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101 reasons why we get digital transformation all wrong, part 1

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I've often thought that the term 'Digital Transformation' is the wrong way around.

What is actually unfolding is an increasingly exponential 'transformation' of business and society. It just so happens that this particular transformation has been triggered by new ways of interacting, working and creating value as a result of digitally facilitated connections. But most organizations seem to be focused on simply applying digital technologies to the way in which they currently interact, work and create value. They are **digitally transforming** existing practices, not **transforming digitally** in order to seize the opportunities for new practices.

This might sound like petty semantics but in reality it's a dangerous gulf in perspective.

Over the course of a couple of blog posts I just wanted to look at two significant and highly inter-related aspects of transforming digitally, particularly:

1. the way in which digital connections fundamentally transform the way we build and sustain relationships with our customers; and
2. the way in which this transformation unfurls into a need for new organizational structures in order to make these relationships effective.

Effectively, my goal is simply to share some thoughts on how even something as simple as focusing on customer value – a mantra of every enterprise – requires a fundamental transformation of our operating models in a digital era.

So let's start with point 1 in this post and consider the way in which we can transform our relationships with customers digitally; we'll then move on to the organizational implications in the second and concluding post.

Hello you... uh... guys.

Over the past century and beyond pretty much every organization has developed products and services for 'the market'. This involved using an amorphous group of archetypes called 'users' ('personas' if you were posh) that represented a supposed bundle of needs, opinions and problems that – if solved 'well enough' – would have sufficiently broad appeal to capture a critical mass of buyers. But at the same time these products and services were not perfect for anyone – causing issues ranging from minor annoyances at paying for things they didn't need to significant disappointment and disillusionment with the way they worked.

While this traditional approach to building standardized products and services was a general phenomenon of the industrial age, it was never more visible than in enterprise IT. This has resulted in a world in which applications – whether packaged or bespoke – are a frequent source of blockage, frustration and productivity problems. When users try to work around the challenges created by these issues they find that the systems break or get into inconsistent states. We refer to that particular kind of failure as 'user error', despite the fact these 'users' are frequently experts in their domain and know exactly what they need to achieve. But in the past it was simply too costly to cope with the needs of every kind of expert – and so packaged software was optimized for the lowest common denominator. Like in every other industry the goal was to make products and services that were the least bad they could be when averaged out across a superficially similar population of 'users', irrespective of any differences. To make the product development costs viable the 'users' simply had to comply with the 'product' rather than the other way around.

This was pretty much the best we could do with only guesswork or focus groups to rely on for input, high production costs that needed to be aggregated across large populations plus limited ongoing contact with customers once a product was shipped.

Hello Ian

On the other hand the shift to a digital economy – i.e. to the pervasive use of software in every kind of product – opens up new opportunities. Digitally connected products and services enable us to move beyond the consideration of aggregate groups of similar people and **connect directly with distinct individuals** over the Internet. In today's web and mobile apps we already have significant insight into the behavior and preferences of individual users and this is only going to deepen as we move into the IoT era. Equally importantly, digitally connected products are both cheaper to evolve and an enabler for ongoing relationships in place of single sales transactions because of their facilitation by software.

Companies that embrace digital connections therefore have a transformational opportunity to reduce the distance between themselves and each individual user of their product. In doing so they can gain the insight necessary to continuously improve, refine and even remove capabilities on a personalized basis. In fact by bringing people into the development process and focusing on turning products into enablers (or platforms) for users' desired outcomes – as opposed to fixed 'bundles' of features wrapped into a standard product – we can even start to enable meaningful

customization of what we offer. With a customizable core architecture, AI-facilitated predictions about the optimum combination of features for each individual and a set of tools for personalizing the product even further we can transform the fundamental nature of customer relationships.

As a result of these opportunities we believe that 'users' is ceasing to be a kind of derogatory shorthand for aggregate groups of people and becoming a term that represents the most valuable asset we have: a deep, individual relationship with someone for whom our product is sufficiently useful to commit time, effort and resources to. By leveraging these 1:1 relationships we can get a constant stream of highly targeted input from committed users based on direct feedback, customization decisions and observable behaviors. Equally importantly this input creates further opportunities for offering even greater value through deeper personalization. But this also means treating our customers as active partners in the ongoing process of development and value creation by rewarding them for whatever they share, whether that be their input, their data or even other assets.

The problem of running before you can walk

But all of these new opportunities are only (im)possibilities unless your organization is able to grasp their potential – which in turn requires teams which are close to their customers, empowered to make fast decisions and able to deliver continuous change at a breakneck pace. Most organizations are not set up to facilitate these behaviors today and so fully embracing these opportunities requires a profound transformation of the way that today's enterprises create value. This transformation impacts value propositions, organizational structures, company and team cultures and individual and group responsibilities. It is not simply a case of instructing IT to create mobile access to an existing ERP system or telling manufacturing to install sensors into a product; achieving "zero distance" to your users requires a **transformation of organizational structures and practices**.

We will consider these matters further in the next post.

Tags: visionblog