The Economist Intelligence Unit Digital Economy podcast

Episode 1 transcript

A podcast from

Pete Swabey
Hello, and welcome to the first episode of the EIU Digital Economy Podcast.

In this series, we'll be examining how digitization is shaping the global economy, what that means, and its implications for businesses. We'll be investigating the technological, commercial, social and regulatory trends shaping the digital economy, and meeting some of the people making those trends happen.

The series is sponsored by DXC Technology, an independent IT services company serving over 6,000 clients across 70 countries. We thank them for their support.

In this first episode, we'll be setting the scene by asking: What is the state of the digital economy? How has digitization shaped, and how will it continue to shape, the global economy?

Later on in this episode, I'll be talking to two experts on how digitization is changing the rules of the global economy, and what this means for businesses. But first, to get some insight from the coalface, I met up with Michael Kent, CEO of Azimo, a London-based digital startup that offers cross-border payments. Azimo's customers use its services to send money to over 195 countries, and the company employs a global team of developers. I wanted to know: What's it like to run a digital business whose addressable market is constrained only by the reach of the internet.

Pete Swabey
We're here in your offices in Angel. It's a typical, what people might imagine as a startup's offices. We've literally got a table, a tennis table, in front of us.

Michael Kent
And a bar. We've got a few beers and some spirits, yeah.

Pete Swabey
What's it like running a global business from a relatively small operation like this?

Michael Kent
We have people based all over the world, both in terms of our customers, in terms of our investors, but also the people who work for me and ultimately for the organization. So, I think one of the biggest things that I've learned from coming from a very centralized business — my last business was a High-Street-based money transfer company — so we were command and control, and we had to make sure we knew where the money was all the time. The biggest difference for me — and Azimo is a tech business; it happens to be doing money transfer, but it's really a technology business — is that you have to trust your people and push the decision-making power down into the organization.

I think one of the ironies of building good technology is the more senior you get, the further you are away from the coalface, and the less experienced you are about the technologies and the processes and practices that people are using to build your technology. And so, you have to trust your people. I think that hiring great talent is even more important than it's ever been. I think it's always about the people, about hiring great talent, and then pushing down responsibility into the organization and letting them make the best decisions for the business.

Probably one of the most important ways to get that happening and not have to micromanage people is culture. And you will have seen as you walked in, the other startup stereotype I guess we have is our mission and our vision and our values on the wall very prominently as you come in. We want every single person who works for us or indeed touches Azimo in any way, both the investors and the customers, to know exactly why we exist, what our definition of success is, and the ways that we like to work to get there.

Pete Swabey
How do you stay connected to your customers, given that you will never meet the majority and you will never encounter them in person? How do you make sure that you are understanding their needs as quickly as possible without that kind of face-to-face interaction?

Michael Kent
So, we're lucky and unlucky in that we have a phenomenal feedback loop. If somebody's sending money to mom, dad, brother, sister, or a business contact and it doesn't get there, they let us know about it. They're not shy in coming forward. So, we have a very fast feedback loop, and we know if people are happy or not. The great thing about offering a digital service is that you're in people's hands all the time, and you can ask them questions. So, we're constantly asking our customers for

something called NPS, net promoter score. You may have heard of it if you — particularly on this podcast, if you're talking to different digital leaders — I think a lot of them will reference NPS. We constantly ask for NPS. We're tracking it on a daily basis. We're looking for the feedback that that gives us.

But I do agree, there's no replacement for actually meeting people face-to-face. So, we actually have a team here at Azimo who are customer liaisons and we'll be inviting about 10 people a week to come in and talk us through the product, both believers, detractors and people who've never heard of us before. And all the time we're taking that information, disseminating it through the organization to hopefully make people make better decisions What should we build? How should we build it? How should we split our resources, and where should we focus?

Pete Swabey
So, China is obviously a big and important market for you and is increasingly leading the way in which technology is used. What have you learned from operating over there?

Michael Kent

So, I think China is one of the most fascinating digital markets on Earth. It's huge. It's developing 10 times faster, probably, or certainly than the western internet market. And 5 years ago, when I was in Beijing, everything was cash, and you paid everyone using currency and quite often you'd get fake notes back, and there were all the sort of nuances around that. These days it's very hard to pay for transport or food or in fact be a functioning member of society, certainly in the trading hubs of China, the big cities, without having a digital identity and being plugged into — I think the big ones are Alibaba and Ant Financial and Tencent and WePay. I actually had a situation where I couldn't pay for a meal — I was going to be buying someone dinner — because I wasn't fully on the Chinese payment ecosystem. Very embarrassing, lost lots of face. But yeah, it's super interesting how they've gone from zero to fully digital in a very short period of time.

