

THE NEW RULES OF DIGITAL TRANSFORMATION

Right-Sizing Digital Transformation for Your Organization

.|| NORTH HIGHLAND INSIGHTS

The following report draws on the results of a North Highland-sponsored survey conducted in April 2018. The survey identified the emerging trends in technology domains, along with the tactics and techniques that correlate to digital effectiveness. This report utilizes those insights to spotlight opportunities for organizations to right-size their approach to digital transformation.

Survey Participants

Technology & Digital

More than 300 director-level and above employees with leadership responsibilities in technology/digital categories at global companies with revenues in excess of \$1/£1 billion were surveyed in April 2018.

.|| KEY TAKEAWAYS

The problem: The pace of innovation and change is accelerating, and in response, digital transformation remains a top priority for organizations across industries. In enabling transformation, there is a growing gap between born-digital companies like Google and legacy companies such as telecom providers, product retailers, and healthcare entities.

The analysis: For legacy and born-digital companies alike, digital transformation—grounded in a do-adapt-learn approach—is an imperative for survival.

The solution: Depending on your organization's operating model, the rules for digital transformation will vary. Within this piece, we explore the unique opportunities, challenges, and solutions for organizations across the digital landscape:

- **Digital natives:** companies whose original products are digital in nature
- **Digital adopters:** companies incorporating digital to make their products better or faster
- **Legacy companies:** companies digitizing existing offerings

With an increased rate of change fueling a widening gap between digitally-enabled companies and legacy ones, you can't afford to delay your digital transformation efforts. Understanding where your operating model fits in the new digital landscape can help you accelerate digital transformation.

With no industry safe from disruption, digital transformation is nothing less than an imperative for survival. More traditional companies still operate with a 20th-century view, rooted in the operational realities of machine- and manufacturing-based companies. They assume that managing the inputs enables you to predict the outputs, with success determined by how well you manage to your prediction through tighter control.

Today's digital landscape, however, demands a more modern approach. Digital companies manage their companies like a living organism, one that feels and learns the best way to grow. And that do-learn-adapt approach is one that accelerates competitive advantage today.

The more digitally transformed the organization is, the faster and easier it is to make additional incremental changes. That's because everything about digitally-enabled businesses is built to change rather than built to last. They accept that today's development is tomorrow's technical debt, and build with that front of mind. This makes these businesses more flexible, scalable, and dynamic; they have greater speed-to-market, efficiency, and resource utilization.

As a result, the companies that are already behind the curve in digital enablement are

falling further and further behind—many, even, are in danger of subsiding into obsolescence. According to North Highland's research, only 22 percent of organizations today cite a "culture of continuous learning" as a driver in the successful design and adoption of technology platforms and solutions. To succeed, though, companies will need to move from a plan-manage-control model to the do-learn-adapt model of born digital businesses.



74% OF ORGANIZATIONS REPORT THAT THE PACE OF DIGITAL TOOL AND APPLICATION DEVELOPMENT HAS INCREASED IN THE PAST THREE YEARS

The time to act is now. The momentum around a more iterative, do-adapt-learn mentality is growing. In North Highland's research, 74 percent of organizations report that the pace of digital tool and application development has increased in the past three years, requiring an adaptive approach that can keep up. There are different models and approaches to digital transformation, but it's most critical to keep in mind that no company is the example of a finished product. Even Google continues to learn and transform away from the herd. Those that view digital transformation as an end

destination will struggle to find one, because it doesn't exist. Rather than seeking to become Google, companies should instead replicate its ability to change, building a capacity to learn and adapt across people, process, and technology. Depending where you are on your digital transformation journey, or depending on the nuances of your industry, your approach should be iterative, constantly adjusting to achieve the greatest impact.

This piece is intended for cross-functional, technology-minded executives eager to uncover a path to digital transformation that's grounded in their organization's operational nuances.

PLAN-MANAGE-CONTROL: Borders

This book and music store once had over 1,000 brick-and-mortar stores globally. By doubling down on its existing strategy rather than sensing and adapting to the emerging omnichannel and eBook movements, the company went bankrupt in 2011.¹

DO-ADAPT-LEARN: Monsanto

The CIO of this agriculture company launched "science@scale" a cloud-based analytics platform that's generated cost savings and accelerated research and development—enabling the company to uncover learnings and insights that previously took several months in just a few fours.²

DISRUPTION IS UBIQUITOUS

The pace of change is such that 75 percent of the companies currently in the S&P 500 will probably not be independent entities listed within the S&P 500 seven years from now.³ Take for example, G.E.: one of the world's most recognizable brands and last original member, dropped out of the Dow Jones Index in June of 2018.⁴ Banks, whose digitization efforts have largely focused on routine transactions, are competing against fintech startups; taxi companies are losing the battle to Uber in convenience and ease of use. Organizations unable to adapt will fall behind.

