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Four Signs That Your Industry is Ripe for Digital Disruption

If there are ways for your firm to improve the customer experience with digitisation or use technology to reduce costs, you should move quickly or risk being disrupted by an outsider.

Day in, day out, business leaders are reminded that digital disruption is coming for their customers, for their talent, and for their bottom lines. CEOs of traditional companies consistently rate digital upstarts disrupting their business models as their number one concern.

And it's no wonder. We're all familiar with the stories of leaner, more responsive business models, created through innovation, leading to the demise of more established companies. Kodak, Blockbuster, Borders – their stories have been told and retold as a warning to complacent business leaders. Very few sectors have been immune to digital disruption; it's been felt in everything from financial services, to transport, travel, hotels, business services and retail.

With all this in mind, business leaders could be forgiven for thinking there's an existential threat lurking around every corner, and a tech-savvy millennial in his or her bedroom dreaming up a new way to cannibalise their profits. But is it really so cut-and-dried? Is every business and every sector doomed to disruption? Which sectors are most susceptible? And what can businesses to do in the face of such a threat?

The answer simple: If your business or sector is ripe for disruption, you need to move first. Disrupt yourself. Disrupt your competitors. Ford CEO Mark Fields recently committed his company to doing just that. At Ford, he says, "our approach is to first disrupt ourselves."

But how can business leaders distinguish between short-term pressures and long-term threats that require strategic action? How can they know that disruption is coming, when perhaps even the would-be disruptors haven't yet begun to move? And how can they know early enough to move first and to move decisively?

There are four questions which help determine whether a business or sector is ripe for disruption:

1. **Can the product or customer experience be digitised with little or no negative impact on customer satisfaction?**

It's true that nowadays customers expect to be able to access the majority of products and services digitally, but the extent of digitisation expected varies depending on the industry.

In some sectors, the human element remains crucial to customer satisfaction. The majority of people still prefer to see a doctor when they're ill rather than to consult WebMD. When we have a customer service issue we mostly opt to speak to a person rather than an automated answering machine. For now, when we need legal advice, most of us prefer to consult with a human expert. And until the driverless revolution actually takes place, we still need a person to drive us around even if we'll happily find them through an app.

In other sectors, the product or service can be just as good or even better when the human is replaced by a machine. Once upon a time, few could imagine automated supermarket check-outs, let alone shopping on the internet. Now, online shopping is par for the course and can often be quicker, more convenient, and more cost-effective than shopping in store. As delivery, particularly for non-food products, has become more reliable and cheaper, it has become possible for more and more consumers to get a good, and sometimes better, experience online than in-store.

The bottom line is this: where there is scope for some or all of the customer experience to be replicated - or improved - through digitisation, sooner or later it most certainly will be. The answer? Get there first.

2. **Is the existing customer experience inconvenient, slow, uneconomic or unrewarding?**

The most successful disruptors of recent times have been those able to seize upon a customer experience that was not up-to-scratch, offering a more convenient, cheaper or more rewarding alternative.

Uber undercut an expensive regulated taxi industry by providing cheaper transport at the click of a button, enabled by an app that allows consumers to see exactly where their cab is coming from. By bringing all the options together in one place, online travel agents like Booking.com have given consumers visibility on the price and perks of one option compared to another, enhancing value transparency, adding convenience and making people feel like they're getting the best deal. Airbnb have gone one step further by offering consumers disenchanted by the hotel industry access to a new supply of accommodation in a wide range of locations at a fraction of the price.

The legal profession is one that many consider ripe for disruption, and US start-up, Avvo, has already set about doing just this. Avvo operates somewhat like an Uber for legal services. Approximately one third of the US's six hundred thousand lawyers have signed up to the service. An app allows potential customers to report what issue they need assistance with, find local lawyers, have visibility on price from the beginning and in some cases browse a menu of services. Like Uber, lawyers are vetted and rated by Avvo so customers know what they're getting.

It is a fundamental truth of both economics and of the human condition to seek maximum utility from minimum outlay. Businesses which ignore this maxim will inevitably be overtaken by those that understand and capitalise upon it. It's natural selection for business: ensure you are meeting customer needs on convenience and value for money – or someone else will.

3. **Would digitisation or automation substantially undercut the cost model of the traditional business?**

We've dealt with cost to the consumer, but cost to the business is equally critical. If automation or digitisation can remove substantial costs to business, without sacrificing what is of real value to the customer, then that company or sector is ripe for disruption.

The rise of online estate agent Purplebricks demonstrates this perfectly. By negating the need for physical stores, Purplebricks has dramatically reduced their start-up and running costs and has become the fastest growing agency in the U.K.. Online travel agents such as Booking.com and Expedia sprung up in much the same way, as did online retail giant Amazon. In financial services, Transferwise can offer its peer-to-peer money transfer service for a fraction of the fee that banks charge because its automated clearinghouse (ACH) network strips out the need for physical branches and human intervention.

The key to all of these examples is that money which would otherwise have been spent on what disruptors saw as unnecessary overheads, physical properties and the manpower to staff them, was instead invested in ways which added value for the customer – for example, through lower prices or a more convenient service.

If digitisation or automation can eliminate costs without critically impacting the service provided to customers, it is incumbent upon any business leader to embrace it. This extra capital should then be reinvested to add value for customers, or to deliver a greater return for shareholders.

4. **What barriers to entry exist and how solid are they really?**

Often businesses in certain industries, or those that have been around a while, think that their sector is impermeable. There are barriers to entry, they say – be it capital, assets, legislation, or intangibles such as their brand or expertise – which make their lead unassailable. At best, this belief is optimistic, at worst naive.

At one point, hotel chains thought their physical assets kept them safe from disruption. Taxi companies may have thought the same about their cabs, as retailers did about their stores; banks about legislation and trust; and book and record stores about their physical stock. Today, logistics companies think their trucks, trains and planes ensure their operations are solid, similarly lawyers and medical professionals think their expertise and bedside manner keep them safe from disruption.

But the examples previously discussed show that barriers to entry are often less solid than we'd like to think. All it takes is one brazen start-up for us to realise just how porous they really are.

The lesson for business leaders is to never assume that barriers to entry will insulate you against disruption. Examine the barriers in your sector, play devil's advocate and ask yourself: how insurmountable are they really?

If your business or sector is at risk of being disrupted, launch a pre-emptive strike. Learn from your would-be disruptors. What weaknesses would they capitalise upon? How would they improve upon your customer offer? Lowering cost to the business and delivering better value to customers should be at the core of what you are doing already.

As Winston Churchill once said: "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

Any business leader who answers the four questions outlined above and feels their business or sector is coming up short, faces the great difficulty of disruption; but also, the opportunity. Seize it.

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