

LIFE IN THE DIGITAL VORTEX

The State of Digital Disruption: 2017

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What a difference two years make.

A peripheral concern for most firms in 2015, digital disruption now impacts half of companies globally – and has become a top-of-mind issue at the board level.

Our latest research uncovered these and many other important insights about how the state of disruption across industries has changed since 2015. This new study from the Global Center for Digital Business Transformation (DBT Center), an IMD and Cisco initiative, draws on survey data from hundreds of executives, along with quantitative data, such as where venture capitalists are placing their bets.

The results show large differences among industries in how they are experiencing the effects of disruption in the “Digital Vortex.” The Digital Vortex represents the inevitable movement of industries toward a digital center in which business models and value chains are digitized to the maximum extent. The force of the vortex separates physical and digital sources of value, yielding “components” that can be readily combined to create new disruptions and blur the lines between industries.

Industries closest to the center of the Vortex face the most substantial disruption, while those around the edges feel less immediate impact. As a group, *all* industries have moved closer to the center, where the velocity and magnitude of change are the highest; no industry has retreated in the Vortex (i.e., experienced less disruption). However, the relative positions of some industries have shifted since the last assessment in 2015¹ (see Figure 1).

(Figure 1) Digital Vortex 2017: Industry Ranking



Source: Global Center for Digital Business Transformation, 2017

About This Study

Over the past several months, the Global Center for Digital Business Transformation surveyed 636 business leaders in 44 countries across 14 industries to understand their attitudes and behaviors toward digital disruption. This data was supplemented by third-party data sources from CB Insights and *The Wall Street Journal*.

The ranking was based on a composite of four measures:

- 1. Investment:** where venture capitalists and others are putting their money, by industry
- 2. Timing:** when, and at what rate, digital disruption is likely to occur, by industry
- 3. Means:** the strength of barriers to entry for digital disruptors, by industry
- 4. Impact:** the potential magnitude of disruption, by industry

Key Takeaways

1. The five most vulnerable industries – media and entertainment, technology products and services, retail, financial services, and telecommunications – remained unchanged in the new study.
2. The pace of disruption is accelerating across industries due to:
 - faster digital technology innovation cycles
 - explosion of well-funded start-ups
 - rise of Chinese giants such as Alibaba and Tencent

How the Digital Vortex Is Impacting Industries in 2017

The five most vulnerable industries remain the same as in 2015.

These industries – media and entertainment, technology products and services, retail, financial services, and telecommunications – share a few characteristics that make them particularly susceptible to digital disruption. For example, core products and services in these industries, such as music, communications, software, and money, can be digitized. Further, as a group, these industries tend to generate most of their turnover from business-to-consumer business models.

The No. 1 spot in the 2017 ranking belongs to the media and entertainment industry, which has seen massive disruption across print media, social media, TV, music, and movies. The level of competition among the industry's incumbents, such as video content producers, music and print publishers, content distributors, and others, has intensified significantly. New market entrants, such as Amazon and Facebook, along with emerging giants like Netflix, have created further pressure within the industry.

However, the media and entertainment industry is not alone. The pace of disruption is accelerating across industries through faster digital technology innovation cycles, an explosion of well-funded start-ups, and the emergence of Chinese giants such as Alibaba and Tencent.

Industries just outside the center of the Vortex (the “blue” group in Figure 1) have also seen several changes. The consumer packaged goods industry, for example, has moved closer to the center due to lower barriers to entry, sophisticated digital marketing tools, and the increasing power of online retailers such as Amazon and Alibaba, which are vertically integrating. The professional services industry, a new entrant in our industry ranking, in the No. 8 position, is under pressure from multiple sources, including advanced analytics, artificially intelligent recommendation bots, and gig-economy worksites such as UpWork, Freelancer, and Fiverr. As a group, these industries are starting to feel the full force of digital disruption.

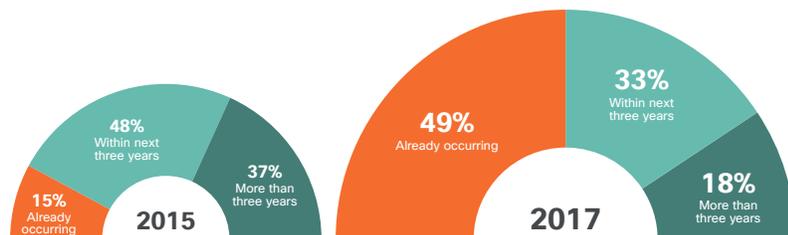
The No. 1 spot... belongs to the media and entertainment industry, which has seen massive disruption across print media, social media, TV, music, and movies.

