How to set-up an organization to enable digital transformation?

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EXECUTIVE SUMMARY

A lot of discussion is going about digital transformation via buzzwords like Robotic Process Automation, big data analytics, artificial intelligence, Blockchain, Virtual/Augmented Reality and so on. Majority of the companies are struggling to get the clear overview of the topic and how to embark in a right manner.

In 2017, already the digital champions have developed lot of digital services, products and have mature digital business models but there are many companies who is still struggling to get pace on digital transformation. This article gives a brief overview about how to start in digital topics and further focus on digital organization.

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SETTING-UP THE ORGANISATION FOR DIGITAL TRANSFORMATION

How do I start my business in digital transformation? and How-to set-up my organization for the same are the two-major question confronted by C-Suite in today's time. Digital transformation is such a topic where, a IT- department or a strategy department cannot along drive the project. It needs a complete new mindset and culture along with a strong digital ecosystem.

Big consulting companies along with start-ups have started helping the companies develop quick pro-type and trying to find best idea to start with but fails with full scale implementation as the organization is not set up for digital@scale. Fig.1 describes the framework with not only what to develop in digital transformation but also how to develop it.

As a defensive strategy, companies have started hiring Chief Digital Officer (CDO) and have been following agile methods. But is that enough to tackle the digital revolution? The role of CDO is multifaceted. The role is not only about digital strategy but he should be able to understand customer and employees. Cost Saving, Quality management, managing agile teams focusing on variety of topics and as a networker (externally and internally). Also, CDO must be able to breakdown the silos. A good CDO must have 'the ability to bring everyone together' says Roland Villinger, CDO at Audi.

For e.g Audi, BMW and Daimler are working together as partners in the mapping service Here, which they acquired from Nokia. The cloud based Predix Platform allows GE to break up digital silos. 'We connect engineering, manufacturing, supply chain, maintenance, services, which exist in every industrial company including GE'. These had been disconnected. What we are doing is connecting them.' Say Bill Ruh, CDO, GE.

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To have affective agile method, the three principles need to be followed:

- Individuals and interactions are more important than processes and tools
- Just as working software is more important than documentation
- The collaboration with customers is more important than the amount of contract negotiations.

	How to develop the business in the field of digital transformation? **Business Development**	How to set-up the organization to enable digital transformation? **Organization Development**
Identify	▪ Readiness check (customers, competitors, market, business skills) ▪ Identification of opportunities	▪ Organization structure ▪ Organization culture / mindset ▪ Identification of competences
Design	▪ Formulation digital strategy ▪ Prototype / MVP ▪ Selection of the target group (Industry, Market, Application) ▪ Customer journey	▪ Digital Organization ▪ Competence management ▪ Processes, systems ▪ Operating model / Agile methods
Transform	▪ Value propositions / USP ▪ Digital business model ▪ Service business model	▪ Transformation roadmap ▪ Program management ▪ Benchmarking of realized "digital transformation" solutions

Fig. 1: Embarking in tot he field of Digital Transformation

Agile companies refrain from the quest for perfection but use heuristic methods to complement and improve their products with continuous testing cycles. But that's not all, digital organization needs agile teams with clear goals, appropriate talent, collaboration with start-ups as well as competitors.

For an organization to sustain this revolution, there are certain key metrics to be observed to get it right. In figure 2, those metrics are compared from both the perspective of traditional and digital economy.

Till now, we focused on process and methods which enables the organization towards the digital future. Let us have a look on how the organization evolves with the new technological revolution. It is very important to not here that, there are basically four pillars i.e.

- Strategy
- Structure
- Processes
- People

which helps in the evolving process.

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There are numerous examples where company had focused on one of the pillar and have missed the rest three have failed considerably in the market. Yahoo, launched bonafide web products quite late in the market due to matrix organization and slow decision process. They lost the market in a really short time frame.

On the other side, Nokia had flexible organization and was active in M&A but they completely missed the market trends in smartphones as well as in maps and went bankrupt. It took two years for Google+ to get in the market, by the time Facebook had insurmountable lead.

		Traditional Economy	Digital Economy
	Strategy	Focuses on Industry and Product Applications	Focuses on customer needs
	Services	Reactive	Proactive
	Innovation / R&D	Long testing process, with focus on finding a correct solution	Fast prototype with failure expectation and focus on fulfilling customer need
	Marketing / Sales	Customer Satifisfaction	Develop loyality of customer by just not selling product but also services
	Competition	Zero-Sum Game	Coopetition
	Value Proposition	Defined by Industry	Defined by continously changing customer needs
	Customer Relation	Customer as mass market	Individual customer. Dynamic relationship with customer
	Data	Data generation costly and only used to optimize processes	Continous data generation and data is the new gold for the value chain
	Roles & Responsibilites	CEO / CSO / CTO are the key players	CEO / CDO plays the major role in defining future business model
	Leadership	Focuses on growth management	Focuses on innovation management along with digital partnerships and external network
	Team Structure	Hierarchy Structure (Department Silos)	Agile Culture (Cross-Funktionale Team)
	Competences	Competences based on product, market or specialization	Holistic approach with team member from various backgrounds
	Culture	Stage gate process with hierarchy	Trial & Error / Pragmatic Approach
	Talent	Skill based work force	Highly Skilled Talent (Data Scientist)
	KPI's	Operational Excellence with focus cost reduction	New revenue streams with digital products and services
	Network	Internal value chain	Partnership with players from different industries and value chains

