Digitalization: The impact on traditional retail and the future model of multichannel

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I. CONSEQUENCES OF DIGITALISATION FOR THE TRADITIONAL RETAIL

There is no doubt that social and mobile technologies are profoundly changing consumers’ shopping habits and expectations, and the pace of change is impressive. Even in a struggling economy, online shopping in 2011 grew 15% over the previous year. Retail giant Amazon sold $1B through its e-commerce site and mobile applications in 2010, and that figure was forecasted to double in 2011.

Currently, 35% of Americans own web-enabled smartphones, a number which is expected to skyrocket in the coming years. On Christmas day 2011 alone, 6.8 million iOS and Android devices were activated. Interestingly, from this rather large sample, half of smartphone owners say they have made some form of purchase using their mobile phone, highlighting the power of the mobile device in today’s retail landscape.

This purchasing behavior represents a change that empowers not only consumers but online retailers, who enjoy numerous economic and logistical advantages over mall stores and mom and pop shops. Lower overhead costs and tax advantages enable online merchants to offer sometimes significantly reduced prices on everything from apparel to appliances. Because of this, it’s no wonder people are beginning to ask if retail stores can survive in this increasingly tech-powered environment.¹

Retailers must catch up with multi-channel consumers. The PWC study shows consumers are leading and shaping the move to online, with retailers lagging behind. We found that the majority of consumers behaviour is consistent across regions and demographics, as well as between developed and developing countries and markets.

The global consumer is becoming increasingly sophisticated and retailers cannot adapt their operating models at the same pace. Closing the gap requires a significant increase in agility and flexibility by retailers, driven by a better understanding of their customers. This means changing the way they track and measure consumer behaviour, market their products, run their stores, and manage their supply chains.

The winners will be those who have recognised these trends and are building agile organisations capable of delivering a consistent profitable proposition in a multi-channel way.²

A long time before the tremendous development of the Internet and digital convergence, Jeff Besos founded the first online bookstore „Amazon“ in 1994.³

With the digital convergence (in reality starting with the introduction of the iPhone) the search and purchase behaviour drastically changed and as the greek philosopher Heraklit said „Nothing is more constant than change” which is as true today as in the past.⁴

The change of the global consumer, the retail landscape and the markets in general in the last decade threaten to provoke a chaos for established business models and marketing approaches. For those able to adapt and anticipate these changes, there are great possibilities and chances ahead.⁵

In the business world, we often speak of disruption. Traditional businesses being shaken to their cores by factors like technology, being forced to rethink their businesses, approaches, or products. Perhaps this is nowhere truer than in the retail industry – more precisely brick and mortar retail. While business prognosticators have been saying “retail is dead” for years, with no true apocalypse to fulfill their claims, they might be on the brink of vindication. After earnings dropped by 19 percent, Radio Shack, which has one of the largest footprints of any American retailer with more than 5,200 stores in the U.S., announced it will close up to 1,100 stores. Staples will close 225 of its 1,846 stores in North America by the end of 2015. And it appears to be only the tip of the iceberg: consumer perceptions of traditional retail are declining as well. Is there any solution to the traditional retail are declining as well. Is there any solution to the

² PriceWaterhouseCoopers, „Global retailers must catch up with multi-channel consumers“, http://www.pwc.co.uk/retail-consumer/issues/global-retailers-must-catch-up-with-multi-channel-consumers.jhtml
⁴ http://www.aphorismen.de/suche?f_autor=1710_Heraklit+von+Ephesus&seite=2

brand’s universe. Retailers that understand this, the ones who understand the power of the shopping experience, are actually thriving by leveraging their understanding of what consumers want. Apple is probably a good example: The stores were a space for customers to interact with the brand. Dedicating an entire wall of a high street emporium to a free service in the Genius Bar was seemingly inefficient and overly costly, but revolutionized the way that the Apple brand engaged with its customer. Apple Stores, which have annual sales averaging $40 million per store in a category that in 2000 everyone said would move entirely to the internet. Today the Apple Stores are the highest performing stores in the history of retailing. Physical stores are still the primary way people acquire merchandise, and I think that will be true 50 years from now Apple Stores have annual sales averaging $40 million per store in a category that in 2000 everyone said would move entirely to the internet. Today the Apple Stores are the highest performing stores in the history of retailing. Physical stores are still the primary way people acquire merchandise, and I think that will be true 50 years from now.

