THINK
ACT

BEYOND MAINSTREAM

Radically digital

Shaping the digital transformation:
Questions top managers should be asking today

Roland Berger

THE BIG

3

34%

of company crises are already attributed to digitization. This is claimed to be the number one reason for poor performance.

page 4

∞

(infinite) numbers of digitization projects seem to be running at any given time. Managers fall for the illusion that things are progressing. Yet they can't shape the digital transformation if they don't see the big picture.

page 5

3

key options enable new digital business to be tied to the organization. These options support, supplement or substitute traditional services and products.

page 13

<u>Time for plan D</u>. There is no alternative to the digital transformation. Visionary companies carve out new strategic options for themselves – others fail.

The future is not what it used to be. Digitization has reached us all and changed everything. And it is here to stay. Consumers, clients and indeed the whole economy have become faster paced, less predictable, more volatile. The number and nature of digital options open to businesses is growing exponentially, with no sign of letting up. Everything these days is "smart", from machinery and cars to homes and services. Entrepreneurs are thus licking their lips as countless new opportunities spring up. At the same time, digitization poses a huge threat to existing competitive positions and is radically shifting companies' chances of winning the game. Anyone in a position of corporate responsibility – be it in a supervisory or top management capacity – should therefore be asking themselves whether their company is properly prepared to face digital disruption.

Basically, there are two reasons why companies fail: One is because management doesn't make the right decisions at the right time. The other – the one to which we will devote most of our attention – is because external upheavals change the playing field so profoundly that business as usual is simply no longer an option. **→ A → B**

Ideally, companies should right now be working out new strategic options and safeguarding their future success. In the worst case, businesses could cease to exist because they end up losing their customer interface, and because their share of the value chain shrinks to such a degree that they are left with no room for strategic flexibility. Even today, one of the main triggers of far-reaching cost-cutting programs is the fact that management underestimates the digital disruption and its consequences.

When proven concepts fail it is clearly time for a bolder plan that maps out a more radical vision of the future – a vision based on the specific needs of the customers and backed by plausible numbers. A plan D, in other words, where "D" stands for "digital". Plan D is what guides the digital transformation to success.
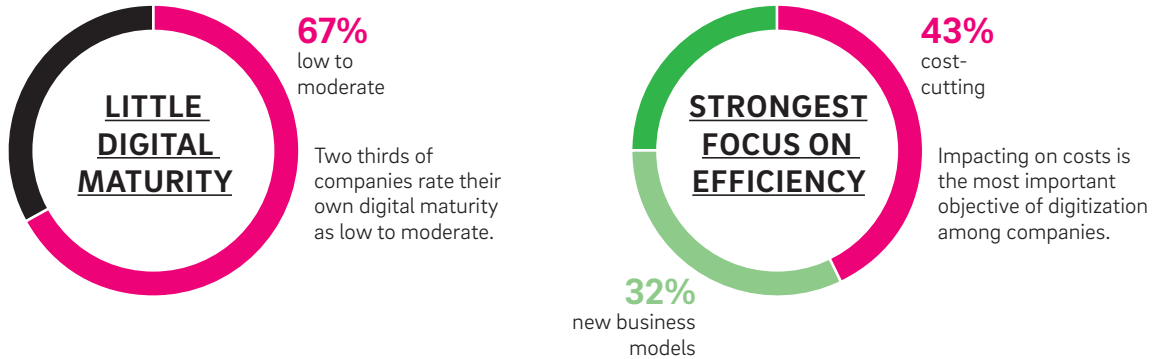
A

MANAGERS IN GERMANY AND THE EU ARE RELUCTANT TO FACE UP TO DIGITIZATION...

Findings of a BDI[1] / Roland Berger study on the digital transformation of industry, 2015[2].

LITTLE DIGITAL MATURITY

67%
low to moderate

Two thirds of companies rate their own digital maturity as low to moderate.

