



Time to think again about Competitive Strategy

Shifting strategic focus from products to data, and changing business parameters from industries to ecosystems may not be easy, but it's the way to go, says **Mohan Subramaniam**

Digital titans such as Amazon, Facebook and Google continue to dominate our economic landscape. Indeed, over the last few decades, they have generated enormous value through their digital platforms. They, not the industrial heavyweights like GM, Boeing, or Exxon-Mobil, are now the most valuable companies in the world. Why have legacy industrial firms fallen behind in the value creation race? It is because they continue to operate based on outdated fundamentals for Competitive Strategy.

Legacy firms use three primary drivers to frame competitive strategy:

- **Products/services** – to drive revenues.
- **Value chains** – a host of interdependent activities like purchasing, operations, R&D, and marketing that enable output generation – that help position their products in their markets.
- **Characteristics of their industry** – such as scale intensity or the number of competitors – to either amplify or diminish the value of their products.

Shaping Competitive Strategy based on these drivers entails optimal selection of products and markets, organising value chains for effective product positioning, and marshalling select forces in the industry to drive competitive advantage.

Significantly, the digital titans do not follow these principles. They derive their revenues from data, not products; they are organised around digital platforms, not value chains; and their digital ecosystems amplify the value of their data, not their industries.

Their success using such new approaches should be a wake-up call for legacy firms. Even though most legacy firms do not operate as digital platforms, modern digital technologies, such as sensors, the internet of things (IoT) and AI, give them the opportunity to harness the power of data and digital ecosystems. But availing these opportunities requires a major revamp in strategic thinking.

Explaining this new thinking is the focus of my



Legacy firms too can benefit from interactive data

book *The future of Competitive Strategy: Unlocking the power of data and digital ecosystems*. In this article, I highlight below, a few select ideas.

What is new about data?

The digital titans have made data “the new oil”. How did they do that? After all, even legacy firms use data. The success of these digital companies comes from their use of interactive data, compared to the use of episodic data by legacy firms. Episodic data stems from discrete events. A physical retail outlet of Barnes & Noble collects episodic data when a customer purchases a book (a discrete event). On the other hand, Amazon collects a stream of interactive data during the entire time a customer is browsing on their website – even if there is no product purchase. Interactive data is richer and more powerful than episodic data. It is this kind of data that has empowered Facebook, Google, and Amazon, to dominate the \$100bn plus digital advertising space.

Legacy firms too can benefit from interactive data through sensor-equipped smart products. Smart inhalers, that patients use to manage asthma, can offer many new customer experiences through interactive data. They remind users to take prescribed doses to improve compliance and overall health. They can track user location and the presence of allergens in those locations to alert and prevent asthmatic attacks. They remind users to carry their inhalers with them, a feature that could even save lives.

To establish these new customer experiences however requires new strategic thinking. Traditionally, data supported products by helping to monitor sales, plan for inventories, or track product margins. Now products support data by acting as conduits to collect interactive data. This shift in role is non-trivial. For companies to execute this shift requires substantial transformation in their business processes and revenue models.

What are digital ecosystems?

Digital ecosystems are networks of data generators and recipients. Digital platforms such as Uber and Airbnb have used them to significantly amplify the power of their data by expanding their networks of drivers or landlords, and renters. Legacy firms however are not digital platforms. They need to think of their digital ecosystems in ways relevant to their business models. Their digital ecosystems are a combination of production and consumption ecosystems.

Production ecosystems emerge when value chains are turned into data generating and sharing networks with the help of sensors and IoT. Operations, such as R&D, product development, marketing, sales, when digitally connected to utilise sensor and IoT data, become production ecosystems. Caterpillar monitors the usage of its equipment on construction sites to detect likely component failures and offer predictive

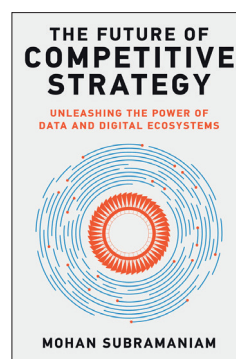


maintenance services for new revenue streams through their production ecosystems. GE similarly offers real-time guidance to pilots to fly in ways that improve fuel efficiencies through their production ecosystems.

Consumption ecosystems are digital networks that expand the ways a firm's products are consumed. They arise from a network of third-party assets and entities that complement a product's use. A network of third-party entities that track environmental allergens to alert smart inhaler users of potential asthmatic attacks is an example of a consumption ecosystem. To harness value from such consumption ecosystems, firms must envision their business scope beyond what is defined by their traditional value chains. It also requires extending their value chains into digital platforms to facilitate exchanges among product users and these third-party entities. A smart inhaler firm must learn how to facilitate data exchanges among users and third-party allergen tracking entities just as how Uber does so with drivers and riders.

Concluding thoughts

Shifting strategic focus from products to data and changing business parameters from industries to ecosystems is difficult and requires a revamp of traditional strategic thinking. It does not however mean that firms should ignore their traditional resources and strengths. Their existing infrastructure must be foundations for new digital capabilities. Their established product footprint must be a springboard for new interactive data. And their prevailing value chains must serve as scaffoldings to construct new digital ecosystems. That is the future for legacy firms. And that future has already arrived.



ABOUT THE AUTHOR

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