

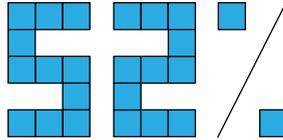
There's ~~Nothing~~ Something Wrong With Digital Incrementalism

By Christina Dupre, Vibhesh Patel, and Dan Sterling

Four best practices to keep in mind when embarking on a digital transformation.

Digital Transformation. eTransformation. Transform digitally. It doesn't matter what you call it, the concept of digital transformation — the adoption of digital technology to transform services or businesses — is perhaps the most over-used and least understood piece of business jargon in the last decade. Quickly scan company postings on LinkedIn or listen to an earnings call, and you'd think that half the planet is engaged in some form of "digital transformation."

But what does that mean? What exactly are they transforming? It's unclear. Dig a little deeper and it quickly becomes apparent what they're *not* transforming: their business model. And if a company is not transforming its core business model, it isn't truly being transformative. Since 2000, 52 percent of Fortune 500 companies have either gone bankrupt, been acquired, or ceased to exist. While we can't be so bold (and, quite frankly, misguided) as to assert that digital disruption is the only reason for their fall into obsolescence, it likely played a large part.



Since 2000, 52 percent of Fortune 500 companies have either gone bankrupt, been acquired, or ceased to exist.

What many companies are doing under the guise of digital transformation is actually *digital incrementalism*, or taking their current business model and making it incrementally better through new technologies. They are digitizing specific processes or implementing one-off digital products. Incrementalism is fine and can help improve your bottom line, but it is not digital transformation. Digital transformation is a vital disruption. Digital incrementalism is its enemy. And no CXO should feel content that they're doing enough with incremental progress — because they aren't.

It is difficult to build the momentum needed for the creation of new value when you only take small steps and don't go any further. True digital transformation requires changing how you operate and deliver value to your customers. It should be leveraged to spark innovation and growth, not simply to take your current-state business model and digitize it.

So how do you steer clear of falling into the “incremental trap” and thinking you are doing enough when you aren't? How do you know when you are working on your core business model and embarking on true transformation, rather than taking baby steps? We've outlined four best practices to keep in mind when embarking on digital transformation.

1. Digitize incrementally with the understanding that it can drive value creation, but recognize that it's not enough to future-proof your business.

It is imperative to address this point first because there is value in making incremental changes to improve your business. We would be doing a disservice to state otherwise. It becomes the enemy only when you are lulled into thinking that incremental changes are *all* you need to do to remain competitive.

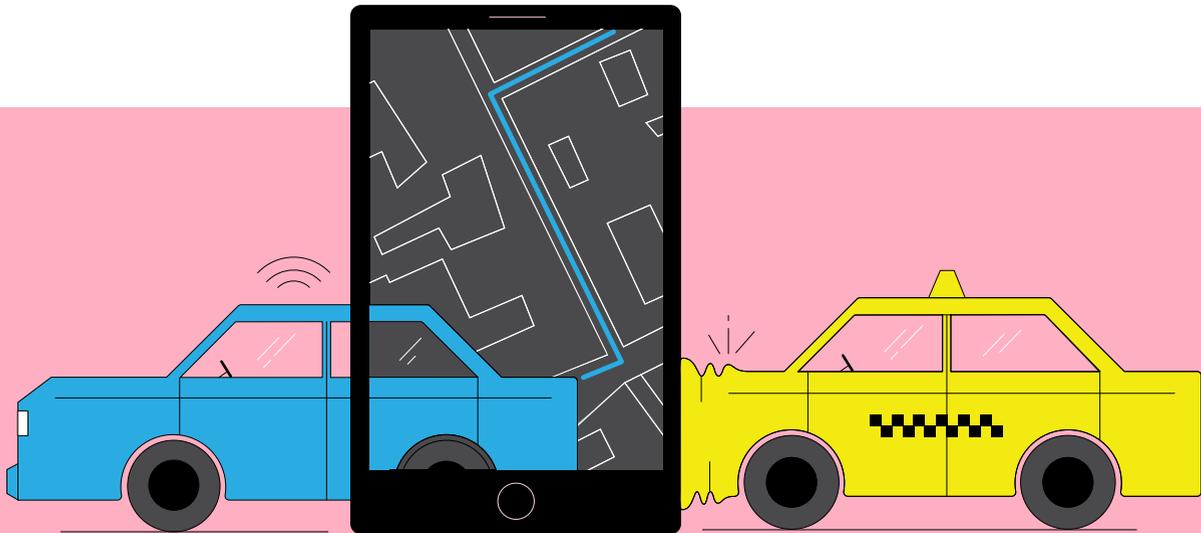
There can be positive impacts incurred, and efficiencies gained, from incremental improvements — particularly if you are transforming a business function like a call center, contract management, or invoicing. In many cases, incremental tweaks are needed as the foundation to make large-scale, innovative changes. For example, incremental digitization can make a significant impact when an existing, but inefficient and outdated, legacy process is streamlined using technology and robust data. Fixing broken processes can be one of the simplest ways to impact the bottom line and improve outcomes.

