

NANO TOOLS FOR LEADERS®

DIGITAL LEADERSHIP: AVOIDING BUSINESS EXTINCTION

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes—with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

Contributors: Jerry Wind, PhD, Professor of Marketing, The Wharton School, University of Pennsylvania; Barry Libert; and Megan Beck — authors of *The Network Imperative: How to Survive and Grow in the Age of Digital Business Models*.

THE GOAL:

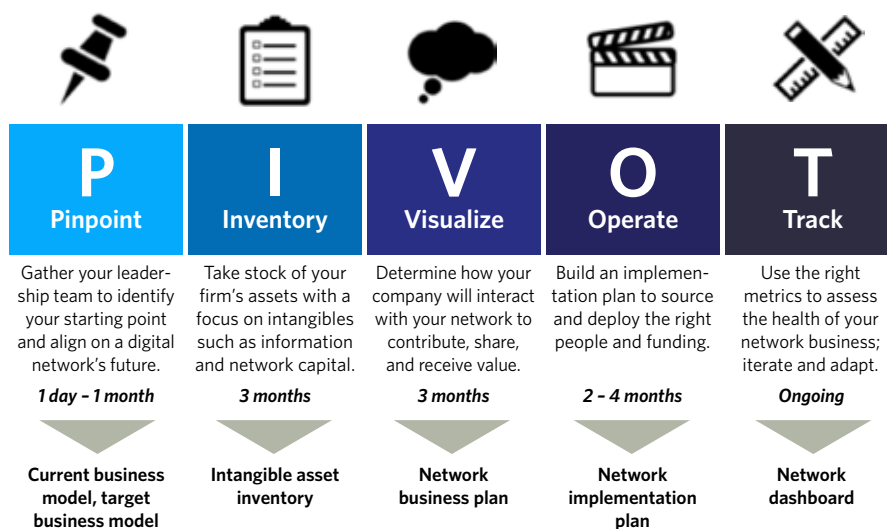
Adopt some of the business and mental model innovations of today's fastest-growing businesses to create greater value in the new digital environment.

NANO TOOL:

Thirty years ago, most successful companies were built around physical assets. They focused on how to make, market, sell, and service “things.” Today, that is no longer true. Some of the most valuable companies — Apple, Amazon, Facebook, and Google — operate technology platforms that enable their customers and partners to collaborate, communicate, and conduct commerce directly.



2. PIVOT Business Model



These organizations are built on the assets, labor, knowledge, and relationships of external networks. Facebook has 1.6 billion freelance contributors, Uber has 1 million independent drivers, and Airbnb has 1 million hosts. Google generated over \$16.78 billion in ad revenue in just three months (during the 3rd quarter of 2016) — without any physical assets other than its technology platform.

Companies that include digital business models are seeing dramatic growth and profit compared to organizations using older business models that rely solely on internal assets such as their own products, services, and employees. Digital businesses can scale with little or no marginal cost, and leverage the value of assets they don't own — and therefore don't need to manufacture, maintain, or transport.

ACTION STEPS:

To succeed in the digital age, organizations need to PIVOT their business and mental models to adapt to new realities. Although full transformation requires buy-in from the top down, this five-step process can be used by any company, and by leaders at every level, to PIVOT your business, group, or team towards including digital capabilities.

1. **Pinpoint:** Know your starting business and mental models, including your industry's business model – e.g., do you make and sell things, hire and provide services, develop and sell data and software, or build and manage virtual networks (business or social)?
2. **Identify:** Take a complete inventory of all assets including your customers, partners, employees, and data relating to them (e.g., interactions, sentiment, friends, and family). Think of these assets as you would your physical (tangible) assets — they are as valuable as things!
3. **Value:** Envision your future as a digital network where you partner and co-create with your customers, suppliers, and employees in a new business model, allowing them to participate and share in the value that the network creates. Start small, by either developing, buying, or partnering with a digital platform that connects what you make with what you service, sell, and co-create. A technology platform is critical to digital success.
4. **Operate:** Begin shifting small amounts of the capital (including time, talent, and money) at your disposal to your future digital business model. If you don't spend on it, nothing will change. Create a pilot to prove your concept for playing in the digital world. There is plenty of space — look for new opportunities where you can leverage your resources.
5. **Track:** If you don't measure it, you won't manage or invest in it. To your standard financial measures, add key performance indicators (KPIs) such as number of interactions (sales or other), number of customer-partners, employee engagement and sentiment, products or services created by customers, and the amount of value and revenues shared with them. Report on these new measures regularly and transparently.

HOW LEADERS USE IT:

- In 2010, General Electric CEO Jeff Immelt saw that GE needed to respond to the expansion of innovative digital technology into its primary sector: industrials. Rather than let new players consume the value that was created as his industry digitized, Immelt began to purposefully evolve the firm in the direction of digital networks. He said GE would treat analytics like it was a core to the company over the next 20 years, as material science had been over the last 50 years. Their business model evolved accordingly. To develop analytics capability internally, Immelt says they had to “drill and change a lot about the company.... It's infecting everything we do.” By April 2016, GE reported growth in revenue and core earnings, despite the fact that profit in its industrials business had slid.
- General Motors is making a similar shift. After comparing changing consumer patterns with long-held company beliefs, GM is demonstrating that it has shifted its core beliefs about value with a \$500 million investment in the ride-sharing start-up Lyft and a commitment to build digital networks and autonomous vehicles.
- Netflix CEO Reed Hastings observed that the entertainment options offered by video rental stores and movie theaters were failing to make customers happy. He questioned each of their current core beliefs, found more customer-friendly solutions, and brought the resulting ideas to market. On-demand home delivery of movies with no late fees was a revelation for the market; it constituted a major disruption. This new business model took down Blockbuster and has forced movie theaters to adapt and find new ways to attract customers.

ADDITIONAL RESOURCES:

- *The Network Imperative: How to Survive and Grow in the Age of Digital Business Models*, Barry Libert, Megan Beck, and Jerry Wind (Harvard Business Review Press, 2016). Guides leaders and investors through the ten principles that all organizations can use to grow and profit from the digital transformation that is affecting every industry.
- *The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism*, Jeremy Rifkin (St. Martin's Griffin, 2015). Describes how the emerging Internet of Things is ushering in an era of nearly free goods and services, precipitating the rise of a global Collaborative Commons and the eclipse of capitalism.
- "How to Navigate a Digital Transformation," Barry Libert, Megan Beck, and Jerry Wind (*Harvard Business Review*, June 2016). Provides greater detail and context for the PIVOT model.
- Yoram (Jerry) Wind leads [*Wharton Fellows: Master Classes and Networking for Senior Executives*](#), an ongoing program designed to help leaders challenge their mental models and stay steps ahead of changes in their industries.

ABOUT NANOTOOLS:

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, director of Custom Programs at Wharton Executive Education. Nano Tools for Leaders® is a collaboration between joint sponsors Wharton Executive Education and Wharton's Center for Leadership and Change Management. This collaboration is led by Professors Michael Useem and John Paul MacDuffie.