



How to break through the gravitational pull of your legacy organization

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Initial successes in a digital transformation often break down over time. Digital winners know what it takes to break through.

Legacy companies have made significant strides in digital innovation. You'd be hard-pressed to find a business that hasn't launched an app, redesigned its website, piloted digital tools, or opened a Twitter account. Scaling all the benefits of digital is the next frontier, but it's proving to be a significant barrier for many companies. While it's possible to muscle your way through a single digital initiative, scaling them requires breaking through the gravitational pull that the legacy business exerts as it reverts to ways of working that have been successful for decades.

Breaking through that force field demands strength, conviction, and, in most cases, a trigger. CEOs need to create a sense of urgency, even fear, to spur their companies to embrace innovation and change at scale. Bosch CEO Volkmar Denner put it like this when he saw that his company faced a new level of competition: "Suddenly others are earning the money." Denner initially invited the entire workforce to form "disruption discovery teams" to develop digital strategies that attacked the Bosch

business model—and received 1,800 ideas in less than a week.¹ Ideas are easy, but unless they address the core issues of the business, they often fail. Denner helped break through the old ways of doing business by institutionalizing these teams, which are now a core part of the Bosch training program and create a “disruption engine” that’s continually in motion.

So how do companies successfully break through the gravitational pull of their legacy businesses? That struck us as the key issue to address in a digital transformation. So we analyzed more than 50 case studies of companies that have made significant strides in scaling their digital transformations for our book *Digital @ Scale*.

We identified the following best practices:

1. Think big.

One of the biggest culprits that causes regression to the old ways of operating is incrementalism. When companies make only small changes, they rarely develop enough momentum to break through legacy habits. Instead, they need to be both bold and specific (see “Digital strategy: Understanding the economics of disruption,” *McKinsey Quarterly*, April 2016, McKinsey.com). President Kennedy didn’t say America should join the space race. He challenged the country to send a man to the moon and bring him back safely.

- **Have a bold plan:** A holistic plan that scours the entire enterprise for digital opportunities is critical—even if those opportunities disrupt the legacy business. Instead of protecting established practices, digital companies play offense, building new ecosystems, modernizing the business architecture, and equipping the company for the challenges ahead. In 2009, Axel Springer CEO Mathias Döpfner articulated a crystal-clear ambition: “In ten years, we want to generate 50 percent of our revenues and earnings from digital.”² With a clear goal, the company delivered. In 2016, digital media represented 67 percent of the company’s revenues and 72 percent of EBITDA.³
- **Put the customer first:** Companies should start by asking, “What would the optimal experience look like for our customers?” This point is crucial because having the customer as the focus for action makes it difficult for people to hide behind “That’s the way we’ve always done it.” One way to mine for this knowledge is by studying customer journeys and identifying every interaction and process aimed at customers.
- **Break down the functional silos:** We’ve all heard this point before, but it requires real emphasis because it both fundamentally changes the organization and is usually met with resistance. Cross-functional teams only work when led by individuals who are held accountable and are empowered to drive the change and overcome institutional inertia. Some

1 “Das Geld verdienen plötzlich andere,” *Süddeutsche Zeitung*, April 3, 2016.

2 Speech given by Dr. Mathias Döpfner, CEO of Axel Springer AG, Bilanz-Pressekonferenz, March 11, 2009.

3 *Annual Report*, Axel Springer, 2016, axelspringer.de.

companies, for example, establish Digital Competence Centers. The centers house the Digital Transformation Office, which coordinates and manages the transformation, and the Digital Expertise Lab, a center for new digital talent.

2. Build an operating system for speed and reaction time.

To implement and scale their plans, companies need to embed the change deep in their DNA by fundamentally changing how the company operates.

Recruit the team: If you have the same people working in your business—even with advanced training—you should expect the same outcomes. That’s why you need to inject talent at scale. A strong chief digital officer (CDO), backed by the CEO and the board, is pivotal, but it’s only a start. Companies need to find and bring in people with an array of mutually reinforcing skills to work differently (agile coaches and scrum masters), design differently (user experience and interface designers), and develop differently (data scientists and IoT software developers).

Speed beats perfection: Gaining sufficient change velocity requires dramatically speeding up work metabolism. Waiting for enough analysis or the perfect product allows legacy processes to kick in and take over. The minimum viable product (MVP) approach, however, has teams create products with only the minimum essential features and then address pain points as customers encounter problems. MVP prevents expensive and protracted product development based purely on assumptions and accelerates the market entry of new products.

Build to adjust: Any transformation will hit rough patches that can derail it. That requires putting in place processes that can adapt to these inevitable setbacks. Venture capitalists, for example, don’t wait for an annual budgeting process to set priorities. Effective teams solve problems as they arise based on clear goals and KPIs. Transformation teams are funded as they meet milestones such as, for example, increasing the number of visitors to the website. Instead of executing against a plan that envisions the solution, effective transformers innovate, test, and improve solutions in real time. This approach requires a digitally savvy CFO who is able to dynamically adjust budgets.

3. Create momentum through forceful scale.

To build real momentum, companies should scale the transformation across the entire organization as quickly as possible.

Spread the change: Scaling a digital transformation requires change on an enterprise level. We’ve seen successful companies bring in “shock teams” of temporary digital specialists who rapidly digitize an initial set of processes or establish new business models. Many companies focus on customer journeys, digitizing and improving each customer touchpoint, prioritizing those that can deliver the most value. While the primary focus of these teams is getting things

up and running, they focus on imparting digital skills and establishing digital business units in the process. Crucially, these experts also initiate the first wave of recruitment and onboarding of digital talent, an effort that often stymies legacy companies with weak digital networks. After a given period, usually six to nine months, the company's in-house talent gradually replaces the external experts. We call this approach Digital Build-Operate-Transfer (DBOT).

Turn IT into a weapon: IT systems have been optimized for stability, cost and efficiency, which is important to maintain the integrity of a company's most valuable assets: the billions of bits of data it has amassed on customers, inventory, payroll, and more. They are too slow, however, for the rapid, dynamic processing needed for a digital transformation and contribute to many digital programs stalling out. One solution to build momentum is a two-speed IT approach: a stable, cost-effective system for all non-customer-related operations (back-end system) complemented with an agile, fast, often cloud-based system that can work with all the processes that target the customer (front-end system). An integration platform, or middleware, connects these two IT worlds.

Find partners and build networks: Many established companies prefer to bring all critical functions in-house, but that can take a lot of time and require significant resources. We've found that the most successful companies build networks of best-in-class outside specialists—even competitors—who already have the required skills. A consortium of German automakers, for example, formed a venture to buy Nokia's digital mapping business, giving the whole group the technology critical to self-driving cars that none of them could have developed or acquired alone.⁴ Other companies turn to start-ups that can provide critical skills, help develop new business ideas, and even become a valuable source for digital talent.



Starting a change program is not easy. But where the winners really separate themselves from the rest is in capturing full value by driving the digital transformation across the organization.

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⁴ Friedrich Geiger, "BMW, Daimler and Audi clinch purchase of Nokia's maps business," *Wall Street Journal*, August 3, 2015.