



AJAY SOHONI

THE **DIGITAL**
FRONTIER

HOW CONSUMER COMPANIES
CAN **CREATE MASSIVE VALUE**
THROUGH **DIGITAL TRANSFORMATION**



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CREATE MASSIVE VALUE THROUGH
DIGITAL TRANSFORMATION**

AJAY SOHONI

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To my parents, for accidentally engineering a hyper-curious and free-spirited professional and giving me the twin gifts of language and humor. I think it worked out okay this time, but I highly doubt that it is repeatable.

WHY I WROTE THIS BOOK AND WHY YOU SHOULD READ IT

It was early July in 2020 and we were just emerging from the COVID-19 lockdown in Singapore, termed the “circuit breaker” here. A six-week period of closure, distancing and disciplined social behavior which saved the city from the pandemic. A little after 8 am and I was sitting with my wife at the beautiful outdoor seating at a café in Singapore's quiet, green and modern media district, having just dropped my five-year-old off for Day One of her arts camp nearby. The wide-open space and the understated grandeur of the Fumihiko Maki-designed Mediapolis was further magnified this morning by the fact that my wife and I were the only people there. I was meant to take two weeks off from work, people had stopped taking days off since the pandemic started and the company had urged us to take time off and look after ourselves.

“I am concerned about two things”, I told my wife. I wasn't sure about how to use the two weeks productively. I was also at an inflection point in my career, having spent the last six years in the digital and technology-enabled business space I was looking to move on to something else. But I loved the space I was in and I felt like I still had a lot to offer; it worried me that I would allow everything I knew to just fall into obsolescence if I left “the scene”. My wife is much smarter than me, and I am not just saying that to demonstrate my own humility, we don't do that in my generation anymore. That question was settled 11 years ago when she outscored me on the GMAT and she likely had a better GPA than I did at INSEAD where we met. But we will never know, because we have continued INSEAD's grade non-disclosure policy in our household.

“Write a book”, she said. So, I did.

This book is an aggregation of my understanding and my opinions about driving digital transformation in consumer-facing business. For me, specifically, that comes from my experiences in digital during my startup tenure at Lazada, in transformations during my time at McKinsey, and in consumer-facing business at the Coca-Cola company. In my fourteen-year career so far, I've been lucky enough to have worked in most corners of the world in a variety of companies that have given me an incredible array of experiences. The number of times there has been a day which ended in a high (or a low) and I've wished I could just tell everyone about it! So, this here is my chance to share with you readers some of what I have learnt so far. But before we get into the main body of this book, I want to share three distinct memories with you from three of the many events in my career so far that have made an impression, all three involving three admirable leaders.

The year was 2010 and it was starting to get cooler in Amsterdam, around November. Little did we know that we'd end the year in a snow-storm that would close the airport for a few days. But, on that cold November day I was helping put together the final edits on a presentation in one of the meeting rooms in McKinsey's beautiful office on the picturesque Amstel river. Our client was a large consumer products conglomerate and the recently appointed CEO was holding a gala event to end the year at the 300+-year-old Amsterdam Hermitage museum. Top business leaders from around the world were assembled here in a beautiful space and, while the light and sound engineers were rigging the place up, we were conferring with the CEO on some nuances of his speech and presentation. That night he launched a transformational journey that has spanned a decade, taking this multi-country and multi-category business, splitting and carving

and buying and stitching it together into a completely new form, while at the same time changing the way the company operated from inside out. Looking back at that evening on the Amstel, thinking about the moves that were then mere bullet points on a PowerPoint slide, and looking at the ensuing actions two qualities of this transformational leader shine through: Courage and commitment.

