Center for Digital Strategies
Tuck at Dartmouth

The Digital Enterprise and Changing Business Models

A Roundtable Overview

Americas Chapter Discussion

Roundtable on Digital Strategies

The Digital Enterprise and Changing Business Models

Thought Leadership Roundtable on Digital Strategies
An executive roundtable series of the
Center for Digital Strategies at the Tuck School of Business

Digital technologies have penetrated every aspect of consumer life and modern business. The number of connected devices and sensors continues on its exponential growth path, generating data that can be analyzed and combined in ways never before possible. The pace of change is limited only by how quickly we can put the new technology to use. Digitally-enabled customers have different expectations of their vendors in both B2B and B2C environments, and digitally-native companies are creating entirely new business models to meet those expectations.

Members of the Americas Chapters of the Roundtable on Digital Strategies convened at Tenaris' facilities in Houston for a day-long discussion of what it means to be a "digital enterprise," what are the key elements of becoming one, and the challenges for established companies in making that transformation. Participants in the session included CIOs and digital business leaders from the Bank of Queensland, Chevron, Eaton Corporation, Eastman Chemical Company, Levi Strauss, Sysco, Tenaris, and Tetra Pak, along with Executive Fellows and the Directors of the Center for Digital Strategies of the Tuck School of Business at Dartmouth College.

Key Insights Discussed in This Article:

- **The core objective of the digital enterprise is to empower individuals (or groups) to make better decisions faster.** The speed of business has become too fast to tolerate centralized, process-driven decision-making .... Pages 1, 3, 8-9

- **Digital technologies don't change the ends of business, but they change everything about the means.** Companies need to challenge and re-think every operating process and business assumption, or risk being left behind.. Pages 2-4, 9-10

- **Every established enterprise faces the choice of disrupting from within, or being disrupted.** Digital competitors don't attack head-on; rather, they pick away at unexpected spots in the value chain that can turn out to be the critical links. .... Page 3-4, 6-7, 12-13

- **Companies have to be able to tolerate experimentation without certainty of outcome.** New business models, ecosystems, and organizational structures are a stage of flux and discovery, and traditional ROI thinking does not apply. . ... Pages 2, 4-5, 10-11

- **The companies that best combine data with technology to engage customers will win.** With the volume, transparency, and immediacy of data, consumers and business customers have new expectations, capabilities, and leverage............................ Pages 2-3, 6-7

This overview was written by Stephen Plume, Executive Fellow. The Roundtable on Digital Strategies publication series is edited by Hans Brechbühl, Executive Director, Center for Digital Strategies (www.tuck.dartmouth.edu/digitalstrategies).

"What's Different Is the Speed"

CDS Executive Director Hans Brechbuhl launched the day's discussion with two definitions of a "digital enterprise" proposed by members of the European chapter of the Roundtable:

Martin Petry, CIO of Hilti

1. How we work: the digitalization of internal business processes
2. What we offer the customers: the digitalization of our products and offerings
3. How we interact with our customers: the digitalization of the customer relationship

Ed Happ, CIO of the International Federation of Red Cross & Red Crescent Societies

1. Everything is online.
2. Everyone is connected.
3. Transparency: the visibility to almost all stakeholders of almost everything.
4. Business operates at the speed of the internet.
5. Everything is beta – or should be.
6. A plug-in mash-up culture of change.

"What do we think, are those the elements of a digital enterprise?" asked moderator John Gallant, Chief Content Officer of IDG US Media.

"They are," started Keith Sturgill, CIO of Eastman Chemical.

> When you step back and think about what 'digital' means, it's not about the next generation of technology. Technology is simply an enabler of what we need to do as a company: Put decisions at the center. Everything we do supports making better, faster decisions as a company. And that will help differentiate ourselves to our customers. And it will certainly improve the day-to-day business operations environment.

"It *is* about decision-making," added Craig May, Chevron's VP of Upstream Capability, extending Sturgill's theme:

> Getting the right information to the right people to make better decisions faster. It's not about the technology; it's about the business. I don't even like the term "digital enterprise," because it can become an obstacle if we're not careful. If I can use technology that doesn't change my purpose of being, but it's making me better at that purpose, more effective — then that's a success, that's how I want to use it.

"I think you're right," agreed Eaton's CIO Bill Blausey.

> I honestly don't know that this any different from what we've always done: Conceptually, we're using new technologies to create competitive advantage, disrupt markets, and change the way we interact. What is different is there is so much change happening, so many new technologies, so many ways to think about changing the model, that it's difficult to sort out where to go.

