Don’t Forget about the Digital Transformation!
TÜSİAD - Turkish Industry & Business Association

Professor Joe Peppard
İstanbul, Turkey | December, 2017
What is this?
The comfortable illusion of becoming digital
Magic Bullet Thesis of Digital Transformation

Technologists develop robust technology and shoot it at the problem and business managers expect it to provide the solution, create the required change and penetrate users.
Digitizing an industrial company

“You go to bed an industrial company – you wake up in the morning a software company.”

“We believe that every industrial company will become a software company.”

Jeff Immelt, Chairman and Former CEO, GE
Digitizing an industrial company

“This is something I got wrong. I thought it was all about technology. I thought if we hired a couple thousand technology people, if we upgraded our software, things like that, that was it. I was wrong. Product managers have to be different; salespeople have to be different; on-site support has to be different. We’ve had to drill and change a lot about the company”.

Jeff Immelt, Former Chairman and CEO, GE

Source: GE’s Jeff Immelt on digitizing in the industrial space, McKinsey, October 2015
Where are we starting from?

“Born digital”

- Google
- Facebook
- Amazon
- Salesforce.com

High

Software product companies

Traditional media companies

Logistics companies

Banks, insurance companies, asset management

Public administration, product companies, hospitals, lawyers, etc.

“Established analogue”

Low
... but adopting your organization for the future is not easy
Culture is the most significant self-reported barrier to digital effectiveness

Which are the most significant challenges to meeting digital priorities?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural and behavioral challenges</td>
<td>33</td>
</tr>
<tr>
<td>Lack of understanding of digital trends</td>
<td>25</td>
</tr>
<tr>
<td>Lack of talent for digital</td>
<td>24</td>
</tr>
<tr>
<td>Lack of IT infrastructure</td>
<td>22</td>
</tr>
<tr>
<td>Organizational structure not aligned</td>
<td>21</td>
</tr>
<tr>
<td>Lack of dedicated funding</td>
<td>21</td>
</tr>
<tr>
<td>Lack of internal alignment (digital vs traditional business)</td>
<td>19</td>
</tr>
<tr>
<td>Business process too rigid</td>
<td>16</td>
</tr>
<tr>
<td>Lack of data</td>
<td>13</td>
</tr>
<tr>
<td>Lack of senior support</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: 2016 McKinsey Digital survey of 2,135 respondents
The relationship between digital technologies and business benefits
Benefits and change...

Benefits cannot be delivered without change ...

... change without benefits cannot be sustained
Reframing the digital challenge

Increasingly complex change that is both shaped and enabled by digital technologies
Mapping and understanding how expected benefits from digital investments will be achieved

- Launch sales drive
- Attract new customers
- Improve marketing
- Increase sales vol.
- Reduce costs
- Reduce overheads
- Examine margins
- Increase productivity
- Improve margin
- Increase ROCE

Increase profits!
Benefits dependency network: linking IT with benefits

Technology

- Technology functionality

- Technology functionality

- Technology functionality

Technology Capability

Enabling changes

Sustaining changes

Business benefits

Investment objectives

DRIVERS
Benefits Dependency Network: linking technology with benefits

Technology functionality

To increase sales volume from new customers

To improve effectiveness of A&P spend

Reduced cost by avoiding waste on irrelevant customers

Increase response rate from A&P campaigns

Increased rate of follow-up of leads

Increased conversion rate to sales

Technology Capability

Enabling changes

Sustaining changes

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How to get the benefits....

- Introduce proj. mgmt for A&P campaigns
- Use database to improve targeting in segments
- Measure outcome of campaign re. objectives
- Reduce cost by avoiding waste on irrelevant customers
- Increase response rate from A&P campaigns
- Increased rate of follow-up of leads
- Increased conversion rate to sales
- Reduced marketing time on admin
- Redefine customer segments
- To increase sales volume from new customers
- To improve effectiveness of A&P spend
- Project management package
- Customer prospect database
- Campaign response tracking
- Technology Capability
- Enabling changes
- Sustaining changes
- Business benefits
- Investment objectives
Benefits Dependency Network – CRM investment

