



# TAKING LEADERSHIP IN A DIGITAL ECONOMY

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BY TELSTRA CORPORATION LIMITED  
AND DELOITTE DIGITAL

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[deloittdigital.com.au](http://deloittdigital.com.au)  
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# A NOTE FROM DAVID



Consumers and businesses are rapidly embracing digital technology and this is redefining the traditional transaction model.

We now have a new generation of globally connected consumers and businesses who behave very differently – and we must all adapt to these changes and take advantage of the new opportunities.

By the end of the decade we will have connected just about every device to next generation networks, from smartphones and offices of the future, to educational resources and digital home appliances.

The changes we are talking about are transformational. Everything, everyone and every place will be connected.

This will make us more innovative and more competitive – and change the way we live and work for the better.

The challenge ahead is how to best use the tremendous creativity, innovation and capability of Australians to participate in these new opportunities – whether it be m-commerce, Big Data, robotics or social media.

Every part of our economy can benefit from this new era of connectivity.

Our role, as Australian business leaders, is to help build a 21st century economy that is locally accessible and globally competitive.

As a nation, we can lead the world and create positive change.

A handwritten signature in black ink that reads "David Thodey". The signature is written in a cursive, slightly slanted style.

David Thodey  
Chief Executive Officer  
Telstra

# A NOTE FROM GIAM



The world is changing. The internet has transformed the Australian economy over the last 10 years, and is poised to play an even greater role in our daily lives and businesses as Australia positions itself to become a leading digital economy.

The pace of technology change is growing exponentially, and in the digital age, the only constant is change.

Disruption can sneak up on you unexpectedly. For your industry, how will you know that disruption is coming before it's too late? Will you know your competitor in a global market that disrupts existing industry & country boundaries?

As a nation, we need to consider whether we are simply building better ways of delivering the same products and services. Or are we creating truly new and different business models? Companies that miss this distinction are at risk of becoming irrelevant in the digital economy.

Realistically, digital creates more opportunities than dangers. As leaders, the choices we make will be crucial in whether Australia takes a position of leadership at the forefront of this change.

Our country's future prosperity will depend on visionary leadership, enabling our Australian entrepreneurial spirit, becoming more agile in our decision making and investing in the talent required to support the digital economy.

As with all of our work at Deloitte, we hope that this white paper enhances your capacity to act. In the digital age, how quickly and how thoughtfully we act will determine our future.

A handwritten signature in black ink that reads "Swiegers".

Giam Swiegers  
Chief Executive Officer  
Deloitte Australia

# INTRODUCTION

To some extent, Australia is already well positioned to be a driving force of the digital revolution. Our infrastructure is well developed, consumers and businesses are rapidly embracing digital services and we have talented people who can innovate and execute.

To fulfil Australia's potential to take a leadership position in an increasingly global and digital economy, however, Australian corporate leaders must accept this accountability and direct their resources accordingly.

Increasingly, a complex digital ecosystem consisting of technologies such as web-delivered services, mobile applications, social media, machine-to-machine (M2M) and many others move centre stage creating opportunities for innovators, yet challenging laggards.

Leading our economy and our country successfully through this change requires wisdom, courage and conviction.

This whitepaper outlines the expected rate of growth in the Australian digital economy and highlights the choices incumbent corporations face as a result.

Telstra itself is such an incumbent corporate leader and has started its own digital transformation to ensure its future success. Through its core business in mobility, networks and cloud computing, Telstra is also a provider of infrastructure enablers to the digital economy.

Deloitte advises and implements digital solutions for businesses seeking to win in their transformation through digital solutions.

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# THE DIGITISATION OF OUR ECONOMY CONTINUES AT PACE

## The basics are in place

Today, Australia has comparable broadband adoption and connection speeds to many of its peers in the developed world.

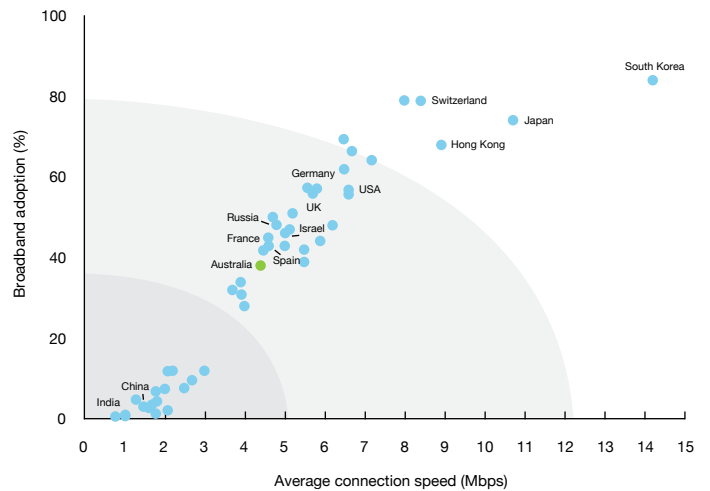
Whilst not necessarily on top of the league (yet), broadband adoption has seen 30% year on year growth<sup>1</sup> in 2012, and has steadily grown over the past decade or so.

Australia already has the 14th largest number of 3G subscribers of any country in the world<sup>2</sup> and the OECD places Australia 8th by wireless broadband penetration, just behind the US, but well ahead of the UK, Spain and France<sup>3</sup>.

The federal government's National Broadband Network (NBN) and the Telstra lead 4G mobile network rollout, are infrastructure investment commitments that are expected to facilitate continued future increases in both bandwidth and customer adoption for fixed and wireless connectivity.

