Navigating Digital Disruption Risks 2019 Management Journal

Dialogue between

Nandan M. Nilekani
Chairman
Infosys

Deepak Padaki
Chief Risk and Strategy Officer
Infosys

Infosys®
Navigate your next

Infosys® Knowledge Institute
Contents

Foreword .................................................................................................................................................... 4
Rising to the digital challenge ............................................................................................................ 5
View from the top: how digitization is reshaping companies large and small ....................... 8
Reap the rewards, beware the risks ................................................................................................. 10
Contributors ............................................................................................................................................ 13
In these times of massive disruption and rapid transformation, enterprises are compelled to take calculated risks to survive and create value for stakeholders. The strategic choices that enterprises make are important to mitigate risks from macro trends, market dynamics, business model threats or competitive differentiation.

Infosys hosted a risk management event on “Navigating Digital Disruption Risks” in Bangalore in July 2019. The event brought together strategic perspectives from organizations disrupted by digital-savvy businesses and from organizations that exploited these opportunities to emerge as disruptors. The event was hosted in collaboration with RMNext and RIMS® and was attended by chief risk officers, heads of risk and audit functions, chief strategy officers and chief digital officers across industries. RMNext is India’s largest informal knowledge-sharing network on enterprise risk management with representation from 70+ companies across industries. RIMS, the risk management society®, is a preeminent not-for-profit organization representing over 3,500 corporates, industrial, service, non-profit, charitable and government entities throughout the world dedicated to educating, engaging and advocating for the global risk community.

The event began with an engrossing conversation with Nandan Nilekani, co-founder and non-executive chairman, Infosys Limited, on digital strategy risks and the trends that are challenging the status quo today. Next was an engaging panel discussion on the perspectives of incumbent enterprises trying to achieve digital transformation and the challenges they face as they navigate through this change. This was followed by an intriguing panel discussion where the disruptors discussed how they recognized the digital disruption risks and successfully converted them into opportunities.

The conference was a great success thanks to fascinating insights from Nandan Nilekani and the amazing panelists. We share with you, the highlights of the conference and hope you will find value in them as you successfully navigate digital disruption risks.
Rising to the digital challenge

Digital disruption presents companies with existential challenges — and great opportunities. But what exactly does digital disruption mean? What are its specific impacts? And how can companies thrive in this altered landscape?

These and other questions were considered during a dialogue between Infosys Chairman Nandan Nilekani and Infosys Chief Risk and Strategy Officer Deepak Padaki at a risk management event at the Infosys campus in Bangalore.

Disruptive trends

Padaki launched the session by asking Nilekani for examples of key disruptive trends. Nilekani first noted that disruptions can be induced by new technology, business models, or regulations.

He then described the rise of “winner-take-all thinking” as one critical trend, a phrase referring to businesses that operate like monopolies did 120 years ago. Back then supply side monopolies, like those on steel and railroads, had dominant market share and used it to increase prices.

Today we have demand-side monopolies. The business that controls access to the consumer creates the monopoly. Google and Facebook exemplify this winner-take-all trend. More than half of worldwide advertising spend is on digital, and 90 percent of it goes to these two companies. Amazon occupies a similar position in the e-commerce space.

Nilekani explained that winner-take-all thinking is fueled by massive amounts of capital. “They’re not grown the old fashioned way where we made profits and ploughed them back into the business,” he said.

Nilekani described the Silicon Valley mentality as, “How do we create monopolies and then make money?”

Noting that 3.5 billion people now have smartphones, Nilekani said this development represents another key disruptive trend. “When the computer revolution moved from PCs to smartphones, so did the leadership,” he said.

Facebook, Google, Apple, and
Amazon have displaced the old guard of Microsoft, Intel, Oracle, Dell and HP with 10 times the market size in terms of units sold.

Nilekani also talked about the rise of Netflix, which brought content directly to consumers using internet access. This disrupted the old model in which companies like MGM and HBO sold content to pay TV and DTA channels. To address this trend, AT&T is buying Time Warner, gaining access to content, and Disney is going direct.

