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4 Ways To Harness Digital Disruption



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By Mohanbir Sawhney

As digital startups continue to take down established companies in numbers, the message is clear: No company is safe from the threat of digital disruption.

Digital disruptors don't discriminate between industries, nor are they deterred by the size or strength of competitors. Just look at how Airbnb has rattled the hotel industry while Uber has taken on taxis. Or consider how Netflix killed Blockbuster's movie-rental business. Or think about what Tesla — now capable of remotely upgrading the features and functionality of its electric cars — will do to automakers in the future.



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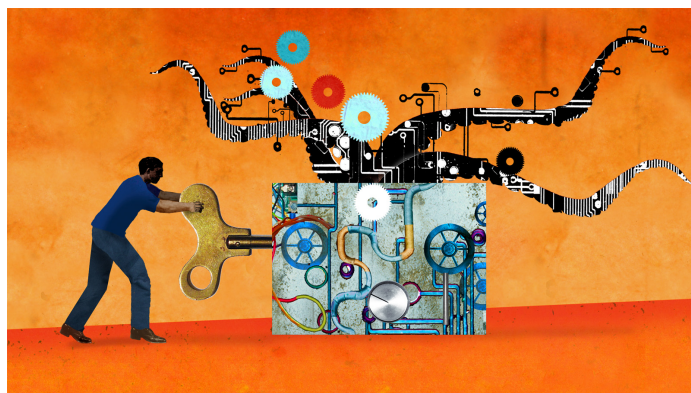


Illustration by Michael Morgenstern

The disruptors can be disrupted, too. Amazon, one of the greatest disruptors of our time, is now under threat by newcomer Jet.com. After disrupting Blockbuster, Netflix disrupted its own DVD-by-mail business when it introduced its online video streaming service.

If digital disruption is a fact of life, what should you do about it?

In a word, harness it. In my work as a consultant and scholar at the [Kellogg School of Management](#), I have advised a number of companies on how they can deal with digital disruption. I have discerned four strategies that are particularly effective. These

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strategies require different degrees of investment and intestinal fortitude. Here they are, ranging from the most aggressive to the least.

1. Attack

Feeling threatened by the enemy? Do unto them as they have done unto you: Disrupt the disruptor by using your privileged assets — whether that's capital, customers, distribution channels or your brand — to create a business model that the disruptor can't easily copy.

That's what HBO did after streaming services like Hulu and Netflix caused swarms of people to cut their cable cords. By creating streaming services for both cable subscribers (HBO GO) and non-subscribers (HBO Now), the network capitalized on its inventory of exclusive, premium content, which included what's arguably some of the best television in the world. Netflix, meanwhile, has tried to compete with HBO by creating its own original programming, but its inventory of premium content still pales in comparison.

A word of caution: When you disrupt the disruptor, you run the risk of ruffling some feathers in the process. That's been the case with HBO, whose cable partners — not surprisingly — aren't pleased with what its streaming service has meant for subscription numbers.

2. Acquire

If you can't beat them, buy them. Acquiring a digital disruptor has two benefits: One, it gives you a ringside view into how the disruptor operates. Two, it serves as a learning ground so you know how to transform your core business in the future. For instance, Allstate acquired Esurance in 2011 so it could study and understand how the online company was running its direct-to-consumer business.

To make the most of this strategy, you need to work methodically to integrate both organizations over time; otherwise, your core business will cannibalize the disruptor's offerings or you won't fully benefit from the disruptor's ideas. The four-step process I recommend is to isolate the disruptor by initially keeping its operations at a safe distance from your core business; incubate the disruptor's ideas and grow them on the side; infiltrate your core business with the disruptor's ideas and capabilities; and then integrate the disruptor into your company.

In keeping with this practice, Allstate has kept Esurance at an arm's length until only recently. To take the partnership a step further, they've started associating the brands through marketing and tapping into Esurance's customer databases.

3. Absorb

Bring the disruptor's digital capabilities into your physical world. This process of integrating the online and offline worlds can take a number of forms, from using social media trends to drive in-store sales promotions to creating an immersive digital experience for customers as they peruse your stores.

In Nordstrom, for instance, in-store displays showcase the “top pinned” items on Pinterest with a signature “P,” alluding to the “PINSPIRATION” page on the retailer’s website. Audi has created showrooms of the future called “Audi City” where customers can custom-design a virtual model of an Audi car using an interactive digital screen that displays life-size images. And at select Burberry flagships, customers are immersed in multimedia content that augments the shopping experience in revolutionary ways; footage from runway shows splash across massive displays covering the walls, mirrors morph into digital screens, and microchips embedded in clothing and purses trigger audio-visual content to play on smartphones and screens.

The converse is also true: Some disruptors are now bringing the digital world to the physical realm. For example, online jewelry retailer Blue Nile recently launched “web rooms,” stores where shoppers can try on sample rings, work with a stylist to choose a stone from among the website’s 200,000-plus options, and then place their order online. By not keeping inventory in the stores, Blue Nile can dramatically lower working capital and real estate costs.

4. Adapt

Learn from your disruptors and try to emulate the way they think and act. That means infusing an agile mindset into your organization. Instead of taking forever to create the perfect product or service, throw several ideas out there and see what sticks. Create a culture of experimentation where you’re constantly testing assumptions and iterating concepts. And don’t be afraid of failure; it can be profitable to fail early, fail cheaply and fail forward. Instead of Return on Investment (ROI), think about Learning on Investment (LOI) — how much you can learn with minimal time and investment.

Adobe, for instance, recently launched a toolkit designed to ignite entrepreneurial thinking across its organization. Called a “Kickbox,” this all-in-one package includes everything you’d conceivably need to prototype, test and iterate an idea — including step-by-step instructions, Post-it notes, chocolate (brain fuel, of course), a Starbucks gift card and a \$1,000 prepaid card with no strings attached. By handing out Kickboxes to hundreds of employees, Adobe has empowered a force of smart and talented people to come up with the next big idea for innovation.

To harness digital disruption, focus on learning the disruptor’s tricks, just as they’ve learned yours, and be the first to take action. Disruption works like a merry-go-round, with the balance of power swinging back and forth between the hunter and the hunted. With the relentless advance of digital technology, this ride is only going to spin faster.

Learn more about Corporate Innovation at the [Kellogg School of Management](#).

Professor Mohan Sawhney is a globally recognized scholar, teacher, consultant and speaker in innovation, strategic marketing and new media. He has written six management books and dozens of influential managerial and academic

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