An outcome of this investment is Australia's relatively high smart phone penetration, which today stands at over 50%<sup>4</sup>.

Figure 1: Global broadband adoption and connection speed data



Source: Akami 2012

## Consumers are embracing digital services

Australian consumers have embraced digital offerings with relish, leaving few traditional products or services unaffected, including:

- Internet search
- Digital content
- Social media
- Mobile applications
- E-commerce

The number of internet searches by Australians has grown at an annual rate of 30% and a recent Nielsen report highlighted that more than 40% of Australians research their purchases online<sup>5</sup>, making web search a de facto e-commerce hub.

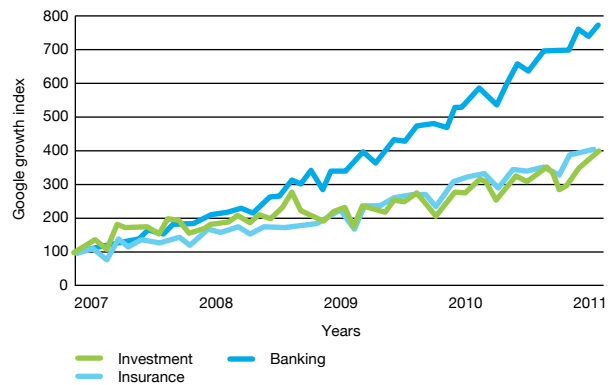
According to the ACMAs Digital Australians survey, 33% of Australians watch online video content each month<sup>6</sup>.

Social media is experiencing phenomenal growth with 62% of internet users reporting they use social media<sup>7</sup>. Facebook, of course, has seen incredible success with over 11M Australians using the service regularly<sup>8</sup> spending an impressive 18 minutes on the site per visit and over 20% of all internet time is now spent on social networks<sup>9</sup>.

Given our high smart phone penetration, it's not a surprise that Australians are also establishing a love affair with mobile apps. Australia downloads more than 60 million<sup>10</sup> apps a month making us the fifth largest per capita consumers of apps anywhere in the world. Globally one billion Android applications are downloaded each month<sup>11</sup>.

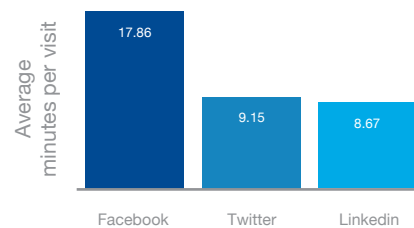
Australians are also prolific online buyers with the growth in online sales five times that of traditional retail<sup>12</sup>. And double digit growth is forecast for online sales over the next five years<sup>13</sup>.

Figure 2: Australian Google search growth for banking, insurance & investment



Source: Google 2011

Figure 3: Average time spent on each usage occasion (minutes)



Source: Sensis 2012

## Businesses have gone digital

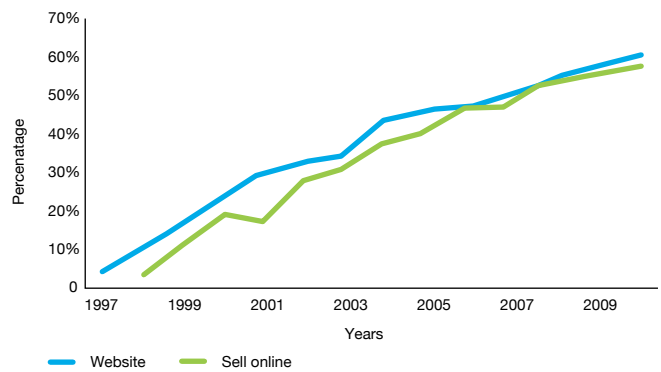
The majority of small and medium enterprises (SMEs) are now online, 60% have a web presence and the majority of those sell goods and services on the web<sup>14</sup>.

Australian SMEs are also embracing social media. Approximately 27% of internet connected SMEs are using some form of social media in their business operations<sup>15</sup>. The ease to set up a Twitter account or Facebook page coupled with the cost effectiveness of this relatively cheap advertising and customer service medium is proving very compelling.

In some cases, social media and e-commerce have allowed local speciality businesses to extend their reach beyond their traditional catchment area as well.

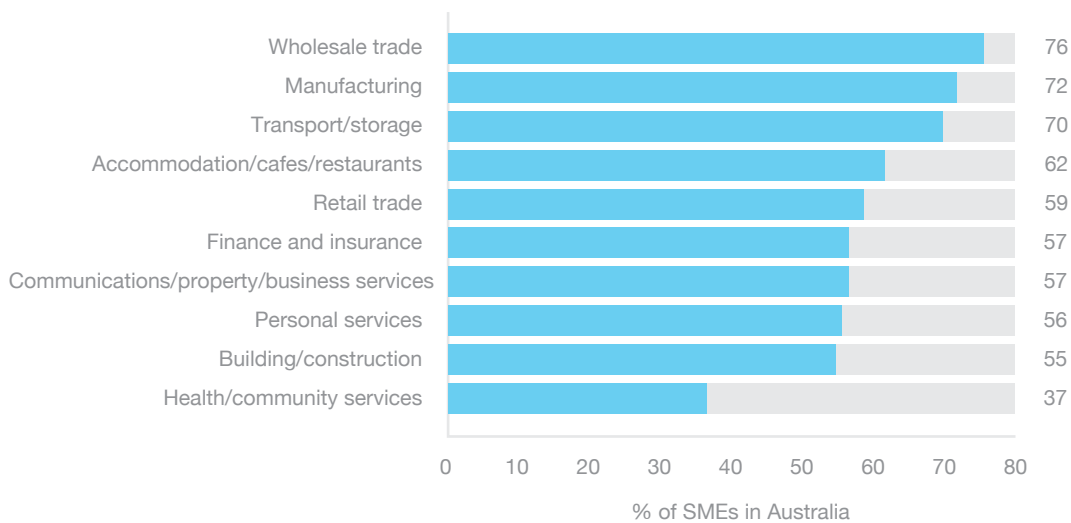
For example, Cuckoo Clock Nest (cuckooclocknest.com.au), sells German cuckoo clocks out of their shop in Eagle Heights Queensland, but have national reach through their web site.

