

## ***INTRODUCTION***

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### **WHY I WROTE THIS BOOK AND HOW IT WILL HELP YOU**

In my work with top leaders of digital and traditional companies around the globe, I kept hearing the same questions. Why have the dozen or so digital giants—these include Amazon, Facebook, Google, and Alibaba—grown so big so quickly? Will they continue to dominate? Do other companies even stand a chance to compete against them?

The digital giants have forever changed our experiences as consumers and employees. Lower prices, greater convenience, instant access to relevant information—all these things are now common expectations among consumers and even among businesses that buy from other businesses. And all are driven by digital technology, specifically the use of algorithms.

Algorithms—the mathematical rules by which data is processed—had existed for hundreds of years. When computers made it possible to process them very quickly and at low cost, people like Jeff Bezos of Amazon, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google leapt at the chance to use them to solve a broad

spectrum of problems. Unconstrained by management orthodoxy, these leaders let their imaginations soar. Some of the problems they tackled were small, as in Bezos's initial desire to offer readers a vast selection of books at a low price; his ambition expanded from there. Others were big, as in Google's aim to "organize the world's information."

The impact of these exceptional leaders and organizations is obvious, but the why and how of their success are not. So I set out to study exactly why and how the digital giants turned the competitive order on its head.

My research over the past five years made one fact crystal clear: Creating competitive advantage is different in the digital age. Until recently the greatest competitive advantage went to companies that controlled distribution channels, had hard assets on the largest scale, or had established brands or patents. Today those advantages no longer ensure that a company will outcompete others.

In the digital age, competitive advantage is the ability to win the ultimate prize—the consumer's preference—*repeatedly*, through continuous innovation on behalf of the consumer, and to create immense value for shareholders at the same time.

Competitive advantage comes as much from what a company *does* as from what a company *has*: how it perceives the consumer experience, selects leaders, organizes work, and makes money as well as its ecosystem and access to data and funding. The sources of competitive advantage, once developed, can be hard for traditional companies to match, because they are ingrained (a mindset for exponential growth and an action-oriented culture). They are cu-

mulative (more data leads to better consumer insights; larger scale generates more cash). And they are systemic (better predictions lead to more customer satisfaction and lower costs, which in turn increase revenues and cash gross margin, which provides the cash to innovate and serve the consumer better).

This book has two main purposes: to fully explain the sources of a digital giant's formidable competitive advantage, and to help other companies see a path to building theirs. From my observation of digital companies, I have identified a new set of rules for creating competitive advantage. These new rules explain what *any company*—whether it is a digital giant or a traditional company—must do to prosper in this digital age. For legacy companies that are becoming digital, this book will fill in the pieces that leaders often miss when they focus on technology alone. For example, it might encourage them to be bolder in redesigning how work gets done as they build their digital capability (see chapter 7 on how Fidelity Personal Investing did just that).

For traditional companies that have not yet begun to move, this book is a call to action. By explaining how digital companies compound their competitive advantages, it shows how quickly traditional advantages can erode and how inadequate existing mindsets and tools have become. The gap between the digitals and nondigitals widened during the coronavirus outbreak, when digital companies were able to adjust quickly to the abrupt changes in consumer behavior, supply chains, and work life, and their competitive advantage in moneymaking gave them more cash to

sustain the business.

In April 2020, in the midst of the pandemic, Netflix CEO Reed Hastings wrote a letter to shareholders posted to Netflix's website for investors that reassuringly reminded them that "Netflix's culture is designed to empower decision making at all levels of the company." He went on to say that within two weeks of the shelter-in-place orders going into effect in Los Angeles, most of their animation production team was back up and running, working from home. On the postproduction side, they were able to get 200+ projects going remotely. And most of their series writers' rooms were operating virtually.

The coronavirus shock was extreme. But even in a normal period, the burning question is: Against today's digital behemoths, do others stand a chance? Unequivocally, yes. Traditional companies across the board are in the early stages of becoming digital. The ones that rethink their competitive advantage sooner will quickly overtake their peers and yes, they can challenge born-digital players. Amazon boomed during the coronavirus pandemic. So did Walmart, because it was further along in digitizing its business than many legacy retailers.

No competitive advantage is ironclad. It must be earned on a daily basis. Amazon still dominates e-commerce, but Walmart is on the rise. For years Netflix was virtually alone in the video streaming market space, but now digital giants Amazon and Apple have ramped up their presence, along with traditional players Disney, NBC, and WarnerMedia. Netflix subscribers surged to 182 million in the first three months of 2020 when everyone was stuck at home, but by

late April 2020, Disney+ had amassed a respectable fifty million subscribers, NBCUniversal launched that month with fifteen million, and AT&T's awaited launch of HBO Max was imminent.

The means for gaining competitive advantage are increasingly available. Algorithms and expertise can be acquired at relatively low cost. And funding continues to flow to companies that adopt metrics and models that reflect the new fundamentals of moneymaking.

Knowing the new rules of competition will raise your perspective and help you set the course in the complex and fast-changing landscape.

Chapter 1 explains the underlying forces that have turned a handful of start-ups into trillion-dollar-market-value giants in fewer than twenty-five years. My point is to show you exactly why they have changed the competitive landscape, and what it means for your future. Chapter 2 describes some conventional business practices that no longer work and some common beliefs that must be dispelled.

Chapters 3 through 8 explain each of the new rules for creating competitive advantage and use real-company examples to show how to put them to work Monday morning. Chapter 9 will give you encouragement to act by showing how quickly some legacy companies have moved.

It has been my mission in life to provide insights and knowledge that are useful to practitioners. I hope this book succeeds in that mission.