So in this period of disruption, while many trumpet the death of retail, some clever retailers, who know that the experience they deliver in-store is something that that Amazon can’t (yet!) deliver to your door, are thriving. So is retail dead? Perhaps, yes, for those who don’t see the true power of the medium. For those that know better, a resurrection is underway.

II. GOOD EXAMPLES/ BAD EXAMPLES FOR ADOPTION TO THE DIGITAL WORLD

„You could argue that Amazon on the e-commerce front and the Apple Store with the customer experience are the major influences in the industry from 2000 to the present”. Amazon started 20 years ago building up the first bookstore online. It took Amazon quite a long time to get profitable, and even more time to become as dominant as today. It is one of Americas greatest success stories and Amazon shows a fantastic performance: a market capitalisation of 132 billion USD and revenues of 61 billion USD. So on the trade side Amazon is probably the success story for ecommerce. From a german perspective the example of the MediaSaturn Group is quite interesting, as MediaSaturn has been the dominating electrical retailer not only in Germany but in Europe. The business model is focused on large electrical superstores with nearly no service, but always offering the best price. MediaSaturn has been in crisis for some years and is constantly loosing market share. The reason ist hat MediaSaturn has so far not been capable to adapt tot he new digital consumer. The Group is additionally under pressure because huehe surfaces where the number of shoppers is dramatically declining are very expensive. With the advertising slogan „Geiz ist Geil“ MediaSaturn has educated that the most important thing ist he best price. The business model is no longer working as noe the internet dealer took over „the best price“ (see graphic). „the revolution eats his own children."

6 Forbes Magazine, „The Death of Retail--And Perhaps A Resurrection”, May 2014, page 1
7 Harvard Business Review, „Retail isn´t broken. Stores are“, Ron Johnson (VP Retail at Apple), December 2011, page 2
8 Forbes Magazine, „The Death of Retail--And Perhaps A Resurrection”, May 2014, page 1
9 Harvard Business Review, „Retail isn´t broken. Stores are“, Ron Johnson (VP Retail at Apple), December 2011, page 3
10 Forbes Magazine, „How you can use the three big ideas behind Amazon ´s success“, May 2013, page 1
11 Vgl. NEWS 09/13, „Wie der Elektronikriese MediaMarkt/ Saturn in die Krise schlitterte“, Markus R. Leeb/ Herta Scheidinger, S. 70-71

www.ijsrp.org
So how can you win the game in the digital world being a consumer goods manufacturer? Which are the big strategic questions you need to ask:

- How do I build up a successful business in online channels
- How do I better understand my customers
- How do I integrate social channels into my business model
- How to run a multichannel business without “loosing” traditional retailers

Surely online sales will somehow stabilize on a certain level or even decline again, depending on the category. In the US online retail/e-commerce is now around 6 of the entire turnover.5 In England one third off the population is using constantly only grocery shops.6 The same accounts for clothing in Germany,7 in China online retail has tripled in the 3 years.

If the traditional retail wants to survive, a cooperation with big pure players like Amazon or himself become a multichannel player. A good example for this is OTTO in Germany: being a classical goods shipper based on a printed catalogue, today OTTO managed to be a relevant competitor to Amazon and ranks as the second most successful online retailer in Germany, behind Amazon.13

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Setting up an own online shop is not really cheap and it takes a lot of effort to maintain but even much more effort to bring clients there and make them shop. So for many the economics of launching a branded e-commerce site will prove unfavorable. Alternatively a cooperation with the “big ones” makes more sense.

III. SHOPPER EXPERIENCES/ VALUE CREATION

For traditional stores to compete, they need to use technology to improve aspects of the in-store shopping experience that consumers care about, like:
- Quality of customer service
- What the store looks and feels like
- How products are displayed
- The experience of trying and buying a product

Seemingly, online retailers have an unfair advantage when it comes to using technology to improve their businesses. They are powered by sophisticated analytics and tracking tools that provide deep and useful insights into online behaviors and patterns. For example, online retailers know, in near real-time, how many folks have visited their store and how many have been there before. They know specifically which sections of the site have been visited and what and brands are of interest. Additionally, online retailers know how long consumers shopped, when they visited, how frequently they visited, and whether or not certain deals or ads attracted them to the store. In exchange, the consumer gets lower prices, greater selection, and a more convenient shopping experience that can be endlessly improved.

