GEORGIE FROST: What does it take to make your business a winner for the next 50 years? Advancing technology is making the landscape trickier to navigate. It’s easy to lose your head over GenAI and the metaverse. With greater innovation comes more opportunities to gain competitive advantage over your rivals, but also greater risks. But what if there actually is an answer to thriving in a fast-changing world? It’s simpler than you’d expect, but as always, there’s a catch. I’m Georgie Frost, and this is The So What from BCG.

ROMAIN DE LAUBIER: The reality is, you need to work, work, and work. We’ve seen again and again companies that had made it, because they weren’t continuously pushing the boundaries and making sure they were staying in the lead, because of that, just falling behind.

GEORGIE: Before we dig into the six and how you can get them—is gaining competitive advantage in the digital age so very different from the non-digital age? And if so, how is it different? What does it look like?

ROMAIN: You would expect actually, and it’s almost a disappointing result as well of the research, which you would expect a lot of things to be different from what it was before. I would argue that before, we were talking competitive advantage, there was always a scale effect and the nature of how you think about scale in the digital age has completely changed.

Before, you were talking about volumes of production, number of cars produced, etc. When you’re in a digital age, scale is maybe the number of users you have or the quantity of data you’re able to process, etc. So, the nature of scale has changed, but what makes your competitive advantage unique hasn’t changed so much. It’s always about, you have clarity of purpose and vision.

You know where it is you want to go and that helps you prioritize the right actions in the right way. You have the right people and the right capabilities to actually empower that vision and you’re leveraging the right tools and the right technologies at the right moment to also make it happen. So, combining these human capabilities with the tech capabilities at the service of the vision has always been what competitive advantage has been about and that’s remained fundamentally the same.

GEORGIE: When you go into a company and you speak to them, what’s their reaction to your “secret six sauce?”
ROMAIN: So I think nobody’s shocked by the six attributes. Having a vision, having capable people, having a tech platform, etc., etc., makes sense to them. I think what they’re always interested in is only 5% of companies in the S&P 1200 actually get it right, all of them together. So for 95% of our clients, there are some gaps into where they should go and that’s what they’re mostly interested in, as to, OK, so we have some things, right. What are those? Because we need to keep them as an advantage. If we have a great strategic vision, these are things that can go stale. If you don’t work on them, your deployed AI, so far, it’s great. If you don’t continue to work on that, if you don’t deploy GenAI, the next generation, etc., you lose that advantage. So you need to keep that. But a lot of the boards or the executive committees I get involved with, are very interested obviously in what they don’t have and where they should be working things out to build for the future typically. And so this involves a lot of... I would say the attributes on which most companies fail are really around the operating model. How do you get agile?

It’s very difficult to put in motion, especially in traditional companies where you have a bit of a [inaudible 00:06:18] way of doing things. And so for the boss to change fundamentally the way they’re acting, instead of telling people what to do very in a detailed way, just telling them where they’re supposed to go and then let them figure it out is a fundamental change as to how as a leader you see your value and you see how you contribute. And so we focus on these areas on which they’re not grading themselves so well and how then we can help them get to the next level and unlock the next value creation horizon, I would say for them.

GEORGIE: Where are some of the other areas where companies are most likely to fall down? You mentioned the operating model earlier. What else is likely to bring companies down, particularly with regards... this is a digital age. Is it the tech aspects of gaining competitive advantage that companies are falling down on?

ROMAIN: Absolutely. You need to have a solid and flexible digital and data platform for a lack of a better word. And this is very difficult because many of the big companies obviously have IT systems, digital systems that they’ve built over decades. Being able to change that can cost a lot of money and requires a fundamental reset of your entire IT landscape. Many of the leaders today are not fully equipped also to understand IT because it was seen for the longest time as a bit of back office intendance function as to this will follow, it’s not so interesting, it’s for geeks, etc..

What many, many companies are finding today is that every time you want to change something, you hit the digital wall. You can’t do what you want because the tech is not in place. And so having that platform in place that allows you to take the initiatives that you want to take that make sense from a business perspective is very difficult, and many companies actually fail on that dimension as well. Because they fail on that, it also generates failure, I would say, on AI deployment at scale in a company.

All companies I’ve worked with have AI. They all have done POCs, experiments. Some places in the organization you have some AI-enabled things, but at scale is a completely different game and that is difficult to do. And that also enables innovation, which as we know, is kind of the key for long-term growth and long-term value creation and is difficult also to make happen. So depending on the industries and the geographies, you have a bit of a different mix of failing factors, but I would say the agile operating model, the tech platform, and AI at scale are probably the three attributes on which many companies actually are lacking.

GEORGIE: And need to improve. But given the fact that 95% of companies you say are failing on this, where’s the imperative to move fast and put a lot of resources in this and be sort of first mover almost or second mover?
ROMAIN: Because you have the 5% that are killing it. And across all industries and across all sectors and across all geographies, you have some companies that are actually doing it right. Where companies should be worried is that these 5% are generating more returns for everyone, for their shareholders, for their customers, for their employees, for their stakeholders at large. Even in terms of sustainability, etc., they’re in the lead.