I think that's actually probably the clearest signpost we can see for the rest of the world going in that direction. Now the speed of development and the speed of moving there will vary hugely. I was just in Africa last week. It's fascinating to see that Kenya has over 50 percent of its GDP going through its payment process, mobile payment network, called M-Pesa. Then you've got somewhere like Nigeria that's actually a larger economy [but] where adoption of digital remains stubbornly slow, high cost, and there's still a lot of work to do to build consumer apps that really work for people there. But the direction of travel is very clear. I don't think anyone can argue that looking at China or looking at Kenya and M-Pesa that that's not going to be the future of money: digital and dispersed and available to everyone, which is the exciting thing.

Pete Swabey

We're expecting that millions of more people will be coming online in the next 5 years, billions even. What impact is that going to have on us as both individuals using the internet and as businesses operating on the internet?

Michael Kent

So, it's a great question, and I'm not entirely sure I know the answer, but what I do know for sure is that to build a big, global, digital company, you can't be about sharing cat videos on the internet or helping people just search for information. You've got to be solving big, transformational problems that impact everyone in their day-to-day lives. So, that is stuff like financial services. That is stuff like healthcare. That is stuff like identity. And the people who tackle those big problems on a global scale will be the next billion-dollar, or in fact multitrillion-dollar businesses that come along.

Companies like Azimo show how digitization is changing the rules of the global economy. To get a bigger picture view on what this means for businesses, I spoke to Professor Annabelle Gawer, professor and chair in digital economy at the University of Surrey Business School, and George Zarkadakis, digital lead at global risk and human capital advisory firm Willis Towers Watson.

So, Annabelle, you study the digital economy, so you must have a clearer idea than most of what that actually means. So, what is it?

Annabelle Gawer
The digital economy is simply our plain, old economy when it has been struck by the internet. For the last 20 years, we have seen not only the internet but everybody has access to a mobile device and we're all connected together. The digital economy is the economy inasmuch as it is being affected by digital technologies such as the internet, such as mobile, such as connectivity. And, you can add to that big data, machine learning, artificial intelligence, blockchain, internet of things and all these new things that keep piling up.

Pete Swabey
So, what are some of the ways in which digitization has changed our economy?

Annabelle Gawer
That's a great question because it has changed it in almost all the aspects of production and consumption. If we first look at the way companies reach consumers through digitization and the internet and mobile connectivity, companies today have access to a much greater and much more global reach of consumers [whom] they could never access before. So, it has definitely changed distribution of goods, as well as from the consumer's perspective, every consumer now has access to a lot more offerings than they could have had before. So, we went from a geographically constrained access zone and scoping to a real global world stage there.

Another way in which digitization and the digital economy has changed business is through advertising. As we all know, one of the most powerful firms in the digital economy is Google, and Google's search engine is probably the single most important technology that has helped the world make sense of all this content on the internet. The genius that they had was to put some advertising business model associated with it, and it has really changed how companies can advertise.

Now, if we want to go to the part in which [we look at] how has digital changed the ways of producing, and perhaps to some extent the way innovation has changed, obviously digital tools have impacted the way production and innovation has happened in different ways, according to different kinds of industries.

The way in which digitization has affected automobile manufacturing is going to be different than the way it's going to change retail or the way it's going to change transport. But there is no single part of the economy where at least an important part of the production process is not being affected or transformed by the digital economy.

Pete Swabey
How has digitization affected competition between businesses?

Annabelle Gawer
I think the single most important change is in the fact that now competition is organized around platforms and the associated ecosystems. And by "platforms," I will mean fundamental core technologies such as, for example, Apple iOS or Google Android, which are owned by firms, which are fundamental technological building blocks on top of which a whole array of other firms can build complementary services and innovate.

When I teach to my MBA students about how digitization is changing competition, I use the metaphor of playing tennis in the old world where we used to teach competition about Company A competing with Company B, just like in a game of tennis, Player A competing against Player B. And now we're moving into a world which I would compare to football. Team A with a team captain, who would be the platform leader there, is competing against Team B.

