

THE RACE TO BECOME FUTURE-READY



In today's rapidly changing business environment, it is essential that companies digitally transform to stay competitive. Digital transformation can dramatically enhance the ways companies use technology to produce, package, and deliver their products and services. What's more, it can fundamentally change the ways companies interact with customers.

The differences in capabilities and performance between companies that have digitally transformed and those that have not are vast. Previous studies¹ have clearly shown that digitally transformed companies are more profitable than their industry peers, and our new joint study with the Massachusetts Institute of Technology Center for Information Systems Research (MIT CISR) supports that conclusion. After closely examining 413 companies that are at various stages in the race to become future ready, we concluded that future-ready² companies have net margins 16% above the industry average. Later, this article offers a case study that reveals some of the steps businesses can take to move closer to the future-ready finish line.

¹ George Westerman, Didier Bonnet, and Andrew McAfee, *Leading Digital: Turning Technology into Business Transformation*. Boston, MA: Harvard Business Review Press, 2014, p. 18

² Future-ready companies make up 23% of the companies in the AlixPartners–MIT CISR 2015 Chief Information Officer (CIO) Digital Disruption Survey (N=413) and are categorized based on top values for metrics associated with customer experience and operational excellence

WHAT DOES FUTURE READINESS LOOK LIKE?

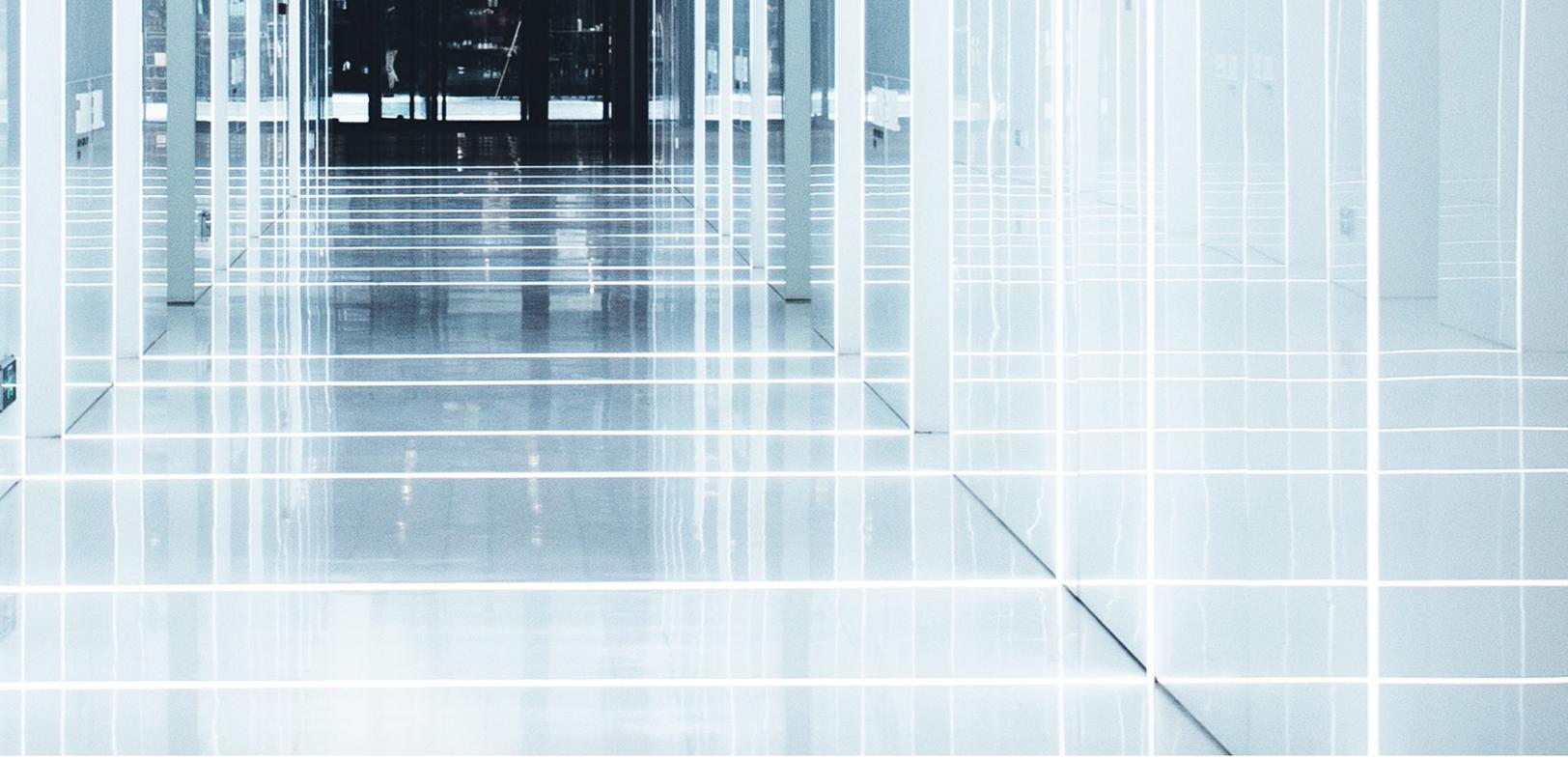
A future-ready company has two key traits: it offers a strong customer experience, and it demonstrates operational excellence (figure 1). This kind of company has transformed its business by developing—and successfully executing—best practices to serve its customers and run its internal systems in a digital world. Future-ready companies typically have an effective business model and enterprise architecture that support the capture of value. These companies also have comprehensive underlying data platforms in the form of centralized systems for collecting, integrating, and managing large amounts of data so they can accommodate all of their digital needs. They’ve combined their strategy and operations with real-time information, data science, and IT systems so they can become more flexible and more agile.

