Digital Transformation:
Key lessons and success factors

A recent MIT / Cap Gemini study showed that 79% of all executives interviewed felt that 'digital transformation' should be a top 3 agenda item for 2013 and beyond, but only 12% felt that their organisations had really seized this opportunity.

For most companies nowadays, digital transformation has so far been focussed externally. It's been about opening new channels to engage stakeholders and customers. It's been about setting up web sites, a mobile app, a Facebook page, a Twitter feed, perhaps some social media monitoring. Among B2C businesses there has also been a surge of development around e-commerce, finding new sources of revenue and growth.

These market-facing initiatives have often been successful – large scale incumbents have begun to find their 'digital feet' and are now major players in online commerce and customer engagement. The likes of Tesco.com, Bank of America, Procter & Gamble, Macys, Next, Starbucks, Burberry, Bradesco Bank, Direct Asia and many other consumer-facing businesses have adapted and responded to market pressures and competitive demands.

But very few companies, whether B2C or B2B, have looked at how digital technology could also transform them internally and impact 'the way they work'.

There is in fact plenty of talk about this; conferences and seminars abound on the role of new technology solutions to transform a company, but that talk has not yet translated into any wide-scale corporate transformation. This is being reflected in surveys like the MIT / Cap Gemini one where most see the opportunity, but few have yet truly grasped it.

Customer-facing web sites and initiatives are all good; they can clearly make a significant impact, are also newsworthy and can gain PR and shareholder interest. However, many feel that the real questions surrounding the digital opportunity are more fundamental; how the company is organised, the technologies it deploys, is it taking advantage of developments in the Cloud and Open Standards, how can it evolve to be more streamlined and cost-efficient, automate processes, move to self-serve, how can it take advantage of technology to find new ways of working that ultimately lead to more and longer term advantages in its markets.

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Let's look at some examples

Here are some organisations who are leaders in this digital transformation field:

(i) Burberry: Burberry truly began investing in digital back in 2006. At that time it took the obvious key steps around relaunching its web site. It also took some fundamental decisions and adopted some key 'digital technology' principles. First of these was to establish a common platform. They could see limited value in allowing each country manager to build their own web operation, so one platform, one approach, one global governance to manage and administer. These guiding principles have really helped ensure that Burberry could move forward with digital technology in a fast, coherent and coordinated way, cutting out duplication and allowing a truly global presence to develop.

This way of doing business, this principle of how best to adopt technology innovation began to infiltrate inside the way the company operated, impacting its internal processes and ways of working. For example, product design became a fully digital process – designs could be 'shipped' digitally to suppliers and partners. People from all over the global Burberry community could input, share ideas, get engaged. Manufacturers had to comply and adapt to the Burberry way of working. Product development was not only more universal but the whole product development time-cycle was substantially reduced.

Burberry have been on a digital journey that has now lasted more than 7 years and is still ongoing. The company is continually learning what can be achieved, what typical roadblocks and obstacles it will likely encounter and how to move and adapt quickly. It has learnt that digital transformation cannot be viewed as one big change programme. The trick, the key lesson, is to look at this process by process. The goal is to identify a key process which could be improved by adopting a digital technology solution; whether in product design, or in procurement, or in HR or in Finance, or in customer ordering or in in-store payment processing. Pick a process, pick an internal hero to champion the change.
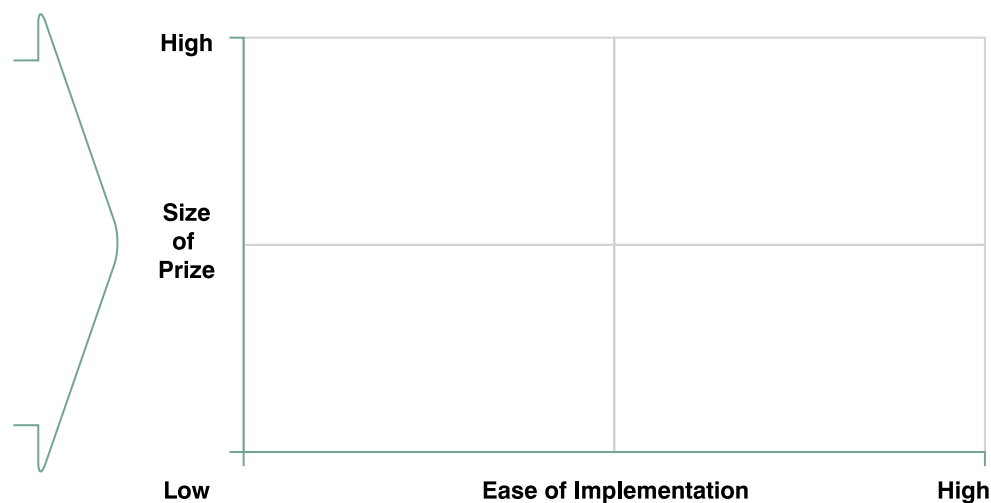
Among other things, Burberry has also established its own 'Innovation Unit'. This is an internal team whose task is to identify the next key process to undergo digital transformation and then prepare the groundswell of interest, support and identify the enabling technology which can drive the change and deliver the target benefits.