STRONGEST FOCUS ON EFFICIENCY

43%
cost-cutting

Impacting on costs is the most important objective of digitization among companies.
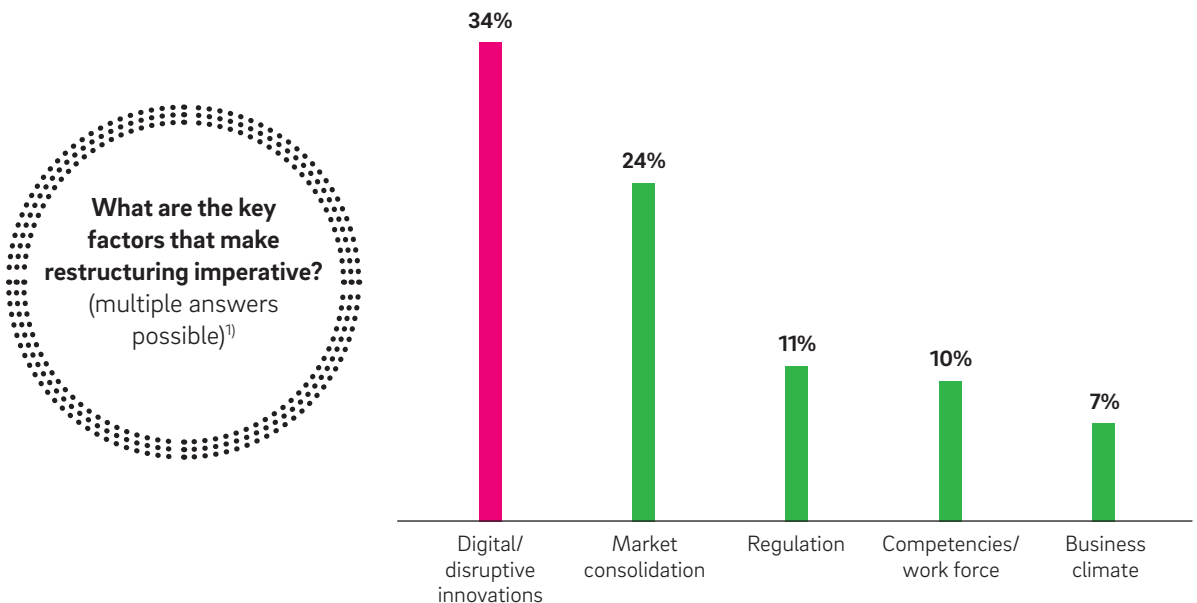
32%
new business models

1) BDI: Federation of German Industries
2) Survey of 300 German industrial managers, November 2014. Source: Roland Berger

B

... WHICH MAKES THIS THE PRINCIPAL CAUSE OF CORPORATE CRISES

Digitization is underestimated. No other reason is cited more frequently as the reason for restructuring exercises. At the same time, digitization is surging ahead.

What are the key factors that make restructuring imperative? (multiple answers possible)[1]

Digital/ disruptive innovations	Market consolidation	Regulation	Competencies/ work force	Business climate
34%	24%	11%	10%	7%

1) Findings of a survey of 1,100 German restructuring experts in 2015. "Other factors" totaled 14%. Source: Roland Berger

In search of the big picture. Ready for the digital transformation? Companies must be prepared for anything – and change the game to suit their own rules.

The sobering truth at many companies can be summarized in three points: First, digitization has long been anything but an unknown quantity to top managers and supervisory board members. Second, that is why responsible executives have started to launch concrete plans of action and project roadmaps to attune their firms with ongoing developments. Third, however, virtually all of them have so far set their sights too low.

Most companies have innumerable initiatives across the various business units and regions. Hence, when the board wants to launch new ones, it is told that they are already established throughout the organization. Many such initiatives lack analytical depth and rigor, however. Above all, there are very often too many loose ends being held (or administered) by too many players within the company. The result? Redundancy, a lack of coordination and a lack of direction.

Every little IT project is thus very quickly blown up into a "major digitization project".

