

Marius Leibold
Sven C. Voelpel

DIGITAL REBIRTH

How
Smart Companies
Recreate
Themselves
in the
Digital Era

Leibold/Voelpel Digital Rebirth



Marius Leibold has wide experience in top-level executive counseling sessions and workshops in the U.S., Europe, China, Australasia and Africa, and is regarded as a leading-edge business rebirth counselor in the digital-augmented society. He is visiting professor at the University of North Carolina, Business School Netherlands, and Massey University, New Zealand, and professor emeritus at Stellenbosch University, South Africa. He has also been a Case Study Associate at Harvard Business School.



Sven C. Voelpel is Professor of Business Administration at the Jacobs University Bremen, Germany, as well as founding president of the WISE Group and the WDN - WISE Demographic Network. He has been guest and honorary professor at INSEAD, Tsinghua and St. Gallen as well as a Visiting Fellow at Harvard University. He is an internationally renowned keynote speaker and teacher of executive workshops.

Digital Rebirth

How Smart Companies
Recreate Themselves
in the Digital Era

By Marius Leibold and
Sven C. Voelpel



The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available on the Internet at <http://dnb.d-nb.de>.

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www.publicis-books.de

Publishing editor: Dr. Gerhard Seitfudem
gerhard.seitfudem@publicispixelpark.de

Print ISBN 978-3-89578-477-4
ePDF ISBN 978-3-89578-965-6
EPUB ISBN 978-3-89578-736-2
mobi ISBN 978-3-89578-834-5

A joint publication of Publicis Pixelpark and
Wiley-VCH Verlag GmbH & Co. KGaA

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Printed in Germany

Preamble: Why this Book?

What is Really Different?

Despite spending millions of dollars on digital transformation efforts in the past year, most of these fail. According to a new report by database platform provider Couchbase, *90 percent of digital projects fail to meet expectations and only deliver incremental improvements*. The study furthermore shows that “80 percent of the 450 heads of digital transformation surveyed at enterprises in the U.S., U.K., France, and Germany in May-June 2017 think they are at risk of being left behind by digital transformation.”¹

This book provides a fresh approach, Digital Rebirth, which cuts through the myths and fog of digitalization approaches, trends, technologies, roadmaps and strategies. It presents a clear framework, with company and industry evidence, for *practical Digital Rebirth of companies*, contrasting it to current ‘digital transformation’ approaches. The latter focus on embedding digital technologies for company agility and efficiency, neglecting the essential need for rebirth of companies’ nature and purpose, and way of doing business, due to digital impacts. Simply stated, *the book’s emphasis is on Digital Rebirth, in contrast to digital transformation*.

Digital Rebirth transcends digital transformation, which is myopic and limited. Digital Rebirth involves a ‘revolutionary’ re-architecting (or recreating) of the purpose, nature and processes of a company, with accompanying business and technological platforms operating in business ecosystems. The increasing digital connectivity of today requires dynamic *business platforms, beyond the linear confines of business models*, to enable companies to co-create new consumer value in *collaborative business ecosystems*—consisting of an orchestrated range of consumers, partners, suppliers, distributors, researchers and technological services providers.

Digital business model transformation is rooted in traditional ‘industrial’ concepts such as digital roadmaps, digitized value chains, digital customer journeys and engagement, digital cores, digital change/pivot management, and digital playbooks. These are mainly *digital-efficiency ‘straight-jackets’*, leading to the demise and eventual death of many companies. In essence, Digital Rebirth is required, to survive with a new company format, purpose and role in society. Leaders have to break free from the constraints—or ‘captivity’—of traditional business model thinking and doing.

The benefits of this book are aimed firstly at existing—traditional, incumbent, or legacy—companies, but secondly also at budding entrepreneurs

and digital startups that will emerge as ‘digital-native’ companies. It should be read and used by company boards, CEOs, C-Suite executives, functional executives, managers, budding entrepreneurs and startup leaders as well as business consultants and people working in service-providing agencies. *It is replete with company (and industry) illustrations and vignettes, accompanied by concise pointers of Digital Rebirth approaches, methodologies and practical tools.* It is ideal for use in company workshops and executive sessions, as well as business leadership mindset sessions, as validated in such activities by the authors.

