



Harnessing scale to drive successful digital transformations

Anand Swaminathan

Successful digitization calls for bold moves: scale and reinvention of the core.

***Most companies have embarked** on digital transformations but have found it difficult to break free of the old way of doing things. In this interview, [Digital @ Scale](#) co-author Anand Swaminathan speaks about how businesses can use scale to get the most from their digital transformations and reinvent their companies by focusing on the core of their businesses. An edited version of the interview follows.*

Secret sauce for digital transformation: scale

When we talk to CEOs about digital transformation, an important question keeps coming up: “How do we drive digital transformation at scale?” That’s a big issue, because if companies don’t drive digital transformation at scale, there is this gravitational pull of the legacy organization that brings you back to the way you used to operate.

If we create a new way to work using the agile methodology, for example, but we’ve only experimented with it in a discrete functional area or with a certain piece of technology, what ends

up happening is the legacy organization reasserts itself because it's still driving the business outcomes. Therefore, CEOs are trying to figure out how to transform the entire foundation of the organization so it becomes something of a rocket that actually breaks through the gravitational pull of the legacy organization and legacy capabilities.

Incrementalism: the enemy of digital transformations

A trap that a lot of organizations fall into when they're thinking about digital transformations is this concept of incrementalism: making a series of small changes. The business world moves much too quickly for that approach. And incrementalism makes it very difficult to build the momentum you need to break through into new businesses and value. Being successful in this new digital era requires reinventing your business, your capabilities, and your organization. That's much more significant than changing pieces and parts of the company.

One telltale sign of incrementalism is when organizations look at very specific pieces that they want to change within their organization. With Kodak, for example, the organization said in essence, "We capture images, so let's change just the way we can capture the image with a digital camera." Clearly I'm oversimplifying to make a point, but what they didn't realize is that their customers actually wanted access to their images in real time and to be able to share those pictures quickly. But with Kodak digital cameras, you actually had to bring it back home, take out the SD card, and connect it to your computer to be able to share.

When you think about the photo industry as it is today—sharing, commenting, editing on the fly—it has fundamentally reinvented the way we think about the business, the product, and the customer experience.

Transforming the core

What does core actually mean in the context of an organization? Harvard Medical School talks about the core as the set of muscles that allows you to maintain the right power, the right balance, and the right aspects of our health. That's what the [core is to an organization](#). It's the people, processes, and technology that underpin how the organization actually operates.

The reason it's important to focus on transforming at the core is that only change at that level enables the organization to operate with more agility and serve customers better. It also allows the organization to operate in a way that's exciting and new for its employees. It drives productivity, it drives improvement in how the organization interacts with both its customers and its employees.

Baosteel, a steel company in China, decided to transform at the core. What they did is create an online platform to be able to sell steel in a completely new and customer-friendly way. You've also got other organizations that are using online platform Alibaba as the way to sell steel products. That's not just another way to sell steel. It's a fundamentally new way to engage with customers.

How to transform at scale

To drive transformation at scale, there are three core elements that we've got to get right:

1. Organizations have to think about fundamentally changing their business model. How are they going to operate in order to engage with customers in new ways? What needs to change to drive new revenue models, new business, new markets?
2. Businesses then need to reinvent the business architecture, which is what allows a business to deliver the best possible customer experience. So if we think about the value chain working back from the customer experience the company wants to deliver, a transformation needs to address all the elements of that chain. We need to think about transforming elements of the product and value proposition that the customers are going to see.
3. The company needs to evolve and recreate the organization and its technology foundations. A foundation typically seems static—a large, “heavy” item that supports the entire organization. However, truly successful digital transformations build dynamic foundations. That's because we know more change is just around the corner. We're going to have to evolve, because customer expectations never stop evolving. Therefore, our foundation has to be ready to evolve as well.

Examples of transforming business foundations

UPS decided to rethink the way it used data and analytics to improve how they operate. As an example, UPS deployed sensors on all its trucks to get data. What they were able to then do is rearchitect the way in which they extracted, consumed, and analyzed that data to drive several different elements of improvements in their operations. The result is that they now consume eight million fewer gallons of fuel, because they travel 90 million fewer miles, because they have done route optimization based on the sensor data. It's fundamentally changing the way they use and consume data in order to allow them to drive significant operational improvements in their organization at scale.

In another example, ING transformed its organizational model to operate in small collaborative groups (called tribes and squads) in a very agile way. This new way of working is allowing them to reinvent and experiment with new products at a very rapid pace. ING now can actually stay ahead of the curve by testing, inventing, creating new products that they can take to customers consistently and quickly.

Characteristics of CEOs who successfully reinvent their business

A few years ago I sat down with the CEO of a multibillion-dollar organization who wanted to transform a 60-year-old business. He was focused on how the business could become digital at the core.

When he was talking about how to scale his digital transformation, he talked about a few characteristics. The first one was the idea of investing without fear. And the way he looked at it was that digital was key to reinventing ourselves and that means we need to invest. We have many examples in the industry, such as GE, which decided to create and invest in their GE Digital business, or Allianz, which decided to invest in its global digital factory that it launched in Munich.

He also talked about how he needs to “infect” his organization with the digital mind-set. It’s not just about, “Hey, I’ve got to figure out what digital means to my company.” For him it was about creating something that everybody wants to be a part of. An example of what he means really shines through in the digital factory that Allianz created. Organizations from across the business came in to the factory. They found that there’s a new way to engage with customers, a new way to actually work with their products, their services, and take it to market. They took these ideas and brought them back to the rest of the organization.

There was also the element of how do you get the people equation right, which includes rethinking what kinds of people need to be in place to make the digital transformation happen. This concept of the chief digital officer role was born over the last few years to be that kind of leader. These are not just technologists, they’re not just operational folks or organizational folks.

One more thing I’d highlight. I’ve noticed that CEOs today are also talking about new sets of metrics that they want to measure. CEOs typically look at things like revenue and their balance sheet and cost and operating model. However, what they’re now asking is, what is the customer satisfaction and the customer engagement with our products and with our services? What is ROAS [return on advertising spend and are my marketing dollars actually going as they need to go? What is our clickthrough conversion rate?

Digital now unlocks new sets of customers. So as CEOs think about scale, they think about the scale at which they’re touching and interacting with customers that they didn’t used to interact with or serve yesterday. That is a new measure that is not traditionally tracked.

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