Five years later, and this time it was November again and also very cold in Hangzhou, China. Still groggy from the short overnight flight and drive from Shanghai I walked into a conference room at the sprawling and impressive Alibaba campus. We were here to meet Daniel Zhang, the CEO of Alibaba. Lazada group, one of Southeast Asia's leading e-commerce companies, was discussing an investment from Alibaba and I was running Lazada's payments company, which would then be acquired by Alipay. A few months later Alibaba acquired a controlling stake in Lazada, but we were still in the midst of negotiations in November 2015. Mr. Zhang had an intense aura about himself. He spoke in a calm collected way, every word measured to make a specific incisive point. We spent maybe 30 minutes talking about what consumers value, what merchants value, and what brands value. No complex tech terminology, no mention of buzzwords like fintech and, worse still, blockchain. Daniel Zhang is an incredibly impressive leader and, looking back at that interaction, I realized the core idea, that you'll see me repeat several times in the book, is that the objective is to create commercial value using technology, *not* to apply technology for the sake of it and then find associated commercial value in some way. Two transformational qualities: Pragmaticism and focus.

Four years on, it was early September and this time I was at a conference room near downtown Singapore. It was warm as usual, as it is all year round in Singapore, and the

neighborhood was bustling with road closures and the signs of impending activity in preparation for the Formula 1 Grand Prix, which was a couple of weeks away. For a weekend, the downtown streets transform into a racing track for some of the world's fastest and loudest cars, nothing short of a modern-day marvel. On one of the higher floors of this 70+ storey hotel, some of the Coca-Cola company's brightest and most creative minds were gathered to talk about, among other things, what the brand ought to mean for consumers. There were presentations and ideas galore, and constructive debate, and then in the midst of it all - the most senior leader in this meeting rolled up his sleeves and walked over to the flipchart. What followed was an unforgettable 30-odd minute one-on-one on brand Coke, its history of campaigns, its changing role in consumers' lives over the last few decades, the product's chemical composition and the role each ingredient played physiologically, the different ways in which the brand's own identity and ethos was inextricably linked to the science of the product but extended far beyond the product itself, the implicit lifestyle choices and personal statement a consumer made when he selected that can from the shelf. It was almost like he was reminding us to make choices that lived up to the 130+ year history of the company. I remember thinking why they hadn't taught us that in business school and there was a lesson in this too. There is simply no substitute for experienced leadership, and an understanding of the ways of the world accumulated over decades of experience. We stand to gain much more from bringing our senior leaders up to speed on digital than from putting "guys who can code, who read *Wired* magazine and whose LinkedIn status says serial entrepreneur" into leadership roles. Transformation qualities learnt: Deep consumer understanding and corporate legacy.

Knowledge and understanding are distinct and different but often used interchangeably. This book is not about knowledge, it's about understanding. Epistemologically, knowledge has an obligation to be rooted in truth, and in a marketplace for goods and services which is now made especially complex by fast-changing and hard-to-fathom technology, it's impossible to discern the truth. If it exists that is. So, I can't necessarily share any knowledge on digital transformation; I can, however, offer my own understanding of it and that is what this book is about. As I went through the chapters I took on one topic at a time and just wrote up how I understood it. And, in writing it up I am passing it on to you for you to take and process and to develop your own understanding on the topics I write about. Success for this book would be you feeling a lot more at ease with the changes involving digital transformation after you're done reading it.

And then there is fun, I want you to have fun reading this book. I love a dark joke, a good meal, a shocking movie, an emotional song, a stiff drink, a long run, a convoluted story, and most importantly I love not taking serious things seriously. So, I've tried to make this severe-sounding topic of digital transformation fun to digest and I want you to get a good laugh out of it. So go ahead and dive right in!

ACKNOWLEDGMENTS

I would like to start off by thanking my wife Eun Joo for suggesting writing this book in the first place and for her continued counsel as I worked through it. My little daughter Ira, for her wide-eyed curiosity for what Baba was up to, hammering away at his laptop early morning and late night. The thought of walking her into a bookstore someday and showing her the book that her daddy wrote has been motivation enough!

I'd like to thank my father, who was the first person to read the drafts and who suggested I write bits of fiction within the book, which I did, my mother and my sister for the constant positive reinforcement. My brother-in-law Yashodeep, and close friends Mihir and Leslie for taking the time to read through the draft in meticulous detail and for making game-changing suggestions.

In my Coca-Cola family, I'd like to acknowledge Iain McLaughlin for pushing me to publish the book, Claudia Lorenzo for allowing me to spend the time I needed on the book, Belinda Ford for reading through and surfacing questions I would not have seen otherwise.

