our customers have an unprecedented level of choice, price transparency and immediate answers to their queries."

CEO, Insurance, Poland

There are good reasons why so many business leaders are embracing a platform philosophy. Recent evidence suggests that platform orchestrators grow revenues faster and generate more profit than other types of business models.[22] Indeed, according to another recent IBM Institute for Business Value survey focused on business ecosystems, more than half of executives surveyed say they want to own and orchestrate the platforms on which they operate.[23]

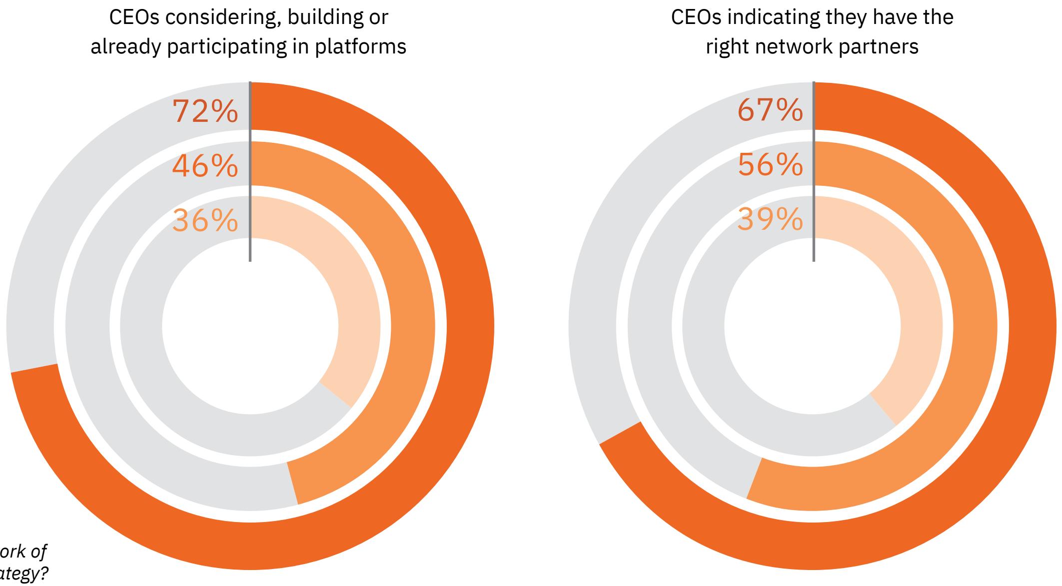
Our survey of global CEOs shows that this strategic embrace of platforms and platform ownership becomes stronger the larger the organization is (see Figure 4). And there should be little doubt that, generally, large organizations possess deeper resources from which to draw. Large organizations tend to have the technologies and technological expertise to create data-sharing platforms. Large organizations are more likely to invest in emerging technologies like AI and cognitive computing, IoT and blockchain, which help integrate participants on a platform and support the continuous learning required to succeed. And our analysis suggests that large organizations are also much more likely to have the right network of partners already in place.

Figure 4

Let's build a platform

Embracing a platform strategy

Large companies
Mid-sized companies
Small companies



Q: At what stage is your enterprise in building a platform business model?
Q: To what extent does your enterprise have the right network of partners, suppliers and distributors to execute on your strategy?

Platforms comprise the digital and, at times, physical structures through which an interaction between economic agents can occur, whether it be communication engagement, collaboration or a transaction. Platforms are an integral part of most business ecosystems. Rakuten Ichiba, for example, created Japan's largest online market platform through which buyers and sellers can connect. But Rakuten successfully opened up its platform to a broader ecosystem of other services from finance to travel.[24]

Alibaba, having initially built a platform connecting Chinese manufacturers to overseas buyers, has expanded to create a vast ecosystem of services including financial asset management (Yu'E Bao), mobile wallet (Alipay), consumer shared marketplace (Taobao), online retail (Tmall), entertainment (Alibaba Pictures), technology services (Ali Cloud) and healthcare services (Ali Health).[25]

By creating a common environment for collaboration, platforms promote a deeper sense of shared vision and innovation. They provide a place where economic activity might be more readily monetized and a structure that generates and promotes network effects, which in turn lead to the evolution and expansion of new types of services and new types of interactions.