Figure 4: Proportion of Australian SME's that are online



Source: Deloitte 2011

Figure 5: Australian SMEs taking orders for goods and services online, by industry sector, April 2011



Source: Sensis, The Online Experience of Small and Medium Enterprises 2011, October 2011  
Note: Survey conducted in April 2011



## The digital economy is poised for 7% pa growth

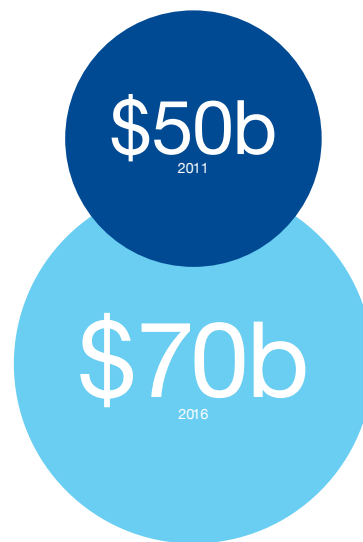
Assuming an active role of business and government in encouraging the adoption of digital services, the direct contribution of the internet to the Australian economy is forecast by Deloitte to grow at 7% per annum over the next five years, roughly double total GDP growth<sup>16</sup>.

And whilst the total direct contribution of the digital economy is only \$50b, a fraction of the GDP, the indirect contribution to the rest of the economy is fundamental.

Every industry will be affected by this change, and all sectors will eventually be “more digital than not”.

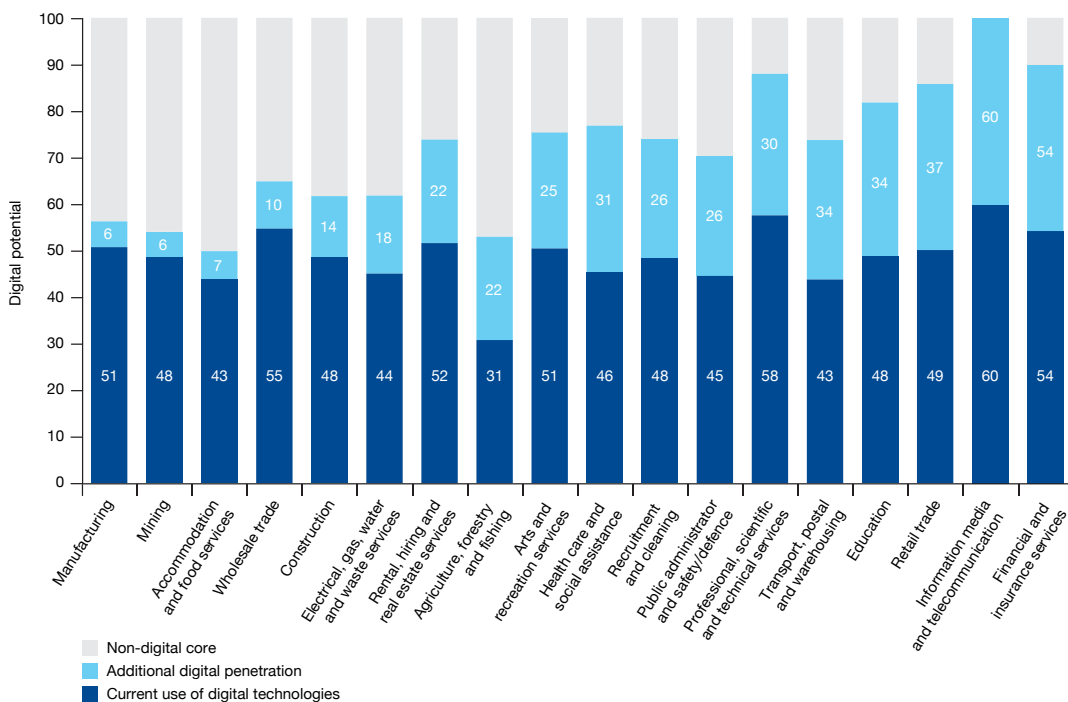
The most significant additional digital penetration is expected to be in financial service, telecommunications, retail trade, education and transport and logistics.

Figure 6: Internet direct contributions to GDP



Source: Deloitte 2011

Figure 7: Digital Penetration by Industry



Source: Deloitte 2012

# IMMENSE DISRUPTION AHEAD

Just as the digital economy provides huge benefits to consumers and businesses, it equally poses a threat to hitherto comfortable incumbents, changing goal posts, raising customer expectations and opening the field for new competitors, globally.

## It's only a matter of time

Virtually every sector can expect to face changes rivalling those of the industrial revolution.

Some industries may face extinction, new sectors are being created, and others are being transformed beyond recognition.