And finally, I would like to thank the leaders and colleagues at Coca-Cola, Lazada-Alibaba and McKinsey for being incredible teachers and allowing me to learn the things that formed the foundations of this book.

CHAPTER 1

SETTING THE CONTEXT

Let There Be Value Creation

We need to stop pretending

It was another early morning in the Sohoni household, for me at least. I have been waking up at 5:30 am every morning and my wife thinks I am getting old. I am in fact, or was on this specific morning, only 38 years old but I guess the mind does age faster these days considering how much more information and how many more situations it needs to process.

So, on this morning in September 2019, in a world before COVID-19, where the only problems facing the world were stuff like climate change, religious fundamentalism, racism and prejudice etc., I was doing my morning read of the papers. This, in my world of course, takes the shape of sipping on a nice long black while lounging on the living room sofa and mindlessly scrolling through a couple of news websites and Reddit. And there it was in the headlines:

“WeWork's Adam Neumann Steps Down as CEO”¹

This event had followed months of intrigue around bad executive behavior, a failed IPO and a broken business model. Here we go again, I thought, now we must all pretend this was shocking because come on, the company was destined for such great heights. That this was toxic management culture making a mess out of a perfectly amazing and investable asset. That this was not the norm but an accident. An accident of somewhat colossal

proportions, but an accident, nevertheless. We have to all pretend, all over again, just like we did when Travis Kalanick resigned as the Uber CEO in 2017², or when Elizabeth Holmes was charged with wire-fraud at former-company Theranos in 2018³. Or even when big name tech company IPOs like Snapchat, Lyft or Slack did not result in the response everyone expected. If an IPO were sort of like the finish line at a marathon, this is the equivalent of not caring about who finishes or wins but just celebrating the ones that sprint like hell in the first few kilometers.

Fast forward, or more like fast backward – does that exist? to December 2019 and it is another morning albeit somewhat cloudy. I am in pretty much the same position and other than the weather the only thing that's different is my coffee – this time I'm drinking a special Colombia bean edition coffee from my trusted capsule coffee brand which tastes almost exactly the same, but I have the pleasure of paying a bit more for a slightly more attractive packaging. This time I am on LinkedIn, doing my monthly ritual of reading about success stories from my connections to feel like a complete failure myself. The Forbes 30 under 30 has just been published and features 30 millennials with a ton of courage who have started companies with catchy names made up of five letters, like ZIPSY and FRIXO (I made those up), that have raised tens of millions of dollars. And we have to all start pretending again, that this is the new model of success we and our children need to aspire to – raise funding, more and more and many times over.

This time its early 2019, I am in the United States in a workshop and we are about to kick off a 3-day Agile session (Yes, I said A****, more about that in [Chapter 7](#)). There's coffee here as well but this is a corporate office in America so it's scalding hot water which is gently scented with coffee beans. There are a couple of bean bags thrown in the corner for effect, we have a little gig running where we

record vertical videos à la Tik Tok so someone can make a collage later – because digital. A senior leader stands up and thanks us profusely for our commitment to discuss this important topic and then says the words, “We need to start acting and thinking like a startup”. And we all start pretending again, that this is indeed the one thing we need to do, think like a startup. And we pretend to know what it means to think like a startup.

This is what keeps me awake at night, and I figured I would write this book so I can sleep in peace. We need to stop pretending, seriously we do. Sitting inside large traditional companies we need to figure this out now. What is really happening out there and how can we understand it better? What should we do, and will it help us make more money? How do we all agree on a way forward together instead of pulling in many different directions? How do we stop attending webinars and start getting stuff done?

Value creation is at the root of it all

Companies make money because they create value, individuals make money because they create value. Now that is one thing we can all get behind, making money. Of course, there will be those amongst us that do not believe in the capitalist model and do not subscribe to it, but this book is not building a case for or against capitalism. This book takes the current market situation as a reality that companies need to operate in and tries to unpack the situation to build a shared understanding and a practical way to succeed. Success in this world is about profits, and profits in turn are about value creation.

I am not a trained economist, neither am I a university professor but I wanted to make an attempt to lay out my internal dialogue and reflection here in words and see if it helps you as readers to understand what is happening just

as it did for me. In doing so I am going to dramatically simplify things but hopefully it will not take away from the validity of my thesis.

