Traditionally, business leaders defined strategy by scanning the environment and analyzing performance results. They addressed questions such as, do customers favor lower prices or greater intimacy? Will we win by low cost or differentiation? Should we acquire complementary companies or build competencies organically? Based on the answers, they mapped out their strategic “big bets” to seize the opportunities they saw.

Successful digital business strategies rely less on strategic analysis and big bets than on experiments and learning. Consider, for example, that Airbnb grew out of the belief that people would pay to sleep on an air mattress on a stranger’s floor. Similarly, Instagram started as an app for checking in and hanging out with friends (and sharing pictures) that proved complicated to use. Twitter’s founders had first tried a podcasting platform, Odeo, which Apple made obsolete with iTunes. AUDI AG had to kill off its “share [a car] with five friends” app platform, Odeo, which Apple made obsolete with iTunes.

Digital strategies must emerge from experiments and learning. This approach to strategy formulation will be alien to most established companies—but it is vital to their survival.

Digital strategies succeed when they produce a continuous stream of profitable digital offerings. We define a digital offering as an information-enriched customer solution wrapped in a seamless, personalized experience. In other words, a digital offering solves a customer problem. A successful digital offering is located at the intersection between a digitally inspired solution (what digital technologies make possible) and customer desires. Figure 1 depicts this relationship.

The intersection between customer desires and digitally inspired solutions can be hard to identify initially and will certainly change constantly. This is why digital strategies must emerge from experiments and learning. A digital strategy proposes potential digital offerings. Early experiences with a given digital offering stimulate ideas for an enhanced offering or a completely different one. This approach to strategy formulation will be alien to most established companies—but it is vital to their survival.

CONFRONT THE NEW UNCERTAINTIES OF DIGITAL STRATEGY

Digital strategies must tackle two uncertainties:

1. What can data and digital technologies do to help us solve customer problems? Digital technologies are game changing because they deliver three critical capabilities: ubiquitous data, unlimited connectivity, and massive automation. These capabilities open the way to entirely new revenue streams. Thus, every company must learn what solutions are possible.

2. What solutions would customers be willing to pay for? Talk to a wanna-be digital entrepreneur and you quickly learn that many solutions digital technologies make possible aren’t of interest to anyone. Customers don’t see the problem, or they have ingrained habits they don’t want to change, or they just aren’t comfortable buying a given solution from you. Thus, every company must learn what grabs their customers.

To play in this competitive environment, companies must adopt two habits. First, they’ll need to pursue a continuous
stream of business experiments. Second, they’ll need to engage with customers to gain deep insights into customer problems and potential solutions. These habits help business leaders maintain a fix on the point of intersection between what’s possible and what’s desired.

**CREATE A PORTFOLIO OF EXPERIMENTS**

Evolving a digital value proposition involves funding many small experiments to maximize learning. Funding experiments isn’t hard. Companies encourage widespread experimentation through events like hackathons and other competitions, special funding opportunities like internal Kickstarter projects or a *Shark Tank*-style proposal review process, and new organizational units like innovation labs and digital business units. The idea is to produce a pipeline of new ideas from many parts of the company, particularly from people who interact regularly with customers.

Of course, such widespread innovation could simply waste resources on pointless experiments. Companies can counter that risk by insisting on small experiments that quickly produce measurable outcomes. Any experiment that doesn’t quickly generate customer enthusiasm can be abandoned, while those with the most potential can be cultivated. Leaders can also articulate specific desirable business goals, in order to focus experiments on a set of outcomes that are important to them. Making it crystal clear what specific business outcomes leaders are seeking helps distinguish winners from losers, but most of all, it stimulates everyone’s thinking in the right direction.

It’s true that some major technological innovations will take time to develop. Autonomous driving capabilities fall into this category. Enhancing a vehicle with artificial intelligence involves long, sustained investments. But it’s worth noting that autonomous driving is a product enhancement. Automobile manufacturers that insert autonomous driving capabilities into their cars will rely on traditional strategies and traditional product development processes. This is not an experiment—it’s a big bet.