Until now, the asset-heavy, business-to-business industries in the outer portion of the Vortex (the “green” group in Figure 1) have had little cause to worry about digital disruption. However, recent evidence suggests that these industries can be quickly pulled into the center of the Vortex. The transportation and logistics industry, for instance, is under enormous pressure from technologies such as self-driving cars, electric vehicles, and disruptors such as Amazon Logistics and Uber. The healthcare and energy industries similarly face competitive pressures from nontraditional sources. These industries are beginning to take the threat of digital disruption seriously, as evidenced by their investments in digital capabilities and business models.

Disruption Is in Full Swing

Digital disruption is no longer an intangible event that may occur at some undefined point in the future. Roughly half of the surveyed executives report that digital disruption is already happening in meaningful terms in their industries, compared with only 15 percent in 2015 (see Figure 2). Digitally driven market change is also quickly gaining the attention of C-level executives. In 2015, digital disruption was not deemed worthy of board-level attention in about 45 percent of companies. In 2017, only 17 percent feel this way.

(Figure 2) Where Do You Expect the Impact of Digital Disruption to Occur?



Source: Global Center for Digital Business Transformation, 2017

Executives are increasingly recognizing both the positive and negative impacts of digital disruption. More than 30 percent of respondents today believe that digital disruption will have a transformative impact on their industries. By contrast, less than 1 percent felt this way in 2015 (see Figure 3, next page). All in all, more than three-quarters of executives now consider the impact of disruption on their industries to be “major” or “transformative,” a stark increase in just two years.

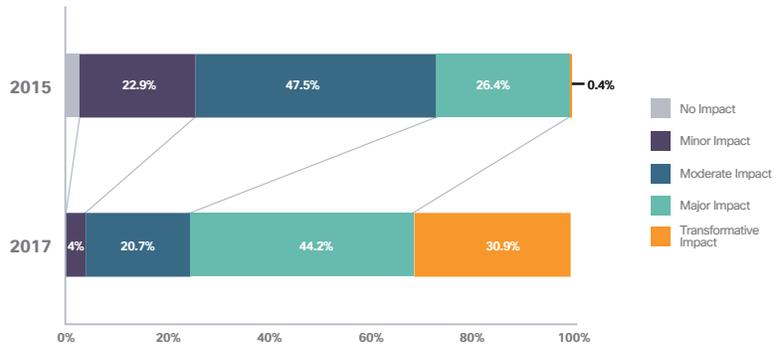
Key Takeaways

1. Roughly half of executives say digital disruption is already occurring in their industries.
2. In 2015, 45 percent of companies said digital disruption was not deemed worthy of board-level attention. Only 17 percent feel that way now.

Key Takeaways

1. Thirty-one percent of execs say their organizations are now actively responding to digital disruption, compared with 25 percent in the 2015 study.
2. Forty percent still believe their leaders do not understand the threat of digital disruption.

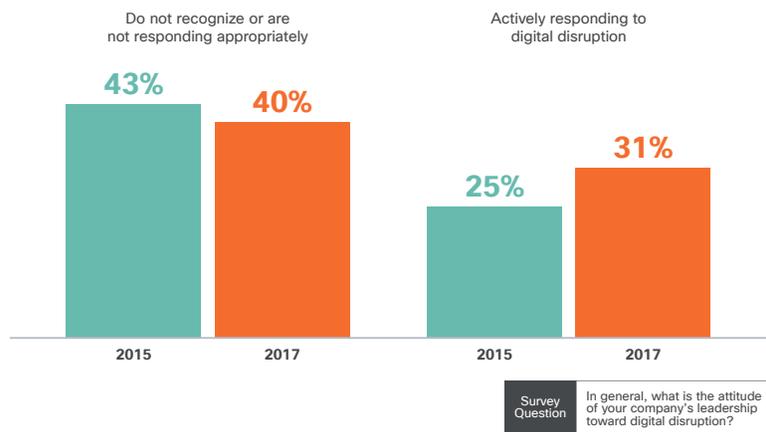
(Figure 3) How Significant Will the Impact of Digital Disruption Be on Your Industry?



Source: Global Center for Digital Business Transformation, 2017

Organizations' willingness to respond to digital disruption, however, is improving, as shown in Figure 4. In 2015, only 25 percent of executives claimed their organizations were actively responding to digital disruption. This number jumped to 31 percent in 2017. Nevertheless, 40 percent still feel their leaders do not understand the threat, or are responding inappropriately, only a slight improvement from 2015.

(Figure 4) Attitudes Toward Digital Disruption



Source: Global Center for Digital Business Transformation, 2017

The data show that the pace of digital disruption has increased significantly over the past two years. Across industries, executives are feeling its impact more acutely. While their ability to respond has improved, our analysis demonstrates that there is still a large gap between acknowledging the need to transform and actually achieving digital business transformation.

Endnotes

"Digital Vortex: How Digital Disruption Is Redefining Industries," Global Center for Digital Business Transformation, 2015, <http://www.imd.org/globalassets/dbt/docs/digital-vortex>

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