I would define the act of Value Creation as the undertaking of an activity by an individual that produces an outcome (say a product) that has value to someone else. In performing the activity, the individual has created something of value to someone - value creation. Say, as an example, Person A finds out that he is sitting on top of an oil well and decides to drill for it, takes out a barrel of oil and it costs him 10\$ to do so. Person B needs said oil and is willing to pay person A 15\$ to buy that barrel of oil off him. Person A has created 15\$ of value by deciding to extract that oil, value that would not have been created had he chosen not to do anything and just sit at home and binge-watch *The Witcher*. And in that process, he has earned 5\$ of profit, a compensation he got paid for performing the activity of drilling the oil out of the ground.

If now there were a lot more Persons A and a lot fewer Persons B, because there was a lot more oil discovered, or because the uses for oil just disappeared as the world woke up to the grim realities of climate change, then the demand for oil would drop. Consequently, the world would not "value" the activity of drilling for oil as much anymore and Person B will likely only pay 12\$ for a barrel. It would still cost Person A 10\$ to drill and they will now only earn 2\$ instead of the original 5\$. Less profit for A because the world does not value what they do as much anymore. Less value created.

We need to imagine the world and our economy as an incredibly complex, layered and interconnected web of individuals and companies that wake up every day and set about performing activities that result in value being created for other individuals and companies. And if you are

creating something that has value for someone else you will get paid for it and make money. How much money you make will depend on how badly people need what you are making and how many others are making something similar. The opposite is then also true, if you are not making any money or enough money then you are likely not creating any value or not creating enough value to deserve a fair compensation for your activities.

So, this begs the question, are startups creating value?

Let us delve into this taking five of the most popular use cases of the last decade as an example: Ride hailing, Co-working spaces, Food delivery, e-commerce and Digital payments.

Ride hailing - Back in 2009, while I was getting my MBA, a bunch of us went to Kuala Lumpur to watch the Formula One Grand Prix at the Sepang circuit. Getting a cab in KL was a nightmare, you were constantly getting overcharged, refused and on one occasion threatened with a knife. Ten years on, ride hailing in KL is a breeze and by bringing absolute transparency in the supply-demand equation of the urban transportation market, ride hailing companies have truly performed a valuable activity for us consumers. But what they have failed to do, over their entire history of existence, is to make any profits at all from this venture. In other words, they are being paid 8\$ for their barrel of oil when it is costing them 10\$ to drill the oil out. And the reason for that is quite straightforward. To make sure they continue to get massive funding and huge valuations in a fiercely competitive context they have had to sell more and more rides and acquire more and more consumers at a loss. All with the promise of monetizing this consumer base in the future - a promise that has yet to materialize. Some have diversified into other use cases, like food delivery and payments, all of which are also loss-making and, as one

might expect, putting several loss-making businesses under one company makes for a bigger loss-making company.

Co-working spaces - The key question on my mind about co-working spaces has always been who is the company creating value for? WeWork's failure can be attributed to many things, and there were far too many, but they also got the answer to this fundamental question wrong. Airbnb creates obvious value for the hosts as well as the travelers as most of you have doubtlessly experienced. A co-working model creates a lot of value for real estate asset owners as they get the chance to earn a better return on their asset as it becomes available to a larger consumer base and gains higher occupancy. But WeWork took that out of the equation by owning the real estate and then renting it out cheaply, so they took value from the real estate asset from their own pockets and handed it to consumers. On the consumer side, other than the obviously severely attractive pricing, it was unclear if consumers really needed this product. There was no endemic lack of office space in our cities and a startup employee's willingness to accept dilapidated office infrastructure is way higher than a traveler's willingness to accept a decrepit Airbnb accommodation. I once spent a whole week during my startup tenure sitting on a chair which only had three legs. Oh, and you can work in a Starbucks for free.