Digital transformation remains a top priority across industries as the pace of change and innovation accelerates: International Data Corporation (IDC) projects that spending on digital transformation will exceed \$2 trillion in 2019, and that 40 percent of all technology spending will be for digital transformation technologies.⁵ And more than 80 percent of respondents to the 2018 State of the CIO survey by *CIO Magazine* say they are focused on digitally transformational work such as aligning IT initiatives with business goals (50 percent), cultivating the IT-business partnership (38 percent), implementing new systems and architecture (36 percent), and leading change efforts (33 percent).⁶

Despite the acknowledged importance of business-IT partnership in enabling digital transformation, the operational realities look much different. North Highland research shows that it remains largely confined to the IT department, with 60 percent of organizations reporting that IT is primarily responsible for executing digitization.

There is, in fact, a wide gap between born-digital companies like Google and legacy companies like telecom providers, product retailers, and healthcare entities. The gap is manifest through:

- The technology and infrastructure that organizations build today is legacy tomorrow. Leadership teams in born digital companies recognize this, and are aligned around the importance of constant evolution—rather than the “blame the past” attitude that permeates many legacy companies.
 - The level of attention paid by the C-suite to digital transformation. North Highland research shows that 37 percent of organizations believe that C-suite sponsorship is an enabler of successful digitization. We believe that means the remaining 63 percent are going to make slow progress.
 - The existence (or absence) of a digital leadership team.
 - Transformation efforts that are focused on ad-hoc projects or a single component of the enterprise rather than an enterprise-wide strategy. In fact, according to North Highland’s research, nearly one-third (30 percent) of organizations report that siloed efforts are an obstacle to successful digitization.
- Legacy, or traditional, companies are often resistant to the idea that they can replicate what born-digital companies have accomplished. Traditional organizations are often hindered by legacy technologies and lack of internal resources.
 - The culture of legacy companies often doesn’t lend itself to attracting digital tech talent—even working hours can be a sticking point in an organization that prides itself on engineering or traditional business when new talent is unaccustomed to a nine-to-five schedule. (This is evidenced in the tech/software industry, which is the top landing spot for millennials who change jobs.)²
 - The most significant gap between legacy companies and digital ones is that digital organizations learn much quicker; as a result, they don’t get in their own way as much. Digital companies are learning organizations, not machines that are controlled to follow a predicted plan. Continuous improvement is critical to all aspects of these organizations. Small increments and an attitude of “we are never done” enable success.

Though transformation in these legacy organizations may be more difficult, it’s not optional. Even so, in these organizations, the rules for transformation look very different.

Despite recent growth, a grocery chain's technology systems had become increasingly entrenched and could not keep up with changing needs. The company had hired a new CIO, and he and North Highland began collaborating on the development of a 100-day launch plan that would allow him to hit the ground running with an established transformation strategy already in place.

North Highland designed foundational programs and a flexible framework that could accommodate current growth patterns and that was agile enough to adapt to new technologies, staffing shifts, and future network requirements. The changes touched all areas of the department, including employee management and training, organizational structure, and technology usage.

ONE SIZE DOES NOT FIT ALL: Tailor your approach to your operating model

TRANSFORMATION AS A DIGITAL NATIVE:

COMPANIES WHOSE PRODUCTS ARE DIGITAL IN NATURE

✓ **Companies that have done this well:**

Well-known examples of born-digital companies include Apple and Google. These organizations are already transformed, and they are selling something that is part of the digital revolution. Every company, however, needs a digital product regardless of its level of transformation.

✓ **The challenge:**

The opportunities to disrupt in born-digital industries are early in the maturity curve. They're complex and experimental, making large-scale failure a higher risk. If Ford changes a model of car, it's unlikely to have zero sales. But in a new market, that's a very real possibility.

✓ **The opportunity:**

Innovations that increase speed to market, such as by expediting R&D or testing cycles, and integrations with other products or channels. Apple for example, moved from computers to phones and made itself a digital hub with the iCloud.