According to Australia's Digital Future to 2050 by IBISWorld<sup>17</sup> 15 different industry sub-sectors face extinction due to factors such as size, international competitiveness, the potential for displacement, and technology.

Those 15 sub-sectors include: books and magazines, newspapers, directory and mailing list publishing, software publishing, radio broadcasting, and free-to-air TV and cable TV.

Assessing the timing and severity of likely impact, Deloitte's "digital disruption map" classifies about one third of the Australian economy into the most pressing "short fuse, big bang" quadrant.

Eighteen industries are mapped with respect to their vulnerability to disruption from two perspectives: the size of the impact and the imminence of change.

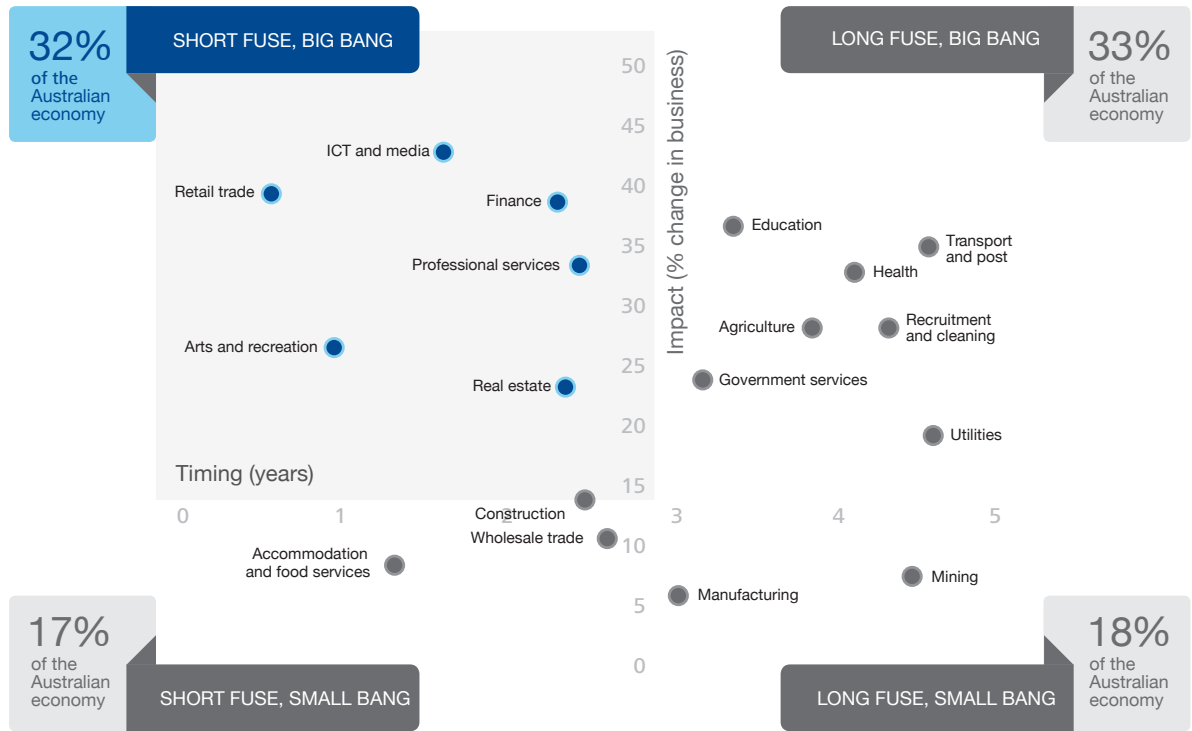
As these changes will play out over many years, timing of specific changes is hard to predict.

It is eye opening to realise that it took 48 years from the invention of electricity to the invention of the light bulb, 65 years to the invention of the telegraph and 72 years to the invention of powered flight.

The Internet Protocol (IP) which may be considered the "electricity of the digital age" was invented in 1974, so is only 38 years old. Google was only launched 14 years ago and Facebook is only 8 years old.

We're only at the beginning.

Figure 8: Digital disruption map



Source: Deloitte 2012

# LINKEDIN DISRUPTING THE CORPORATE RECRUITMENT MARKET

**LinkedIn** which as of March 2012, had more than 3 million members in Australia, and over 500,000 members in New Zealand, is disrupting the corporate recruiting market.

Relative to the established model of using corporate recruiters or placed advertising which can both be expensive, inflexible and have long lead times, LinkedIn offers an inexpensive, quick and flexible alternative.

LinkedIn has seen strong demand and response for its recruitment and marketing solutions services. The company now has over 500 Australian and New Zealand clients using its Talent Solutions platform, with new customers including ANZ, John Holland Group, OneSteel and Mission Australia. Over 40 of the Top 200 ASX companies now use LinkedIn's Talent Solutions to find "passive talent" – where employers can tap employees who may not be actively looking to move.

## IMMENSE DISRUPTION AHEAD

### Globalisation of competition

By definition, digital services are more transportable across geographic boundaries than their physical equivalents. Therefore domestic operators can expect additional competition from global digital providers.

