



PRE-READING ASSIGNMENT NO. 4 (7 pages)

WEEK 3 SYLLABUS: DIGITAL TRANSFORMATION

(The Pillars of Digital Transformation)

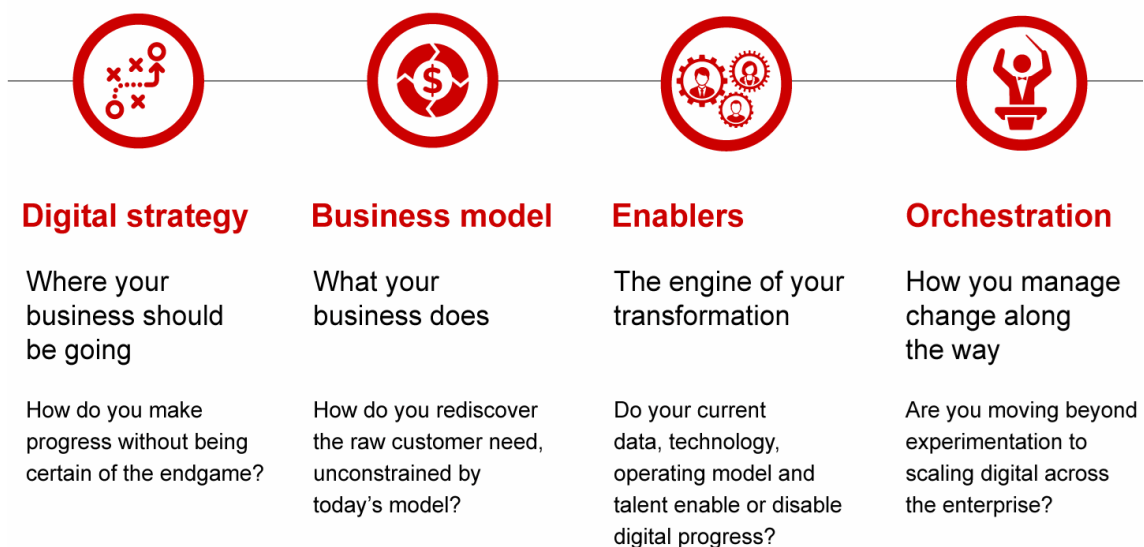
SCALING UP YOUR DIGITAL TRANSFORMATION JOURNEY

To help executives and digital leaders envision, structure and sequence a successful digital transformation, Bain & Company partnered with the World Economic Forum to convene a group of senior executives from 40 global companies representing businesses from a cross-section of industries. One year of discussion, debate and experience sharing helped to shape a framework for digital transformation that focuses leadership teams on four critical elements: *digital strategy*, *business model*, *enablers* and *orchestration*.

The Four Core Elements of Digital Transformation

Each company has its own distinctive way to integrate these four elements into its business. And like everything digital, the framework evolves in order to remain relevant, practical and forward-looking. Still, these elements provide valuable structure to what has been a chaotic and even damaging swirl of activities for many businesses trying to adapt.

Transformation framework and sample questions



Source: Bain & Company



DIGITAL STRATEGY: Today Forward and Future Back

Two big ideas are helping companies as they race to develop the components of a winning digital strategy. The first idea is to envision the business both **today forward** and **future back**.

Today forward uses existing digital technology and management approaches to make a business better, faster and cheaper right now. *What are the three to five focused, well-defined initiatives that can get the firm moving in the direction of its future?* Every organization has its dreamers and doers, and today forward is the path of the doers.

Future back is the opposite: imagining the future and then working on the steps required to position a company to compete in 10 or 20 years, including how to make progress today in order to make that happen. Future back is the domain of the dreamers. Companies need to, in effect, build a faster horse while simultaneously imagining the car.