By contrast, traditionally run organizations use old-fashioned business models. Different parts of the business focus on and perform different tasks. When compared with future-ready companies, these silos-and-spaghetti companies come up short in the areas of both customer experience and operational excellence. They lack the ability to share information and standardize processes across their organizations. Their operating structures are usually decentralized, with separate systems for individual applications rather than having a single, unified architecture for the entire enterprise. As those companies try to share information internally and grow, they’re forced to accommodate each immediate need by wiring together their siloed systems, which results in an ineffective and convoluted system layout that resembles spaghetti.

FIGURE 1: COMPANIES CAN BE CATEGORIZED BASED ON THE STATUS OF THEIR DIGITAL BUSINESS TRANSFORMATION



Source: ©MIT Center for Information Systems Research (CISR)



Some companies are moving away from that traditional structure by actively looking for ways to improve customer experience and operational excellence. The MIT CISR study revealed that a transformation of the customer experience results in an increase in metrics that gauge customer loyalty, such as Net Promoter Score³ and revenue growth. Meanwhile, the transformation of operations, starting with building strong digital foundations and data platforms, leads to lower cost-to-income ratios,⁴ which in turn result in higher profits. Companies that have transformed customer experience and that provide a seamless experience for customers but have not yet transformed operations fall into the integrated-experience category. Conversely, companies that have transformed their operations but not yet customer experience are classified as *industrialized*.

Companies that fall into the industrialized camp have started the process by homing in on their internal operations. These companies have broken down silos and developed an underlying data platform that serves as a single source of the truth, which makes it easier to collaborate across their organizations.

They have standardized the way common functions get performed, and they continually strive to automate them. Moreover, those companies have adopted sophisticated business mind-sets with regard to the ways they make technology spend decisions. They view technology as an investment rather than as a cost of doing business. And therefore, as they progress to provide customers with integrated experiences, they will become more future ready.

Companies in the integrated-experience category focus heavily on customers. They provide tailored offerings for each individual customer by way of multiple channels that appear seamless to the customer. As ALDO Group Inc. chief operating officer Bryan Eshelman put it, “Customers don’t think, ‘What channel am I buying this from?’ They think, ‘I’m buying shoes and don’t want to know there’s a different way to buy shoes from stores than there is online.”⁵ However, if a company neither transforms its operations nor ensures that a strong data platform supports it, then its back-of-the-house functions will not be equipped to optimize customer service and run the company effectively so as to maximize its profits.

³ Net Promoter Score is an example metric for measuring customer experience. Other industries may find other metrics more relevant

⁴ Cost-to-income ratio is commonly used for measuring operational excellence in such industries as financial services, but in other industries, different metrics may be more appropriate

⁵ <http://news.sap.com/aldos-digital-transformation-simplifies-brand-experience/>

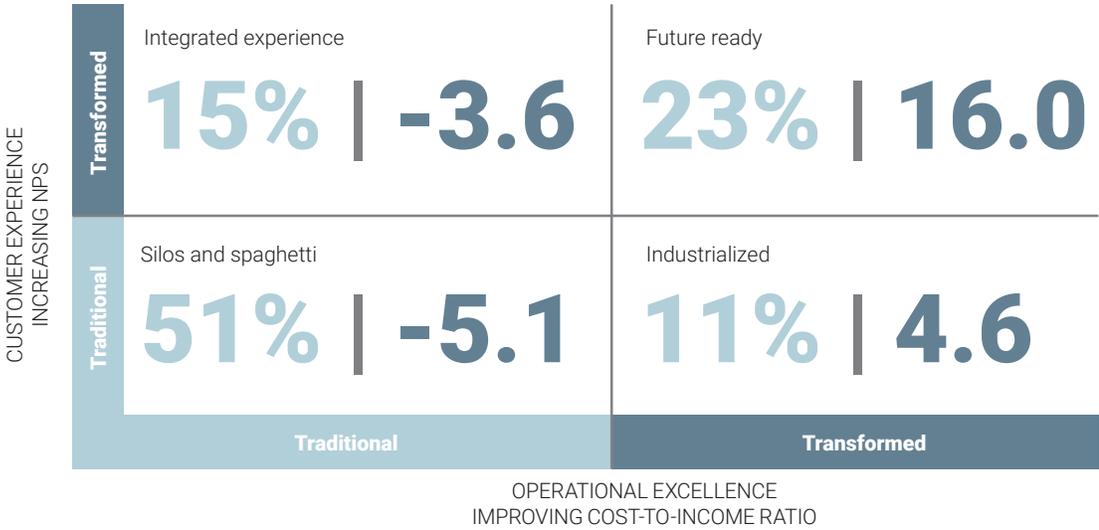
Future-ready companies are both integrated and industrialized. They are highly agile in their abilities to serve customers and run their operations. Additional characteristics include determined innovation for continuous improvement and growth along with lean operations that bolster profits. As figure 2 shows, such companies are more profitable than their competitors that have neither transformed the customer experience they offer nor achieved operational excellence.

