



DIGITAL DISRUPTION 2.0: A GLOBAL TECH TSUNAMI



By Louis Hernandez Jr., Managing Director and CEO of Black Dragon Capital



At Black Dragon Capital, we believe that we are at a critical inflection point in the human adoption of digital technologies, which is having a profound effect on how we live, work, play, as well as redefining industries and the allocation of wealth. Of course, the seeds of the digital revolution were planted decades ago.

At this juncture, earlier digitized processes are being overwhelmed by the wholesale adoption of an all-encompassing digital existence by humans around the world. As a result, once celebrated disparate technologies to makes specific business processes better, or humans more efficient, or connections more global, or applications to make our personal lives better, are combining into a single ecosystem connecting individuals, groups and enterprises across the planet in ways we once could only have imagined.

This next phase of digital disruption is like a tsunami sweeping across industries around the globe wreaking havoc on the roles, wealth and value of various participants in each industry.

Yuval Noah Harari addresses historic changes that were precursors to what we are facing today in his international bestseller “Sapiens: A Brief History of Humankind.” He describes human evolution in the context of the history of revolutions that occurred outside the scope of human biological evolution: the agricultural revolution, the scientific revolution and the industrial revolution. He notes human-driven change in response to economic necessity that encompassed coinage, writing and other skills.

“As CEO’s we get too complacent with our past successes, we need to step back from our canvas and see the world in constant change and opportunity. Behold the canvas is no longer there...it is virtual.”

– Connexus’ David Christensen, President and CEO

In essence, people are seeking to understand how and why everything is changing so quickly, accelerated by technology, and what it means.

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Of course, businesses are impacted, and their leaders can take important lessons from the human technology adoption curve.

And those of us who have been part of the digital world for decades as operators, advisors, and investors have seen the search for human purpose manifest itself the use of technology to make our world better and to connect more powerfully.

What differentiates the digitalization of our lives from other historical advances is the rapid pace of change within the accelerating evolution of new technologies. In relatively short order, advances in chip processors and scientific applications led to applications for production and efficiency improvements. We moved to computational and Internet technologies ushering in the dot com era.

Now, cloud connectivity is allowing all individuals, groups and enterprises to reimagine what is possible in almost every way we live.

We are witnessing the reengineering of every aspect of our existence; in evolutionary terms, we have entered the apex of the digital disruptive period. That being: Digitalization is disrupting how industries work and how the participants – individuals, groups and organizations – add value and make money.

We also are seeing the collateral damage to those who missed the signs of how important digitalization would become, and how quickly or didn't have the experience to respond appropriately.

Remember Polaroid's disruption of the image industry? Digital Equipment Corporation (DEC) to the computer industry? Nokia's leadership in mobile phones? AOL for Internet portals? MySpace for social media? These once mighty names are fading in our collective consciousness because they failed to see the oncoming "freight train" of digitalization and the impact on human adoption and preferences.

"We have reached the point where creating a dark store substantially improves our picking efficiency, logistics and quality of operations. The dark store is located close to an existing store, giving us great synergy with the existing structures, logistics, flow of goods and staff without significant investments. Digital Goodie's solution supports seamless transformation from store-based fulfillment to optimized dark store operation."

– S Group's Jukka Ranua, eCommerce

In the areas we invest in, we see media technology hardware and license models for creative tools romantically holding on to past models hoping incremental improvements will help them survive, we see bill pay technologies missing the platform adoption of alternative payments sweeping the globe, and retailers hoping their enterprise systems can adapt only to see failure after failure before their eyes as more nimble mobile and digital tools capture share.



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The change is much more intense than most of us realize and its pace is accelerating exponentially.

Most organizations need to raise their heads from the onslaught and confront a simple but profound question; who they are, what they stand for and how they are going to navigate the digital transformation not only for themselves but for the industry and customers they serve.

Black Dragon capital focuses on industries that we believe will undergo the most disruption caused by digitalization -- in how the industry works, the allocation of resources, how the community will interact with each other in the industry, and where the value and profits will be allocated within and between the participants.

Interestingly, according to the Global Center for Business Transformation, three of the four areas undergoing the most significant disruption from digitalization are media and entertainment, financial services and retail, all industries that Black Dragon Capital is heavily invested in.

We believe these three areas are foundational elements to human existence and as a result will be sustainable for the long run.

We also believe that the more digital the goods or services is (i.e., a media file, or a payment) the more digital the consumption is (i.e., a digital payment, digital view, digital purchase), the faster the collapse of the traditional workflow within these industries and the more disruptive the economic impact.

Great storytelling in media will always be a part of the human experience.

The demand to create commerce for goods and services to meet basic human needs will always sustain economic and social stability for retail.

"Netflix shows us that controlling the digital supply chain means you own the audience. Hollywood studios were surprised when DVD sales fell and are only now beginning to react."

– Tech X Media's Spencer Stephens,

Pooling excess capital to lend to those who create commerce and making payments between individuals and groups are the basis of our global economy.

However, how these industries work, what role the participants play and how we add value continues to change rapidly.

So how do participants in the industries navigate this digital tsunami?