But also, because they’re in the lead, their lead, if that makes sense, only keeps on increasing. And so if you don’t pay attention to that and staying competitive in the race, at some point you’re just going to go extinct. Things are moving very fast and I think all executives I work with are very aware of that reality, and if you’re not in the top 5% or striving to be there, you’re going to get into the bottom five and that’s a very unpleasant place to be.

GEORGIE: Will the 5% still be ... I mean maybe not 5%, they may be higher than that ... but still be in the top companies in ... I said 50 years at the start, but it could be longer, it could be shorter. Will they still continue to lead the way?

ROMAIN: I wish I could tell you for sure, “Once you’re there, you stay there.” The reality is that absolutely not and that’s not very comforting thoughts. The reality is you need to work, work, and work. We’ve seen again and again on all these attributes, companies that had made it, that had deployed the right tech stack, that had deployed AI, who had the right vision, etc., because they weren’t continuously pushing the boundaries and making sure they were staying in the lead, because of that, just falling behind.

I’ll give you an example I really like, which is the digital natives. The digital natives company were natively advantaged. They started digital, so they were natively agile, they had the right tech stack. Obviously, AI came naturally to them. Founders were the guys in charge, so they had the vision. They aligned a lot of these attributes.

Twenty, twenty-five years after, what you see is that these digital natives are falling into all of the legacy traps that more traditional companies have fallen into in the past. They now have very complex IT landscapes because they’ve been built over 25 years, usually for speed rather than for business. And so how you do change something that you’ve built as fast as you could without necessarily documenting everything? The founders might have gone, and so what’s the new vision now that the world has changed? How do you reinvent things, etc., etc.

And so these digital natives are now being really challenged by traditional companies and falling behind. So there is no such thing in this economic world we live in, as, I would say, perpetual advantage on what you have. So yeah, no, you need to keep working on the six attributes again and again and again.

GEORGIE: Without getting too technical, how can you make sure that your IT systems don’t fall behind and become legacy?

ROMAIN: Yes, that’s a big question. I think the key attribute of a successful IT is the flexibility and I think that’s always a good litmus test somehow on any IT landscape and system, which is what does it take to change it? Is it easy or is it going to require five years? And what does it take to deploy new initiatives on top of this IT stack? Same thing. If it’s costing you millions and taking months to do anything, then there’s a problem. The issue is that once you start to fall behind on the IT side of things, then the cost to recuperate is going to be very high, but you’re not going to pay that cost right away.

So it usually takes three to five years for your IT to fall behind enough that you’re starting to pay the price from a business perspective in terms of time to market of your innovations, of your new initiatives, etc. By then, the debt you’ve accrued is very high. And so there is something there about how you manage for the short term and the medium term, which is not completely obvious in terms of IT changes and IT transformation.

GEORGIE: Let’s go back to what you said about getting all those six elements in place at the same time. That surely makes focusing and prioritizing your resources a lot more tricky, I would imagine, if you’ve identified more than one area that you need
to get up to scratch, and also you’re saying that you need to keep innovating and keeping the others up to date as well.

ROMAIN: That’s a very fair point, and that’s one of the things we discuss a lot in the executive committees typically, because as I said, most companies have two, three things right that they’re doing well today, and so the level of intentions on these two, three things that you’re doing right should be less. Obviously you need to make sure you stay up to date, but it’s mostly maintenance rather than big efforts.

Then across the three, they’re very sizable. So if you’re not operating in an agile way, or you’re not deploying AI at scale ... AI is tremendously disruptive for organizations. You have to change everything in the way you are operating. If you’re deploying AI for marketing ... the way your marketers operate is going to be fundamentally different from what it was before.

And so there is some prioritization to be done across what it is that’s generating the most value. The way we typically do it, or we recommend our clients do it, is across what it is you need to do, what is going to generate the most bang for your buck in the short term? Because once you get that ball rolling, then people get convinced that there’s a value to whatever it is you’re pushing and then are more enthusiastic in pushing the rest. It also allows you to fund the journey on the rest of the transformation.

But it is a very hard decision to make as to how you prioritize. And then what’s also difficult is how do you sustain the effort into that transformation for years because there’s always a bit of organizational fatigue when you’re pushing for transformation again and again. And how you keep that always on is a big question as well.

GEORGIE: Do you have an answer?

ROMAIN: Not really, to be honest. I do think sometimes it takes a bit of rebranding or it takes a bit of new blood to re-instil a sense of urgency and change. I mean, the best companies have managed to keep on their toes for the longest time. So it is feasible, but it requires a lot of commitment and effort and sustained, which is probably the most difficult bit. No secret there either.

GEORGIE: No. It sounds like ... I mean when I said that there was a catch at the start, yes, get the six elements in place, but that just sounds like a fraction. The rest is just a lot of hard work.

ROMAIN: Absolutely. A lot of hard work, a lot of organized work and a lot of work around making sure that what you’re doing is pushing in the right direction and bringing tangible, tangible value in a horizon, which is not too long.