The MIT CISR survey questions involving the customer experience covered such issues as effectiveness on customer knowledge, omnichannel capabilities, and customer experience projects and performance.

Operational-excellence questions considered levels of functional automation, Internet of Things capabilities, and technology investment strategies and performance. More than half of the companies surveyed (51%) remain in the silos-and-spaghetti category, which suggests that most companies still have a long way to go in the digital transformation journey.

Future-ready and industrialized companies are more profitable than industry averages, yet companies in the integrated-experience category are not. That's consistent with previous studies⁶ that have shown that companies offering a digitally transformed customer experience but not digitally transformed operations are seeing revenue grow but profits fall.

FIGURE 2: FUTURE-READY COMPANIES HAVE HIGHER NET MARGINS COMPARED WITH THEIR INDUSTRY PEERS



■ Percentage of firms ■ Percentage points above or below industry average net margin

Source: ©MIT Center for Information Systems Research (CISR)

⁶ MIT's 2013 study of 184 public companies: George Westerman, Didier Bonnet, and Andrew McAfee, *Leading Digital: Turning Technology into Business Transformation*. Boston, MA: Harvard Business Review Press, 2014, p. 18

Many of us tend to think that business-to-consumer (B2C) companies have paved the way for digital transformation, but overall, business-to-business (B2B) companies, such as companies in the manufacturing and heavy-industry sectors, are actually more future ready than B2C companies, such as retail and financial services (figure 3). A theory that could explain it is that B2B companies traditionally have had better back-end operations—like integrated data, standardized processes, and automated work flow processes—and are a step ahead when it comes to having the foundational requirements and data platforms necessary to transform digitally. Our daily experiences as consumers may make us think B2C companies are transforming faster because we, as consumers, are demanding it, but those demands are also taking place in the B2B world because the same consumers are now expecting to transact digitally in business. Furthermore, although B2C companies are transforming the customer experience, the same progress is not happening with their operations.

FIGURE 3: OPERATIONAL TRANSFORMATION LAGS BEHIND AMONG BUSINESS-TO-CONSUMER COMPANIES SUCH AS RETAIL

	SILOS AND SPAGHETTI	INTEGRATED EXPERIENCE	INDUSTRIALIZED	FUTURE READY
Manufacturing	40%	12%	12%	36%
Heavy industry	38%	23%	5%	35%
IT, telecom, and media	41%	19%	16%	24%
Education and healthcare	70%	6%	8%	16%
Retail	68%	18%	0%	14%
Financial services	65%	11%	13%	11%
Services	63%	20%	9%	8%

Source: AlixPartners–MIT CISR

CASE STUDY: A DIGITAL TRANSFORMATION IN THE FINANCIAL SERVICES INDUSTRY

A large financial services company offers an illustrative digital transformation story.⁷ Despite the fact that its industry lags behind on becoming future ready, this company is defying the odds: the company's digital transformation initiative, directed from the top of its organization, has made the company very competitive in attracting customers, which has resulted in continuous increases in revenue and profits.

The company recently made changes to its organizational structure, with an eye toward digital transformation, and the board of directors and the executive team led the new digital focus as a formal corporate objective. That top-down mandate launched a digital target throughout the organization to modernize legacy systems, with emphases on client experience, speed to market, and innovation. The company set up a cross-functional interaction structure with the chief

information officer as the coordinator and created a new, chief digital officer role. That led to a redesign of the data organization, which now accommodates a variety of strategic initiatives, including a new customer platform, a sophisticated innovation structure, and greater reliance on metrics.

The company's platform now lets customers customize the look and feel of their individual digital banking experiences—no matter where they log in. Customers can personalize the user interface to manage their online bank accounts by whichever medium they desire to use. And the company's new agile development operations and innovation speed enable it to frequently add new features. All of those measures together led to better customer experience, increased customer counts, and a net income increase of almost 15% year-over-year in 2016.

HOW TO WIN THE RACE

It's important that businesses across all industries assess where they are in the race to become future ready. They should take a hard look in the mirror to determine whether it's most urgent to improve customer experience or improve operations—or both. They should determine the right path and order of steps to take to reach that future-ready state.

Once a company's chosen a path, the management team should carefully evaluate the investments—and set forth the skill sets—it needs for moving forward. Critically, that includes making sure that management practices support the future-ready vision.

But developing a clear understanding of where a company stands now is the first step. Once the organization knows its current position, it can chart a path to stay in the race and win big down the road.

⁷ This financial services company participated in the AlixPartners–MIT Center for Information Systems Research Digital Playbook research project

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For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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