

# Innovating in the Digital Era: What Goliaths Can Learn from Davids

To succeed in the digital era, organizations must practise 'innovation ambidexterity' to foster a culture of continued, sustained innovation.

*by Vijaya Sunder Mand Namrata Manchiraju*

**WHEN GOLIATH WAS ATTACKING** the Israelites unopposed, with bravery, courage and faith entered the shepherd boy David. His stones and sling threw the giant to the ground at once. In today's digital era, where digital native firms compete with established organizations through innovative business models, this classic story can be viewed as an analogy to the business world. Imagine placing the legacy and digital incumbents as Goliaths and digital native companies as Davids. Digital transformations driven by innovation and execution mindsets replace David's bravery, courage and faith. Consider the fact that the fastest-growing digital natives have scaled from US\$50 million in revenues to \$1 billion in just four to eight years.

Today, digital technologies are employed to establish novel enterprises or to improve existing business processes, organizational cultures and customer experiences. Both approaches are driven by innovative thinking and effective execution. On the one hand, firms that take the former route are 'digital natives,'

founded in the digital era, armed with capabilities that enable them to disrupt traditional business models. Examples include **Zoom, Pinterest, Asos, Airbnb, Revolut, Schmooze** and **Uber**. A few digital natives have gone a step further by introducing innovative platforms and leveraging data, enabling them to scale to great heights, including **Meta, Apple, Netflix** and **Google**.

On the other hand, the 'digital incumbents' are traditional companies like **DBS Bank, McKinsey & Co., Diageo** and **L'Oreal**. These companies are leveraging digital technologies and transforming themselves to fit the digital era. However, there are also many legacy incumbents that have yet to embrace digitalization in their business ecosystems. And they are at risk of losing out to digital-native competitors.

How can erstwhile established organizations compete with digital natives? In this article, we will indicate how the D&G Framework informs legacy and digital incumbents on innovating in the digital era by balancing *innovation* and *execution* mindsets.



## Digitally-native companies are leading the coopetition game.

### Innovation Mindsets

Historically, organizations have viewed exploration and exploitation as two distinct paths to innovation. In the competitive, digital-driven era, this view is outdated. Consider **BlackBerry**, which followed an exploitative mindset. In the early 2000s, every tech geek had an arched keyboard device, sent e-mails on the go and could exclusively chat with other BlackBerry users. Do you ever wonder where BlackBerry is today? The smartphone's infrastructure, operating systems, software and services were decommissioned in 2022. The problem: BlackBerry chose to refine its existing competencies, technologies and paradigms - without considering customer preferences; and thus, it fell short to iOS and Android.

Furthermore, consider **Macy's**, America's biggest department store, which practised an explorative mindset whereby they experimented with new alternatives without building on existing capabilities. At one time it enjoyed soaring sales across its channels- but it recently reported a loss of \$3 billion in revenue in the last years. Put simply, both BlackBerry and Macy's struggled to keep up with the growing pace of innovation.

Now, let us consider the digitally native bank making the headlines: Revolut. It launched at a time when digital banks were not popular in the UK and managed to transform the dynamics. How? By balancing its innovation mindset. On the exploitative innovation front, the company invested in scaling its data science and engineering functions. It leveraged machine learning and other computational techniques to protect customers, make better behavioural predictions and identify fraud patterns without human intervention. On the explorative innovation front, it is pushing the boundaries of traditional banking by constantly introducing offerings like crypto trading and fractional stock investing. And it has opened up new revenue streams by expanding beyond the UK. Revolut added almost 10 million new customers in 2022, increasing its revenues by \$1.1 billion - a 45 per cent increase from 2021.

While it is embedded into the wiring of digital native companies to balance the two required innovation mindsets, many incumbent counterparts are yet to get there. Some are

to break away from their traditional competitors by building capabilities that drive growth from disruptive innovation. However, they face long decision-making times, less frequent product releases and lack a vision of building with impact. In sum, we can plainly see that innovation ambidexterity- the ability to balance explorative and exploitative innovation mindsets - is now critical to competitiveness.

