

DIGITAL TRANSFORMATION

DELIVERING ON THE PROMISE

by Michael Gale & Chris Aarons

Rarely in business, life, or society are we faced with something as powerful as digital transformation. The mere concept has shown the potential to change the way we work, live, and even govern ourselves. Prometheus gifting fire to humans enabled civilization to advance at exponential rates; likewise, digital has the same ability to propel our businesses.

Despite great promise, the secret to successful digital transformation has proven quite elusive, as only one in six organizations see the results they expect. In our book *The Digital Helix: Transforming Your Organization's DNA to Thrive in the Digital Age*, we see that over 88 percent of *Fortune*-level organizations have major initiatives to become digitally transformed in the next three years. However, it is important to understand that this overwhelming effort by these large organizations is designed to make them more competitive and drive sustainable value today—in our current Digital Age. Imagining what could be possible now is like the discovery of fire to the ancients.

In researching *The Digital Helix*, we conducted an initial primary study with the Economist Intelligence Unit (EIU). We expanded the range of this research

through direct interviews with 1,000 C-suite and vice presidential leaders at *Fortune*-size U.S. companies. This research revealed statistically relevant differences between successful and unsuccessful outcomes in organizations undergoing digital transformation. Based on these outcomes, we produced 1,000 case studies of businesses around the globe to confirm that our findings were observable in living programs. For the finished book we invested an additional 300 hours interviewing 30 leaders who are managing digital transformation processes in major corporations, to incorporate their stories and insights.

The possibilities feel unbound. Four years ago, when we began our research, nearly 50 percent of corporate leadership told us they would be near-fully digitally transformed by 2018. When we refreshed the research in March of 2018, we asked how digitally transformed *Fortune* management thought their organizations would be by 2021. Of the 135 *Fortune* managers we interviewed, only one in three believed they would be mostly digitally transformed three-plus years from now. Despite all the promise of digital transformation, practical realities are clearly starting to wear away at the unbound optimism we saw four years ago.

The secret to successful digital transformation has proven quite elusive.

As everyone's lives become more and more digital-centric, new products and services are being developed to further leverage the power of this phenomenon in order to change what is possible for both individuals and businesses. In fact, the International Data Corporation (IDC) estimated that in 2017 alone, more than \$1.7 trillion (the size of the Italian economy) was invested in digital transformation projects and technologies. This ongoing shift is why more than 55 percent of the senior executives we surveyed are concerned about what start-ups, who are born digital, could do in their industries. These giants are concerned about the ways new digital mice can change the economics and experiences of a market almost overnight.

But digital transformation is not just needed to compete with startups. Our research and econometric modeling showed the power of digital to quite literally change what is possible for a business that gets it right. Here are some facts about the one in six businesses we found that were succeeding with digital transformation:

- They complete digital transformation projects twice as fast.
- They see ROIs that are eight times higher.
- They have 37 percent more confidence about their futures.
- They are 40 percent more likely to find other unexpected and new ways to improve their businesses.

This encapsulates the revolutionary power of digital transformation; and it is not limited to just businesses. Government agencies around the world have also launched major initiatives to digitally transform the way they function and interact with both citizens and other agencies.

Creating the Digital Spark to Transform “What If” Into New Possibilities

As these transformative conversations and activities are occurring inside almost every business, the pressure to succeed is mounting for executives—the upsides are huge, and the cost of failure could be debilitating. Our research from March 2018 shows there is a lot of confusion within organizations around digital. Here are some illuminating facts:

- Only 15 percent of management says digital transformation is part of their core business approach.
- 54 percent of organizations are still focused on project-level digital transformation in customer, sales, or service areas.

The primary reason for alarm is that success with digital transformation requires a change in thinking and behavior at the DNA or foundation level. Adding more technology may wrap your company in digital projects here and there, but it will not transform your organization enough to compete with companies that have become digital at their core. The key reason why so many organizations struggle is that they add digital technology without transforming their thinking and without connecting everything (people, processes, IP/intellectual property, systems, insights, etc.) to become truly digital inside and out.

Seeing More at a Distance and Up Close

There are seven areas of digital opportunity for your organization, and each one matters. Leaders must use

these as lenses to both see into the potential future and to run the day-to-day with extreme detail. Leaders need to assess themselves, and their business, on each of these seven drivers to identify where their organization, team, and colleagues rank in their digital thinking. This is central to how successful digital organizations think and design for success.

