Differentiating through digital transformation.

Understanding how digital transformation is evolving, and how to advance in a faster, more dynamic market.

THECRAFT
strategic differentiation

In our dynamic world, our clients and their customers are asking bigger questions...

➤ **How can we get ahead of the market?**

➤ **How can we evolve our vision, strategy, and business model and hit the world hard?**

➤ **How can we stand for something different, vital, and of value from the rest?**

The Craft was founded to help answer these questions – in our clients' business, their brand, their propositions, and their message.

Working in some of the most complex and competitive markets in the world we deploy and apply a proprietary strategic differentiation methodology that makes sure our clients are seen as the purchase of choice, the partner of choice, the employer of choice, and the investment of choice.

We have a deep comprehension of technology and its implications for change. It's this insight alongside our global market and buyer knowledge that we leverage for the greater good of our clients.

It's in this spirit we have written this top-level overview of digital transformation – to develop intelligence, understanding, and opinion on one of the key themes in our clients' and their customers' markets.

What is digital transformation and how is it evolving?

Despite the name, digital transformation isn't really about technology – it's about finding new, more efficient ways of operating and engaging with customers.

By re-examining your entire way of doing business from a future state you can understand where opportunities lie.

Defined as a way to 'leverage digital technology leadership to enable innovation of the entire business or elements of the business and operating models', digital transformation is a hot but much misunderstood topic.

But this doesn't allow for the fundamental change impacting people (workforces / customers / consumers), their use of technology, and how this is forcing necessary changes to operations and services.

Brian Solis goes a little further with his 'Digital Darwinism' theory stating: "Technology has changed everything about how people communicate, connect, and decide. This means a chasm already exists between how we work and how we need to work." [1]

So it's much more than getting a shiny new website or sticking analytics on an existing one. A true digital transformation requires:

➤ Business understanding and appetite
➤ Digital strategy and innovation
➤ Internal operational digitization
➤ Digitized customer interfaces and the mechanisms to support them

According to the Altimeter Group, 88% of larger businesses are undergoing some level of digital transformation. [1]

MIT Digital research suggest that organizations are using digitized business to: [2]

➤ 44% improve the customer experience
➤ 30% increase operational efficiency
➤ 26% create new business models

[1] Brian SOLIS and Jon CIFUENTES, *The Raise of Digital Darwinism and the Fall of Business as Usual* (2014)
[2] Sloan Review, MIT 2013

Phases of development: an overview of how digital transformation has evolved.

From initial to innovative there have been many different approaches to, and models of, digitization. For purposes of simplicity and clarity, we can break them into:

1. Initial digitization

This primary approach covers everything from new websites and online e-commerce solutions to initial SaaS platforms and digitized customer communications. Less strategy and more tactics, this is the birthplace of 'digital' as we know it today.

2. Customer obsession

Customers are demanding more personalized, intuitive, accessible services. Businesses want to optimize customer loyalty, longevity, and value. But we are still living in times of siloed thinking, control, budgets, and projects.

3. Deep business models

A new, more strategic era for digitization as cloud, IoT, and Big Data pave the way for organizations to segment, scrutinize, and deploy data to refine operational processes, product innovation, and customer engagement.

4. Innovation

We have entered an era and culture of continual and rapid change, driven by digital innovation. Consumer service-level expectations have never been higher, business agility is a must, and competitive advantage might last for just seconds. Where to next?

Underpinning and enabling all of this has been the continual evolution of core technologies that are continually shifting what is possible from prescriptive analytics, M2M, and cognitive and quantum computing to revolutionary AI enabled by autonomous self-exploration and symbolic knowledge-based learning.

10 challenges that enterprises face in the digital business environment:

1. Requirement for new levels of security: attackers use the same architectures

2. Agility has to be balanced with technology resilience and stability

3. More complex and challenging decisions to make

4. Greater competition: everyone can be a global player

5. Lack of digital experience and resource

6. Faster, more competitive markets

7. Decentralized, mobile workforces

8. Rapid reimagining and rise of new digital business models

9. More organizations operating cross-sector

10. Growing workforce, customer, and consumer expectations and demands

10 benefits and accelerators of effective digital transformation for major enterprises:

1. Execute more effective leadership

2. Adopt agile operating procedures

3. Launch new products faster

4. Develop closer, more efficient, and profitable relationships with partners, vendors, and suppliers

5. Improve customer retention and lower attrition rates

6. Attract and retain best talent

7. Improve efficiency with streamlined operations

8. Empower and mobilize the workforce

9. Innovate: fail and fix faster

10. Grow and defend competitive advantage

Digital transformation: enabling internal cohesion, driving external engagement.

Organizations that are digital in origin have less legacy and therefore fewer barriers to digital transformation than more 'traditional' organizations.

But there will still be considerable operational complexity to drive the right engagement with the market.