### Execution Mindsets

While the digital era has brought innovation to the forefront, it is also changing the competitive landscape in the marketplace. Recent research finds that some companies work together to invent innovations *further from the customer* and compete on activities *closer to the customer*. Amalgamating these two approaches has created a new phenomenon called *coopetition*.

Not surprisingly, digitally native companies are leading the coopetition game. Consider Apple and Google working together seamlessly to launch the first iPhone. Since the launch of the first iOS in 2007, iPhones and iPads have incorporated Google Maps, **YouTube** and a default Google search engine. The digital native Revolut also links with banks like **Barclays**, **HSBC**, **Bank of Scotland** and others, utilizing the banks' open banking APIs and enabling data sharing and transaction initiation with user content. The resulting money transfers are easy and improve the user experience.

This phenomenon is not as common in the work of legacy and digital incumbents. Take **JCPenney**, the American retailer that entered the 21st century with stagnant and declining sales and tough competition from discount stores like **Target** and **Walmart**. It collaborated with **Sephora** in 2006, coining a 'store-in-store' concept. This led to the establishment of Sephora outlets in select JCPenney stores until 2020, when Sephora refused to extend its contract with the retailer. This came at a bad time, given the company was on the road to bankruptcy.

We have developed a matrix that combines the two required mindsets, serving as a clear guide for incumbents to achieve a sustainable competitive advantage. As shown in **Figure One**, casting digital natives as David and legacy and digital incumbents

as Goliaths cross-fertilizes the innovation and execution mindsets. Instead of relying solely on bravery, faith and courage like David, our framework equips David with a blend of innovation and execution mindsets. The Goliaths, entrenched in their traditional approaches, risk losing competitiveness, symbolized by the helmet.

Think of **Slack**, a messaging app for businesses facilitating access to essential information that partnered with **Zoom** in 2019. This collaboration enables over 15,000 Slack teams to utilize Zoom integration monthly. Another example is the Industry Sharing Safety Program led by **Lyft** and **Uber**, which aims to elevate safety standards within the ridesharing sector. This initiative involves exchanging data on drivers deactivated due to serious safety incidents such as sexual and physical assault. This co-competition program underscores the significance of prioritizing safety, privacy and fairness for all stakeholders.

#### The Incumbent's Journey

Goliaths can become Davids if they adapt to the digital native wiring (as indicated by the inward-facing arrows in **Figure Two**). The digital incumbents can practise balancing the two mindsets. Consider digital incumbent Diageo. The maker of **Johnnie Walker Whisky** and **Guinness** launched a 'Breakthrough Innovation' team, a subsidiary within its current innovation function, to shape innovation in the company beyond the development of products. Breakthrough will focus on platforms that build new business models and provide transformational value.

Additionally, through its accelerator program, 'Fusion,' the company identifies leading innovators to co-develop the next generation of digital products. Fusion is designed for growth-stage technology companies to work with the company to develop digital concepts 'beyond the bottle.' By combining Diageo's strategic innovation pipeline and brand-building expertise with cutting-edge technologies and ideas from external pioneers, the program will help Diageo shape the future of social celebration.

Another example of balancing the execution and innovation mindsets is **L'Oreal**. The company's Augmented Beauty Metier enables it to amplify the power of its century-old heritage in skin,

hair and biomarker data through algorithms and AI. It is set to anticipate consumer expectations by offering innovations that bring to life new holistic experiences, with greater levels of personalization in their services and applications.

While this stands in the *exploitation-competition* quadrant, the company is also entering into strategic partnerships with scientific tech specialists to strengthen its knowledge and understand the impact of sleep and environmental conditions like pollution on beauty. This partnership can be placed in the *exploration-cooperation* quadrant. Additionally, the company has developed an Open Innovation program, partnering with indie beauty brands, tech start-ups and early-stage companies (focused on digital beauty services and incubators). This program allows it to incubate new models and accelerate Beauty Tech start-ups to propose new brand services.

