

The path to self-disruption

Nine steps of a digital transformation journey

Digital disruption is a top-of-mind issue in the C-suites of every industry. Senior executives of traditional firms are looking over their shoulders and wondering if their firms will be the next to be “Ubered” or “Amazoned.” Far-sighted executives are asking how they can disrupt themselves by creating a new digital business—and responding with their own digital transformation journey.

Journeys demand roadmaps, and execution requires deadlines. While each business's transition will be unique and complex, it may be helpful to present nine key steps that are consistent across different industries. These are thought starters for those who are planning to disrupt themselves and launch their own digital journeys.

| Transformation roadmap and timeline | | | |
|---|-----------------------------|--------------------------------------|---------------------------------------|
| | Envision the end state | Determine where you are now | Define how you will get there |
| 1. Design your own disruptive business | The end-game business model | Gap analysis and strength assessment | Determine the change vehicle |
| 2. Architect the new technology | Optimal IT architecture | Legacy technology audit | IT architecture buildout |
| 3. Secure the enterprise | Data security strategy | Transformation security | Building security into transformation |
| Accelerate the timeline | 6-12 months | | |

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Design your own disruptive business

The first step is to design the end-game business model—the future enterprise that technology and data security structures will be designed against.

- 1. Creating the end-game business model:** One long-time expert on disruption is Geoffrey Moore, author of “Crossing the Chasm.” He recently advised, “Every decade or so you must get your company into one net new line of business that has exceptionally high revenue growth.”¹ This means disruption. However, the future business model may be such a radical departure from the business that the planning process may not work, and traditional planners may feel threatened by the results. Here are three starting points:
 - Begin with your own digital assets. Every company has a series of digital initiatives already ongoing—these should be catalogued, reviewed, and used as the starting base.
 - Begin a process of innovation to design the new model. The use of cloud capabilities can provide an environment in which experimentation can be rapid and failure can be low-cost. This can enable a process of continuing, innovative transformation.
 - Finally, a useful model for future digital business may be the very insurgents that are driving transformation in the first place. In 2015, the EIU asked 350 bankers² what they thought were the most valuable competitive advantages of their digital challengers. Here are the key findings.

Banks' assessment of the competitive strengths of disruptive insurgents

% citing very or somewhat important, 2015



Source: Economist Intelligence Unit survey, 2015

These are attributes that these traditional firms will need to build into their digital business model. If you need to disrupt your own business, look to those who are trying to disrupt you from the outside for a blueprint.

¹ *Zone to Win: Organizing to Compete in an Age of Disruption*, 2015

² *The Disruption of Banking*, Economist Intelligence Unit, October 2015.

- 2. Gap analysis and strength assessment:** The legacy firm does not start from a blank slate—the second step is to assess its current assets and liabilities against the future business model.

Much of today's dialogue on disruption focuses on the weaknesses of traditional firms—legacy technologies, inability to attract tech talent, etc. But the traditional firm should not underestimate the strengths it brings to the table.

"Some firms have almost an inferiority complex when dealing with digital disruption," says Scott Sparks, a partner at the Proxima Group, a disruptive firm that provides digitized alternatives to traditional procurement departments. "These are companies that bring enormous assets to the table—big customer bases, big brand names, regulatory approvals. These are strengths that they can build into their new digital businesses."

- 3. Execution—vehicle for digital change:** The final step is execution. Some traditional firms are turning to acquisitions and partnerships as a vehicle for digital change.

Often incumbents struggle to build new cultures and businesses, particularly those that threaten the existing franchise. New insurgents—for all of their hubris—often need the assets and branding of their larger competitors to break out from their many rivals. Finally, combination with the insurgent challenger can accelerate time-to-market for the new enterprise—a critical advantage in the digital space.

In its research on disruption, the EIU found that 45 percent of traditional firms and 53 percent of digital challengers believed that the best strategy was for them to join forces as partners or acquisitions. Digital disruption is not always a zero-sum game—a combination of forces may be the best and fastest route forward.

Architect the new technology

Disrupting your firm therefore requires the creation of a new architecture structured for a new business.

- 4. Defining the optimal IT architecture:** The central choice in self-disruption is whether and how many applications should be shifted to the cloud. After all, many of the new disruptive firms are premised on the low costs and technical agility that cloud can provide. Some providers depict this as a stark cloud versus on-premise decision.