Here are some examples of valuable technologies that are useful incremental digitizations when implemented in specific functions or departments, but may not future proof your business: *Conversational AI* | *Intelligent Document Processing* | *Internet of Things* | *Customer Self Service* | *Robotic Process Automation*

2. Digital transformation impacts various stakeholders, the customer journey, and the value proposition of a company. It is not solely an implementation of technology.

Look at the titans of Silicon Valley and you see companies that invested in true digital transformation, not just digital incrementalism. Reexamine the mission and vision of your company. At its heart, what does your company provide to its customers? If your company is large enough, each division may have a core business model and you may need to think this through multiple times. Most of us intuitively know the answer to this question. Don't overthink it. But try to view it from your customer's perspective and broaden the value statement.

For example, if you are an airline, think of your customers as business travelers and leisure travelers. For business travelers, you aren't just flying them from their home office to a customer, and back again. You are enabling much more; travel is hard, and you make it easier by providing a more restful experience, lower stress, etc. For leisure travelers, conduct the same exercise. Traveling with children can be tough. Perhaps you want to use digital disruption to differentiate the way you enable leisure travel.



Digital Transformation Hails a Ride

The ride-sharing industry was massively changed in 2010 when Uber drove on the scene. Uber provided true digital transformation by providing their users with easy, on-demand booking for rides using the emerging technology of smartphones. The customer's effort was drastically reduced by their ability not only to call a ride to their location at the touch of a button, whenever they needed, but also by being able to track and know precisely when their ride would arrive. Uber transformed the industry by utilizing smartphone technology while affecting the customer journey.

Meanwhile, taxis focused on digital incrementalism by investing in technology that did not affect the customer journey materially. During the mid-2000s, New York City added credit card readers and in-cab televisions.¹ This added to the experience of how customers paid for their taxis but didn't truly change the journey. Being successful in this new digital era requires reinventing your business, your capabilities, and your organization. Making a series of small changes will leave you in the dust.

3.

When focused holistically on the customer experience, digital transformation includes more than the product. It's also the service, the data, the pre-purchase experience, and the post-purchase experience.

Why is the previous exercise so important? Because for many companies, digital disruption may not alter the traditional product that much. Instead, digital transformation is used as an enabler to provide a better customer experience. The ability to understand digital touchpoints is critical because each year they play a larger role in how

customers perceive brands, and their loyalty to those brands. A recent study by Qualtrics found that over 65 percent of customers said that their experience on the website or app would be an important factor in their willingness to recommend a brand.² To be able to provide this differentiated experience, you must understand the customer journey and their expectations. To learn more about how to enable a successful digital experience, read *Using Digital as a Brand Differentiator* on page 68.