Think back to JCPenney, when Sephora refused to renew its contract with them. Being in the *exploration-cooperation* quadrant did not work out for them, so they switched gears. The retailer launched the JCPenney Beauty experience and sells 250 brands in its stores. Despite filing for bankruptcy in 2020 with a debt of \$5 billion, it is working on upgrading its stores across the country, creating a new point-of-sale system to better integrate with inventory. It has implemented AI to optimize the product, customer and time mix and is also working on growing its private label business and digital experiences. While the company's exploration approaches pushed it down the stairs, its exploitative approach is very likely to bring it back.

Additionally, in May of 2023, **Ford** and **GM** forged a collaboration with **Tesla** whereby they embraced Tesla's EV charging technology- giving Ford's and GM's U.S. EV customers access to Tesla's 12,000 superchargers network. These EV owners can use Tesla-manufactured adapters to access its chargers. Both Ford and GM lacked the EV infrastructure to enable such a feat, which hindered their successful transition to becoming EV pioneers. Through this alliance, they can provide their drivers with state-of-the-art charging infrastructure.

This alliance is an example of *explorative cooperation*, where companies that do not possess the infrastructure to grow their



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**The David and Goliath Matrix - (D&G Framework)**

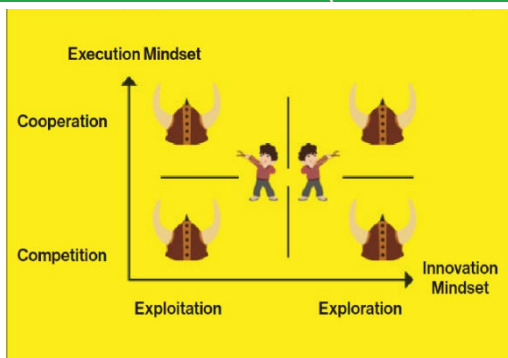


FIGURE ONE

capabilities cooperate with other industry players to achieve capability. But this alliance also stands as an example of *exploitative cooperation*: Tesla provides its existing capabilities to other players that do not have the same level of offering, thereby generating an ecosystem for the betterment of the entire industry.

**Key Takeaways**

Digital transformations generate clear and significant financial impact. Despite this, research by **Boston Consulting Group** involving more than 850 companies showed that only 35 per cent of companies have achieved their transformation objectives. Adding to that, only 30 per cent of the **S&P Global 1200** index companies are transforming into digital incumbents. Clearly, most legacy companies are struggling to keep pace: Legacy incumbents represent around two-thirds of the S&P 1200. At a time when there is pressure from all around, the D&G Framework could be adopted by these incumbents to focus on activities that drive value and equip themselves with David-like skills.

The first step is for leaders to examine which quadrant they currently fall into in our framework. Maybe you are like JCPenney at the beginning of the 21st century and the initiatives you have introduced place you in different quadrants. Its 'fair and square' pricing model, which eliminated discounts and promo-

tions, placed it in the *exploration-competition* quadrant while its collaboration with Sephora placed it in the *exploration-cooperation* quadrant.

Second, managers need to navigate paths to develop capabilities of innovation and execution by exploring the other quadrants to identify which fits best for them. After Sephora refused to renew its contract, JCPenney navigated across the quadrants to launch the JCPenney Beauty experience, and as indicated, is now selling 250 brands in its stores. The damage of losing its loyal customer base due to its pricing models is now being repaired by implementing technologies to understand customers and deliver the right product at the right time. These actions place the company in the *exploitation-competition* quadrant. As indicated by JCPenney, navigating across the quadrants as and when required is essential for balancing the innovation and execution mindsets we discuss in the article.