Shazam, for example, is a popular music discovery app that identifies a song based on a short sample accessed through a user's device.[26] But unlike other standalone apps, Shazam successfully built a broader music engagement platform. Once the app identifies a song, users are given options to purchase or stream the song, watch the video or post about the song on social media. Each of these choices involves pushing Shazam customers onto other platforms. In effect, Shazam built a platform on top of an ecosystem of other platforms. And the data collected – what songs customers play, when they play them and where – includes valuable insights that could drive other innovative services.[27] These insights could be a factor in Apple's decision to purchase Shazam.[28]

Network effects

Many strategists believe platforms afford their owners a winner-take-most status, in which most of the economic benefit is appropriated by the party that first builds a platform that attracts a critical mass of users.[29] Our analysis reveals most CEOs surveyed for the 19th edition of the Global C-suite Study agree on the criticality of platforms to their strategies. But while chief executives of large organizations possess the will and resources to realize their platform ambitions by actually building and owning new platforms, executives of smaller organizations are less confident.[30]

The power of platforms often rests in their ability to generate and sustain network effects – a situation in which the addition of one more participant to an ecosystem or platform generates a greater addition of value to the system as a whole than the incremental value of the additional participant itself. Because of the scaling nature of platform network effects, most industries are likely to be dominated by one or, at most, a small number of platforms. And these small numbers of platforms will typically be owned by large organizations.

Critical platform provider or essential platform participant?

While not every organization is likely to be a platform owner, that doesn't mean non-platform-owning organizations need be shut out from the value platforms create. Platforms comprise not only owners, but participants as well. And those participating organizations can and should benefit. To do so successfully and avoid being commoditized, however, platform participants need to establish roles on the platforms and within the ecosystems in which they operate that are differentiated.

Specifically, they need to find ways to be both essential and unique. Diversified organizations may play different roles across different environments – critical platform provider in some, essential platform participant in others. Irrespective of whether an organization plays a multiplicity of roles, however, the challenge for platform participants is identifying roles they can fulfill that are central to the economic activities occurring on platforms.

> "We would like to expand innovation on our platform. Specifically, we would like to create a new market for technology, human capital and knowledge."

Taro Mineo, President,
PERSOL CAREER CO., LTD., Japan

Rendering more platform roles

Three roles in particular lend themselves to unique differentiation on platforms. Specialist experience providers create and orchestrate compelling customer experiences. Specialist technology providers provide unique technological capabilities crucial to the successful operation of the platform. And in a world in which many organizations are moving away from the physical, specialist asset providers play an essential role in furnishing the assets needed to physically realize the promise of otherwise digital propositions.

Experience providers
Hilton Hotels is integrating Uber's ride-sharing platform with its own digital platform to provide deeper, more enriching experiences to its customers. Hilton loyalty member guests can set Uber "Ride Reminders" – automated notifications to request Uber rides to and from Hilton properties – as well as check-in to their hotel and access a list of local sites frequented by fellow Uber riders.[31] An interesting twist on being an experience provider involves Affirm, a financial services company that offers installment loans to consumers. Affirm partnered with leading travel platform Expedia and event technology platform Eventbrite to offer real-time loan evaluation at the point of purchase for customers to purchase travel or event experiences.[32]

Technology providers
Global automobile manufacturer BMW released CarData, an open data platform that gives BMW ConnectedDrive customers the ability to share telematics data from their BMW vehicles with third parties of their choice. Acting as a technology provider, IBM will integrate cloud computing and AI technologies with BMW's CarData platform to enhance the vehicle data with cognitive and data analytics services that enable third parties, such as automotive repair shops or insurance companies, to develop entirely new customer experiences.[33] In a similar vein, technology giant Google is providing leading-edge technology to Walmart to enable faster and more compelling voice-enabled shopping in new virtual Walmart stores.[34]

Asset providers
Deliveroo, a British online food delivery startup, has established a network of off-site kitchens in underserved areas of London to allow restaurants seeking to expand their operations to share space in the kitchen and serve local customers through its app.[35] And India-based vehicle manufacturer Mahindra Group is providing motor vehicles for the Ola ride-sharing platform to jointly create India's first electric mass mobility ecosystem.[36]

Achieving tomorrow today

As industries continue to converge and value chains reconfigure in new ways, CEOs have told us that they are more confident than ever in the ability of the organizations they lead to respond. Most CEOs see the emergence of platforms and the growing importance of network economics – of both scale and scope – as the crucial drivers of growth into the next decade. And a small cadre of CEOs – those leading large organizations in particular – are confident that their businesses have the strength to become platform providers. Other chief executives recognize that they will need to find new roles for their organizations on and around platforms as they emerge.

No matter what path CEOs choose – platform provider or participant – CEOs must first lead their organizations through fundamental digital change – what we call Digital Reinvention™. The question they must consider extends beyond what technologies they should employ to how they can instill a truly customer-centric philosophy to create new experiences, pursue new areas of innovation and identify new growth opportunities.