In comparison, offline retailers simply haven’t had the analytical tools at their disposal to understand customer movement at this level to deliver a tailored, personal shopping experience. And delivering this top-notch, physical experience is key to retail success in the future.

This physical experience cannot be duplicated on the web (no matter how social it gets) and is only possible through visiting the store. If we empower physical retailers with tools to better understand their customers, I believe they will respond with innovations that delight consumers and distinguish the real world shopping experience from the online world. In other words, they won’t die, but in fact thrive.

By implementing a very simple technology to monitor shopping behavior via wifi, smartphone signals, physical retailers can successfully bridge the gap between the online and offline world. By utilizing this mobile phone technology, retailers have the ability to view anonymous, aggregated shopper traffic data that will help them make data-driven business decisions to better serve their customers. I think that the sustainable advantage of a retailer or a digital-commerce business is data. What data can do is to allow you to connect this exploding inventory, exploding
selection that we’re all seeing, down to be a highly relevant experience for a consumer.  

With these statistics, retailers can:
- Measure customer loyalty;
- Improve store layouts;
- Make better staffing decisions;
- Reduce wait times in checkout lines;
- Create more attractive window displays;
- Adjust store hours based on actual foot patterns; and
- Make the merchandise people are looking for more accessible.

The smartphones and portable devices many of us carry around act as small radio towers emitting signals into the air. By using in-store sensors that recognize nearby wifi signals retailers can tabulate foot traffic patterns through the physical space. Unlike some analytics tools used by online retailers, the key in malls and physical retail environments is to develop a solution that never collects any personally identifiable information. As shoppers walk by, and then through a store, retailers don’t know who they are, rather where they are in the store.

Building engaging experiences across channels is incredibly important. Many retailers have spent their entire lives thinking about how to build an engaging experience in one channel, which is the store. But now, understanding how to connect with your core customers across every way they want to connect—not the way you want them to connect but the way they want to connect with you—is a different skill.

It requires design and product management. It requires understanding how to market in a digital world. There are still many instances that I see where it is old-school marketing. It’s still about major TV campaigns, get people into the stores. That’s still important, and that’s not going to go away.

But understanding how to engage in a world of exploding social networks, how to use search, how to use catalog, how to optimize, and how to engage—very different skills. I think that is going to become a core part of the playbook for retailers and merchants of all sizes around the world.

To position themselves for success in a multichannel world, retailers would do well to take a disciplined approach that begins with a reassessment of the role of the physical store. McKinsey recommends a five Stepp approach for this, called STORE:

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The effects of online migration in the retail industry are evident in every category. But it is not at all the only problem traditional retailers are confronted with: floor space. Apart from this we are talking about a strong and powerful competitive environment from ecommerce champions like Amazon, lack of shopper experience, lack of multi-channel integration etc.  

The traditional retail is suffering especially by the big ecommerce players like Amazon making pressure on prices and margins.

Shifting from a store-focused approach to a multichannel mind-set requires retailers to change their traditional frames of reference and ways of working. The brick-and-mortar store is not dead; it just plays a different role now. In fact, in a multichannel world, physical stores can provide a competitive advantage. Some multichannel retailers have seen growth in their online sales and penetration among consumers who live near their stores.

In light of rapidly evolving technology and consumer behavior, McKinsey believes retailers that take a forward-looking view and heed the following five imperatives can position themselves for multichannel success.

The first question that retailers should ask themselves at the beginning of their store-network transformation journey is, “What role will my brick-and-mortar stores play in a multichannel world?” To answer the question, retailers must find out what their customers truly care about.\(^{20}\)

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Reinvent the in-store shopping experience: Creating the store of the future will mean overhauling the in-store customer journey, in part by using new technology to make the shopping experience as seamless and easy as possible. Some retailers simply copy the in-store moves of multichannel champions such as Apple and Burberry or equip sales staff with iPads to give their stores an updated, high-tech look. But cosmetic changes alone won’t result in lasting impact. A multichannel mind-set must be embedded in the store design and in employees’ new ways of working.