Use the chart in Figure 1 to understand your organization's drivers. Here are a few guidelines to think about:

- The scoring system is very straightforward, but carefully read the statements associated with each score
- Think about current situations in your organization in order to help anchor your answers
- Do this exercise on your own and with your team(s) to avoid the blind spots we all develop

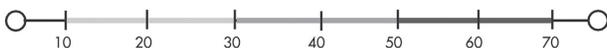
To better understand each driver and its importance, leaders should consider these facts:

1. *Supply and demand are compressing:* Amazon Prime and Uber illustrate how organizations have the near-instant ability to match demand to supply.
2. *Customers, partners, and employees have more information than ever before:* Where would we be without Glassdoor for employees or Yelp for consumers? There are abundant outlets for instant digital feedback on your organization, products, partners, and customers.
3. *The ability to scale is almost instant:* With pay-as-you-go services like Topcoder or 99designs, businesses can get creative and technical services almost instantly (no matter the size of their organization).
4. *Start-ups can threaten in your segment:* Three new startups are launched every second. That's 180 potential competitors per minute.
5. *Change is constant:* 65 percent of children in preschool right now will work in jobs that do not even exist today.

Seven Drivers of Digital Opportunity

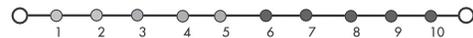
Using the scale below, score your organization.

1. We do not collectively believe this is a pressure or opportunity for us.
2. Groups talk about acting on this but are not in active development yet.
3. We have been changing some small elements of our business to respond to this.
4. We have seen the results of experiments that imply what the upside could be for us with this pressure.
5. We are formulating more extensive plans around this pressure and looking to make changes in how we think and enable other parts of the organization too.
6. Key parts of our business are now paying attention to how they perform based on this pressure.
7. We will be fully embracing this pressure in our next strategic business planning cycle. That means appropriate resources and new ways to do business.
8. We have fully embraced this pressure over two years ago and it now is a key asset for us in how we talk about the company or organization.
9. Our business is increasingly focused on this pressure as an advantage for us having seen plenty of results.
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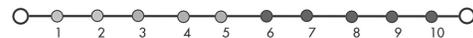


- If you score more than seven in a pressure and **over 49 out of 70** in total, then you should be on the voyage to a significant digital transformation.
- If you score **between 30 to 49**, then some pressures are likely dominating your mindset and having full experiments or key ecosystems leading the charge will be key for future success.
- If you score **lower than 30**, we would recommend you take a hard look at the nature of your industry or segment because other organizations in your competitive set are taking a more aggressive pathway to digital transformation.

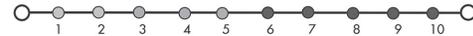
Driver One:
The compression of supply and demand from what we experienced three to five years ago



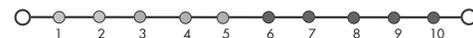
Driver Two:
A shift in demographics in our customer base and/or a different sense of customer entitlement



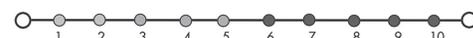
Driver Three:
Customers, partners, competitors and employees have more information than ever before



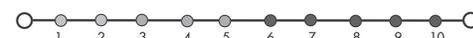
Driver Four:
The idea of the near immediate ability to get scale at the drop of a hat



Driver Five:
Start-ups in our segment or industry present a threat



Driver Six:
Change is a constant



Driver Seven:
The paradox of lower costs and efficiency with real innovation

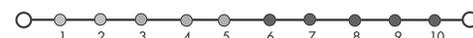


FIGURE 1. SEVEN DRIVERS OF DIGITAL OPPORTUNITY

In this new landscape, digital removes the paradox of solely being able to lower costs, be more efficient, or innovate. Digital makes them all possible at the same time. Based on our research, the organizations that are thriving with digital transformation see five times better operating expenses, capital expenses, sales and general and administration costs, brand value, and competitive product advantages simultaneously.

Finding Hidden Challenges to Thrive

The 16 percent of businesses succeeding with digital find that the value of their transformation efforts far exceeds the sum of their digital investments. Perhaps more shockingly, among the 84 percent of businesses struggling with digital, 32 percent did nearly all the same things as those that found success but saw far few returns. In fact, our research looked at more than 170 variables that could contribute to digital success, and we saw one key difference between truly successful transformations and the organizations that were doing almost identical things but failing. Results showed a lack of awareness about the inherent complexity of transformation among companies that failed to see results.