"And *why* it's different is because of where we are on Moore's Law," Chevron CIO Bill Braun added. "When you get out there on an exponential curve, it starts to get really weird. That's what we're experiencing, in the scale of the information and the speed that's required. I don't think companies get to decide *if* they're going to do this. The world has shifted, and we've got to deal with it."

"It's not only the speed that's different," added Alva Taylor, Faculty Director of the Center for Digital Strategies. "Much of the shift is being driven by customer expectations, not by technology, and that is fundamentally different from what's happened in the past."

Roland Paanakker, CIO of Levi Strauss, explained the consequences of Taylor's point:

> And that shift is changing the business model. Whatever success you had with the old model, it's not going to work in the new model. The new consumer has visibility to what we do, to what our suppliers do, all the way up the value chain. The consumers really are now in charge, and if their perspective changes, we all have to react.
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> So the digital enterprise is about a constant state of flux, and the ability of the company to deal with the information, create the insights, and turn those insights into action, on a global scale, in a timely manner. "Timely" used to mean an annual business plan: You put out an initiative; a year from now, something actually happens. Annual is not going to suffice anymore — it's more like monthly. A digital enterprise needs to be nimble, fast, and constantly changing.

<u>A digital enterprise is great at…</u>

- Aligning business strategy with digital strategy.
- Automating routine collection of information and developing analytics to act on it.
- Creating competitive advantage from information assets.
- Establishing an agile, innovative culture.
- Figuring out a way to get it done when a customer asks "Why can't I …?"
- Generating change for competitive advantage.
- Getting everyone to think big, start small, and move fast.
- Making customers more successful in a differentiated way.
- Making money in a digital society.
- Mining data from any/many sources to make better decisions for customers.
- Monetizing insights.
- Rapid capitalization on new technology opportunities.
- Rapid iterations at scale.
- Re-inventing themselves.
- Using technology and connectivity to offer something new to customers before customers even know they want it.
- Winning customers in unexpected ways.
- Exploiting insights to serve customer needs better.

"A truly digital enterprise doesn't see a difference between a business strategy and a technology strategy," proposed Paanakker's colleague Brady Stewart, SVP of Global E-Commerce for Levi Strauss.

> You can't have a business strategy without understanding the technology enablers behind it, and you would never plan the two separately. And then you have to be very comfortable iterating based on the data. There's a ton of data, but it's changing fast, and if you go all-in

> on big bets and you get a big bust, you're sunk. You need to make smaller bets, iterate, move quickly, and change your course if needed — and that is the way to keep up with business at the speed of the internet.

"So far we've been focusing on how to drive business change, digital transformation, and strategy," said Luis German, Chief Process and Information Officer for Tenaris. "There's also still lots to do internally as far as operational efficiencies go: Simple things such as process automation, robots downloading information. Getting efficiencies and removing the dirty work that the younger generations don't want to do. They won't have to do it if we put the technology to work."

"That's true to a point," Sturgill responded, "but if we believe digitization of the enterprise stops at productivity and efficiency, we're missing it. It's about amplifying the impact of the individual, whether they're deep inside IT or on the front line serving a customer. It's about empowering that individual with whatever they need to serve that customer or improve that process or make a better decision."

"The biggest concern in all of this," Sturgill continued, "Is our ability to embrace the change that's coming. What's different is the speed. We think the world has changed a lot in the last 10 years: We ain't seen nothin' yet. Will our organizations be able to embrace that change? Those companies that figure out how to do so will win; those that don't will lose."

Fighting the Last War

"The combination of data and technology to learn and engage with customers really is the key point in how you respond to all of this," began Andrew Murrell, GM of Digital and Direct Channels for the Bank of Queensland.

> I don't like the term "digital enterprise" either: We operate one way in society and our personal lives, and then we go to work — with our smartphones! — and for some reason we operate there entirely differently. It's inexplicably hard to convince Boards and executive teams that we need to transform the way we deliver, and blur the lines between how we operate in our personal lives and how we operate at work. We live in a digital society, and we have to pull these two worlds together.
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> Europe's aristocracy was killed in the First World War because they didn't know what they were doing, and the military structure of tiered commands came in to fight the Second World War. Modern companies are based on this hierarchy, and in it, big change doesn't come unless it's top-down. Now, new organizations are coming along without these structures, and they are able to respond. Today, *even* the military puts data in the hands of local commanders of smaller teams and empowers them to make decisions.
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> But in corporations, we have yet to flip the way decision-making happens, and create smaller, more nimble, empowered teams with the ability to make mistakes. And that's a challenge for a lot of organizations with board members who came up from successful hierarchies in traditional structures.