In every chapter you will find proven concepts of Digital Rebirth, digital recreation, collaborative digital practices, combinatorial technologies, digital platforms, digital ecosystems and pointers to move from obsolete mindsets and ‘past baggage’ to reinvented digitalization minds.

Towards the end of the book this unique approach of *Digital Rebirth is condensed into a framework of five digital drivers*, for simplified understanding and easy implementation of a company’s Digital Rebirth journey. We trust this book will greatly assist company executives in pursuing sound digitalization activities for purposeful and successful company rebirth.

Marius Leibold, Charlotte, USA
Sven C. Voelpel, Bremen, Germany

May, 2018

What Do Leading Executives Say About the Need for Digital Rebirth?

“Our perspective now is that we sell solutions, applications and comprehensive systems as opposed to just selling the product. We sell value instead of selling functionality. If you don’t bridge the digital-societal divide, you’re going to go nowhere with ‘Industry 4.0’ or the ‘Internet of Things’.”²

– Joe Kaeser, CEO, Siemens

“At least 40% of all businesses will die in the next 10 years, if they don’t figure out how to change their entire company to accommodate new technologies.”³

– John Chambers, CEO (1995-2015) and Executive Chairman (2015-2017), Cisco Systems

“There are unsolved problems with the ‘future factories’ initiative that could leave Germany vulnerable. Many of the projects center on heading off maintenance problems through software-aided analysis of machines, or equipping repair technicians with tablets to speed fixes on the shop floor. Those are easily copied by foreign competitors. This is only efficiency. That’s not radical.”⁴

– Guenter Korder, CEO, Intelligent Technical Systems of Ostwestfalen Lippe (OWL)

“We have to redefine our business model. And one of the primary targets is to set up an open digital industry platform.”⁵

– Oliver Falk, CFO, Kloeckner Metals Europe

“Insurance is evolving from pure financial loss compensation to physical risk prevention. Insurers who understand and implement the next-generation business purpose centered on customer’s risk experience solutions, will change the industry forever.”⁶

– Robert Cummings, Head, SAP Industry Business Unit for Insurance

“The era of simply selling high-quality shirts and shoes is gone. We are repurposing from a products-oriented sports apparel company to an experience-oriented platform company of health, fitness and wellness solutions.”⁷

– Kevin Plank, CEO, Under Armour

“No longer do successful companies compete through their brands. Instead, they compete through platforms.”⁸

– Zhang Ruimin, CEO, Haier Group

The ‘Valley of Death’ Curve: Beyond the Transformation Hype into Company Rebirth & New Life

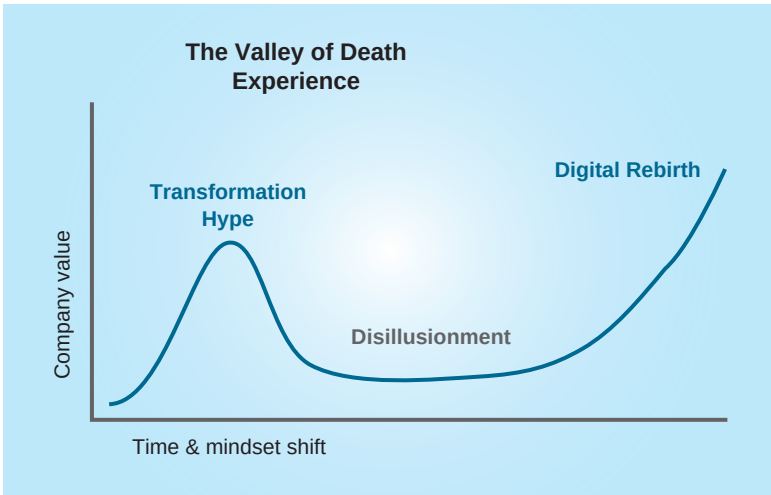


Figure 1 The ‘valley of death’ experience⁹

In summary, there is much hype about company digital transformation, digital business model transformation and company digital roadmaps. Most legacy companies are still ‘business model captives’, and their digitalization efforts will prove to be inadequate for survival, due both to myopic executive mindsets and constrained company processes. Without a real Digital Rebirth, most legacy companies are facing a ‘valley of death’ experience.