Direct to consumer is also an important trend because it allows companies to monitor and understand consumer behavior, such as who is watching, for how long, and how often. “The telemetry that Netflix has is amazing,” Nilekani said.

This trend is also transforming the consumer packaged goods industry. “In the old days, you made the soap, sold it to Walmart, Walmart put it on the shelf and sold it;” he said. “But today the soap is being sold online.”

Looking ahead, Nilekani said the shift to battery technology will have a massive impact on the auto, utilities, and oil and gas industries. The auto industry will face the triple challenge of automated autonomous vehicles, electric cars and ride hailing.

Shifting gears, Padaki asked whether digital natives have an advantage over incumbents when it comes to data and analytics. They definitely do, replied Nilekani. He explained that advertising drove Big Tech’s rise. The move from advertising on linear TV and in print publications to digital platforms enabled far more targeted ads, first on the internet and then on consumers’ devices.

To make this model work, companies had to capture and use consumer data. They also had to find ways to keep the data. New ways of sorting data arose, all of it open source in the cloud.

Beginning five years ago, the rise of deep learning accelerated the application of AI to data. As a result, we’ve seen rapid improvements in image and speech recognition, natural language programming, and newer machine language translation. Because Big Tech already had massive amounts of data, it was perfectly positioned to apply deep learning to that data and reap the benefits. Without access to that type of consumer interaction data, incumbents can’t generate new insights, products and services on the same scale as Big Tech.

The Indian market

Padaki pointed out that the Indian market is much more diverse than Western economies. Given this fragmentation, he wondered how incumbents are affected by digital disruptors. Nilekani said it depends on the industry. Some will be more susceptible to rapid disruption than others. For example, if you’re in advertising, publishing or entertainment, your business has already been affected.

Drawing references from the writings by Sajith Pai, a long-time media executive turned VC, Nilekani explained that India is not just one market, but four. The top market, India 1A plus, covers “the guys who eat avocado toast,” he said. About 10 million Indians fall into this category. Next comes India 1, a group of about 50 million people who buy from Flipkart and Amazon. Many startups focus on this group. India 2 includes the 300 million people who use smartphones. And India 3 covers the people who don’t even have phones.

In addition, Nilekani noted that India is diverse in terms of regions, languages, and cultures. But savvy companies have figured out how to finetune a common platform for each sub-market.

Government and regulation

Padaki next asked about government’s role in helping industries transform. “It’s not government’s job to make industry transform,” Nilekani answered. “That job is for the leadership of companies. But government should build digital public platforms accessible to all and then it’s up to individual companies to innovate on top of that.”

Turning to the topic of regulation, Nilekani said it plays a huge role in market creation. For example, if the Indian government says all cars must be electric by 2030, the impact on the auto industry will be massive.
Big Tech was a beneficiary of regulation. Net neutrality and the Communications Decency Act, the US law passed in 1996, enabled the internet revolution. Section 230 of the CDA says that providers of interactive computer services will not be liable for the content that appears on their platforms. So, while the publisher of a newspaper that runs a slanderous article can be sued, an internet platform can run "any kind of fake news" without repercussions, Nilekani said. "We have built this content disaster. Big Tech got a free pass under section 230."

But Nilekani believes new regulations are on the horizon. "I think there's a backlash, or 'techlash' as it's called," he said. "Liability for content is going to come."

**Incumbents look forward**

Wrapping up the session, Padaki asked how incumbents can deal with these changes. "The big guys have realized the existential threat of these new technologies and are much more aware of the risks and willing to act faster," Nilekani said. "And technology is now seeping into the incumbents, so it has become commoditized."

While it is still a big journey to move from legacy to digital-first thinking, it can be done. For example, Disney, which has built a massive content powerhouse, once sold its products to Netflix. Now it plans to launch its own channel, Disney Plus, in November. The channel will be priced cheaply with no expectation of profitability at first. And still, Disney’s stock price rose following the announcement.

Shareholders are saying, "If an incumbent has to take on these challenges, we'll give them the space to do it," Nilekani noted.