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(ii) Nestlé: Nestlé made its decision to get serious about digital technology during 2010, following a PR disaster in its use of social media, particularly Facebook. Nestlé CEO Paul Bulcke made the key decision that digital was now mission critical for the company and 'key to get it right!'

This led to a series of reviews and a new digital investment strategy developed. Among other things there was recognition that a lot could be learnt from the best digital players. There was an opportunity not just to learn from best practice but also to leapfrog competition. So links were established with the likes of Amazon, Google and Facebook and people sent out on fact-finding missions to learn how to take full advantage of developments in digital technology. A dedicated Silicon Valley team was set up to get close to these leading edge organisations and learn how to 'co-innovate'.

In addition, a 'digital acceleration' team was set up at Nestlé HQ. Employees applied for a 6 to 12 month secondment for intensive training, to establish common understanding and ways of working and to bring that back out to local markets to enable faster coordination and adoption. There are now even 'satellite training centres' in China, Italy and other locations.

The overall goal is to establish new common, shared global platforms; the ability to collaborate easily and efficiently, achieve the full benefits of scale from a global brand in its manufacturing, distribution and marketing, to implement new ways of working that incorporate digital technologies that can 'permeate' the entire company.

One of Nestlé's key co-innovation partners has been Salesforce.com. While most companies will basically just buy the SFDC licence, Nestlé decided to establish with them a joint digital transformation leadership team. They established something closer to a business partnership rather than a vendor-customer relationship. There are joint teams, shared learning and know-how, the opportunity to develop together new IP and approaches which would be shared and a real commitment from Salesforce.com to see Nestlé emerge as one of its key customers and trophy case studies.

At the heart is the SFDC cloud / SaaS business model. But alongside that is a deep commitment to establish a single data platform that will give Nestlé a single global view of its B2B - and potentially also its B2C - customer data and enable insight that could drive better end-customer engagement, find new sources to sell-in the full product portfolio and new ways to generate revenue growth. The interest in getting this universal data view, to understand it and have the analytics capability to take advantage of it, is seen as the key benefit.

Cloud is the great unlocker!
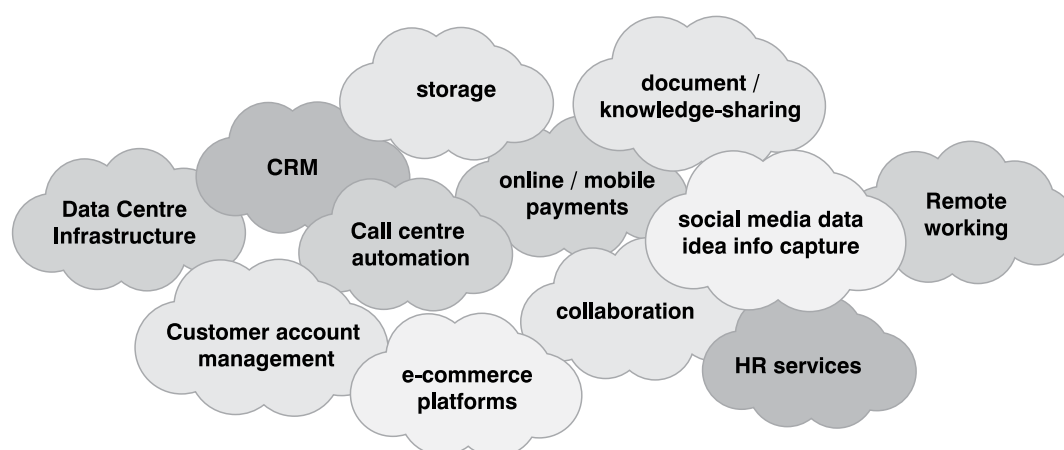
"The economics of Cloud computing are extraordinarily compelling.
Expect to cut costs by up to a factor of seven!"
Professor David Yoffie, HBS

(iii) Hays: Hays is a global recruitment company and in 2009 new CEO Alistair Cox embarked upon a full scale technology transformation programme. The goal was to utilise new advances in technology tools to establish a flexible, scalable and adaptable platform.

