Designing the organization for digital

Why you may be asking the wrong questions

Digital is everywhere, it seems, threatening traditional ways of operating and presenting new business opportunities for those able to seize them. With so much at stake, companies are feeling the pressure to determine how digital fits into their business model and the right way to organize to leverage the possibilities. All too often, however, discussions about digital devolve into overly simplistic debates about whether to hire a chief digital officer, recruit a digitally savvy director or create a separate digital team. In our view, many executives are debating the wrong questions, and we see three main reasons for this:

- When people from different parts of the business talk about "digital," they are referring to a disparate set of forces — the growth of e-commerce, the influence of social media, the promise of big data, the proliferation of mobile devices, the new reality of cyber security, the potential of cloud computing and storage — each of which has different implications for the business. Lack of a shared vocabulary among the key players in an organization is often an obstacle to finding solutions and defining a strategy: If half of the senior team thinks of digital as social media, and the other half thinks of digital as mobile or big data, it will be difficult to find agreement on priorities and plans.

  Organizations often are discussing digital without identifying which specific digital technologies or platforms are affecting their businesses and industries — and how. For some, the impact of digital may be focused narrowly, for example, on digital marketing. For others, the digital forces impacting the company may represent a significant business model disruption. Meanwhile, for other businesses, digital may represent a tremendous opportunity to gain efficiencies and cost savings from the automation of formerly manual processes. Most companies will face opportunities and threats from multiple digital platforms and in a variety of ways.

When implementing digital plans, companies often overlook the importance of a broad range of other issues that impact the success of digital initiatives, such as the organization's current degree of technology sophistication, cultural dynamics, the speed and transparency of decision-making and the availability of talent.

The consequence of a simplistic approach to "solving digital" is that the organizational and talent decisions made in the absence of a clear, guiding framework will influence the direction of a digital strategy, which may not align with the real threats or opportunities facing the business. Companies that will be successful in an increasingly digital world will invest time upfront and in a regular, frequent cycle to define what digital means for them in their market and for their assets. From this analysis, a clear digital strategy and strategic priorities can be developed, which may potentially spark the need for new advisers, partners, board members, executives and organizational approaches.

Defining a digital agenda

The strategic, leadership, cultural and organizational decisions a business must make related to digital require a sound understanding of the digital forces that are buffeting the business and the specific effects they are having. These could include price and performance transparency, changing customer expectations, new competitive threats from market-disrupting or emerging global competitors, channel expansion or the threat of disintermediation. To avoid missing important opportunities, business leaders should evaluate the impact of digital from the following lenses:

- **Business:** The threats and opportunities at the core, such as changing demand for existing products or services and the opportunity to innovate new products and services

- **Channel:** The potential impact on marketing, sales and service channels, such as the opportunity to use data to deepen customer relationships or the threat of increased price transparency

- **Organization:** The implications for the speed of decision-making, risk assessment, automation, security and collaboration, for example, using analytic tools to drive process improvements or to automate certain operational decisions

- **Ecosystem:** The potential to integrate customers and partners into the organization, for example, engaging customers through social media to share ideas for new products or product enhancements

We frequently see organizations focus the digital conversation mostly on channel questions, when the real opportunity may be bringing products to market faster or introducing a new operating model enabled by digital technologies. Does the growth of mobile devices, for example, represent a new tool for customer acquisition or more efficient customer service or a threat to the very way the company does business? In many cases, a specific digital technology or platform is likely to impact the business in multiple ways.

Data and analytics, for example, will have broad implications for most businesses. Certainly, the use of analytic tools is transforming the practice of marketing and customer acquisition, as digital platforms allow businesses to know much more about their customers and move marketers closer to a time when they can provide personalized offers and experiences in real time. As one media executive explained, "One of the things we will be doing differently than in the past is to engage with the people formerly known as 'the audience.' This means we will be much more cognizant of who you are and what your relationship is with us throughout the day and the week and as you move from one digital device to another. We know who you are. We will know what your usage patterns are and then we will start to tailor our services around you and bring you the best of what we have available across TV, radio and online. That means we can be much more user-centric."

