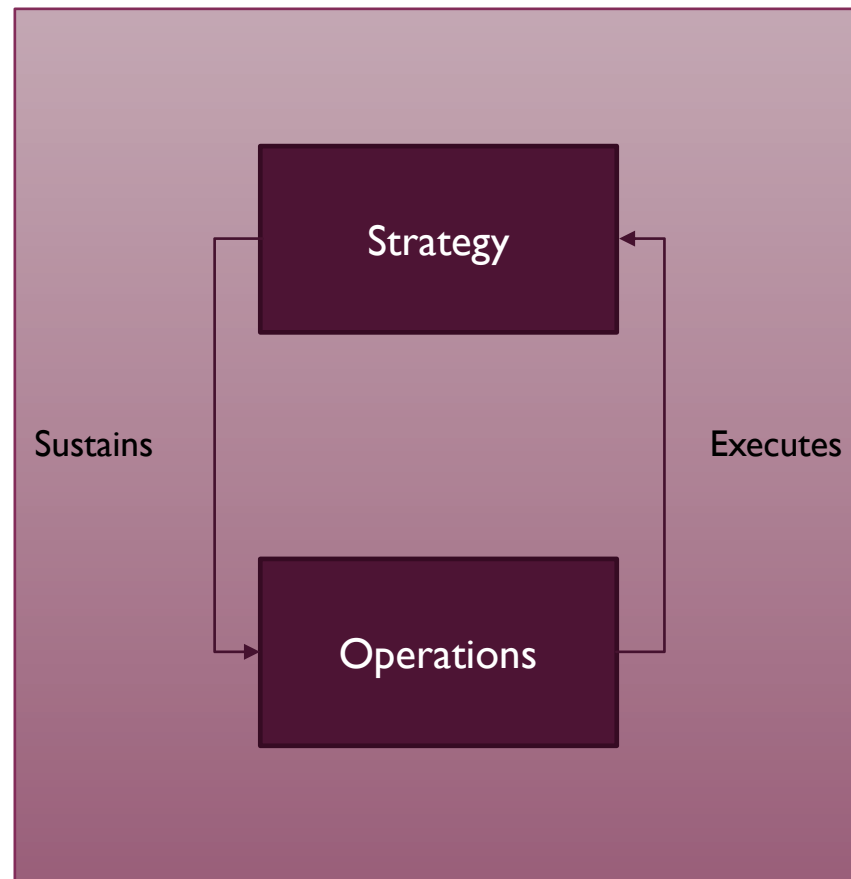# RECONSTRUCTIVE STRATEGY
&
DIGITAL TRANSFORMATION

TOORAJ HELMI

2018

WHAT IS STRATEGY?

STRATEGY is about:

- What goods to sell?
- How to build it?
- To whom to sell it?
- At what price?
- With what performance?
- How to repeat the sell?

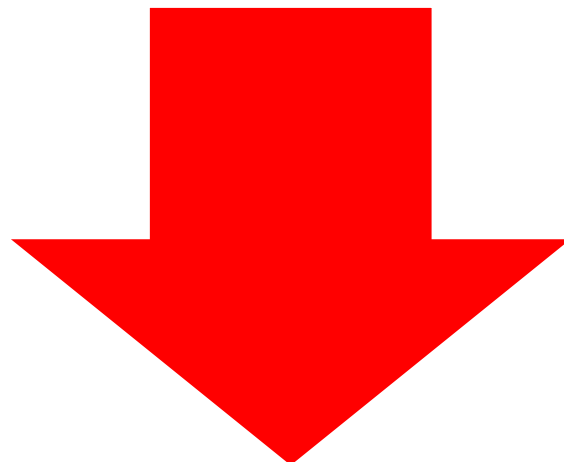Strategy

Sustains

Executes

Operations

OPERATIONS

- Specifies how work is done daily
- Implemented via business processes
- Include measurable components: sales forecast, resource capacity, budgets (OP-EX, CAP-EX)

DON'T GET TRAPPED IN THE EXISTING STRUCTURE
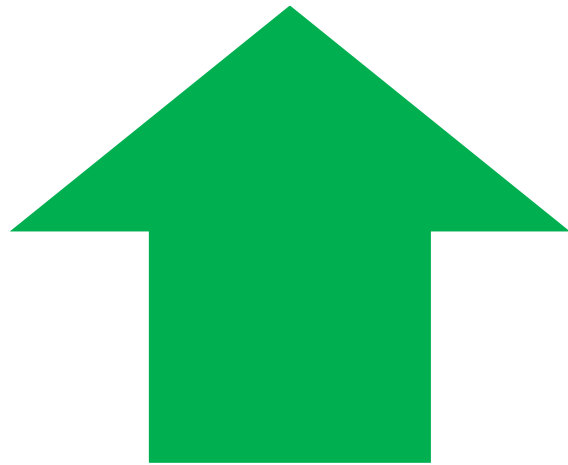
Beyond Structure

