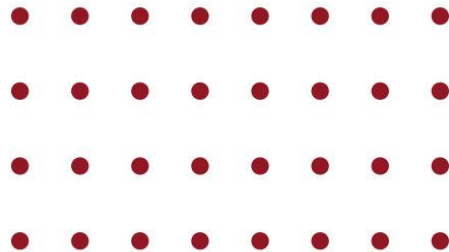


Strategic Management of
Enterprise and Digital
Innovation

Re-Imagining A Business



30-minute individual practical session
focused on assessing Volvo's
competitive advantages using the
VRIO framework, based on the
provided illustration.



ILLUSTRATION 6.2

Volvo's different Indian buses

Volvo has a strategy to sell buses at nearly four times the prevailing market price.

The Indian bus market has long been dominated by two home players, subsidiaries of major Indian conglomerates: Tata Motors and Ashok Leyland. The two companies made simple coaches on a design that had hardly changed for decades. On top of a basic truck chassis, the two companies bolted a rudimentary coach body. Engines were a meagre 110–120 horse-power, and roared heartily as they hauled their loads up the steep mountain roads of India. Mounted at the front, the heat from the over-strained engines would pervade the whole bus. Air conditioning was a matter of open windows, through which the dust and noise of the Indian roads would pour. Suspension was old-fashioned, guaranteeing a shaky ride on pot-holed roads. Bags were typically slung on the top of the bus, where they were easily soiled and at high risk of theft. But at least the buses were cheap, selling to local bus companies at around Rs 1.2 m (€15,000; \$21,000).

In 1997, Swedish bus company Volvo decided to enter the market, with buses priced at Rs 4 m, nearly four times as much as local products. Akash Passey, Volvo's first Indian employee, commissioned a consultancy company to evaluate prospects. The consultancy company recommended that Volvo should not even try. Passey told the *Financial Times*: 'My response was simple – I took the report and went to the nearest dustbin and threw it in.' Passey entered the market in 2001 with the high-priced luxury buses.

Passey used the time to develop a distinctive strategy. His basic product had superior features. Volvo's standard engines were 240–250 hp and mounted at the back, ensuring a faster and quieter ride. Air conditioning was standard of course. The positioning of the engine and the specific bus design of the chassis meant a more roomy interior, plus storage for bags internally. But Passey realised this would not be enough. He commented to the *Financial Times*: 'You had to do a lot of things to break the way business is done normally.'

Volvo offered post-sale maintenance services, increasing life expectancy of buses from three to ten years, and allowing bus operating companies to dispense with their own expensive maintenance workshops. Free training was given to drivers, so they drove more safely and took more care of their buses. The company advertised the benefits of the buses direct to customers in cinemas, rather than simply promoting them to the bus operators. To kick-start the market, Volvo supplied about 20 subsidised trial units to selected operators. Volvo trainees rode these buses, alerting the company immediately when something went wrong so Volvo could immediately send its engineers. Faster, smoother and more reliable travel allowed the bus operators to increase their ticket prices for the luxury Volvo buses by 35 per cent.

Business people and the middle classes were delighted with the new Volvo services. Speedier, more comfortable journeys allowed them to arrive fresh for meetings and potentially to save the costs of overnight stays. Tata and Ashok Leyland both now produce their own luxury buses, with Mercedes and Isuzu following Volvo into the market. None the less, the phrase 'taking a Volvo' has become synonymous with choosing a luxury bus service in India, rather as 'hoover' came to refer to any kind of vacuum cleaner.

In 2008, Volvo opened a new state-of-the-art bus factory in Bangalore. It is Volvo's most efficient bus factory worldwide, producing a fully built bus in 20–25 days. Annual capacity is 1,000 buses per year.

Source: Adapted from J. Leahy, 'Volvo takes a lead in India', *Financial Times*, 31 August 2009.

Table of Contents

- **Disruption**
- **Digitisation**
- **Digital Leadership**
- **Extending The Business**



10-minute Direct Questions:

- 1) What is disruption?
- 2) What is digital transformation?

Disruption

“Disruption” is when a smaller company with fewer resources can successfully challenge established businesses.

As existing businesses focus on improving their products and services for their most demanding (and usually most profitable) customers, they exceed the needs of some segments and ignore the needs of others.