And what we have in the example of Apple versus Google is Apple as well as all the application developers who are part of the Apple ecosystem, whose destinies are joined up with Apple but they are not on the payroll of Apple and nor are they traditional suppliers to Apple in what we have called for decades the traditional supply chain. Now this amorphous constellation of organizations is competing against another constellation of organizations which constitutes the ecosystem of Google Android.

Pete Swabey
What does this platformization, if that's a word, mean for traditional businesses? Is the strategy to try and become a platform, or is it to align oneself with a platform in order to piggyback to follow a team captain, as you put it?

Annabelle Gawer

I've just finished writing a book which is going to be published in a few months' time called, *The Business of Platforms: Strategy in the Age of Digital Competition, Innovation and Power*. In this book, we have a whole chapter devoted to what can incumbent firms do, and indeed, either joining a platform as a complementor or creating a platform are one of the two options that we indicate. One thing is sure: that it's going to be impossible to not pay attention to platform strategies, and as platform companies are able to enter more and more markets — for example, if you think about Amazon, it's entering a variety of markets. It started in book publishing and retail, now [it's] going into food. It's a major player in cloud-based services.

The very concept of industries has changed. We used to think of industries as fairly stable arenas of competition, and if you were in, say, making paper, you would only be worried about rivals who are making paper. And now you are wondering: Is Google going to come into my business; is Amazon going to come into my business? And the digital nature of the value-creation process makes the boundaries between industries much more porous.

Pete Swabey
George, your company advises clients on risk management. What are some of the biggest risks associated with digital business and operating in a digital economy?

George Zarkadakis
Absolutely. I guess the most obvious risk is cyber risk. As companies become more digital, as they are becoming more dependent on their data and on the cloud infrastructure, cyber is becoming an extremely important risk, especially when regulators and legislators such as GDPR [General Data Protection Regulation] have a hefty cost for a company that is not compliant.

But I'd like to mention two other risks I think that sometimes have been overlooked and I think are very relevant to the digital economy. One is risk around people.

As companies become platforms and open up, they come across a number of new challenges. For example, they want to increase their speed to capability. They need to hire talent very, very quickly, and what they end up doing very often is hiring contractors to be able to scale very quickly, to the point that Annabelle made.

So, a new risk that we discover there is of IP [intellectual property] loss. It's often the case that your contractors work for you, and when they leave, they take all the knowledge with them. So, that's a new risk that was not there before, and we can come back to that, perhaps.

And finally, I think there's a political risk here as well that's interconnected. Globalization and digitization, in fact, go hand in hand. We've seen these two phenomena running in parallel over the past few years. And if you start thinking about the new wave of automation disrupting major industries, like, for example, transportation, warehousing, logistics — and it will certainly disrupt other industries as well but perhaps not so profoundly — then you will [have] impact on the workforce. You'll have impact on income. You'll have impact on income inequality

further down the road. And we've already seen what that means in terms of political risk.

Pete Swabey
There's no question that one of the major concerns around digitization relates to its impact on labor and the future of work. From an organizational perspective, George, how does digitization — what has the human impact been on companies' workforces, from your perspective?

George Zarkadakis
I think there's multiple, if you like, impacts on the enterprise. As enterprises undergo what is generally called digital transformation, as they try to become more data driven, be able to react more quickly to how the market is changing and ultimately serving their customers, I think one area of major impact is definitely the area that has to do with artificial intelligence and machine learning and robotics being adopted by companies and disrupting the very idea of what a job really is.

So there, what we see is not whole jobs being eliminated — that's not really the main theme right now — but we are definitely seeing many, many job tasks being automated. Now, this creates an opportunity, but it also creates a cost and a challenge. The opportunity there is for people to do more productive work, to be paid a higher salary because it will be a more valuable job. But it means that the challenge is for finding the re-skilling pathways in order for those people to advance themselves within the enterprise or within the organization and being able to navigate themselves into a new world where career means a completely different thing.

The other area that I think is really important, apart from culture, to realize as a potential impact area is the very organization of companies, back to the point that Annabelle mentioned when we talk about platforms. Instead of thinking about hierarchies, instead of thinking of this top-down approach, instead of thinking of silos, the organization of the future, the successful organization of the future, has to work more like multiple network agile teams.