This book provides evidence that companies have to “break free” from their legacy business models, and make a radical move away from business model thinking into digital platform and ecosystem thinking, understanding and doing. Digital roadmaps without clear digital-era mindsets, purpose and digital capability “compasses” are dangerously inadequate.

Daniel Cohen, VP, Adobe Systems, puts it this way: “While our initial digital strategy was to run our traditional model and a new subscription model in parallel, we came to adopt a “burn the boats” strategy to accelerate our transition to the new model; we needed our employees to understand there was no going back to the old way of doing business.”¹⁰

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Introduction: The Why of Digital Rebirth

“When we started out, we compared ourselves with emerging Fintechs and the startup world and concluded that we have to digitalize completely, not just by putting on digital lipstick.”¹¹

– Piyush Gupta, CEO, DBS Bank, Singapore

The Digital Era is Prompting a Fundamental Change in How a Company Creates, Captures and Delivers Value

This book contends that *Digital Rebirth*, not mere *digital transformation*, is essential for company survival in the digital era. The reasons for this phenomenon are:

- Digitalization causes new ways of ‘real-time’ connectivity of people and organizations, with new types of consumer value being created, captured and delivered. This is entirely different from the traditional value creation processes, with its value chain ‘control and ownership’ of resources, including R&D;
- Digitalization is currently viewed as mainly an ‘efficiency improvement’ challenge—in terms of greater speed, agility and real-time customer engagement—and as a ‘digitalizing our business model’ issue—*not* as a radical new way of thinking and doing business, i.e. Digital Rebirth, as necessitated by the digital-connectivity era.

We clearly illustrate in this book that digitalization should not be seen as a technological add-on to existing business models, but that the digital era is changing the entire nature of companies—and also entire industries. In addition, it has profound impacts on leaders and all company employees. We describe and motivate in this book how companies can envision and implement Digital Rebirth, not merely digital transformation. We show how company executives are often misled by asking the wrong questions about digitalization, and we illustrate the right questions to ask. For example, a wrong question is “How do we create new value for our company in the digital economy?”, while the right question is “How do we enable others to co-create value with our company, and for themselves, in the digital-networked economy?”

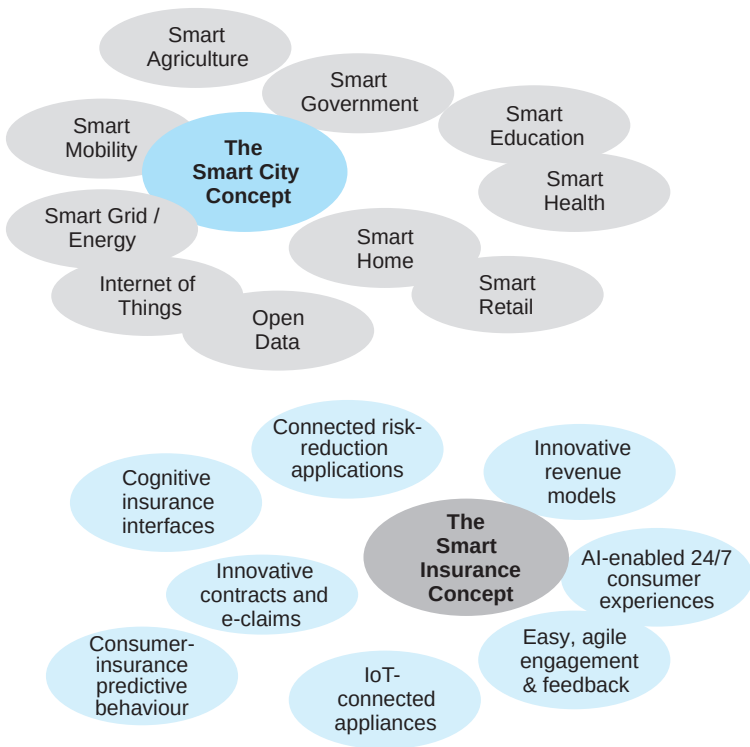


Figure 2 Smart concepts: smart city and smart insurance¹²

The myriad of new connective-intelligence is depicted for example in the ‘smart city’ concept (Figure 2) or in the concept of ‘smart insurance’.

