IS YOUR COMPANY READY FOR THE BIG DATA REVOLUTION? (Part 2)

4 WAYS TO ADAPT TO THE DIGITAL REVOLUTION SUCCESSFULLY

By IMD Professor Carlos Cordon and Teresa Ferreiro – June 2015

The big data revolution is having a tremendous impact on companies' business models and ecosystems. Forget that obsolete strategic planning process and those books that teach industry analysis. Today, industry sectors are blurring and organizations need to conquer new unknown territories. In this new reality, traditional models are no longer applicable because the new business models don't follow the established rules any more.

While executives at some companies get frustrated because they try to answer their "old" questions using big data, the ones we see succeeding are asking new questions and creating new business models thanks to big data.

How to guide your company on the digital journey

To adapt your business to the new reality we propose a methodology that combines four different frameworks based on the experiences of companies that have succeeded in this journey.

Step 1: The why. What's my company's purpose?
Many companies base their selling arguments on what they did in the past while they should begin with thinking about their purpose. Author Simon Sinek developed his "Golden Circle" concept to guide companies through the process of looking at "WHY" and not only "WHAT" to define their purpose.
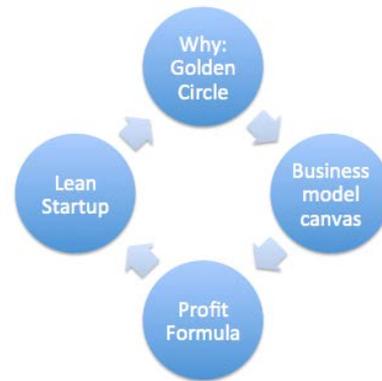
Articulating the company's why and its reason to exist makes it possible to explore new business models that are aligned with the company's purpose.

Step 2: The business model canvas
The business model canvas was created by Alexander Osterwalder as a tool for new technology startups that needed to be able to explain to their investors how they work and where they would make money. It is an excellent exercise that visually shows how a company functions. It is useful when companies need to make decisions and change strategies because it draws a clear and realistic picture of where the company stands.

A simplified way of doing this exercise is to determine three important factors: internal resources, customer data, and the way you expect to make money.

Step 3: The profit formula

The profit formula is an equation that clearly shows where the company is making its money. Is it coming from traditional sources? Or has the company shifted and developed new successful ways to make money that were not being considered before? Does the company have only one profit formula or more?

The profit formula is very useful for picking the right strategy when a company wants to compare different business models.

In the past, companies made one single product and used cost accounting to figure out their product margin. The profit formula was very easy then. Today things are not always like that. For example, many newly created companies are offering online services rather than selling physical products. They need to know their own equation and which parameters to put the emphasis on in order to maximize their profit.

Step 4: Lean startup

Lean startup was designed by Eric Ries to help startups go to market. Most of the time startups fail because there is no demand for their great ideas. Lean startup proposes a methodology that helps discard business models that aren't executable and improves the success ratio of those which are. The methodology is focused on reducing waste (working time, investment, etc.), testing a prototype - *minimum viable product* - very fast and using *validated learning* collected to *pivot* the company (change directions) and modify its offering.

General Electrics with its FastWorks program was one of the first companies that benefits from lean startup. Designed to deliver better outcomes for customers faster, it has launched 100 projects that range from building disruptive healthcare solutions to designing new gas turbines.

Big data is radically changing how businesses work. The four best ways to begin the digital journey have recently emerged in the startup world: the why, business model canvas, profit formula and lean startup. To get started you should discard obsolete tools like industry analysis and strategic planning and embrace these new concepts. Welcome to the big data revolution!

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