



TOMORROW'S
CHALLENGES



ARE YOU PREPARED FOR YOUR DIGITAL TRANSFORMATION?

UNDERSTANDING THE POWER OF TECHNOLOGY AMPS IN ORGANIZATIONAL CHANGE

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There is a great deal of hype these days about 'digital transformation'. The term is often used but rarely defined. Wikipedia notes that it can mean anything from 'going paperless' to 'the application of digital technology in all aspects of human society'. Since it is inconsistently defined and unevenly applied, measures to address it have tended to be unreliable and incomparable.

For us, the definition is clear. Digital Transformation is Organizational Change through the use of Digital Technologies to materially Improve Performance.

Let's start with *digital technologies*. A digital transformation is digital because it is built on a foundation of technology. This is distinct from other potential transformation drivers such as political, social, cultural, or economic shifts. The technologies that underpin digital transformation are not fixed. They will certainly vary over time and also, to some extent, by industry sector and geography. For the moment, four technologies are most commonly associated with digital transformation. They are what we call the AMPS:

- Analytics tools and applications,
- Mobile tools and applications,
- Platforms upon which to build shareable digital capabilities, and
- Social media.

Together, these four digital technologies are having a profound effect on how organizations and industries are transforming themselves.

Let's take the healthcare sector for example. Social media and the Web are rapidly reducing the information asymmetry between patients and healthcare professionals, shifting power away from physicians and moving it to patients and care givers. Mobile applications and devices allow for real time monitoring of health status, and can provide live links to healthcare professionals. Analytics tools can assess and analyse information to diagnose, treat, and monitor patients, and big data is leading the charge to personalized medicine. Pharmaceutical companies and other life science players need to transform themselves to take advantage of these trends, since digital transformation is facilitating the entry of non-traditional competitors, such as IT firms and food companies.

The AMPS have the ability to materially *improve performance*. These improvements can come in a number of different areas. Indeed, it is a mistake to restrict the assessment of performance to a single metric. Broadly speaking, performance improvements can be organized into 6 areas:

- Revenue
- Efficiency
- Knowledge sharing and use
- Organizational agility
- Stakeholder insights
- Customer engagement and service

Most companies come to us with the objective of using digital transformation to increase revenue, but this may not be the primary benefit, at least not directly. Indeed, AMPS can be used for internal as well as external benefits. For example, common digital platforms and internal social media tools can be very effective at improving knowledge dissemination and sharing throughout an organization. Further, the effective use of performance management analytics can lead to more efficient use of time and resources, and thus reduce costs.

Two benefit areas linked to digital transformation that we feel are under-utilized are improved customer service and more granular stakeholder insights. All four AMPS can be used to improve the provision of customer service. In order to counter the negative view of airline customer service, American Airlines has opened a new social customer service department, including more than a dozen employees dedicated to social monitoring and response, and more devoted to brand engagement and social media measurement. Nestlé has set up a Digital Acceleration Team to monitor and respond to comments about its portfolio of global and local brands.

AMPS can be used for gain stakeholder insights whether an organization is socially active or not. For example, business-to-business companies can monitor online comments about themselves, their competitors, as well as customers and suppliers. They can also monitor trends concerning the end consumers of their products and services. Most of this information is freely accessible with the right tools.

AMPS can only lead to improved performance through *organizational change*. Indeed, at its core, digital transformation is about change, and, as with any organizational change initiative, it must be managed with extreme care. Digital transformation carries with it the additional challenge that it is often disruptive.

For example, the global insurance industry is being transformed by digital technologies. In the U.K. for instance, 75% of automobile insurance policies are now being sold online, mostly through aggregators like confused.com and gocompare.com. In addition, more than two-thirds of policy holders re-shop their policies at the end of each period. The trend towards online buying is extending to other forms of insurance, like property, casualty, and medical. Large insurers have traditionally sold policies through costly networks of physical agents located in local communities. For these companies, the biggest challenge with digital transformation is to reshape their product design and distribution structures and processes.

The most successful digital transformation programs are characterized by strategic clarity around objectives that are clearly communicated throughout the organization. They receive strong, top-down commitment from senior leadership, and they are appropriately resourced. Digital transformation typically can't be achieved without significant investment in digital capabilities, which may include big data initiatives, common digital platforms, and development resources for mobile apps and social media sites.

In addition to standard change management best practices, successful digital transformation includes an additional factor: the leveraging of non-digital resources. Many established firms decry the fact that they are encumbered with legacy 'non-digital' assets and capabilities, and look with envy at emerging competitors. However, the inverse is also the case: emerging digital players look with envy at the resources available to traditional firms, like established brands, access to capital, deep product and industry knowledge, and strong networks of relationships with customers and other relevant stakeholders. All these advantages can be leveraged by traditional firms to transition into new digital areas.

In summary, digital transformation is moving steadily through the economy. Certain industries, like tourism, banking, entertainment, and retail have been on the vanguard of this change. Other industries, like transportation, insurance, and healthcare are not far behind. Eventually, all sectors of the economy will be transformed and digital will just become the 'new normal'. However, until that point, organizations will need to come to terms about what digital transformation means to them, and take appropriate action.

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