

# NEW OLD ECONOMY

## Surviving in an Age of Convergence

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What we today call convergence began back at the end of the last century – the boundaries between industries and therefore established market contours started to move and became indistinct. This heralded a turning point for the TIME industries, which were the first to be affected.

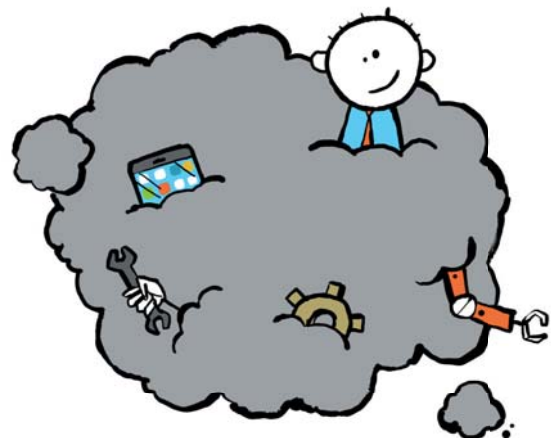
The potential market increased, but so did the risk of being attacked in one's own market by previously completely unknown competitors. Business models established over decades were suddenly put into question, and new products, services and strategies were urgently required in order to deal with the uncertainty, opportunities and threats. This transformation, which is still continuing today, brought fundamental changes to the IT, telecommunications and media industries and altered the equilibrium of markets to a historic degree. In this process, the "old economy" remained at first an interested onlooker – it took another ten years until the mists of digitalization engulfed the factories of the carmakers and engineering firms.

"Knowledge would be fatal.  
It is the uncertainty that  
charmés one. A mist makes  
things wonderful."

*Oscar Wilde, The Picture of Dorian Gray*

### The key role of Industry 4.0

Today convergence has become a core strategic factor for both industries at two levels. How can product- and production-specific challenges be efficiently mastered through the integration of technologies from other industries and how can new business models be developed from cross-industry approaches? The development of Industry 4.0 plays a central role when answering these questions – it is not only a powerful lever used to increase efficiency but, above all, a channel for the transmission of cross-technology and cross-industry business models. The analysts from Experton Group go even as far as to define Industry 4.0 primarily as the extension of the service offering of classical industries.



This allows a sheer unlimited number of opportunities for classical industries to emerge from the mists of convergence that blur the contours of existing areas and enable new paths to be identified. For the first time in their history they are in a position to sell their customers not products but solutions for complex questions. How can I organize a completely mobile lifestyle instead of selling cell phones or cars? How can comprehensive energy management be guaranteed instead of sending kilowatt-hours down high-voltage lines? How can resilient, efficient and highly profitable production be set up instead of simply furnishing production machinery?

### Convergence also means cooperation and competition

The potential associated with this extension of target markets is huge, but it does place the most exacting demands on a company's strategic, technological and also cultural competence. When companies from different industries are able to launch a certain offering, the intensity and complexity of both a competitive "free-for-all" as well as new forms of cross-sector models of cooperation are enormous.

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large ITC, logistics, power or automotive groups – a situation that is also typical of engineering and the automotive supply industry.

The challenges that result from this are explosive for those companies in particular that, first, failed to adapt to this development years ago and, second, do not have the market power and resources of





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### Convergence roadmap – Six steps to the digital future

What is needed, therefore, is a digital roadmap, a chart leading the way through the mists of overlapping industries, technologies and business models that at the same time goes beyond old certainties and methodologies and helps to develop robust strategies for a digital age. ROI has identified six decisive factors that can serve as guidelines for a structured strategy.

#### 1. Scenario Management and Trend Monitoring

If a trend can be clearly identified, it is often already too late to turn it into a sustainable advantage. Companies therefore need a so-called "before-fact approach" in order to identify and interpret weak signals. The keys to this are provided by cultural and structural openness that allow the expertise and intelligence of widely differing network partners and external knowledge players to be included and other industries and markets to be systematically observed.

#### 2. Technology Radar and Technology Strategy

At the same time, in the course of convergence many questions relating to technologies aimed at increasing digitalization and using and processing data need to be answered. Which technologies are mature but uninteresting? Which ones have not yet matured but are especially interesting? Which ones can we ourselves influence and which ones can we not influence?

#### 3. Business Model Portfolio Review

Economic, social and technological trends can have massive implications for existing as well as for potential business models. It is therefore important to develop a systematic and pragmatic approach to continually reviewing strategy. How modular, scalable and transferable to new markets

emerging as a result of convergence and macro trends are our business models? Will it be possible to maintain our competitive position and profitability and achieve growth with them in future, too? What needs to be changed?

#### 4. Technology Strategy Development

The future structure of business models will form the framework for technology strategy. How will the company be technologically aligned? Which technologies are required and what is their relationship to today's core competences? Can access to the relevant technologies best be achieved through acquisition, cooperation or in-house development?

#### 5. Strategic HR Management and Continuous Qualification

The question about existing expertise and expertise required in the future leads to the question whether qualification and staff development are understood and set up as a permanent and professionally organized process. In addition, dealing with the issues of convergence, digitalization and hence also with the transformation of the company calls for a pragmatical and honest view of recruitment. Are we in a position to inspire the people that we need for our company? Can we hold our own against the career offers of cross-sector competitors?

#### 6. Strengthening and Adapting Production Supply Networks

It is in the automotive and engineering industries in particular that no serious strategic decision can be made without a comprehensive analysis of value-generating network. The question about what the consequences a future strategy will have on production and supply chain and how the existing partner network must be extended horizontally, vertically and into other industries is therefore critical to the success of the transformation process and the development of new business models.

However, navigating safely through the uncertainties of convergence requires more than stringent planning and organization. The examples of success of recent years show that it is above all the joy of discovery and the willingness to occasionally take the wrong path that give rise to something great.