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AISWITCH AI PRACTICE COOKBOOK: 1-2-3 of AI STRATEGY ARE COST-FOCUS-DIFFERENTIATION

Who should read this: Enterprise AI CoE leaders, CDO, CIO, CEO (for strategic AI initiatives), AI Business User Leaders, AI Solution Architects, AI Solutions & Service Providers

Why the need for a clear strategy for enterprise AI-automation?

One of the Top Concerns that 55%+ clients have mentioned in the 2020 surveys regarding AI-automation failures and vulnerabilities is: “Inability to define a clear-cut strategy for enterprise AI-automation initiatives”. Now, 1- WHY is it even important to have an AI strategy? 2- Does every organization need an AI strategy? 3- Does every business have to think of an AI strategy? Like it or not, the answers to questions 2 & 3 above are both 'YES'. AI is becoming just as pervasive as digital, for any and every organization.

Strategy, as we all know, remains one of the most abused words. Probably very soon the competition for the next worst terms is going to come from phrases like 'cognitive' and 'AI'- given the pace at which even simple BI or MIS reporting or event monitoring/ Ops tools are also being touted as AI. Obviously, when the two most abused terms - AI & strategy, come together, it's a simple case of Double Jeopardy [Sorry Watson]. But, does it have to remain that way?

What are the 3 main AI-automation strategies for the enterprise?

Let's try something very simple: Establish fundamental definitions of AI and strategy. So far as AI is concerned, there are recent-enough reports e.g. from The House of Lords U.K. (16th April 2018) which summarize the definitions starting from Turing to now, quite succinctly, as below:

> **“For practical purposes we have adopted the definition used by the Government in its Industrial Strategy White Paper, which defined AI as:**
> **Technologies with the ability to perform tasks that would otherwise require human intelligence, such as visual perception, speech recognition, and language translation (2011).**
>
> **Our one addition to this definition is that AI systems today usually have the capacity to learn or adapt to new experiences or stimuli."**

On strategy, as per basic definitions set out by Michael Porter in 1985 in his book, "Competitive Advantage: Creating and Sustaining Superior Performance", there are three approaches of generic strategies as they apply in various products or services contexts across all industries and organizations of all sizes. They are:

- **Cost Leadership (no frills)- competing purely on cost**
- **Differentiation (creating uniquely desirable products and services)**
- **Focus (offering a specialized service in a niche market).**

Then there are combinations e.g. 'Cost focus' i.e. competing on cost in a specific offering/market, and 'Differentiation focus' i.e. competing on unique offerings in a niche market.

While determining AI strategy for an enterprise, it is important to start thinking about where AI make a big difference in the business strategy. So, it's NOT AI strategy per se, but how an enterprise will use AI to achieve certain targeted strategic leadership positions. This will also help in identifying the starting point [another perpetual challenge for all] of the AI journey of an enterprise.

Before jumping into the 'what's and 'how's, as is our typical tendency, e.g. "what AI use-cases", "What technology/ algorithms/ platform", "what skills, how to get", "How to build an AI CoE" etc., a simple overarching AI strategy will give us the most important 'Why's- why AI, the directions we want to take. These 'why's will also give us our success criteria against which we can measure, monitor, and report the targeted vs. actual value achieved on ground, from our AI initiatives and investments.

So, fundamentally, why do we have to care about AI? Here's a simple cognitive Q&A:

1. Do we want to use AI to drastically bring our operational costs down?
   AI strategy = Cost leadership
2. Do we want to use AI to improve our understanding of all our customers' implicit or unmet requirements and come up with new products/ services/ solutions to serve them better/ grow faster and cover more markets?
   AI strategy = Differentiation
3. Do we want to leverage AI to improve our market share and market position for our most profitable offerings, in our largest region(s)?
   AI strategy = Focus

This is summarized in the table below, with just indicative use-case/ business-case examples on each:

Types of generic AI strategies	What it means	Example use-cases/ business case
Cost	Using AI to bring all relevant/ applicable cost levers down	• Intelligent automation of low-end jobs that were earlier done with costly manpower • Virtual Autonomous Agents to reduce physical ops footprints • Intelligent automation to bring down overall services/ process costs, reduce rework costs due to autonomous agents doing it right the first time, reduce cost of quality • do more business with same people [upskilled, softer/ relationship-based]
Differentiation	Using AI to create/deliver unique product/ services	• Personalized service Buddies – autonomous virtual agents as personal advisors, recommenders, brokers, deal makers, etc. for customers • Predictive demand identifier and offer creator: AI monitoring customers' changing consumptions/ buying preferences and autonomously creating individualized offers for varying needs at different times, improving experience, and subsequent stickiness, loyalty
Focus	Using AI to become market leader in a niche product/ niche market	• Intelligent product/ service aggregator to offer a One Stop Shop experience for a particular service or a product, say a gift delivery ecommerce portal • AI 'sentinels' to protect the company from data privacy/ regulatory compliance requirements in particularly sensitive, but high-risk, high-return/ high-revenue/ high-profitability regions

We can also have combinations of these 3 generic strategies e.g. 'cost focus' or 'differentiation focus' AI strategies. Only worry is- when we say we want it all, e.g. cost

and differentiation both are our top priorities. That, simply understood, won't work, because, for example, to create differentiated products/ services, the operational costs will be higher, as mass production and economies of scale benefits won't apply in that context.

Digital differentiation- for example through 'mass personalization', can never give us the economies of scale benefits of a mass production system. But personalized digital offerings will create new markets, customers, revenue-streams, top-line impact, growth impact etc.- things that cost leadership cannot give.

Same caution needs to be exercised while defining AI strategy, and priority queues of usecases need to reflect the same strategy. E.g.

Case in Point: Viable AI-automation strategies and subsequent journey-maps for retail banking

Case1: If a bank chooses the cost strategy, it will choose AI usecases that will reduce operational manpower and real-estate requirements significantly, driving mass-scale adoption of intelligent automation.

Case 2: If a bank focusses on the differentiation strategy, it will prioritize AI usecases that will give completely unique and industry-first level experience to all its customers e.g. through AI-powered digital/mobile banking, with a 'Make your own Bank' kind of personalized banking services offerings where each customer can design and change services basis their individual banking requirements at different points in time.

Case 3: If a bank chooses a Focus strategy, it may prioritize AI usecases that will give it complete regulatory protection in it's largest/ most profitable region, for example.

Case 4: If it chooses a "Differentiation Focus" strategy, it would prioritize AI usecases that can offer completely unique 'Phygital' [physical + digital] banking experience to a select group of say 'Platinum' tagged customers where Drone based draft delivery services also may be provided as per plan.

Case 5: If it chooses a "Cost Focus" strategy, it will choose usecases like autonomous virtual agents in its 'highest-manpower-cost' locations, so that the most expensive operational manpower can upskill themselves into more business value-adding and strategic tasks and all/most operational work gets done by autonomous agents/ Bots. This will enable the bank to do much more business [thanks to having more people at a higher level of the value chain], for much less opex in that particularly expensive geography.

These are indicative examples. There will be several more usecases but the key points to drive home are only two:

Action items next Monday Morning

Key actions	Key actors
1. Choose ONE AI strategy that can have a clear-cut definition. As explained earlier, we cannot have butter and gun together - cost and differentiation both directions at once are practically contradictory hence impossible asks, even from AI.	CXOs, AI CoE Head
2. Make sure that the selection and prioritization of usecases are in sync with overarching AI strategy. Else the investments will misfire and work at cross-purposes.	AI CoE & BU leaders

For further information on techniques and systems: admin@aiswitch.org