DISRUPTION PRINCIPLES

| | |
|--------------------------|--------------------|
| CUSTOMER OUTCOMES | BREAKNECK SPEED |
| LEARNING ORGANIZATION | ZERO HERITAGE |

Downes, L., Nunes, P., (2013)

Threat of Disruptors

Organisations need to lookout for start-ups that:

- **offer cheap substitutes** to their products
- **capture new, low-end customers**
- then gradually **move upmarket** to pick off higher-end customers.

What can you do as a company facing that Threat?

When these disrupters appear it's time to act quickly by acquiring them or incubating a competing business.

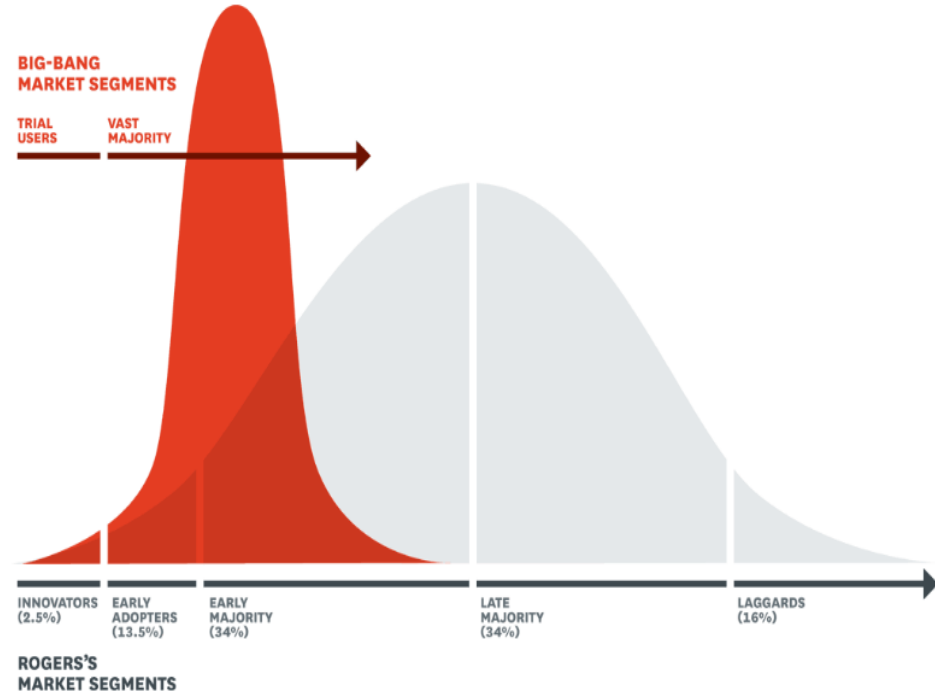


Big Bang Disruption

Big-bang disruptions don't follow the usual pattern of customer adoption as the adoption moves fast through the entire population of the market (Downes, L., Nunes, P., 2013)

The big-bang model (shown in red):

- Is taller and much more compressed.
- New products are perfected with a few trial users.
- Then are embraced quickly by the majority.
- Ex: Netflix

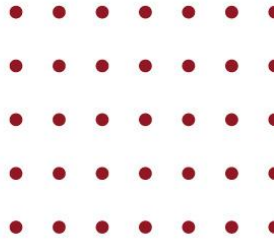


Downes, L., Nunes, P., (2013)

Myths About Disruption

When looking at disruption, many believe that:

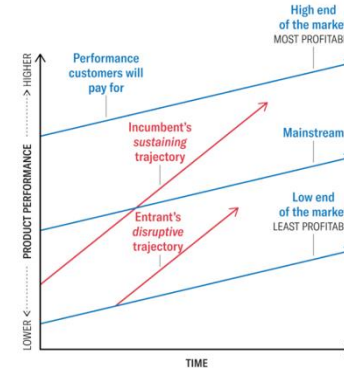
1. Disruption comes from products of **lower quality**.
2. Disruption occurs only by firms of the **same industry**.
3. Disruption operates with the **same rules as competitors**.
4. **Disruption requires more resources** & capabilities than its competitors.



How Disruption Innovation Works?