This is a false choice. Each firm will make its own decision on public, private, and on-premise solutions according to its business and security needs. This hybrid solution is not a compromise—it is a means of combining cloud agility with traditional IT predictability.

- 5. The legacy technology audit:** Once the end game is defined, the incumbent must examine its current networks, processes, and personnel not only as assets but as liabilities. For example, early technology leaders such as insurance companies and airlines find that their proprietary, server-based systems are holding them back.

What were once constraints are now becoming serious liabilities as nimble, cloud-based insurgents challenge traditional firms for the market. Incumbents must identify their technology liabilities and make plans to replace them where necessary.

- 6. Building out the IT architecture:** As firms redesign their technology, an emerging model is that of “dual-speed IT.”

Legacy firms often find they cannot abandon the legacy technologies that house their customer lists, product information, and back-office systems. At the same time their customers, whose digital expectations have been set by Amazon and Facebook, are expecting nothing less than an outstanding digital interface.

A practical result of the audit is the emergence of co-existing IT architectures—dual-speed IT. “Organizations need to overhaul their support model to adjust to this new paradigm. A critical element is recognizing that IT needs two speeds of service delivery,” says Antoine Gourevitch, managing partner at the Boston Consulting Group.³ While this model will present significant integration challenges, it is a practical solution to the back-office realities of many firms.

Secure the enterprise

The world is a dangerous place, and in technology it is becoming more dangerous. The fluid nature of the transformation journey presents risks during the journey but also an opportunity to improve overall security standards.

- 7. Setting the data security strategy:** The EIU asked 700 firms, split equally between traditional firms and digital disruptors, what the greatest challenge was in the digital journey. They said data security is No. 1.

A data security strategy must be designed not for the present, but for the future business and the projected level of threats. This requires a new degree of flexibility and scalability in security strategies. Data security used to consist of high firewalls and locking down the firm. With the increased sophistication and frequency of cyber attacks, it is accepted that the bad guys are going to get in. The new security must have the flexibility to be scaled up and modified for the cyber risk of tomorrow, which can only be expected to escalate and become more sophisticated.

- 8. Maintaining security during transformation:** The transformation journey is a period of elevated data security risk. By its nature, transformation brings new entities—some of which may not have equivalent standards—within the firewalls. New devices, new networks, and new employees all present potential entry points. These require an aggressive data security program that keeps pace with and is an essential part of the journey.

³ *Two-Speed IT: A Linchpin for Success in a Digitized World*, Boston Consulting Group, 2012.

9. Transformation as an opportunity: Just as the transformation stage presents risk, it also presents an opportunity to escalate the security standards of the enterprise.

In most legacy firms, security consists of passwords, firewalls, and software and remains the domain of the IT professionals. But with the new sophistication and frequency of attacks, security needs to be woven into the fabric of the entire enterprise. Disruption can be turned into an advantage in data security. It provides an opportunity to integrate standards into every part of the firm.

Accelerate the timeline for disruption

Clearly there is no “right” schedule for setting up a new digital business—every firm and industry will dictate its own.

But one element is clear: The agility of the new disruptors and the potential agility of your competitors mean that digital transformation cannot be business as usual. “One thing is for sure. Your new digital competition is going to make you move fast. I would say most business transformations should take place between six and 12 months,” Sparks says.

This is light-speed for setting up a new business. But there are certain characteristics of the digital world that can enable a faster than usual approach:

- Take advantage of agile new technologies—cloud, hybrid cloud, virtualized systems—that present lower development times and allow rapid modification.
- Co-opt the insurgents: Absorbing your most potent digital competitors can bring a ready-made business model, culture, and employees into your enterprise.
- Select and engage strong partners. It is a reality that your current personnel may not have the experience or incentive to create the new business; outside resources can bring expertise and resources to bear.

Summary

We live in an era where technology enables new businesses to come to market faster and cheaper than ever before. A digitally transformed company can speed its time to market, operate from a lower cost basis, and out-innovate its competition.

But this kind of transition will not occur in an overnight big bang. The process must be deliberate, modular, planned, and built into an aggressive timeline. That is the reality of self-disruption and of the digital transformation journey. ■