Food delivery - Food delivery is not a new phenomenon, pizza delivery started in the 60s, first taking orders on the phone for a couple of decades and eventually through the internet in the mid-90s. Can you believe it? Actually picking up the phone and having a conversation with another human being! Ugh! The value here was already obvious to the consumer, the convenience of staying at home and getting a meal delivered to you. Food-delivery apps merely extended this value to a larger set of restaurant operators and a larger installed base of consumers, and now the

proposition included a much wider variety of meals. And delivery players rightfully charged both consumers as well as the restaurants for the value provided. The industry however went through a couple of interesting turns. First, players geo-fenced their delivery radius and improved operations in general, so food was delivered in 20 minutes, thus providing more value to consumers. And second, some players realized that they were not able to make delivery operations work at acceptable costs in some markets and actually started shrinking and exiting specific cities. And this was, so far, perfectly acceptable conduct as the industry was becoming more normalized. Just as this was starting to happen, ride hailing giants and more competitors entered this business and started allowing consumers to get free deliveries and major discounts. As a result, we have now ended up with another unprofitable use case which will only start making sense once consumers are asked to pay for the service they are getting. This is not always easy, if that barrel of oil were always handed to you for free, you would be up in arms when you are told to shell out 15 USD for it.

e-Commerce - There are many different forms of e-commerce today but regardless of the size of the assortment a platform carries, or the delivery and fulfilment model, the two main value creating elements of e-commerce are improvement in availability or visibility and the convenience of shopping from home. Products that were only possible to be browsed by those who were lucky enough to live in big cities near retail locations are now available for everyone everywhere. I remember the first time my mother bought a microwave oven or a rice cooker growing up in small-town India and she had a total SKU choice of one and at a price that she had absolutely no reference to evaluate. When my dad bought a coffee machine last year, he had virtually endless choice and was

able to make a very informed decision that he feels quite proud of. The convenience of not having to lug stuff home is obvious and I do not need to explain it here. There are many other elements that make e-commerce exciting but there are also some value destroyers, the lack of in-store experience for example. But unfortunately for e-commerce, too many brands and platforms have treated it like a discount channel in their desperation to show short-term progression in sales, and consumers have started thinking of it that way as well. The value is endangered, but I am confident that this will change. The benefit for me as a consumer is too compelling for me to forego just because I am not used to paying shipping fees on my purchases.

Digital payments – This is an interesting one and I personally wrestled with this a lot some time ago when I was running a payments company. There is the broader world of Fintech, perhaps a topic for another book, but the much narrower definition around consumers using non-cash instruments to pay conveniently is what I want to address here. Payment companies have rightfully always touted the convenience for consumers to do contactless, one-click, no-click etc. payments without having to withdraw cash and handle change, as a key benefit. And for merchants there is the potential to turn anonymous cash payments into useful consumer data together with the promise of lower cash handling costs and interchange fees. But has that value truly materialized? In our less developed cities cash is still very widely used and consumers do not really care as much about that non-cash convenience yet. In our larger cities credit cards and banks have started offering similar convenience and consumers are using digital payment apps mostly for the rebates and discounts which is not a sustainable model. I still believe there is value to be created in digital payments, but unlike during Alipay's rise in China from 2005 to 2015 which was fueled

by a lack of personal financial products available to consumers from the retail banks or PayPal's rise in the US around the same time, propelled by its captive transactions from eBay, payment instruments from traditional banks and credit card companies have vastly improved in access and quality. And the incremental value gained by moving to a new payment instrument might not be compelling enough for consumers or merchants.

So, what can we learn from this little tour of the most popular start-up cases of the last decade?

For one there is clear value to be created for consumers or buyers and merchants or sellers. Companies embarking on a digital transformation need to start there and pin down what value they are creating for their consumers and for other partners in the ecosystem which might include suppliers, retailers, manufacturers, employees or any other entity which the company has a financial relationship with. It is important to have explored all these aspects of value creation, as often the real beneficiaries of a new way of doing business are not the most apparent ones.

And secondly, this pursuit of value needs to be relentless and quite frankly the only reason why we embark on a digital transformation. Too often the waters get muddied by fundraising objectives, more about that later in this chapter, personal agendas from leaders who want to build a reputation rather than a profitable franchise, unnecessary urgency which doesn't allow companies to properly educate the consumers on the long-term value economics of a new business model, and shock and awe type of narratives from thought leaders who keep throwing new terminology into the mix and constantly distract unsuspecting executives from the focus on generating profits.