Disruption does not follow normal customer demand curves. What happens is that a small operation:

1. Starts by **aiming at the low-end market**, offering **high value solutions**.
2. **Then** it validates the market and proves the concept, leading to it being **adopted by the mainstream**.
3. As the mainstream adopts the solution, the high-end market sees the value of this and **then the company seeks to have a high-end version for it**. (at a later stage)



Christensen, C. M., Raynor, M.
E., McDonald, R., (2015)

Case Example: Ryanair

Ryanair has used **cost leadership strategy** to remain the largest European commercial aviation through tough competition and the pandemic:

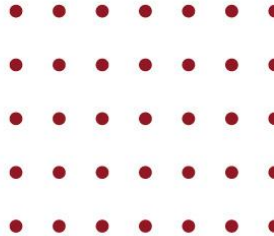
1. Ryanair was formed in 1985 as a normal airline.
2. In 1991, it changed its business model to **low cost** business model.
3. **By reducing overheads of logistics, fragmenting the buying process, and using digital as a tool, Ryanair skyrocketed.**
4. Before Covid, Ryanair dominated the airspace and expanded to offer hotels and car rentals.
5. As Covid hit the market, the company is still surviving due to its structure and belief of better future.



Digital Transformation

Digital transformation is **to become a data-driven organization**, ensuring that key decisions, actions, and processes are strongly influenced by data-driven insights, **rather than by human intuition**.

In other words, you will only transform when you have managed to change how people behave, and how things are done in your organization.



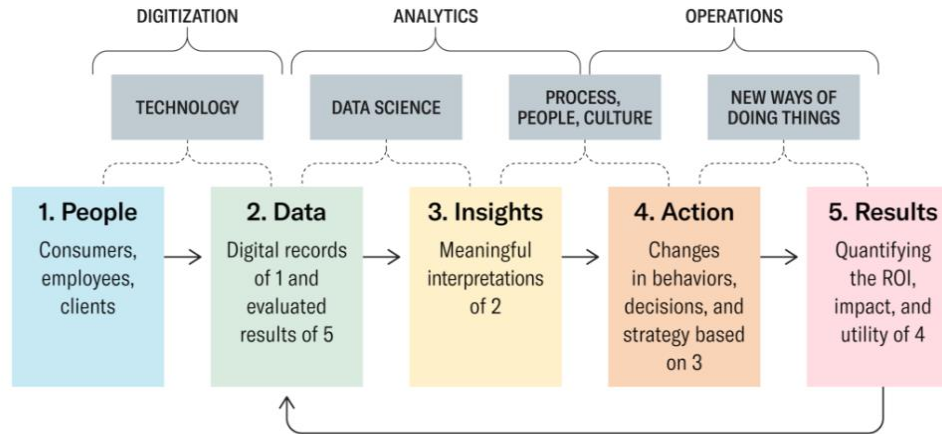
Digital Transformation Is Not...

Digital transformation is not about...

1. replacing old technologies with new ones
2. capturing high volumes of data
3. hiring an army of data scientists
4. trying to copy some of the things Google or Amazon do.



5 Elements Needed For Digital Transformation



Chamorro-Premuzic, T., (2021)

Success In Digital Transformations

Yet 70% of all DT initiatives do not reach their goals. Tabrizi et. al. (2019) argue that digital transformation should:

