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Successful digital transformations focus on customer needs first

by **Dr Claude Diderich** | innovate.d, *Switzerland*

Implementing a digital transformation initiative is challenging; failure is prominent. Organizations typically take a firm-centric approach to change, focusing on technology in search of a problem to solve. This leads to change that devours huge budgets, creates little to no value, and leaves employees frustrated. Disappointments are attributed to the lack of an appropriate mindset, a poor culture, or the absence of talent. But these are only symptoms of the root cause.

Digital transformation is defined as the *change process* of *implementing information technologies* to create new or modify existing business models, organizational cultures, and customer experiences to *meet changing customer needs and business requirements*. The COVID-19 pandemic has brought digital transformation to the forefront for most CEOs and executives. Even before the pandemic, a 2018 McKinsey study identified that more than 80% of surveyed organizations had undertaken at least one digital transformation initiative in the preceding five years. However, the success rate of these transformation initiatives, in terms of improved performance, was consistently below 33%. This is disappointing considering that more than $1.4 trillion was spent on digital transformation projects in 2020 alone, according to Statistica.

WHY SO MANY DIGITAL TRANSFORMATION INITIATIVES FAIL

Many CEOs and senior executives see digital transformation as the adoption of digital technologies such as blockchain, cloud computing, artificial intelligence, Internet-of-Things, robotics, and 3D-printing in order to improve efficiency, create new customer value, or innovate. According to FinancesOnline, more than 40% of all digital transformation initiatives focus on improving operational efficiencies and 35% aim to meet changing customer expectations.

Most of those initiatives, even when successfully executed—which, unfortunately, is not often the case—fail to create value. Failure is typically attributed to a lack of the correct mindset, not having the right culture, or missing out on talent. While these arguments often apply, they are rarely the root cause of failure, which most often results from a lack of focus on the transformational aspects of implementing information technologies. Three major root causes are identified.

1. Digital transformation initiatives are *firm-centric* rather than customer need-driven. They put focus inwards on how existing products and services can profit from new technologies.
2. Digital transformation initiatives *focus on existing business processes and supply chains* rather than reinventing them. Failure is due to firms not adapting the underlying business model to the new environment.
3. Firms take a *reverse-engineering problem-solving approach*, starting with selecting one or more new technologies and subsequently looking for a problem to solve.

The reason for these root causes is that organizations too often define digital transformation as implementing new technologies and/or automating existing activities to execute business as usual.

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To quote Albert Einstein, *"insanity is doing the same thing over and over again and expecting different results."*

WHAT WE CAN DO ABOUT IT

Successful digital transformation initiatives focus on *how a firm is doing business*, i.e., what its business model is. The key to this endeavor is identifying customer needs, or more precisely, understanding *what outcomes customers seek to achieve*—their "jobs to be done," as Clayton Christensen calls them. Successful digital transformation initiatives are journeys rather than a collection of independent projects. They are structured around three key actions:

1. . Understand the customer needs and relate them to the environment in which customers operate—notably their perception of using technology—to reach sought-after outcomes.
2. Consider the whole customer journey, from awareness creation through to consideration, conversion, retention, advocacy, and understanding what role technology plays or should play at each stage from the customer's perspective.
3. Focus on how technology can support value creation for customers first, with value appropriation by the organization second. Technology must be considered a means or tool to create and capture value, not the opposite.

Technology must never be seen as the outcome itself. Rather than business transforming IT, digital transformation is about IT transforming business through new digital innovations and focusing on customer satisfaction, the ability to serve customer needs, and operational excellence.

The Liechtenstein-based manufacturing tools company Hiltl is a typical example of a company that successfully embraced putting customer needs first throughout its digital transformation journey. In place of focusing on specific technologies, it has redefined its business model from being a product manufacturer to being a solution provider. Rather than selling tools to its customers, its new business model allows customers to use a defined set of tools for a fixed period of time at an all-inclusive fixed monthly rate. To achieve this, Hiltl harmonized its business processes and data into a single-instance SAP solution to support its 200'000+ customers. By relying on cloud services and mobile Internet-of-Things devices, it was able to implement its tools-as-a-service business model, creating value for customers by focusing on supporting them through providing Hiltl tools.

LESSONS LEARNED

Digital transformation is about *using technology to create value for customers* by appropriating a rent for the organization. Rather than starting by focusing on a specific technology in search of a customer outcome to support, successful digital transformation initiatives start by understanding customer needs and identifying what changes can be made to the organization's business model to satisfy them more efficiently, more effectively, and at a lower cost using technological innovations.

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