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Four Signs That Your Industry Is Ripe for Digital Disruption

How to avoid the downside of natural selection in business

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 No. 1 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, textile companies, transport companies, communication companies—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 dreaming up a new way to cannibalize their profits. But is it really so cut and dried? Is every business and sector doomed to disruption? Which sectors are most susceptible? And what can businesses to do in the face of such disruption?

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 digitized with little or no negative effect on customer satisfaction?

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

In some sectors, the human element remains crucial to customer satisfaction. Most people still prefer to see a doctor when they're ill rather than to consult the internet. 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 checkouts, let alone shopping on the internet. Now, online shopping is commonplace and can often be quicker, more convenient, and more cost-effective than shopping in a store. As delivery, particularly for non-food products, becomes more reliable and cheaper, it's possible for 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 digitization, sooner or later it most certainly will be. The best strategy? Get there first.

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

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

Uber undercut an expensive regulated taxi industry by providing cheaper transport 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 makemytrip.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. Goibibo have gone one step further by offering consumers disenchanted by the hotel industry access to a new supply of accommodations in a wide range of locations at a fraction of the price.

The legal profession is one that many consider ripe for disruption, and Indian startup Kaanoon.com has already set about doing just this. Kaanoon operates somewhat like an Uber for legal services. Thousands of 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, be it civil, criminal, family, property, business, labour constitutional, IP or taxation law. Like Uber, lawyers are vetted and rated by Kaanoon so customers know what they're getting.

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

3. Would digitization 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 digitization 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 Magicbricks demonstrates this perfectly. By negating the need for physical stores, Magicbricks has dramatically reduced its startup and running costs, and has become the fastest-growing agency in India. Online travel agents such as Makemytrip and Yatra.com sprung up in much the same way, as did online retail giant Snapdeal or Flipkart. In financial services, Paytm, Western Union, Paypal 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 that 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 that added value for the customer—for example, through lower prices or a more convenient service.

If digitization or automation can eliminate costs without critically impacting the service provided to customers, it's incumbent on 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?

Often businesses in certain industries, or those that have been around awhile, 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—that 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 that 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 startup for us to realize 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 preemptive strike. Learn from your would-be disruptors. What weaknesses would they capitalize on? How would they improve on your product or service to customers? Lowering cost to the business and delivering better value to customers should be at the core of what you6re 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 leaders who answer the four questions outlined above and feel their business or sector is coming up short faces the great difficulty of disruption. But they also face opportunity. Seize it.

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