SHORT REPORT

Business Challenges for the 2020s

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Business Challenges for the 2020s

The global COVID-19 pandemic, the human tragedy it caused and the economic downturn after the outbreak of the virus are probably top-of-mind for decision-makers nowadays. However, the maturing digitalization, accelerated by new technologies and innovations together with new regulations and global challenges like the ever more obvious climate change are also still posing enormous challenges for businesses in the 2020s.

Before the Coronavirus pandemic hit the world, we conducted a series of five talks with experts covering a broad range of fields including Cybersecurity, Data Science, Entrepreneurship and Marketing from the NIM’s network and discussed the business challenges they see emerging for the 2020s.

In this short report we like to share a summary of our key learnings from the talks. The challenges reported here include the need to act and think like a tech company, finding a productive way to deal with the omnipresent platforms of “Big Tech”, preparing for new ways of “Marketing 2 Machines” instead of marketing to humans, finding secure ways to collect and store consumer data, and creating comprehensible sustainable solutions for truly transparent markets of the future.

1. Think like a tech company or perish
Every business needs to become data savvy and think like big tech.

2. Big tech platforms are here to stay, get along with it
Develop a digital strategy to create value in a platform oligopoly.

3. Prepare for Marketing 2 Machines
Learn how to market to AI assistants for a future without direct consumer contact.

4. Safeguard consumer data or have no consumer data
Master the safe storing of sensible consumer data in times of ubiquitous hacking.

5. Create genuinely sustainable solutions for truly transparent markets
Prepare to do business genuinely sustainable, both ethically and ecologically.
1 Think like a tech company or perish

Mastering the digital transformation is one of the biggest challenges for every company. A holistic digital strategy, considering all aspects of a business, is seen as a precondition not just for being successful in the future but for sheer survival. From our experts’ point of view, every company needs to become a data driven tech company.

Many companies are not realizing the full value of digital technologies yet, particularly due to predigital mental models of the management. During the talks, three challenges were brought up, that businesses have to overcome on the way towards being truly digital: leveraging the potential of smart technologies for the automation of business processes and decisions, building the infrastructure to make the most out of their data and, maybe most important, building a digital mindset and spread knowledge about technology within a company.

Build a digital mindset and a shared understanding of technology

"Just hiring data scientists is probably not enough; you also need to ask the right questions."

Our experts expect an increasing dependency on technology and an ever-increasing complexity of technology in the future. With such increasing technological complexity, companies face the risk of increasing dependency to technology, even increasing abuse of technology against them and increasing probabilities of failures. Technology gets so complex that even big digital companies have problems handling it properly. As an example, service failures of big tech companies like YouTube were mentioned.

To master this complexity, our expert panel pointed out how important the right mindset and knowledge is about how to apply digital solutions to real world problems. In addition, they see a clear need for a shared language. Digitalization is a way of thinking and approaching problems rather than a tool that can just be applied to specific parts of a company or isolated processes within a business. Just hiring data scientists or buying shiny hardware is probably not enough. Companies must also start to understand the actual possibilities a technology is offering. It is important to get a clear understanding, which questions or problems can really be solved by using which datasets and methods in order to make proper use of technology.

With technology becoming increasingly complex there is also a growing need for translators between "techies" and "non-techies". Otherwise executives may misunderstand input delivered by techies, overlook impactful technologies and trends, or misunderstand their impact on business. Our experts emphasized the need to put people in responsibility who have a better understanding of digital technology, people who combine technical and analytical understanding, even for the price of bringing less traditional business experience. Otherwise, companies with a culture that attracts digital talent may eat your business for lunch.
Make the most out of your data

"Data itself is not valuable, the value is the insights one generates from the data. Create an infrastructure where all data is stored in one place and break the silos."

From our experts' point of view, many companies do not leverage their data to the full extent. They are particularly lacking the infrastructure to store all the data for future use and their datasets are unstructured and not connected to other data sources.

Companies too often tend to "throw away" valuable datasets after a year or even earlier due to limits of storage capacity and customer privacy or security issues like fear of being hacked. Instead it was recommended to apply statistical techniques that allow to store at least the most relevant information at an aggregated level. Such data should be stored for decades as a "data treasure" that can be a very valuable basis for long-term data analysis in the future.