Bill Goetz, SVP of Sales and Marketing at Sysco, looked at the other end of the hierarchy: "What we deal with is actually farther down in the organization, even in the front lines. They fear that the technology will actually replace them, rather than understanding 'this will add value to customers and free you up to do other things that add even more value.' They're personally worried about how this is going to affect them, and whether they're going to be needed in the future."

Twila Day, Managing Director at Alvarez & Marsal, gave a perspective based on consulting with many companies on digital transformations:

> For companies that have been around for a long time; that have established ways of doing business and business models; that have a long tenure of people associated with those organizations — it's harder for them to go through this change. It threatens the status quo, maybe higher in the organization, maybe lower. They need to be able to articulate very clearly what they're going after and where the benefits are going to come from, and even then, the change is massive. It often can't be done with the organizations they have today. They're having to set up separate structures to have a shot at getting something new implemented, to get that first win and move forward. It's not that big companies can't be nimble and agile, but it's much more difficult if they're not already positioned that way.
>
> For organizations that are starting fresh — this is why they're winning. They can say, "I'm starting from scratch. What is the right way for me to set up this business model? What tools do I need, what processes?"

"Recognize that start-ups can take this too far the other way," cautioned Steve Plume, Silicon Valley consultant and Executive Fellow of the Center for Digital Strategies. "A small company trying to find its place in the world can over-react to what the last prospect said. There is an element of size that provides a bit of a counterweight to switching too fast."

"But even as a larger company you don't always have the luxury to make the transformation in the time or the way you would like to," IDG's Gallant rebutted. "We knew the media business better than anyone, and we had plenty of time to sort things out. But a lot of other smart people came at media from different angles, and they went after pieces of our value chain in ways that none of us had thought of — so when the attacks came, we didn't have as much time as we thought we would to deal with them."

Phil Cussen, CTO of the Bank of Queensland, highlighted an industry that's been waiting for a transformation, rather than having already gone through one. "This type of disruption has been hanging over our heads in banking for a long, long time," he said. "But it hasn't gained much traction yet. We started a technology-focused forum around disruption, and that didn't work out as well as we hoped. There's a lot of swinging going on, between technology-centric and business-centric. It's peculiar, and maybe it comes back to the regulated nature of banking."

"And the need to respond couldn't be more apparent!" exclaimed Cussen's BoQ colleague Murrell.

> When customers interact with us 30 times a month on their mobile phone and come to the branch once, that's a signal! But it's been really, really difficult. On the other hand, if you want to be disruptive, you must disrupt yourselves first. Or, you will be disrupted.
>
> But think about the traditional hierarchy and process of a bank: You get seed funding for a new idea. Then you spend four months doing the business case. All the bureaucracy of the organization comes with it. So the financials of the business case are fully-loaded, and the ROI

> for doing a mobile app in one year is just not there. *Even though* the real ROI is, if you don't do this, then you won't *be* in business in five years! But try to get *that* by the CFO, even if he is digitally-enabled….

"Sometimes you can disrupt yourself, but you also have to be careful," Goetz cautioned. "At the end of the day, it's about how you add value to your customers. We want to adapt to the changing world, adapt to our customers, be differentiated, and add more value. Digital will have to be a huge part of that. But I'm not sure it's 'Blow everything up and create something new.' It's about leveraging what we're already good at, and leveraging technology, to add value."

"In hindsight it's easy, right?" Paanakker asked.

> If you go back ten years: 'Should we do e-commerce?' Looking back, that was kind of a foolish question. So how do we harness the momentum, and rather than having a defensive disruptive conversation, transform it into an offensive disruptive conversation? It's really hard because of our governance, our structures, our decision-making. We had to ring-fenced our e-commerce investments, and by doing that we've been able to get some traction, with different business rules and different governance. Put enough discretionary investments into that bucket, and you can begin to force disruption for the rest of the organization.

"But we're still held to traditional ROI thresholds," Paanakker's colleague Stewart objected. "Meanwhile, competing startups and technology companies don't even *have* profit motives. They're not profitable and they don't want to be: Their goal is to drive growth. They can put massive amounts of capital in play and not be held to strict ROI thresholds. That's a different beast, and we all have to decide how we're going to think about investing in new technologies when that's the environment."

Eaten from the Edges (or One Category at a Time)

"The other thing that worries me in this environment," Stewart continued, "Is the commoditization of real value-added services."

> In the '80s the airline industry raced to the bottom on prices, and that commoditization bankrupted basically every airline in this country. That's exactly what's happening now in supply chain and logistics: Shipping is free, *overnight* shipping is free, returns and exchanges are free. Those are expensive services to provide, and they are truly value-added. Without profit motives, start-ups develop amoral business models, where a lot of the point seems to be disruption for the sake of disruption. I wonder what price we as consumers and we as businesses will ultimately pay for these decisions.