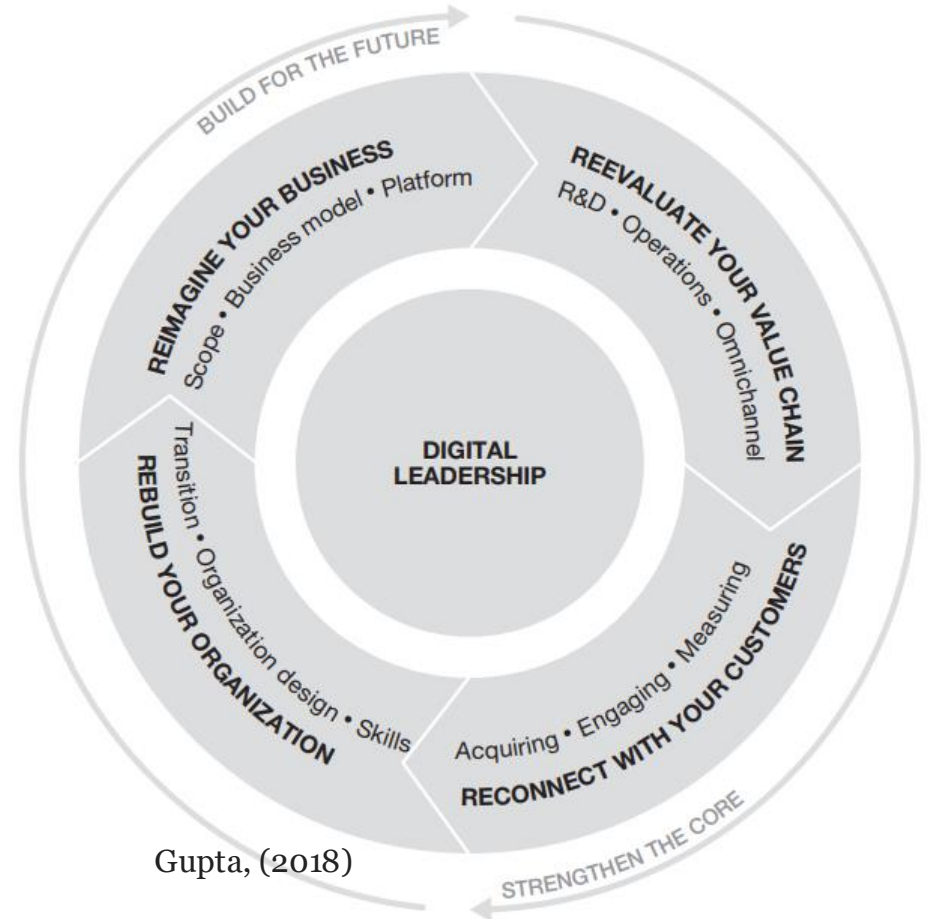
1. Figure out your business strategy before you invest in anything.
2. Leverage people who have inside knowledge of the market and transformation.
3. Design customer experience from the outside in.
4. Recognize employees' fear of being replaced.
5. Bring Silicon Valley start-up culture inside.



Digital Leadership Strategy

Gupta (2018) points that instead of countering threats, **a firm can develop the capability of being a digital leader by engaging in the below steps:**

1. Re-imagining your business
2. Re-evaluating your value chain
3. Re-connecting with customers
4. Re-building your organization

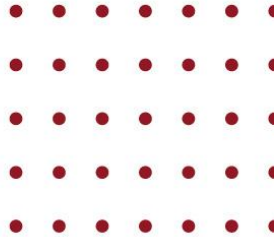


Gupta, (2018)

1- Re-Imagining Your Business

Organisations need to sit back and **reflect on the core** essence of their business. This is done **by examining three components**:

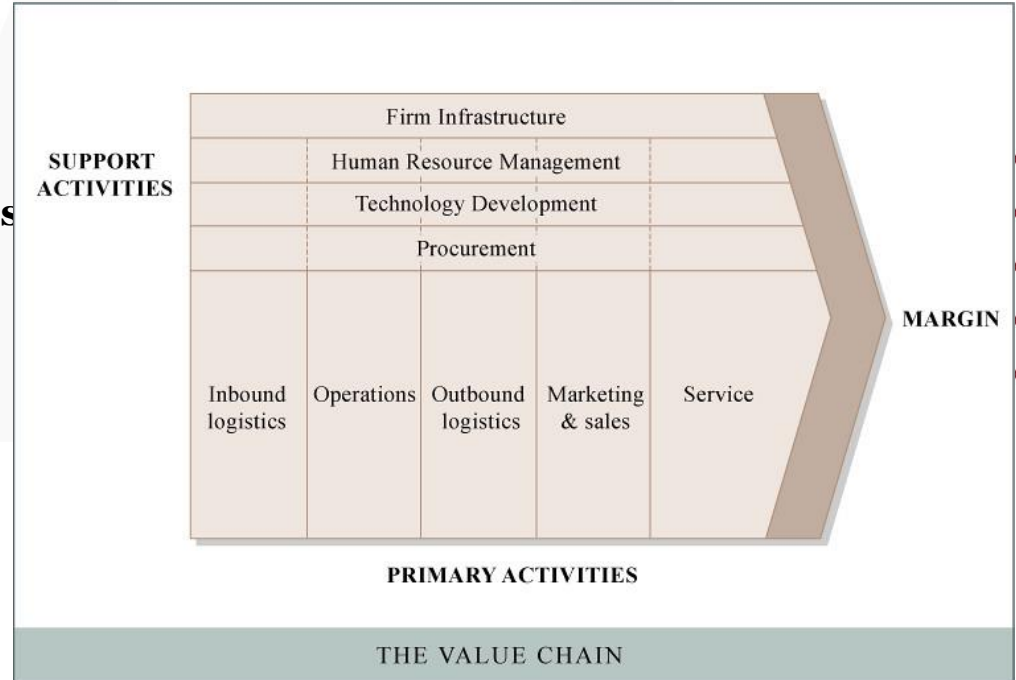
- **Scope**: asking what business are we in?
- **Business model**: asking is our business model **still valid?** for the business we are in?
- **Ecosystem**: are we supported by the **right partners?**