Besides the pace of change and the related disruption, heritage players struggle as they hold onto the past while trying to find their way to navigate forward.

New entrants are picking off the best parts of the value chain in all industries, whether it's PayPal for payments, Netflix for media or Amazon for retail.

As traditional economic models are collapsing in areas like music or publishing or TV or cable, consumers are demanding new ways to interact, consume and pay.

As a result, basic economic models for all these industries are under intense pressure.

The Black Dragon approach to finding companies to lead this disruption is to focus first on the needs of the community and completely reimagine how technology can be used to serve it better.

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Then we look for technologies that can be deployed in an economically sustainable way so that everyone in the community wins.

As technologists and operators, we make sure the technologies we deploy are the most advanced but practical enough to be useable by the industry.

Along the way, we work to create market leading companies we can be proud of with people we enjoy working with.



Naturally, we recruit courageous leaders who have core attributes to deliver results.

Intelligent, experienced, leaders who hold themselves and their teams accountable and who focus on the needs of the community.

For all the hype of the new entrants disrupting entire industries, such as Uber, Netflix, Airbnb, Didi Chuxing Technology, Pinterest, Lu.com, there are several heritage businesses who have shown it's possible to reinvent themselves, such as Microsoft, Applied Materials, Adobe, and Apple.

The key for heritage businesses is to rethink their role and the connection between individuals, groups and enterprises within their communities in the new digital world.

The strategy should set a path forward that embraces their unique heritage in a way that provides an advantage in the digital world. This is often easier said than done.

At the heart of these questions is being able to assess the major issue for the industry and how a company can solve it in a unique and compelling way.

The moment of clarity I mentioned earlier is the point at which a company assesses if they are able to solve the bigger issues and what changes they need to make to remain relevant.

Often, longtime technology leaders with a hardware or license mentality have a tough time adjusting and must compliment their team with different thinkers.

Change is hard. I need to look no further than the countless in-depth conversations I have with industry leaders who point to companies like Amazon, Alibaba, PayPal, Venmo, Hulu and Netflix as though they were the problem.

In fact, they are part of the solution. They are showing how to participate in the community in a more compelling way.

They are challenging others to rethink consumer relationships to attract more value and profit by participating in and improving the lives of the communities served.



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A heritage player usually has a great brand and superior distribution that they should exploit as they navigate forward. It is often easier than it sounds, and if allowed, inertia of both the company, its leaders, and their heritage client base will lead to their inevitable decline. However, there are numerous examples of heritage companies who are successfully competing and winning. There also are vendors helping these heritage players make the digital transition. In media, Adobe has successfully shifted to a cloud model that is good for them and their customers. Newly launched Ryff has created intelligent image technology to tailor product placement to viewer preferences, advancing a broken advertising model. In retail, vendor software companies like Digital Goodie are arming the largest heritage players to compete and win with a mobile and cloud-based operating system for retail that lowers costs and allows them to compete in the digital world.

Companies like EnterWorks are helping automate the complicated aspects of master data management and product information management for heritage companies like Fender Guitar and Restoration Hardware, both surging in the digital world. In payments, Zelle and Payveris are showing the way to compete with new entrants by arming existing banks and credit unions with a better and more competitive solution to payment companies like PayPal, Venmo and Apple Pay.

Several early-stage technologies threaten all the heritage vendors at the major trade shows and the new players often don't even attend the traditional industry conferences. Shifting economic models and changing consumer expectations make it even more difficult to navigate. An explosion of how we connect and consume services with a massive proliferation of channels and devices adds to the transition hurdles. In banking, the same budget has to support a branch and call center, as well as Internet and mobile access. In media, it's an explosion of devices and formats to accommodate the same media asset.

Understanding and more importantly, acting on these digital shifts will be critical to future company's growth and survival.

– Melrose Mac's Sandy Nasser, CEO and Founder

Retailers still have to provide the in-store purchase, but also the dark store distribution center model with mobile and Internet commerce use. Oh, what a fun time it is for technologists and leaders of these industries! In my book, "The Storyteller's Dilemma, Overcoming the Challenge of the Digital Age," I note there has been about a 400 percent increase in content choices on a per capita basis in the last 10 years, an almost 1,000 percent increase in channels, devices and formats to consume, a solid 50 percent increase in consumption and only a 4 percent increase in budgets during the same period. If you are spending a lot more on content and distribution technology, then you must cut somewhere to fit within the 4 percent budget. This is a tough challenge when you have large capital expenditures in your heritage model, and it is why so many companies fail to make the transition. This holds true across several industries, including retail, banking and media.

While positioning digital disruption as a positive opportunity to be embraced by heritage businesses, rather than a negative force to be reckoned with, Black Dragon Capital focuses on clarity and courage. Business leaders need clarity on what differentiates them in the marketplace and courage to lead the transition. Life is changing. Recognize it. Think carefully. Act on it. Be aware that digitalization is a fundamental shift in business operations and the allocation of wealth in these industries. Adapting to change is the story of evolution. Business leaders can use digitalization to avoid becoming dinosaurs.