Digital offerings are different. They are solutions. This is why AUDI AG’s mobility solutions address people’s need to go somewhere, their desire to drive a great car, their hope that parking in big cities will become less of a hassle. To test how best to meet those needs, AUDI has created a separate digital innovation unit that engages in experiments exploring mobility solutions.7

Experiments at DBS Bank in Singapore are pervasive.8 In 2015, the company was concurrently running one thousand small experiments throughout the bank. DBS continues to encourage experiments through mechanisms such as internal crowdsourcing, customer experience labs, hackathons, external partnering, nurturing of FinTech startups, and technology scanning. Some of the experiments are quickly abandoned; others evolve into digital offerings or features for customers.

When DBS initiated its digital efforts in 2010, the company targeted first-class customer experience. As part of that effort, the company established multiple organizational units to teach most of its 22,000 people test-and-learn concepts, design thinking, and customer journey analysis. Subsequently, DBS started capturing data from sensors on customer touchpoints so that employees could analyze customer habits and needs. Leaders then articulated the specific desirable business goal of eliminating 100 million wasted customer hours, and empowered people to innovate to achieve that goal.9 Within a year, they had eliminated 250 million hours of customer wait time, while also cutting 1 million hours of wasted employee time.

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7 Mocker and Fonstad, “How AUDI AG is Driving Toward the Sharing Economy.”


DBS’s digital strategy has evolved as the company has learned from its experiments. In 2014 DBS was committed to making banking “invisible;” today, the company’s vision is making banking joyful, with the branding position “Live more, Bank less.” DBS’s digital strategy initially led to simple apps that enhanced the customer experience, but by 2016, the company had introduced an entirely digital bank in India. In 2017 and 2018 it began offering car, property, and electricity marketplaces on the DBS website.

**ENGAGE WITH CUSTOMERS TO GAIN DEEP INSIGHTS**

Steve Jobs famously declared that he didn’t ask customers what they wanted because he knew better than they did. He was right: Customers couldn’t imagine an iPhone until they had one. This was true for Facebook and Groupon, too—few people can articulate a need for a concept that doesn’t exist.

Digital companies sell solutions, often to problems people don’t think of as solvable. That is why digital companies must learn what customers do—and what they are willing and able to do differently. Sometimes seemingly great ideas don’t find buyers. That’s why customer engagement is essential to digital success.

Successful companies identify successful digital offerings by putting a prototype in the hands of a customer early on, so they can see how the customer uses it. For example, French conglomerate Schneider Electric is pursuing a digital strategy of intelligent energy management solutions, built on a long history of manufacturing and selling electrical equipment. Schneider’s strategy involves leveraging public cloud services, the Internet of Things, analytics, and artificial intelligence. Its intelligent energy management solutions can solve customers’ needs for reliable, cost-effective energy. Certainly, this is a digital strategy that seems to have great potential. But does it?

Schneider customers have entrenched habits around managing energy. Most can’t easily shift to Schneider’s new value proposition: an energy management subscription service instead of a piece of electric equipment. Buying this digital offering requires engaging new salespeople who can provide customers with expertise on energy management and explore their needs. Second, it engages customers in the design and delivery of new offerings so that the offerings reflect what each customer can use.

**ACT LIKE A START-UP**

Leaders in many established companies are declaring that they are going to become digital by acting more like a start-up. It’s important to recognize that acting like a start-up means allowing a few people to experiment with an idea to learn what’s possible and then testing it early on with potential customers to learn what they want. It’s about starting small (with a minimum viable product) and growing an idea as it takes hold.

Note that acting like a start-up does not require losing money. Companies that are on a roll with their digital strategies consistently report that their solutions quickly become profitable. However, those profits are also a tiny percent of the company’s overall profits. This could be distressing to both executives under pressure to deliver quarterly results and investors demanding those results.

Companies looking to thrive in the digital economy will need to borrow a page (or at least a sentence) from Jeff Bezos’ annual reports: “It’s all about the long term.” To meet short-term financial targets, most established companies must sustain their traditional value propositions; to succeed in the digital economy, they must develop a constant stream of digital offerings. They will evolve their strategies by experimenting with small offerings and learning what their customers value. Eventually, big companies will become successful digital companies because they know how to scale (their few) successful experiments.

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10 “DBS signals time has come for new kind of banking.” DBS Newsroom, May 15, 2018, on the DBS website, [https://www.dbs.com/hongkong/newsroom/DBS_signals_time_has_come_for_new_kind_of_banking](https://www.dbs.com/hongkong/newsroom/DBS_signals_time_has_come_for_new_kind_of_banking).

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