Succeeding at
digital transformation

BUSINESS *digest*

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In brief

Becoming a "digital master" remains a major challenge for the majority of today's companies. According to the authors of *Leading Digital*, "digital masters" concentrate their efforts on customer experience, operational efficiency, and business model innovation – and suggest the rest of us follow their lead!

How did Pernod Ricard deploy its digital transformation? The company's head of digital, Maël Tannou, explains that they did not leave the establishment and communication of key strategic digital priorities to chance. The first step: get everyone on board.

Starbucks, Asian Paints, Codelco, and Volvo are all active in vastly different sectors, but they all share digital mastery in common. Learn how these digital masters are using new technologies to redesign operational processes, customer experiences, and business models.

Leading digital

Turning technology into business transformation

D'après *Leading Digital: Turning technology into business transformation* de **George WESTERMAN**, **Didier BONNET** et **Andrew MCAFEE** (Harvard Business Review Press, octobre 2014).
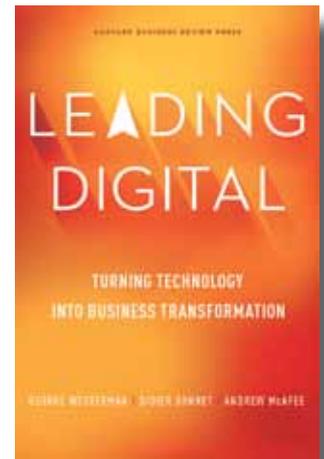
Between 2011 and 2014, George Westerman, Didier Bonnet, and Andrew McAfee studied digital transformation in almost 400 non-tech companies and found that only a small minority are succeeding at becoming what the authors call "digital masters." The fact that digital masters are on average 26% more profitable than their peers — and this performance gap is only set to increase with time — is reason enough for *Business Digest* to present the study's key lessons for digital transformation.

Digital technologies continue to change work methods, redefine business-customer relationships, and reinvent entire industries. How can you become a truly digital company? George Westerman, Didier Bonnet, and Andrew McAfee's study of 391 non-tech companies located in 30 different countries found that today's "digital masters," such as Nike, Burberry, General Electric, and Banco Santander, excel in two key dimensions: the what of technology, or the management of strategic digital priorities, and the how of technology, or leadership capability.

THE WHAT: STRATEGIC PRIORITIES

"The what" needed to succeed at becoming digital requires significant investment in three key strategic priorities: customer experience, operational processes, and business model innovation.

■ Designing more rewarding customer experiences

According to a study conducted by Harris Interactive, there was a 21% rise in the number of consumers who quit companies following bad customer experiences between the years 2006 and 2011.* And yet, less than half of the companies studied have plans in place to address this issue. The exceptions are the small minority of "digital masters," who consistently invest in the following "related interventions" to create more rewarding customer experiences:
1. "(Putting) customer data at the heart of the whole customer experience," using data analysis and metrics to develop deeper

MEMO

• **To be a digital master,** companies must excel in two dimensions: digital capability and leadership capability.

• **Acquiring digital capability requires investment** in customer experience, operational processes, and business model innovation.

• **Leading digital transformation** is about getting everyone in the company on board and moving in the same direction.

understandings of customer behaviors. This understanding can then be used to identify customer pain points and figure out ways to alleviate them.

2. Increasing reach and engagement via digital channels, such as mobile apps and social media networks.

3. Blurring the lines between customer physical and digital experiences in new ways

■ Resolving traditional operational paradoxes

New technologies enable leaders to break free from traditional managerial paradoxes that undermine operations:

• Standardization and empowerment: Digital technologies enable the standardization and, ultimately, automation, of routine tasks while, at the same time, empowering employees to focus on more fulfilling tasks.

• Control and innovation: The real-time data provided by new technologies both increases management control over processes and makes experimentation and innovation more feasible.

