

Enabling Value-driven Business Transformation

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Digital transformation is mandatory to enable traditional businesses to compete with digital natives that are reshaping the business world and industry lines. Most companies, however, struggle to drive this transformation—or even launch it effectively—for a variety of reasons. These may include: products and value propositions not always aligned with expectations of digitally savvy consumers or competitive with offerings from new players; cumbersome historic or legacy processes, systems, and data environments; lack of clarity around the true definition of digital transformation; and gaps in executives' understanding of the capabilities (and limits) of digital and data technologies. With these complexities, it's easy to see how the inability to imagine the traditional business—and thus its market approach—leads a company to focusing on automating or digitizing its current processes rather than harnessing tools to develop new, more efficient ones. When this happens, companies can't realize the full opportunity offered by digital transformation.



In this context, many companies make the mistake of defining digital transformation in one of two ways: setting up websites and apps for customers and hoping that they will adopt them, or simply focusing on improving customer experience with some digital capabilities woven in. By taking one of these approaches, companies get stuck with process and system complexities, manual processes and poor insights due to data complexities—all of which prevent total digital completion of internal or external transactions. Most companies also lead with technology (for example, launching an app for customer service) that fails to drive value and abandon efforts once they see costs mounting with little or no value realized.

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The proper way to drive digital transformation requires rethinking priorities and business models. Ultimately, companies need to realize that digital transformation is really not about digital technology but instead about changing business models and propositions to be able to better leverage digital capabilities and data insights. In order to drive sustainable transformation that captures value, companies need to first rethink their business models and value propositions to customers. For a new definition of digital transformation, consider it as business transformation leveraging digital and data technology—and starting with business simplification.

The strategy and transformation plan should start with understanding the changing shape of the customer landscape and customer needs. Questions need to be asked and answered: How meaningful are our products and propositions now or in the future? How are our competitors

reshaping or fulfilling their needs? What is the pace of change when it comes to customer needs and preferences? Are we equipped to meet these needs? And how quickly do we need to change our offering to stay relevant?

Once these are addressed, a second set of questions emerges: How complex is our current environment—our product set, our processes and systems? Which processes and systems complexities cost us the most today (both in terms of revenue loss and cost of execution) and will prevent us from being agile tomorrow? Which of these are the most immediately important to resolve for us to stay relevant?

The area that most companies ignore in this process is the data capabilities. Companies are submerged in data but are asphyxiated by the lack of quality and the abundance of garbage in the data. Lack of or unclear data will lead to ineffective decisions and prioritization—and needs to be addressed as a critical part of transformation.

So, how should companies start and drive this transformation?

Define the overall strategy and transformation plan for the business

Company leadership should begin by evaluating three things: the competition, the customer landscape, and their product and service value proposition. As part of this evaluation, they should examine current and emerging threats to the company's products and services. This survey should include new ways of offering the same products and services (for instance, the digital delivery of products and services from companies like Amazon or Netflix) or new offerings that substitute for existing offerings (as in the example of Facebook and Google advertising disrupting traditional paid advertising like classifieds and newspaper print ads).

Company leadership should then look at the current environment and capabilities that enable or hinder their ability to transform. They should:

- **Evaluate internal capabilities** that would enable or hinder the company's ability to meet the changes and threats
- **Assess customer needs** for interaction with the company and the changing preferences for channels

They should then determine the points of friction (both external towards customers, and internal processes that the external points are dependent on) and the cost of friction at these various points. Here, a key to success is to not forget the internal capabilities that enable the employees to support the external processes. Removing friction internally is as important as focusing on customer experience and will also remove cost from the system. Once these friction points are identified, leadership should understand the root causes and the factors that are critical to minimize friction and prioritize them for execution based on overall strategy and value.

Illustrative transformation roadmap

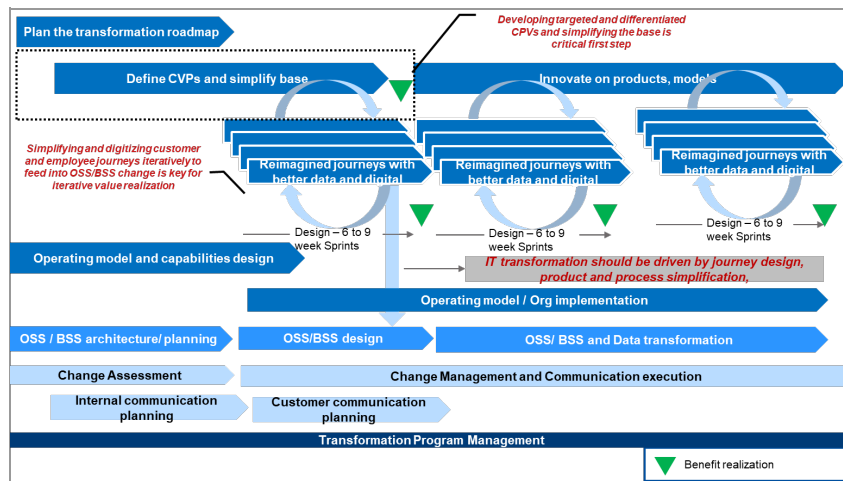


Figure 1: Illustrative transformation roadmap
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Start with business simplification

After evaluation and definition, the next step is to simplify the products and services in the current environment to remove complexities in the organization. A complex product set leads to complex processes—and replicating complex processes in a digital environment will almost certainly cause the transformation to fail under its own weight.