Strategically, retail leaders should keep a close watch on their performance in the six dimensions of retail excellence: customer focus, merchandising, operations, infrastructure, people and most important: customer proposition (graphic 1). Material underperformance in any of these dimensions can be deeply problematic, but if a retailer doesn’t have a compelling customer proposition it simply won’t survive.

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How do you turn the company around? The experiences of distressed retailers that have successfully turned around their business, either during or since global financial crisis, have shown that a five-stage approach to retail turnarounds can lead to a sustained success.  

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22 McKinsey & Company, „In need of a retail turnaround? How to know and what to do“, Peter Breuer, Thierry Elmalem, Chris Wigley, March 2014, page 2
A last aspect in order to transform classical retail into multichannel retailers during restructuring is to understand which of the existing stores are prepared for the future and which need to be closed down.

“A chief restructuring officer should spur a radical rethink of the companies operating model and challenge managers assumptions about what is possible.”

With this in place, everyone stands to win — consumers get a better shopping experience and retailers are able to compete with the online world by making their customers happy.

When the video cassette recorder (VCR) became commercially popular in the 1980s, many predicted movie theaters would be put out of business. In the end, the film industry was strengthened by the new technology and the demand for films it created. I predict the same will be true for retail stores. Though we cannot know all the ways the technologies we are creating today will change the industry, I believe we will come to appreciate and value the physical shopping experience even more, and retail will thrive.24

IV. CONSEQUENCES AND IMPLICATIONS FOR B2B COMPANIES

To successfully acquire and retain customers, organisations must recognize these new dynamics, adapt and evolve to become more flexible and responsive.25 It is evident that the emergence of the digital consumer has staggered implications for businesses. The new trends in consumer behaviour require organisations to re-look at company processes, product design, quality of experience, pricing configuration, delivery mechanism and medium of marketing.26

Companies are faced with opportunities and challenges as tech-savvy, on-the-go consumers use a mix of digital channels to move from browse to purchase. eCommerce, eCoupons, social networks and mobile applications provide more opportunities than ever to learn about, engage with and deliver the goods to consumers. Yet, the expanding number of touch points and channels increases the difficulty of finding the right combination to serve them efficiently and consistently.

Consumers are using digital channels to make more informed decisions and making purchases through multiple channels. Their experiences with Amazon, Google and iTunes have increased their expectations that companies will use the gigabytes of personal data surrendered to curate and deliver targeted offers. Frankly, today’s digital consumers are baffled by, if not frustrated with, fragmented cross-channel efforts and irrelevant offers and campaigns.

Which brings us to the question at hand: Given what we know about consumers and how they use digital channels, how should companies prioritize their investments to attract, engage, sell to and retain digital consumers?27

Think—and operate— with multichannel in mind

Our research shows that consumers use a variety of channels as they move along the path toward purchase (see Figure 1), yet many companies do not move to meet them where they are swiftly or fluidly. In part, this is a product of organizational structure, when separate channels are managed by largely separate teams. But companies need to tear down those barriers if they are to serve the multichannel consumer well and compete. They also may need new capabilities to understand how consumers are using each channel so that they can react appropriately and move them along the path to purchase.

When managed independently, single channels—even if executed superbly—have limited impact and provide just a slice of insight into consumer behavior, and it is a potentially misleading one given that consumers use a variety of channels. A true multichannel strategy integrates, leverages, measures and optimizes the unique properties and advantages of each channel.

26 Infosys, „Digital Consumers”, September 2011, page 3
27 Accenture, Data Transformation: Winning and retaining the consumer, page 3
Consumer behaviors displayed on websites, social networks, mobile apps, emails and in stores should all be considered in prioritizing multichannel investments.

CPG companies are finding that the best multichannel marketing is one that promotes an ongoing, synchronized dialogue with consumers. But, like all dialogues, it requires companies to pay constant attention to the flow of information received, and be agile enough to adapt to changes so they can deliver relevant, customized messages at the right time.