✓ **How to get started:**

- Use the data you have collected—this holds true for any organization, regardless of the level of digital transformation.
- Integrate your supply chain with other digital products or channels.
- Enable your workforce with better software development tools to help your teams to move innovations to market more quickly.
- Maximize the omnichannel opportunity and focus on how you can connect more and offer more services to customers.
- Focus on your business model. Think about analogous industries. If you have a tool now, abstract it from its industry or niche and think what else it could be applied to. Consider the case of Uber, which applied its existing technology to a completely different problem with the launch of Uber Eats. It identified its core asset—a fleet of on-demand drivers—and deployed it to solve another market need. Because the company has little infrastructure, it was able to act nimbly.

DIGITAL TRANSFORMATION IS ATTAINABLE FOR ANY ORGANIZATION

- Atkins, a global design and engineering firm, evolved from building roads to selling condition data by applying technology to existing physical assets.
- Boeing leverages thousands of sensors on each plane to inform design and develop value-added features for customers.
- Sprint implemented open-source software to rapidly analyze data that determines the performance of Sprint.com. From there, IT teams identify bottlenecks in the purchase process, and opportunities to continuously improve the seamlessness of transactions.⁸

TRANSFORMATION AS A DIGITAL ADOPTER: COMPANIES TRYING TO DELIVER DIGITAL ITEMS (IN AN EFFORT TO BE BETTER OR FASTER) AS PART OF THEIR PRODUCT

✓ **Companies that have done this well:**

Boeing, once a manufacturing- and product-centric company, has transformed into a data-driven business in which valuable insights gleaned from data analytics power operations and innovations. Its new division sells data analytics related to fleet performance, reliability and maintenance, and engineering optimization to Boeing aircraft operators.² Other well-known examples include Daimler, which moved from OEM to digital service provider,¹⁰ and Honeywell's dedicated Industrial IoT (IIoT) division, which helps industrial clients derive greater value from its products and the 2.5 billion gigabytes of data the company captures each day.¹¹

✓ **The challenge:**

These types of changes can be very difficult for legacy companies that did not grow up digital. Changing how we work can be challenging with any number of people, and larger companies may find that even small changes to the pipeline can cause a significant disruption in the company's operations. To succeed, don't rely on incremental change. It can be easier, but it's not going to cause a significant impact. And by the time you implement an incremental change, you'll likely be even further behind the more digitally-enabled leaders.

✓ **The opportunity:**

Companies with this operating model typically plan to keep doing what they are doing but add additional value. It's more of a digital extension than a full-blown transformation.

✓ **How to get started:**

- Begin at the customer level. What do you do every day, and what opportunities exist there? North Highland research shows that about half (51 percent) of organizations use technology to enhance customer-facing features. North Highland research also shows that about 40 percent of organizations update customer interfaces at least every six months. Extend what you are doing today and add additional ways for customers to interact.
- Look for opportunities on the digital front. If you only have a website, consider building a mobile app. Explore new ways of digital marketing and develop a cohesive digital strategy. These types of opportunities can be the least disruptive to your business, because they are on the edge of your business and don't require changing how you work.
- Enable your workforce. Many companies overlook opportunities to enable their workforce to be faster, smarter, and more efficient. What about a paperless office? Have you considered Office 365 or Google Apps? What about moving away from email to a more integrated way of working?
- Look at the supply side. North Highland research shows that less than half (40 percent) of organizations today cite the supply chain as an area impacted by technology. Are there any opportunities to use technology to move what seems like an unmovable manufacturing process forward, for example by moving from just-in-time to drop shipping?

RESILIENCE VS. RESISTANCE

Companies that are resilient recover quickly after an industry disruption. Others, however, face resistance to innovation and change—sometimes we call these corporate antibodies. When organizations have high levels of resistance, it can be difficult or impossible to effect change within existing structures. When this happens, we often see innovation centered in a skunkworks project or in a spin-off business.

At an individual level, resilience is a set of personal skills and processes that enable individuals at all levels to reduce stress but perform well under it, learn continuously, and keep their work and life responsibilities in harmony.

Building resilience isn't always easy. Less than half of respondents in a [survey by North Highland and Harvard Business Review Analytic Services](#) said their organization successfully promotes a culture of resilience. More than three-fourths said they wanted their employer to minimize disruption from continuous organizational change, yet only 16 percent said their organization always or almost always does so.

TRANSFORMATION AS A LEGACY COMPANY: COMPANIES TRYING TO DIGITIZE OR CONVERT THEIR OLD OFFERINGS

✓ **Companies that have done this well:**

Comcast offered users the ability to stream offline, a capability Netflix wouldn't offer for another four years.¹² In the financial services industry, large organizations are increasingly switching from a line-of-business (banking, brokerage, insurance, etc.) structure to one organized by customer journeys that span many business units.