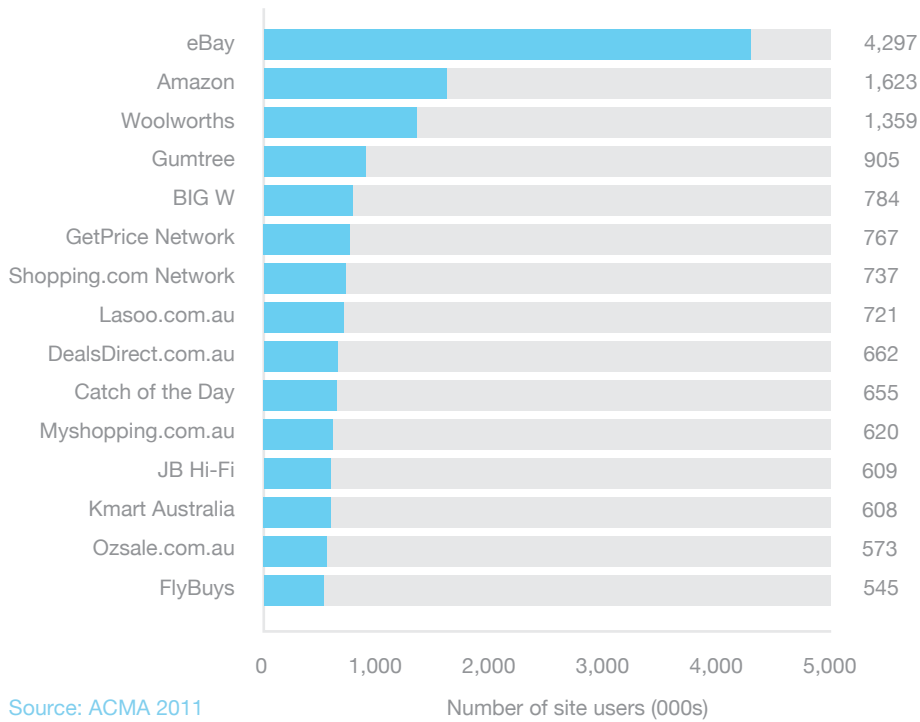
No sector is experiencing this at the moment more than Australian retailers.

Already, 29% of Australian online commerce is conducted with international providers<sup>18</sup>.

The proportion of online shoppers mostly buying from overseas websites has increased from 12 to 19%<sup>19</sup>.

The high Australian dollar and increased ability of global retailers to ship cost effectively to Australia are two factors driving this competition.

Figure 9: Top 15 online shopping sites accessed by Australians from home during June 2011



Further innovation in business models and logistics is expected to continue to globalise online retailing. Tarazz (tarazz.com) for instance aggregates US online retailer sites into one interface and one shopping cart, then consolidates the goods into one shipment in the US and ships that consolidated shipment to Australian customers for one fixed fee.

## Stuck in the middle

The digital economy lowers the barriers to entry to a point where several hundred million people create content and software apps for free, or at least well below normal rates of remuneration.

Every minute, users upload almost 100,000 tweets on Twitter, 7,000 images on Flickr, over 600 videos on YouTube<sup>20</sup>, and there are now over 1 million smart phone apps available<sup>21</sup>.

Increasingly, domestic incumbents of many sectors may find themselves stuck with high fixed cost structures between global, massive scale digital competitors on one hand and a large number of individual contributors working on a totally different economic basis on the other hand.

## FLICKR COMPETING WITH FREE

The pioneering image hosting and photo sharing site Flickr, offers users the ability to release images under a creative commons license allowing other users to freely reuse an image.

Flickr, which has more than 50 million registered members<sup>22</sup> and hosts more than seven billion photos<sup>23</sup> enables local photographers, many working on a part time basis with minimal gear and few overheads, to compete on a completely different cost base with the likes of Getty images which has offices and employees in over 20 countries.

## It's not about what you own but what you do

In the old economy a company's value tends to be proportional to the value of its assets. Whilst intangibles were always present, the majority of commercial activity required capital goods that could be valued and held on a company's balance sheet.

A digital business model on the other hand is much more reliant on the capability of its people. The company's value is more likely to be a direct function of the value it generates for its customers. In a digital business model, there are few structural advantages and lasting organisational value is rare.

Many incumbents are still obsessed with building, buying and owning tangible assets and derive comfort from the perception of "lasting value".

It requires a significant mind shift to appreciate the value of a business model where the "assets" walk out of the door every day and corporate leaders have to create a work environment those assets choose to return to the next morning.

## SURFSTITCH

**Surfstitch.com** is an online speciality retailer founded in 2008. SurfStitch.com provides shoppers with over 20,000 items and 318 brands including unique and hard to get labels, providing significantly more choice than many proprietary surf wear and department stores.

Surfstitch is on track to reach revenues of \$30 million<sup>24</sup> and in 2009 Billabong International Ltd acquired a minority interest in the organisation.

According to Experian Hitwise, Surfstitch is one of the country's most highly trafficked e-commerce site, clocking up 30 million site visits and over 250 million page views since launch.

# INCUMBENTS MUST RESPOND

Today's corporations must respond on three levels to ensure their future: transforming their core business to become more efficient; access new revenue sources; develop new business models.

Allocating resources effectively requires good timing which is difficult in fast changing markets. Due to the digital transformation of the economy the changes facing large corporations play out over many years, so are beyond typical planning cycles and most CEO tenures. One thing is for certain, though, being too late is more costly than being too early.

## Making the core business more efficient

Gone are the days when corporate executives could expect their operating budgets to increase year on year to keep pace with inflation and business growth. Nowadays, leaders are expected to deliver more with less for the foreseeable future. And digitisation only accelerates these pressures.

### **Digital sales and marketing**

Most sales and marketing departments now have an eye on online sales and digital marketing. However, few have come to grips with the fact that they need to undergo a deep change which means that every marketer is now a digital marketer, and sales models must be optimised for digital channels despite the fact that only a minority of sales are currently delivered by those means.

