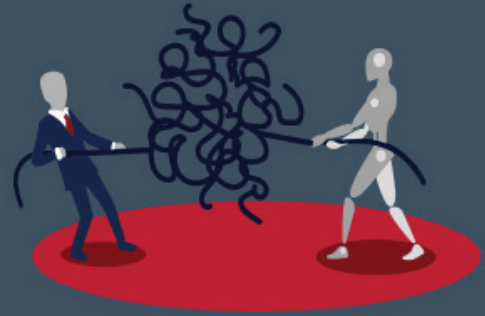


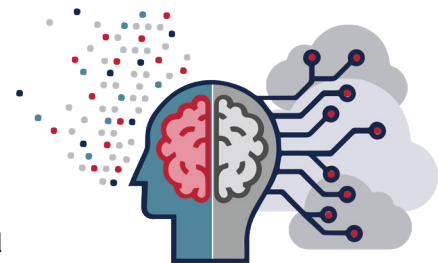
Evolve Your Digital DNA Through NextGen Operating Models



Global spend on digital transformation initiatives is set to hit \$1.7 trillion by the end of 2019. Despite significant investment, execution is still proving a major challenge and leading market intelligence firms are predicting that over 70% of digital transformation initiatives will fail or struggle to achieve their planned ROI. While there are multiple factors contributing to these failures, a primary issue is the lack of focus companies are giving to honing internal operations to better support their desired customer journey. Most companies implement customer facing technology but fall short of optimizing core operations around these new gadgets.

Rethinking Legacy Operations

We have found most digital transformation efforts are largely focused on improving the customer experience through implementing what Clarendon Partners calls "edge technologies". Edge technologies are used directly by the end customer. Adding these new edge components is typically easier to accomplish than changing existing legacy operations



as they are often net new solutions. We believe digital transformation efforts generally do not achieve their goals because companies fail to address how legacy operational models need to be changed to support their customer journey. Companies neglect to rethink their existing operating model for the following reasons:

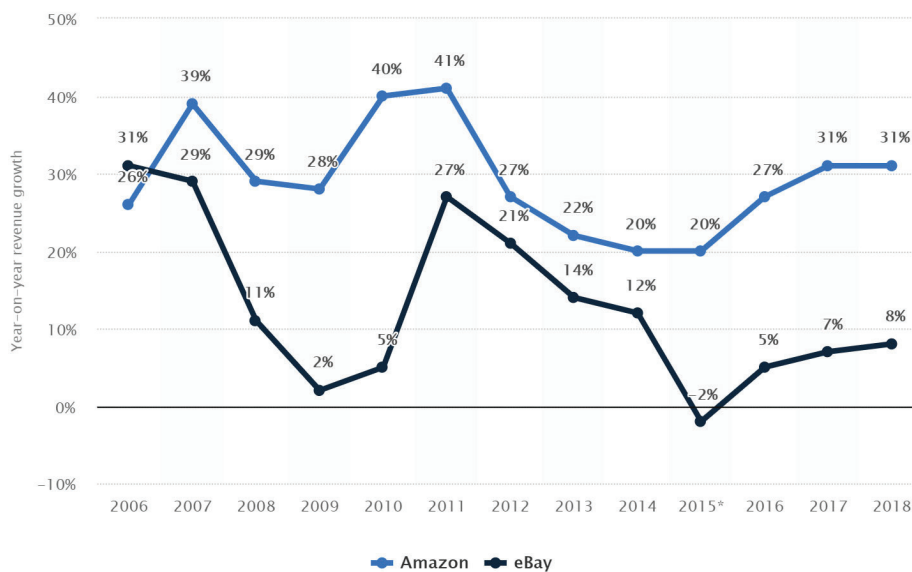
- **Complexity** – untangling the myriad of processes and systems to establish new operating capabilities is very difficult.
- **Focus** – companies have a hard time determining where to prioritize investments internally to deliver the biggest results to the desired customer journey.
- **Sustainability** – legacy changes must be synchronized over a longer time horizon than the delivery timeline for new edge technologies. These transformation efforts do not happen overnight, and many companies get transformation fatigue resulting in the company falling short of their intended target.
- **Internal Resistance** – Successful transformation is extremely difficult, because the operations that support the customer journey often cut across organizational silos which often focus on their individual objectives. Driving an open-minded culture is a key aspect of any transformation. Without this companies will focus on the net new edge components and not address internal operations.