2- Re-Evaluating the Value Chain

Digital technology can significantly improve the efficiency and effectiveness of the parts of your value chain.

New entrants often use digital technology to disrupt the existing value chain, especially distribution.

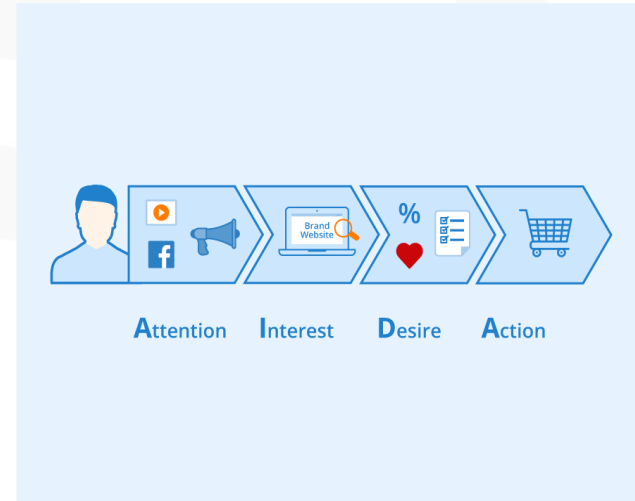


3- Re-connecting With Customers

Digital technology has changed the way consumers search for information and buy products.

Where do customers look for information about new products?
And How do customers make up their minds when deciding to buy a product?

Technology helps with collecting information about the entire consumer decision journey which will open up new ways for you to acquire customers.