The promises of AI for businesses are huge. However, it gets clear that results can only be as good as the data they are based on. Many companies simply do not have enough good data. While data is said to be everywhere, especially in situations that involve digital interactions with customers, it is too often unstructured and cannot be used as intended. Datasets from a limited set of interactions do not deliver the expected insights if they are not linked to other datasets with additional information. Even if for example car manufacturers now start collecting data from their cars, our experts would rate this data as being rather "worthless as long as it is not connected with other datasets to become meaningful". Data itself is not valuable, the insights one generates from the data are valuable. Companies must make the transformation to a databased company, to connecting datasets and gaining insights, to survive.

The solution our experts proposed may sound simple at first: Create an infrastructure where all data is stored in one place and break the silos. This would allow AI systems and data processing to draw from heterogeneous sources which is really creating a benefit. However, building the infrastructure and gaining the knowledge for this kind of digital processes is way more complex and will take serious investments. Nonetheless, according to our experts such investments will probably make the difference between making or breaking: "Those who change will make it, the others will become irrelevant."

Automate your business processes and decisions

"Many of today's business and administration processes can be automated, should be automated, and will be automated. Those who do not follow along, will not survive."

The availability of smart technologies to automate business processes is growing. Making use of these technologies becomes a must for companies that want to keep track with the market. Those companies making the best use of automation for their business processes will gain a competitive advantage simply by being more efficient than the rest of the pack. This is a call for companies to rethink their processes now, look for automation potentials and use strategic foresight to prepare for the next generation of technologies.
2  Big platforms are here to stay, get along with it

"The free and open web is on its way out, sad enough."

From our experts' point of view, the big tech platform businesses like Google, Amazon and Apple own the digital space and leave almost no niche uncovered. Software is not a business anymore except for some niche players being able to deliver outstanding quality. In Silicon Valley, they said that "nobody makes software anymore, because the big ones would immediately copy it". Hardware was a new market, but the big players are now moving into this market, too, and probably take over.

Many of today’s market dominant companies like Amazon, Google, Uber and Airbnb are digital platform business models. Part of their business model is providing the infrastructure to host services that connect businesses and consumers to share resources, offer services or sell products.

From our experts’ point of view, such closed, proprietary platforms pose a challenge for businesses and distort competition. The most successful platform businesses became "the market" for certain products and services. They became gatekeepers that can take a share of the revenues of everyone doing business on them and everyone must do business on those platforms to get access to clients.

At the same time, the big tech companies are collecting the data of all transactions on their platform giving them again an information advantage and a head start for future business. This is one of the reasons why there has been public discussions about the business models of platform operators recently and whether it is possible and necessary to prohibit them from acting as providers on their own platforms, capitalizing on their unfair information advantage.

The services of the big platforms reduce costs, but of course create dependencies. For businesses, the twofold challenge is to maintain technological autonomy and independence, to make sure the own market access or infrastructure is not fully in the hands of platforms while leveraging the possibilities and resources offered by platforms. Companies already vastly rely on the services of the big technology companies, they rely for example on Amazon for cloud-based services and Microsoft for office software, on Amazon for market access and fulfillment, and on Google for visibility (e.g. search ranking, Google Maps). This trend is expected to grow even further. While simple solutions are not on the horizon, companies need a clear digital strategy to navigate through the cliffs of this platform oligopoly.
3 Prepare for Marketing 2 Machines

"Give AI a vote."

In our talks, it was expected that Artificial Intelligence will take over a significant share of consumers’ purchase decisions in the future. This has the potential to fundamentally change the relation between brands and consumers.

In today’s online world, products and brands need to be shown “above the fold” in search results to reach a large enough audience. Within the next few years, our expert panel expects that a significant share of search will move to voice search. A growing number of consumers will use voice assistants for their purchases and ask for example Alexa for information about brands they know. Due to the lower information density of voice, search result lists will probably be shorter and experienced in a different way. This may significantly reduce the contact of users with brands less prominently placed in the search ranking.

In addition, our experts anticipate steps toward predictive delivery leading to even less interaction of consumers with brands in the medium term. Retailers are expected to send customers a choice of products based on an analysis of customer data and the customers would send back those products that they do not like. In that future an algorithm decides about purchases for consumers. While this algorithm probably optimizes the fulfillment of customer needs to reduce returns, it may also try to maximize retailers’ profits by nudging customers to move from brands to the retailers’ own brands in those categories. In addition, brands would lose their orientation function for consumers at least partly. While our experts do not expect brands to disappear completely, they assume that in many categories, they may lose a lot of their former importance, particularly commodity brands.