The idea of hiring a major IT consulting firm like an Accenture, Deloitte or Cap Gemini to conduct a 3 year IT review and implementation programme with hundreds of external consultants at vast expense was seen as an outdated and inappropriate way forward.

The principle, in contrast, was that things were moving so fast, that any IT investment needs to be flexible and responsive to change, quick and easy to implement and able to be replaced without major risk or substantial new cost requirements. *"If we're going to be successful in the future then we need to have an infrastructure that allows us to plug things in. And we won't know now what all those future 'plug-ins' will look like".*

Hays set about replacing its entire IT stack, with support from open standards being a key priority in software selection and, for example, Cloud-based solutions would also be encouraged.

Hays set up a process review team. Its task was to do a process map across each of the key steps in the company's value chain. The aim was to develop a roadmap that identified which process would be tackled when. The initial goal was to find one or two major processes that had immediate support for change and which could make a big impact. Those processes which were more complex or where the benefit of change was uncertain would be put in a stage 2 or stage 3 group. They could be tackled better at later stages of the company's digital transformation journey – for when the organisation had more learning, know-how and confidence on how to go about implementing and easily capturing the change benefits.

Hays chose key software tools according to these guiding principles. They chose 'posting vacancies on job boards' as a key process, and they wanted to have that process simplified, totally automated to enable job board posting and search and selection in a totally automated manner for both employers and prospective employees. *"Search is the heart of what we do, it's our core process and critical we could get that right and continue to adapt it as technology evolved"*. For this, Hays chose an Oracle Intelligence Enterprise solution as its data warehouse for reporting and analytics (an infrastructure deploying PeopleSoft, a recruitment software tool from Bond Adapt) and a Google Search application. All this was built with a tailored user-interface enabling Hays' people to conduct the searches they would find helpful. And each of these solutions, especially from Bond and of course from Google came with an open web standards approach. The whole platform was completely web-enabled, so all information could be shared and easily distributed.

"Now we can focus on the user experience and we don't have to worry about the plumbing and infrastructure, that is all in place. Digital leadership in this company has been a joint exercise involving all functions and departments. It's been an especially strong collaboration between IT and Marketing. We have done all this digital change to gain one advantage: that is our ability to engage customers and get more growth. And we've achieved that".

Alistair Cox, CEO

Overview of lessons learnt / keys to success

Currently there is a relatively small but growing list of companies who have made real progress with their digital transformation; from global multi-nationals like 3M, GE and Cisco to smaller niche market operators like Farrow & Ball paints, IC International yarns and threads, Norgren fluid controls manufacturing, Bobcat Doosan construction equipment, Eden Springs water coolers, Pitney Bowes printer / office supplies.

Importantly, these companies are shaping or reshaping themselves to make sure they are winners – and still winning by the end of this decade. They have made decisions to stop talking about the need for change and the potential for change and are now taking the tougher steps of working out how to get there. It's getting started on this migration journey that's key; with a commitment to it, an investment plan to back it up and a vision of the end-game and benefits – the size of the prize!

There are a number of key lessons about how to best go about this:

(i) Find an internal champion

The key is to have someone like a Chief Digital Officer, someone who can be the internal champion of digital change. It's important that this person is not simply from a market-facing background, like e-commerce:

- They need to be able to understand technology deeply.
- They also need to be able to understand key business processes and perhaps have some knowledge of process 're-engineering'.
- They need to be commercial savvy
- They need outstanding cross-company relationship-building / stakeholder management skills
- They need to be well up-to-speed with new technology and innovation

As it can be hard to find this combination of skills in one person – and given the scale and complexity that can accompany this change agenda – some organisations are setting up small, central teams that in combination have these skills and can work collaboratively to set the agenda and priorities.

