

Foreword

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The report in your hands is a compilation of wisdom about the relationship between digitization and corporate strategy. This is a relationship of enormous promise, because digitization—the mass adoption of connected digital services by consumers, enterprises, and governments—provides dramatic power and reach to the companies that understand it.

But there is also enormous tension in the relationship between digitization and strategy. Digital media and technologies are inherently subject to change. A company's strategy, its way of winning in the market, is most effective when it is tied to its identity. And corporate identities—and the capabilities and cultures that go with them—are by nature slow to change. It takes years to develop the kind of proficiency that no other company can easily master.

We have found in our research on capable companies that the most consistently successful are those that master this tension. They base their strategies on their distinctive capabilities: the things they do better than any other company. These are consistent throughout their lifetimes. Apple competes on its unique approach to design, which no other company can match; IKEA on its unparalleled prowess in making and selling low-priced but appealing home furnishings; and Haier on its remarkable ability to translate its customers' needs into innovative new appliances. These successful companies then learn to adapt to new challenges and opportunities within the context of their constant identity. They become rapid innovators, able to shift to new products, markets, and geographies, but they adapt only when their existing capabilities can give them the right to win.

For most companies, digitization is a great enabler. But it is also a great disruptor. It enables competitors as well, including competitors from other sectors who might enter your business arena. This can present a threat that can often turn a company's advantage into a weakness.

Digitization is also distracting: it can present a bewildering array of potential opportunities, all of which look compelling. But pursuing them all is both financially unfeasible and strategically distracting. It leads to incoherence, which can lead an enterprise into decline.

How then do capable companies handle the opportunities and challenges of digitization? They are rigorously and prudently selective. They invest in those areas that are in line with their chosen way to play in the

market—the distinctive way they create value for their customers.

Consider, for example, the threats, distractions, and benefits of one current element of digitization: big data. This is comprised of large datasets often gathered in unstructured forms from the behavior of people and groups. For example, as individuals search online, shop, express their opinions, communicate with each other, and move from one place to another, their aggregate behavior can be tracked and inferences drawn from it. New technologies, such as analytic engines and cloud-based storage, have made it possible to gather these data in unprecedented amounts and interpret them in novel ways. Insights from old forms of market research, such as asking customers what they liked or did not like in a commercial transaction, now become part of a larger pattern of awareness, with both the scale and granularity to give business people a much clearer view of their market.

In capable companies, big data is aligned with their strategies. They invest only in the data gathering that gives them privileged access to the customers they care about, or that contributes to the capabilities that make them distinctive. Without that discipline, companies can be overwhelmed by big data. They can collect a huge volume of information without any predetermined purpose, and then struggle to make sense of it. In short, the prevalence of massive amounts of new information has only highlighted the importance of the old strategic verity: to change successfully, you must stay true to your identity and seek the customers who you can serve well.

The next few years will see many companies struggling to resolve the tension between change and identity. Those who master the new digital technologies in a disciplined way, in the service of their focused strategies, will become more successful in the market—and the economies around them will thrive accordingly.