

INTRODUCTION

THE ASCENT OF THE
SMARTER, FASTER, LIGHTER
ENTERPRISE



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Peter Drucker, the legendary management scholar and consultant, noted in a 1994 *Harvard Business Review* article that the assumptions businesses make—about customer behaviors, competitors, and markets—constitute their theory of business.¹ The theory that a company develops, dictates what it should do and how it should do it, and can be a powerful tool to guide the enterprise.

However, when those assumptions no longer reflect reality, the decisions a company makes that once led to profitability can lead it astray. The failure to change the theory (and the assumptions that undergird it) to align with the new reality, Drucker wrote, is at the root of all business crises.

Today, because customer behaviors, markets, and competitors have all changed, and continue to change rapidly, business theories do not reflect reality for very long. This is why so many companies, especially those most affected by the digitization of everything, are in crisis. It is why they need to revise their theories of business to become smarter, faster, and lighter.

¹ Harvard Business Review, The Theory of Business, September-October, 1994. accessed July 5, 2016, <https://hbr.org/1994/09/the-theory-of-the-business>

THE REVOLUTION IN CUSTOMER BEHAVIOR

How much have business theories changed over this decade? Look at one aspect of customer behavior—the shopping patterns of consumers. Just a few years ago, when a shopper entered a store, his or her choice was limited to what was on the shelves. Today, armed with smart mobile devices, enabled by free, pervasive WiFi, a customer in Store A can:

- Compare the price and quality of what is on the shelves with an entire universe of competing products
- Obtain instant reviews of products from social media channels
- Text friends about their experiences with the products, or ask trusted strangers in online consumer forums
- Purchase the product from Store B while standing in Store A's aisle

This complex path to purchase promises to grow more varied, not less. According to a 2014 study, 22% of shoppers interacted digitally prior to shopping. While only 4% used a digital device during the shopping process, 75% said they planned to do so in the near future.² Just one year later, U.S. car buyers spent 60% of their time purchasing a vehicle doing online research. By the time they went to a dealer, 71% decided to buy the car they intended to purchase. If companies want to influence the customer's purchase, they need to do it much earlier in the so-called customer journey.³

A theory of business based on a static, linear customer journey, or one that prescribes a rigid customer experience, no longer reflects reality.

² IRI Worldwide, Channel Migration: The Road to Growth Has Many Lanes, September/October 2014, accessed July 5, 2016, http://supermarketnews.com/site-files/supermarketnews.com/files/uploads/2014/10/T_T%20SeptOct%202014_Channel%20Migration%20102714%5B1%5D.pdf

³ PR Newswire, For Dealers, Online Presence Key to Influencing Car Shoppers, March 21, 2016, accessed July 11, 2016, <http://www.prnewswire.com/news-releases/for-dealers-online-presence-key-to-influencing-car-shoppers-300238839.html>

THE DIGITALLY SHIFTING COMPETITIVE LANDSCAPE

Traditionally, a company's growth strategy was to become the market leader in its core market segments, and then protect that position against competitors. But that does not account for the fact that competitors now emerge from different segments. In 2001, for example, Nokia was the top mobile phone manufacturer in the world. It had a robust, well-funded R&D function, and seemingly unassailable scale. In 2004, it still had over a third of the market.⁴

After Apple launched the iPhone in 2007 and Google's Android operating system came online the next year, Nokia's theory of the business became instantly obsolete.

Nokia was not defeated by another cell phone maker. It lost market share to a computer company and an online firm. Apple and Google developed technologies with an ecosystem that used the network effect, which made them valuable in the eyes of the consumers.⁵

A theory of business that fails to account for competitors emerging from entirely different sectors of the economy no longer reflects the reality of global competition. Due to powerful and fast-evolving technologies, easy access to capital, and lower barriers to entry, companies need to look beyond their segments and geographies to keep a weather eye out for fast-emerging competitors.

⁴ GSMarena.com, The Rise, Dominance, and Epic Fall – a Brief Look at Nokia's History, August 12, 2015, accessed July 5, 2016, http://www.gsmarena.com/the_rise_dominance_and_epic_fall__a_brief_look_at_nokias_history-blog-13460.php

⁵ Harvard Business Review, Adaptability: The New Competitive Advantage, July-August 2011, accessed July 6, 2016, <https://hbr.org/2011/07/adaptability-the-new-competitive-advantage>

THE METAMORPHOSIS OF MARKETS

Nokia's size did not protect it. Indeed, scale, long an axiomatic part of strategies designed to dominate markets, has become less important and sometimes burdensome. In part, this is due to the increasing power of emerging markets. By 2025, it is estimated that developing economies could account for nearly 70% of global demand for manufactured goods.⁶

Increasingly, this shift in demand is forcing companies to personalize their offerings for markets by focusing on regional production, as have been the strategies of IKEA, P&G, Emerson, and others. This new reality can be seen clearly in the pharmaceutical sector. Large regulatory agencies like the U.S. Food and Drug Administration and the European Medical Agency have been promulgating faster approvals of new, personalized medicines for unmet medical needs in small patient populations. To take advantage of these new pathways, drug developers must be able to respond rapidly to guidance from regulators.

