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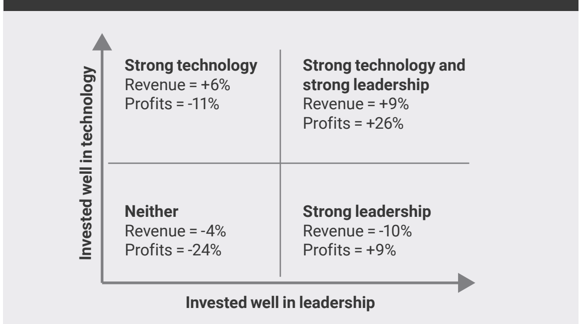
The winners and losers of the digital revolution

Just as the industrial revolution changed the world and brought about substantial increases in production, recent advances in technology have altered the way business is conducted and redefined how companies operate. Properly used, digital technology has radically improved performance at many businesses.

The speed of these technological advancements – and their subsequent disruptive effects – is creating a great divide between winners and losers. Compelling research offers clear contrasts between individuals educated and versed in the latest technological skill sets and those who lack them, and face having their livelihoods replaced by technology. The same thing is happening on a company level as well. Companies that are properly embracing digital technology, replacing and augmenting business processes to their great competitive advantage, are winning. Those trying to win through traditional business methods are losing.

Charting the continuum of progress toward digital transformation is relatively clear. A study by the Massachusetts Institute of Technology's Center for Digital Business divides companies among four quadrants, reflecting their levels of digital transformation, with the greatest advantages falling to companies that have digitally transformed, the least coming to those that have not, and uneven benefits accrued by those that fall between the two extremes (figure 1).

FIGURE 1: DIVISIONS IN DIGITAL MATURITY



Source: Massachusetts Institute of Technology, Center for Digital Business

Companies that have digitally transformed invested well in both technology-enabled initiatives and the leadership capabilities required for that profound change. Those companies that have digitally transformed are 26% more profitable than their average industry competitors. Companies that have invested well in technology-enabled initiatives but not leadership capabilities that fully embrace these changes have seen revenue increase but profits fall. Companies that established the leadership capabilities but fail to make adequate technology investments are improving profits but are experiencing double digit declines in revenue. Companies that do neither, shown in the bottom left quadrant, are being left behind.

We have seen similar outcomes in our own work with companies. Overall information technology spending, managed correctly, can generate strong returns for a business and result in a significant competitive advantage. To further assess the extent of these advantages, we interviewed and surveyed hundreds of financial executives throughout the United States and Europe. In a nutshell, we found that businesspeople have been frustrated with the black-box nature of information technology. Many view IT as an expensive cost center that fails to promptly deliver everything the business needs. Our discussions confirmed this is especially true when IT spending and proper implementation is not properly connected with and driven by business leaders.

Despite this general sense of frustration, executives must embrace technology to compete. The digitally driven advances of the last several decades have also redefined the scope of corporate leadership. The difference between the CEO of yesterday and the CEO of tomorrow is almost binary. Yesterday's CEO discussed results generated after the end of the month, analyzing what went right and wrong with the executive team. A CEO at the head of today's most digitally transformed companies operates with real-time comprehensive information and instant global communications, understands what is happening as it occurs, and acts accordingly. This transition is not easy, and current CEOs approach it with varying degrees of speed and success.

FIGURE 2: DIGITAL TRANSFORMATION FRAMEWORK

Category	Performance factors			
	Sales	Profits	Cash	Risks
Business model/ real-time architecture	Shared data across business units	Standardization of processes and technologies	Systematic processes and leverage	Holistic insight and controls
Understanding, predicting, and interacting with the customer	Optimize revenue	Focus on high-value customers		
Information-based decisions and actions	Maximize product performance and pricing	Adopt granular views of expenses and profits	Establish automated working-capital management	Implement control mechanisms across business
Digital automation	Faster and more-accurate information	Labor costs shifted away from non-value-added work that is performed better by machines		Use of computers, which are more accurate and avoid costly errors
Technology finance and governance	Managing technology and IT spend as an investment portfolio through highly integrated business operations and IT operations that make shared decisions and that bear ccountabilities			

