Mastering the enablers of a sustained digital journey

Luis Benavides, Frédéric Lefort, Rehana Khanam, and Oscar Lovera-Perez

Three intertwined enablers — people, governance, and partnerships — are essential for lasting digital change.

The need to master new capabilities in finding digital talent, encouraging flexible and rapid decision making, and strengthening external sources of capabilities is urgent and intensifying. For example, talent with digital skills is scarce. Among executives interviewed by MIT, 75 percent cited skills gaps as an obstacle to implementing their digital transformation.[1]

Companies in some industries, primarily in the services sector, have already succeeded in fully integrating digital enablers into their organizations. Among the most prominent cases are companies that successfully disrupted entire industries, whether Blockbuster in media decades ago or Google in advertising today. Their organizations not only started from a good business plan and technology platform but also acquired the best people available to help them realize their vision.

Like companies in other industries disrupted by digital, consumer-packaged-goods (CPG) companies focus on customers, operate at a fast pace, need to be agile and responsive to change, and must be deeply tuned into their proprietary insights about how technologies and markets are changing. However, CPG companies are still exploring how the adoption of digital technologies will impact the way they work and operate.
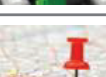
In supporting digital transformations in CPG and other industries, we have identified three imperatives for mastering the enablers of a sustained digital journey.

Build a workforce with digital capabilities

CPG manufacturers must build new sets of digital capabilities and talent in the organization. Before recruiting talent with new capabilities, companies should fully assess their internal capabilities. In some cases, current employees may possess valuable digital knowledge that could be deployed in new ways, and these opportunities should be explored. However, companies will need to source the lion's share of new capabilities externally.

Digital talent must be obtained to fill existing roles, such as quality professionals, operators, and process engineers, whose skill set is being changed by disruptive technologies. What's more, companies must obtain talent for an array of entirely new operational roles such as software designers, agile scrum masters and agility coaches, full-stack architects, and machine-learning engineers.

Companies in other sectors are exploring creative ways to both recruit and retain talent with digital skills (Exhibit 1).

Exhibit 1	To find needed skills, companies are getting creative.		
	Digital recruiting	Make full use of social media and digital recruitment tools	**Global cosmetics maker**
	Outside-industry perspective	Look for talent in other industries that are already further advanced	**Automaker; fast-moving consumer goods player**
	Acquiring	Buy small niche-technology players to capture tech talent	**Online retailer, financial institution**
	Locating near the talent	Carve out innovation labs in attractive, talent-rich locations (eg, engineering campuses) Establish technology centers in offshore locations near the expanding technical pools	**Omnichannel retailer**
	Partnering for talent	Deepen relationships with select partners for preferred access to specialized skill sets, eg, advanced analytics, data architecture, and cybersecurity	**Fast-moving consumer-goods player; industrial-equipment maker**

For example, Burberry defined a new recruiting strategy to obtain the talent required for an ambitious digital transformation. To create a world-class customer experience, the fashion company pursued a broad-scale transformation enabled by breakthrough technologies. Digital capabilities became the focus of recruiting efforts, leading to a workforce weighted heavily toward young people who grew up as digital natives.

Deciding to hire people with digital skills is just the starting point. In transitioning to a new people strategy, CPG manufacturers must recognize the need to change their value proposition for employees. Put simply, software developers are not looking for the same employment environment and culture as manufacturers' traditional factory workers and accountants. Manufacturers must adapt in order to attract digital experts.

In addition to hiring new staff, CPG manufacturers should undertake efforts to retrain current employees. When done right, such training efforts have proved effective. Nestlé regularly frees about a dozen marketing and sales leaders from their usual responsibilities within business units and places them together as a digital team in the corporate headquarters for eight months. They return to their jobs better equipped to lead a digital transformation of their business unit, run training sessions, and serve as strong role models. Employees at all levels of the organization are more likely to embrace a digital transformation that is led from within their ranks, rather than by facilitators from outside the organization.

Facilitate rapid decision making through flexible governance and fewer constraints

To pursue the pace of change required for a digital transformation, CPG manufacturers must adapt their approach to governance (Exhibit 2). Success requires giving teams more freedom to determine how to spend their budgets, enabling easier access to decision makers, and giving teams greater flexibility in deciding what to focus on. It is especially important to adopt a "fail to succeed" mentality, in which employees are encouraged to test ideas and proposals early on without expecting them to work the first time.