And these businesses still need to manage increasingly complex data, cloud architecture, distributed workforces, and partner and supplier ecosystems.

The strategic goal for all businesses as they navigate their digital transformation is to ensure balance between internal digital cohesion, external engagement, and innovation.

It's about continuing with business as normal while constantly reinventing and improving on what it is that you deliver.

Four key focuses of customer-centricity.

Consistency – deliver the same experience in-store, online, in app, on mobile, on PC, and on social. *Drive engagement*

Clarity – simple, clear information on company, product, or service. *Drive belief*

Continuity – integrated channels and communications: move from mobile to store to iPad seamlessly. *Drive interaction and purchase*

Context – understand the relationship, understand behaviour: all correspondence and communications. *Drive brand loyalty and advocacy*

A challenge too far: where digital transformation has gone wrong.

BBC

Aims:
Modernize the Corporation's production and archiving methods by using connected digital production and media asset management systems. After a protracted development process lasting five years with a spend of £98 million between 2010 and 2012, the project was abandoned in May 2013.

Challenges:
1. Not enough focus given to required business and cultural change
2. Failure to implement rigorous project management, governance, and reporting
3. Lack of governance and project clarity led to management being unable to take critical decisions, culminating in project abandonment far too late in the cycle with big monetary and political implications

Conclusion:
The BBC saw the project as a siloed technical challenge rather than a holistic business and cultural transformation.

NHS

Aims:
To enable organizations across the NHS landscape to receive information directly from individual GP practices. Data to be used to monitor service levels, enable better planning, and support medical research. Running four years behind schedule costs have soared from £14m to £40m.

Challenges:
1. Procurement, design, and deployment stages were all flawed, lacking structured objectives and planning
2. Over-reliance on limited workforce capacity and skill sets
3. Heavy reliance on outsourced, multiple contractors with little centralized command and control
4. High attrition rate of key stakeholders (10 project leads in 10 years) leading to lack of continuity and accountability

Conclusion:
The NHS and key suppliers miscalculated the impact of the project in terms of resource, culture, and cost, underestimating the need for well-defined and realistic objectives deliverable in what is a unique business environment.

The co-operative bank

Aims:
Re-platforming to update legacy systems and align IT portfolio for centralized data management and customer engagement systems post merger with Britannia Building Society. Project cancelled in 2013 adding £300m to the bank's capital shortfall.

Challenges:
1. Lack of leadership focus and involvement
2. Complex and badly planned with no robust contingency planning
3. Under-resourced, under-skilled, and under-managed
4. Under-developed plans in continual state of flux, further eroded by poor budgeting

Conclusion:
The bank took on more than it could manage: a major legacy transformation at a time of massive internal change, with little leadership focus and lack of in-house resource or appetite to drive it through.

Reasons that digital transformation can fail.

With billions of pounds being wasted on failed digital transformation projects, the risk of getting it wrong is all too real – but how are so many organizations and consultancies getting it wrong?

As ever, the reasons for the actual or perceived failure of a digital transformation project or strategy are many – but similar underlying causes emerge time and again.

Reasons for failure:

➤ **Starting the project without a clear digital transformation strategy** that provides a manageable, measurable, and flexible framework for identifying, delivering, assessing, and bedding-in the various components of a digital transformation project

➤ **Incorrect, misaligned, or unattainable objectives** and aspirations for the transformation project

➤ **Applying traditional change methodologies** to digital transformation programmes without realizing that they assume a known end-state, which does not yet exist in the digital age

➤ **Focusing on one aspect of the transformation**, often technology, without understanding that new business processes, skill sets, and cultural / behavioural elements must also be addressed

➤ **Lack of alignment and communication between IT and business teams** is often a factor that is easily overlooked

➤ **A lack of business intelligence tools**, legacy processes, and systems unable to collect relevant data

➤ **A lack of access to talent** – not having the right people in the right place to do the right job

➤ **Trying to impose a top-down solution** without realizing that many of the solutions have already been developed and work at a day-to-day level

Success factors:

➤ **Leadership:** define realistic objectives, set strategy, align the business, and drive momentum from the top

➤ **Multi-functional buy-in:** empower the business to deliver via a multi-disciplinary approach underpinned by embedded best-practice and rewards for positive outcomes

➤ **Leveraging IT assets:** evaluate and build on current IT investments and systems, making sure the front- and back-end have equal focus

➤ **Agility with stability:** adoption of bi-modal or similar strategies wherein stability is delivered by robust operational IT systems and agility is delivered by an ecosystem of fluid software services

Reimagine your business through digital transformation.

Digital transformation is the process of shifting your organization from a 'legacy' approach to new ways of working and thinking using digital, social, mobile, and emerging technologies.