- Strategy Creates Structure
- Leads to innovation
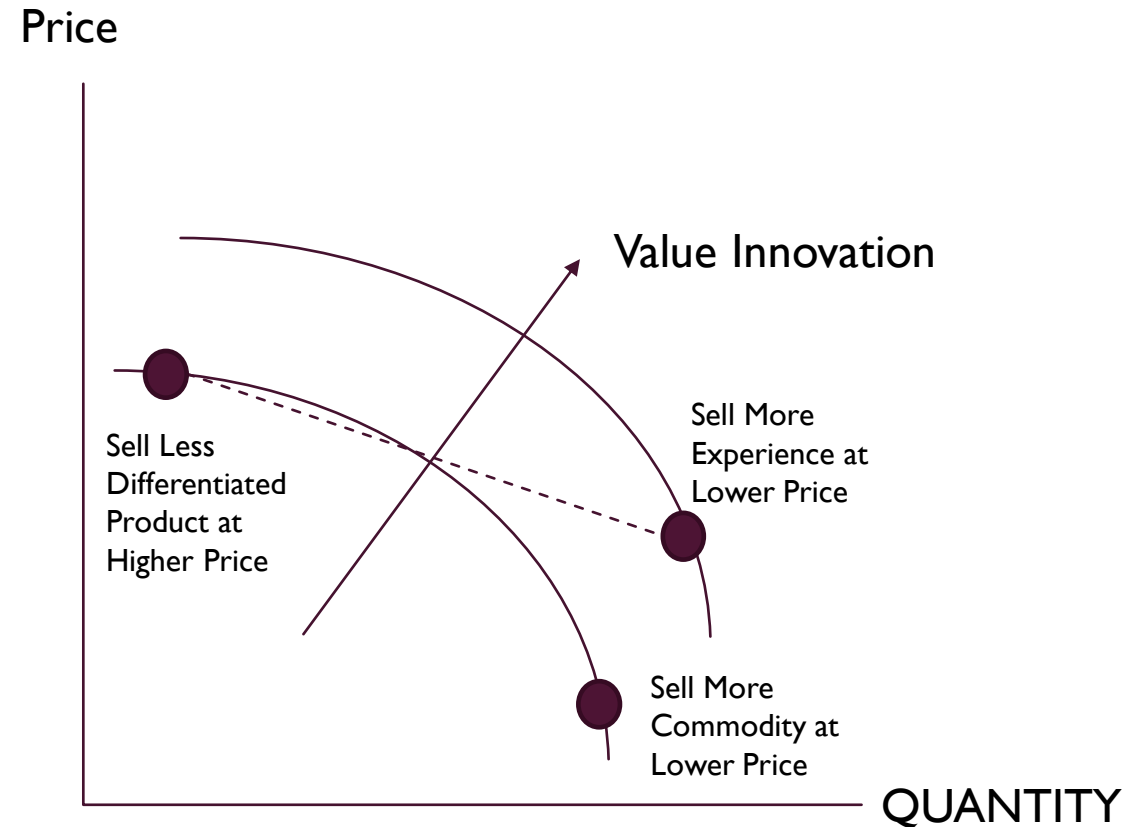- Generates Unique Advantage

Within Structure

- Structure Shapes Strategy
- Leads to imitated or imitative product
- In Search of Competitive Advantage

QUESTION AND BREAK EXISTING CONSTRAINT

- Reject existing constraints

- Forget about which industry you are playing in

- It's not either low cost OR differentiation, it is low cost AND differentiation

Price

Value Innovation

Sell Less Differentiated Product at Higher Price

Sell More Experience at Lower Price

Sell More Commodity at Lower Price

QUANTITY

FIND AN OPPORTUNITY BUT EXTEND BEYOND
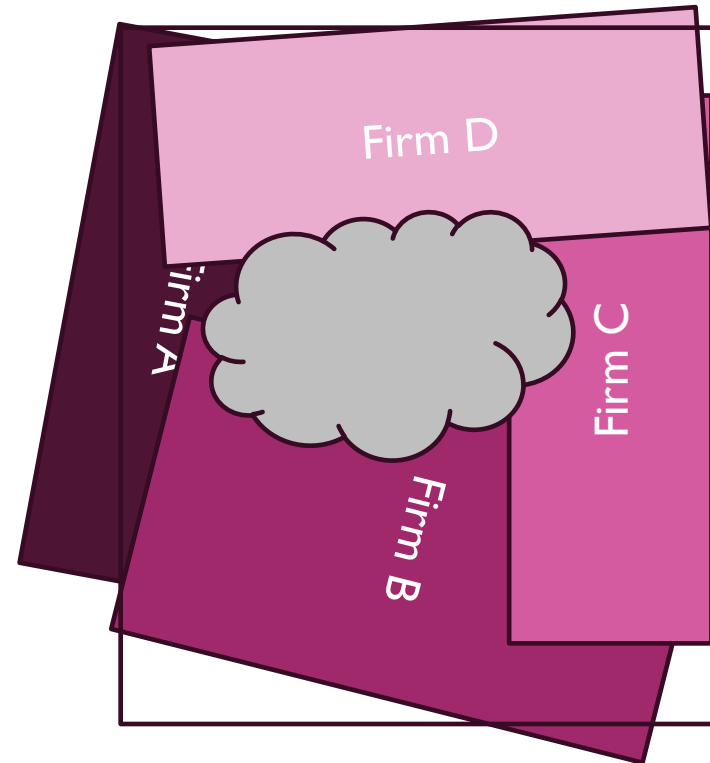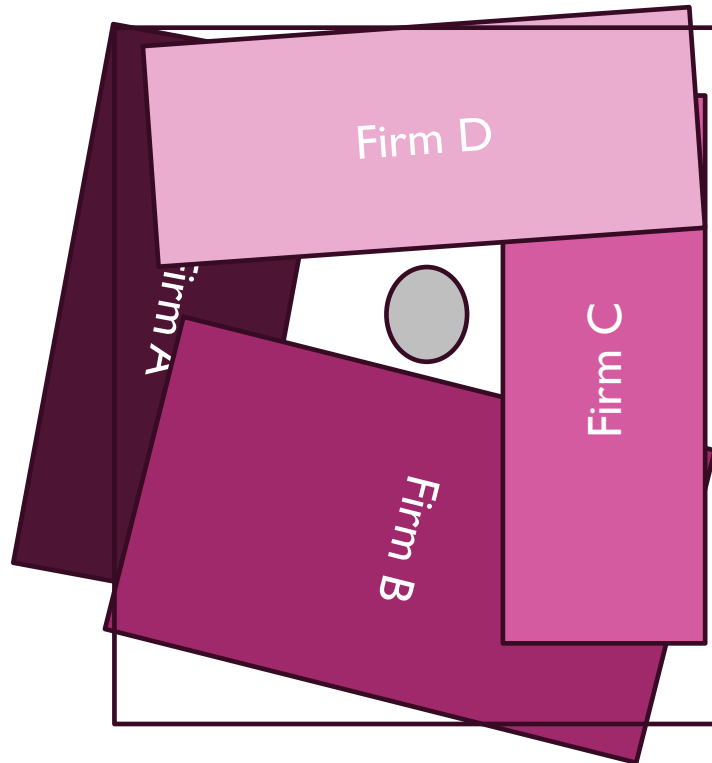
OUT, IN, OUT AGAIN

