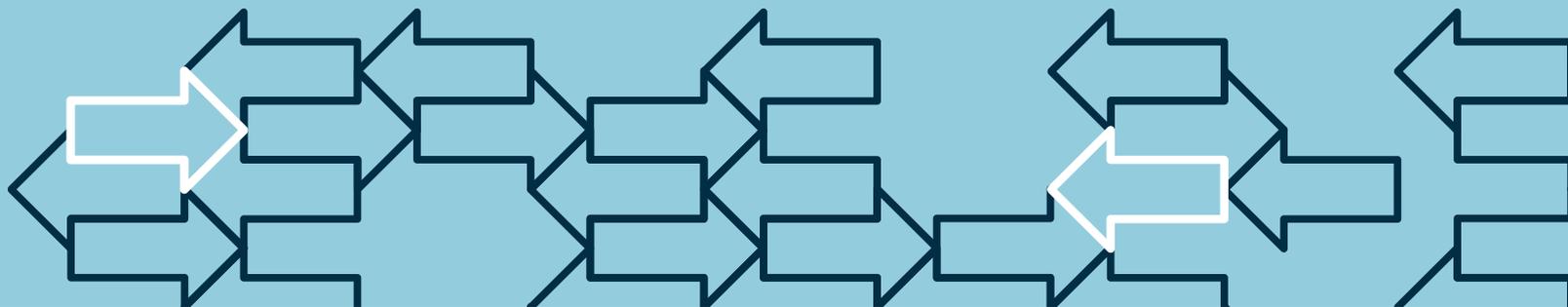


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Navigating the digital transformation journey



Today a new breed of born-digital companies is disrupting markets—from retail and media to automotive and manufacturing. Unlike established companies, the new, digital companies are not held back by cultural, technical, or operational legacies.

Established companies cannot afford to be left behind. They can stay competitive by embarking on ambitious journeys to change the way they operate—by going digital. The digital transformation journey begins with a digital strategy. Once the strategy is in place, we recommend following a five-stage digital transformation process (figure 1):

- 1 Define business accelerators
- 2 Improve IT operations backbone
- 3 Create digital backbone and link
- 4 Deploy digital processes
- 5 Evolve digital strategy

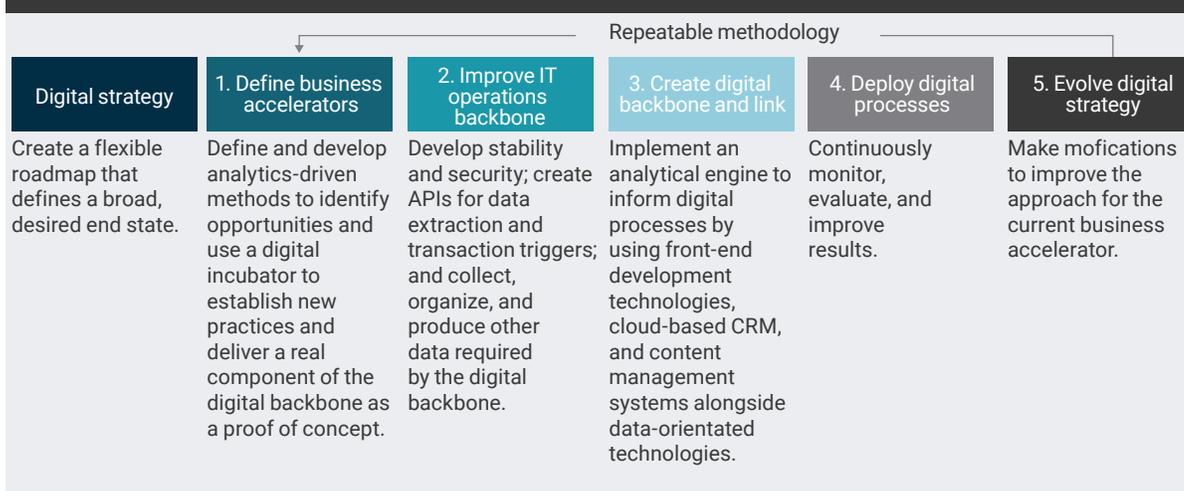
Below, we provide a walk-through of the stages to digital maturity. Later, we offer a concrete example to help businesses navigate the journey.

HOW TO BUILD A DIGITAL STRATEGY

As mentioned earlier, a company must build a digital strategy first. To start, the company should evaluate and understand the current state of both itself as a company and the industry as a whole and then build the strategy from there.