It often involves changes in leadership, differentiated thinking, and a focus on innovation. This approach will create new business models that incorporate digitization of assets and increased use of technology to develop operational processes and enable greater business agility. Ultimately, this will improve the environment and experience for employees, customers, suppliers, and partners.

It's vital to ensure digitization works hard for your business – right to the point that it influences who you are, what you do, how you do it, and how you present your business to the world.

This is digitization driving innovation but also brand reputation, brand essence, brand values, market propositions, and portfolios – right down to go-to-market positioning and messaging.

By creating new service models and new experiences supported by continuous, consistent, relevant engagement processes, organizations better serve their customers.

Uber and Airbnb are just two of the best known new operators that have disrupted business as we know it, reimagining how traditional business models work.

Enabled by new technology and new thinking, they have rapidly seized massive market share while building global brands.

To deliver competitive differentiation, entrepreneurs and digital businesses worldwide are already rethinking what their customers value the most, creating operating models that take advantage of what's readily possible to address this customer need head-on.

The challenge is to accurately predict just how fast and how far to go…

Making digital transformation work for your business.

When deployed correctly, digital transformation can enable organizations to:

➤ Transition core business processes, digitizing and structuring workflows and business applications

➤ Streamline in-house processes and operate more holistically with suppliers and partners

➤ Decide which applications, platforms, and solutions fit culture, daily operations, objectives, and budget

➤ Effectively use the current tools at your disposal, including Big Data and IoT to create a future position – where are you now and where could you be?

➤ Understand where your customers are and what they need – now and in the future

➤ Create new models, products, and markets, based on the defined and measured needs of your customers

➤ Optimize cross-channel interactions to create a differentiated customer experience

➤ Integrate omnichannel touch-points to ensure your customers and suppliers receive the same level of service, the same message, and the same experience, regardless of where they interact with you

➤ Understand what traditional competitors and new market entrants are saying and doing

➤ Reinvent your offering through position, difference, and acquisition

➤ Create a team and processes that allow you to continually reinvent who you are – digital transformation is not an end result but an ongoing process

➤ Promote a more future-proof culture, based on sharing and collaboration, enabling you to attract and retain the people you want to put at the heart of your business

➤ Cultivate new leadership teams and organizational structures, engaged and educated to understand, control, and spearhead digital transformation programmes

Differentiation through digital transformation.

How will digital transformation effect what you do?

How does it define and shape you at a proposition level?

How are your propositions and portfolio aligned to a more connected digital business environment?

The digital world has fundamentally changed the way we all do business. Sales cycles are longer, more complicated, and require the buy-in of an ever-increasing number of stakeholders. Customers no longer acquire your product or services based on assessment of quality – but on value. What can you do for them – now and in their future?

Digital transformation requires constant (re)evaluation and (re)invention of both your approach to customers (internal and external) and prospects (in and out of sector) in order to enable you to stay ahead of trends that could make or break your business.

It's only by imagining what you could be that you can truly reinvent your business operating model and become strategically differentiated from your current and future competitors.

New, innovative go-to-market products need to be conceived, developed, and rolled out faster.

Supply chains need to be perceived as strategic partnerships and evaluated and optimized as such.

