



THE ART OF THE DIGITAL WARGAME

WINNING STRATEGIES FOR AN UNRAVELING INDUSTRY STRUCTURE

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“If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.”

– Sun Tzu, *The Art of War*

EXECUTIVE SUMMARY

Virtusa recently helped a large bank that is facing disruption to its core business from Asian super-competitors, Tencent and Alibaba. This battle, despite the geography, is a case study for Western incumbents in service industries as they strategize on a pre-emptive move or a response to US technology giants (e.g., Facebook, Amazon, Apple, Google), who are on an eventual trajectory to disrupt their respective industries.

In this case, our client watched with concern as Alibaba and Tencent established partnerships, invested in local companies, and built government relationships throughout its market. Our client worried that, as had happened in China, the local marketplace was about to be upended as these super-competitors, whose roots were outside banking, were positioning themselves to rollout their broader ecosystems, including payments and banking services, to domestic consumers. As we described in our earlier paper “The End of Business as Usual and the Unraveling of the Vertical Industry Structure”, these super-competitors provide a lifestyle SuperApp. In this SuperApp, banking services, starting with payments, get embedded as part of a day-to-day lifestyle where banking is no longer a destination, but a value-added service. Using deep pockets, large marketing budgets, and viral marketing techniques, these super-competitors attract large user bases who then get hooked to the SuperApp. Once the customer is in the SuperApp ecosystem, and can appreciate a breadth of connected services, these super-competitors rapidly make it convenient for the customer to switch out of incumbent banking, insurance, content, retail, and communication services through promotions and intuitive user experiences that are powered by analytics and artificial intelligence. For our client, we estimated that 30% of its core retail and small business service lines was at risk of short-term disruption, which also threatened its long-term viability. Our client required a strategy to respond, and needed it fast.

This paper describes how we customized a traditional strategy tool, the Wargame, to help our client develop a strategic response to the threat of digital disruption. Our strategic researchers canvassed the globe, teasing out insights that allowed us to create competitive playbooks against these super-competitors. We analyzed digital trends and market insights to provide a backdrop for interactive sessions with the client in order to develop and test market moves and countermoves against traditional and disruptive competitor actions. Most importantly, we mobilized a small army of employees into action, making them well-versed in the upcoming competition, and capable of responding swiftly and precisely to potential competitor action.

Unraveling of the Vertical Industry Structure

Traditional business models are being disrupted across the globe. Western examples include AirBnB in the hotel industry, Uber in travel, Spotify in music, Paypal and Venmo in payments, and Amazon in retail and commerce. However, these are examples of a competitor causing disruption within a single industry. The new super-competitors in Asia are using digital technologies and lifestyle-focused consumer engagement models to challenge incumbents across all service industries, simultaneously. This trend formed the basis of our prior paper predicting the “unraveling of the vertical industry structure” and the start of a long-term secular trend of ecosystem-based competition. C-suite executives who can look ahead are struggling to figure out how best to respond to this unorthodox threat. Competing with these new super-competitors requires businesses to embrace new strategies, forge unconventional partnerships, and acquire capabilities from unlikely sources. Virtusa’s Digital Disruption Wargame is designed to help clients navigate the business tsunami likely to be caused by these super-competitors.

Disruption Led by Experience-oriented Service Providers

This disruption is being led by nimble, experience-oriented service providers who provide products and services to consumers across industries without regard for the traditional industry silos that have dominated the past 100 years of economic expansion. At the forefront of this business model sea-of-change are two Chinese service providers, Alibaba and Tencent. These two firms have leveraged their deep understanding of the millennial lifestyle to create engaging and convenient ecosystems of services and experiences that consumers get hooked onto, as they go about their daily lives. By being the one stop conduit for these activities and using information as the connector among a wide-range of daily experiences, these companies have positioned themselves to seamlessly provide services at a consumer's point of need. Keeping the millennial consumer immersed within their ecosystem allows them to monetize every possible interaction and create a digital stickiness that is markedly different from traditional brand loyalty.

This has resulted in Tencent and Alibaba dominating markets that are as varied as banking, gaming, social, search, and retail. As they look to expand outside China, they threaten incumbents in the markets they enter. Other Asian players, notably Reliance Jio in India, are successfully copying this playbook. U.S. technology giants have adopted only a few elements from this playbook. Given the ever-increasing demand to demonstrate profitable growth, and the increasing scrutiny on how customer data is resold, we anticipate these U.S. firms will eventually follow suit. We believe this consumer-led shift toward a horizontal, cross-industry, and experience-oriented structure is secular and will become the dominant global business model.



Challenges for Incumbents in Vertical Industries

The key implication is that incumbent leaders in vertical industries face an uncertain future if they don't plan early. Once a customer gets hooked onto a lifestyle SuperApp, in which all services can be provided through a single ecosystem, they risk losing that customer systematically over time. Partnering with a super-competitor relegates the incumbent to playing second fiddle where the customer and their digital persona owned by these super-competitors are not shared with the incumbent. For these super-competitors, switching the incumbent out with their cheaper or better alternative is only a matter of time. Incumbents must wrestle with a wide range of existential questions as they struggle to respond to the rise of these horizontal players who want to own the customer and monetize them through a wide range of services. Questions incumbents must ask themselves include:

- How do I compete against a player who is not willing to play by existing norms?
- How will this new type of firm compete? How will they attack me? Where am I exposed?
- What capabilities, both technical and people, will I need to compete in this new business climate?
- Can I fight off these new competitors myself or will I need strategic partnerships?
- Should I and can I build my own experience based ecosystem?
- What products and businesses should I fight to protect, and which should I stop investing in because I am too exposed or already in decline?
- How will I retain existing customers and attract new ones when competing with firms that are experts at providing immersive customer experiences?