Brands that want to survive this upcoming age of predictive delivery and AI making purchase decisions, probably not only have to deliver outstanding consumer experiences to motivate humans to teach their AI assistants to still buy “their brand”. In addition, marketers will also have to learn how to market to those AI assistants directly. This new "Marketing to Machines" is to some extent comparable with how brands try to understand the Google algorithm to increase their Google search rankings today. The big difference is that Search Engine Optimization is aiming at humans at the end while optimizing the marketing to appeal to algorithms would not involve humans anymore.
4 Safeguard consumer data or have no consumer data

"Nobody is safe from hackers. All companies are hacked regularly – even Big Tech is. Some companies may just not know it."

Digital businesses depend to a large extend on access to consumer data to personalize services, to make better recommendations or to create more targeted customer communications. In our talks, we discussed a couple of issues, that may make the access to and the handling of consumer data way more complicated, posing threats especially to smaller companies in the future.

One big challenge for our experts is a trend toward more strict regulations for personal data and privacy. GDPR is seen as an indication that finally governments are taking data protection and privacy much more serious than before. In addition, someone argued that this is just the beginning of a series of new regulations for the usage of personal data, personal data protection and security, and disclosure requirements. Less prepared companies may not be able to deal with such regulations properly any more due to the high complexity of laws and the great technological complexity that needs to be mastered for the safe storing of sensible data.

From a cybersecurity point of view, nobody is safe from hackers. All companies are hacked regularly even Big Tech. A loss of customer data due to hacking is nothing special anymore but it is nonetheless posing a big risk for companies. The charges for data privacy violations are a threat even for big companies like Google and Facebook, but they are a way bigger risk for smaller businesses. Our experts see a trade-off between those costs and the costs for slowed down processes and additional employees like digitally skilled lawyers who make sure the companies’ business complies with the statutory requirements.

In addition to more regulations, some of the experts we talked to also expect individuals to reassess their willingness to share private information. They see a trend towards a more critical view on data privacy and assume that consumers will somewhat "wake up" when they realize the growing impact of technology on their lives and even on politics.

Some tech companies are already trying to capitalize on such a growing need for privacy. A recent example being Apple’s mandatory creation of a "sign in with Apple" feature that will remove email addresses from companies who used to have them. Browsers like Mozilla’s Firefox are increasingly limiting the amount and types of data being shared for ad tracking. Google’s decision to limit data collection via Cookies or Apple anonymizing devices to prevent users from being tracked is said to have the potential to destroy other businesses that do not have the capabilities to get the data they need otherwise.
5 Create genuinely sustainable solutions for truly transparent markets

"Capitalizing on a lack of knowledge on consumer side and ‘green washing’ products may become a burden for companies, once markets get more transparent."

After decades of ignorance, fact-based sustainability and relevant change are expected to become increasingly relevant for consumer decisions. In our talks, the interviewees expect that public attention to climate change and researchers’ advice will finally have a relevant influence on market decisions and governmental regulations.

Due to the complexity of the field, a lack of knowledge, and a lack of information consumers are currently not able to fully pursue their values through their shopping behaviour. Nonetheless, new technology like apps tracking complete value chains or AI assistants automatically balancing the carbon footprint of shopping baskets may lead to a way higher transparency in the market and a new empowerment of consumers. This may fundamentally change markets since many existing businesses are not ready for actual transparency in markets and a truly sustainable way of doing business. Nonetheless, today’s capitalization on a lack of knowledge on consumer side and "green washing" products and services may become a burden for companies, once markets get more transparent.

According to our experts, businesses must prepare for truly sustainable operations, as well in an ethical as in an ecological way.

Future value chains may be way more transparent, and consumers probably have some new tools with hitherto unknown power to overcome the knowledge gap between businesses and consumers – leading to a way more levelled playing field.
6 Concluding Thoughts

"Firm action is needed, with an ability to flex."
Bob Johansen

The five challenges described in this short report are surely not the only ones that businesses will have to deal with to be successful in the future, but they are fundamental for businesses as their implications are huge.

Those challenges should not be imagined as problems that are there to be solved, ideally by finding the one right solution. First, they are too intertwined with each other to deal with them one by one. Second, diving deeper into the challenges described here one will realize that they are strategic dilemmas and not just problems. Bob Johansen characterized modern strategic dilemmas in his 2007 book "Get there early" as recurrent, complex and often messy, threatening, enigmatic and confusing. Such dilemmas are unsolvable, i.e. there are no clear solutions that can simply be found.

Dilemmas will not be won by the traditional problem solvers who are looking for the (one) optimal solution. Instead, they require a good sense for the future to be able to prepare for the possibilities ahead, to be ready when the moment for a decision comes, combined with the ability to flex. Leaders must be ready to constantly question their assumptions and actions and must be flexible to react to the inevitable changes that will occur.