The D&G Framework is industry agnostic and applies far beyond the retail and automotive sectors. **Radisson Group** for example, in the hospitality space, has over 1,100 hotels in operation (and under development) in Europe, Middle East, Asia and Asia-Pacific regions. Its web presence is spread across 10 distinct websites - one for each of its brands, all of which have their tone of voice and imagery created to serve specific customer segments. But these distinct websites offered no opportunity to innovate or scale. Upon examining their position (*exploitation - competition*), the company navigated across the framework. It worked to rewrite its content management strategy and created online experiences across multiple channels. Customers can now use their computer, access the app or scan a QR code to look around on their mobile. Or, they can go fully immersive through a VR headset, accessing interactive virtual tours, floor plans, dollhouse views and 360° images. These initiatives place the company in the *exploration-competition* quadrant.

But Radisson Group also took up initiatives on the *exploration-cooperation* front. It signed a cooperation agreement with **Cosmos Hotel Group**, a major hotel chain in Russia, offering a unique product for the Russian market and expanding into uncharted territory for Radisson. This cooperation is seen to be a

step towards a rethinking of the hospitality industry in Russia. It is important to note that while navigating the framework, Radisson continued to make decisions that balanced the two mindsets we have described.

Consider the application of our framework in the financial services sector, where traditional banks must rethink their business models, increase the drive for change and create a point of differentiation to achieve a competitive advantage. Towards this, we observe Barclays navigating across our framework. In the *exploitation-competition* quadrant, the bank uses analytical AI to manage money laundering risk (using voice recognition software to enhance security for their customers) and fraud. It is also investing in modern cloud-based platforms, creating high-quality data products that boost data literacy across the organization. And in the *exploration-competition* quadrant, it is integrating generative AI into its operations: With **Microsoft** Copilot, it is able to summarize meeting actions and create detailed reports, etc.

In the *exploitation-cooperation* quadrant, the bank has a long-standing tradition of supporting fintech companies to bring innovative solutions to market that benefit customers, clients and the industry as a whole. It has signed the 'FinTech Pledge,' which aims to make the UK "the best place to start and scale a financial services technology firm."

As part of this program, the bank provides clear guidance to tech start-up firms for building themselves up in the sector. Through these varied initiatives, we count Barclays as another incumbent that is successfully balancing innovation and execution mindsets.

### In closing

Digital natives represent about five per cent of the constituents of the S&P Global 1200, yet they provide valuable lessons for the other players in the market. To succeed in the digital era, digital and legacy incumbents must practise innovation ambidexterity, refining existing competencies while exploring new avenues. As indicated herein, embedding cooperation into their DNA can allow them to leverage digital technologies and stra-

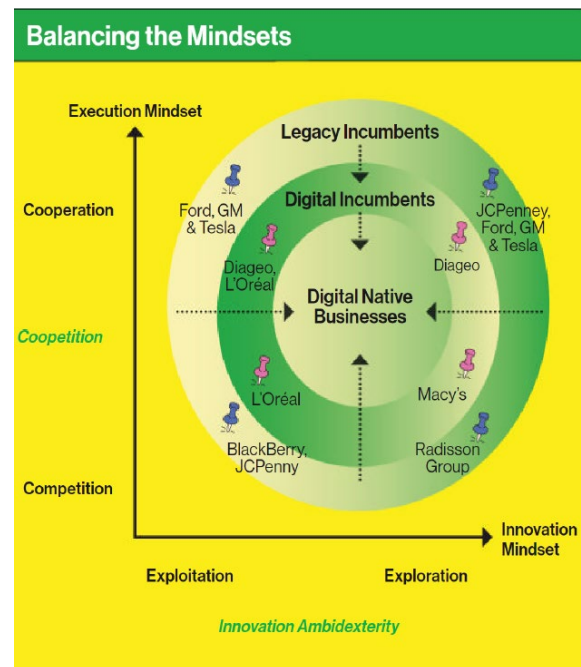


FIGURE TWO

tegic partnerships. By examining their position and navigating across the D&G Framework, digital and legacy incumbents alike can balance innovation and execution mindsets and thrive in the digital era. **RM**



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