Accelerating innovation and growth through Digital Reinvention

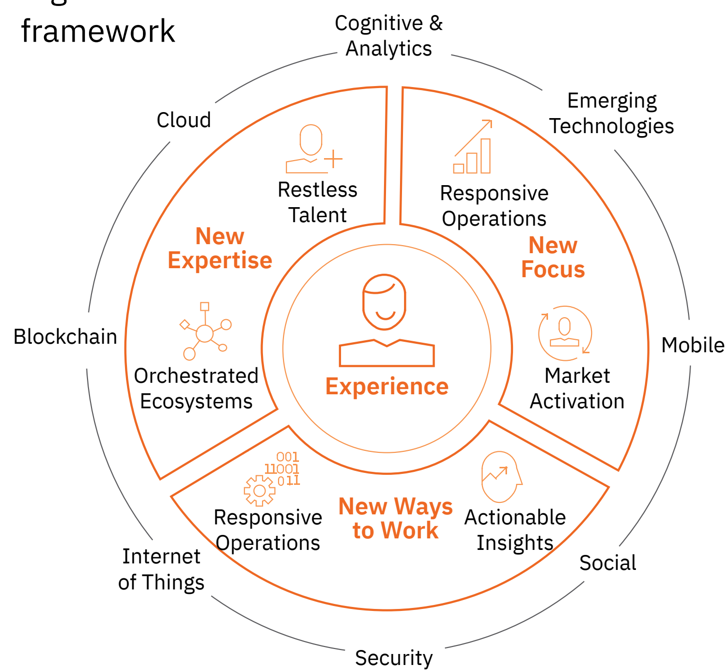
Citing a seminal IBM Institute for Business Value study, "Digital Reinvention in action," "...Digital Reinvention involves a fundamental ground-up reinvention of strategy, operations and technology. Strategically, digitally reinvented businesses maintain an overarching focus on experience rather than production... Operationally, digitally reinvented businesses commit to continuous calibration and improvement. They foster cultures of everyday innovation among individuals and across the ecosystem, and they work to seamlessly interchange between the physical and digital... Technologically, digitally reinvented businesses can effortlessly flip between self-owned or shared or rented capabilities... either directly, or with the assistance of partner ecosystems."[37]

Digital Reinvention achieves a pathway for organizations to embrace deep customer centricity, addressing customers needs and aspirations at a fundamental level. To achieve these objectives, CEOs pursue three specific actions:

- Pursue a new focus: Develop new ways of realizing and monetizing value and create new business models while engaging the market – particularly customers – in deeper, more compelling ways.
- Establish new ways of working: Identify, build and retain the talent needed to create and sustain a digital organization – and perpetuate an innovation-infused culture, incorporating design thinking, agile working and fearless experimentation.
- Build new expertise: Digitize products, services and processes that redefine the customer experience and construct the organization, governance and ecosystem connectivity that help ensure these experiences continuously evolve (see Figure 5).

Figure 5

Digital Reinvention framework



Source: IBM Institute for Business Value analysis.

Digital Reinvention process

To further advance their Digital Reinvention agendas, CEOs can initiate four additional steps: Envision possibilities, create pilots, deepen capabilities and orchestrate reinvention.

Envision possibilities: Use envisioning sessions including design thinking with partners, customers or others to define a reinvention blueprint based on new ideas and unexpected scenarios. If a CEO or organization believes it can successfully position itself as platform provider, consider what type of role a platform might play in the environment, market or ecosystem. Identify key reasons why others might use the platform. Identify new untapped areas where platforms might thrive, industries prime for disruption or unmet customer needs. Conceptualize new platform-based business models. If successful platform ownership seems unlikely, consider alternative roles that your organization might play as a participant, including essential activities and ways to avoid being disintermediated by other partners or competitors.

Create pilots: CEOs and their leadership teams should create pilots and prototypes using agile development and rapidly cycle improvements through live tests with customers until the pilot or prototype meets customer requirements. Expand internal and external capabilities, such as building dedicated cross-functional teams, achieving rapid digitization of processes and assembling an ecosystem of partners, that can support the ability to quickly scale successful innovations or wind down unsuccessful ones.