Employ data analytics to move through the marketing and sales cycle with consumers

Companies develop a cross-functional, integrated analytics vision, as well as invest in the technology, processes and topflight analytic talent needed to identify target consumer segments and tailor marketing and sales strategies and offers. Delivering personalized, performance-based messages has never been easier given the access that digital channels provide. The companies that use analytics systematically to understand consumers better and act on that understanding will reap the rewards of big data.

Embrace the small screens and the mobile consumers so attached to them

They’re everywhere and sometimes in the way: slowly walking while scrolling through texts and emails, clogging store aisles as they scan bar codes, or tinkering with their new mobile payment app to pay for the skinny latte at the coffee shop. In many markets, more than half the population has mobile devices or smartphones, and over 10 percent have more than one mobile device.

Mobile is the most intensely personal channel for many consumers, and a successful mobile strategy requires a mindset shift that reflects this sensitivity.

At the beginning of the digital age, many companies set up a separate unit to manage the “e-commerce” website—separate staff, separate budget, maybe even a separate location. Now, the complexity of executing marketing operations increases significantly as the number of digital touch points and channels multiplies, demanding a new level of integration.

Marketers need cost-effective and efficient integrated technology platform and services processes to help manage and consistently evaluate their ever-expanding mix of digital and non-digital assets, and to ensure that they complement one other effectively to deliver consistently relevant consumer experience.

As channels multiply and companies seek to enter more markets more efficiently, it’s imperative to integrate marketing channels and operations more effectively. Taking such steps not only benefit the consumer by delivering more consistent experiences, they deliver financial and competitive benefits to CPG companies as well.

Recognize that “winning the digital consumer” is an enterprise responsibility

Many companies still operate as if serving the digital consumer is primarily the purview of marketing and sales teams, with perhaps a hefty assist from the technology team. Gaining alignment between marketing and technology is crucial.

In addition to executive leadership, new organizational structures and talent management processes that facilitate and reward sharing consumer insights are good first steps. Without such actions companies will lose the ability to effectively cross-sell brands or increase the lifetime value of consumers.

Today’s digital consumers present companies with more information, opportunities to connect and challenges than ever.
With loyalty and sales on the line, companies need to be strategic in how they invest in building their understanding of and relationships with consumers. More focused use of data analytics, better social listening and a comprehensive mobile strategy can all aid in deeper understanding and connection. Optimizing websites to facilitate commerce, and experimentation with digital coupons can also generate insight and sales. Finally, consumers who use multiple channels to make their purchases expect companies to deliver a high-quality, consistent multichannel approach as well. Companies that execute on these dimensions could remain relevant, win sales in the short term, and the loyalty of digital consumers in the long run.

Structural changes (especially declines) often happen quite slowly ... until they happen very quickly.

Hemingway’s observation on how people go broke is as relevant today as after the Great Crash. Short-term economic and industry factors often mask long-term structural problems that lead to gradual – and then very sudden – reversals. Consider that the newspaper industry enjoyed its most profitable decade in the late ‘90s and early 2000’s, even as online-only competitors for classified and display advertising grew in scale and market power. Similarly, the recording industry shipped a record number of CDs during the very dot-com boom that paved the way for digital music’s eventual takeover (See Exhibit 4).  

This describes also the way how iconic brands in sectors most hidden by digitalisation like Nokia and Kodak failed:

4.1 BAD EXAMPLES FOR DIGITAL ADAPTATION

Not that long ago Nokia was the world’s dominant and pace-setting mobile phone company and today it only holds 3% of the worldwide market. Nokia is a good example in the sense, that their products and brand have been part of the category that most pushed digitalization: mobile devices. One reason was clearly that Apple and Android put huge pressure on Nokia, but one of the real reasons was, that Nokia had much more product competence than Software competence. Nokia clearly underestimated the rising importance of Software and Apps that run on Smartphones. It also underestimated how important the transition to Smartphones would be. To end it up, another reason was the overestimation of its brand value.

