S_HIFT

Future Proofing your Business in an Era of Disruption

Discover insights and predictions from some of industry's most eminent practitioners in Digital Transformation.

Ogilvy   DHR INTERNATIONAL   MITCISR

At a recent S_HIFT event at the Whitney on October 1st, 2019, esteemed panelists (listed below) and participants from Google, IBM, MIT CISR, DHR, and Ogilvy fielded questions from leading businesses and provided valuable insights on the topic of transformation.

We explore their key points from the evening further in this paper.

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DISRUPTION IS ALL AROUND US

It's telling how much a 44-acre block of city can re-invent itself for new cultures and economies over the course of a century. The materials stay mostly the same. Historic buildings still stand. The same industrial-grade metal structures still uphold a 35-foot tall rail-line overlooking the waterfront. The cobblestone streets haven't changed either. Now, they're just more often trampled by a fleet of Jimmy Choo's than by a fleet of trucks packaging and shipping out fresh meat to local residents.

New York City's Meatpacking District, which was once an industrial hub made up of 250 meat-packing plants, is today considered one of New York City's most glamorous destinations to experience culture. Luxury retailers occupy each corner. Sought out restaurants pack out before releasing their patrons to the streets to explore the vibrant, iconic night-life. Art stays alive, in both museums and public expression. It's an example of successful transformation and as such, the perfect setting for a night of visionary conversation on business design and transformation.

A quick search for "digital transformation" on Google Trends shows the term's quickly increasing prevalence since 2016. While this, on the one hand,

means it is probably great buzzword ammunition to impress in meetings, leadership must accept it as a strategic imperative.

The three main characteristics defining this disruption-fraught operating environment are ubiquitous data, unlimited connectivity, and massive processing power. Ubiquitous data means that there is nothing you can't know - no mysteries about who your customer is or what they want. Unlimited connectivity means there is access to everybody, everywhere and finally, massive processing power means that businesses can and should generate important insights from all that data and connectivity that humans simply can't. Together, they have created a new realm of possibility that fundamentally changes consumer and business experiences.

Market leading businesses are well versed in these three areas and use them to their advantage; businesses that are disrupting categories have been built on them.

Digital Transformation, Interest over time
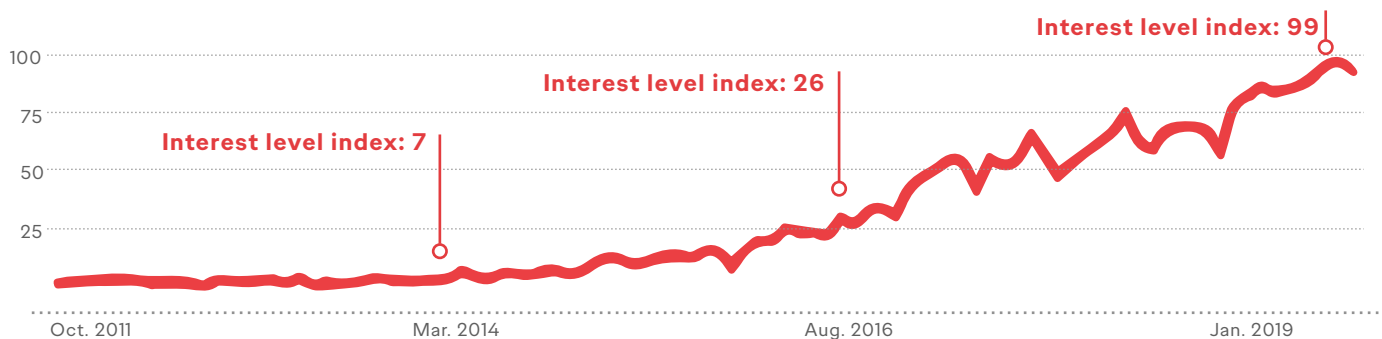
Source: Google Trends

INCUMBENTS NEED TO EXPAND THEIR FUTURE FOCUS BEYOND OPERATIONAL EXCELLENCE.

MIT's Center for Information Systems Research (CISR) has identified two key dimensions of total transformation: operational excellence and customer experience.

Companies that achieve transformation in both dimensions are considered 'Future Ready'. MIT's research shows that these companies enjoy an average margin that is 16% above industry norms. The issue is that very few companies are future ready.

Incumbents have traditionally had a sharp organizational focus on operational excellence. That means they are really good at getting better at what they already do. Costs are cut, and margins are expanded. This, of course, is important and even critical to business success in a competitive market that only gets faster and more intelligent with each passing technology application. It is not, however, enough.