JAN
2024

SOURCES OF BRAND DISCOVERY

PERCENTAGE OF INTERNET USERS AGED 16 TO 64 WHO DISCOVER NEW BRANDS, PRODUCTS, AND SERVICES VIA EACH CHANNEL OR MEDIUM



THE HISTORY OF BRANDING

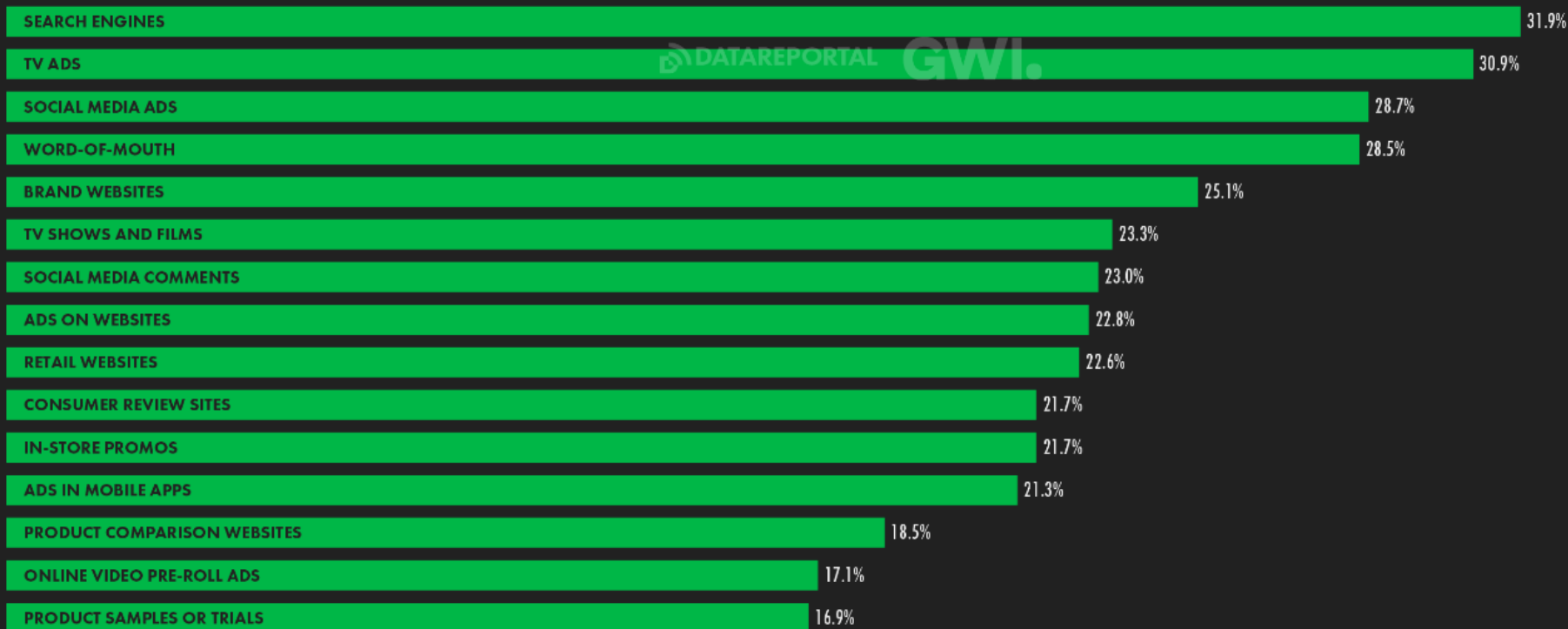
EDUCATING YOU ON OUR PLANET'S MOST POWERFUL PRODUCTS



JAN
2024

SOURCES OF BRAND DISCOVERY

PERCENTAGE OF INTERNET USERS AGED 16 TO 64 WHO DISCOVER NEW BRANDS, PRODUCTS, AND SERVICES VIA EACH CHANNEL OR MEDIUM



4- Re-build Organisation

Adapt- adjust and Restructure...

As you try to strengthen your core business and build for the future at the same time, firms may face the challenge of running two organizations in parallel.

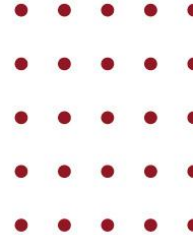
Creating a separate entrepreneurial group to bring digital innovation into a legacy company is like launching a speedboat to help maneuver a large ship.



What Business Are You In?

In 1960, Theodore Levitt, a Harvard Business School professor, published a provocative paper in Harvard Business Review in which he argued that **companies are too focused on products and not enough on customer needs.**

To help managers address this problem, he asked: **“What business are you really in?”**

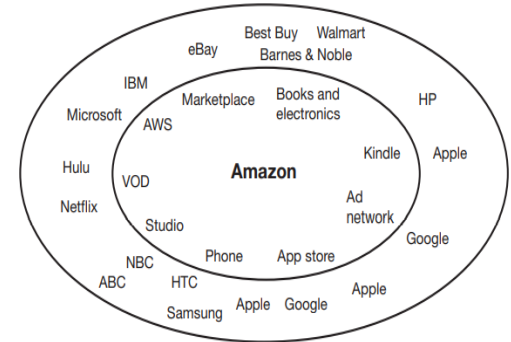


Case Example: What Business Is Amazon In?

What Business is Amazon in? With so many products and services, there are so many competitors:

1. Is Amazon a book vendor?
2. Is Amazon an online retailer?
3. Is Amazon a cloud provider?
4. Is Amazon an online marketplace?
5. Is Amazon an online platform?
6. Is Amazon a streaming service?

Amazon's business and its competitors

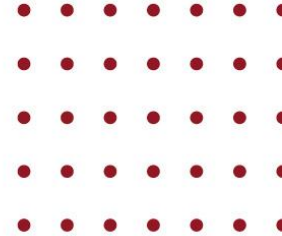


→ Amazon is in the business of **using technology to improve the logistics** of how customers get their products and services.