Case study: Customer-service focused retailer extends high in-store standards across multiple digital channels

Over the last century, Nordstrom consistently focused on excellent customer service by finding ways to empower their customers and employees. Over the last decade, Nordstrom embraced that same approach in its many technology investments. This yielded excellent results, because Nordstrom focused less on the individual technologies and more on how they collectively increased the empowerment of customers and employees through great shopping experiences. Nordstrom grew revenues by more than 50% in the last five years.[1]

The company's highly integrated customer experience features mean:

- Nordstrom knows about each customer based on what they have purchased, clicked on the Nordstrom website, and said on social media
- Customers are targeted based on specific interests and get recommendations and suggestions about what they might want to buy
- Nordstrom exposes their full inventory to customers through their stores, the Internet, mobile devices, and catalogs
- Nordstrom makes it consistently convenient to shop with social apps, mobile checkout, and tools for salespersons that all supplement the integrated multichannel experience
- Customers can shop with electronic searching capabilities to automate and control their own shopping experiences, with instant access to customer support

Nordstrom's business model and enterprise architecture instantly enables leaders at many levels to make information based decisions and provides automated-standardized processes to create a robust supply chain and merchandise ordering connected across all channels. The highly integrated digital capabilities that Nordstrom has deployed brought big sales increases and strong profit performances as many other retailers languish and struggle with their own digital transformations. The table below (figure 3) offers some basic guidelines for effective paths to digital transformation.

HOW DO COMPANIES DIGITALLY TRANSFORM?

An effective process uses a five-category framework that provides guidelines on how to digitally transform (figure 2). It examines the primary sources of financial performance, including sales, profits, cash, and risks. It starts with having the right business model and architecture for sharing information to help improve sales and standardize processes to reduce costs, with which the company is able to use technology to track and predict these indicators while improving customer experiences. The company is then using technology-enabled decision making, based on real-time information, to improve sales and better manage costs while maximizing profitability. It is using digitally driven, machinelearning capabilities that perform job functions faster, better, and cheaper than people. It can also categorize and oversee technology investments with different objectives, while using governance models incorporating highly connected business and IT operations. These models can improve performance through joint business and information technology decisions that reflect assigned and shared responsibilities.

EXPLORING THE DIGITAL TRANSFORMATION FRAMEWORK

In the months ahead, we will explore each of the five categories in our Digital Transformation framework, explaining in detail what it takes to get each part right, with examples of what successful companies have done to digitally transform. There is a stark difference between those that get it right and those that don't. Companies with highly integrated teams that join business, finance, and technology are able to make the proper technology investments – and outperform the competition. **A**

[1] Massachusetts Institute of Technology, Center for Information Systems Research (CISR).

FIGURE 3: HOW THE WINNERS DO IT VERSUS HOW THE LOSERS DO IT

	Winners	Losers
Business model and enterprise architecture	Establish the best: • Operating model • Enterprise architecture • IT engagement model	Remain loosely structured with insufficient sharing of information and poor standardization of processes
Understanding, predicting and interacting with customers	Use analytical methods of understanding customers, managing them with technology solutions and customized targeting through multiple channels	Make products/services available for sale through one-size-fits-all marketing and no understanding of specific customers
Information-based decisions	Operate based on real-time information that enhances performance and remains easily accessible to business operations	Meet in conference room sometime after month end to talk about what happened
Digital automation	Use recent machine learning and "Internet of Things" technology to perform tasks faster, better, and more affordably than people	Continue to perform job functions in established ways and do not give regular consideration to improving them
Technology finance and governance	Separate technology investments into improve, run, and protect categories Maintain highly connected business and IT operations with joint decision making and accountabilities	Give limited thought to what the business needs, often based on the last year's results and industry benchmarks IT team is an afterthought and not connected with the business

FOR MORE INFORMATION, CONTACT:

Meade Monger
Managing Director
+1 214 647 7621
mmonger@alixpartners.com

ABOUT US

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