Smaller, more agile companies, unburdened by outdated workflows and less top-heavy, can make faster decisions and take advantage of regulator input more quickly than larger companies.

These small companies, with one or two drugs in their pipelines, can achieve enormous market valuations in short times. They move faster because they are much lighter organizations than big pharma.

⁶ McKinsey, Manufacturing the Future, November 2012, accessed July 2, 2016, <http://www.nist.gov/mep/data/upload/Manufacturing-the-Future.pdf>

HOW TO GET SMARTER, FASTER, AND LIGHTER

How can companies change their theories of business to become smarter, faster, and lighter at the speed of these digitally driven transformations? We explain how to do it in the three sections of this edition of *Perspectives*.

Getting Smarter



One of the themes of this section is that companies must harness artificial intelligence (AI). TCS' Harrick Vin explains two key challenges that AI poses to companies. In our interview with Dartmouth Professor Vijay Govindarajan, he discusses how to accelerate culture changes of the type that digital technology is forcing companies to make.

TCS' Satya Ramaswamy's 2016 *Harvard Business Review* article, reprinted here in *Perspectives*, explains one big change that nearly every company will have to make over the rest of the decade to get smarter—listening and acting quickly upon the digital data that is streaming in from the wireless sensors they have installed in their products. Whether your company makes cars, coffee machines, or barbecues, it must give special treatment to such Internet of Things data that shows how your products are performing for customers.

We also profile The Associated Press, the 170-year-old news service that has been using AI to produce quarterly earnings stories without dedicating staff to write them. By the end of 2015, the software was generating 3,700 quarterly earnings stories covering all listed U.S. companies (and some in Canada). That has freed up AP's human workforce to do the deeper enterprise reporting its member newspapers need.

However, getting smarter through AI forces companies to get far better at analyzing the digital data that is coursing through their data centers. In her article, TCS' Lipika Dey explains the new tools for doing such crucial analytics. Our interview with University of Texas at Austin Professor Prabhudev Konana explores the metrics and skills necessary for analytics to have impact in an organization.

Finally, in this section the head of TCS' banking & financial services practice, K. Krithivasan, explains how banks and financial services firm are using analytics to make better decisions.

Getting Faster



As Tonya McKinney and Dave Anderson explain in their article on dynamic customer journeys, companies

must design their customer journeys to respond to changes faster. They must also change their journeys in an agile, iterative fashion by monitoring every consumer channel, and every touch point, continuously.

TCS' Sunder Singh and Akhilesh Tiwari discuss in their article how global companies are getting faster at implementing enterprise systems. Ajoy Mukerjee, TCS' global head and vice president of human resources, explores how big companies can identify the key talent they will need long before others do.

Companies need to turn uncertainty about who the new competitors may be into their advantage, as CEO consultant Ram Charan explains in our interview with him. Our case study on Microsoft's embrace of machine learning shows how companies can

gain share (for instance, the search engine market) by adopting new approaches to enhance digital products.

At the end of this section, the heads of TCS' retail (Pratik Pal) and life sciences practices (Debashis Ghosh) explain how companies are getting quicker at understanding their performance for customers and integrating acquisitions.

Getting Lighter



To get lighter, companies need to embrace technologies that reduce their IT burden and costs, such as cloud computing, automation, and Software-as-a-Service (SaaS). At the same time, they should seek expertise of third parties without having to inflate their workforces. This is what Nidhi Srivastava, global head of IT consulting at TCS, examines in her article.

Getting lighter places even greater demands on companies that make multiple acquisitions. They need to quickly integrate the operations of their newly purchased companies—for example, in six months rather than years, as TCS' vice president of business consulting Dave Jordan lays out in his

article. Merging IT-intensive operations is one of the best ways for two companies to shed excess weight—business processes, applications, hardware, and other infrastructure that are no longer necessary when one company is taken over by another.

Companies that can profit from changing environments, and are built to incorporate continuous transformations, will be the ones all of us will be doing business with tomorrow and for the foreseeable future.

In our interview with Professor Jeanne Ross of the MIT Sloan School, she explains how digital companies are able to move at the speed of light and the lessons for established companies that now must become digital.

Big data tool provider Cloudera is using its own technology to identify the changes its customers must make on the systems it runs for them, as its chief strategy officer, Mike Olson, explains in the case study on the company. And the head of TCS' manufacturing practice, Milind Lakkad, explains how manufacturers can lighten up their operations while remaining world-class.