✓ **The challenge:**

This process of identifying the digital core of your business isn't a one-time exercise. It needs to be done yearly, or even more frequently. As technology evolves and consumer tastes shift, you may find new uses or applications for existing products. After all, Apple's idea for the iPod wasn't feasible until Toshiba's invention of a hard drive that was small enough, and smart appliance infrastructure didn't exist just a few years ago. In the trucking industry, in which driver wages and benefits account for 43 percent of motor carrier costs per mile,¹³ the first company to successfully implement self-driving trucks will be able to realize a significant cost advantage.

✓ **The opportunity:**

Digital transformation in legacy companies often involves a complete reintroduction of the product or service but in a digital/cognitive/AI form. It may require that you think about your business entirely differently. Newspapers thought of themselves as being in the paper business; as a result, print media has lost its relevance. Try to find the digital roots of what you do, then relaunch around a digital core. If you are delivering content, explore how you can deliver it digitally.

✓ **How to get started:**

- Reorient to the user/customer. Start with your users, because they are probably the most digital and can see how you can make their life simpler, easier, better. They'll often tell you what they want, if you listen.
- Consider what you would do if you were starting out today. You may need to abandon your nondigital products or services or change the product or how you go to market. Exiting an old-fashioned style of business can be done by product or product group; it does not require that you change your entire business model.
- Rather than worrying about your new initiative cannibalizing your existing revenue streams, focus on deploying that initiative before a competitor does.

These types of changes rarely involve improving a product or service; they generally require a transformation. You're not optimizing the supply chain; you are reinventing it. Digital transformation for companies with this operating model is risky—Apple's Newton was way ahead of its time, and Kodak was unable to foresee the changes its digital camera would have on the market.

THE TIME TO ACT IS NOW

Given the rate of change, you don't have years, or even months, to wait. According to North Highland's research, 70 percent of organizations report that IT holds primary ownership over technology decision-making. But digital is everyone's business. Being digital means changing almost everything: an overhauled supply chain that leverages digital partnerships; a flexible workforce with the tools and skills to operate in a digital world; an integrated omnichannel experience designed to anticipate your customers' needs; a fundamental change in business model; and a modernized, constantly changing IT capability underpinning everything. You need a do-adapt-learn mentality.

In our work, we've observed that companies often get stuck trying to implement Agile in a piecemeal way. They implement Agile project delivery practices, they practice DevOps, they apply lean thinking. But they still get stuck, because that mindset shift hasn't occurred across the top table. Certain functions and businesses still demand control.