- Observe opportunities from a distance
- Study restrictions close by
- Apply possible opportunities as seen from outside

DIFFERENT MINDSET

Competition
- Existing Challenge
- New Solution

Disruption
- New Challenge
- New Solution

Reconstruction
- Redefine Challenge (Existing + New Challenge)
- Expanded Solution

WHAT DIFFERENT STRATEGIES EXISTS AND WHY?

Competitive Strategy
- Locally win against existing competition
- Cannot be long-term reason to exist since change is inherent in and around us

Disruptive Strategy
- Locally reconstructs a new position within existing competition
- Can produce short-term change

Reconstructive Strategy
- Globally reconstructs a new position beyond the existing competition
- Can produce continuous reasons to exist to adjust to and be the source of change

HOW CAN TECHNOLOGY HELP?

Supporting a stabilizing strategy

"Enterprise Architecture"

- Automates repetitive tasks →reduces labor → reduces cost

- Increases accuracy and speed of processes → more customers to be serves at a higher quality → increases revenue and growth

- Increases employee productivity → Reduces cost and increases revenue

- Works along two dimensions integration or standardization

Supporting a disruptive strategy

"Tech Startup"

- Great way to build platforms

- Majority of the last decade startups are tech startups

Supporting a reconstructive strategy

"Digital Transformation"

- As the fastest changing phenomenon around shapes what customers demand

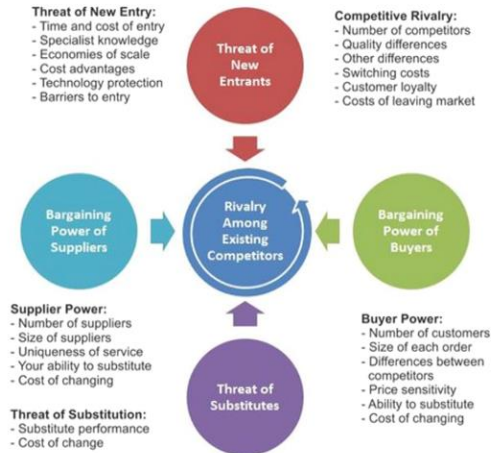- Provides unique ways to create reconstructive strategies around customer, competition, data, innovation, and value

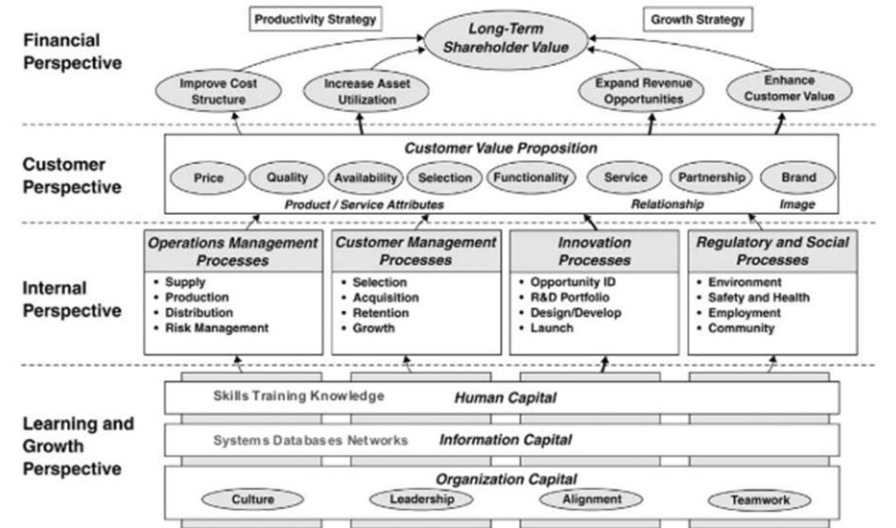# STABILIZING/COMPETITIVE STRATEGY & ENTERPRISE ARCHITECTURE

HOW TECHNOLOGY CAN HELP IMPLEMENT A STABILIZING STRATEGY USING STANDARDIZATION & INTEGRATION

Five Forces Analysis (Porter)