Let's return to our airline example and discuss a scenario where the weather is causing a flight delay. Perhaps digital innovation can't enable the plane to fly through a blizzard,

but what if the airline knew which passengers on the plane were traveling for business and which were going on vacation? Concurrently, what if the airline knew how busy its lounge or the airport's indoor play area was? Perhaps the airlines could text the business travelers and offer them a spot in the lounge, or make a reservation at one of their favorite restaurants based on their customer profile? For leisure travelers, the airline could text directions to the playground and suggest kid-friendly restaurants or other amenities.

Most companies need to look at their core products and conduct two exercises: 1) Figure out what components of value can be digitized

and what it would mean for customers; and 2) determine whether the company's customer interactions lead to data that can be monetized. Let's examine each in more detail.

Digitizing components of value

As you consider a customer's end-to-end engagement with your company, how can you use enabling technologies to provide wonder and delight? From the moment a customer identifies a need until long after that need is satisfied, how can your company be the preferred brand?

There are companies out there that are anticipating needs and making offers almost before a customer realizes that need exists. They are recognizing patterns in their customer data, social media, and other data sources and testing what those patterns mean. If you own a hotel and a customer requests extra towels, what happens next time they make a reservation? Do you blindly provide a box on your website for special requests or, upon login, do you tell them you are already making arrangements for extra towels?

If a customer is a frequent guest of your hotel on business, but their current points don't add up to a free leisure stay, do you forecast their hotel usage and build that into your pricing engine? For example, "Ms. Smith, I see you are traveling to Hilton Head Island on vacation. Although your status and points aren't quite enough based upon historical stays, we'd like to compensate 80 percent of the trip to thank you for your loyalty." What do you think the cost and benefits of such an offer might be? Can you even calculate it? Your competitor can or will. What can be a competitive advantage for a short time might be a competitive imperative down the line, when your competitors have learned to more effectively mine their data.

In our airline example, while customers' primary reason for purchasing a flight is to get from point

A to B, using data about the customers to enhance the customer experience during a delay differentiates the airline and potentially leads to increased customer loyalty. Even better if the airline can receive a fee (incremental revenue) for steering its passengers to local restaurants and businesses.

Monetizing data

Don't think of this as just selling your customers' data. Customers rarely like that. Instead, ask yourself what other information you can learn from studying the data you already own. Bring in outside partners in other industries that are interested in the data you have, but keep control of how the data is used and how customers are contacted. Start small, experiment, and see where those experiments go. Eventually, you should be able to create new businesses once you figure out how your data unlocks other needs, and how you can fulfill them.

4.

Digital transformation needs a champion to align investment with future-proofing.

Many companies have multiple ongoing technology initiatives at any given time. Someone within the company needs to have a broad understanding of which initiatives are ongoing, what their purpose is, and what value the company intends to derive from each. This could be any number of different titles within the organization, but it is imperative that the Chief Transformation Officer, Chief Data Officer, Chief Information Officer, Chief Financial Officer, and head of strategy be aligned on what initiatives are incremental and which are transformative, as well as ensure that the transformational path stays in focus. It may take someone within the organization a few weeks, or even

months, to get a handle on everything going on and classify the projects as incremental or transformative. But it is the critical first step in aligning investment with future-proofing the organization. Another good first step is highlighted in the article Jump-Start Your Self Disruption on page 58.

Recent trends and disruptions have highlighted how quickly the world is digitizing. From COVID-19 to the "Great Resignation," uncertainty and disruption are on the rise and show no signs of abating. If anything, technology disruption continues to accelerate and touch more businesses than ever. When you embark on a digital transformation, you must rethink your value to customers from the ground up — how would you build your company today, using what is available now, unconstrained? Because if you don't build it, what if someone else does? Digital incrementalism is NOT going to protect the business from disruption. This is not a question of "OR," this is a question of "AND." As in, "Great, you are incrementally improving your business processes, but what is your core business and how will it be impacted by the coming together of multiple, disruptive technologies, concurrently?" 📌

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