Finally the worldwide most dominant player in the mobile business and top ten worldwide brand failed to see the trends coming and therefore got bankrupted in a very short time. "From making rubber boots in a pulp mill to leading the world in mobile phones, Nokia failed to meet the challenge of the iPhone." [29]

Another hitting example is Kodak. Kodak once was an iconic brand, dominating the worldwide camera film market. It used to have 140,000 employees and a turnover of 20 billion USD. There are few corporate blunders as staggering as Kodak’s missed opportunities in digital photography, a technology that it invented. This strategic failure was the direct cause of Kodak’s decades-long decline as digital photography destroyed its film-based business model. Kodak management’s inability to see digital photography as a disruptive technology, even as its researchers extended the boundaries of the technology, would continue for decades. [31]

What the biggest producer of foto films didn’t even think about was that right after the introduction of the digital foto technology by Kodak, the core business would be redundant.

Kodak realized this quite late. In order to protect his core business of analog photography Kodak didn’t push a lot on digital photography. Instead of massively investing into digital cameras Kodak launched the chip based cameras together with Nikon. Very soon competitors like Canon, Sony, Panasonic and others from Asia took over and offered to a significantly lower price.

Together with Kodak the big players in the foto film business declined dramatically in a very short time. Especially AGFA got bankrupted completely. Kodak’s stock value quickly dropped below one dollar (“penny stock“) and was then removed from New York Stock Exchange. [32] This example shows very dramatically how a global industry icon like Kodak falls into complete insignificance for ignoring digitalization, especially having products in his hand that are part of digitization.

It’s evident that digitization has become a critical asset in many companies’ quest for growth. More than three-quarters of executives say the strategic intent behind their digital programs is either to build competitive advantage in an existing business or to create new business and tap new profit pools.

To further underscore digitization’s strategic importance, it is top of mind for many company leaders. CEOs and other C-level executives—chief

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29 The New Yorker, “where Nokia went wrong”, James Surowiecki, September 2013, page 1-3
30 The Guardian, “Nokia, the rise and fall of a mobile giant”, Angela Monaghan, September 2013, page 1
31 The Forbes Magazine, "How Kodak failed", Chunka Mui, September 2011, page 1
32 Handelsblatt, „Kodak droht der Untergang“, Christoph Schlautmann, January 2012, page 1-2
information officers (CIOs) in particular—are devoting more of their personal attention and are more directly involved in digital initiatives now than ever before (Exhibit 1). Company leaders are also spearheading digital strategy: 41 percent of respondents say their CEOs are responsible for their organizations’ overall digital agendas.  

Regardless of the industry, we believe that most organizations will need to strengthen and renew some of their core capabilities to continue to prosper in an all-digital world. This is as true for those currently on top of their industries as for laggards. Both will also need to prepare for the generational, transformative changes in the market as maturing Millennials replace retiring Baby Boomers as decision-makers for household spending (and business investments, for that matter). A few imperatives for all executives:

Stay close to users by investing in customer insight. Customer behavior is rapidly changing, demanding strong market intelligence and customer insight functions. Innovative teams will integrate emerging digital, social and mobile tools into more traditional ‘voice of the customer’ processes, and effectively build feedback loops into key business functions such as product development and sales. Never before has this been easier.

Build an edge with deep analytic skills. Especially as segments get smaller and more precise, the need to use data to optimize product development and marketing will only grow. Leading players will test and measure just about everything—and, ‘big data,’ systems will support and guide them.

Make your business models more robust to reflect consumer diversity. Focus and breadth are both needed. In other words, focus on the 20% or 2% that drive the economics; and build a diversity in business models to address the remaining 80-98%.

Ensure investments are clearly aligned with consumer shifts. Executives need to clearly communicate the ‘what’ and the ‘why’ of strategy and operations and tie it to current opportunities. However, most companies will also need to make sure legacy platforms and businesses get the management attention they deserve.

Place a premium on and reward superb execution skills. A potential downside of ‘big data’ and analytics is that the analysis goes on too long and the market opportunity evaporates or is seized by a competitor. To avoid this trap top management focus needs to be on delivering the products and services that will serve and delight its customers – today and tomorrow.

4.2 CORRELATION BETWEEN IMPACT OF DIGITALIZATION AND MARKET SECTORS

Companies are not equally impacted by digitalisation. In terms of online search and online purchase (ROPO) there are huge differences (see graphic below). Surely the share online purchasers will keep growing, but there will always be products people prefer to buy in a store than via online.