• Collective orchestration and individual autonomy: digital technologies facilitate give people more freedom in where and how they work, while simultaneously enabling managers to synchronize work activities more closely.

■ Reinventing business models

15% of the companies studied are using game-changing new technologies as the basis for strategic business model innovation. The authors provide the following checklist to help you use digital technologies to challenge your business model regularly (before the competition does it for you):

• They monitor symptoms for changing business models in their industry (for example, commoditization, new entrants, and technology substitution).

• They study how to transform their business model before others in their industry and evaluate the need to replace products and services under threat from digital competitors with newer versions.

• They experiment with new business models ideas, such as by creating 100% digital subsidiaries.

THE HOW: LEADING DIGITAL TRANSFORMATION

Becoming digital also depends on the ability of leaders to get everyone on board and moving in the same direction.

■ Sharing a digital transformation vision

A clear, compelling digital transformation vision convinces everyone of the need for change, gives people an idea of how the change will affect their jobs and how to make it happen. This is precisely the kind of vision that the Jean-Pierre Remy gave Page Jaunes when he became CEO in 2009. At that time, due to competition from Google, Craigslist, and Yelp, Pages Jaunes faced declining print revenues of 10% per year. To persuade his employees of the threat and opportunity of digital technologies, Jean-Pierre Remy commu-

The authors

George WESTERMAN is a research scientist at MIT and coauthor of *The Real Business of IT* (2009) and *IT Risk* (2007). Didier BONNET is senior vice president at Capgemini Consulting. Andrew MCAFEE is co-director of the MIT Initiative on the Digital Economy and coauthor of *The Second Machine Age* (2014), *Race Against the Machine* (2011), and author of *Enterprise 2.0* (2009).

nicated the following vision: "Pages Jaunes was not in the business of producing heavy yellow books. It never had been. It was in the business of connecting small businesses to local customers. Books were just an outdated technology; digital technology could do the job better." He also set an ambitious, explicit goal that provided a clear way of measuring progress: "(To shift) its business mix from having less than 30 percent digital revenues to more than 75 percent within five years." For the first time since he became CEO of the company, Jean-Pierre projects overall revenue growth in 2015.

■ Gaining critical mass

"Familiarity with digital technology varies widely across employees. Even digital-savvy employees don't always adopt new tools naturally. New ways of working can become a threat to the conventional way of doing things," write the authors. Happily, there are multiple proven leadership strategies for using digitals channels to engage employees in the transformation:

• Set the example by sponsoring, encouraging, and participating in initiatives.

• Raise the company's general digital IQ of the company via training sessions, webinars, MOOCs, and so on

• Recruit digital champions as early adopters of the new ways of working.

• Narrow the "digital divide" between younger and older generations by encouraging each group to break bad habits

THREE KEY FACTORS OF SUCCESSFUL TRANSFORMATION

To transform your company into a digital master, the authors recommend business leaders take the following decisive steps.

■ Frame the digital challenge

40% of the leaders surveyed cite "lack of urgency" as a major obstacle to digital transformation in their companies. To fight **...**

••• inertia, or "the failure to sense the need to change":
• Build awareness. Start dialogues around the potential threats and opportunities of digital and the need for transformation
• Define your starting point. Analyze the maturity of your current digital competencies, and identify which current strategic assets will help you to excel. Digitally challenge your current business model.
• Create a shared vision. Align other top leaders around a shared vision of your company's digital future.

■ Focus investment

"Focusing investment is where the rubber meets the road in digital transformation," write the authors. To focus your early digital transformation investments:
• Translate vision into action. Convert the digital transformation vision into strategic goals, and translate priorities into a roadmap of initial activities.
• Build governance. Design governance mechanisms to steer the transformation in the right direction.
• Fund the transformation. Design a balanced portfolio of digital investments and figure out the funding mechanisms.