Kaplan & Norton Strategy Map Template

Robert Kaplan and David Norton (2004) *Strategy Maps: Converting Intangible Assets to Tangible Outcomes*
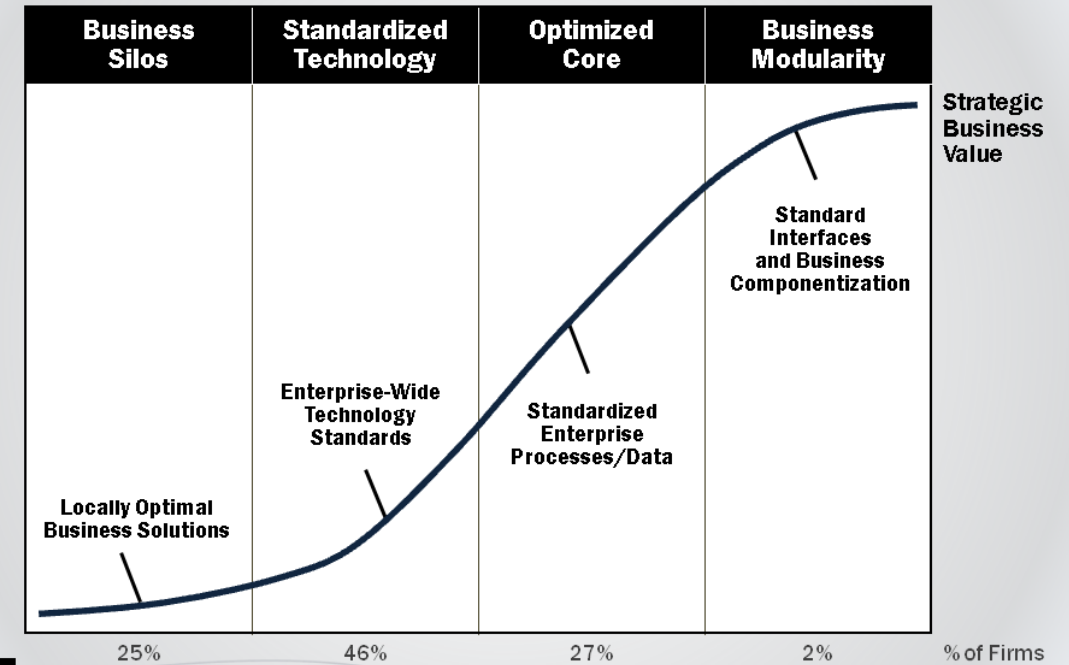
COMPETITIVE STRATEGY

FRAMEWORK: ENTERPRISE ARCHITECTURE

Four operating models

	Coordination	Unification
High	Unique business units with a need to know each other's transactions	Single business with global process standards and global data access
	Examples: Commonwealth Bank of Australia, MetLife, Aetna	**Examples:** Southwest Airlines, Dow Chemical, UPS Package Delivery
	Key IT capability: access to shared data, through standard technology interfaces	**Key IT capability:** enterprise systems reinforcing standard processes and providing global data access
	Diversification	**Replication**
Low	Independent business units with different customers and expertise	Independent but similar business units sharing best practice
	Examples: Johnson & Johnson, Pacific Life, ING	**Examples:** Marriott, 7-Eleven Japan, ING DIRECT
	Key IT capability: provide economies of scale without limiting independence	**Key IT capability:** provide standard infrastructure and application components for global efficiencies
	Low	High

Business Process Integration

Business Process Standardization

Center for Information Systems Research (CISR)
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Source: *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, J. Ross, P. Weill, D. Robertson, HBS Press, 2006.

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Enterprise architecture builds agility over time

Business Silos	Standardized Technology	Optimized Core	Business Modularity

Strategic Business Value

Standard Interfaces and Business Componentization

Enterprise-Wide Technology Standards

Standardized Enterprise Processes/Data

Locally Optimal Business Solutions

25%	46%	27%	2%	% of Firms

Center for Information Systems Research (CISR)
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Source: *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, J. Ross, P. Weill, D. Robertson, HBS Press, 2006.
Percentage of firms in each stage updated based on a survey of 1508 IT executives.

TOOL 1: CLOUD ENABLES A WELL-ARCHITECTED FRAMEWORK

Operational Excellence

- Monitor systems
- Anticipate failure
- Perform operations as code

Security

- Maintain the confidentiality and integrity of data
- Protect information, systems, and assets
- Identify security incidents