> *Right now, the big established companies know operational excellence very well, and the start-ups know constant business innovation. Successful companies going forward will do both."*
>
> —Jeanne W. Ross, MIT CISR

Organizations need to put a conscious focus on customer experience. Those who have are already enjoying the benefits, with strong positioning established for the winds ahead.

TO BE FUTURE READY, INCUMBENTS MUST DELIVER EXPERIENCES THAT MATTER.

In shifting their focus, incumbents need to set high standards and aim for experiences that truly set them apart.

Future ready businesses provide their customers exceptional and memorable experiences, and they constantly improve and innovate these, informed from a wealth of data and customer feedback. They are modular and agile and have responded to their customers' needs and wants by creating new ways of working, employing new talent, providing new channels, and bringing value through an eco-system of partners and platforms.

Kentucky Fried Chicken turned around their brand by building this way, cultivating a loyal and valuable customer base through a meticulous focus on customer-centricity in all aspects of their service. Since 2016, they've built out an omni-channel experience with a larger global footprint than Target, Wal-Mart, and Costco combined, boasting expansive home delivery, self-service kiosks, and multi-channel click-to-collect ordering that accounts for as much as 98% of purchasing in certain markets. The result has been a brand that is relevant, easy, and distinctive in its category. While just three years ago the company was closing thousands of locations, today they are opening a new store every 6 hours. Additionally, since the turnaround, Yum! Brands' stock price has more than doubled from $52.50 to $117.50. That's growth via an experience that matters.

To achieve something similar, there needs to be a substantial change in marketing, organization structure, and technology. Marketing needs to become more omni-channel and experience based, driven by meaningful data. The structure of the organization, channels and supply chain as well as talent processes, people activation, and culture must be reconfigured to match the 'experience' now expected from consumers. And, of course, the technology needs to be purposefully wired to deliver and elevate the experience, as well as inform in real or near real-time.

KFC is more of an exception than the rule. Right now, only 48% of marketing professionals believe they can deliver an exceptional customer experience. In fact, only 22% of consumers believe that brands are capable of delivering on such a promise. This gap signals that the need for substantial improvement on the journey towards being future ready is critical for all brands.

MEANINGFUL DATA TIES YOUR BRAND TO THE CONSUMER IN MOMENTS THAT MATTER.

Data is the fuel for amazing modern customer experiences. It's what allows brands to find the right moments where value can be delivered on a one-to-one basis. This is good news in that the ability to create data-driven marketing and experience is more accessible than ever, however, it also means that every organization is now faced with the unavoidable responsibility of turning that data into something of value.

> **"** *More data has never helped us- but integrating that data in useful ways around a person, that's when we've unleashed the value."*
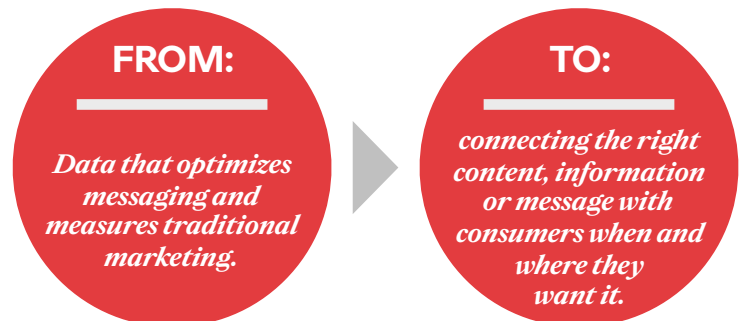>
> —Ari Sheinkin, IBM

Personalize the experience, not the messages.

Personalization has become a key focus for many businesses as they become more customer centric. As noted by eMarketer, "Marketers believe they have a mandate to personalize across channels, and

in many cases, personalization seems to be the logical next step in achieving the greatest return on marketing investments."

Yet, only 35% of marketers are confident that they can deliver this kind of marketing. In fact, not even a 3rd of consumers can site a successful attempt by a brand to do so. Even if these numbers were stronger, it would likely still reflect only operational improvements in traditional marketing. An increased level of investment into push tactics doesn't actually move the needle on experience. More customized advertising is great, but transformation is about tangibly impacting your consumer in new and helpful ways. Data-driven marketing, therefore, still needs to shift:

FROM:

Data that optimizes messaging and measures traditional marketing.

TO:

connecting the right content, information or message with consumers when and where they want it.

H&M CHINA BEAT OUT HEAVY COMPETITION TO GROW THEIR BUSINESS VIA DATA-DRIVEN EXPERIENCE.

In China, H&M successfully re-invented their customer experience with integrated data and enhanced channel communications to successfully drive business growth.