But if these companies are not always creating value how is it that they have such insane valuations? Why can't

traditional companies do the same and benefit from amazing share price increases? These are very pertinent questions to answer and I want to spend some time reflecting on these.

Enter the capitalists with too much money

May 2017, Masayoshi Son announced the first close of his 100 USD billion Vision fund with committed investment sourced in a big part from middle eastern sovereign wealth funds, the Saudi sovereign wealth fund contributing up to a staggering 45 USD billion⁴. With the breadth of investments in companies big on discounting, we can all revel in the fact that we have benefited from Saudi oil money since 2017. 100 USD billion, I ruminated on that number and I was thinking how it is impossible to dimensionalize these numbers for me as an individual and quite frankly also for most companies. Perhaps it would be easier if they start expressing the figures in Swimming pools or Football fields. Like Softbank just raised 50 Olympic sized Swimming pools full of 100 USD bills in their Vision fund, you would be able to imagine then how much money that is. And there are more funds and more investors and more swimming pools full of money, lots and lots of money which governments just cannot stop printing.

At this point it is important to go back and understand the market for capital, again using my overly simplified analogy of a dude drilling oil out of the ground. So, Person A has been creating value by digging out oil at the cost of ten USD a barrel and selling to Persons B at 15 USD a barrel. Person A now realizes that there is a lot more demand for oil and consequently there is a lot more demand for the act of extracting the oil. So, he decides to spend 100 USD on a truck to move the barrels around but realizes he does not have that kind of money. Enter Person C - the investor. Person C gives the money to Person A for buying that truck

and in return is promised a share of the company and a corresponding cut of Person A's future profits. The higher the profits generated, the higher will be the cut earned by Person C and the keener Person C would be to lend that money to Person A. In this simple world investors will always seek out a bigger cut and companies that create more value will be the ones that attract the most funding. So why is reality different?

Say Person A's company keeps getting bigger as demand increases and keeps getting more efficient with scale and operational innovation, consequently the value of his company or the size of a cut of his future profits continues to increase. Today, there is a lot of money in the hands of a lot of Persons C or investors keen on investing their money to make more money for themselves. They want to make money quick without waiting for profits to materialize, and so they are constantly buying company stakes off each other and making money as a result of the increase in valuations. This would still be fine if there were only a limited amount of money in the hands of Persons C to go around. But is there? This is where it starts to fall apart.

There is altogether too much money in the world right now and has been for the last decade. This is not a book on macroeconomics and even if it were, there is no version of what is right and what is wrong which has absolute global consensus. But leaving aside right and wrong, my simple version of causality goes a bit like this:

Economy tanks > Everyone freaks out > People stop buying stuff > Companies stop making stuff > People lose jobs > People freak out more > Governments get nervous > Governments print more money > Governments give away free money > Companies get money to continue to grow > Companies hire people back. But hang on, demand has not actually gone up and companies are not creating more

value than they were before, so the extra money just mollifies the general population by creating jobs and causes massive perversion in the capital markets.

Why do economies tank in the first place, should governments react like this, what might happen if they don't and there is endemic unemployment etc. are of course HUGE questions and a lot of them are rooted in our human nature and animal instincts and they are FAR beyond the scope of this book. So, let us just say that a chain of events spanning several decades and especially the events of the last decade have resulted in us ending up in a world where there is altogether too much money.

This money desperately flows into assets that likely did not deserve it in the first place. Couple this with the incredible expectation of always earning a super high return on all investments all the time and you have a recipe for blind speculation. Bring in the young founders in a quest for fame and money and likeminded professionals who are compensated with stock options who will do anything it takes to increase the valuation of the company. Add a smattering of investment bankers who are all too keen on making up methodologies to value companies that do not make any money at all. Investment banks will essentially tell an investor group A to buy stock in a company at a certain valuation and then a year later tell another investor group B to buy the same stock in the same company for twice the valuation. They have in this process doubled the investment of group A and can claim to group B what incredible advice the bank gives. The bank makes extremely attractive fees, and no one seems to question if the underlying company actually doubled in value or point out the glaring conflict of interest in the fact that the same banker arbitrarily increased the valuation of a company between two subsequent fundraising rounds.