Reliability

- Scale horizontally to increase availability
- Automatically recover from failure
- Stop guessing capacity
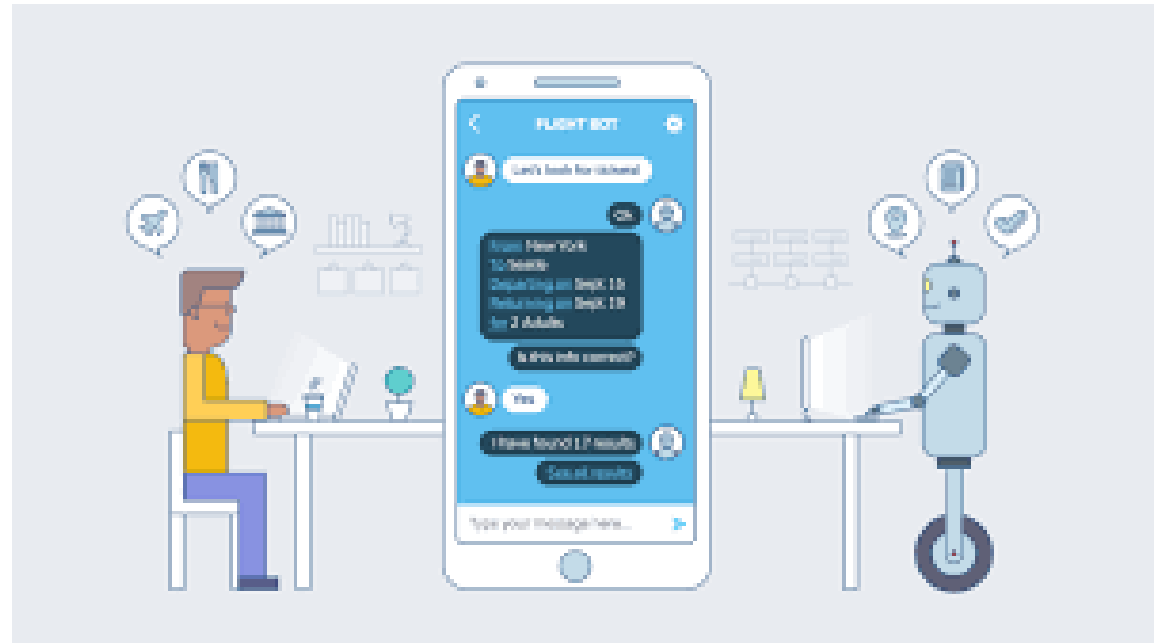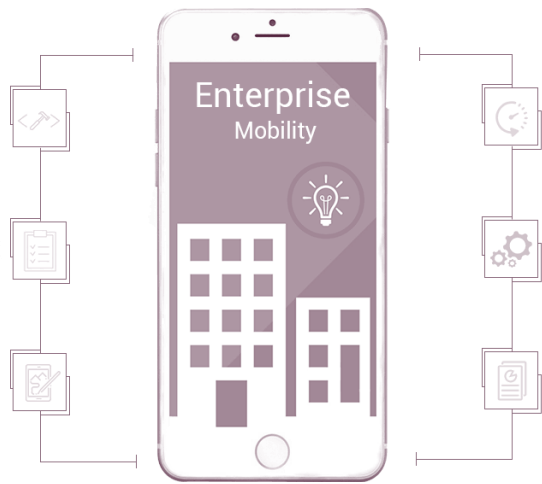
Performance Efficiency

- Democratize advanced technologies
- Go global in minutes
- Experiment more often

Cost Optimization

- Only pay when using
- Share unused capacity (PaaS)

TOOL 2:
DIGITAL WORKPLACE

TOOL 3: CLOUD MIGRATION

RECONSTRUCTIVE STRATEGY & DIGITAL TRANSFORMATION

DESIGN RECONSTRUCTIVE STRATEGIES USING DIGITAL TRANSFORMATION

PRODUCT DIMENSION

■ For a given product (good or service), its continuum includes all other products that have an absolute cross elasticity of demand of $> \alpha: |E_{A \sim B}| > \alpha$.

Below table shows all cases. This row shows strategy domain for a movie theatre:

$E_{A \sim B} < -\alpha$	$|E_{A \sim B}| < \alpha$	$\alpha < E_{A \sim B} < \sim 100\%$	$E_{A \sim B} \sim 100\%$
Complement	Out of Domain	Alternative	Substitute (Industry)
Day care	Furniture	Nearby Restaurants	Netflix

■ Product continuum contains complements, alternatives, and substitutes.

■ Not easy to quantify α. So we can use a industry matrix

Cross elasticity of demand or cross-price elasticity of demand measures the responsiveness of the quantity demanded for a good to a change in the price of another good, ceteris paribus. It is measured as the percentage change in quantity demanded for the first good that occurs in response to a percentage change in price of the second good:

$$E_{A \sim B} = \frac{\Delta Q_A \%}{\Delta P_B \%}$$

For example, if, in response to a 10% increase in the price of fuel, the demand for new cars that are fuel inefficient decreased by 20%. A negative cross elasticity denotes two products that are complements, while a positive cross elasticity denotes two substitute products.
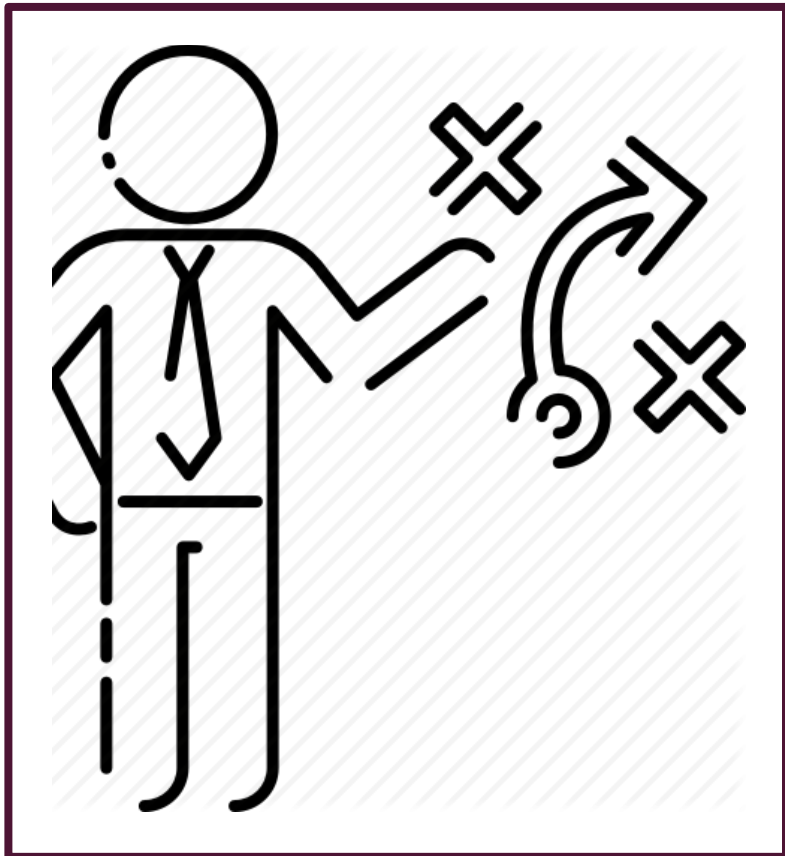
PROPOSITION DIMENSION