Yet if the management and supervisory board don't have clear visibility on the company's digital projects, they will never get a handle on the complexity involved. Worse still, they will never develop the kind of far-sighted vision our experience shows is so important to the digital transformation. We are convinced of some very simple logic: Starting in the right place and setting the right direction are two vital success factors. **→ C**

Many companies are already asking the right questions: Are we cultivating the right knowledge? Are we finding – and capturing the imagination of – the right people? Are we mobilizing the right resources? The problem is that silo mentalities are still far too deeply entrenched for companies to piece together answers

C

DIGITIZATION FROM START TO FINISH

Terra Numerata: Roland Berger's end-to-end digitization strategy

DIGITAL CULTURE & ECOSYSTEMS

Train digital ambassadors

Accelerate transformation within the organization

DIGITAL AWARENESS

Create awareness of digital challenges

Anchor this awareness in management and graft it into corporate DNA

DIGITAL ORGANIZATION & PROCESSES

Redefine organizational structures

Define and test digital processes

DIGITAL VISION

Define a digital strategy (roadmap and goals)

Align tools and resources

Establish an ecosystem of relevant partners

DIGITAL TEST FIELDS

Drive initiatives forward

Initiate innovative projects

Invest in promising start-ups

DIGITAL LABORATORY & PROTOTYPING

Develop prototypes

Align IT

Test new applications and technologies

Set up a showroom

Source: Roland Berger
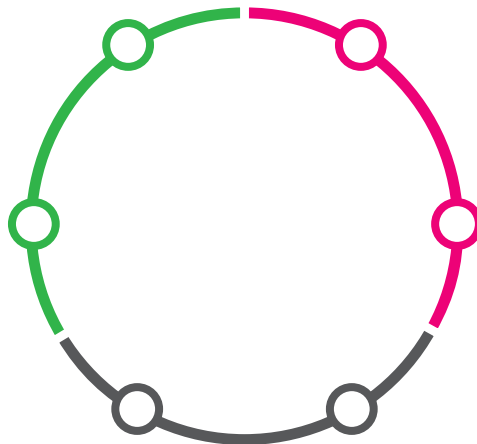
that form a coherent overall picture. Product categories, processes and even companies' view of customers are equally rigid and inflexible: At many firms, new topics are only ever tackled from the inside out. But if digital transformation is what you want, that is not enough. Organizations that still think in terms of status and prestige have, at best, a single plan A for their future. Precious few of them are open to a convincing digital roadmap: a viable plan D.

Do you know the rules of the digital game? Do you have a clear idea of the direction in which you want to move? The decisive factor for companies is being ambitious enough to change the game to suit their own rules – to make the digital transformation a resounding success, in other words.

WHAT ARE YOUR GOALS?

How, then, do you break free of received thought patterns and the shackles of micro-planning? What path leads out of the jungle of incremental long-term planning, away from the analysis of myriad individual factors and toward a holistic take on bundled trends? Lastly, how do you broaden your horizons to look beyond individual competitors and see innovative products and services that show the way forward? The notion that the best seats in the house are already taken is the first obstacle: Google dominates data, the Europeans make the best cars, and so on. No! The only thing we can say with any degree of certainty is that someone somewhere in the world of connected mobility will end up earning money with data. Yet that could just as well be companies from other industries – or completely new firms that do not even exist yet.

So where do you want to take your organization? Where do you want to be in the long run? Who are your customers? What will drive your growth and make you profitable? These are the kinds of questions that usher in the transformation process proper. Why? Because you need a clear picture of what lies ahead of your company if you want to take bold entrepreneurial actions. And your actions need to be radically digital.

"At many firms, new topics are only ever tackled from the inside out. But if digital transformation is what you want, that is not enough."

Philipp Leutiger,
Roland Berger

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"You need a clear picture of what lies ahead of your company if you want to take bold entrepreneurial actions. And your actions need to be radically digital."

Dr. Christian Fischer,
Roland Berger

<u>Radically digital.</u> Forget your competitors. Think about your customers.

