



ALL THINGS **DIGITAL**

Opportunities for Businesses
to Recreate Growth Models

Interswitch 

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BRIEFLY...

This is a case of survival of the fittest. Technology is swiftly changing the shape of business and as with such magnitude scale changes, some businesses will respond proactively. Unfortunately, many will be caught holding the bag. In this report, we highlight the imperatives of a proactive digital strategy for organisations willing to compete in the new economy.

We also provide useful guidelines on how these organisations can develop a compelling and viable digital strategy.



THE MAGNITUDE OF CHANGE

Andrew Grove, former Chairman of Intel Corporation, in his classic, *Only the Paranoid Survive*, provides a fresh perspective to Michael Porter's '5 Forces' analytical model. He articulates the possibility of a '10X' magnitude force to Porter's '5 Forces' variables, such that the changes the variables provide to a business are not incremental. They are landslide. Essentially, the force of change is about ten times what an industry or a business is typically accustomed to.

The wave of technology change the world has seen in the last couple of decades, perhaps more than anything else, best typifies this. It has provided this '10X' change for most businesses, creating new industries and businesses and making some hitherto existing ones obsolete.

As with most changes like this, the first reaction

from most businesses is denial and then frightened acceptance. However, change in '10X' magnitude is as much an opportunity as it is a threat. The difference in outcomes, are in how quickly businesses are able to adapt their models to take advantage of the direction(s) of change.

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CHANGE IS REAL:
THE MAGNITUDE FORCE OF

BUSINESS DIGITISATION



Digitisation is essentially the transformation of all or some of the processes of production and delivery of products and services from analogue to digital. With digitisation, production, delivery and customer management are facilitated through a technology interface. In this process, some industries give way for others, akin to Joseph Schumpeter's theory of creative destruction.

In the music industry for example, business models have been completely altered, as record stores, once the seller-buyer interface for records have been almost replaced by online channels, which stock a lot more records than any record shop would have. iTunes, Amazon and Spotify are examples of digital companies that have emerged from the relics of what is a fast fading analogue business model.

Are there reasons for business to be worried about the magnitude of digital change? Absolutely! Digital channels lower barriers that industries have held as anchors for relevance. This increases the level of competitive activity in an industry, leading

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to commoditisation of industries and in some case, complete redundancy. Digitisation puts a lot of power in the demand-side of the economic equation, as the information asymmetry which tilted in the favour of supply is moving towards demand.

Amazingly, a good number of companies still view digitisation as either a fad, or something that will pass with time. They still see their traditional business models as sacrosanct and will at worst, only concede a little to digitisation.

FORCES DRIVING THE DIGITAL CHANGE

Business digitisation has moved from just being a supply-side need for production efficiency. These days, social factors like changing consumer behaviour, digital competitiveness, information management efficiency, innovations in outsourcing and cloud services, demand for technology security, crowd-related innovation and technology disruption¹. Whilst the strength and magnitude of these forces differ from one industry to another, we can, with some level of certainty, posit that their impact on the interface between businesses and consumers will remain strong.

Consequently, organisations are expected to anticipate and respond to future directions of these forces. This may not come easily, as it requires organisations to build a set of skills and competences that have to be integrated into the organisations' value chain. Essentially, organisations have to build and maintain strong digital capital.



DIGITAL CAPITAL

The last half century has seen businesses scale their operations globally through smart deployment of financial and human capital. Going forward, a critical success factor for businesses will be how well they are able to develop and implement a compelling digital capital strategy. Digital capital covers the, “resources behind the processes key to developing new products and services for the digital economy.” These resources are both tangible (internet software, servers, routers, to mention a few) and intangible (competencies and skills in design, data, analytics, social profiling of consumers, to mention a few). Businesses need to develop these resources, emphasising those that are more critical in their industries and then deploying them in ways that can innovate their business models and achieve competitive advantage.

¹<http://www.3gamma.com/insights/understanding-the-eight-drivers-of-digital-change/>

²McKinsey Quarterly: Measuring the Full Impact of Digital Capital

ALIGNING DIGITAL CAPITAL TO BUSINESS MODEL REDEVELOPMENT

These resources have to be creatively deployed on a business model to build competitive advantage and scale a business. The table below gives indications of how this can be practically managed;

DEPLOYMENT OF DIGITAL CAPITAL	POSSIBILITIES	VALUE TO THE BUSINESS
Improve Traditional Business Models	<p>The efficiency of service and product delivery can be improved through a smart deployment of a digitisation strategy. In Nigeria, banks are beginning to open accounts on social media platforms. The service objective is the same (acquire new customers), but rather than do it on a physical interface, it is being done on a website or application.</p> <p>Businesses can deploy this strategy, not just in dealing with customers, but also in managing relationships with vendors and staff.</p>	<p>Improve business efficiency by optimising every unit of investment in the business</p>
Alter Existing Business Models	<p>Digital capital can be deployed to alter a business' current business model. One of the easiest ways to get this done is to incorporate an e-commerce channel to a traditional brick and mortar billing and payment system.</p>	<p>Significantly increase the revenue of the business. This improves the efficiency of the business as every unit of cost spent on running the business produces more income, other things being equal</p>
Create Entirely New Businesses	<p>On the back of significant skills, competences and resources in digitisation, businesses can actually develop new value propositions completely from what they are known for</p> <p>Interswitch, a switching and payments service provider, with its competence in digital payments, has created the Interswitch Financial Inclusion Services (IFIS), to provide financial coverage for the around 40 million Nigerians without financial coverage</p>	<p>Increase in revenue, diversification of business portfolio and possible reduction in portfolio risk</p>

Conclusion

Digitisation has largely been seen from the point of view of the power it is taking away from businesses. Obviously consumers are generally more in control these days, but the situation is not terminal for businesses.

By deploying digital infrastructure, especially in ways that are consistent across interface platforms, businesses can still make their value propositions not only relevant, but compelling building blocks for growth.