Why Companies Screw Up Digitization

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By Nader Mikhail, CEO and Founder of Elementum

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I loved my travel agent. But then I kept finding cheaper flights online without his help. I never minded hailing cabs. Until they were "lyfted" out of my life. When I got a smartphone — a portal into the world that ensures my day is never interrupted by inconveniences — I threw my Blackberry into the trash. The inevitability of waiting has been washed away by a tidal wave of digitization. I'm no longer the customer I used to be. My expectations are higher — and my patience lower — than ever.

Today, going digital is the new norm, and companies are fighting to keep up. 49% of companies have digitized their go to market to reach their customers faster, and 21% have digitized their customer facing products to make their services more accessible. HR and IT have digitized over the last few decades to ensure businesses have what they need to move forward with speed and ease. But in order to truly deliver at the speed of heightened customer expectations, companies can't go anywhere without successfully digitizing their engine room: supply chain operations. Because the fanciest products on earth don't matter if you can't get them to customers where and when they want them.

The unfortunate truth is that companies aren't even close to accomplishing this. Currently, only 2% of companies take operations into consideration when putting together a digital strategy. The reason is simple: it's too painful. Unlike the more contained nature of sales, HR, and IT, supply chains are dynamic, fragmented, and globally scattered. Even the world's biggest companies don't own



their operations, having outsourced it to external suppliers, factories, warehouses, and logistics carriers. In order to truly digitize, businesses need to tie together thousands of disparate moving parts and break down deeply rooted structural siloes.

To call this endeavor a headache is the understatement of the century; and because of this, companies have been choosing to stick their heads in the sand, filling in the gap with endless one-off initiatives that do nothing but reinforce existing processes and dysfunctional organizational structures. But with the expectations of today's customers, "ostriching" has gone from being a mere setback to being an existential threat. For companies that want to survive, there is no choice; they must cut through the noise of buzzwords and superficial bandaids, and push forward with an effective solution. Here are a few things to keep in mind to get your team on the right path:

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1. Approach digitization as an enabler, not an objective.

Companies who want to survive the next industrial revolution must think about their ultimate goal — and then build a digital strategy to support that goal. Consider the Netflix example: convenient as the DVD-by-mail model was, Reed Hastings knew that streaming would disrupt it. He therefore rerouted the entire company strategy and operations to streaming, despite the dramatic 76% toll it took on the company's stock. Hastings didn't waver, committing to his vision. Today DVDs make up less than one tenth of Netflix's revenue, while their stock is up 150% from the pre-drop peak. But you don't need to be a category defining company to take a page from the Netflix playbook. The power of Netflix is that they had their eyes fixed on the horizon, not their feet. Rather than conveniently matching their strategy to their current way of doing things, they kept their eye on future trends and altered their operations accordingly; sunk costs of DVD libraries and nationwide logistics networks be damned. Digitization of your operations isn't necessarily a means to disrupting an entire industry; it is, however, a means for your company to disrupt its own inertia.

2. Use your operations to build a service customers can't live without.

The north star of your digital initiatives should always be your customers. Why is it that you can imagine living without Borders and Kodak, but you can't imagine living without Amazon or Apple? Because the former brands oriented themselves around a traditional business model that assumed customers would always be at the mercy of service providers.

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The latter structured their business model (and subsequent overarching digital strategy) around customer happiness. This frames every decision made, every technology implemented, and every communication sent. Now that customers have experienced a world in which they come first, there is no going back. It's time to prioritize only those digital initiatives that support your customers' needs before they leave your brand for one that does.

3. Stop being selfish. Engage your ecosystem.

In our lives, the digital revolution has brought together technologies that blur the lines between our physical and our digital experience. It's not just about speed; it's about a broad network connectivity that is changing the way we interact with our world. Think about Google's G-suite. Gmail is only one small piece of the puzzle to an entire productivity workspace that connects across geographies, schedules, documents, and people. In your operations, hyper-connectivity can be harnessed towards smart systems that are not only geared toward your goal, but aware of it. Such systems can connect the dots across your otherwise isolated partner ecosystem and leverage vast, unified data sets to surface opportunities, bring multi-enterprise teams together, and provide a perspective that enables businesses to respond quickly to the customer needs that shape the market.

It is estimated that there is approximately $16.8 trillion in value at stake over the next 10 years for operations that go digital. But if companies don't make any change to their current operational course, they are at grave risk of being disrupted. At the present rate, 75% of S&P 500 companies will be gone by 2027. Companies that thrive will be those that channel all their experiences, strengths, and people to support a cohesive digital strategy. Businesses who stick with their traditional operational models will be left behind. The good news is, global incumbents have the benefit of throwing their weight behind digital efforts and gaining huge momentum in capturing digital benefits. The bad news is, if they don't get cracking on making digital operations a reality, they are sure to be disrupted by competitors who work to provide their customers with a prime experience.