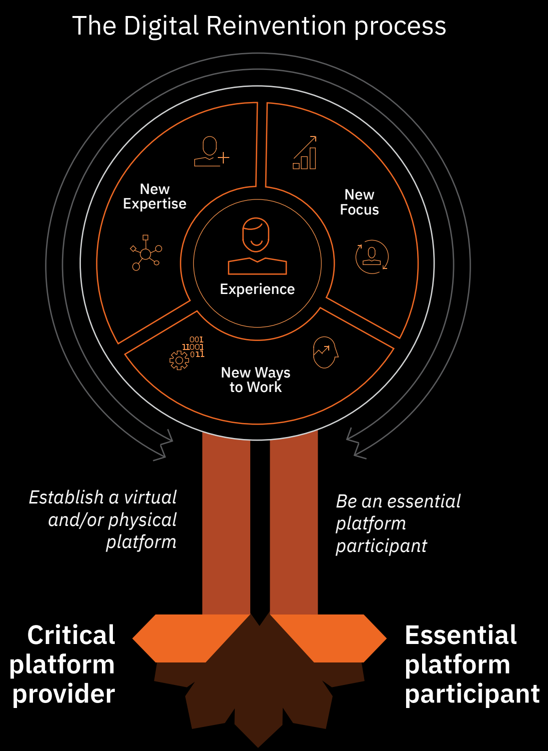
Deepen capabilities: As pilots evolve, identify impediments to further development or limitations in existing capabilities. Pursue strategies to build or extend needed capabilities either through an internal development program or with the support of key partners. Regardless of the approach, businesses must establish clear standards and performance metrics that are gathered and communicated consistently to continuously improve the program.

Orchestrate reinvention: Embrace holistic reinvention, not a series of point solutions. Maintain a clear focus on underlying needs, aspirations and desires of customers. Engage with partners to formulate and deliver new customer propositions. And think laterally and broadly to create and deliver the range of products, services and interactions necessary for deep, rich and compelling experiences. Conceptualizing a strategy of platform ownership or participation will be a crucial element of any Digital Reinvention process (see Figure 6).

Figure 6

Going places

Conceptualize a strategy of platform ownership or participation



Source: IBM Institute for Business Value analysis.

Becoming a critical platform provider

Critical platform providers place themselves at the epicenter of business ecosystems. They often find themselves in a whirlwind of continuous change. CEOs seeking to be platform providers can advance three actions.

1. Conceptualize and pilot virtual and/or physical platform(s) and realize compelling reasons for other organizations to fully participate and engage. Based on the vision defined in the Digital Reinvention process, build platform structures and mechanics through which connections can occur. Design robust architecture to support engagement. Establish a set of standards, ground rules and governance, as well as a philosophy of shared commitment. Create incentives that pull partners, customers and others to the platform and disincentives to leave. Visibly demonstrate agreements in which new value is created and shared. And penalize destructive or unethical behavior.

2. Increase the scale and scope of the platform to build a critical mass of participants and economic activity:

– Acquire users: Seed the platform with both producers and consumers to spark interactions. Incentivize collaboration.

– Retain users: Focus only on one set of activities or users at a time; target a critical mass – the minimum size of user base to achieve economies of scale and scope.

– Monetize interactions: Form a systems view to balance out any necessary short-term subsidies or loss-leading, and assess desired medium to long-term ROI and the timeframe for any short-term subsidy.

- Harvest reputation: Adopt metrics to track platform performance over time, and identify synergies with other business activities to accelerate growth of the platform (see Figure 7).

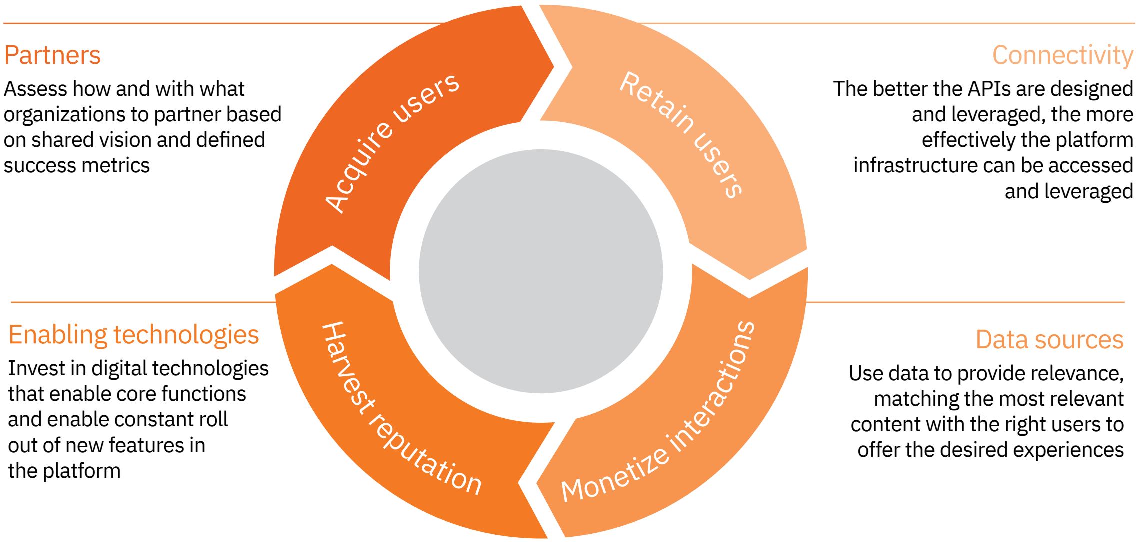
3. Continuously explore new opportunities by thinking of platform formation and calibration as a continuous, never-ending process.