Clearly, a winning digital strategy requires both today forward and future back planning. Combined, they convey a sense of long-term direction to employees and other stakeholders, while at the same time articulating the first steps the organization can take to start moving in that general direction. This isn't a set-it-and-forget-it strategy. New information, experience and technology will change that 10- and 20-year future many times before it arrives. Flexibility is key.

The second big idea is using **waves** and **stepping-stones** to create a roadmap for the business's future. *Waves* are the successive evolutions that lead a business toward the future it envisions. *Stepping-stones* convey the idea that you don't see step two until you take step one.

The key is moving forward but pivoting as needed, and then moving forward again. This nimble approach is challenging for many companies but it's at the heart of how digital natives build winning positions.



Digital Strategy: Getting Started

- ☐ Digital Departure: *What is underway in your company today?*
- ☐ Industry Direction: *What will your industry look like in 5, 10, 20 years?*
- ☐ Company Vision; *How will you play and win in the future?*
- ☐ Waves and Stepping Stones: *How do you make progress without being sure of the end-game?*

BUSINESS MODEL: Rediscover Your Customer's Raw Need

Strategy is foundational, but it cannot be taken to market. Companies need a business model that takes full advantage of digital innovation and protects against digital disruption, covering customer and channel engagement, products and services, economic model and operations. The most powerful way to unleash innovation in those parts of the business is rediscovering the **raw need** the business is here to serve. Many organizations fall in love with their products, which is natural and understandable. But a product, no matter how great, is really just the temporary answer to the raw need that a business serves. Raw need is the essence of what a customer values, independent of how the need is addressed today. The distinction between product and raw need is important.

The Netflix Example

That's the story of **Netflix**. The raw need of Netflix customers is finding entertainment they love, whether it arrived in their mailbox as a DVD or on their smartphone, from the Disney archives or fresh from Netflix studios. Focused on meeting that need, the company has changed nearly every aspect of its business model as it evolved. Originally a pay-per-DVD-rental operation, today it sells monthly subscriptions. The fulfillment expertise needed to distribute DVDs by mail has given way to investment in streaming infrastructure. From a distributor of other company's products, Netflix has evolved into a producer of entertainment, spending billions of dollars each year to create shows and movies designed to meet the viewing tastes of its more than 130 million members.

BAGGAGE Automotive example

What is the raw customer need ?



Mobility

Getting from point A to point B—
for example, going to the office



Some capabilities, like dealerships, are assets today but could become liabilities or “baggage” in the future.

Source: Bain & Company

How can this need be met ?

	Today's model	Tomorrow's model
What do you sell?	A car	Mobility service
To whom do you sell?	Individuals	Fleets
How do customers pay?	Financing or leasing	Per trip or subscription
How do you build and deliver it?	Dealerships; massive brand budgets; R&D and manufacturing for cars	Direct sales; skinny brand budgets; R&D and manufacturing for electric pods

For those looking to reconnect with their own customers' raw need, consider a simple exercise. Ask yourself four questions: *What is our product? Who buys it? How do we sell it? And how do we make it?* The answers should shed light on both the customer need and the baggage making it hard to serve.