Many companies with physical assets are figuring out how to best combine them with digital offerings. Walmart bought Jet.com and is leveraging its physical stores and warehouses. Consumers can shop online and pick up their purchases at a store. Given such developments, Nilekani is confident that global incumbents can rise to the digital challenge.

Nilekani also stressed on the role Risk Officers have to play in navigating from static to strategic risk management by equipping themselves with emerging risks, technological trends, geopolitical factors, regulatory developments, changes in business models, competitive dynamics and capital.
These are trying times for senior executives. At big, traditional companies, the challenge is executing digital transformations that can take many years. At smaller, nimble companies, it’s a race to build market share before the big companies have transformed themselves. So, how are the leaders on both sides of the equation responding?

To find out, Infosys organized a panel of senior executives from big companies and small disruptors in a variety of industries. The moderator, Ambarish Das Gupta, Founder and Senior partner at Intueri Consulting, was joined by Goutam Datta, Chief information and digital officer at Bajaj Allianz Life Insurance Company, Raj Pai, Founding partner and Co-head of the South Asia investment practice at GEFCP, Atanu Roy, Chief information officer at Sun Pharma, and Nivedita Basu, Founder and creative director at The House of Originals.

Kicking off the discussion, Das Gupta asserted that although many commentators have compared the digital revolution to the first, second and third industrial revolutions, he considered the digital revolution to be far more transformative than previous ones. To give a sense of the scale of the change, he reeled off some striking numbers.

In 2000, the median age of a top 10 S&P company was 83 years. By 2018, the age had fallen to 35 years. By 2027, it is predicted to be just 12 years.

This dramatic turnaround in the fortunes of the world’s biggest companies has been caused by the rise of digital technology. So, what impact is this revolution having on various industries? And how is it changing their business models? For answers, Das Gupta turned to the panel members.
Turning ordinary into extraordinary

Raj Pai, taking an investor perspective, said digital technology was having an energizing effect, “converting ordinary industries into something above ordinary.” His company focuses on the energy sector, and he is especially interested in the ways technology can help companies become more resource efficient — “doing more with less to achieve more.”

Technology’s biggest impact has been bringing down costs, making products and services less expensive. “It’s a great paradox: but it’s now cheaper to go with renewable power than conventional power, purely on a non-subsidized cost basis,” Pai said.

Digital transformation is also creating new opportunities for media executives like panel member Nivedita Basu. Independent TV producers can now create programs for a wide range of channels that have a seemingly insatiable appetite for new content. For example, ALTBalaji, an Indian subscription-based video on-demand platform, now offers more content hours than the three big TV channels — StarPlus, Colors and Zee — put together.

“Netflix doesn’t say, ‘We only want six programs from 8 o’clock to 11 o’clock,’ so you can make as much content as you want,” Basu said. “As a result, somebody like me actually stands a chance.”

Digitizing pharma

The need for India’s major pharmaceutical companies to comply with strict US regulations led to a wave of digitization – an effort that produced some unexpected side benefits. “People found they could significantly improve productivity in their operations and manufacturing processes,” Atanu Roy said.

Drug companies also found ways to improve the quality of their products because digitization enabled them to collect a wealth of data they could then analyze. It’s also changing the way drugs are distributed. “The traditional distribution model is where the doctor gives a prescription, people go to the chemist store and buy the drug,” Roy said. But a growing number of online pharmacies like Netmeds.com are changing that model.

One sign that traditional companies may have to do far more than simply digitize their processes is the fact that some disruptors are busily trying to introduce 3D printing of medicines.

“When that happens, it would only require small plants where the demand is, rather than the large plants where pharmaceutical companies currently manufacture their products,” Roy said, creating implications not only for their manufacturing and distribution processes, but also staffing levels.

Why the revolution isn’t over

Although the digital revolution is transforming many industries, life insurance companies are yet to feel its impact. Yes, technological advances have helped more customers access life insurance, but digitization has not yet transformed actuarial science.