Scope Of Business → in particular, the Market

To be able to fully understand the business you are in and innovate with customers, Gupta (2018) argues that companies should:

*“Define the Business Around The Customers,
Not The Products or Competitors.”*

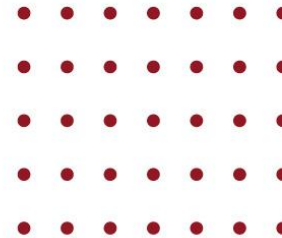


Blurred Industry Boundaries

Competition is no longer defined by traditional product or industry boundaries.

→ *The fight over the discretionary income ...*

The rapid development of technology is making data and software integral to almost all businesses, which is blurring industry boundaries faster than ever before.

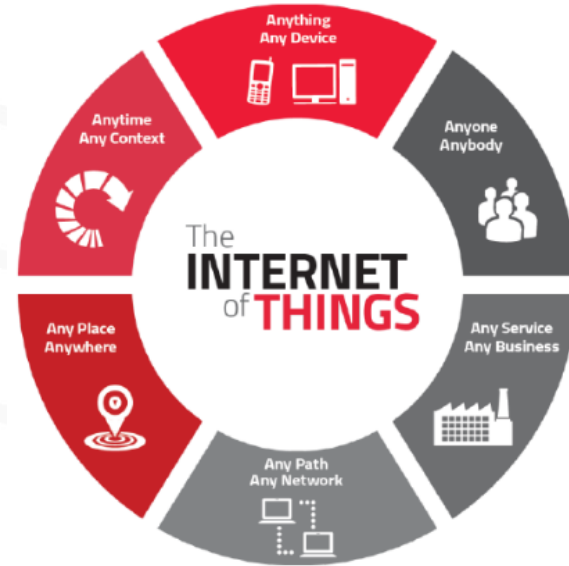


Case Example: Internet Of Things

With the introduction of smart, connected devices—or the internet of things—there will be a shift in how competition is defined.

It will move from competing on the functionality of a single product to the performance of a broad system, in which the firm is often one of many players.

Competition is relating to convenience , user friendly apps, simplicity, etc

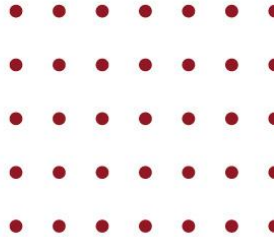


Shifting Competitive Advantage

Gupta (2018) argues that:

A sustainable competitive advantage is able to:

- **Offer** a system of **connected** & **complementary** products. **Ex:**
Apple products...
- Develop a **strong network**. **(Harley's network)**
- **Increase consumers' switching costs.**

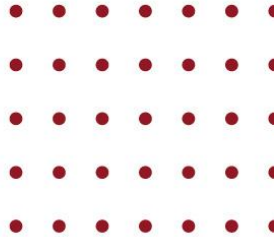


Network Effect

Direct network effect: a product becomes a platform that connects buyers and sellers.

Indirect network: as more buyers and sellers come to the platform, it will attract the interest of more sellers, which in turn attracts more buyers.

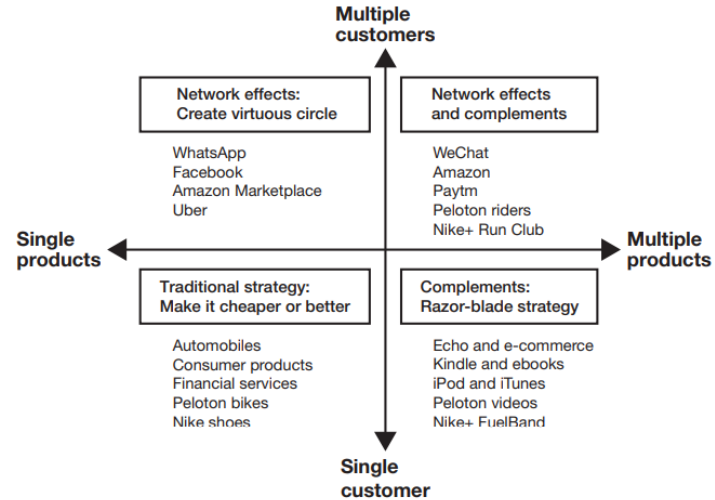
This creates a cycle and momentum where buyers and sellers increasingly want to be part of platform.



