



IN **SIGHTS**

**July 2020:
Digital transformation strategy:
theory vs. practice**

In the current edition of Harvard Business Manager (July 2020), authors Rita McGrath and Ryan McManus discuss in their strategy paper „Starting small and letting it grow“ the challenge for established companies to face the digital challengers. According to the authors' experience and underlined with some examples, the reaction is usually to question the entire business model and invest millions of dollars to become the ruler of new ecosystems. The authors' solution is a step-by-step and experimental approach by adopting digital change as a learning process. The adopted learning process should not lose sight of the customer and not forgetting one's own talents on the journey.

According to our practical experience and especially in industries that are strongly subject to digital change, such as the fashion industry and retail, the fundamental problem of the threat of new digital challengers is omnipresent, not to say omnichannel present. However, the reaction of the established companies, and especially in the classic SME sector, has not been to invest millions in the radical upheaval and digitalization of the business model, but rather a targeted implementation of topics that offer direct added value and short-term payback on the investment.

As the authors at HBM also demand, practice shows that the development of a long-term plan and vision for one's own company and its business models in 5-7 years is a significant simplification and guideline for a roadmap. Which topics should be given priority, and which sound great but have little effect? This vision should be transformed into a good story that can be shared later with employees, interfaces and other stakeholders. However, where project experiences hit back hard, there are two challenges that the theory unfortunately only deals with marginally and which will be discussed later on: Corporate culture and customer focus.

Setting digital priorities

This means that investments are not necessarily made in the business model, but sensibly also in the supply chain and only then in the change of business models. For many companies, the radical complete change is difficult to cope with, especially in the current tense financial situation. And the implementation of the digital business model in the direction of the customer, who is then supported at great expense by traditional and manual processes, has certainly missed its target. This often leads to the decisive question of investing in the digitalization of the existing and successful business model or massively expanding the digital business model, which usually already exists but still looks like a delicate plant. To take a simple example, which business model should a fashion brand that sells in all channels (B2B, retail and e-commerce) now focus on?

Why the focus on the supporting processes can make sense and not only the sales and end customer touch points are in today's possibilities of digitalization. With the digital change, tasks that could be done efficiently by companies in the past have been taken over by markets today. Selection of suppliers, price comparisons and negotiations, enforcement of contracts or management of payments are now outsourced from companies to digital technologies. The advice given by the authors is „Check where there is room for improvement before you invest in the first line of programming“. Can only be supported by the experience of past projects. The simple digitalization of a process does not yet produce an effect, especially if it is anything but efficient. Activities should be redesigned in such a way that the technology also brings added value.

The key question in any project dealing with digitization is „What's in it for me?“ and often digitization projects are classically calculated



with the Return on Investment (ROI). In practice, however, this often proves to be a challenge as both the benefits and the investment costs have to be estimated, but these are not yet available. In addition, there are soft factors that are difficult to assess in monetary terms or only with unjustified effort. Ideally, one selects concrete measures for the change which describe the effect of the change and then regularly documents the progress. In this way, costs and effects can also be recorded and an ROI-like factor can be calculated in the learning process.

Does your corporate culture play a role?

What often sounds simple in theory requires a radical cultural change, especially in established companies, towards an agile thinking and learning organization that allows itself to fail. Because otherwise the hoped-for learning effect can only occur to a limited extent. Furthermore, the human factor cannot be neglected in this cultural change. Employees who see their jobs threatened in the digital change and have to leave their comfort zone will only play an important role in the change if they are taken along on this journey. Or, as one CEO so aptly put it in a project: „What good is it if we build a beautiful and fast Formula 1 car but have no driver or mechanic who can handle it. That way we won't win a race.“ This is especially true and here is where we agree with the theory for executives. In a company that has pursued digitally supported business models from the very beginning, the executive structures and checks transactions, approaches and assumptions in a completely different way than in classic companies.

The customer focus in digitization should not be seen in the classical sense as the buyer of the product but rather as the user of the later digital process. The creation of famous user

stories and analysis where pain points in the change are should be basic requirements for a successful digital change. Here, the question of user experience has long been at the forefront of many software products. What is the greatest idea that does not benefit anyone? Visualizing a shopping experience and testing it in practice has always been a success factor in our projects.

The best practice findings can be summarized:

- Think big but start small: With a vision and targeted, implementable measures, you can start the digital change in an agile way
- Focus on the benefits: Use digitization where it brings real added value and not just looks good
- Customer in focus: Improving the customer experience through digital approaches and using the opportunity to strengthen customer loyalty
- Do not lose sight of dependencies: The digitization of a selective individual process can even lead to disadvantages and additional expenditure in adjacent processes
- Do not forget the tour guide: Employees need to embark on, advance and enjoy the journey of digital change

Practical experience shows a wide variance in this respect, and more agile companies accept the challenges of digital change more easily and also create added value more quickly. Adconia is happy to assist companies in the development of their strategy, or even to provide partial support for the digitization of specific areas of their existing strategy.

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<http://heft.harvardbusinessmanager.de/digital/#HM/2020/7/171530715>

