The Mindset Needed For Digital Change

The world's going digital, but is your company ready to make the change? Sometimes having the technology is not enough.

In May 2003, Aron Ralston was faced with an excruciatingly difficult decision. After five days of being stuck in a ravine in Utah with his arm and hand trapped under a rock, he resolved to amputate his arm with a pocket knife to save his life. This story still makes me, and I think many others, wince. From a rational point of view, making the cut was the only option, but the decision to maim yourself still seems rather unnatural.

Cannibalising to survive the digital transformation

Many companies struggle with a similar dilemma, albeit less bloody than Ralston's. The advent of digital competition can often be as sudden and abrupt as the falling rock. In order to survive, existing often very lucrative practices will have to be dismantled in the hope that new, still unproven, digital business models can secure the future. In recent years I have seen how onerous such a decision can be.

Many newspapers, for example, hesitated to replace their expensive classified advertisements for cars, houses and jobs, with online portals, resulting in new online players dominating the digital market in the majority of Western countries. These were often sold to the papers for a lot of money later on.

Manufacturers of branded products have been scared to sell directly to their end customers for fear of antagonising retail businesses. And these retail businesses have often been half-hearted in their attempts to open online stores, to avoid compromising traffic to their bricks and mortar operations. The media industry has tried hard for many years to delay the transition from bundled products (TV stations, newspapers, CDs) to an on-demand world, while the telecommunications sector still struggles with offering payment plans based on calling minutes and the amount of SMSs to rates where you only pay for data usage.

A difficult decision

It is not surprising that this transition is going so slowly given the seemingly asymmetrical choice: you give up a certain cash flow for the short term, for the chance to increase future, highly uncertain cash flows. The various stakeholders are also often not enthusiastic. It is difficult to explain to shareholders that you voluntarily decline quarterly profits and dividends, opting for vague promises about future value creation. Within the organisation, staff members who bring in the money do not understand that they are no longer permitted to invest while, in their opinion, lots of money is wasted on new adventures.

This brings to mind Steve Jobs' oft-quoted observation, "*If you don't cannibalise yourself, someone else will".* Which prompts the response, "*easier said than done*", given that cannibalising too early is almost as bad as doing it too late.

Timing the move

The internet bubble around 2000 showed that too much eagerness can rapidly lead to value destruction. The crucial question is therefore: how do you get an organisation to the point where they make the cut at the right time? When I look at companies who have achieved this relatively well - such as Norwegian newspaper publisher Schibsted which opted for online classifieds at a very early stage and is now the leading player in Europe - I believe much has to do with showing courage without being reckless.

Aron Ralston was primarily praised for holding his nerve. His decision came from great experience and therefore confidence. He had enough confidence to wait five days in the hope that he would be rescued, and sufficient experience to know that if he waited any longer he would be too weak to drag himself out of the canyon.

Ralston's story relies on the exceptional qualities of a single person. A company's success requires its management team and Board of Directors have sufficient courageous people with adequate digital experience, but also people who oppose recklessness. When it comes to entering the digital world, psychology might be more important for survival than technology.

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