CBS Insights
Research in Brief

Columbia Business School

AI & Business Analytics

The Rise of the New Conglomerate: How Internet-Enabled Firms Adopt Digital-First, Data-Driven Strategies to Drive Growth

Key Takeaways

- New conglomerates use the enhanced computing power of the internet and advanced technologies like artificial intelligence to coordinate diverse activities within their organization.
- Unlike traditional conglomerates that focused on supply-side strategies, these new conglomerates harness customer data, and demand-side principles to build and scale differentiated business units that meet the needs and wants of their core customers.
- A tight-knit ecosystem of partners and vertically related relationships allow internet-enabled conglomerates to capitalize on synergies and enhance their customer-centric approach to products and services.
- These conglomerates may not prioritize immediate profitability and instead focus on gaining a strong position in new markets. Adaptability in organizational structures allows for quick pivots away from low-performing activities.

Adapted from "Rise of the New Conglomerates" by Kathryn Harrigan of Columbia Business School.

The paper from Columbia Business School "Rise of New Conglomerates" explores the unique strategies of internet-enabled conglomerates and why and how these approaches differ from the traditional conglomerate. The study was authored by Kathryn Harrigan of Columbia Business School.

Research

The research report discusses the phenomenon of internet-enabled conglomerates – large companies that use digital strategies extensively to conduct various business activities. These conglomerates leverage the internet to diversify their operations, coordinate their activities, and utilize customer data to create value. Their approach differs from traditional conglomerates that used supply-side approaches to their diverse business units and relied solely on their existing assets.

The report identifies a list of 100 internet-enabled conglomerates based on their 2020 revenue from internet activities. Then, the internet intensity of these conglomerates is determined by the proportion of their revenue generated from internet-based operations. Conglomerates with high internet intensity ratios attribute a significant portion of their revenue to internet-related activities.

The study also calculates diversification estimates to determine which conglomerates have diversified their lines of business. Then using a dissimilarity score to measure the differences between a conglomerate's core business and its other business activities, the research found that conglomerates with high diversification scores and internet intensity ratios are internet-enabled conglomerates.

Research (continued)

The study observed four key attributes of new internet-enabled conglomerates:

Leveraging coordinated and shared digital resources

Internet-enabled conglomerates differentiate themselves by utilizing software-based investments and digital resources. They employ proprietary technologies, algorithms, software backbones, and customer data to deliver superior products, services, and customer experiences. These resources are tightly protected and nurtured within the conglomerates. Instead of operating as passive holding companies like traditional conglomerates, internet-enabled conglomerates coordinate their activities through shared customer data, common algorithms, and software capabilities. This coordination enables interaction among diverse business units and ecosystem partners, allowing them to enhance customer engagement and retain higher customer loyalty.

Vertical integration and protection of critical resources

Internet-enabled conglomerates tightly control the use of critical customer and logistical data, algorithms, and shared operations like distribution channels or customer interfaces. Forward integration allows these firms to integrate their value chain, streamline processes, improve coordination, and capture additional value by internalizing activities that were previously outsourced or performed by external partners. These resources are highly integrated through common algorithms and software backbones, resulting in a seamless customer-facing front. The conglomerates protect these resources from external appropriation and utilize degrees of vertical integration to maintain control over the customer interface and ensure the delivery of superior services.

Demand-side customer focus

Internet-enabled conglomerates adopt a demand-side strategy perspective, prioritizing customer-centric approaches. They focus on building upon existing satisfied customers and capturing the lifetime value of these customers through repeat transactions and referrals. The emphasis on customer retention is cost-effective compared to acquiring new customers, and the conglomerates use data-driven insights to serve customers better and identify cross-selling opportunities.

Disruptive investors who tolerate losses and agile resource allocation

Internet-enabled conglomerates receive financial support from capital providers who are attracted to their disruptive growth potential. Profitability is often deferred until the organization has gained a toehold into a new market. Firms are very adaptable, changing strategies based on performance. They are quick to restructure and shift focus when there is a lack of advantage or profitability is low.

Conclusion

The research highlights the distinctive traits of internet-enabled conglomerates providing a valuable understanding of the unique characteristics and competitive advantages of internet-enabled conglomerates in today's digital economy. These firms have reinvented how to manage unrelated diversification towards scalable profitability.

Internet-enabled conglomerates differentiate themselves through their focus on customer-centric strategies, coordination of resources, and leveraging the platform traits of the Internet. They employ advanced technologies, protect proprietary resources and customer data, and prioritize customer retention and satisfaction. These traits set them apart from traditional conglomerates and drive their success in the digital age.

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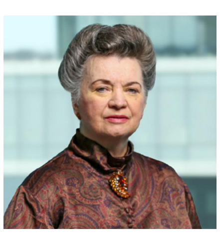

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