So this all seems like some kind of crazy Ponzi scheme where the poor sod, who ends up holding the stock when some event allows for the true value (or lack of it) to be exposed, ends up footing the bill, as we saw in failed IPOs and dead Unicorns. Of course not all start-ups are like this and we have seen tech behemoths like Facebook and Google who have found incredible value creation models and have demonstrated that it is possible to do well, without all the smoke and mirrors. And by the way, public markets are in no way immune to this, just seeing the way loss making companies have had IPOs for example Uber or Lyft. This does not mean they will fail, perhaps investors are buying the story on future returns and a path to profitability, after all Facebook and Amazon were also loss making when they listed. But today's tech unicorns that built businesses in the cheap-money environment have never had the discipline to actually generate returns and are likely in a rush to list to satisfy private investors hungry for an exit, driven by clauses clearly worded in previous funding rounds.

Startups are built mostly for investors, sometimes for consumers

Phew, what a mess. But I would maintain that there is nothing wrong with this situation and there are market forces at work here too. We ended up with too much money and there was a need for someone to create assets to have this money invested in, and a way for investors to make more money off the investments. Start-ups are merely fulfilling that need and, in the process, they are creating value for the investors who are making profitable exits. They might not be creating value for consumers or other stakeholders in the ecosystem, but they are creating shareholder value and there is nothing wrong with that. I would even hazard a guess that beneath the veneer of

“changing the world” and “making the world a better place” most founders and senior leaders in the start-up space know that there is a dual game at work here. We want to make money for the company by making good products, but we also want to make money for the investors by ensuring our valuation keeps increasing.

Okay, what does it mean for us? For the corporates who are wanting to think like a startup.

For starters we need to acknowledge that there are two different games being played and we need to decide which game we want to play so we can play it wholeheartedly. Are we operators that will use technology and innovation to find new ways of creating value for consumers? Or are we agents who will build investable assets to serve as a vehicle for future investments from outside, so an eventual exit will create more shareholder value? Or can we actually do both?

Let us start with the innovative operator answer: There are of course a lot of examples of companies innovating in-house and in fact that is how we still have several iconic companies represented in the Fortune 500 today that have been around since more than 50 years ago. But these innovations are often buried inside the company's core business, shielded from external capital markets and find it harder to shine through earnings calls and analyst reports into the stock market for valuation gains to accrue. Worse still, a company's internal market for funding and the rules by which it is governed just doesn't allow for breakthrough innovation to be supported the way it does in a startup.

Let us look at the pure investor angle: There are some examples of traditional companies acting as successful investors, going back to DuPont's 1914 investment in General Motors or Microsoft's 2007 investment in Facebook⁵. But these are hard to find, because

corporations are in general not in the business of investing. Some corporations are operationalizing this by setting up incubators. This is neither here, nor there. It is part investment, but never enough investment and part company related innovation but never completely relevant. Corporate venture capital has had mixed success in the past because companies have found it hard to play the investor role, because the sheer ticket size for entry into the space is far too big for traditional companies because of the insane amounts of VC money that fuels it. Traditional companies have more traditional investors to answer to and proceed, thankfully, with much more caution.

But I think this does not mean that corporates are not allowed to play, and I think the time is right for us to conceive a new kind of startup. One that is linked to our core business and might even be majority owned, but through specific mechanisms allows us to preserve the incentives and ways of working in a startup that give it the opportunity to make extraordinary gains for our business and our shareholders. In the last section of this book I will speak about how companies can go about architecting this middle ground in digital transformation to both create value for consumers and deliver sustainable returns for existing shareholders.

Maybe it's right to do a sports analogy here. Traditional companies can likely never be the Michael Jordan of digital business, we cannot afford to be so mercurial and high risk all the time because it does not matter if we win the MVP title in every season, what matters is that we win. And Scottie Pippen won too. Let us learn to be like Scottie.

So, what exactly do you do?

A question I have been asked repeatedly, and one that has had widely varying answers depending on when the