■ Sustain the transformation

Loss of momentum is a dangerous threat to the success of your digital transformation. After an initial phase of high interest and adoption, change fatigue often sets in, and people go back to their old ways of working. To ensure the sustainability of your digital transformation:
• Build foundation capabilities. Ensure you have a plan for raising digital competence within your organization and a well-structured digital platform. Strengthen IT-business relationships.
• Align incentives, rewards, and recognitions to your digital transformation objectives.
• Measure, monitor, and iterate. Build a management process that allows you to measure and monitor the progress of your digital transformation and generates enough visibility to adapt course as needed.

The 26% higher profitability of digital masters should be "reason enough to get leadership teams interested," note the authors. "But there's also another, even more fundamental, reason: when it comes to the impact of digital technologies on the business world, we ain't seen nothing' yet."

* "Customer Experience Impact Report" (RightNow/Harris Interactive, 2011).

Digital expertise by industry

The authors divided the companies into four categories of digital maturity: fashionistas, digital masters, conservatives, and beginners. They note that levels of expertise vary according to area of activity.
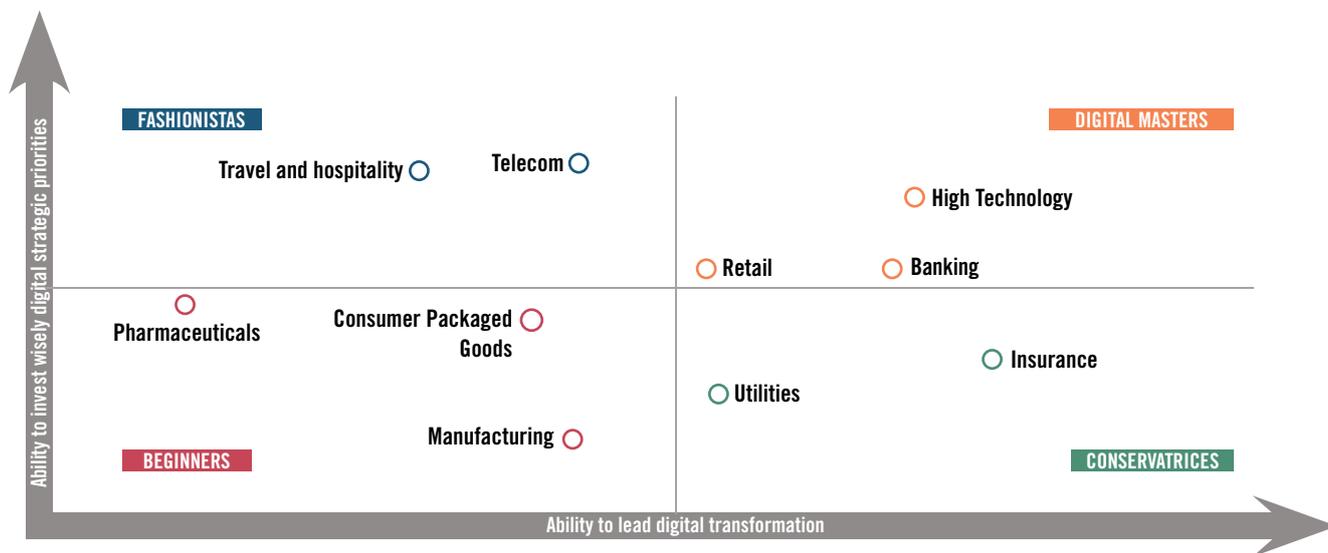
FASHIONISTAS Many advanced digital features (e.g., social, mobile applications) in silos / No overarching vision / Underdeveloped coordination / Digital culture may exist in silos

BEGINNERS Management skeptical of the business value of advanced digital technologies / May be carrying out some experiments / Immature digital culture

DIGITAL MASTERS Strong overarching digital vision / Excellent governance across silos / Many digital initiatives generating business value in measurable ways / Strong digital culture

CONSERVATIVES Overarching digital vision, but may be underdeveloped / Few advanced digital features, though traditional digital capabilities may be mature / Strong governance across silos / Active steps to be build digital skills and culture

Winning the digital battle
at Pernod Ricard

Interview with **Maël TANNOU**, Head of Digital, Sales and Marketing Solutions, Pernod Ricard Group, January 2015.

