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Key Finding

Digitisation leads to a fundamental shift in the micro-economic dynamics of industries and companies.

Business Application

Incumbent companies that are too little aware of this shift will miss the boat in the digital transition.

As industries shift from analogue to digital, scarce goods become abundant: digital goods do not deteriorate, can be copied infinitely and can be distributed at almost no cost. At the same time, transaction costs – the costs of searching, selecting and acquiring goods – drop to almost zero. These two simple facts have major implications for the (micro-economic) environment in which companies operate. First, industry profitability as a whole is likely to decline, as consumers will profit more than producers from greater transparency and less scarcity. Second, industry structures are likely to shift from oligopolies, where several players compete with each other, to a winner-takes-all environment, where one or two companies absorb the lion's share of profits. The reason for this is that, on the one hand, in a non-scarce digital world a slightly better product can lead to disproportionate increase in market share; and, on the other, low transaction costs allow for the emergence of platforms that connect multitudes of users and producers, which in turn leads to self-reinforcing network effects. Competition will focus more and more on available customer data and the insights gained from them. Third, intermediaries in an industry value chain are likely to disappear, as their role becomes superfluous in a world of transparent and easy interactions.

Incumbent companies that want to survive in this new micro-economic environment will not only have to use digital tools to significantly reduce their costs but at the same time invest relentlessly in the quality of their products and services so that they truly become the best, especially by becoming much better at gathering and understanding customer data and measuring their own performance.

Read more: <https://knowledge.insead.edu/users/annetaris>

Annet Aris has been Adjunct Professor of Strategy at INSEAD since 2003. Her main area of interest and teaching is digital disruption and transformation. She is a supervisory board member of several large incumbent companies going through digital transition such as Randstad NV (HR services), Thomas Cook PLC (tourism), a.s.r. nederland NV (insurance) and Jungheinrich AG (intralogistics). Before joining INSEAD Annet was a partner at McKinsey&Co. such as Randstad NV (HR services), Thomas Cook PLC (tour operator and airline), ASML NV (semiconductor systems), Jungheinrich AG (intralogistics) and a.s.r. Nederland NV (insurance). In 2017 Annet was named one of the 10 most influential female board members in both Germany and The Netherlands.

Research interests: digital disruption and transformation