But data and analytics have the potential to affect every part of the business. One consumer products company executive told us that his organization will incorporate new and external sources of data, such as weather data, into supply chain and order planning systems to improve forecasting in a notoriously fragmented retail market. Cable television companies, meanwhile, are monitoring the stream of data from cable set-top boxes about customers' use — what they watch, search for and download — to inform marketing decisions and to alert them about service outages. Similarly, the so-called Internet of things — which leverages mobile connectivity, Internet-connected devices, analytics and software to enable remote monitoring, automation and control — is expected to generate business-altering applications for a wide range of activities. For example, cable and phone operators are selling services allowing customers to unlock

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doors and control temperature settings from a smart phone; and the healthcare industry is abuzz with the possibilities of new services that will allow doctors to monitor patients' vital signs or adherence to a medication plan remotely so that potential problems can be flagged before they lead to expensive trips to the hospital.

Mobile is another digital platform with the potential for broad impact. As customers increasingly connect with businesses using mobile devices, companies must reorient their sales and customer service organizations for these channels. Already, more than half of same-day hotel reservations and 30 percent of all hotel reservations on one travel site are made via mobile smart phone or tablet, compared to just 5 percent two years ago. At the same time, this has changed the ability of guests to book en route and use novel platforms such as TripAdvisor and Airbnb to influence their choices. Other mobile technologies, including mobile payments, may be even more transformative. Retailers and others are preparing for a future when more financial transactions are completed via the phone; technology systems will recognize customers as they walk in the door, allow customers to scan an item by themselves and walk out of the store with the merchandise — without ever opening a purse or wallet.

The marketing uses of social media are well-documented, but many companies are beginning to adopt social media applications for internal communications, such as private social networks like Yammer, to improve collaboration and engagement. For other companies, media businesses, in particular, the growth of YouTube and other video-sharing sites have created a new ecosystem of people who are interested in creating their own content and sharing it with their community, creating both new competitors for viewers' time and new opportunities for engaging.

By defining which of these forces are affecting the business and the ways in which they are — whether it is marketing, customer service, productivity and efficiency improvements or the very business model itself — business leaders will be able to develop a comprehensive digital strategy that supports the core strategic drivers of the business, positioning the organization to identify and prioritize new business opportunities and build the teams to respond.

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Evaluating organizational needs

A solid digital strategy is just part of the equation. Businesses must take into account a wide range of other considerations when evaluating the right organizational approach, among these: the urgency for change; the technical and digital sophistication of the organization; the current level of investment in technology and tools; the knowledge base and capabilities that are available for digital efforts; the readiness of business processes and systems to support digital; and the facets of the culture that are likely to hinder or support change or the ability to attract and retain top talent.

Ultimately, the way companies organize for digital should be viewed as a function of the strategy and the analysis of these issues. Some organizations will choose to establish separate digital units to jump-start an initiative. In order to quickly develop a capability in analytics, for example, some companies are building dedicated analytics teams in a completely separate location where the expertise can be found. Other companies will create "virtual business units" that draw in cross-functional resources and provide both structure

Designing the organization for digital: The questions you should be asking

How is digital affecting the business?

? What are the different digital forces affecting my organization?
? In what ways are they likely to affect the business and how we do what we do?
? Is my business vulnerable to new competitors or an erosion of revenues and profits from new customer behavior?
? Do my customers want to engage with the business in different ways than in the past?

Do we have the right strategy?

? Do we have the analysis we need to shape strategy?
? What's the level of urgency? What's the time frame we're working in?
? Does the degree of urgency and required transformation suggest a need for a board director with experience in certain facet of digital or in business transformation?
? Which functions are most impacted by business model shifts?
? Do existing functions and business units have a game plan for the digital impact we have identified?

Do we have the right resources?

? Are the people in key leadership roles prepared and able to develop strategy and make the necessary operational changes?
? Are we able to shift the focus of existing people, investments and agendas, or do we need new capabilities, higher levels of investment?
? Based on the nature of the changes and the urgency, to what extent can we make the necessary changes with internal resources (versus external resources, such as management consultant)? Do we have the expertise to identify the strategic and operational changes that need to be made?
? Do we know how to assess for the capabilities we need?
? Do we know how to find the talent we need?
? What leadership development and training do we need?
? If digital capability is dispersed, does it have the depth and resources to be effective? Do they work across functions and business units to share best practices and ideas?

What are our legacy challenges?