And once you start thinking about an organization that looks like a massive, big software company, if you like, groups of people working together with multiple disciplines, multiple skills, creating new products and new innovation, then you really need to rethink stuff like how you measure performance in organizations. So, instead of having an individual performance measurement, you have to think [about] team performance. You have to think [about] what does that mean for awards and what does that mean for all those traditional things that HR professionals and your whole career was based on.

So, we're talking about a massive disruption at the enterprise level, and that's where leadership comes into play. Only companies that have adequate leadership at the helm that can see the future and have the courage, if you like, to take the organization from the present and move it into the future as quickly as possible because there's a lot of competition around; unless you have that leadership team in place, then the future of some of those enterprises is quite bleak.

Pete Swabey
Do you see that happening? Do you see examples of business leaders who are taking the bull by the horns and actually leading their organizations to where the future of work may be? I get the sense that the general atmosphere is sort of wait and see with an undercurrent of dread about what the impact of technology might be, but are there organizations who are saying, "We know where we need to be," and dragging themselves into the future?

George Zarkadakis
I think we have a variety of cases. Sometimes it feels like what you've just described, but we increasingly see across many industries business leaders really getting it and working diligently with their teams and outside consultants and figuring out the strategy for the future. Now, those kinds of strategies around how you transform not just the technology but your whole business DNA are very, very challenging indeed.

I think more and more people get it. I've seen a great change in how people, for instance, think about the potential of artificial intelligence [AI] over the past 12 months. For instance, conversations I had with business leaders 12, 18 months ago were all about so what is artificial intelligence. The conversation has progressed a great deal, and we see more and more companies, for example, adapting AI into their systems, products and infrastructure. So, yeah, there is hope.

Annabelle Gawer
Nobody knows what the future is going to be, and right now we say the future is going to have the shape of artificial intelligence or big data or blockchain or whatever else people are talking about today, but one important question that responsible leaders have to ask themselves is how they can create value in the society of the future, given who they are. And so, that means with not being overly paranoid and throwing the baby out with the bathwater, assuming that they can't do anything that they used to be able to do because now it's a whole brand-new world. And it also means avoiding being too complacent or too tentative, saying, "Let's wait and see."

I think it does mean, exactly like George said, courageous leadership. What courageous leadership means today is to formulate the ways in which an organization can create value, given the world we're in now. In order to create value, it means committing some resources and not just talking the talk but walking the walk as to how do we create value above and beyond what's already existing out there.

I also think that in a world of the platform economy where a lot of people make the mistake to think that the organiszation of the future is just a digital market, a digital marketplace — we've always had markets, and there is great room and a great need for exchanges, but there is also room in our society for collective organizations. And when collective organizations start to behave internally as if all they are is just markets and exchanges where all the work is being done externally, we lose IP, we lose knowledge, we even lose the identity and the DNA of what the company is.

What companies who do that are actually doing is they are sabotaging their own future because nothing is left. They are hollowing out the corporation, and they're

just relying on the same contractors for the same transactional approach, which is the opposite of what we need to do.

And so, a purely transactional approach that forgets the value of collective organization is really the danger that many leaders are facing now because they are overly afraid of the competition, and they think in terms of saving cost, outsourcing and asking for answers external to themselves.

Pete Swabey
George, as you mentioned earlier, digitization and globalization have gone hand in hand. Earlier in this podcast, we heard from the CEO of Azimo, a UK startup who has a very global business by virtue of reaching across the internet and using its digital nature. Is this something that companies are — is this an opportunity that companies are grasping, or has there so far been limited adoption of the capacity to reach across the world? With the exception of the megagiants, the Googles, the Facebooks, etc. Or is there more globalization to come as a result of the digitization?

George Zarkadakis
I think global companies are definitely harvesting the bounty, if you like, of globalization, meaning that they can leverage their core competencies that Annabelle just mentioned in order to deliver customer value across multiple geographies. For instance, we're working with several clients in financial services that will develop a solution in a particular country, pilot it, make it successful, and then replicate it and scale it very quickly across the geographies, and I think that's a very important advantage that global organizations have.

For me, what is also interesting is that startups now — which are small groups of people with a great idea and good backing from investments — can very quickly scale their applications as well. The playing field in the digital economy is much flatter than it used to be, and I think that's an important aspect of the digital economy as well that needs to be mentioned.