In the context of digital transformation, it makes little sense to base future scenarios on the assumption that today's environmental variables will continue to develop more or less in a straight line. It is far more useful to combine radical concepts with plausibility checks. The industrial world past and present is made up of components, parts, plants and machinery, of production lines, robots and laser tools that, in varying constellations, have populated the market with countless different specialists and business models. In the same way, digitization is now spawning comparable diversity: Global platforms such as Facebook, sector specialists such as Tripadvisor, system suppliers such as IBM and data providers such as Google are only a few of the better-known examples. Digitization leads to the recombination of business models, so it is important to grasp one central point: In a world of such dazzling diversity, you cannot be equally good at everything, nor do you have to be.

Many managers in industry nevertheless set their sights too low, effectively putting digitization on a par with components such as the embedded software in machine controllers. They come up with technical-sounding arguments, but have little idea of the many lines of business that could be opening up. Digital reality is often perceived only from a given angle: through the filter of traditional business models and the competitive environment as we know it today.

In practice, we have repeatedly proven the value of developing a brand-new entrepreneurial scenario that peers much further into the digital future. What we are talking about is quantifying a far-sighted vision that highlights the dimensions of change and gives management a handle on them.

The digitization scenario says nothing about what businesses will crumble in the digital future. Unlike in conventional scenario planning, it is not one of several possible scenarios whose probabilities must be carefully weighed in order to identify a series of "if-then" response patterns. Our radical scenario instead paints a constructive, optimistic picture of precisely those areas in which profitable new businesses can be tapped.

The key to reaching this goal lies in mapping out your ideal future scenario exclusively from the perspective of the customer. Such scenarios expose any blind spots by ignoring the limitations imposed by corporate, sectoral and/or market boundaries, by refusing to keep to rules of the game that are supposedly cast in stone, and by looking very far ahead without any regard to competitors. Why the latter point? Partly because no one can make reliable predictions today about who will still be in the game in the distant future, and because new players will in any case join the game and trample today's rules under foot. But partly also because you can only truly unshackle your thinking and ideas if your vision of the digital future is not weighed down by too much historical baggage from the word go.

Painting by numbers.
Quantifying the digital scenario shows what, specifically, is needed to achieve success.

Drawing up the digitization scenario is not merely an intellectual exercise. Putting numbers on the most important market, customer and product KPIs gives you a very clear understanding of market developments and their consequences. To identify robust steps that management can take, companies must gain visibility of key market phases that lie ahead. → **D**

These development phases form the link between current forecasts and the long-term scenario. They extend all the way from the evolutionary development of the "old game" – legacy businesses with digital interfaces and nascent transparency – through disruptions to specific markets as new players join the fray, and on to the digital maturity that translates into highly specialized business models. A new market structure also grows and takes shape around new market players.

The aim has to be to understand and anticipate the future dynamics of the market and then to shape the critical phases and plan the associated milestones. Only then can carefully coordinated steps be taken toward digitization. And only then can suitably equipped companies begin their upward climb.