Pernod Ricard's head of digital, Maël Tannou, explains how this French giant is executing a digital transformation as part of its goal to be the company that leads growth and changes the rules of the game in its industry.

BIOGRAPHY

The Pernod Ricard Group was Maël TANNOU's last client at CapGemini Consulting. He worked to help Pernod Ricard build a digital transformation roadmap before being hired in January 2014 as Head of Digital, Sales and Marketing Solutions. In 2011-2012, he was seconded as a visiting research scientist at the MIT Sloan School of Management, where he led the second phase of a global research program on digital transformation for brick-and-mortar companies.

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"Our mission – *créateurs de convivialité* – has a very strong social component by nature. In this context, new technologies, such as social media or mobility, are huge game changers that are being massively adopted by consumers. Similarly, our distributors are experiencing major changes as they embrace digital themselves: traditional partners – such as retailers, bars and restaurants – are going through their own digital transformations; new players are arriving, such as Amazon or Flash-sales websites; and finally new business models – such as direct-to-consumer approaches – are becoming more and more accessible," says Maël Tannou. In the implantation of Pernod Ricard's digital transformation, the marriage between technology and business is scaling new heights. "One factor that has become most clear to me over the past year is the critical importance of business-IT relationships," says Maël. "While both still need to fulfill their traditional, separate roles, digital transformation also requires these leaders to work closer together."

Digital transformation starts with employees

As a globally decentralized company, with 18,000 employees spread over 80 markets, Pernod Ricard is disparate by nature, adapting group strategies to local contexts as needed. This means that to succeed at a Group-level digital transformation, they first needed to create stronger links between all of their dispersed employees. "Before being able to change the way we engage with consumers and other external stakeholders, our digital transformation needed to start with our employees," says Maël. "We needed to raise our global digital IQ and overcome internal silos in order to be able to share information and specific business practices quickly. So, in 2012, our first investment in the digital transformation was to create and launch a company-wide social network, called PR Chatter." Deputy CEO Alexandre Ricard directly sponsored the project and heavily promoted adoption. His vision for the enterprise social network was to make decentralization a strength, not a source of silos across which information does not get shared. "He communicated that the point of being active on the platform is to be able to replicate local successes quickly," explains Maël. "There are many great applications available out there now, so the challenge wasn't technical. The big challenge initially was adoption. It was about changing how people work." During the adoption phase, top managers sponsored, encouraged, and led the way on the enterprise social network. In addition, the executive committee gave KPIs to all Group executives, such as percentage **•••**

... of employees active on the platform per affiliate. "During this phase, we measured activity. It was about level of engagement and content generation – how many, how big, how much."*

Managing infobesity after achieving critical mass

"The challenge now that there's lots of content is to make sure the information is valuable. We need to manage the success of adoption so that we don't drown in infobesity," says Maël. In response to this new challenge, quality KPIs have been added to try to measure the value of employee posts. "If people just share links, these are far less valuable than a link with a short paragraph that explains why the

social network, Maël notes that efforts to raise the company's general digital IQ are important to transformation success. In November 2014, Pernod Ricard launched a MOOC to teach the basic and advanced elements of digital to all employees (what is big data, social media, etc.) Several

major challenge for them and for us as well. In terms of brand management, having an outdated picture up is counterproductive for us, which is partly why we are committed to helping our partners in this aspect of their digital transformations." Pernod Ricard has launched a multifunctional project (involving tech, business, and legal teams) to build a centralized single platform for everyone to interface on together to keep digital information and images of Pernod Ricard products up-to-date. "Updating and organizing the images and information on this single common platform is a major piece of work. Some affiliates were already ahead of it, while others did not consider it a priority. The Absolut Company is one brand company that was very mature on the topic, and so we scaled up their approach to the entire Group." Maël notes that such issues around going digital are always at once both problems and opportunities, and that the solutions tend to demand greater collaboration than in the past.