Too often, companies fall into one of two traps. Some feel the need to build a fully-fleshed-out list of steps

FIGURE 1: STAGES OF THE DIGITAL MATURITY JOURNEY



Source: AlixPartners analysis

to get them where they want to be in the next three to five years—much like IT strategies got developed in the predigital era. Others plow ahead by investing in business intelligence, analytics, user interface designs, and/or apps—essentially, the latest, shiny digital technology—without taking time to think through what they’re actually trying to achieve.

A digital strategy doesn’t have to be overly complex, excessively stringent, or long-term. Instead, it should address the fundamental challenges and opportunities the business faces. It should declare clearly the desired end state the company is after. Think of it as a flexible blueprint that can be frequently revisited, easily modified, and conveniently adapted as management learns more throughout the process.

STAGE 1: DEFINE BUSINESS ACCELERATORS

Armed with a digital strategy, a company can move on to the initial stage of the journey: business accelerators. This stage involves implementation of digital technologies and processes that are lightweight, are unobtrusive, and have low barriers to entry. The technologies should meet a specific business need—like customer retention.

The cloud offers a convenient platform for this part of the journey. Common approaches include rapid business intelligence and solutions based on static data extracted from the systems used in running the business. “Go big or go home” doesn’t apply here, nor do massive IT investments or replatform projects. Instead, a company should start small. It should focus

on a pressing business problem and build quick digital capabilities as part of a pilot program or prototype. The company can conduct a six- to eight-week sprint to evaluate the pilot program’s business potential, to gain insights into the business, and to be able to assess the feasibility and benefits of a future full-scale project that could be launched companywide.

Once the company has identified potential opportunities at this stage, it should promptly pursue and test the opportunities by way of interim solutions. If the testing confirms positive benefits, the company should adopt the new methodologies and convert the prototypes into enterprise-level solutions.

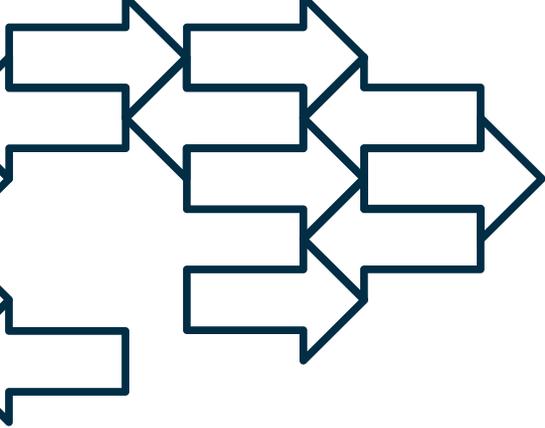
STAGE 2: IMPROVE IT OPERATIONS BACKBONE

The IT operations backbone supports the core systems that run a company. Stage 2 of the digital transformation journey focuses on making sure that that backbone is up to par. Companies have been building operations backbones since the late 1990s, when enterprise-resource-planning systems and customer relationship management systems first came on the scene.¹ Those older and reliable systems seamlessly and efficiently process transactions and standardize back-office operations—and they cannot be ignored, because the IT operations backbone must be stable, secure, and sustainable before a business can move forward in this process.

STAGE 3: CREATE A DIGITAL BACKBONE AND LINK

Stage 3 of the journey is the creation of a digital

¹ J.W. Ross, I.M. Sebastian, C.M. Beath, “Digital Design: It’s a Journey,” MIT Sloan CISR Research Briefing, Vol. XVI, No. 4, April 2016.



Once the operations backbone and the digital backbone of the company are in place and connected, the business has to be reengineered.

backbone and link. A cloud-based platform, rather than an on-premises infrastructure, is usually the most convenient place to implement this step. Whatever form the architecture that makes up the digital backbone takes, it should allow for flexible implementation and rapid innovation, and it should facilitate and lead to big returns from selected lightweight technologies.

The digital backbone should have the capability to collect large amounts of data from different sources and make it easy for the company to experiment with technologies that use that data. Data and insights enabled by the digital backbone can then be used for enhancing customer interaction and insights, product proposition, and automation. Companies shouldn't get bogged down by using traditional development methods with large amounts of overhead. Rather, they should rapidly deliver minimum viable products² and iterate by using agile delivery and DevOps methods.

The operations backbone and the digital backbone should be intertwined. Companies that are most successful in navigating the journey to digital maturity improve their IT operations backbone in concert with the creation of a digital backbone. The operations backbone must be accessible to the digital backbone through well-defined application programming interfaces. The two must be interoperable—and able to reliably communicate and exchange data. The digital backbone should be able to easily access all master data and the transaction processing systems available in the operations backbone.