Ultimately, what these companies must figure out is, “How do I win against these super-competitors?” These are the types of questions our Digital Disruption Wargame is designed to address.

Strategic Response Design via a Digital Wargame

Our client first needed to understand at a granular level how its competitors might enter the market. Developing a response to the threats required understanding how an increasingly complex ecosystem of competitors would evolve and respond to our client’s actions. While a handful of executives began appreciating the extent of the threat to their core business, they still needed a vehicle to mobilize a larger client response team that could help them flesh out strategies and begin the defense process. This is what the Virtusa Digital Disruption Wargame is designed to do.

We created four teams that competed in a series of simulations over the course of the wargame. These teams, of which one represented the client and the others represented different competing firms, vied with each other during these business scenario simulations to best determine how the market might evolve and how our client could not only protect its current market position, but also leverage the disruptive forces to grow its revenue base. At the end of each game winners were declared to add a level of internal rivalry. Over the course of multiple days, these teams immersed themselves in the shoes of the competitor and began appreciating the competitor playbook and what it might mean to their company’s core business.

Leverage disruptive forces
to grow the revenue base.



Preparation for the Digital Wargame

Virtusa’s China Insights Group (CIG) and Strategic Research Group (SRG) provided the inputs needed to run the wargame. These inputs included the Alibaba and Tencent competitor playbooks that highlighted possible expansion strategies that were based on insights such as previous actions in other markets, anticipated product offerings and roll-out plans, likely customer and merchant targets, as well as possible regulatory and incumbent responses. These playbooks helped the client familiarize itself with its competitors and, with coaching from Virtusa digital strategy consultants, role-play as the competitor during the wargame.

The Digital Wargame

The wargame itself spanned multiple days. This allowed client teams to rigorously test a variety of potential responses to the entry of these new competitors. Baseline market entry strategies, product features, and marketing activities were developed by leveraging insights derived from the competitors’ actions in other markets. As the wargame progressed, specific scenarios were put in place to stress test these responses, such as:

- One of the competitor teams making a strategic acquisition or partnership
- The client team partnering with one of the competitor teams to defeat the other
- Changing the regulatory environment
- The entrance of unexpected competitor into the market

For each of these scenarios the client explored several strategies. These included: competing directly through the development of comparable skillsets; focusing on existing core services; targeting specific customer and merchant segments; building a network of partnerships to offset the digital capabilities of these new competitors; becoming a platform provider; becoming more of a low-cost processor and conceding the customer relationship to the new players.

Output & Benefits

Throughout the wargame process, Virtusa's team of digital strategists and banking subject matter experts helped the client develop a competitive strategy to defend its market position and shore up weaknesses while also gaining new customers and revenues through an enhanced set of digital capabilities and partnerships. The wargame also provided the client with a series of markers to track. These markers consisted of competitor and regulatory actions that, if observed, would signal that a new phase of the competition was beginning or that a competitor was about to deviate from the anticipated path. The client's organization, now mobilized to the threat of these new competitors, was therefore positioned to more nimbly adjust to changes in this evolving, competitive environment. The client was also now aligned around a vision and roadmap that would ensure its long-term viability through digital reinvention.

In Conclusion

The vertical industry model is under threat of disruption from players that do not play by the old rules. Reacting to a disruption will result in significant loss of market share as an appropriate eco-system based competitive response will take time to execute. We encourage executives to start developing counter strategies to this threat using the digital wargame as a tool to accelerate this process.

We'd love to talk. Write to us at salesinquiries@virtusa.com.

ABOUT THE AUTHORS

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Raj Rajgopal is the President of Virtusa Corporation, and leads Virtusa's Digital Business strategy and execution capabilities. Raj leads a team of digital strategy consultants who help our clients develop and execute disruptive and differentiated value propositions that enable them to take a leadership role in their industries.

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With contributions from Virtusa's China Insights Group (CIG) and Strategic Research Group (SRG).

Virtusa's China Insights Group (CIG), is a group within the Digital Business Strategy Team helping clients leverage digital disruption to drive growth, defend market share and reinvent businesses. Several Chinese titans, and especially the BAT (Baidu, Alibaba, Tencent) companies are dominating and transforming service industries like Banking, Insurance, Commerce, Healthcare, Telecom and Media with a completely new business model and are reinventing the service experience. With diminishing growth prospects in China, these companies are looking internationally for expansion threatening incumbent service industries in these markets. The China Insights Group has been specifically formed to bring product and service insights and market entry strategies from these disruptors to help our clients in the US, Europe, and Asia refine their global strategy.

Virtusa's Strategic Research Group (SRG), is a group within the Digital Business Strategy Team helping clients drive growth, defend market share and reinvent businesses across industries like Banking, Insurance, Commerce, Healthcare, Telecom, and Media. The group has been specifically formed to provide primary and secondary research, identify trends, provide industry and competitive analysis and insights, and formulate strategies to help our clients.