H&M pursued a three year digital transformation roadmap, putting data-driven experience at the heart of their endeavours. They pursued three simple steps, though in executional reality they were not that simple. First, they built the H&M Social Stylist- an interactive WeChat bot run by intelligent algorithms. The service analysed millions of consumer data points in real time, delivering a personalized content continuum that resulted in incremental purchases.

Second, they launched a mini-app to cultivate a new digital 'stylist' community with social sharing at its core. Followers and influencers on the platform would share their styles and inspire others to create new combinations. This drew millions of consumer-driven organic interactions that H&M could capture and use to inform better product and experience design.

Lastly, they delivered a complete omni-channel experience to their users, all based on first-hand consumer data feeding into one central database from every platform, including mobile, website, social, and more. This allowed H&M to deliver a truly personalized multi-channel experience to every one of their customers not just online, but offline as well. The system was fully integrated and always learning, able to elevate the experience with each customer click.

The results were highly encouraging. Amidst the growing competition, their success was impressive:

- Increased H&Ms WeChat following by 400%
- Brought 5x more eCommerce traffic via WeChat
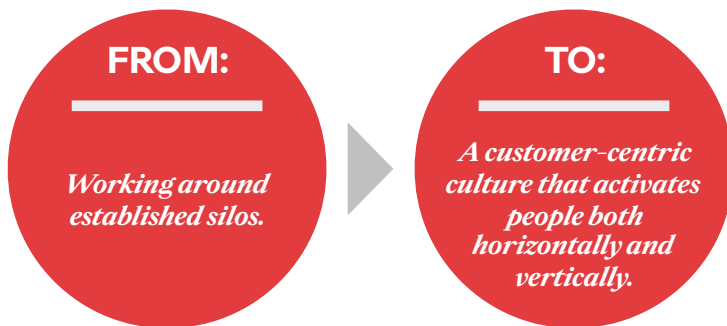- Achieved an overall annual growth rate of 15%

Things to Consider:

- Is your data being used to create a net new experience for your user?
- Do you have digital push tactics masquerading as experience upgrades?

PEOPLE POWER THE EXPERIENCES THAT DELIGHT CUSTOMERS.

Customer experience is an output of your internal organization. Future ready businesses have aligned their employees to their transformation strategy, creating new roles where needed and empowering their organization to meet the needs and wants of their customers. As noted by DHR International, businesses may also need to source skill sets that can inject design thinking into the organization to help dissolve inhibiting silos. In all cases, there needs to be a shift:

FROM:

Working around established silos.

TO:

A customer-centric culture that activates people both horizontally and vertically.

Organize to foster ideas.

Traditional silo-ed structures were not created for modern customer experiences. Future ready businesses have reorganized themselves to enable connected, omni-channel experiences. They encourage innovation, experimenting and testing ideas quickly before scaling fast to meet the demands of modern customers. They can also respond much faster when things are not working, developing solutions to overcome issues through technology, new channels, and connections.

> " *We have tended to squash creativity in our companies. If we unleash people who talk and interact with customers every day, there are people who will explode with ideas. Then leadership has to learn how to seize those ideas and deliver.*"
>
> —Jeanne W. Ross, MIT CISR

In a report published by Optimizely in 2019, the main barrier to delivering new ideas that can improve the digital customer experience is organizational structure. When people are trapped in verticals, they inevitably "spend most of their time conducting brand maintenance, when they could instead be contributing to brand building" (Forrester).

By creating internal agility, organizations can arrive at a state where their people can create and inspire change at all levels. This requires companies to be set up for agile process with a cultural focus on experimentation to pressure test new ideas.

Leadership is responsible for culture.

Once agile teams are in place, they also need to have customer-centricity at the core of everything they do in order to drive impactful outcomes in market. This aligns everyone to common goals, focusing objectives around how to solve consumer problems, rather than fostering generic innovation in a vacuum.

Driving culture is a critical element to today's marketing leaders. A marketing leader's "long term success depends on your ability to transform marketing into a catalyst for growth by building high-frequency, emotion-rich brand experiences that drive enterprise-wide customer obsession" (Forrester). Every person in the organization should consider customer experience as part of their job as a result.

SPOTIFY'S FOCUS ON INNOVATIVE ORGANIZATIONAL DESIGN DRIVES THEIR SUPERIOR CUSTOMER EXPERIENCE.

Spotify has created a "squad" model that focuses on autonomy instead of hierarchy. With this model, they've managed to scale an agile approach across more than 30 cities and 3 countries.