? Are our business processes and systems getting in the way of the changes we need to make?
? What facets of our culture need to be evolved?
? Are information, functional or business silos likely to be hurdles as we strive to become more digital?
? Do we have an incentive structure that promotes collaboration?
? Are our information processes and systems compatible with each other and the technologies enabling digital?
? Do we have a culture, benefits, etc. to attract and retain top talent?

and creative freedom to pursue digital opportunities. The BBC iPlayer, for example, was developed by establishing a special project team segregated from the rest of the organization, which effectively became a cross-functional virtual company within the larger organization with access to the necessary resources and the freedom to explore game-changing delivery models. A centralized digital team also may enable an organization to attract and retain more experienced leaders and ensure a coordinated and strategic approach to digital initiatives.

By contrast, when digital needs to be part of everyday business operations or when it has matured sufficiently, companies are more likely to integrate digital capabilities into existing functions and business units. To succeed in a multichannel environment where it has to deliver both print and online content, the *Financial Times*' FT.com decided fairly early on to build teams combining people with traditional print and digital skills. By establishing cross-functional teams, FT.com set out to tackle the critical cultural challenge of integrating "digital natives" with people who worked in established media businesses their entire careers, with the goal of creating a collaborative environment.

And as consumer demand for a seamless omnichannel experience has grown, many retailers that originally established separate e-commerce units with distinct leadership and resources are now reconsidering whether to integrate digital into the overall business. "When e-commerce was really small, you almost had to separate it from the rest of the business so it didn't get swallowed up and you could really focus on getting things right for e-commerce. That meant it was essentially a separate silo that eventually built its own functional groups," observed the North American e-commerce leader of a luxury retailer. "E-commerce has become so big and influential in driving the company's performance, it now makes sense, particularly for the consumer, to integrate it into a more seamless shopping experience." Such integration has encouraged the broader use of digital marketing techniques to drive customers

to the stores, experimentation with geo-targeting and SMS messaging for store events, and the creation of apps for in-store associates to place orders for online inventory in stores.

But, there are risks of integrating digital, especially if it spreads digital expertise too thinly across the organization or knowledge isn't shared across teams. One U.S.-based drug store company recently brought together the digital experts formerly housed in individual business units and consolidated them into single enterprise digital team. "Each business unit essentially had an underdeveloped digital capability. They weren't sharing best practices, and they were creating very different experiences for the consumer depending on the business unit," said the executive. By bringing the team together under a new leader, the company has been able to quickly leverage good ideas from different parts of the business.

For many companies, organizing around digital is initially less about whether or not to establish a separate digital business unit or even whether to add specific digital capabilities than about building a culture that thinks and behaves differently — one that is flexible enough to take advantage of the digital forces that matter to the business over time. As a global consumer products company executive explained, "We could spend a lot of time chasing the latest shiny object and miss something much more fundamental, and that is the need to develop a set of behaviors that makes digital part of our culture. The number-one priority around digital technology is actually being digital — moving quickly, adapting and integrating; innovating; becoming competent with the collection and analysis of data — making digital part of the culture." Organizations can begin to shift the culture by seeding teams with digital evangelists who can model and teach these attributes or by encouraging senior leaders to participate in "boot camps" that help them understand digital trends and the impact on the business. The most successful digital enterprises embed disruptive ideation into regular business planning.

Finally, it is important to recognize that this process of reviewing the digital forces that are meaningful for the business, refining the strategy and evaluating the organizational challenges is an ongoing process. Organizational approaches cannot be static, and must evolve as strategic priorities change. "Every organizational structure is temporary because we have to constantly match our organization against what we believe tomorrow's opportunity will be, and tomorrow's opportunity changes as we learn," argued one consumer products company CMO.

Too many companies assume that once they hire a chief digital officer, add a digitally savvy director to the board or set up a digital team, they are prepared to tackle digital. In fact, the desire for easy answers amid so much complexity is understandable, especially for companies that are behind the curve. As one executive told us, "These things go through phases. The first phase is, "Oh my gosh, digital is big, and the board is asking about digital, I better do a big buy on Google or sign a partnership with YouTube.' Then you realize it's a tactic looking for a strategy. You then take a step back and say, 'How is digital going to impact my business?'" We encourage businesses to resist the temptation to act first and then reflect on this question.

There is no one single right answer for how to organize for digital: The right approach will be highly specific to a business' industry, which digital platforms it is prioritizing and its digital strategy and readiness for change. Organizational structure is determined by the broader commercial strategy and business model, competition, objectives for digital investment, nature of the product or service being offered, the intended market, physical footprint of the business, dominance of other channels, and how advanced the current digital effort and capabilities are. By making leadership and talent decisions within this complete context, companies are more likely to unlock their full potential in a digital world.

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