Fig. 2: Key metrics comparison

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The transfer of information and now value as well (via blockchains) is moving exponentially and it is time to **scale the organization also exponentially**. There are various framework and tools which allows organization to move towards the decentralized organization.

Old Economy
- The company focuses on classic business, applications and markets.
- Organization explores digital initiatives

Centralized
- The organization appoints CDO and develops team to take on digital topics
- Execution is centralized and the digital topics are sponsored from old economy business

Hybrid
- There are digital business unit and old economy business units driven by CDO and CEO
- Digital team focuses on setting best practices and supporting local teams

Decentralized
- All business unit drive the digital execution themselves
- Role of CDO is limited to areas of scale advantage or best practices
- Center of excellence supports coordination, scaling and capabilities
- Digital is at the core of strategy, execution and is dispersed in organization

3-6 months   *6 months*   *1-3 Years*   *time*
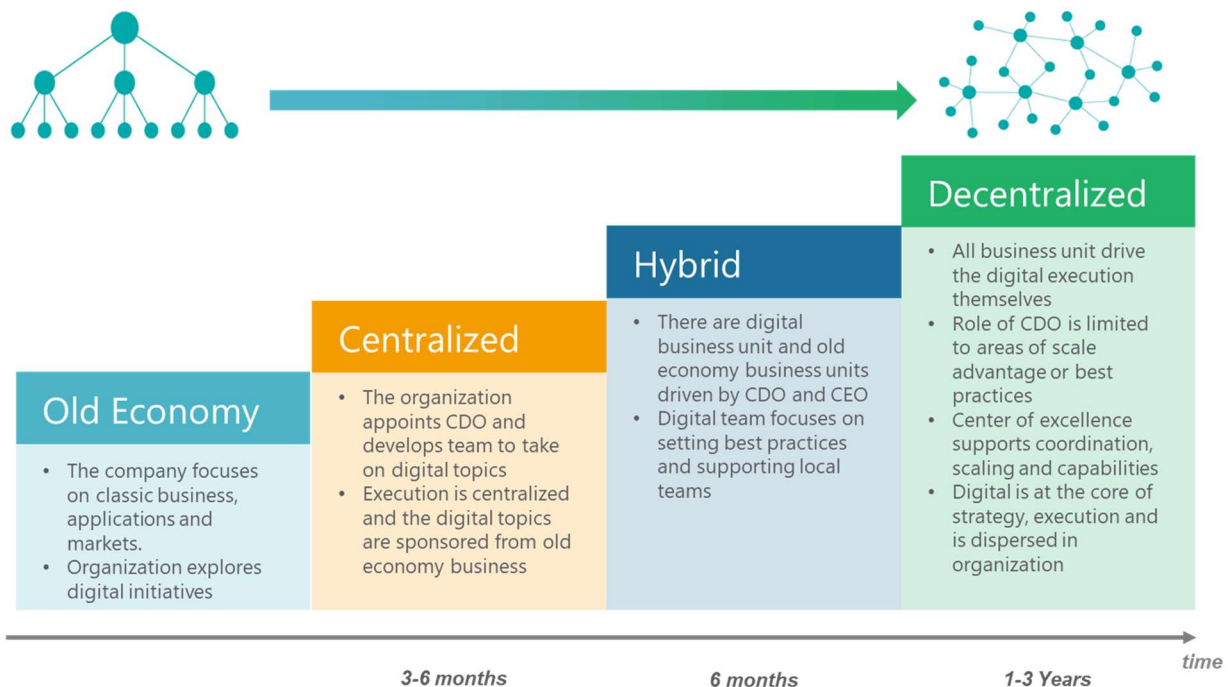
Fig. 3: Evolution of decentralized organization

To shift from old to decentralized organization, a crystal-clear short-term strategy is needed. The short-term strategy will help to develop the roadmap and help to achieve the low-hanging fruits in the digital market. To embark in the digital transformation era, company needs to decide based on **market, application or the industry**. Once, it is decided and the prototype has been developed then the roadmap for the ecosystem development should be planned. It is imperative to work with external partners as well as the third-party suppliers and many other players to realize the digital project. Henceforth, it is of utmost importance how we develop the agile digital teams. Fig 4 gives a brief overview about generating the digital business model and how the organization transforms form the old economy to digital one.