To illustrate business simplification and its potential, let's look at the example of T-Mobile, specifically in the US. T-Mobile simplified its offering and cleaned up its product portfolio, which enabled it to simplify its processes and capabilities to serve its customers better. It also removed customer confusion and made it easy for customers to choose products and services. Of course, T-Mobile was helped by the fact that its competitors were not as agile because of their product portfolio complexities. Yet business simplification was a crucial ingredient in T-Mobile's success.

Once the plan for the simplification of products and services is determined, the next step is to prioritize high-cost processes and simplify them, reimagining them with digital-first thinking. While it may be tempting to address all processes at once, it's much more effective to focus on a limited set at any one point. It is also key to reimagine and redo the processes with a complete digital mind-set:

- *Address the processes and capabilities end-to-end.* It is important to look at the entire customer journey to enable completion of the journey in a digital world.
- *Address internal employee journeys as well, prioritized by cost of friction.* Many companies forget internal processes and employee complexities and consequently end up with higher cost internally in addition to value loss.

Conduct purposeful innovation

It is not enough to simplify the products and processes. Real transformation continues to drive innovation. Launching an innovation workstream to drive focused, data-driven innovation is critical. Most organizations struggle to innovate and depend on incremental evolution. A purposeful innovation requires rethinking or instituting capabilities, including listening to customers, ethnographic studies, core-competency analysis and extensions, war-gaming to determine weaknesses and actions, and using data to constantly drive innovation. Innovation has to be a continuous and iterative workstream in the transformation effort, in order to enable the organization to reposition itself competitively for the new world.

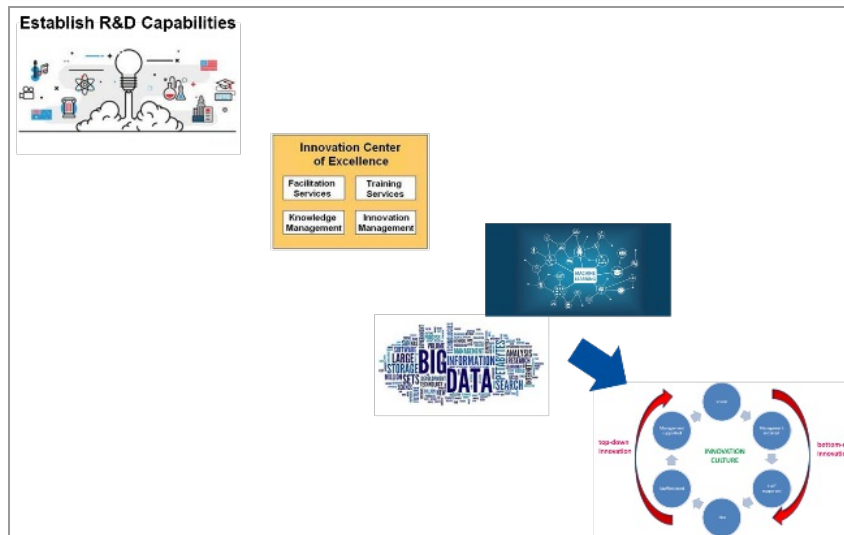


Figure 2
(Click to Enlarge)

Innovation must also address various aspects of the business as a whole, not just its products and services. Consequently, building the innovation workstream to address products and services, operations, customer experience and business model is critical. One of the key enablers of success here as well is building a cross-functional team to address this workstream, potentially led by the strategy function.



Figure 3
(Click to Enlarge)

Engage the entire organization in the transformation

The businesses that emerge successfully from digital transformation form cross-functional agile teams to execute the transformation. Make the transformation of individual capabilities and processes iterative but set clear expectations and sustain communication with all stakeholders, including customers. Engaging customers through focus groups and iterative joint design sessions can be an element essential to success, too. Obtaining input from customers every step of the way is both useful and rewarding, as customers love to use what they have had input in designing. In addition, there should be a focus on iterative transformation showing early successes and iterative value capture while driving towards a broader repositioning. It is important to remember that digital-native businesses typically start with a clean sheet, which is easier. Transformation is much harder, though critical for long-term survival. Hence it is important to get the entire organization into the transformation mindset.

Be fanatical about data

For companies undergoing transformation, data can be an afterthought. Organizations need to realize that digital transformation without proper data and analytics will not be effective. Having a clear data strategy and environment is absolutely critical to drive effective transformation. Most organizations, however, struggle with this critical piece because of the complexity of the data environment. Organizations should deploy the same methodology outlined above in iteratively refining data to support value capture.

To focus on value capture and realization every step of the way, institute a culture of formal value definition, capture and verification in every iteration. Capturing value every step of the way not only makes continued investment and capital allocation easier for the CFO but also energizes the entire organization as value is freed up for other investments and rewards.

Resist the lure of technology—focus on business-led transformation

One of the biggest risks of such a transformation is either leading with technology, or assuming that digital transformation is just about technology. Often, organizations get distracted by glittery new technology and end up just focusing on this shiny new toy. As a result, they end up spending an inordinate amount of time and money to realize very little value overall. A disciplined approach to transformation—leading with business needs first and using technology as an enabler—is critical for successful transformation

Institute a thoughtful and rigorous change management capability

Many transformations fail because organizations forget that the changes impact people's lives and consequently, if not managed mindfully, will lead to the failure of the transformation. This is where HR and PR become an integral part of the transformation design and execution.

Institute strategic governance to drive the transformation towards business model redefinition

It is easy to lose the forest for the trees in the transformation process. Organizations should not lose sight of the broader business model change and agility in their efforts to improve customer experience or deploy digital capabilities for customers. To ensure the bigger perspective remains within sight, a broader strategic governance is required. The board and the executive team should measure the transformation path against the broader strategy periodically to ensure that the organization is moving towards the ultimate goal and course-correct as changes happen in the environment.