The profound change is apparent when comparing a traditional above the line campaign with Search Engine Marketing (SEM). The former has long planning lead times, involves several agencies (strategy, creative, and media buying) is inflexible, has a relatively high minimum spend and delivers measurable outcomes only after the majority of expense is already committed. SEM, in contrast, can be deployed in real time by sales teams themselves with minimal upfront cost, maximum flexibility and little risk of failure.

Overall, the cost of acquisition can be dramatically lowered for a digital pathway compared to the traditional model. Telstra, for instance, has experienced up to 70% lower acquisition costs for a new mobile subscriber in its digital channels compared to commission driven third party channels.



## INCUMBENTS MUST RESPOND

### Digital customer service

Digital technologies promise radically lower cost and more effective customer service than traditional means.

Even with the rapid rise of the mobile web there is still a lot of life left in the traditional corporate website, provided it is designed for customer service. Most corporate sites started life as “digital brochure racks” with little real transactional service functionality. Providing customers with rich, real time and easy to use functions can both reduce cost and improve service by putting customers more in control of their affairs.

Mobile applications and social media platforms can provide effective extensions to web based service portals. Aggressive adopters see significant reductions in their call centre volumes and an overall drop in service cost as a result.

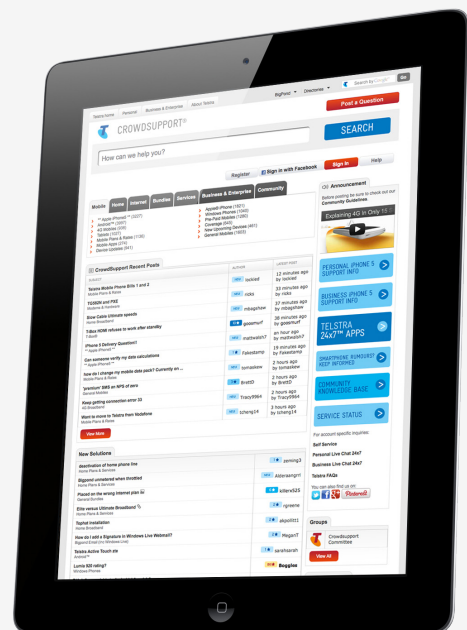
### Collaboration

In addition to customer facing tools, digital platforms can enhance how employees collaborate and work more effectively to service their customers. The “social corporation” has been subject to extensive debate and in some ways there is no ideal model quite yet. One thing is for sure, though, if an incumbent does not already experiment with internal networks and digital collaboration tools, it will be too late to catch up later.

## TELSTRA CROWDSUPPORT TRANSFORMING SERVICE THROUGH THE CROWD

In 2011, Telstra launched its Crowdsupport customer service platform, a community forum where users, including Telstra customers and others, answer questions and help each other. Crowdsupport entices community members with elements of “gamification”, including badges, status levels and user awarded “kudos” points. The fast growing service already attracts over 60,000 unique visitors per week, saving cost and improving customer service.

[crowdsupport.telstra.com](http://crowdsupport.telstra.com)



## Access new revenue sources

As industries transform, and traditional sector boundaries shift, incumbents encounter opportunities to generate new revenue. A manufacturer, for instance may start producing software that is complementary to its goods, and telco's move into areas such as home security and "carrier billing".

Initially, these opportunities are likely to be relatively obvious and quite adjacent to the core business.

However, the more exciting opportunities are likely to be less evident, and therefore require a specific effort and slightly higher risk appetite to be pursued successfully.

Above all, it is important that an organisation's customer base is open to adopt new services under the same brand. So, a healthy core business is a necessary foundation for the expansion into new revenue sources.

## NIKE+ DIGITAL EQUIPMENT

Nike is a global sports equipment supplier which has built its success on product innovation and brand building. Nike has successfully innovated, investing early in social networking platforms to support the 2006 World Cup.

In 2010, Nike created a new digital division, Nike digital sport, under the Nike+ brand. Nike+ which has grown to 7M customers launched innovative products including its flagship Nike fuelband which allows a user to compare their activity to other contacts via the Nike+ social network, the fuelband retails for \$US150 and sold out within days of its launch<sup>25</sup>.

## SCHIBSTED FROM PRINT TO DIGITAL

Founded in 1839 the Norwegian publisher Schibsted has transformed itself from a traditional publishing business making 100% of its revenue through print to a business that today makes 35% of revenue and 55% of gross operating profit online<sup>26</sup>. It was just 12 years ago that Schibsted made its foray into digital through an online classifieds venture.

Schibsted is utilising its established expertise in content to move from being an established reporter of news to a supplier of content that helps users make commercial decisions.

Businesses include lendo.se a finance broker and Letsdeal.se which brings the Groupon model to Swedish consumers.

*“Online services areas are charged with finding new revenue beyond the media house and online classifieds businesses – though it keeps those linkages in mind”.*

– Ken Doctor, Nieman Journalism Lab<sup>27</sup>

### INCUMBENTS MUST RESPOND

## Develop new business models

Many incumbents can expect their core business model to be challenged in the course of digital transformation. High prices, that were once justified by high cost structures of physical assets and sustained by limited competition, will collapse as low cost, intense competition enters a market. Most often this occurs through substitutes.

A powerful example is the rise of email rapidly replacing physical mail. Australia Post has seen a dramatic decline in letter volumes of close to 9% over the last four years driven by electronic substitution.<sup>28</sup>

Business model innovation is difficult and requires bold leadership but the rewards for success can be material.