One aspect of the radical scenario should factor in a sharp collapse in the market accompanied by pronounced market changes as the company targets new customers with new products and services. Modeling digital trends and market developments in this way allows you to paint a detailed picture of disruption, and then its significance for the development of structures and stakeholders can then be assessed. Next, quantitative evaluation of the scenario should be completed in consensus with all stakeholders to underwrite the success of the venture.
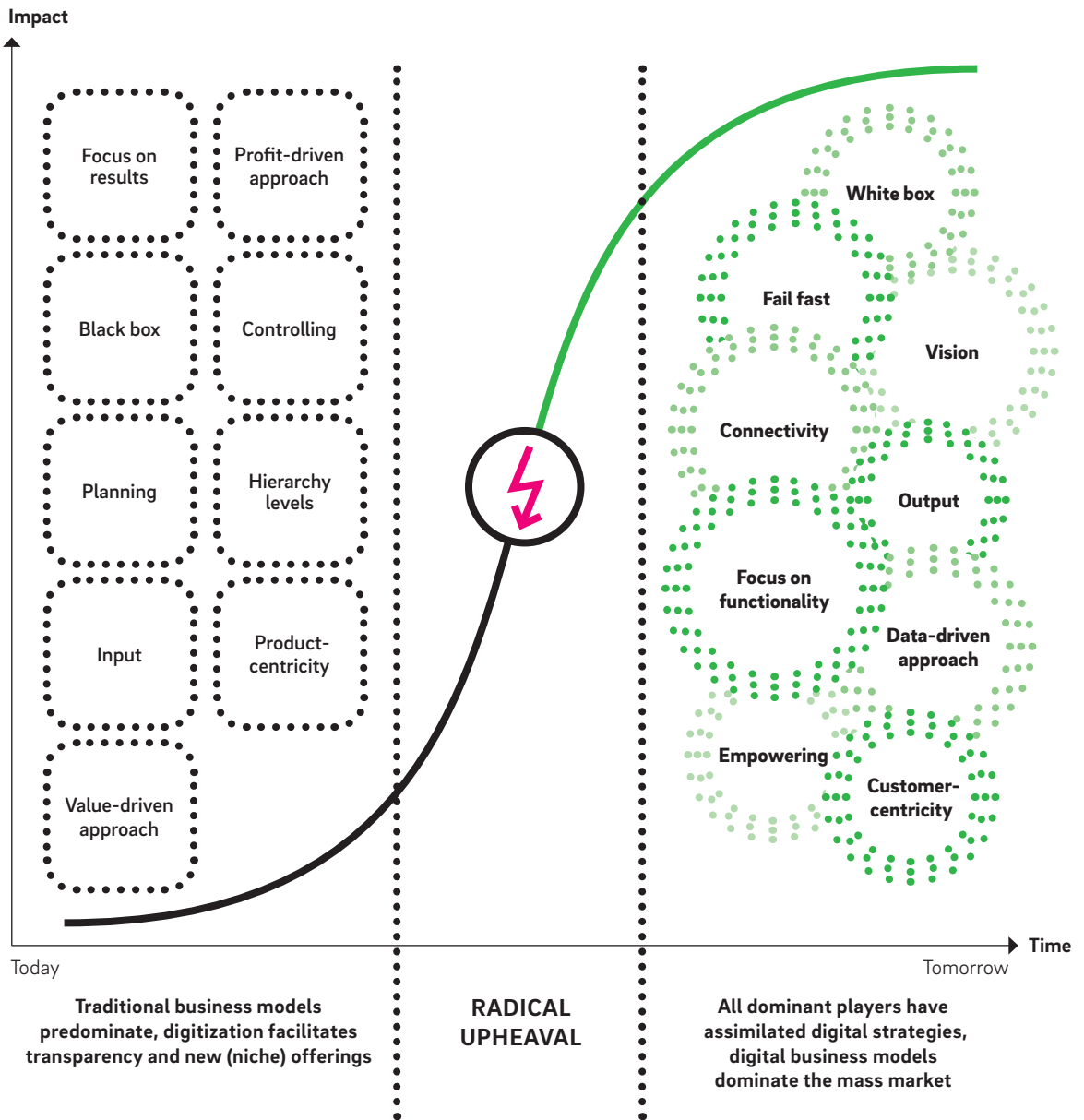
The objective is to identify the best solution(s) for customer positioning, irrespective of the existing organization. One issue is the businesses themselves (which products for which customers?), while another concerns the strategic decisions that must be made if business volume is to be ramped up.

In the digital transformation, we believe companies' top priority must be given to quickly organizing themselves in a way that leaves them free to shape their own future. Time to begin the assault on the summit...

D

AGENDA FOR THE DIGITAL FUTURE

To identify robust steps for management to take, companies need a vision for key market phases that go far beyond the 2020 horizon.

Impact

Focus on results

Profit-driven approach

Black box

Controlling

Planning

Hierarchy levels

Input

Product-centricity

Value-driven approach

RADICAL UPHEAVAL

White box

Fail fast

Vision

Connectivity

Output

Focus on functionality

Data-driven approach

Empowering

Customer-centricity

Today

Tomorrow

Time

Traditional business models predominate, digitization facilitates transparency and new (niche) offerings

RADICAL UPHEAVAL

All dominant players have assimilated digital strategies, digital business models dominate the mass market

Source: Roland Berger

<u>Setting out from base camp</u>. Digital transformation is like conquering a summit for the first time – taking giant strides onward and upward.