Evolving Nature Of Platforms

With many platforms moving from single customer group/product to multiple customers/products, new strategies evolve:

- **Network Strategy:** aims to generate communities for one product.
- **Complimentary Strategy:** a platform that connects multiple users to multiple providers.
- **Razor Blade Strategy:** unbundle offerings from complimentary products.



Today's Modern Assets

Nowadays, some of the most valuable assets of a company are:

- Its Data
- Its Customer base

Yet they don't show up in the balance sheet. The financial reporting system, which reflects how companies have traditionally managed their business, focuses on physical assets instead.

Data Is The New Oil

“Data is the new oil” as unlike physical assets, **data does not get “used up.”**

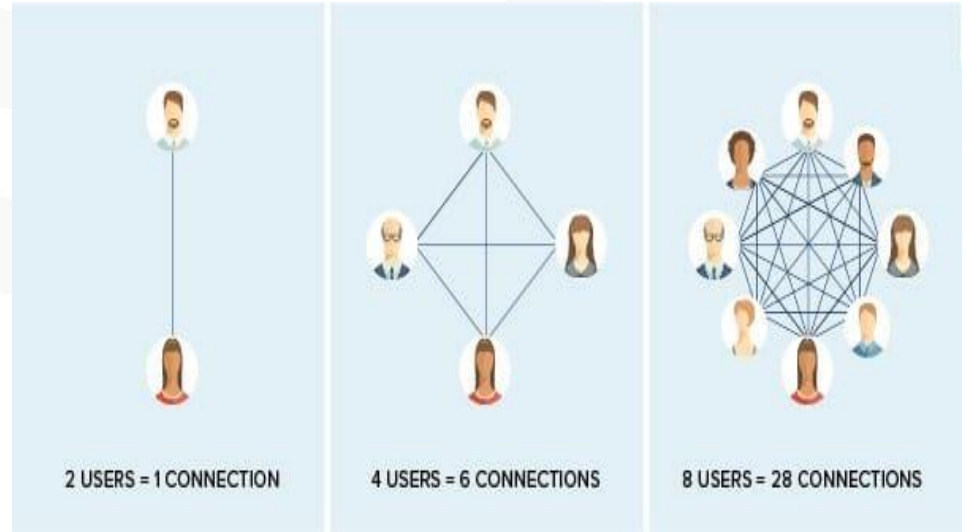
It can be replicated and used in multiple applications without diminishing its value. In fact, **the value of data increases as more data is collected**—sort of a “data network effect.”



Customer Base

The reason a customer base **has become so important** is that it:

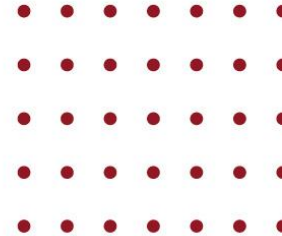
- Creates a powerful **network effect**
- Provides an opportunity for introducing **complementary services**.
- **Reduces marketing costs**.
- Can be used to **monitor & learn behaviour**.



Extending A Business

According to Jeff Bezos there are two ways to extend a business:

1. Take inventory of what you're good at and extend out from your skills.
2. Determine what your customers need and work backward, even if it requires learning new skills.



Summary

- Companies today face the threat of disruption where a small firm makes a larger firm obsolete.
- Disruption occurs when a small organisation rethinks a business model, wins over low end customer to become mainstream and beyond.
- Rather than waiting or countering disruption, aiming to become a digital leader helps to develop more innovation and catch trends.
- To be able to achieve this, it is essential to clearly understand what business a firm is in.
- Traditionally competition was defined based on products/services. Today this is getting blurred as markets intertwine.
- By defining one's industry based on the client's need, then companies are better able to achieve their strategy and keep an advantage.

Discussion Questions

Let's test our knowledge!

- Why does an organisation create a business level strategy?
- What are the options for business level strategies?
- What is cost leadership?
- What is the difference between blue ocean and red ocean strategies?
- What makes a competitive advantage sustainable?
- How can competitive advantage be sustainable according to the resource based view?

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