- Assess: Respond quickly to changing environments and address new opportunities, customer aspirations or demands.
- Innovate: Encourage disruptive thinking, diverse approaches and new ideas irrespective of their origin.
- Evaluate: Investigate how new ideas might correlate with changing customer expectations, business models or monetization opportunities.
- Create: Engage in rapid experimentation, including agile sprints, to build new types of minimal viable platforms.
- Realize: Deploy new platforms in market and engage external partners, customers and others to assess their robustness and probable success. Then start the process again.

Figure 7

Platform in action

Creating the perfect platform



Source: IBM Institute for Business Value analysis.

Becoming an essential platform participant

Platform participants need to remain especially responsive to ecosystem environments. They need to be vigilant, on the lookout for emergent technologies and shifting market dynamics. CEOs seeking to be successful platform participants can advance three actions.

1. Understand your environment, platform objectives and dynamics; assess internal organizational capabilities; and identify potential partners.

– Establish context: Analyze market conditions and dynamics, customer expectations and disruptive influences.

– Define objectives: Understand what platforms already exist or are likely to emerge. Analyze how platforms will operate, who might participate and what outcomes might emerge.

– Assess capabilities: Identify unique capabilities that your organization possesses, how they correlate with platform activities and what new capabilities you should build.

– Identify potential partners: Within the context of the market, platform and ecosystem, characterize and map participating entities. Assess their possible objectives, capabilities and patterns of existing relationships. Evaluate the roles of customers, including the extent to which they themselves might potentially become partners or even competitors.

2. Conceive ways to be essential to platform activities and processes by furnishing unique and differentiated capabilities. Define a specific set of platform opportunities that your organization in particular might pursue within the context of a wider ecosystem. Identify ecosystem value pools and prioritize them according to potential realizable value and achievability.

– Devise new business models to realize and capture the value pools you identify. Understand the strengths of your organization relative to new business models and to the other entities identified in the sub-step above. Determine in which activities – or capabilities – to invest and which to cede to others. Decide which partners to engage first, determine the best ways to engage and, where necessary, calibrate your organization's activities to align with ecosystem partners as well as the platform provider and offering.

– Define a measurement model that accurately assesses your organization's business objectives, shared objectives with your partners, and those of the platform or ecosystem as a whole. Collect necessary data to analyze the results.

3. Innovate and evolve your organization's role or proposition within the platform. Continuously reinvent your organization's offerings to remain crucial despite changing customer, market or ecosystem imperatives.

– Anticipate market changes, emerging competitors and new customer expectations.

– Encourage disruptive thinking, diverse approaches and original ideas. And discourage myopia.

- Investigate how new ideas correlate with opportunities for your organization on this and other platforms.
- Recognize that your organization's role may differ across markets, platforms or ecosystems. In some cases, your organization could be a participant on one platform and a platform owner elsewhere. Or your organization's participation role may differ from one platform to another.
- Engage in rapid experimentation and agile collaborations with partners including the platform owner.
- Deploy new capabilities and further calibrate based on perceived failure or success.

Conclusion

Today's CEOs are no longer threatened by disruption. Anticipating and responding to sudden and dramatic change have become standard operating procedures. CEOs have sharpened their organizations' capabilities to not only respond to and navigate change, but anticipate and leverage it. Chief executives from top-performing businesses understand that success requires collaboration with partners within ecosystems and on platforms. Indeed, CEOs around the world are embracing – and many are looking to become operators of – new business platforms. Those that find themselves unable to operate platforms are recognizing the necessity of working within them, playing new roles as essential participants in the platform economy. Managing disruption has become part of the CEO's modus operandi. Leading chief executives have moved from a reactive to a proactive stance, capitalizing on the reality of an ever-changing business environment.

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