Products and services need to be strategically differentiated from others in market – both in value and delivery.
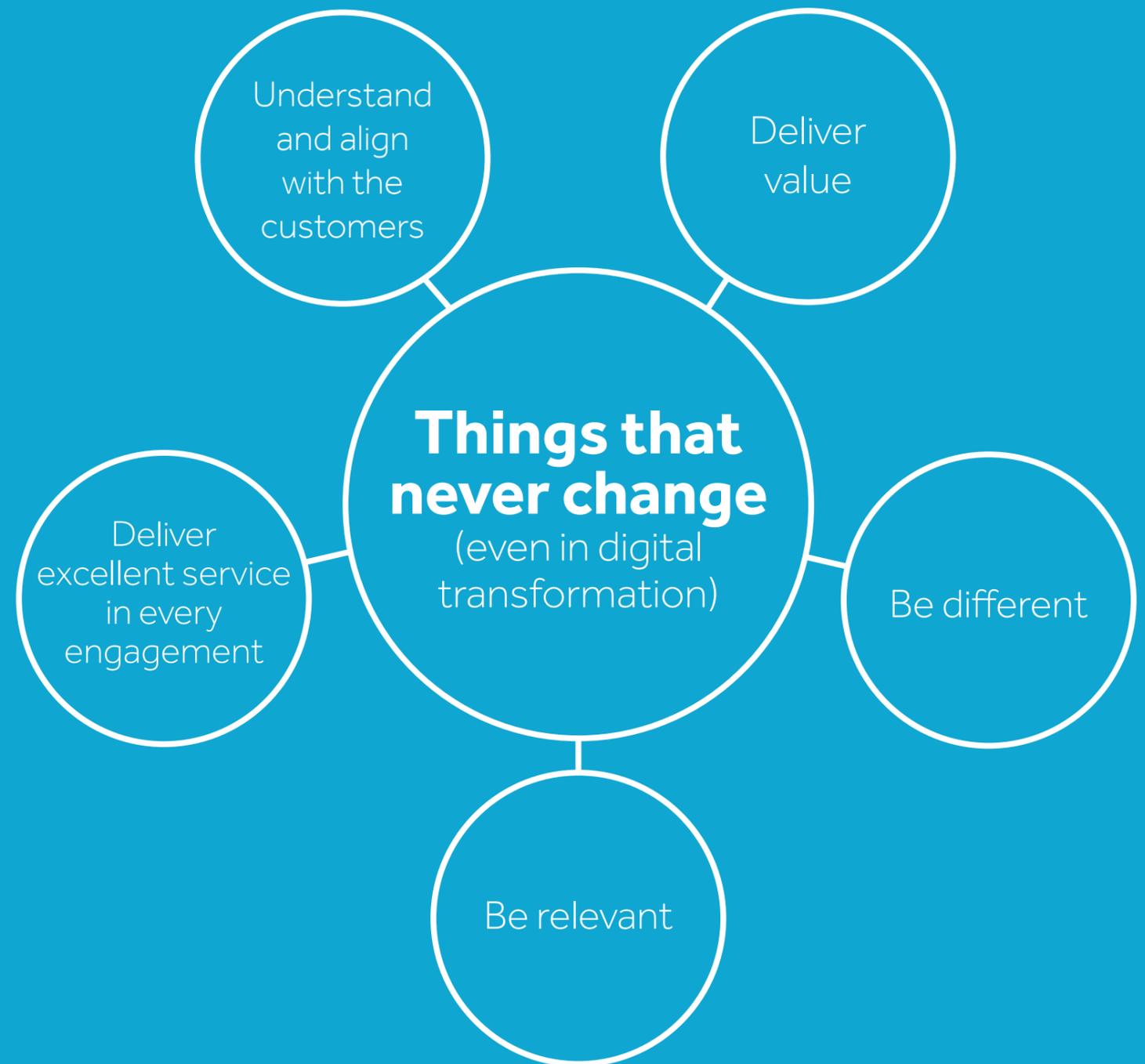
In order to stay competitive and, more importantly, profitable you must be able to be different, act different, and deliver difference. The challenge is how you put that into practice.

It is only by creating an enterprise that embraces innovation, and the necessary failure that comes as part of that, that you will be able to create the vision and operating practices required to survive in the future marketplace.

What you can do to get ahead.

Digital transformation begins with a fundamental shift in mindset and a corresponding change in strategy. To drive an effective and all-encompassing digital transformation, it must be founded on differentiation and how to achieve strategic competitive advantage through it. Across an entire business you need to:

1. Create a 'digital-first' culture and mindset
2. Support and enable change
3. Ensure digital-ready processes and tools are in place
4. Drive digital innovation and new thinking at a structural, operational, and customer-facing level

Understand and align with the customers

Deliver value

Things that never change
(even in digital transformation)

Deliver excellent service in every engagement

Be different

Be relevant

Conclusion.

The digital revolution is happening and, for many organizations, happening too fast.

It's not an easy journey. It can be costly and complex. It requires commitment from the CEO to lead from the top and reimagine business models, build new strategic alliances, and develop a strategic digital workforce.

It requires a new model for IT that simplifies and transforms IT operations.

But ignore digital transformation at your peril.

Transform or die. Tough words, but true.

A new breed of digitally enhanced businesses are changing what is possible and how it is possible to do it. They are rapidly seizing market share, disrupting the status quo, finding (and overcoming) inefficiencies, and rewriting the rule book for business as we know it.

Organizations must react decisively and quickly to this change – it requires urgency.

It's a matter of disrupting or being disrupted.

There are many pitfalls, but also many benefits to digital transformation.

➤ **Customer-facing** – the ability to better understand the customer gives the ability to better serve the customer: develop and deliver consistently engaging experiences that help to sell more personalized and tailored products and services

➤ **Supply chain** – extend but also better control and manage supply chains, revise your inventory, order immediately, and push down what you pay

➤ **Operations & back-office** – these are being transformed, with non-strategic functions 'outsourced' and managed using new cloud-enabled specialist platforms: business-critical intelligence is available in real-time and pre-segmented, allowing informed decisions to be taken swiftly and efficiently

➤ **Production** – downtime can be virtually eliminated, costs cut, and speed to market greatly enhanced

Realigning your organization so it can reap the rewards of digital transformation and be a part of the digital revolution is a business imperative. But one, as you will have seen in this guide, that must be approached strategically, from the very top.

To learn more about how we leverage our understanding of the impact of digitization on global business to better position our clients **please contact:**

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