I think what I’ve seen fail even across the six attributes is when you launch initiatives where you’ll see the value--but in five years or in three years or even in two years. Then people get completely disengaged because in two years... you stay in your job on average when you are an executive two, three years. So it’s highly likely actually that you’re going to be rotated out of your current role.

So are you really invested in that benefit coming over in two to three years? You could discuss. The shadow of the future, as we say, is not completely there or might not be there, and so it’s difficult to keep the intensity of the transformation going when you get that type of long-term benefits, even though in absolute terms it would benefit everyone to do so. But that’s just not, I think, how the human psyche works.

GEORGIE: No. I also imagine it’s quite difficult in the short term when especially we have so many new and exciting things that come up and take our attention away. If it’s not the metaverse, it’s Web 3.0, it’s NFTs, it’s all sorts of things. And of course now it’s generative AI. How do you keep your head when others around you are losing theirs?

ROMAIN: I think that’s where having that first attribute—which is: What’s your vision? Where do you want to go?—as clear as possible, helps. And then, considering that everything you mentioned, NFTs, blockchain, the metaverse, GenAI, are tools that are going to serve your vision.
And so how do you leverage these tools to make sure that they contribute to your value-creation story and what your shareholders, your customers, your employees, etc., believe in? And then once you have that in place, I think it becomes much easier to understand how you can leverage these tools and to, I would say separate a bit from the hype.

GEORGIE: Is it a danger, I guess, for companies in the digital age now to look at things like GenAI, think that that’s the only answer to gaining competitive advantage in the digital age? Because what you’ve said is actually there’s a lot of traditional elements to this as well.

ROMAIN: Yeah. I think that would be a fundamental mistake to think that GenAI is the magic wand that just makes sure … or any other technology. As we said, there’ll be other waves. GenAI will evolve as time goes by, etc… I think in some way having the naivety of thinking that that will solve everything would be a dire mistake. And I think to be honest, 99% of companies of executives don’t think this way. I think there is always the hope that things will happen this way, but I don’t believe that to be the case.

We have this philosophy in BCG, which is around when you have tech or you have AI, you have the 10, 20, 70 rule, which is 10% of the value comes from the tool itself, 20% comes from the IT stack and the infrastructure that it’s deployed on, but 70% of the value is actually coming from changes in organization and processes. And GenAI will be exactly the same from that regards, which the tool itself, the technology itself will bring some value for sure, but having the full extent of the value means you have to reorganize completely the way you are operating.

You have to change the job descriptions, you probably have to reskill, upskill the people, etc. It’s going to take enormous efforts to get that value out. So before you engage on that process, if you’re serious about it, you better have thought out as to, is this really going to make a difference for me? Is it the right time for me to be investing? The technology is not mature, should I wait it out a bit or do I have a real advantage in being amongst the first in my sector to actually leverage the tool? That’s the way I would be thinking about it.

GEORGIE: Are you noticing any sectors or industries that are lagging behind with the six elements?

ROMAIN: Yeah. I’d say as a whole, everything consumer-facing is more rapidly evolving. I think the direct pressure coming from your customers and from the end customers makes it so that companies need to react more. So all the big companies you have in mind when it comes to consumer products, to beauty, to fashion, etc., are usually ahead from that perspective.

The further away you get from the end customer, somehow the more difficult or the more a bit lagging behind, you have a bit more time to adapt. I would say from that perspective, that … some of the big industrial conglomerates have been a bit slower to adapt because the necessity or the imperative to adapt has been a bit weaker.

And when you think about industrial companies, the nature of their competitive advantage is also more grounded into the physical. When you’re a mining company and you have a big mine, which is very competitive in terms of iron ore, your imperative to change is a bit less than what it would be in other more competitive markets.

The sector that is the most lagging behind is probably the public sector if I’m being very honest.

GEORGIE: If you don’t have that consumer pressure, how do you then persuade stakeholders, workers, whoever, that we need to go on this digital transformation journey?

ROMAIN: It’s more difficult. Absolutely. And as we’ve been hammering, as you said, this is all about a lot of hard work and a lot of uncomfortable changes. When you change organization, if I were to change your work suddenly, and the very nature of your work … When you think about GenAI as a journalist, GenAI could replace a lot of what it is you do. Do you want that? I mean, you’ve been trained to do exactly that. So it’s going to be an uncomfortable period of change and you are not
going to go most likely in it very willingly. So you need to be willing to ... we have a French expression, which is to do violence upon yourself somehow to grow and change.

So the more intensively competitive your field is, the more you’re going to have to change and the more the pressure is going to be obvious to everyone around you, so you don’t need to argue so much about, hey, we need to change, otherwise we’re dead.

GEORGIE: Romain, thank you so much, and thank you for listening. We’d love to know your thoughts. To get in contact, leave us a message at thesowhat@bcg.com. If you like this podcast, why not hit subscribe and leave a rating wherever you found us? It helps other people find us too.