For this reason, we are including the chart in Figure 2 to help you properly assess your organization's challenges and understand the complexities facing your teams and how to handle them. As you read through the list of seven challenges, think about how these might be impacting your organizations. Be honest, be brutal, and if you need to, dig deeper and find more about how and why these issues occur. Rest assured, your competitors are thinking about these or similar questions as they attempt to leverage digital and move ahead.

Tips guidelines for scoring:

1. It is very easy to overestimate your levels of performance. Most businesses don't score the lowest (1) or highest (10) in any category.
2. Be as realistic as you can with your measures. Don't score one way on everything.

Think about how these complexities might be impacting your organizations.

Become a Digital Explorer

Now that you have assessed your drivers and challenges, it is important to discuss the vital

Seven Challenges To Doing Digital Right

How does your organization score?
1 = strongly disagree; 10 = strongly agree

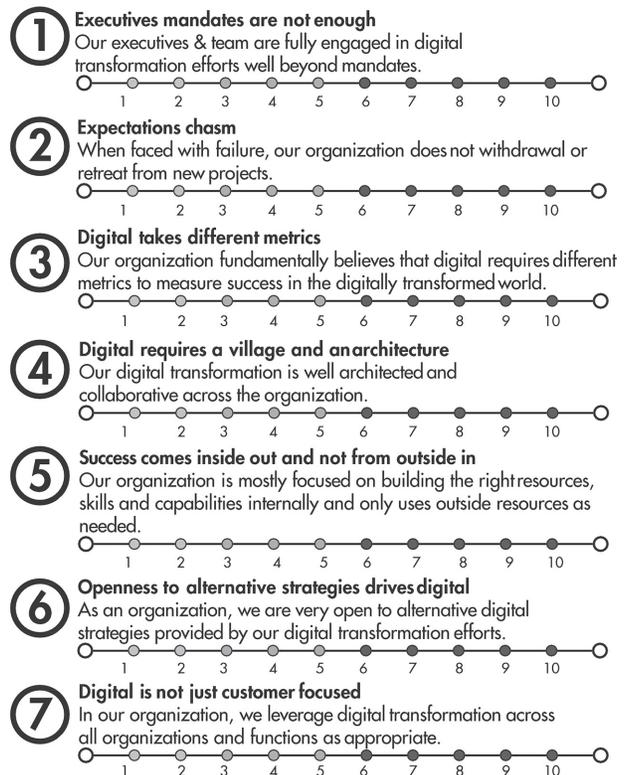


FIGURE 2. SEVEN CHALLENGES TO DOING DIGITAL RIGHT

No brand can transform without the right leadership.

and changing role leadership plays in digital transformation. In fact, there are seven key digital DNA components for successful transformation. The first one focuses on the executive as a digital explorer. This one is critical for success and shockingly missing from most organizations. While many leaders talk or mandate change, our March 2018 research showed that only 18 percent of management believed their company's leaders showed strong digital guidance for the business. This is scary. No brand can transform without the right leadership. Outside of the 18 percent of leaders providing proper digital guidance, all other leaders were at best spinning their wheels and at worst wasting time, money, and resources on digital transformation without the direction needed to thrive.

This same research showed that 22 percent of midlevel managers believed their success required "confidence and guidance from senior executives." Additionally, 45 percent of managers said, "working faster and better together with senior leaders is a vital component in the transformation process." All of this clearly shows that executives need to lean into the process and become explorers in their own digitally transforming world.

To become true digital explorers, leaders must focus on these three areas:

1. *Noticing*: As digital brings a higher frequency of insights and data at a faster rate, it is vital for leaders to be able identify the important information. According to Harvard Business School

professor Max H. Bazerman, author of *The Power of Noticing*, it's vital that leaders pick up the right signals from all the noise coming through and from their organization because "what you see is not all there is." Identifying the right signals allows leaders to act quickly to impact change when it is most beneficial to the business. Missing or using the wrong signals can push a business off track, enabling competitors to take advantage of unintentional errors by leadership.