"Our company's IT leaders are becoming more business savvy, and our business leaders are becoming more tech savvy."

content is relevant. Hashtags are also an indicator of value, because they help the post to be more visible, easier to search and find. These are the type of aspects that we consider more and more now," says Maël. "To achieve this, we designate community managers, who can explain how to share posts better to their members. We train people when they join; rather than just giving them their login and password and letting them at it, we also explain how to use it. And we provide internal webinars and guidelines." In addition to the enterprise

months after its launch, this MOOC counts around 1000 active participants.

Collaborating to sustain the transformation

"By the end of 2013, an issue that our traditional partners, such as Tesco, Carrefour, and WalMart, are facing in their simultaneous attempts to go digital had become apparent," says Maël. "They now sell online, which means they need to have the most correct, recent pictures of our bottles, as well as product descriptions. This is a

"Digital transformation requires experimentation and the generation of new ideas. When we began our digital transformation, our deputy CEO delivered a very powerful message: 'start often and simple, fail fast, scale what works.' This is truly the challenge of digital transformation," concludes Maël. "The digital world works in an agile mode, but scaling is still the big challenge. You have to focus on key battles and win them, if you are going to transform your business." ■

* After one year, employees had published 60,000 messages, according to Marie Jung in her article "Pernod Ricard fait jaillir les idées sur son réseau social," 01net.com, June 2013.

Pernod Ricard rewards mobile app in April 2014

Every April, Pernod Ricard's senior managers meet at Les Embiez, an island owned by the Ricard family in the south of France, to reward some of the best practices shared on the enterprise social network that year. The goal is to promote the identification, sharing, and, ultimately, scaling of local best practices at the group level. In 2014, one of the best practices that received recognition is a mobile app that enables any employee to find Pernod Ricard vendors using geo-location and leave ratings and comments about their experiences at these locations. "To some extent, this app enables all employees to participate in the sales effort. For example, an employee who went for dinner in a restaurant can contact the sales rep to say, 'If you have the opportunity to pay this restaurant a visit, looks like there is an opportunity here. I had a nice discussion with the manager and he would be happy to reference one of our champagnes."

Digital transformation at
Starbucks, Codelco, Asian Paints and Volvo

Based on *Leading Digital: Turning Technology into Business Transformation* by **George WESTERMAN**, **Didier BONNET** and **Andrew MCAFEE** (Harvard Business Review Press, October 2014).

Starbucks, Asian Paints, Volvo and mining company Codelco are active in vastly different sectors, but they all share digital mastery in common. Each is using new technologies to alter and improve their operations, how they interact with clients, or restructure their business model. And all of their different digital transformations began with compelling visions that were implemented from top-to-bottom while still allowing for employee and customer input.

Starbucks redesigns the customer experience

Following its spectacular rise to become a multi-billion dollar business and one of the world's most famous globalized brands, Seattle-based Starbucks' growth hit a lull in the mid-2000s, and by 2008 had seen stock price decline 50% on slumping sales. In response, the company decided to reconnect with customers using mobile devices, and increase customer satisfaction by allowing people to use new technologies to react to – and become part of – both the operation and development of the "Starbucks' experience." In 2009, the company introduced the myStarbucks phone app as a store location and product information service, followed in 2011 with a mobile app for the company's loyalty program. Mobile payment options via Square or Apple's native Passbook feature were introduced in