Therefore, implementing these edge technologies is not enough. CEOs, CFOs, HROs and CTOs are now realizing that optimum organizational value can only be fully realized by integrating customer facing processes and technology with their internal operations. Any effort to transform the customer facing processes won't achieve an organizations' goals unless there are deep hooks into the services that support the creation and innovative delivery of products or services. These operational support functions are the "heart" of the ecosystem and without their change, the advancements in the customer experience will not be fully realized. McKinsey & Company has observed that "to build value and provide compelling and effective customer experiences at a lower cost, organizations need to commit to a next generation operating model." This operating model is a new way of running the organization that combines digital technologies and operational capabilities in an integrated, well-sequenced way to achieve step-change value in revenue, customer experience, and cost". A corporation's digital transformation journey must address the "how" an innovative customer experience will be developed and delivered in an efficient and effective manner.

An example of a company that successfully transformed their operating model and adopted a new strategic direction leveraging digital technology is Amazon. Their transformation from a desire to be the largest online bookstore in the world to then become the online marketplace they are today, involved changing all aspects of their operating model. What would have happened if Amazon only focused on developing their marketplace portal to sell books? It would be unlikely that the company would

have outstripped eBay as the preeminent online marketplace. Amazon has accomplished significantly higher year-over-year revenue growth since 2007 by focusing on delivering transformative solutions to not only the customer interface point, but also to the underlying business operations to support their long term strategic vision. Transforming key support functions like inventory management, warehouse operations, product delivery, third party management and many others has enabled Amazon to achieve this phenomenal growth.

Revenue Growth of Amazon.com and eBay Inc. from 2006 to 2018



Source: <http://statistica.com>

Achieving the Next Generation Operating Model

Business leaders must overcome the challenges above to develop an operating model that best suits their customer journey. The following are four key success factors for digital transformation.

- **Right Team** – because these efforts are complex in nature, be sure the right team is in place. That team should have experience driving large-scale change across all aspects of an operating model (people, process and technology). This is not a technology driven activity but rather a business-driven program supported by technology.
- **Right Focus** – companies need to have a clear strategic vision and understand what levers they plan to prioritize to deliver a competitive advantage. This clear vision enables companies to understand what

operating model components will produce the greatest strategic impact.

- **Right Horizon** – operating models are expansive and cannot be changed all at once. Organizations need a prioritization scheme that aligns project investment and delivery horizon based upon alignment to strategy and highest value contribution to the organization. This alignment is not a one-time activity. As business strategies change, the organization must be able to sense those changes and drive constant alignment of its operating model and business strategy. This strategic alignment must be continuously refreshed over the transformation journey to execute programs that will deliver the maximum value of digital transformation efforts. These prioritization efforts will result in a roadmap of transformation initiatives taking into consideration whether there is capacity, capabilities and tools to drive the change required.
- **Right Culture** – much has been written about the tendency for organizations to resist change. A great quote by Jim Rohn is “If you are not willing to risk the unusual, you will have to settle for the ordinary.” If the organization cannot imagine new ways of executing operating model activities, it too will settle for the ordinary. Companies achieve extraordinary cultures in different ways that align to their strategic vision. Zappos for example constantly innovates on their customer service because everyone in the company is empowered to find new ways to delight each customer.

The Path Forward

To maximize the ROI of your digital transformation efforts your organization will need to evolve its digital DNA through fundamental changes to your operating model. The operating model consists of the people, processes and technology that make each company unique. The challenge companies face undertaking the digital transformation journey is that there is no one-size-fits-all approach, each journey and the related priorities will be unique to each company just like the DNA of each of us is unique.



Changing the operating model of an entire business or a single function is a major undertaking, but often a valuable and necessary part of a strategic response to a changing external environment, or as a means of transforming an organization's capabilities and cost structure. By adopting a systematic and holistic approach, companies can design and execute new operating models and deliver greater value to the organization.

“The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday’s logic.”

–Peter Drucker

Are you interested in evolving your organization?

Clarendon Partners can help your organization digitally transform by:

- **Enhancing Your Team** – our team has delivered on complex global transformations across a broad array of industries. We can immediately improve your team's digital DNA in a scalable way that best suits your situation.
- **Strategic Focus** – our team has proven tools and experience that can help you translate your customer journey requirements into operating model priorities.
- **Roadmap Development** – our team has experience in delivering transformation programs that span several years. We have the experience needed to help you build or validate your transformation planning horizon.
- **External Point of View** – many companies find it refreshing to have an external point of view that can help them to break their old way of thinking and achieve truly transformative results.

Contact us

The authors of this article want to hear about the challenges you're facing and welcome the opportunity to support your digital transformation initiatives to evolve your organization.

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