Why Digital Strategies Fail

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1. **Background**

This paper published by McKinsey Quarterly highlights the different reasons why digital strategies that was adopted by large companies fail

1. **Pitfalls of Digital Strategy**

## Fuzzy Definitions

The definition of digital is not clearly defined by the leaders of the different organizations. This has lead to disconnect between the digital strategy and their business.

## Misunderstanding the Economics of Digital

Digital has brought about innovative and disruptive way in providing similar service or products to the customer. It breakdown the normal economic concept to bring more value to the customer instead of the organization.

Digital has also led in the gradual obsolescence of distribution intermediaries as it shortened the value chain by linking the organization directly with the end-customer.

The effect of digital in the industry can also be seen with the shift in the profit pool in the form of big leap in revenue growth experienced by the top quartile of the companies compared to the rest. This is further amplified as the negative effect on the growth of organization EBITDA is twice for the lower three-quarters of the companies in comparison to the top quarter.

The usual stance of wait and see attitude will need to be reviewed as first movers and fastest followers gain an upper hand in understanding the market and capability to fine tune their strategy quickly to adapt the dynamic environment.

## Overlooking the Ecosystems

Digital has opened an ecosystem that allows organization to extend their services across different industry or sector which is not previously achievable through traditional method. Organization is also able to achieve multiple advantages that is previously unthinkable in traditional economy such as having lower cost factor while achieving the fastest delivery time and delivering the highest level of customer experience.

## Overindexing the Usual Suspects

Organization has the tendency to pay more attention towards digital newcomer that has disrupt the industry through digital means. They ignore the fact that their traditional competitors are also changing and adapting digitally. These incumbents are still commanding lion share of the market and by adopting digitally, they might even leap over the newcomer.

At present, higher emphasis is placed on the digitalization of B2C offering. Companies should not ignore the opportunities that is available in digitalization of B2B space. The applications of artificial intelligence, Internet of Things and augmented reality has helped more B2B companies to digitize their core offering and operations compared to their B2C counterparts.

## Missing the Duality of Digital

Digital strategy does not mean that organizations should abandon their existing business to look for a new digital venture. Instead, it is extremely beneficial if business is able to adopt digital strategy that complements the existing business

1. **Thoughts and Implications**

## Business Environment

* It does not mean that being a first mover will ensure the success of the digital strategy. It is important that digital strategy to be complemented with a proper business strategy for it to work.
* In order to retain its standing as a pacesetter, organization need to constantly revisit its digital strategy to ensure that it remains relevant to stay ahead in the disruptive world.
* Organization also need to consider the existence of political support as it can mean a total demise of the whole business if sanction is applied to the business by the government.(e.g Google and Facebook existence in China)

## Economic Factors

* Different economic consideration applies to entity of different sizes. Large corporations have the necessary financial means to support its digital transformation. Medium and small size entities will likely to depend on external funding to support their transformation. This maybe viable in short-term but it is not sustainable in a long-term basis. Any investors will be looking at the bottom line which is the profitability of the company before making additional investment to the business.
* The strategy of subsidizing the customer to gain the market share is not a sustainable strategy as rivals will be locked in counterintuitive cycle that results in a demise of one party as their fund dries up.(e.g Grab and Uber promotions to the customer)

## Organization Structure

* In order for the organization to fully support the digital strategy, it is important that its structure need to be aligned to the digital strategy instead of the other way round. This helps to ensure availability of support from the relevant functions in implementing the strategy.
* Traditional management personnel lacks the necessary knowledge needed to roll-out a digital strategy. For a digital strategy to work, different disciplinary knowledge is needed to understand and execute a comprehensive business strategy which encompass the digital strategy as a component.
* A proper and effective corporate communication strategy is important to ensure that all levels of the organization to understand the objective of the digital strategy and its implementation process.

## Management Process

* The traditional management process of annual strategic definition and quarterly review is outdated and too slow in responding to the threats from the competition. Management will need to be agile and constantly on their feet to respond to any changes in the business environment.
* Management may put too much emphasis on the big picture and strategy without proper operating plan and key measurement metrics to ensure proper implementation.
* Whenever there is turnover in management, no proper handover is performed resulting in lack of continuity of the digital strategy. New management might have new ideas resulting in wastage of investment that have been made so far.

1. **Conclusion**

In order for an organization to succeed in their digital strategy, it is important that there is an alignment of their organization and management structure to support the implementation of the digital strategy. The objective of the strategy must resonates through all level of the organization as such it is important that a proper communication structure is in place. This must also be supported by human resources with the right skill set who are able to drive and execute the tasks required to fulfill digital transformation.