“When I’m trying to underwrite a life, am I trying to underwrite a life based on behavioral factors, life expectancy, or other social factors?” Goutam Datta explained. There could be an AI-driven answer to this question, but it hasn’t been developed yet. The response to the developments that arise from the digital revolution may not always be positive. But as the experiences of the panel members demonstrate, the power of its ability to transform industries will no doubt continue.
Reap the rewards, beware the risks

Be careful what you wish for. That was one of many takeaways from a panel discussion at the risk-management event hosted on July 16 by Infosys on its Bangalore campus.

Participants in the discussion, entitled “Recognizing and exploiting digital disruption risks by being a disruptor,” described how digital disruption can be a double-edged sword. On the one hand, digital leaders can reap the benefits of the opportunities to transform their business models and disrupt their industries. But on the other, digital transformation projects can be costly and challenging, leaving digital laggards to face tremendous risks.

Reflecting this double-faceted situation, the day-long Infosys risk-management event brought together perspectives from both organizations that have been disrupted by more digital-savvy businesses and those that have exploited the opportunities themselves and emerged as industry disruptors.

The digital-disruption panel was moderated by Alok Goyal, a managing partner at Stellaris Venture Partners. His company, an early-stage venture capital firm, invests in technology startups that aim to disrupt their industries. Stellaris’s recent investments include WhatFix, a digital-adoption platform provider; LoadShare Networks, a logistics-network supplier; and Signzy, a specialist in AI systems for banking. Founder/CEO’s of these three companies have joined the panel discussion.

Adoption rate issues

The challenges of going digital were high on the mind of the first speaker, Khadim Batti, CEO and co-founder of WhatFix.

Digitizing processes can involve hundreds of applications and cost hundreds of millions of dollars, yet the average adoption rate of the new systems by employees in the first year is ~35%.

“Why is that?” Batti asked, answering, “Because the training methodologies are very legacy. They’re offering instructor-led
classroom training and manuals, but we’re in an on-demand economy. Everybody wants training at the point-of-problem.” (Not incidentally, it’s this precise problem that WhatFix’s main product aims to solve.)

Another reason adoption rates can be low is because the user experience involves “a lot of hassle, a lot of pain,” said Ankit Ratan, co-founder and product head of Signzy. His company helps banks persuade consumers to adopt and use financial services on their mobile devices. As Ratan explained, it’s not that banks don’t understand the need to go digital — in fact, one Indian bank offers 60 versions of its mobile apps. The challenge is that some important processes, such as authentication, are still performed manually and that’s too slow for today’s consumers.

The next speaker, Raghuram “Raghu” Talluri, CEO and co-founder of LoadShare, described digital disruption as both alpha and omega. “We provide the same services that any large logistics company in India can provide but we provide it in a very different manner,” he said. That different manner involves creating a national distribution network by partnering with more than 100 small, entrepreneurial suppliers with over 650 hubs throughout India accessed through one technology platform. That allows LoadShare to provide greater reach, high-level service and discounts of up to 30%.

A contrasting perspective was offered by the fourth panelist, Yadunath “Yadu” Bhargav Karambil, an attorney who's worked in both India and the United States. Most recently, he's the founder of A2JTech (short for “access to justice”), which aims to use technology to help Indian citizens exercise and protect their legal rights without litigating through the courts. The startup’s first offering, called Sarvadhikar, is a free service that time-stamps artistic works on a public blockchain to establish a record of who created the work and when, so the creator can prove ownership. “This is an attempt at re-imagining your conversation with the law,” Karambil said.

**When the fish don’t bite**

One challenge facing nearly any digital transformer is adoption. An organization can create a great digital solution, but what happens if users — whether internal employees or external customers — won’t use it? The way to avoid this issue is to make sure the solution solves real, day-to-day problems. “Of course people will buy you then,” Ratan of Signzy said.

By way of example, Ratan discussed Aadhaar, 12-digit identity numbers offered by the Indian government to the country’s residents. The advent of this ID number, Ratan explained, caused the financial-services industry to have a change of heart. “The industry assumed that things would always remain physical,” he explained, “but suddenly the regulators said, ‘No, you can now just take an OTP [one-time password] and open an account.’ That allowed everyone to feel there is a different way.”