Harvard Business Review analysis suggests that 11 of the 27 companies founded in the last quarter century and having entered the Fortune 500 in the past 10 years did so through business model innovation. However, this type of innovation is also relatively rare with no more than 10% of global corporate investment being focused on developing new business models<sup>29</sup>.

Examples of new, digitally enabled business models include the following:

**Multisided Business:** Offers different solutions to multiple categories of customers. LinkedIn provides advertising opportunities to publishers as well as the ability for consumers to pay to promote their vocational profiles.

**Outside – In:** This is where an organisation makes its own resources available to customers. The Amazon EC2 cloud service (a cloud solution sold to third parties) is based on insight developed by Amazon around the cost of maintaining a reliable, scalable infrastructure in a traditional multi-data centre model.

**Collaborative Consumption:** Economic model based on sharing, swapping, bartering, trading or renting access to products as opposed to ownership. A recent high profile example AirBnB (airbnb.com) matches people seeking vacation rentals and other short-term accommodation with hosts who have an unused space to rent.

## AMERICAN EXPRESS MULTISIDED BUSINESS

With over 90 million cards across 125 markets, American Express realised it had a wealth of valuable transactional data that could be leveraged for the creation of a commercial insights business. Housed within the American Express Global Merchant Services unit, the Business Insights division was set up in 2009 in the United States and has now expanded to the UK.

Business Insights draws upon four billion transactions that take place every year as the foundation for analysing data while also using publicly available market data to provide valuable business advice<sup>30</sup>.

*“We think about the American Express network as a community of relationships between consumers, merchants, small businesses, corporate clients and issuing partners. Connecting these communities, and using our resources and capabilities for their benefit, has become American Express’ true competitive advantage.”*

- Sujata Bhatia, vice president of American Express Business Insights<sup>31</sup>.

# HOW INCUMBENTS WIN

Organisations set to win in the digital economy share 5 characteristics:

1. They invest in new capabilities over old business models
2. They treasure their customer relationships
3. They have become fast and agile
4. They know their true competitors
5. They invest in talent

Whilst the natural starting position for most incumbents is problematic, there are emerging examples of success providing guidance for others.

## Invest in new capabilities not old business models

For most corporations, the majority of capital spending is still funnelled into existing business models. Management is comfortable with the lower risk, more immediate payback of such investment.

Increasingly though, the shift from physical to digital assets such as customer and operational data, makes “lateral” capabilities become more important.

These tend to be industry agnostic and include for example:

- Real time pricing and risk management
- Personalised offer creation
- Proactive customer needs identification
- Multi-channel sales and service management
- API-based technology platforms
- Online community management
- Knowledge Management
- Social collaboration

Telstra, as part of its digital sales and service program, has actively invested in online community management by starting a dedicated 24x7 moderation team, that operates Telstra’s social service platforms, Crowdsupport ([crowdsupport.telstra.com.au](https://crowdsupport.telstra.com.au)), Facebook ([facebook.com/telstra24x7](https://facebook.com/telstra24x7)) and Twitter ([twitter.com/telstra](https://twitter.com/telstra)).

# TESCO UNLOCKING CUSTOMER DATA

Off the back of its Club Card offer Tesco has built an impressive analytics capability that it uses to generate targeted discounts, design product expansions and perform inventory and store planning.

Tesco tracks approximately 6 million tesco clubcard transactions a day and acquired 53% of shopping information company Dunhumby for £30M in 2001, upping their stake to 83% in 2006.

*“When I started at Tesco, we couldn’t even get hold of our data. We developed a wealth of customer information through the Tesco Clubcard loyalty program. This provided tons of data to monitor shopping habits and movements of the customer. The card could even predict insurance purchasing habits just on what items they buy. This created a club of Clubcard holders that increased customer loyalty, giving them a sense of community by shopping at Tesco”*

– Terry Leahy Former CEO Tesco<sup>32</sup> (1997 – 2011).

## HOW INCUMBENTS WIN

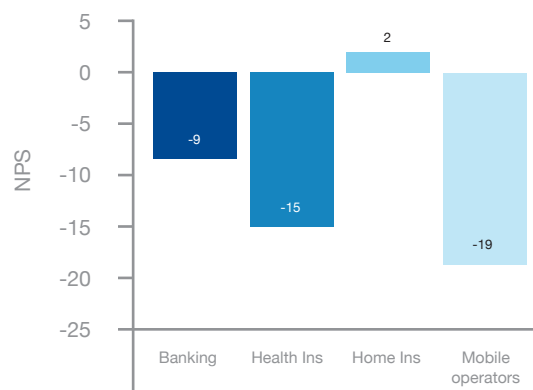
### Treasure your customer

Customer relationships are the lifeblood of any organisation. But in the old economy where switching and search costs for customers are relatively high, this is too often forgotten. Incumbents are often tempted to improve profits the lazy way by adding extra fees and increasing prices without enhancing the value they add to their customers.

Therefore it doesn’t come as a surprise that large sections of the Australian economy has negative Net Promoter Scores making customers less open to new products and services from their providers.

Recognising this important gap, David Thodey declared customer service Telstra’s number one priority after his appointment to CEO in 2009. Since then 40% of Telstra senior executives annual bonus depends on the company’s customer feedback. More recently Telstra launched a new company wide net promoter program called the “buzz” which includes extensive customer feedback, customer surveys, regular customer team review sessions as well as an enterprise wide continuous improvement framework.