Business Model: Getting Started

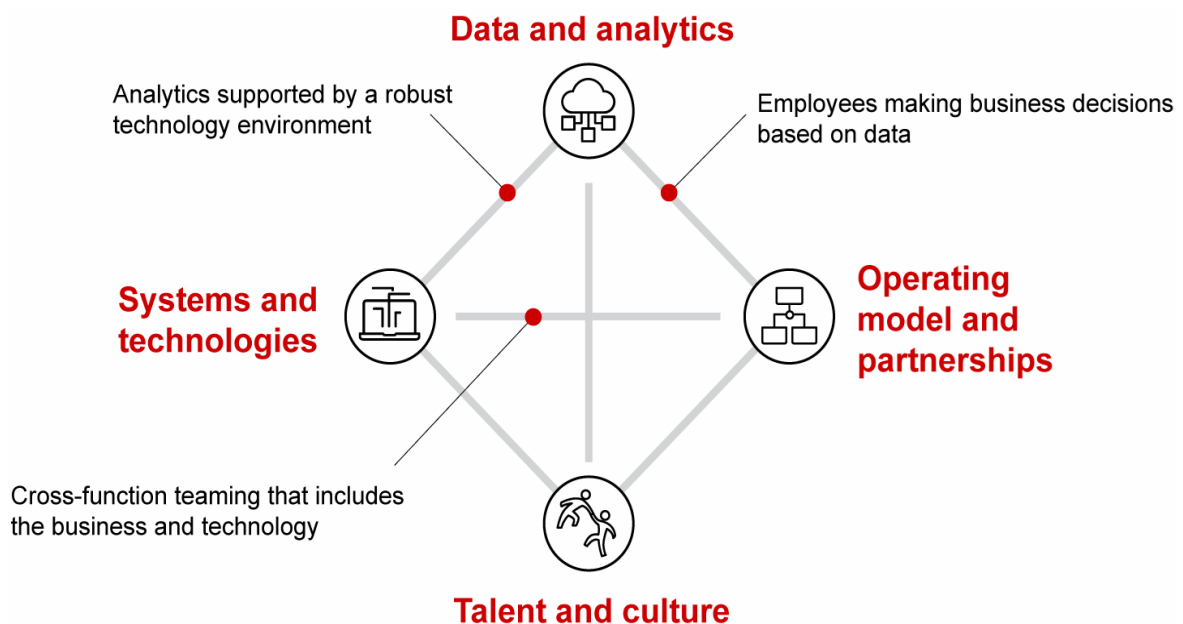
- ☐ Customer Value Proposition: *What is the raw need you serve?*
- ☐ Products and Services: *What is your 6-star offering in a 5-star world?*
- ☐ Economic Model: *How will you make money?*
- ☐ Operations: *Are your operations keeping up with digital?*

ENABLERS: The Engine of Digital Transformation

Assembling the capabilities required to power a digital transformation is often overlooked, but it's important. Four capabilities, what we call enablers, become the engine of a successful digital transformation. *Data and analytics* inform critical decision-making. *Systems and technology* are employed to get things done, and are so central that questions about them need to be solved at the CEO level, addressed alongside the strategic issues facing the business. *Talent and culture*, the people inputs, remain as important as ever. And the *operating model and partnerships* determine how all of this is put together.

Enablers Are Deeply Interrelated

Two broad issues that executives are debating in the context of powering a transformation are, first, how to set the right data strategy and, second, how to organize for digital. A better starting point is to flip the sequence: *What are the questions that matter to your business? Then where do you need to put systems and collection points in order to gather that data?* It starts with the business need. Landing the right operating model for digital is one of the toughest challenges for many companies. Clarity comes from defining digital at the right level. Some companies have their heads way up in the clouds, while others are down in the weeds. The key is finding the right altitude.



Source: Bain & Company

Enablers: Getting Started

- ☐ Data and Analytics: *What data do you need, what data do you have?*
- ☐ Systems and Technology: *How high is technology in your CEO's agenda?*
- ☐ Talent and Culture: *Is your talent and culture a source of advantage?*
- ☐ Operating Model: *Does your operating model accelerate digital progress?*