2. *Predicting*: Leaders need to understand that while the future is uncertain, what happened yesterday and the day before can tell you a great deal about what could happen tomorrow. Nobel laureate Daniel Kahneman's book *Thinking, Fast and Slow* discusses how using microscopic analysis of the recent past can show you what could be happening next, if you know what to look at and for in detailed analysis. While many leaders use some form of this, the insights in Kahneman's book will have almost everyone rethinking his or her approach.
3. *Adapting*: Our most recent research revealed one stunning fact: The number one driver of digital transformation success in 2018 is the ability to be prepared for an unfolding future. This is where great digital leaders can and will distinguish themselves. As a digital explorer, you should not only be ready, but have the whole organization set up to capitalize on the unfolding future, no matter what it holds. China Miéville, author of the 2011 novel *Embassytown*, calls this "explorocracy," and it is vital for the changing world in which we find ourselves.

To gauge your success as a digital leader here are some yes/no questions to determine if you are acting, thinking, and operating like a digital explorer:

- Are you dedicating 20 hours a week or more to becoming more digitally articulate and helping drive experiments inside your organization?
- Is the language you are using focused on digital-centric terms to replace old-world words that lack deeper meaning? For example, are you moving

Digital transformation is not just needed to compete with startups.

away from words like *dashboards* to words like *insights*, which drive decisions and illustrate the shift that digital transformation presents?

- Does your organization have and celebrate numerous examples of digitally transforming ideas and practices across the organization, beyond marketing or information technology?
- Are you rewarding digital transformation experimentation, ideas, teamwork, and thinking—even if they sometimes don't pan out?

Digital transformation has the potential to change the trajectory of your organization, people, and brand. However, leadership cannot expect to incrementally adjust and demand exponential results. It requires a radical recalibration in how you think, design, and operate as a business.

Now, as the final test, ask yourself these seven questions to make the value of your digital transformation efforts far greater than the sum of their parts:

1. Are you thinking about digital as an incremental or a seismic shift in how you approach customers, employees, partners, competitors, and even the industry?
2. Has your board shown an active interest in supporting further and deeper investments in digital transformation?
3. As a leader, are you leaning in and rolling up your sleeves or just mandating for digital change?
4. Are you adequately aware of the impact the seven drivers of digital transformation are having and could have on your organization?
5. Are you aware of how the complete set of seven challenges impact the process of your digital transformation?
6. Are you investing heavily in the re-skilling, training, and hiring of people to build sustainable digital success?
7. Are you pushing back on traditional long-term views of strategy to become more flexible? For example, new digital strategic thinking is fundamentally focused on being responsive in design and less locked down. Imagine this as being like a world-class chess player who can play multiple games at the same time by just thinking one or two situations ahead, because they know they are built to respond to and take advantage of situations that present themselves.

Conclusion

These are important questions because there is no finish line in digital transformation. In fact, going back to our most recent research, only one-third of leaders said they would be mostly digitally transformed by 2021. That might be naïvely optimistic because in 2013, nearly 50 percent of their peers told us they would be completely digitally transformed by now. This shows that change is an ever-present element of digital transformation, and it requires agile leadership to get it right, no matter the circumstances that are presented. As leaders, our responsibility is to learn what those skills and ideas are, so that we can empower our employees to think, design, and act digitally. This is our fire, and it has the potential to transform and change what is possible. Our organizations' futures depend on it. As we all live incredibly digital lives today, the question is: How can we make our working world function to perform and deliver beyond what is expected by employees and customers?



Michael Gale founded Strategic Oxygen in 2001; it was widely seen as one of the technology industry's primary data toolsets for marketers, used by more than 20 brands to model more than \$4 billion in marketing and sales investments. The company was sold to Monitor Group, where he was a group partner from 2006 to 2010. In 2011, he became a partner at Pulsepoint Group, a digital consulting company, which was acquired by ICF in 2015. Michael has also served as chief web officer and general manager at Micron Technology and was vice president of worldwide brand research at IntelliQuest.



Chris Aarons has helped launch dozens of companies and products using a unique mix of digital, sales, and marketing strategies. At Pulsepoint Group, he helped leading organizations become digital in both their practice and delivery. In 2006, he launched one of the first social media departments at Advanced Micro Devices, Inc. (AMD) and later wrote the book Social Media Judo. Chris also teaches digital marketing at the University of Texas at Austin and has won numerous awards for his digital programs while working for clients such as Adobe, Amazon, AMD, Cisco, Dell, HP, LG, Microsoft, Philips, and others.