<sup>33</sup>Figure 10: Average Net Promoter Score Across Industries



Source: Engaged Marketing 2010

## Become fast by becoming agile

The pace of the digital economy can be staggering. It took Facebook only 9 months to reach one million users and the popular Draw Something app only 9 days<sup>34</sup>.

Unfortunately, traditional corporate processes and tools are not designed for frequent, rapid decision making.

Investment decision tools were designed in the industrial age. As an example, Net Present Value and other risk based return evaluation frameworks penalise innovation and longer term investments but rarely consider the opportunity cost of not acting and leaving a new field to a competitor.

Annual planning processes focused primarily on performance over the financial year and against a predetermined budget provide little room to react to new insight and new competitors throughout the year.

Telstra's digital sales and service program uses an Agile delivery approach, bringing together traditionally siloed technology and business functions and benefits from specific "Agile Coaches". As a consequence Telstra is able to respond quicker to customer needs and commercial opportunities.

## KODAK TOO SLOW TO RESPOND

The inability to make tough decisions in the face of the increasing threat from digital competition are laid bare – with the benefit of hindsight – by the demise of Eastman Kodak which focused doggedly on their traditional business model.

*"Wise business people concluded that it was best not to hurry to switch from making 70 cents on the dollar on film to maybe five cents at most in digital,"*

– Larry Matteson, Former Kodak Executive.

Kodak management did not display the agility of its rivals Rosabeth Moss Kantor of Harvard Business School who advised the firm suggests executives "suffered from a mentality of perfect products, rather than the high-tech mindset of make it, launch it, fix it"<sup>35</sup>.

# OSCAR

## HOW COMPETITORS CAN BECOME PARTNERS

Traditionally competitors, the UK's leading three mobile operators, have been given permission to team up on Project Oscar, a digital wallet scheme. The green light from EU regulators means Everything Everywhere, O2 and Vodafone will jointly develop the product.

The venture these companies will form aims to release a unified smartphone-based service offering as an alternative to cash, credit cards and loyalty cards. Barclaycard, Visa, Paypal and Google are among those with rival schemes.

### HOW INCUMBENTS WIN

#### Know your true competitor

All too often incumbents forget to look beyond their traditional boundaries and thus stand to miss the most important competition of all, that of substitutes.

Many times substitutes are free or much lower cost to customers than traditional products, and they tend to be written off by incumbents as "unsustainable".

In the digital economy past competitors may also become future partners, and current customers may become future competitors, as traditional value chains that were held together by physical limitations dissolve and new, networked based competition forms.

#### Remember that good people do good work

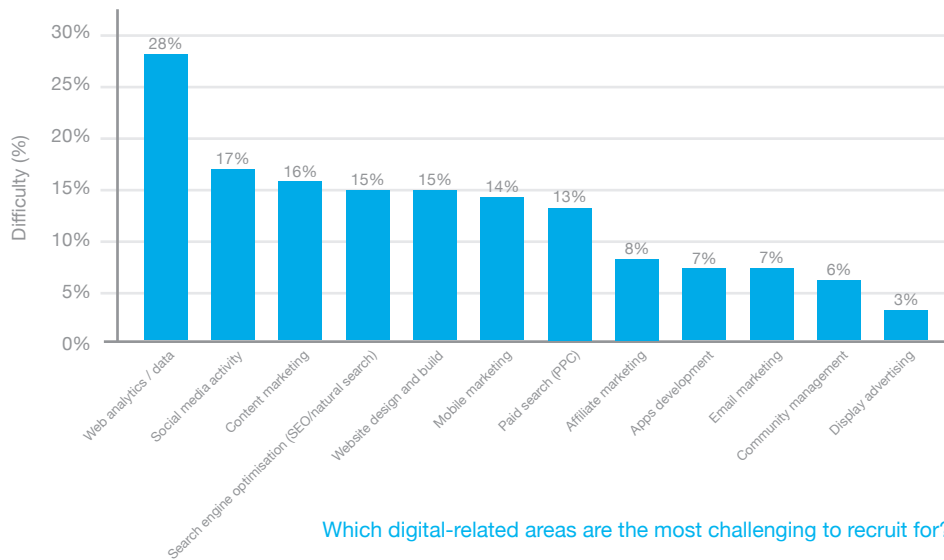
In the digital economy, talent is even more important than in traditional sectors.

And many of the skill sets that are all of the sudden front and centre, did not exist only a few years ago.

Employees with experience in digital roles are often tempted by the excitement of overseas technology hubs, making retention of those an important goal.



Figure 11: Recruitment difficulty



Source: E-consultancy 2012

Those who seem to get it right include the locals, Qantas, BHP Billiton, Commonwealth Bank and Lonely Planet as well as internationals such as Google, Virgin Group, Apple and Microsoft – all of which are ranked in the top 20 of the Dream Employers survey of 2011<sup>36</sup>.

Top reasons for ranking highly were pay, benefits and conditions; work-life balance; and the organisations culture. There are of course significant differences across generations with “Y” ranking work culture as the most important attribute, “X” citing work life balance and “Baby Boomers” caring most about pay, benefits and conditions.

*“Technical digital talent. Engineers, software developers, Product Managers, UX developers, Dev Ops, from Australia continue to remain in strong demand for US companies. The quality of the above in relation to US companies, specifically technology companies in San Francisco is high and well recognised”*

– Phaedon Stough, Managing Partner, Mitchell Lake



# APPENDIX

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