Smart insurance means

- IoT-insurance-connected home, appliances, health industries, autos and buildings
- Systems of easy, agile engagement and feedback
- Enabling innovative insurance contracts and e-claims
- Artificial intelligence for 24/7 consumer experiences
- Cognitive insurance interfaces: AR, VR, Chatbots, insurance Big Data and smart analytics
- Consumer-insurance predictive behavior
- Innovative insurance revenue models
- Connected risk-reduction applications

The Digital Economy is Radically Different from the Industrial Economy

The digital economy is a network-intelligence economy, which understands that company outsiders—connected with own staff—are now collectively coming into a position of having more creativity, resources and innovation than only own (internal) company staff and resources. The leveraging of outsider and insider ‘digital network effects’ influence the nature, purpose, goals, processes and innovative capabilities of companies, as well as the growth and benefits for all stakeholders involved. In short, traditional companies and business models cannot just be ‘digitally transformed’, but have to be ‘reborned’ by establishing a reinvented purpose and basis, that effectively leverages the intelligence of consumers, suppliers, partners, distributors, research agencies and other stakeholders in real-time. The following vignette illustrates how the company Under Armour achieves this.

Under Armour Rebirths Itself into the World’s Largest Digital Fitness Platform¹³

Under Armour (UA) is often thought of as a sports apparel company, with particular products for athletes and other sport codes. Today, in a digital-connected era, this is incorrect. UA has become a platform for fitness communities around the world whose purpose it is to make all people fitter and healthier, in essence to change how people live to enable fitter and healthier communities and people. Under Armour now has more than 200 million registered users worldwide, and its community numbers continue to expand. It has gained direct relationships with these users, as well as hundreds of suppliers and service collaborators, all digitally connected and leveraged on its company platform. Kurt Kendall, a VP at UA, mentioned that when they started the company, physical products such as shirts, shoes, and other apparel were the sole focus. Currently, it is more about the digital platform from which many related products are branded through the company’s ecosystem-connected digital orchestration of participants, including customers’ innovative ideas.

After first putting a connected fitness platform in place, it began to incorporate fitness and apparel products into what is now called a *digital experience*, utilizing fitness products and services. For Under Armour, the shoe, shirt, cap, towel, and health vitamins are a result of its digital platform, which is used to enhance the overall user fitness experience. In a real sense, the physical product and the digital product are not distinguishable outside the company; inside the company, the purpose and focus are on a digitally-integrated user experience, which continually evolves and innovates through a myriad of digitalized networked interactions. Across all of its digital platforms globally, UA already

enables more than 10 billion interactions a year, all focused on improving the user experience.

How does this approach differ from the current digital transformation initiatives of many companies? Most companies are still locked into a mindset of their existing business model, with target markets, products, and configured value chains, just adding digitalization as an efficiency mechanism. That is still a ‘one-way pipeline’ product orientation, with company at one end and customer at the other end. With UA’s Digital Rebirth, there has been a clear move away from the mechanistic, one-way business model to a holistic, platform-driven network of value creation, value capture, and value delivery, using the orchestration of many participants’ innovation power. If UA had gone for ‘business model digitalization’, it would have remained part of the traditional fitness ‘industry’ and its processes. Now it has opened up a dynamic new way of business activity, based on a wider purpose and platform that moves away from the ‘fitness industry’ towards enhancing the well-being and ‘health ecosystem’ of communities.

The larger issue here is that *the world and its companies are moving from the industrial-value era to the digital-value era*, which requires a new leadership mindset, besides new company capabilities and processes. In his recent book, ‘World Order’, Henry Kissinger argues that the world is at its greatest peril when the international order is moving from one system to another. “Traditional restraints disappear, and the field is open to the most expansive claims and the most implacable actors,” he writes. “Chaos follows until a new system of stability is established.” It is a sobering warning: although this statement is mentioned in political context, moving from an industrial era to a digital era means upheaval of traditional mechanistic, linear management practices to dynamic, non-linear, combined outside-inside connective processes, with new mindsets, guidelines and restraints. Those companies making sense of what is happening, and realizing that corporate rebirth is required—in mindsets and processes—will survive and prosper. However, mindsets take time to change, and it is little wonder that many executives are apprehensive, resistant and even confused in their approaches to digitalization.

