



NEWS RELEASE

Executives Expect Digital Disruption to Displace 4 in 10 Incumbents by Industry Within Next Five Years

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New Study From the Global Center for Digital Business Transformation Shows That Only 25 Percent of Companies Are Taking Proactive Steps to Address Digital Disruption

SAN JOSE, CA -- (Marketwired) -- 06/24/15 -- The effect of digital disruption on business has the potential to overturn incumbents and reshape markets faster than perhaps any force in history, according to a new report released today by the Global Center for Digital Business Transformation (DBT Center), an initiative between Cisco (NASDAQ: CSCO) and the International Institute of Management Development (IMD) in Lausanne, Switzerland.

The report, entitled *Digital Vortex: How Digital Disruption is Redefining Industries*, is the first from the DBT Center. The report investigated the state of digital disruption and the outlook for industries through a survey of 941 business leaders in 12 industries and 13 countries including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Russia, United Kingdom, and the United States.

The results of the study show that digital disruption will displace approximately 40 percent of incumbent companies in each of the 12 industries studied for the report within the next five years. Despite digital disruption's potential to overturn incumbents and reshape markets, the survey indicated 45 percent of companies do not believe digital disruption merits board-level attention.

"Every country, every city and every business will be required to become digital in order to thrive and survive in the new digital economy," said Martin McPhee, senior vice president, Cisco Consulting Services. "The Global Center for Digital Business Transformation, which brings together digital disruption and education, will serve as a platform for executives to be educated on the why, what and how required for their digitization journey and the ultimate sustainability of their organizations."

Most executives surveyed see digitization as a positive for business and society. In fact, 75 percent of executives surveyed believe that digital disruption is a form of progress, 72 percent said it improves value to customers and 66 percent feel it empowers individuals. At the same time, 43 percent either do not acknowledge the risk of digital disruption, or have not addressed it sufficiently. Only 25 percent

describe their approach to digital disruption as proactive.

Among the 12 industries highlighted in the report, Technology Products & Services has the highest potential for disruption over the next five years. However, the report also shows data-driven industries in general top the disruption potential list, including Media & Entertainment, Telecommunications, Financial Services and Retail. According to the report, these are industries that rely on technology-enabled networks to exchange digital value, including data and transactions.

The disruption is being driven by well-funded start-ups, digitally proactive competitors and, increasingly, the merging of industries as digitization frees businesses to expand their value in new markets. On average, executives from incumbent companies in all 12 industries revealed that they expect substantial change due to digital disruption, including shifts in market share within five years. Yet, the survey indicates that nearly a third of incumbent companies are taking a "wait and see" approach, in the hopes of emulating successful competitors.

"It's not just business models that are changing, it's value chains and product offerings as well. Digitization is not just changing industries, it is increasingly blurring the lines between them," said Michael Wade, Director of the DBT Center and Professor of Innovation and Strategy at IMD. "As industries move toward the center of the Digital Vortex, physical components -- to the extent that they inhibit competitive advantage -- are shed. The most successful disruptors employ what we refer to as 'combinatorial disruption,' in which multiple sources of value -- cost, experience, and platform-are fused to create disruptive new business models and exponential gains."

The term "Digital Vortex" describes the driving force created by digitization across all industries and how companies are being inevitably pulled toward the center of the phenomenon. The Digital Vortex research into the challenges and opportunities posed by digital disruption is an important first step for the DBT Center in what will be a five-year journey for IMD, Cisco, and an ecosystem of other partner organizations.

To read the full report, visit Cisco.com/IMD/digital-vortex/

About the Global Center for Digital Business Transformation

The Global Center for Digital Business Transformation (DBT Center) is an IMD and Cisco initiative that brings together innovation and learning to create disruptive business models for the digital era. The DBT Center is a global research hub at the forefront of digital business transformation, where executives engage to solve the challenges created by massive market transitions. The DBT Center seeks out diverse viewpoints from a wide range of organizations -- start-ups, incumbents, and disruptors -- to bring new ideas, best practices, and disruptive thinking into the process. The collaboration combines Cisco's leadership in the Internet of Everything -- the networked connection of people, process, data, and things -- with IMD's expertise in applied research and developing global leaders, focusing on the organizational change required for digital transformation.

About Cisco

Cisco (NASDAQ: CSCO) is the worldwide leader in networking that transforms how people connect, communicate and collaborate. Information about Cisco can be found at <http://www.cisco.com>.

About IMD

IMD is the top-ranked business school, recognized as the expert in developing global leaders through high-impact executive education. The school is 100% focused on real-world executive development; offers Swiss excellence with a global perspective; and has a flexible, customized and effective approach.

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