- Specific performance and price points that a firm decides to sell its product: Toyota produces mid-size cars at a low price whereas Porsche produces sports cars at high prices.
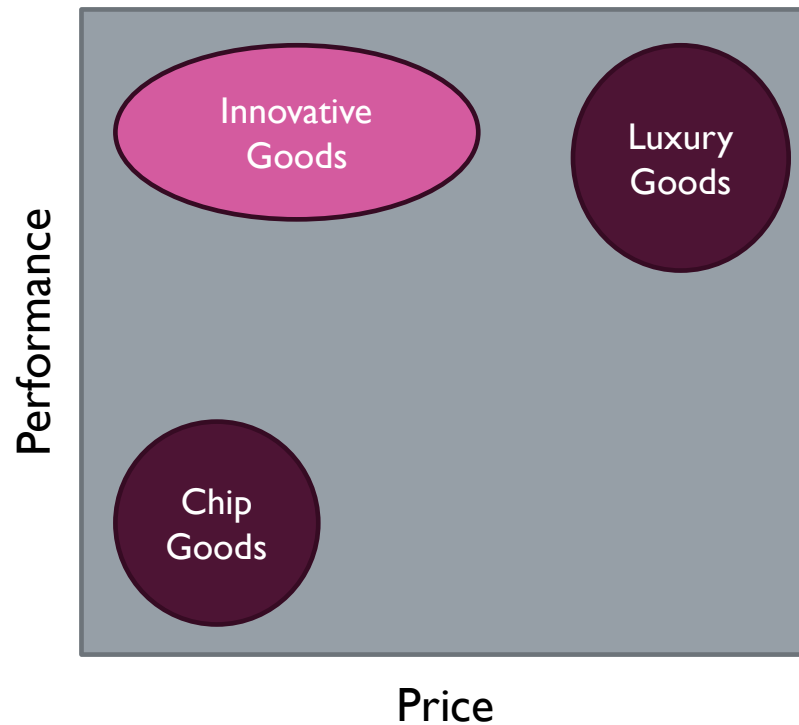
OTHER DIMENSIONS

- Value Dimension: set of activities that takes a product from its initial birth at a given firm to the hand of buyer.

    - Extended value Dimension : value dimension extended with upstream and downstream activities along that are accomplished by suppliers and buyers.

- Operations Dimension: operations that take place after the product is sold to keep it usable. E.g. maintenance.

- Buyer Dimension: for a given product, includes all the buyer can receive value by purchasing the product. It also includes the intermediaries that could exist before the product is received by the end-customer. E.g. clinics can be intermediaries to provide a specific medication to a patient. Both clinic and patient belong to the buyer continuum.

- Demand Dimension: includes the first and all the possible subsequent opportunities to sell a product to a customer. E.g. a patient who comes for a visit to a clinic can go through multiple physician visits until he is completely healed rather than being seen by the first physician he made an appointment, given a prescription and let go.

- Time Dimension includes future time epochs that a firms can predict how is strategy should be set based on existing market trends.

Strategy Domain
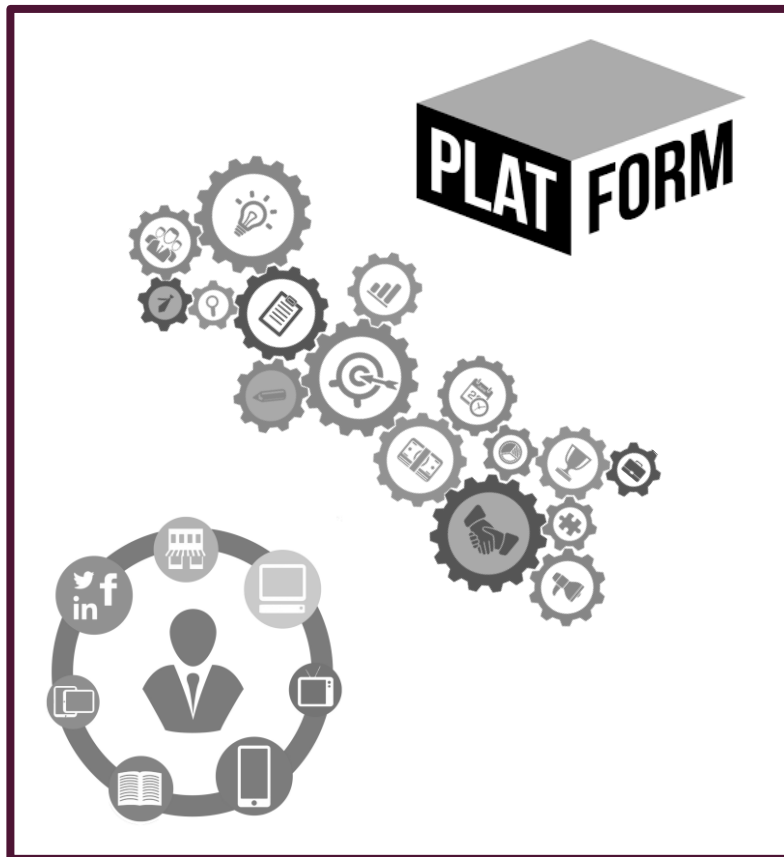
| Product Dimension | Value Dimension | Operations Dimension | Proposition Dimension | Buyer Dimension | Demand Dimension | Time Dimension |