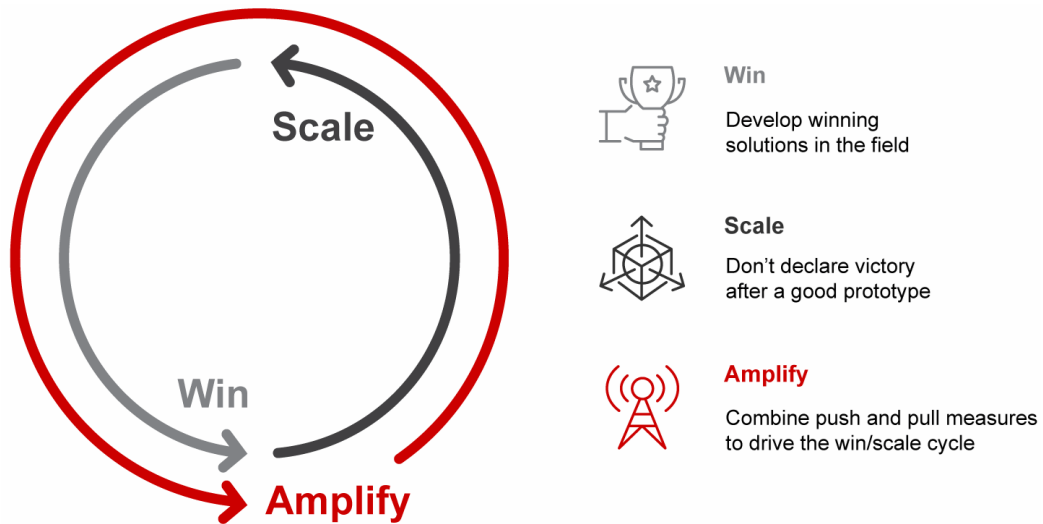


ORCHESTRATION: Experimentation Is Easy But Transformation Is Hard

Orchestration includes five critical components:

- (1) *Scaling* breaks initiatives down into component parts and creates well-structured teams to take charge of change at the front line and integrate the groups that will enable it.
- (2) *Governance, metrics and risk management* sets clear guardrails within which the front lines are free to innovate, and promotes change by focusing on metrics that gauge achievement, such as measurable customer value, not simple proofs of concept. It usually requires a governance structure that involves senior leaders who accelerate decision making and support scaling across the organization.
- (3) *Leadership* focuses on aligning on a clear vision and cultivating a better understanding of technology and the “art of the possible” at all levels to build a critical mass of engagement, while making sure change actually takes place at the front line.
- (4) *Funding and investor management* builds an investment case for digital change both internally and externally. It ensures internal funds shift from old business to new activities, and manages the implications of those changes.
- (5) *Regulatory and community engagement* is the last component and companies can benefit by taking a proactive approach to it.

Companies that scale effectively have a knack for turning their vision into a backlog of discrete initiatives. These steps are small enough to permit short cycles of testing and collection of customer feedback. Critically, they’re also of real potential value for the customer and the company. Successful projects obsess about scaling issues from Day 1. They’re tested in an environment that permits the identification and resolution of critical failure points. You can think of these testing environments as “units of transformation.” They provide opportunities to experiment, but in ways that can be replicated broadly. One way that companies can focus on their biggest strategic priorities and develop scalable solutions is through micro-battles, discrete time-boxed initiatives that rapidly bring strategic choices to action. Central to this method is the **Win-Scale-Amplify Cycle**.



Source: Bain & Company

The role of the leadership team is to amplify the transformation. Concurrently executing multiple micro-battles accelerates the pace of the transformation and increases the chances of success. The effort works best when managed dynamically by the leadership team: Empowering individuals, spotting patterns, sharing lessons across teams, shifting resources to support winners as their success becomes clear through data and experience, skipping ahead when better versions of a given unit test successfully and, critically, pivoting or shutting down trials when they fail. As the transformation starts to have impact, it will accelerate across the enterprise and more people will see the success and get involved.

Orchestration: Getting Started

- ☐ Scaling Up: *Are you moving beyond experimentation?*
- ☐ Governance and Metrics: *How are you sequencing and measuring progress?*
- ☐ Leadership and Engagement: *What's your sponsorship spine for digital?*
- ☐ Funding and Investments: *How are you funding digital bets?*
- ☐ Regulatory and Sustainability: *What is your role in developing the digital commons?*

Real digital transformation goes deep and sounds daunting, but it can be done - digital natives and incumbents both are making it happen.