2012 to make ordering and payment faster and easier. Within a year, over three million mobile payments were being made in stores each week, vastly cutting transaction processing fees on both sides of the coffee bar -- and easily justifying Starbuck's $25 million IT investment. At the same time, Starbucks also launched its My Starbucks Idea site, which has received more than 150,000 suggestions from customers on how to improve the customer experience. Once ideas are submitted, the online community — along with participating Starbucks management — discusses proposals, hashes out their refinement and enhancement, and eventually ushers the most promising and popular concepts into implementation. The final step of that process, known as "Ideas in Action," allows people to see how and when their input will turn up in stores. **•••**

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Asian Paints improves processes

As Asia's third-largest paint company with revenues of $1.8 billion providing for up to 30,000 retailers across the region, Asian Paints is using digital technologies to manage robust 15% annual growth within a new system that unifies company manufacturing, sales, and supply operations. In 2011, Asian Paints launched a technology platform to standardize order-taking via a single, centralized call center. Representatives there are now able to interact with clients and management remotely and quickly, rather than having a sales force of hundreds pay regular visits to thousands of retailers. To expand that IT deployment further, Asian Paints integrated formerly separate activity silos of manufacturing, order processing, and the supply and sales network to make them "smarter" and more responsive to one another by sharing constantly changing activity data. Sharing real-time data has allowed newly-automated manufacturing processes to adapt rapidly to demand, cut costs, and considerably decrease the environmental impact paint production previously involved. By adding ideas from sales representatives and clients to the information mix, Asian Paints has also been able to diversify into new high-end, service-enhanced products like pre-painted walls and other finished building supplies. It has similarly begun direct delivery and installment of those goods to end-users, which has considerably increased the customer satisfaction. And, according to Asian Paints' website, the transformation isn't anywhere near over: "The road ahead is to integrate all our stakeholders including suppliers, employees and customers to create an extended enterprise."

Codelco automates tasks

State-owned Chilean mining company Codelco is a titan in its sector: the company employs nearly 18,000 people, produces 10% of the world's copper, and in 2012 generated $15.9 billion in revenue. Despite the company's already formidable prowess and size, its managers looked to what the technology-altered future of the business could look like and decided to embark on a digital transformation of their mines. They began in 2012 with an initiative called "Codelco Digital." The goal: automate work once done by humans by outfitting mines and equipment with data-gathering and transmission technology. New technologies allowed for real-time monitoring and centralized remote management of constantly evolving situations inside four Codelco mines. They then scaled this digital adaptation to extend the lives of older mines, allow faster exploitation of newer cites, and connect Codelco quarries and plants with self-driven transport similar to those used underground in the extraction process. The digital automation of formerly human tasks has allowed experienced miners to swap dirty, dangerous work conditions for remote control centers, where they apply their knowledge by responding to data flowing in from embedded devices in mines. In addition to improved quality of work and life for employees, the automation enables Codelco mines to operate 24/7 now. "Our business in the past was related to physical labor, and today our business is more related to knowledge and technology," said Marco Orellana CIO of Codelco Digital.

Flickr / codelco

Volvo reinvents its business model

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Like most automakers, Volvo traditionally sold its cars to customers through dealerships. Those outlets then virtually monopolized all subsequent interaction with clients, as well as the valuable information about them gained from that service relationship. So in 2012 Volvo used the proliferation of hi-tech equipment in its autos to launch in-car interactive services directly to drivers to supplement those provided by their dealers. The scheme was based on the Volvo on Call connected-car concept, which allows drivers to use embedded devices or smartphone apps to contact Volvo representatives for roadside assistance, find nearby gas stations, garages or tow trucks, or request intervention by fire, medical or police forces. Volvo later introduced stolen car tracking capacities, remote dashboard apps, and capabilities for such things as locking doors or starting heaters at a distance. It now also issues automated maintenance reminders directly to cars, informing drivers where nearby dealers are located and openings in their servicing schedules. Direct interaction with drivers provides Volvo unprecedented user information as well as enhanced loyalty for services rendered. The closer proximity between manufacturer and end-user via digital technologies has left all stakeholders better off, with Volvo and its dealerships now pooling customer databases to sharpen their respective reactivity levels and marketing focuses. ■

READ IT AGAIN IN *BUSINESS DIGEST*

■ THE AUTOMATION OF KNOWLEDGE WORK: WHAT WILL YOUR JOB BE TOMORROW?