Spotify exemplifies how a more flexible approach to governance can produce benefits. The fledgling music service sought to disrupt a market dominated by giants, while bringing to bear limited scale and resources. It invested in extremely agile development units, initially working in multifunctional scrums of a few people. As

4

Exhibit 2	Governance must adapt to digital transformation's requirements.	
	Key principles	**Examples**
Clear mandate from leadership	■ Mandate to change the way we operate provided by CEO/COO made clear to all functions involved ■ Include reviews of progress at board level monthly	■ Ensure support functions provide necessary expertise (eg, IT, finance, supply chain, purchasing) to drive initiatives forward as a priority
Devolved financial authority	■ Teams to possess a greater degree of freedom on how to spend their budgets, allowing for greater autonomy, increased accountability, and fast turnaround of ideas	■ Allow local teams to spend their budgets based on local priority setting without having to go through the traditional approval process (within limits) ■ Relax some of the corporate commitments to obtain a number of quotes for all orders raised
Easy access to decision makers	■ Direct route to key decision makers without several layers of management	■ Weekly discussion with senior sponsor (COO) to discuss progress and support needed, daily access to senior local leadership to expedite local decision making where needed
Flexibility on what to focus on	■ Reconsider priorities inside the program when required without complicated administrative process	■ Empower local implementation and operational teams to set their priorities and allocate resources with limited central constraints
Encouragement of experimentation	■ Ideas for improvement should be compiled, piloted, and scaled up with reduced decision-making process	■ Internal, external, and partnership ideas to be prioritized, funded, and resourced locally all the way from feasibility to pilot stage
"Fail to succeed" mentality	■ Not all efforts will work first time; some of the initiatives might not result in the desired output at all; allow for early releases to test with users as part of the development process	■ Encourage teams to test ideas and proposals early on, without expecting them to work first time ■ Do not expect round after round of theoretical validation; allow users to test early, provide feedback, and modify as needed

the company's ambitions and challenges grew, it adapted to new ways of working. It created eight-person "squads" that work toward achieving unique short-term goals set by senior management. The squads are free to solve their problems in any way they choose, have control of their own budgets, and work together in a space designed to facilitate creative problem solving. This setup allows squads to be agile and try ideas without first requiring senior management's approval. It also increases a sense of ownership and accountability for their decisions.

New businesses such as Spotify have the benefit of setting their culture and way of working from the beginning using these principles, whereas established players need to redefine the way they operate. In 2014, ING launched its "Think Forward" strategy, focusing on people empowerment to stay ahead in the competitive financial-services industry. At the core of this change was transforming its IT function from an enabler to a driving force in its commercial strategy. To achieve this objective, the company established the expectation of continuous delivery, focused on engineering and technical talent, partnered with other players (rather than outsourced), and sought to be distinguished by its outstanding software. To match its new culture, ING is reorganizing its structure with scrum teams and tribes and flexible governance, with the goal of delivering new technology solutions to delight its customers.

Collaborate extensively with external partners

Effective partnerships and collaboration with small Industry 4.0 startups have proven essential in large companies' efforts to adopt digital technologies. For example, Amazon acquired Kiva Systems, whose expertise was instrumental in developing the cutting-edge robotic technology that is now widely used in the e-commerce giant's warehouses.

Large companies are also using M&A and joint ventures with other large players to open new opportunities. Cisco Systems has used acquisitions to close gaps in its technologies. These moves allowed it to assemble a broad line of networking products and to grow very quickly from a company with a single product line into the leading player in Internet equipment. From 1993 through 2001, Cisco acquired 71 companies, at an average price of approximately $350 million. Cisco's sales increased from $650 million in 1993 to $22 billion in 2001, with more than 40% of its 2001 revenue coming directly from these acquisitions. By 2009, Cisco had more than $36 billion in revenues and a market cap of approximately $150 billion.

The joint venture between UPS and SAP is another case in point. Until recently, neither company was known for selling physical goods. In 2016, they joined forces to offer rapid 3D-printing services as part of SAP's distributed manufacturing initiative. The companies plan to open large 3D-printing facilities near distribution centers. Through the combination of SAP's network and UPS's logistics capabilities, the companies are aiming for next-day delivery in the US of orders placed before 6 pm. The use of 3D printing is evolving from prototypes and one-off novelty items to finished parts for assembly, creating an opportunity for the UPS-SAP venture to offer last-minute production support to many industries. Manufacturers can now focus on their high-volume standard products, while retaining the capability to provide custom or unusual variations without having to hold stock.

Partnership strategies are also a valuable way to acquire digital talent. Recent McKinsey research found that top online players acquire 56% of their digital talent through M&A or joint ventures. eBay, for example, has filled more than a dozen senior roles in its organization with founders of acquired businesses.

■　■　■

Business functions, such as human resources, strategic planning, and engineering, cannot design and implement these enablers independently. To make these new people, governance, and partnership strategies a reality, companies must rethink their traditional boundaries, roles, and responsibilities and require cross-functional efforts to ensure successful implementation.

1　Didier Bonnet, Andrew McAfee, and George Westerman, "The digital capabilities your company needs," *MIT Sloan Management Review*, October 2012, sloanreview.mit.edu.

Luis Benavides *is a partner in McKinsey's Miami office;* *Rehana Khanam* *and* *Oscar Lovera-Perez* *are both associate partners in the London office; and* *Frédéric Lefort* *is a partner in the Gothenburg office.*