

Survival of the digitally fittest

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Harnessing the potential of digital technology is critical to unlocking value in today's global economy.

For many corporations, digitizing has also become essential for their basic survival, so it is no surprise that the "digital economy" features again so prominently on this year's agenda at the World Economic Forum Annual Meeting in Davos.

In my view, there are three factors driving the digital shift. First, the availability of information and the ability to synthesize data into business insights. Second, customer expectations. Third, and perhaps the most crippling for laggards, is the lightning speed at which "born digital" companies are disrupting older incumbents and transforming playing fields.

3 Factors Driving the Digital Shift

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- 2** Customer expectations
- 3** The lightning speed at which "born digital" companies are disrupting older incumbents and transforming playing fields

The Massachusetts Institute of Technology Center for Information Systems Research (MIT CISR) conducted a [study](#) with our firm, AlixPartners, of over 400 businesses to assess their digital "future readiness". The research found that the net margins of those 23% of companies we considered "future-ready", that is, had digitally transformed the customer interface and business operations, were 16 percentage points higher than the industry average.

As the leader of a specialist consulting firm, I am privy to the inner workings of many corporations. What is often surprising to learn is who is leading the pack on digital transformation. Although it may seem most important to B2C companies,



that is not always the case. In fact, contrary to common thought, consumer companies have a lot to learn from their B2B counterparts. In the same MIT CISR study, we found that B2B companies, such as those in the manufacturing and heavy-industry sectors, tended to invest more in their digital transformation and as a result were more "future ready" than retail or financial services companies.

What is often overlooked about digital transformation is that it requires not only developing an attractive and intuitive customer interface, but it also means overhauling the underlying architecture and data platforms supporting business operations. In fact, digitizing the "back-end" of a business is often more fiscally impactful than fixing the consumer facing "front-end". We found that companies that had successfully digitally transformed their front-end, but not their back-end, recorded significantly lower net-margins than those who had transformed their back-end but not their front-end.

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At the end of the day, companies need to determine where they will reap the most reward as they invest in their digital transition. What is clear is that companies that are investing the most are, on-the-whole, more profitable. Those who choose to defer digitization, or try to minimize the cost of the investment, may discover that the consequences are much more far reaching than a short-term improvement to their profit margins. The decision could be critical to their survival.