Adopting Digital Technology, on Its Own, does Not Bring Real Digital Rebirth

We hear regularly how companies worldwide are excited about their digital transformation initiatives. Some are developing their own applications, digitizing their business models, analyzing and engaging with their customers’ ‘journeys’, or executing a new digital commerce strategy. Others decide to deploy new ‘Big Data’ and ‘Analytics’ tools. The investment is

often huge, and there seems to be always great hope for success, e.g. with digital ‘hubs’, ‘accelerators’ and ‘startups’. Yet, they often fall short in their efforts, because the focus is typically on how technology will transform the traditional business model—not how the enterprise should digitally rebirth to fully embrace the digital innovation impact of technology.

All too often, traditional companies are focused on creating a type of digital ‘façade’ where it appears to be a digital experience for the customer, but, in reality, the traditional business model is merely transformed and not reborned. True Digital Rebirth requires that companies have to decisively change their mindsets, company purpose and organizational processes with a keen focus on collaborative outcomes, not just more efficient or agile infrastructure and technologies.

For example, a bank, through its interactive mobile ‘app’ (digital connective application), may receive information from the consumer faster than ever before, but no real benefit is achieved if it still takes weeks to approve or decline a loan request due to administrative processes still being unchanged. For a digital world where everything is supposed to be automatic, responsive and immediate, a customer will inevitably turn to a competitor that engages individual needs and approves a customized loan in ‘real-time’. Thereby it establishes a longer-term relationship and positive experiences with the customer.

Over the past 10 years, the exponential growth and power of digital-enabled technology have enabled some fascinating, if not mind-bending, opportunities. Machines talk to one another through computer algorithms, with digitally connected humans on the other end observing, analyzing, and acting on the explosion of Big Data that is being generated. Doctors use algorithms that utilize patient history and genetic information in real-time to detect symptoms and make diagnoses, with recommended treatments and preventative actions. Cars are programmed with data-driven precision to direct drivers to the best-possible route, and alternative route options, to their destinations. And even ‘digital libraries’ for 3D parts are growing rapidly—possibly to the point where we can soon print whatever we need, now evolving into 4D printers that can replicate themselves.

With the fast-evolving range and speed of new digital technologies and connectivity, it is a common fallacy to believe that productivity would also rise over the same span of time. However, according to a report released by the Organization for Economic Co-operation and Development (OECD) in 2017, this is, sadly, not the case.¹⁴ In fact, most advanced and emerging countries are experiencing declining growth that is cutting across nearly all sectors and affecting both large and small firms. But more interesting is the OECD’s observation that this trend does not exclude

areas where digital innovation is expected to improve information sharing, communication, and finance.

Although nearly 5 billion people on our planet have a computer (i.e. an internet-enabled mobile device, like a ‘smart-phone’) in their possession at any moment of the day, our digital ways have evidently not translated into productivity gains for the enterprise. The reason? Businesses are not changing their mindsets, approaches and processes to allow that technology to reach its full potential, mistaking digital ‘business model transformation’ initiatives as adequate, while digital company rebirth is really required. To connect wider and faster is one thing, but to utilize that in more purposeful, effective outcomes in society is another.

The following vignette provides a clearer picture of how to separate linear-thinking digital transformation from exponential-thinking Digital Rebirth.

Separating Digital Rebirth from Digital Transformation¹⁵

Is it feasible that another type of economic revolution could have a greater impact than the agricultural and industrial revolutions did? Not everybody is convinced of the latter two’s lasting impact: Douglas Engelbard, who pioneered the computer mouse, went as far as to predict that the digital revolution would ultimately be far more significant than writing or printing, or automated farming and production.

Jonathan Becher, the Chief Digital Officer at SAP, maintains that the digital revolution is indeed a revolution and not a transformation. While the agricultural revolution changed the way people lived and the industrial revolution changed how they worked, the digital evolution is changing how they live and work *simultaneously*. Examples are driverless cars, drones, 3D printing, artificial intelligence obviating many jobs, and virtual reality applied in, for example, building, clothing and living environments.

In the past, given few disruptions, economies of scale were usually the result of a successful business model structure, company strategy, repeatable processes, top-down planning and hierarchical-controlled activities. The nature of the digital revolution is, however, different from that of previous revolutions, i.e. digital-network-enabled, faster, but more importantly, also exponential and creativity-leveraging. BioTechnology’s advances exemplify this: Mendel’s book on genetics was published in 1866 and now, less than 200 years later, CRISPR—a genome editing tool—is about to make a huge difference to people with genetic disorders.