FRAMEWORK: DIGITAL TRANSFORMATION

Transforming the entire firm: redefining customer value proposition, value-added processes, and people's working method

Customers	Operations	Data	Innovation	Value
- Dynamic Networks	- Co-opetition	- Generated Continuously	- Experimentation	- Evolve vs Optimize
- Economies of Value	- Fluid Industries	- Unstructured Data	- Problem vs Solution	- Not industry-specific
- Inspirational marketing	- Platforms	- Produce Information	- MVP & Iterations	- Futuristic Value Prop
- Key Influencers				

APPROACH 1:
PLATFORMS

APPROACH 2
MICROSERVICES ORGANIZATION

APPROACH 3
OMNICHANNEL

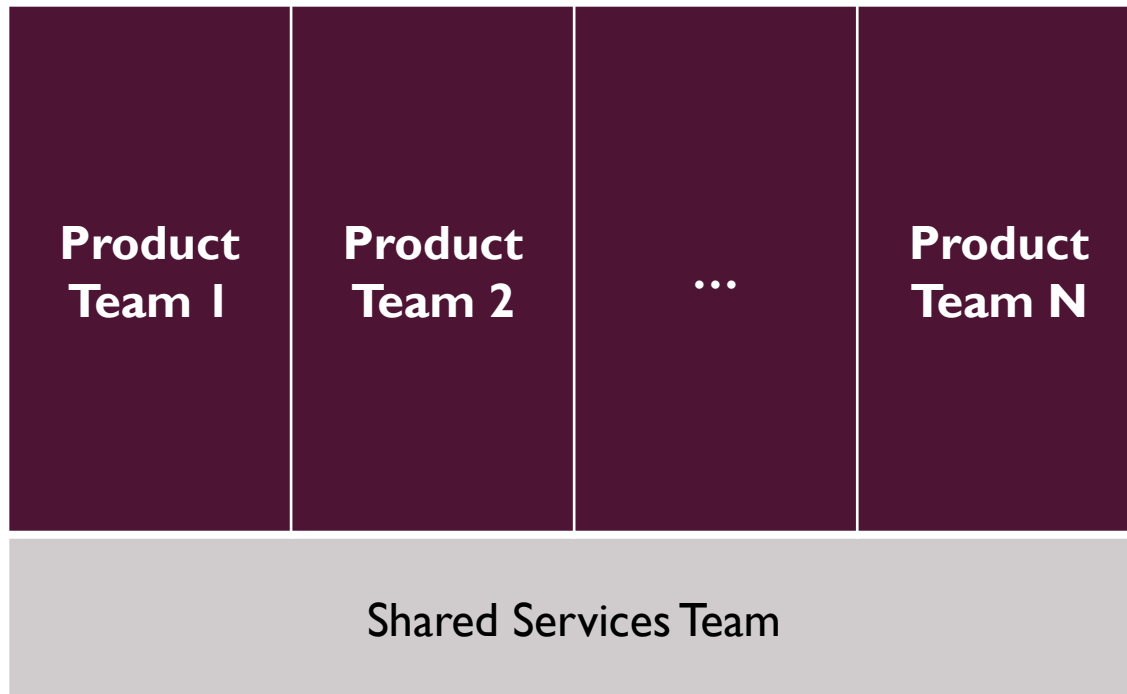# TRANSITION FROM TRADITIONAL TO DIGITAL IT

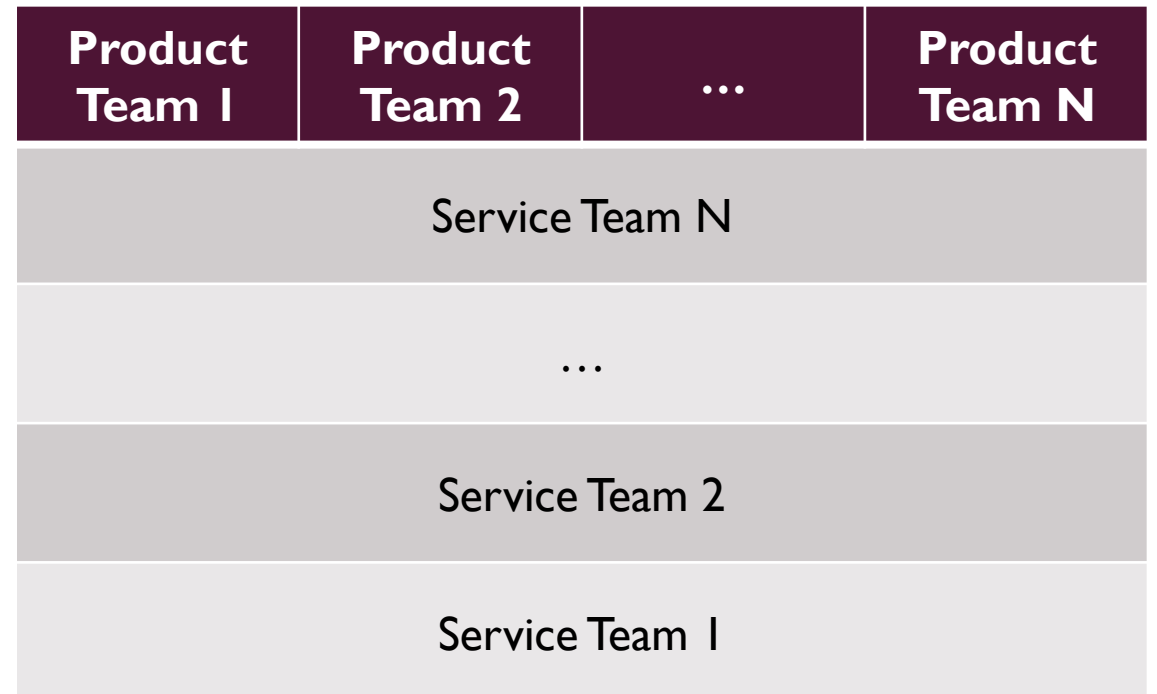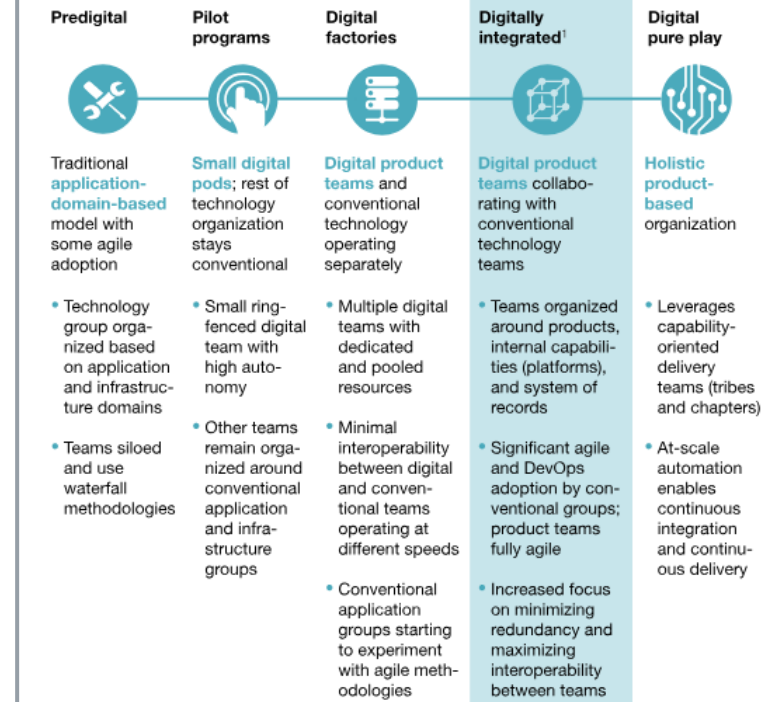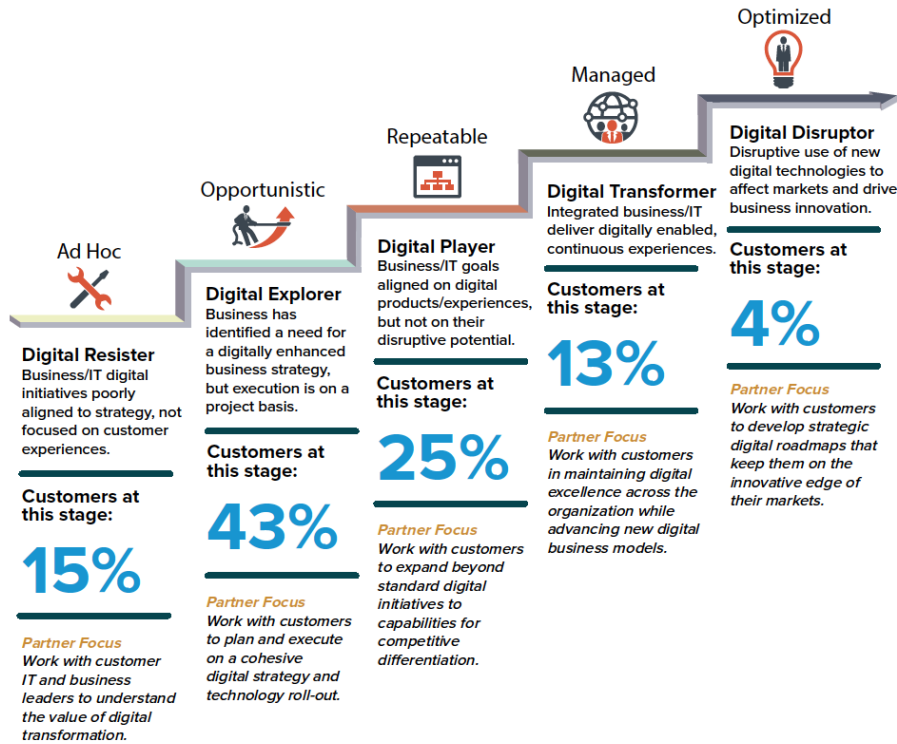## FROM PRODUCT TEAMS TO SERVICE TEAMS

TRADITIONAL VS DIGITAL IT

Traditional IT Organization

Product Team 1	Product Team 2	…	Product Team N

Shared Services Team

Digital IT Organization

Product Team 1	Product Team 2	…	Product Team N
Service Team N			
…			
Service Team 2			
Service Team 1			

DIGITALIZATION PHASES