The planned transformation – whose aim is to turn an existing company into a leading digital player – is a challenging, demanding journey.

That is why ambitious mountain climbers present such an apt metaphor to describe how the challenge of digitization is to be mastered. So far, we have only reached base camp. Our digitization scenario has given us a clear picture of the peak we are targeting, even if we occasionally lose sight of it from below. Companies that begin the climb must transcend inherited time frames and doubtless break a few taboos if they are to surpass their own limits. Digital trends will affect the route taken, as will trends emerging in a specific industry.

To take an example, the trend toward autonomous driving could create the following changed conditions in the auto industry: a decline in the number of vehicles, B2B vehicle ownership as the predominant form, fleet operators emerging as key players, intermediaries delivering transparency on prices and offerings, digital transaction control, and the need for the entire value chain to be aligned with new customers.

During the ascent, companies will reach milestones where they can safely take a short breather. Not all routes will head straight to the top, however, and there will be both dead-ends and viable alternatives along the way. → **E**

A few core principles provide valuable guidance to staff along the way. Agreement on the next milestone to be reached will move the company ahead faster than if all stakeholders have to be committed to the ultimate summit – and hence to the whole climb – right from the outset. A compelling narrative must be introduced accordingly, and the company must invest in nurturing awareness and fostering culture change. After all, even the best and most intellectually sophisticated digital transformation will only work if everyone understands it and buys into it. C-suite executives all too often overlook this vital point. Yet if the digital teams can show off successes that are guaranteed to receive recognition from within, it will be so much easier to nail down concrete steps for the next planning horizon. The question is therefore: What must happen to improve your competitive position with a view to both the current market situation and the future target scenario?

Successful digitization is the fruit of radical corporate resolve. Attitudes – and good leadership – are of

E

AIMING FOR THE SUMMIT

The digital transformation of a company should be seen as conquering a summit for the first time.

It takes a clear, ambitious vision, many seemingly vain attempts and an unswerving determination to overcome obstacles and barriers. The journey and its impact are of a magnitude you will never have known before.

GOAL:
To become a leading digital player

Alternative route

Milestone 4

Milestone 3

Milestone 2

Milestone 1

Main route

Alternative route

Detours, setbacks, dead-ends

BASE CAMP

STARTING POINT:
WHERE YOU ARE TODAY

Source: Roland Berger

crucial importance. Never look at the number of digital initiatives, but rather assess their strategic consistency and how they combine. Never complacently tick off checklists, but rather constantly review and reinvigorate your own efforts. Never see yourself as the market leader, but as a challenger who must fight for its position – even in your own market. Set off resolutely and at a brisk pace. Abandon what turn out to be blind alleys with equal speed and resolve. You can learn lessons from every mistake and gain strength for a new assault on the summit. What appear to be detours can sometimes get you to the top more quickly than an apparently direct ascent.

BETTER TO FAIL EARLY THAN WAIT TOO LONG

That is especially true of the "rapid prototyping" phase – the phase in which new products or services are introduced. Radical resolve and considerable speed help companies successfully master the digital transformation. It is better to fail on the early foothills than spend too long waiting around and looking up. Iterative, collaborative development methods can be very useful on

this score: They do not simply churn out any number of prototypes for new digital products and business propositions. Instead, they help you craft products, try them out, discard them and try again. Some suitable models will stay the course.

As you work on development, it will become clear in what form of organization your prototypes can be groomed for success. **→ F** One option is for existing products and services to be refreshed by digital components, just as autonomous cars benefit from advances in IT development. In such cases, digital business will be embedded in your traditional business. Second, your new business could complement what you already have, just as digital services monitor and handle the predictive maintenance of machinery. Traditional and digital offerings thus exist in parallel. The third option is where digital business replaces traditional models, just as e commerce platforms have become the channel of choice via which to purchase spare parts for cars.
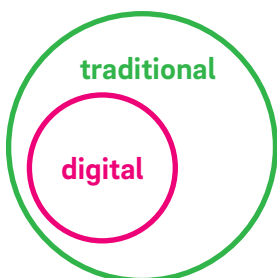
Essentially, digitization does far more than merely add extra business: It also has a profound impact on the world as we know it.