Reactionary and pro-active companies emerge from every revolution. According to Engelbard it is almost impossible to keep abreast with exponential growth in the new digital era, although one could catch up with revolutionaries in a linear world. Evangelos Simoudis, founder of

Synapse Partners, believes that big companies should learn to act like startups by giving a part of their incubation ideas to employees outside their R&D structures. This does not mean that startups are more stable than larger companies, but that turbulence in digital evolution of companies is inevitable—and should be embraced with Digital Rebirth mindsets and processes.

Even ‘digital natives’, such as digital startups, need to anticipate and explore future changes, because innovating just once is not the ultimate or enduring solution. Engelbard warns: “Revolutions and the changes associated with it can be scary, but the the single worst decision is to do nothing.”

From Building Better Mousetraps to Building Better Mouse-Catching Platforms

Many executives think of companies competing over, or with, physical products and services in an industry context—the typical “build a better mousetrap than competitors”—and owning (or controlling) the resources to enable them doing that with consistency and efficiency. In today’s network-connectivity era, competition is fundamentally changing to being increasingly over company and ecosystem platforms, not over discrete products in particular industries. For example, think of a smart mousetrap with sensors that are digitally connected to a Cloud-based ‘mouse-catching’ service: the home-owner, suppliers of equipment, rodent-exterminators and insurance providers are all stakeholders that could influence and monitor the status of the mouse-catching service on their digitally-connected smart devices, e.g. smartphones, via a platform ‘app’, receiving messages and enabling responses when necessary.

The fundamental move from competing with physical products to competition with platforms is valid for any company, in any industry, and not only for the well-known ‘sharing-economy’ platform companies such as Uber, Lyft, Airbnb, Google and Amazon. The shift from products to platforms focuses on co-shaping the products and services that enable stakeholders—either selected and/or open stakeholders that are empowered with app-related tools to operate on particular digital platforms—to connect, build and communicate, in real-time, with these smart platforms, with particular consumers in mind, who now also become co-shapers of products and services through their real-time engagement on the digital platforms.

Every business executive today has to deal with the basic question of how to enable others (external stakeholders, including consumers) and themselves (internal staff, including co-workers) to collaboratively create new value—for the company and its shareholders, and in the process also for the various stakeholders and their shareholders. The major implication is

that, while it is difficult to divorce executive minds from physical products only, e.g. an automobile, or services, e.g. GP (General Practitioner) health services, it is essential to adopt a new mindset for digitally ‘rebirthing’ your company, and not to get trapped into partial and inadequate digital ‘transformation’. In fact, the automobile industry and the GP industry are in danger of ‘dying’, as ‘software eats the world’, i.e. the physical products and services become relatively less important than the non-physical ‘digital connective intelligence’ that determines the network-collaborative use of these physical and service objects. Digital Rebirth is evidently not a choice, but an urgent necessity for all existing companies, the so-called incumbent, traditional or legacy companies, and also their traditional industries.

To embrace Digital Rebirth is not easy: the following vignette of automakers illustrates this.

Why are Automobile Manufacturers still Focusing on the ‘Auto Industry’¹⁶

Cars filled with electronics that give their drivers traffic information are enough to fill the average driver with awe. It seems that manufacturers of luxury cars are ahead of the game in every way.

However, Andrew Shipilov, a professor of strategy and an Akzo Nobel Fellow at INSEAD, begs to differ. He notes that manufacturers of physical products are not approaching the digital ‘rebirthing’ of their business models carefully or creatively. They still need to understand that “[t]he physical asset itself is just the beginning; the real value is in the connective intelligence possibilities of a wider array of value to consumers.”

As an example, he mentions BMW, whose cars contain a platform (Connected Drive) that allows owners to buy apps that will allow them to gain information on the traffic, to message, and start the engine remotely. However, the owner has to pay €360 just to be allowed to download the apps on this platform.