Annabelle Gawer
I would temper your enthusiasm on this because, yes, it's true that the level playing field certainly has changed, and when you see a company such as Amazon who originally created internally tools about storage, about data analytics, about data processing, which they eventually — because of their very scale, they had to develop very advanced tools. And eventually they actually commercialized them as AWS, Amazon Web Services. And by the way, many people don't know that, but the single most important source of profit to Amazon is not the goods and services you buy on the Amazon website; it's the services coming from AWS.

So, it's absolutely true that the startups today and small firms have access to IT capabilities, if you want to call it in an old sort of way, that they couldn't dream of accessing because it needed such big investment to develop these that they didn't have access to it. But now there is a whole new market in the form of software as a service or platform as a service, which are basically subscriptions to software capabilities on demand. A lot of smaller companies have access to these capabilities.

But instead of saying that this levels the playing field between big guys and small guys, what I'm saying is that it raises the water for everyone, so even the small companies now need to have these capabilities in order to even be in the game. But you still have very important barriers to entry in terms of scale, in terms of network effects, that are associated with the big giants, and that's why I am less optimistic than George about the idea that the digital economy is somehow creating more partnership and less competition.

Pete Swabey
Great. One of the aims of this podcast is to define and investigate many trends that are shaping the digital economy. I'd like to ask you both: What do you think some of the biggest trends will be in 2019? I'll ask you, George.

George Zarkadakis
Here's what I'm thinking. I'm thinking of looking back into the last 10 years and what were the key technologies that brought those — made those big companies happen, like Google, like Facebook, like Airbnb. I would say mobile, social media, cloud, those three key technologies are what made those companies happen.

I now see three new technologies that will shape the future, at least in the next maybe 5 to 10 years, in a different way, in my opinion, and I would like to qualify that. One is definitely artificial intelligence. Second, I would say the internet of things and what that means in terms of sensors and security and so on. And definitely blockchain as well. So, AI, blockchain and the internet of things will create new industries. In fact, many people refer to those three technologies together as Web 3.0.

It's kind of like a replay of what Annabelle mentioned before. People are sort of looking at the future and Web 3.0 with renewed hope for more democracy and more ownership and a free voice and so on. We'll see if this is going to happen or not, but definitely there is renewed optimism that this new wave of automation and this new wave of technologies will transform the digital economy in a more humane and hopefully more democratic way. But that remains to be seen, of course.

Pete Swabey
I was going to say, do you share that hope?

George Zarkadakis
I personally do, and I think we're going to have two different stories in the next 10 years. We'll have a story that will formulate let's say in the West, perhaps in the States and somewhat differently in Europe, and a completely different story in China because of how data will be used. For example, China has been so far very hostile to blockchain. It's something that seems it's not very well aligned with the formal government. While in the States and in Europe, people have been more open to blockchain. I think blockchain can be the big changing factor, changing agent, if you like, in the next 10 years when it comes to technology.

Pete Swabey

Okay. Annabelle, what are the trends, whether they are technology trends or social trends or commercial trends, that you think we should be looking at in the coming year?

Annabelle Gawer
In terms of technology trend, I would agree with George. These would be my top three in terms of artificial intelligence and, alongside with that, machine learning, internet of things, blockchain.

George already mentioned those, so I would like to speak about something which is not purely technical, and I think the next 10 years are going to bring in a much deeper realization that technology alone cannot be assumed to be either good or bad. And I think that we are going to have a much more sophisticated conversation, and we're going to expect our leaders to have a more sophisticated understanding in the ways in which technology can be used for good and for bad.

And where it's coming home now is because of artificial intelligence. Up until recently, we assumed that technology and automation and also the technological progress were going to be good for the economy and good basically for the world at large, and now we are in a situation where we see that while it may be good for some people in the economy, a lot of people are left by the wayside and a lot of people lose their job, a lot of people feel disenfranchised. And maybe as an aggregate the economy is doing better, but within that, there is a greater disparity between the rich and the poor.

So, I think a big trend, if you wish, is going to be reevaluating what we want as a society and what role technology can play in that.

Pete Swabey
Great. Thank you very much. Finally, Annabelle, George, thank you very much for joining us.

Annabelle Gawer
Thank you.

George Zarkadakis
Pleasure.

Pete Swabey
That concludes the first episode of the EIU Digital Economy podcast. In future episodes, we'll be discussing the impact of digitization on finance, on work and management, on cities and trade, and more besides. To make sure you don't miss that, please subscribe on your preferred podcast platform. Thanks again to our sponsors DXC, an independent IT services company that specializes in digital transformation. And thank you for listening.