F

DIGITAL FUTURE
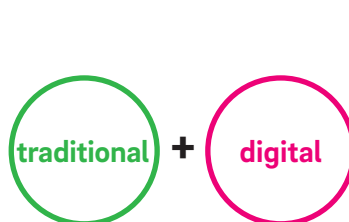How new business lines, customers and markets slot into your organization

SUPPORT

Digital components are integrated in existing products/services

EXAMPLE:
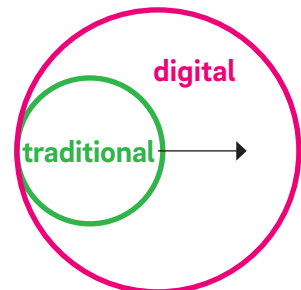Development of IT packages for autonomous driving

SUPPLEMENT

Digital offerings complement existing products/services

EXAMPLE:
Remote monitoring and predictive maintenance

SUBSTITUTE

Digital processes replace existing products/services

EXAMPLE:
Development of an e-commerce platform on which to order spare parts for cars

Source: Roland Berger

G

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THE VIEW FROM THE DIGITAL SUMMIT

We help companies bring their digital thinking
and actions into line.

FIVE PIVOTAL PRINCIPLES

1 **Digitization is more than just technological change. It is technological change that transforms business models.** Businesses must make concrete decisions at the right time to safeguard their future.

2 **Precisely for this reason, top management is responsible for the success of digitization.** It is vital to be keen to learn about new developments, have a vision for the consequences they will lead to – and live out the passion that can transform a company.

3 **The most important consequence could involve not just digitizing your existing business,** but radically rethinking both the entire portfolio of products and services and the priorities set for individual corporate functions.

4 **Innovative, disruptive topics that go beyond your company's existing reach can best be mastered by radical approaches outside your core organization.**

5 **The challenge of digitization is not about gaining a mastery of digital technologies.** Instead, top management must create the conditions and culture needed to enable the transformation to a digitally mature organization.

ABOUT US

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

FURTHER READING

MASTERING THE TRANSFORMATION JOURNEY
A comprehensive guide to reinventing companies

Today's competitive business environment is faster paced and more aggressive than ever before. The maxim "never change a winning team" no longer applies, because inertia can cause an organization to lose touch with the market. To combat this strategic drift before it is too late, Roland Berger has created a five-tiered approach, which it describes in this publication entitled "Mastering the Transformation Journey. A comprehensive guide to reinventing companies". Transformation must make companies more agile.

CAN EUROPEAN START-UPS CRACK THE CODE?
How to realize the old continent's digital vision

Digitization is raising the public visibility of Europe's start-ups. Worth 110 billion dollars in total, these companies are stepping up as the new icons of the business world. The experts at Roland Berger thus decided to put the continent's start-up ecosystem under the microscope. In a study entitled "Can European start-ups crack the code? How to realize the old continent's digital vision", they analyze the development of and opportunities facing start-ups in Europe – exposing a number of myths in the process.

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PROF. BJÖRN BLOCHING
Senior Partner
Global Head of Roland Berger Digital
+49 160 744-4446
bjoern.bloching@rolandberger.com

PHILIPP LEUTIGER
Partner
Digital
+49 89 9230-8904
philipp.leutiger@rolandberger.com

Editor:
THOMAS REINHOLD
thomas.reinhold@rolandberger.com

DR. CHRISTIAN FISCHER
Senior Partner
Corporate Performance & Transformation
+49 711 3275-7301
christian.fischer@rolandberger.com

JÖRG SEUFERT
Partner
Corporate Performance & Transformation
+49 89 9230-8666
joerg.seufert@rolandberger.com