Their development teams operate in "squads". Each squad is given autonomy to get its own tasks done. They are self-organized and decide their own way of working. Each squad, however, is aligned to the same organizational goal to improve the user experience of Spotify's platform. This ensures that every person in the organization is activated to put their time and purpose towards the ultimate brand objective.

Additionally, each squad is allowed 10% of its time to dedicate towards "hacks". These hacks are ideas to innovate or expand Spotify's services so that they are constantly working to disrupt themselves and come up with something better.

This design philosophy is intended to minimize the number of obstacles to getting work done, activate problem solvers in all corners, and give teams the power to be creative about what they deliver and how they deliver it. It activates ideas, gets them done, and gives employees a strong sense of purpose in the contribution towards a better end product.

This way of working was a key factor in Spotify topping the Temkin Experience Ratings in 2017.

> " *We need to continue to learn and innovate. Even when we are seen as innovators. Our clients who have a history, who have a vision, who have been able to sustain the ups and downs, have a whole understanding of who they are, what they are here for in business and their people have that as well. That is an amazing strength".*
>
> —Aude Gandon, Google

Things to Consider:

- Would the average employee agree that their team works with a customer-centric mentality? Would your executive peers?

- Does the current structure prevent the creation and implementation of new ideas?
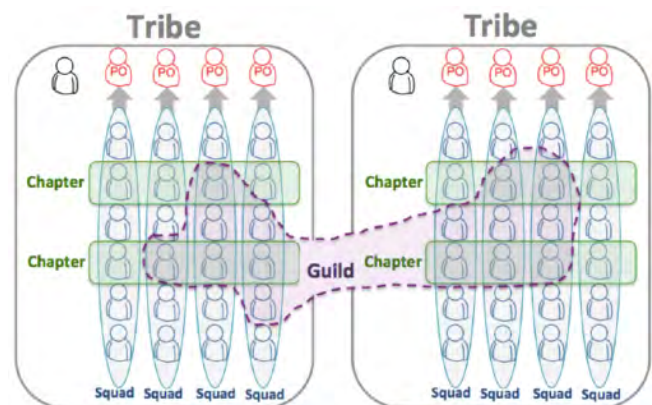
Henrik Kniberg & Anders Ivarsson

PURPOSEFUL TECHNOLOGY REDEFINES THE WAY YOUR BRAND IS EXPERIENCED.

> " *It's easy to get distracted by the technology in marketing, but always bring it back to 'do I know this person, and do I have something to say to them.'"*
>
> —Ari Sheinkin, IBM

The amount of technology available is mind-boggling. There are thousands of solutions available, created to answer the demands of modern business. It is important to remember that technology is the enabler and not the answer to building a future ready business. It can help create customer experiences, as well as provide the efficiencies that reduce the cost of doing business.

FROM:

Platforms that improve processes.

TO:

Technology that fundamentally changes how your brand is interacted with.

MSC CRUISES DESIGNED A BAR-SETTING CRUISE EXPERIENCE USING NEW TECHNOLOGIES.

In 2017, MSC Cruises launched the largest cruise ship in Europe at 33,000 square meters housing 5,700 passengers. In order to uphold their core value, 'the Art of Hospitality', and deliver a revolutionary cruise-experience, MSC used technology that not only helped deliver efficiencies that improved their customer experience, but also used data to deliver a personalized experience to each individual on board.

To accomplish the feat, MSC Cruises leveraged multiple types of integrated technology - installing 3,050 iBeacons, 700 digital touchpoints, and 114 interactive screens to create the world's first floating connected city. Onboard capabilities included:

- Facial recognition to provide a seamless boarding that alleviated long lines and wait times.

- A 3D navigation system providing an interactive map via Mobile with real-time information and geo-localized messages that ensured easy navigation around the ship.

- Tracking bracelets to ensure the safety and location of children on board.

- Personalized digital billboards built with NFC identification and profile synchronization to support instant event booking from anywhere on board.

The results were positive. MSC Cruises cited a 12-point increase in customer satisfaction, saw a 20% increase in on-board bookings, and garnered 300,000,000 total datapoints for the entire experience.

Things to Consider:

- Is your technology being used to deliver new kinds of experiences from your brand?

- How much experience opportunity is being left on the table based on the capabilities you've invested in?

THERE IS MORE THAN ONE WAY FORWARD.

The path forward can be daunting. There is no fast route to transformation; it takes time, energy, and organization-wide perseverance. As we have illustrated, it is a necessary journey for all incumbents to take, or they risk becoming a casualty of disruption. No company is exempt from creating and executing a strategy to advance.

