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How to scale your own digital disruption

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Companies often spend millions of dollars on digital initiatives that fail to gain traction. Here's how to move beyond experiments to implement changes that stick.

Companies have been investing feverishly in digital initiatives as their business models shift beneath them. Global business spending on cloud technologies alone will surpass $174 billion this year.[1] Many organizations have hired chief digital officers (CDOs) or set up dedicated business units to drive digital strategy.[2] Yet while these investments have generated bursts of innovation, many companies have failed to institutionalize the sort of game-changing disruption that leads to sustainable growth. To become digital to the core, companies must scale their digital experiments—from work flows to the workforce.

We have found four models for scaling digital disruption.

1. The organizational pivot

Speed is critical to disruption, yet legacy structures can block a company's ability to execute rapidly. By changing the organizational structure to prioritize digital programs, senior leadership can rapidly increase the pace of change. This approach requires allocating budgets and head counts to digital programs and putting digital leaders in charge of legacy business operations.

One regional bank has begun to forcefully pivot out of its traditional branch-driven model, doing so by going beyond simply hiring a CDO. Rather, the bank gave him operational oversight for the entire business—including the physical branches that still account for the vast majority of the bank's revenue. All product, IT, channel, and marketing groups now report to the CDO. To further drive home the digital shift, each of the bank's five main regional business units also has a dedicated CDO who is considered a peer of the local bank president. These moves are designed to help the bank coordinate a digital-first customer experience across all channels that reflects shifting consumer and market trends, as well as to accelerate its transformation into an end-to-end digital organization.

1 "Cloud-related spending by businesses to triple from 2011 to 2017," IHS, February 14, 2014, ihs.com.

2 Tuck Rickards, Kate Smaje, and Vik Sohoni, "'Transformer-in-chief': The new chief digital officer," September 2015, mckinsey.com.

2. The reverse takeover

Some organizations have found early success by ring-fencing their digital operation—whether it's built from the ground up or acquired—so it can operate independently, unbound by legacy models or processes. But once the digital business proves its value, what's next? Maintaining the unit's independence limits its impact on the rest of the business. What's more, a fenced-off operation is easy for the legacy business to ignore.

One aggressive option is to fold the legacy business into the new operating unit, extending the innovation model across the entire business and forcing the rest of the organization to discard outdated methods. This "reverse takeover" approach is not for the faint of heart, as it involves the wholesale migration of technology platforms, organizational structures, internal processes, and, eventually, customers from the legacy business to the new model. Careful prioritization and a phased approach will ensure that the organization doesn't collapse into chaos during the transition.

Consider British retailer John Lewis. By acquiring the UK division of Buy.com in February 2001, it gained access to critical technology and skills that it used to rapidly build its own online business in the early to mid-2000s.[3] In 2010, John Lewis embarked on a massive three-year project to rebuild its web and e-commerce infrastructure, which included integrating more than 30 existing IT systems. The site went live in 2013 and now serves as a foundation for the company's end-to-end supply chain and distribution channels, including its retail stores. In 2013, online sales increased by 23 percent.[4]

3. The spinoff

It's not always practical to fold a legacy business into a digital division—particularly if the digital business is focused on a distinctly different part of the value chain or if it's simply not yet mature enough to absorb a bigger operation. In these instances, companies may find that the best way to scale those investments is to slice the individual pieces into separate businesses that can grow well beyond the owner's core business or industry.

For 12 years, Spanish bank BBVA Compass had maintained a software-development unit called Globalnet to build out its technology solutions. In 2013, BBVA spun off the company into its own business, called BEEVA, to develop and sell commercial web services. While the division provided foundational technology for BBVA's move into digital-banking services, senior management felt that the unit had much more potential as a stand-alone business that could sell its innovative cloud technology in other markets. In this case, a reverse takeover or organizational pivot would not have made sense, because web services are well outside of BBVA's core financial-services business.

[3] Richard Fletcher, "Net is mouse that roared for John Lewis," *Telegraph*, March 8, 2007, telegraph.co.uk.

[4] Clare McDonald, "John Lewis sales reflect omni-channel growth," *Computer Weekly*, September 11, 2014, computerweekly.com.

4. The piggyback

Organizations can also scale digital initiatives by partnering with faster-moving innovators that have large, established digital platforms. Home Depot, for example, partnered with upstart transportation-service provider Uber during the 2013 holiday season to deliver Christmas trees purchased from the home-improvement chain. And Internet retailers such as Birchbox have used popular social-media platforms to rapidly expand their customer bases by engaging with audiences they never would have attracted on their own. Birchbox, which uses a subscription model to promote and sell beauty products, has increased annual revenue to an estimated $125 million in about three years, with more than 800,000 monthly subscribers.[5] For incumbent businesses, these types of strange-bedfellow pairings or partnerships that take advantage of existing scale can radically reduce the time and resources needed to build up innovation.

Greasing the rails

Scaling digital models across the business is a high-risk endeavor, which explains why so many organizations struggle with it. The dynamics of deciding where to place bets and where to pull back will happen much more quickly than before, requiring new capabilities in three important areas.

Disruption of the workforce. Hiring new talent is one of the most important strategies for transformation. But that's just one step. Leadership teams should also consider moving high performers out of legacy operations and into digital divisions or businesses. Focusing staffing and training efforts on newer parts of the business will build up those channels more quickly while sending a strong message to the rest of the organization that the career path goes directly through digital. In general, digital teams should have a mix of cross-functional talent that connects to back-office areas such as legal and finance to drive innovation more deeply into these core operations.

Disruption of core processes and priorities. Leadership teams can reinforce the new vision by adjusting some of their organization's long-standing reporting structures, processes, and incentives. One global retailer has created a pool for over-the-top funding to all divisions for making digital progress, ensuring that digital investment remains strong even if cuts are needed elsewhere. A packaged-goods company has redesigned all of its planning processes and templates to prioritize building direct digital ties to consumers, with incentives in place for expanding opt-in lists and mobile-alert permissions. These types of changes to resource allocation and sales compensation are critical in motivating people to adjust their behaviors.

Disruption of the budget. The most direct way to scale digital disruption is to reallocate budgets, increasing investments in digital programs while explicitly managing down expenses in traditional channels or systems. This approach requires thinking about explicit shifts in how

[5] Erin Griffith, "Exclusive: Birchbox banks $60 million," *Fortune*, April 21, 2014, fortune.com.

you aim to have customers interact with you and pulling out costs from legacy infrastructure. It also requires organizations to develop “surround” architectures that freeze spending on legacy systems and direct investment to the layers closer to customer interaction, as well as to replace the core with more dynamic systems of record eventually. The shifts can be painful but often are critical to increasing organizational attention on high-growth areas.

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Many disruptive strategies fail to gain traction, for myriad reasons. For companies that are serious about becoming digital leaders, however, embracing disruption requires a commitment to scaling it. □

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