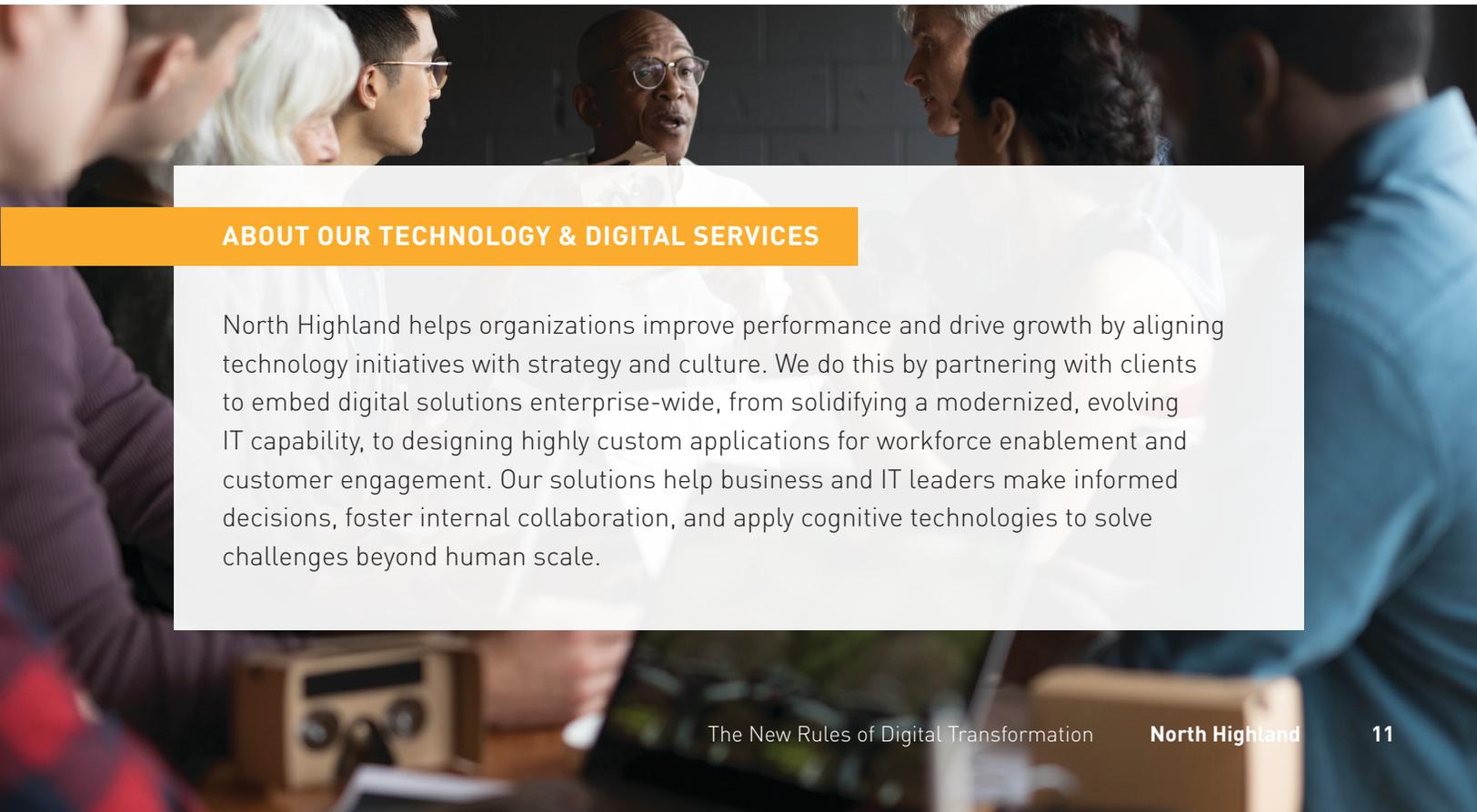
What are the first steps you need to take to move towards a do-adapt-learn mentality?

1. **Focus** less on your plan (the "how"), and more on your vision (the "what"). By the time you've developed the perfect plan, it will no longer be relevant. Instead, prioritize a culture of continuous improvement and focus on the interim roles and priorities that will enable your organization to continually learn.

2. **Adopt** DevOps practices that bring the business closer to the end user.
3. **Ensure** that the ethos from the top supports digital transformation. According to North Highland's research, 51 percent of organizations cite "leadership alignment" as a driver of the successful design and adoption of technology platforms and solutions, but based on our work, we believe that leadership alignment plays a critical role in driving the success of digital initiatives.
4. **Build.** Focus on helping employees build an ability to perform—and capacity to thrive—during periods of change and disruption.

All businesses need to be digital in a world where everything is disruptable. It is becoming increasingly hard to survive as anything else. To stay relevant today, you must manage your company like a living organism, one that feels and learns the best way to grow. The concept of a five-year plan, or even a one-year plan in some industries, has gone the way of the dinosaur. You need to retool your organization so that it can completely change itself within six months. When the unexpected happens, you'll know that you are only six months away from reinvention.

But one good idea for digital transformation isn't enough. To succeed at today's pace, you need to have a portfolio of transformation ideas that span all areas of the business, from supply chain and workforce enablement to omnichannel operations, the business model, and IT. Can you get your invoices paid more quickly by submitting them more quickly? How can you prepare for how AI will change your businesses? Forget email, what about using robots? You must get comfortable with the higher risk of failure that accompanies experimentation. Keeping one eye on the future while you are preparing your organization for what's coming next will help you respond to, and even lead, new digital disruption.



ABOUT OUR TECHNOLOGY & DIGITAL SERVICES

North Highland helps organizations improve performance and drive growth by aligning technology initiatives with strategy and culture. We do this by partnering with clients to embed digital solutions enterprise-wide, from solidifying a modernized, evolving IT capability, to designing highly custom applications for workforce enablement and customer engagement. Our solutions help business and IT leaders make informed decisions, foster internal collaboration, and apply cognitive technologies to solve challenges beyond human scale.

ABOUT NORTH HIGHLAND

North Highland is a global management consulting firm known for helping clients solve their most complex challenges related to customer experience, performance improvement, technology and digital, and transformation. We add value and support our clients across the full spectrum of consulting, from strategy through delivery. We bring the big ideas, then we make them real. North Highland is an employee-owned firm, headquartered in Atlanta, Georgia, with more than 3,000 consultants worldwide and 60+ offices around the globe. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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