Does a new customer interaction process written by using the digital backbone have to be rewritten so it can communicate with the operations backbone? Must the output of a digital application be keyed manually into the

company's enterprise-resource-planning system? If so, they should be taken as warning signs that the company hasn't successfully made the operations backbone accessible to the digital backbone.

STAGE 4: DEPLOY DIGITAL PROCESSES

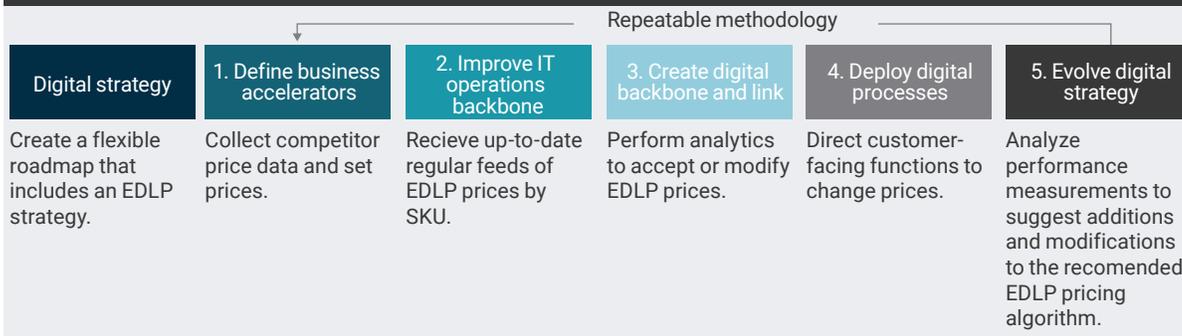
Once the operations backbone and the digital backbone of the company are in place and connected, the business has to be reengineered. That happens in stage 4: deploy digital processes. The company must build and formalize a new generation of integrated business and technical processes that make best use of the organization's agility. Often, a digital front end that's narrowly focused on analytics and automation leads the company to reorient itself around processes and capabilities, as opposed to viewing the organization as a number of functional silos, such as financial planning and analysis and sales and operations planning. Taking a more-process-oriented view of the organization helps highlight the full value of the newly implemented digital processes and capabilities.

STAGE 5: EVOLVE DIGITAL STRATEGY

The journey to digital maturity is not a journey with an end. It's an ongoing process whose concept is captured in stage 5: evolve digital strategy. At this stage, the company should return to the business accelerator process (stage 1). The approach it takes this time for the current business accelerator can be modified, incorporating what was learned from the previous iteration of the journey. Otherwise, if the company is now satisfied with how the business problem has been handled, management should move on to the next pressing business need. As business accelerator candidates arise, they should be added to a prioritized backlog whose priority rankings should be revisited continuously. The company should then use the backlog as a guide for quickly determining which business problem to tackle next on the journey to digital maturity.

² In product development, minimum viable products are products with only core sets of features to satisfy early customers and allow for future development feedback.

FIGURE 2: STAGES OF THE DIGITAL MATURITY JOURNEY WITH AN EVERYDAY LOW-PRICE STRATEGY



Source: AlixPartners analysis

A CASE STUDY: IMPLEMENTING AN EVERYDAY-LOW-PRICE STRATEGY

Imagine a retailer that wants to adopt an everyday-low-price pricing (EDLP) strategy (figure 2). The retailer begins by building a digital strategy. In the first stage of the journey, the company collects comprehensive data on the prices its competitors are charging for similar items. Then it analyzes that information alongside margin targets so it can calculate the price that should be charged for each product. In stage 2, the retailer begins receiving routine data feeds containing competitor price information at the stock-keeping-unit (SKU) level and implements an algorithm to automatically assign a price to each product on a near-real-time basis by using the data. In stage 3, the retailer incorporates more-advanced technology and analytics to become informed and then make final pricing decisions. It executes the process of systematically

changing prices across stores in stage 4; and in stage 5, it analyzes its model's performance. The retailer collects feedback from that performance analysis to make improvements and modifications and thereby evolve the algorithm.

Few companies have the luxury of focusing all of their time and energy on digital transformation. Fortunately, though, the journey doesn't have to involve a huge time, money, or resource commitment. The key to moving quickly and beating the competition is to define a digital strategy and start the journey right away. Businesses shouldn't let the lack of a completely-fleshed-out digital strategy hold them back from embarking on the journey and quickly realizing business benefits along the way. **A**

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