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34 McKinsey & Company, „iConsumer: Digital Consumers Altering the Value Chain“, Ewan Duncan, Eric Hazan, Kevin Roche, April 2013, page 10

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To stay competitive, companies must stop experimenting with digital and commit to transforming themselves into full digital businesses. Here are seven habits that successful digital enterprises share:

1. Be unreasonably aspirational

Leadership teams must be prepared to think quite differently about how a digital business operates. Digital leaders set aspirations that, on the surface, seem unreasonable. Being “unreasonable” is a way to jar an organization into seeing digital as a business that creates value, not as a channel that drives activities. Some companies frame their targets by measures such as growth or market share through digital channels. Others set targets for cost reduction based on the cost structures of new digital competitors. Either way, if your targets aren’t making the majority of your company feel nervous, you probably aren’t aiming high enough.

2. Acquire capabilities

The skills required for digital transformation probably can’t be groomed entirely from within. Leadership teams must be realistic about the collective ability of their existing workforce. Leading companies frequently look to other industries to attract digital talent, because they understand that emphasizing skills over experience when hiring new talent is vital to success, at least in the early stages of transformation. The best people in digital product management or user-experience design may not work in your industry. Hire them anyway.

3. ‘Ring fence’ and cultivate talent

A bank or retailer that acquires a five-person mobile-development firm and places it in the middle of its existing web operations is more likely to lose the team than to assimilate it. Digital talent must be nurtured differently, with its own working patterns, sandbox, and tools. After a few false starts, Wal-Mart Stores learned that “ring fencing” its digital talent was the only way to ensure rapid improvements. Four years ago, the retail giant’s online business was lagging. It was late to the e-commerce market as executives protected their booming physical-retail business. When it did step into the digital space, talent was disbursed throughout the business. Its $5 billion in online sales in 2011 paled next to Amazon’s $48 billion.

4. Challenge everything

The leaders of incumbent companies must aggressively challenge the status quo rather than accepting historical norms. Look at how everything is done, including the products and services you offer and the market segments you address, and ask “Why?” Assume there is an unknown start-up asking the exact same question as it plots to disrupt your business. It is no coincidence that many textbook cases of companies redefining themselves come from Silicon Valley, the epicenter of digital disruption. Think of Apple’s transformation from struggling computer maker into (among other things) the world’s largest music retailer, or eBay’s transition from online bazaar to global e-commerce platform.

5. Be quick and data driven

Rapid decision making is critical in a dynamic digital environment. Twelve-month product-release cycles are a relic. Organizations need to move to a cycle of continuous delivery and improvement, adopting methods such as agile development and “live beta,” supported by big data analytics, to increase the pace of innovation. Continuous improvement requires continuous experimentation, along with a process for quickly responding to bits of information.

6. Follow the money

Many organizations focus their digital investments on customer-facing solutions. But they can extract just as much value, if not more, from investing in back-office functions that drive operational efficiencies. A digital
transformation is more than just finding new revenue streams; it’s also about creating value by reducing the costs of doing business.

Investments in digital should not be spread haphazardly across the organization under the halo of experimentation. A variety of frequent testing is critical, but teams must quickly zero in on the digital investments that create the most value—and then double down.

7. Be obsessed with the customer

Rising customer expectations continue to push businesses to improve the customer experience across all channels. Excellence in one channel is no longer sufficient; customers expect the same frictionless experience in a retail store as they do when shopping online, and vice versa. Moreover, they are less accepting of bad experiences; one survey found that 89 percent of consumers began doing business with a competitor following a poor customer experience. On the flip side, 86 percent said they were willing to pay more for a better customer experience.1

A healthy obsession with improving the customer experience is the foundation of any digital transformation. No enterprise is perfect, but leadership teams should aspire to fix every error or bad experience. Processes that enable companies to capture and learn from every customer interaction—positive or negative—help them to regularly test assumptions about how customers are using digital and constantly fine-tune the experience.36

"It is not the strongest specimen that survives, even not the most intelligent one, it is the specimen that can adapt to change most.”

Charles Darwin

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[1] Institut der deutschen Wirtschaft Köln Consult GmbH, Prof. Dr. Michael Hüther, “Wirtschaft digitalisiert:

36 McKinsey & Company, „The seven habits of highly effective digital enterprises”, Tunde Olanrewaju, Kate Smje, Paul Willmott, page 2-7