These teams might consist of the Chief Digital Officer, plus:

- Head of Programme Management
- Head of Technology Innovation
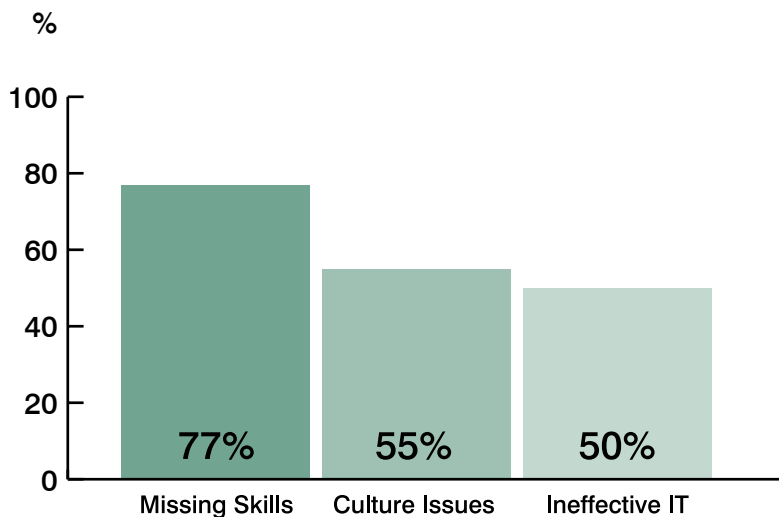- People / Process / Culture Officer
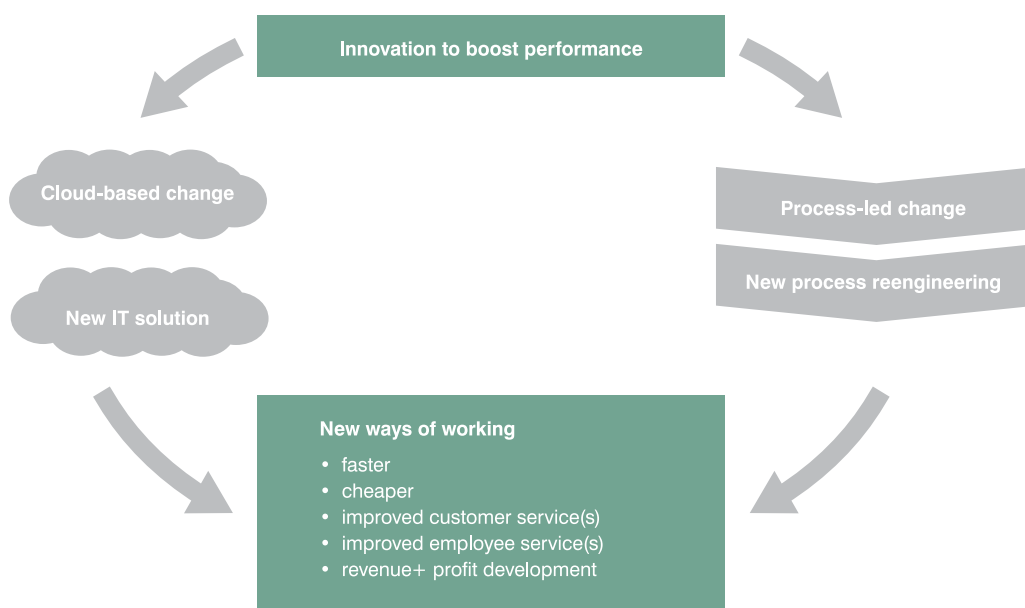
(ii) Define the size of the prize!

Right now, today, there may be no 'burning platforms'. The business may be moving forward and while growth may be slow, profits are holding up. In which case the inertia factor will kick in – *why change* when things are going OK?

Of course this digital transformation opportunity is not intended as any short term fix or boost to this fiscal years' numbers. It is much more about the long term, about being in a position to win in 3 or 5 years' time, about working now to secure the long term survival and success of the company. It's the inertia factor of course which did for the likes of Kodak and which has killed off traditional 'bricks n' clicks' retailers, from Circuit City to HMV. It's not that these companies and others did not anticipate the upcoming digital challenges, it's just that they kept plugging away with existing business and operating plans, assuming that the impact would be much later and they would have more time.

Key roadblocks delaying digital technology transformation

%

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100
 80        77%
 60                  55%      50%
 40
 20
  0     Missing Skills  Culture Issues  Ineffective IT
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If there is one lesson in this fast-moving technology age, it is that things will happen more quickly than forecast, not less! As one IT exec put it: *"this company has spent the past 25 years building its IT and processes, it's now got about 3 years to reinvent them or we just won't survive. It's not just about changing some of the technology; it's about changing the way we do business"*

To help address and manage these issues, it's important that whoever is championing the digital transformation agenda gets to define what is the size of the prize; what are the key benefits, what might be the longer term customer and growth prospects, what might be the ROI potential to justify the business case, *why do it*. Some organisations in response to this challenge are establishing key metrics and dashboard, a way of tracking progress toward an end-game where significant benefits are realised.