Digital services may also be used to improve operations in the physical world, Talluri of LoadShare stated. “There’s a supply-chain revolution happening even at the conventional companies,” he said. “They’re wondering why they’re not yet reaping the cool things that are happening in e-commerce. When you order from Amazon, you know exactly when it is coming. Everything is digitized.”

In fact, some are reaping the benefits. As Talluri explained, one of LoadShare’s customers has used his company’s logistics platform to improve its service at no additional cost. Previously, the customer needed four or five days to fill a five-ton shipping container with its products. During that time, the packed products would sit, leaving the next link in the supply chain waiting. With LoadShare’s help, the company can combine its first ton in a smaller truck, along with loads from other LoadShare customers. The goods ship faster, and the supply chain is replenished sooner. “That’s a win-win for everybody,” Talluri said. “The client gets better service at the same or better cost, and I make more money.”

**Training gains**

Although technology should make life easier and simpler, some technologies can be complicated to use. Many digital services
require both changes in the organizational culture — the way people work together — and additional information. Both, in turn, require training, raising a question: Since so much data and so many applications are already in the cloud, why not use that technology to disrupt the way training is done? “If I’m an end user, I need training to be quick, and I need it to be able to understand what I need,” Batti of WhatFix explained. It’s an idea that seems to have struck a chord. WhatFix has been attracting new, big-name customers at the rate of at least five every quarter.

One area where technology promises to make the “real world” easier to navigate is the law. Digital systems can be used to eliminate the need for intervention by the legal system. “If an Uber driver tries to charge you but doesn’t show up, you just hit a button,” Karambil explained. “You don’t need a judge to adjudicate whether the driver showed up. It’s an algorithm.”

Lawyers may seem like a stodgy barrier to digital transformation, but Karambil says at least some firms are on board. He described one law firm that goes so far as to hold hackathons with its lawyers and technologists. “They say, ‘Identify a problem, and then let’s make a POC [proof-of-concept] and see if we can elevate this,”’ he said.

But aren’t small startups also at risk, moderator Goyal asked the panel, especially if a big competitor decides to strike back? “That’s real risk,” admitted Talluri of LoadShare. “As we work with the larger guys, at some threshold they may ask, ‘Hey, why do I need to pay this guy? Why don’t I in-source it?’ So, we’ve diversified and looked at other segments to play in.”

Ratan of Signzy agreed. “I do not believe we are doing anything that cannot be disrupted,” he said. “The only thing you can do is be ahead. If I can close customers before a big incumbent figures out our product, then there’s no disruption threat.”

But how can disruptors stay ahead of the competition? “Your main job,” replied Talluri of LoadShare, “is to navigate all of these risks one by one.”
Contributors

Infosys would like to acknowledge the contributions made by each of our esteemed panelists. Their insights and thought leadership are greatly appreciated and helped make “Navigating Digital Disruption Risks 2019” a richer experience for all participants.

Alok Goyal
Managing Partner, Stellaris Venture Partners

Ambarish Das Gupta
Senior Partner and Founder Intueri Consulting LLP, Ex-Partner KPMG and PwC

Ankit Ratan
Co-Founder & Head Product, Signzy

Atanu Roy
CIO, Sun Pharma Limited

Deepak Padaki
Chief Risk and Strategy Officer, Infosys

Goutam Datta
Chief Information & Digital Officer, Bajaj Allianz Life Insurance Co. Limited

Khadim Batti
CEO & Co-Founder Whatfix

Nandan M. Nilekani
Chairman, Infosys

Nivedita Basu
Creative Director and Producer, Founder of “The House of Originals”

Raghuram Talluri
Co-Founder & CEO of LoadShare Networks

Raj Pai
Founding Partner, GEFCP & Co Head of South Asia Investment Practice

Yadunath Bhargavan Karimbil
Senior Lawyer, TEDx Speaker and Founder of a2jtech.com & sarvadhikar.com
About Infosys Knowledge Institute

The Infosys Knowledge Institute helps industry leaders develop a deeper understanding of business and technology trends through compelling thought leadership. Our researchers and subject matter experts provide a fact base that aids decision making on critical business and technology issues.

To view our research, visit Infosys Knowledge Institute at infosys.com/IKI