New technologies have reached what Erik Brynjolfsson and Andrew McAfee call an "inflection point." Rapid progress, particularly in artificial intelligence, has the world poised on the threshold of a technological revolution. Based on, among other, *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies* by Erik Brynjolfsson ad Andrew McAfee (W.W. Norton & Company, January 2014), "Hong Kong VC firm appoints robot to its board by Aviva Gat (*Geektime*, May 2014) and "Deep Knowledge Venture's Appoints Intelligent Investment Analysis Software VITAL as Board Member (*PRWEB*, May 2014).
Business Digest n° 249, September 2014.

■ SIX VITAL SKILLS FOR 2.O LEADERSHIP

Whether you're the head of an IT startup or a 100-year-old industrial company, knowing how to mobilize social networks is a key individual and collective performance factor. Based on, among others, "Six social-media skills every leader needs" by Roland Deiser and Sylvain Newton (*McKinsey Quarterly,* February 2013) and "Les nouvelles technos ne détruisent pas le cerveau, elles s'y adaptent" by Hubert Guillaud (*Le Monde*, March 2013), *The End of Leadership* by Barbara Kellerman (HarperBusiness, April 2012) and the interview with Zachary Rosenberg, EVP Chief Growth Officer, Horizon Media, May 2013.
Business Digest n° 237, June 2013.

BUILD FOR CHANGE: REVOLUTIONIZING CUSTOMER ENGAGEMENT THROUGH CONTINUOUS DIGITAL INNOVATION

By Alan Trefler (Wiley, June 2014).
Alan Trefler, co-champion of the 1975 World Open Chess Championship, founded the American software company Pegasystems in 1983. Many of its products focus on customer service and predictive analytics. In his new book, he explains how companies can use digital innovation to turn the changing rules of customer engagement to their advantage. "No great change is achieved unless an enterprise's leaders and managers change how they think and behave," warns Trefler. "What has been the key to past success may not be the key to success in the future. That is especially true with respect to the role of information technology and how it is managed." According to him, companies that do not succeed at adapting to digital-driven changes in customer expectations are doomed to die in what he describes as the mounting "customerpocalypse."
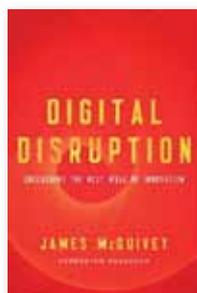
DIGITAL DISRUPTION: UNLEASHING THE NEXT WAVE OF INNOVATION

De James McQuivey (Amazon Publishing, février 2013).
James McQuivey's specialty is the power and impact of digital disruption on traditional businesses. For over a decade, he has worked as a consultant at Forrester Research to help big companies learn the art of digital innovation. "This book is about the fundamental change in our lives that will be caused by digital disruption," he writes. "In these pages, we will prove that digital disruption exists, demonstrate how it can be used by anyone in any industry, and implore you to make yourself as read—as disruptive—as you possible can be. Why? Because digital disruptors are turning our world—and your industry—upside down." As James McQuivey's book argues, as digital technologies continue to change how we live and do business, "the only way to compete is to evolve."

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« *Leading Digital* Authors Meet *MIT Sloan Management Review* »

Michael Hopkins, Editor-in-Chief of *MIT Sloan Management Review*, meets with the three authors of *Leading Digital* to discuss how the great majority of today's companies still need to change in order to become "digital masters."

youtube.com/watch?v=B7Yhy8zCeFE&index=60&list=PL00dM0p-gE3QX5AOLvmc9d3NgQILSjI5B

youtube.com