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(iii) Integrated platform

One key lesson that both Cisco and 3M have found is the need to build a single integrated data platform. Their aim is to build a common one-stop view of all their customer activity and ideally, to make this seamless, so that any function and department, whether Procurement, Finance or Sales, can all access, contribute to and leverage that single unified customer history and record, no matter what the customer touchpoint – whether through call centre, sales team or direct and remotely online, or a combination of all. The benefit is not just a more impactful way of engaging with customers, but it also can provide the customer with that single view of the company, so no matter what way they interact, they will find common product, pricing, promotion and a real-time updated understanding of their needs.

Retailers have been especially proactive in pushing down this path. To date, one retailer has stood out with the success it has achieved in this direction – UK-based Aurora Fashion group. They own a number of well-known, retail fashion brands and are now 6 years into their multi-channel single view of customer IT transformation. It works, and has delivered constant and increasing improvement in margin, inventory management and most critically, product line by product line, store by store, revenue growth allied with a strong online sales effort.

As their 'digital champion' at the time, Ish Patel has commented among other things that: *"this approach has given us the data and the resulting analytical insight to better manage the business and maximise both sales and margin".*

Another champion of this approach, Pfizer, has also commented on the value and importance of this: *"Our top priority was to build a digital hub that created a common set of platforms and pipes. We were able to create real value from uniting the data from different platforms and silos and finding common insights across stakeholders to deliver greater value to them. What we didn't want as we embarked along our digital transformation journey was to have 1000 flowers blooming. They might all look nice but it just eventually leads to confusion. We wanted one version, one approach, one set of rules, one view of our customers"*

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Summary and Conclusion

This is such a big topic that it's impossible to cover all the ground in what is intended as just a short note. So for the moment let's end with a couple of short summary points:

(i) A brief overview and summary from Axa Insurance:

"At Axa it was a learning curve for all of us. We had to start somewhere and be prepared to make mistakes. But we began with a core process that involved parts of our business and our customers, that was claims handling. We set up blogs and surveys to test out ideas and alternative ways of working. We opened that dialog set to employees and selected customers. We set up workshops with external IT suppliers to see if they could help us, and we picked suppliers who were lean mean and agile themselves, not the bigger cumbersome consultancies. We devised a new way of working with data in the Cloud, self-serve, streamlined procedures, real time data capture, fast response commitments. Once we decided what to do and what we wanted to get from this change, then we were able to launch a first phase in just 4 months. It surprised us. It completely changed our own expectations of what we could achieve. Now we feel we can change anything!"

(ii) How to get things going and how to establish this major culture change around technology innovation:

Steering Committees are nothing new or innovative and many are not used well. But a key learning is that what works here is getting the whole organisation involved, not just one or two parts, pushing ahead with this transformation in integrated form, not in silos, developing some real momentum and not letting inertia creep in. Having this committee led, at least in the initial stages, by the CEO, involving colleagues from different geographies, departments and teams, managing the timetable, having full scale monthly reviews, setting clear targets and deliverables…all the well-known rules for success, but now making it happen in this demanding digital transformation context. That seems to be a key to success.

Establish a steering committee to drive *a coordinated, joined-up digital* transformation change programme

- set up Global Digital Task Force
- reps from core functions
- reps from core countries / regions
- overall Steering Committee
- reports to Exec monthly
- in each team eg IT, there will be an IT head as chair plus one rep from each of the other teams
- 'how take advantage of digital technology to boost long term profit growth in our function / area of the business'
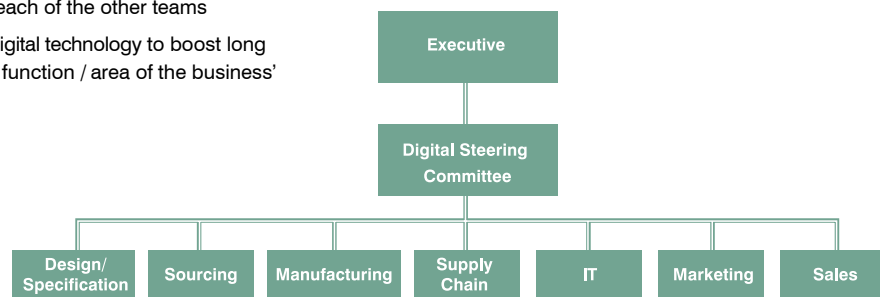
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