Initially, the portfolio analysis need to be done, where the 'dogs' (BCG Matrix) in the business model needs to be removed. The focus need to be done on the business unit bringing major profit and revenues – 'cash cows'. This supports the new experiments on the innovative topics. In the hybrid business model, all the business units have a proportion of business revenue from the digital. It is driven by CDO and is in the phase where the whole ecosystem is developed. This is the fundamental for the future business and paves a path for the digital business model. A company can choose to start either externally or internally, but in either case the organization needs to be restructured.

Depending on the agility as well as on the culture, digitalization maturity comes in to organization. Once, the business units are fully digital and autonomous, the requirement of CDO is peripheral. The new digital organization has 'squads' which work on the customer need and when the project is completed, they are allocated to the new ones based on skills. The teams are based on mixture of not only various talent but also various culture to bring new perspectives to the project. The team works with external partners, suppliers and catalyst start-up to reach the target goals. This is the future way of working. This is the digital organization.
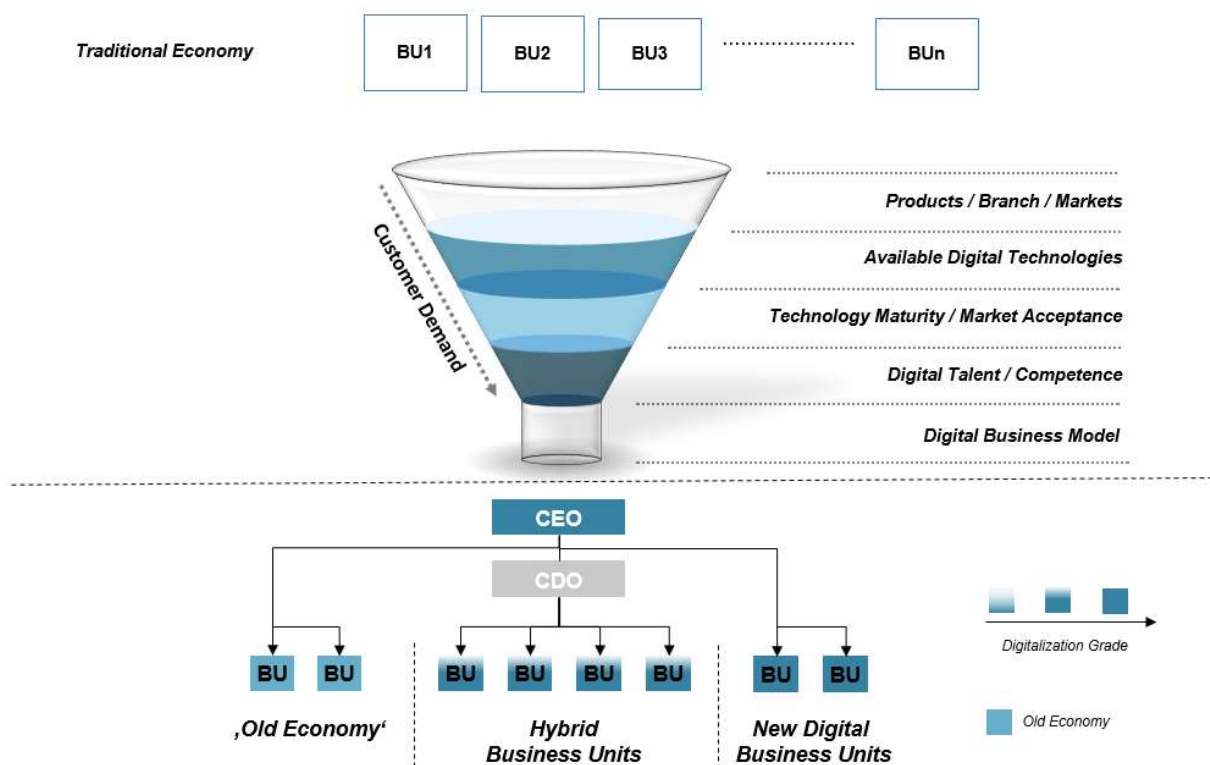
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Fig. 4: Transforming the business unit from old economy to digital economy

SUMMARY

It is rightly said, 'co-opetition' is the new trend. To have sustaining organization, it must have agile culture like start-up and should be open for failures. No matter how fast the technology develops, it the vision, clear roadmap and implementing to the decided goal makes the company a front-runner in the market. As with the maturity in the S-curve of digitization, new models, methods and technology will incorporated but still human talent will be the key in realizing it. There is no doubt, digital revolution will change the face of world just like smartphone or internet did in the beginning of the 21st Century or even more.

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