Depending on your organization type, industry, and current state, there are multiple paths forward. MIT CISR has identified four key pathways to Future Ready, all of which require considerable effort and the ability to pull the whole organization together to achieve it.

Pathway 1: This route moves towards an industrialized state before investing in customer experience. The businesses that choose this route generally invest in transforming the organization to become more efficient first, discarding legacy systems and structures before embarking on customer centricity. This path is especially at risk if their competitors' services and brand offer more appealing experiences.

Pathway 2: Here, businesses add features and channels to support customer centricity, and may attract new customers that are initially unprofitable, thus reducing margins and putting strain on the financial performance of the organization. Howeve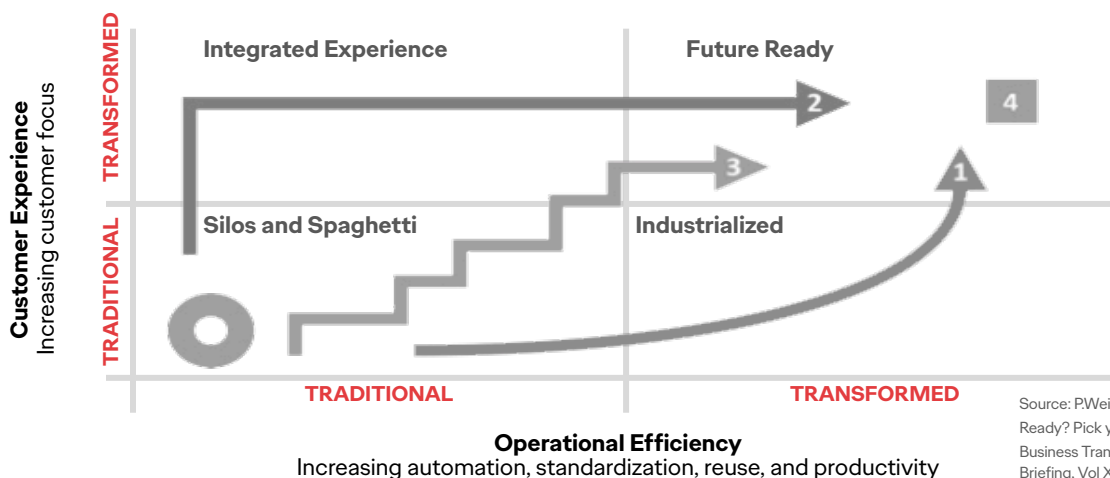r, once a strong experience is established, organizations can ramp up efforts in efficiency to move towards profitability.

Pathway 3: This is typically the most popular approach. It creates a roadmap with small changes in both directions, providing improvements in customer experiences while at the same time driving efficiencies. The key to success here is to make sure the whole organization is aligned around the same direction at any one time, or efforts and investment will fall flat.

> ❝ *We do believe transformation starts in the board room with a top down approach, but we also believe that for this to be successful, you have to get everybody in the enterprise on board- and you do that by working collaboratively with a lot of different people and partners."*
>
> —Carla Hendra, Ogilvy Consulting

Pathway 4: This is chosen when the organization deems it too difficult to change and decides to create a new 'Future Ready' company. This choice may see the eventual demise or significant reduction in the original business as it fails to meet the needs and wants of modern consumers. The acid test is if the new organization can sufficiently out-perform the old business to manage all stakeholders.

Customer Experience — Increasing customer focus
TRANSFORMED / TRADITIONAL

Integrated Experience | Future Ready
Silos and Spaghetti | Industrialized

TRADITIONAL | TRANSFORMED

Operational Efficiency
Increasing automation, standardization, reuse, and productivity

NO MATTER YOUR PATH, TAKE THE NEXT STEP FORWARD.

The appropriate path forward is, of course, a strategic choice for each individual organization to make based on its confidence on internal alignment, the competitive landscape, and operating conditions. For all, the key first steps are to evaluate where you are and articulate what your vision for the future is.

Tomorrow's brands will be the ones who turn imaginative possibility into reality for the everyday person. The businesses that succeed will be those who reorganize themselves around their customers' needs and wants, applying innovative solutions using data and technology to enable a better customer experience.

> " *You don't maintain an IT company for 108 years if you don't know how to transform.'"*
>
> —Ari Sheinkin, IBM

Those businesses that don't succeed will have failed to keep up with the needs, wants and demands of their customers and the marketplace.

> " *Your Uber moment is the day you wake up and go – uh, oh, look what somebody just did that we could have and should have done – but we aren't organized to do it, we didn't have the talent and we can't respond".*
>
> —Jeanne W. Ross, MIT CISR

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