1. **Company planning & management system**
   - Introduce project management for all A&P campaigns
   - Measure outcome of campaigns relative to objectives
   - Identify most appropriate communication medium for target customers
   - Reduced cost by avoiding waste on irrelevant customers
   - **To improve the effectiveness of Advertising & promotion spend**

2. **Customer prospect database**
   - Reduce marketing staff time on admin activities
   - Use database to improve targeting in segments
   - Co-ordinate sales and marketing activity in follow-up
   - Increased response rate from A&P campaigns
   - **To increase sales value and volume from new customers**

3. **Contact management system**
   - Redefine customer segments
   - Realign sales activity with new customer segments
   - Allocate sales time to potential high value leads
   - Increased rate of follow up leads
   - **Increased conversion rate of leads-to-orders**

4. **Enquiry quotation & response tracking system**
   - Introduce new account management processes
   - New sales staff incentives
   - Use system to target sales activity/contact time
   - Increase sales time with customers
   - **Investment Objectives**

5. **Tablets for sales staff**
   - Release sales time from post-sales activity to pre-sales
   - Use system to target sales activity/contact time
   - Increase sales time with customers
   - Reduced cost by avoiding waste on irrelevant customers

6. **Tech Capability**
   - Enabling changes
   - Sustaining changes
   - Benefits

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Benefits Dependency Network – CRM investment

- Evidence of achievement
- Responsibility
- Timescales

- Evidence of achievement
- Responsibility
- Timescales

- Benefit owner
- Measures

- Increased rate of follow up leads
- Increased conversion rate of leads-to-orders
- Increased sales value and volume from new customers
- To improve the effectiveness of Advertising & promotion spend
- Reduced cost by avoiding waste on irrelevant customers

- Introduce project management for all A&P campaigns
- Reduce staff time on admin activities
- Redefine customer segments
- Introduce new account management processes
- Release sales time from post-sales activity to pre-sales

- Measure outcome of campaigns re objectives
- Identify most appropriate communication medium for target customers
- Database to targeting in segments
- Realign sales activity with new customer segments
- Use system to target sales activity/contact time
- Increase sales time with customers
- Co-ordinate sales and marketing activity in follow-up

- New sales staff incentives
- Allocate sales time to potential high value leads

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- Tech Capability
- Enabling changes
- Sustaining changes
- Benefits
- Investment

Objectives

Evidence of achievement
Responsibility
Timescales

Benefit owner
Measures

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A partial BDN for and RFID investment at a European Retailer

** ROLE OF TECHNOLOGY **

- Cabling
  - Redefine buying algorithms

- RFID tags
  - Supplier engagement
  - New supplier agreements
  - Supplier training/development
  - Attach tags to products
  - Dist. center inventory receiving processes

- Antennae
  - Define EPC inlay size requirements
  - In-store operations processes
  - “Smart shelves” in stores

- RFID readers
  - Integration with existing systems
  - Design new packaging

** ENABLING ORGANIZATIONAL CHANGES **

** SUSTAINING ORGANIZATIONAL CHANGES **

- Buyer demand forecasting
  - Attach tags to products
  - Dist. center inventory receiving processes

- Store receiving processes
  - In-store operations processes
  - “Smart shelves” in stores
  - Eliminate checking of stock

** OBJECTIVES AND EXPECTED BENEFITS **

- Reduced buying volumes
  - Improved working capital
  - Reduced cost of markdowns
  - Lower operational expense

- Inventory reduction
  - Accurate inventory
  - Increased sales
  - Better “track and trace”
  - Improved merchandise planning

** BUSINESS DRIVERS **

- “Always available” promise
  - Multichannel enablement
  - Return on capital employed

** SOURCE ** JOE PEPPARD

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Technology is not a panacea

• Technology has no inherent value in itself
  - possession of technology does not confer any benefits or create value

• Benefits and value must be unlocked
  - only managers and users can do this (i.e. make the necessary changes)

• All IT projects have outcomes but not all outcomes are benefits
  - manage to achieve positive outcomes

• Expected benefits must be actively managed for
  - they are not something which automatically occur
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