

# PUT DISRUPTION TO GOOD USE

*The obsolescence of old business models should be seen as a challenge, not a threat*

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ONCE-POWERFUL industries — retailing, print, television, music, the post, insurance, taxis, travel agents, even parts of governments — are in a state of upheaval and strategic uncertainty as they grapple with swarms of nimble, low-cost digital disruptors stealing chunks of their business or rendering them increasingly irrelevant. Many people are predicting this will be the year of disruption.

One of the most disturbing aspects of this disruption of traditional industry is that they saw the online challenge coming and took steps to try to meet it. But no one predicted the extent or the speed at which old business models would crumble and they would be reduced to a Darwinian struggle for survival.

Disruption is not new in this era of six-month product life and left-field startups that have no fear of, or respect for, established businesses. Even the startups of 10 years ago are coming under threat from newer, more agile competitors, demonstrated by the challenge from jobs website Nvoi to Australia's biggest online jobs site SEEK, itself the disruptor that siphoned off large slabs of print classified advertising.

The development of digital technology in the mid-1990s to allow large packets of data to be sent down phone lines and cables, regarded as a curiosity at first, has opened the door to an extraordinary period of entrepreneurship. Startups begin with an idea. With no significant costs such as rents, staff, bills or elaborate planning models, they can experiment — and the cost of failure is low; the ability to move on with fresh ideas and lessons learned is strong.

Their main weakness is that

their success attracts a new breed of disruptors to steal the lunch they stole from the old-model businesses.

Consumers have been empowered as never before. In established businesses under threat or awaiting a challenge from a digital business model, clear thinkers are asking whether disruption is a threat to their industry or profession, a problem to be managed or an opportunity to be seized. The challenge is to respond in time.

Smart media operators, for instance, in Australia and elsewhere, invested in the online businesses they knew would attack their print advertising. What they lost from print they gained, at least in part, from the sharply rising share price of the disruptor.

Disruption is probably the greatest commercial and cultural threat organisations face at present. Changes driven by digital technology and globalisation don't discriminate, and are remorseless. Yet, perversely, once understood, the threat of disruptive change can be turned into a huge competitive advantage.

All players, from established businesses to startups, have access to the internet, which, according to Cisco Engineering, has 19 billion pieces of information connected to it today and will have 37 billion in six years.

For the established business the key is to become more nimble by reducing costs, as startups target any business or profession where costs are high. One advantage established businesses have over the startup (although for how long is open to conjecture) is that they can use globalisation to cut costs. The Philippines, where wages are one-10th Australia's,

has become a key source of off-shore labour for financial groups like Macquarie, which has its second biggest office there — for back-office functions only. Telstra employs tens of thousands of low-wage staff in Manila. Any function where face-to-face contact is not required is being sent offshore.

In motor insurance, profitability has traditionally been driven by scale combined with effective cost and risk management of the likelihood of accidents. Aggregators like iSelect and BudgetDirect are already arbitrating between the insurers, forcing them to cut premiums, but another threat awaits: driverless cars being developed by Tesla and Google. As these vehicles become more common, there will be fewer cars on the road (as cars are more efficiently used across families and groups) and some estimates predict a 95 per cent reduction in accidents, with human error largely removed.

As a consequence, both the number of policies and premium levels will be much lower. Are large insurance groups prepared?

Legal and financial services are also vulnerable to attack from low-cost digital models but the greatest disruptive force might come with rapid advances in behavioural robotics, ushering in a new generation of machines to replace humans.

How will society adapt to the disruption they will bring to the way we work and do business? It is critical for leaders from all sectors to do some serious crystal-ball gazing to work out what they need to do, proactively and defensively, to manage these future threats and opportunities.

*Tania de Jong is the founder of Creative Innovation 2015 Asia Pacific: From Disruption to Sustainable Growth, Melbourne, March 23-25, where 40 leading thinkers, futurists, disruptors and technology experts will speak and present masterclasses. [www.ci2015.com.au](http://www.ci2015.com.au)*

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