Similarly, a car’s electronics allow its owner to experience various driving modes. Although all of BMW’s Series-3 vehicles use the same 4-cylinder engine, the less expensive model’s electronics don’t allow it to achieve the higher horse-power levels of the others. Shipilov asks himself why carmakers don’t allow car owners to rent engine capacity, or even upgrade their engine’s capacity, which would give them a different driving experience when this is needed. His experience has taught him that the main reason is that these companies want people to sell their old cars and buy better new ones. Shipilov notes that although this would make sense in the traditional business model, these companies are currently not only missing out on new customers, but also on new revenue opportunities.

He also mentions Tesla as an example of a company that allows a mode upgrade that allows a car's acceleration time to be reduced by 10% without having to buy a new model. However, the upgrade can't be rented, even though this is feasible, and buying it costs about \$10,000.

Shipilov contrasts this business model to that of Apple, which earns money with complementary products and whose apps are rather cheap, or even free. He believes that the lesson is to always give customers free entry into a digital store, but to afterwards charge small amounts for the products they buy.

Clearly, the makers of physical products (like vehicles, refrigerators or stoves) understand that digital convergence is the future. Nevertheless, the 'digitally-transformed' business models required for this are often inadequately viewed, or certainly not creatively examined for insightful 'Digital Rebirth'. The physical asset itself is just the beginning; the real value is in the connective intelligence possibilities of a wider array of value to consumers, with new value creative processes, new value capture mechanisms, and new value delivery methods.

From the above vignette of the automobile industry, *a number of corporate 'barriers' to digital business rebirth are clear.* These include:

- The difficulty to switch the focus of executive mindsets from physical assets and products to digital connective-intelligent assets;
- The attractions and mesmerizing influence of digital technologies, as an end in itself;
- The strong paradigm of 'business model' thinking, and business model innovation, with business schools, consulting companies and company tools continuing a 'love' with the elegance and 'proven' workability of traditional approaches and methodologies—but now fast becoming obsolete;
- The resistance against anything new that might cannibalize on the successful sales of existing products and services;
- The fear of upsetting existing supplier and distribution partners and processes;
- A fixation on traditional product pricing and revenue models, with reluctance to adopt 'unproven' models—such as services-subscription revenue models (explained in later chapters).

The critical issue is that these 'barriers' cannot be overcome by digital business model transformation efforts, as that would remain incremental, linear, partial and mechanistic, not to mention often slow. What is really needed is a decisive departure—a company rebirth—from the traditional business model and its practices, which is possible without significantly disrupting the company's current revenue streams in the short term.

Conclusion

Companies struggle with Digital Rebirth, on the one hand because of the barriers of traditional paradigms and mindsets of the industrial era, and on the other hand simply due to myopic advice coming from consultants and academics rooted in those old mindsets. This is often called ‘path dependencies’, i.e. relying on the past methodological paths that worked well, or are still working, but rapidly declining in effectiveness.

In this chapter it has been motivated that industries and companies are facing dramatic changes due to the rise of the digital era, not only because of astonishing technological advances, but especially because of its revolutionary impact on business practices and leadership. Company Digital Rebirth is essential, not merely digital transformation.

The following chapters illustrate, in sharp relief, the ‘legacy’ company barriers and challenges, and how to practically overcome them and move decisively to Digital Rebirth, before it is too late. The ‘windows of opportunity’ for company rebirth will be closing rapidly in the next few years, with many digital native startups (or ‘upstarts’) already entering and positioning themselves strongly in the marketplace. To merely collaborate with startups, or to establish your own startup hubs or technological accelerators, are not enough—that would be perpetuation of existing business models and its deficiencies, not leading to urgently needed company Digital Rebirth.

WORKSHOP 1 (Case Illustration)

Digital Insurance Startups (‘Insurtechs’) and the Challenges for Industry Incumbents¹⁷

Thinking back, most people would agree that buying insurance has not changed during their own lifespans, or those of their parents and even their grandparents.

According to Rakesh Shetty, Head of Marketing for Strategic Industries at SAP, not everything in the insurance industry has petrified. The business models of half of all insurers are being disrupted by new, very nimble competitors. Further, Fintech disrupters (e.g. MoneySuperMarket and Lemonade) and new technologies (e.g. smart sensors and medical-grade wearables) are making classic face-to-face meetings between insurance brokers and clients superfluous. Insurers can apply digital tools and data derived from their clients to provide services that enhance and fit these clients’ digital lifestyles. Digital Lifestyle Insurer and the Connected Insurer are two emerging insurance models.