"To me it seems tough to argue that companies like Amazon and Uber haven't been profitable," Plume countered.

> It's just been profits on the cap table and not on the income statement. Almost every start-up is trying to emulate that model. The start-ups that make it are the ones that recognize some tremendous inefficiency in the world, and take it on. The concern for established companies has to be, Is there someone that can do a part of your business better than you can? That's where the start-ups are coming from.

Wayne Shurts, EVP and CTO of Sysco, agreed: "We used to have conversations about how Amazon was going to completely disrupt our company and ruin us."

> It's been awhile, and that didn't happen. But what if someone comes in and takes just one category? They create a great online site and a great customer experience for ordering and delivering that one thing. And then they, or someone else, does the same in the next category?
>
> Our model is built on scale, on having a whole variety of different products that we drop off at the restaurant one time. Our economics take a bad turn quickly when that scale falls away. So we're more scared about the modest look that says, "They can eat us off at the edges," just as retail and traditional grocery has been eaten off at the edges by specialists.

Bruce Burrows, SVP of Finance and Business Transformation from Tetra Pak, gave an example of how a new technology from the outside could disrupt a core business:

> We are the biggest printing company in the world, and our biggest advantage from a customer service perspective is our global capability, which allows us to swap production around the world at need. What if tomorrow there was a digital printer that could print the width we need at the speed we need? That's rather scary. We're going to have to disrupt ourselves by inventing it. The cost is going to be high, but the cost of not getting the digital printer…. Sometimes, the business case is, you still get to have a business.

Cussen from the Bank of Queensland described another category of technology-driven threat:

> The success of the bank comes from the loan book generated through the branches, and the relationship approach enabled when people visit the branch. But now, people are going into the branches less and less. The banking relationship is turning to online and phone. So how do we have a relationship with an online customer that delivers the same inherent personalized service?

"But the problem might be the source of the solution," Cussen continued. "When you log onto our mobile app, you now get your branch manager's photo along with his contact number, and you can call him directly. The next step is to deepen that relationship using data and insights, to provide a virtual assistant on the mobile phone that creates a very personalized relationship."

"It is certainly possible to create loyalty by digital means," Brechbuhl commented on Cussen's point. "There's no company in the world that I have a closer relationship, or more trust in, than USAA. I haven't been inside USAA in probably 30 years, but the ability to transact there, to call and get an immediate response and get problems resolved — it's beyond painless."

"And if I take your USAA transactions from the last 3 months, I can tell who you are, where you live, what stage of life you're at," Murrell rejoined.

> I can turn that data about you into real-time insight, and first offer you the banking services you need at a relevant time, and then an extended ecosystem: I could create a conduit for non-banking products and services that you need, and that you might trust if they're coming from your financial institution. There's huge potential to be very personalized and very relevant. The

> challenge is harnessing all that data and doing something meaningful in real-time without interrupting or abusing the relationship.

Eaton's Blausey described a similar dynamic in the industrial world:

> It's problematic as the physical product becomes less valuable than the information about its behavior. The biggest new value proposition we see, the place where we can make a difference, is based on sensors. Essentially all our products now have sensors on them, but so far we're just scratching the surface in terms of service revenue based on the data. The biggest challenge and biggest opportunity in this space is, "How can we create value to monetize services based on the data from all these sensors"?

Braun described how sensor-derived data has started to change several processes at Chevron:

> Sensors are helping us understand how our products are actually performing. We can generally now have information within ten seconds of real-time: ship-level tank fluid levels, hull pressure, drill performance. We used to have the service model that a device would break, you'd send an engineer, and it would get repaired four days later. Customers have different expectations now, and we have to change how we work with our distributors in order to meet those expectations. Another aspect is that with all the sensors and the information they provide for the data scientists, there's ever-mounting pressure from regulatory bodies and public sentiment in terms of expectations for us to operate safely: "How can you not know when something is going wrong?"

"So if you had to choose between accelerating your own business model or placing emphasis on a new business model as the way to really disrupt yourselves, which would you choose?" Brechbuhl asked the group. "Existing or new, new or existing?" Two-thirds of the room voted for accelerating their existing models, and one-third for evolving to something new.

"That's too much to put it into a one word answer," Smith demurred. "It's not a mindset issue of whether you believe in new or accelerated. It's what you think about your current state, and where that current state can get you. If your model can get you where you need to go, then you have to accelerate. If it can't, then you have to go with new."

Creating a Culture of Analytics

"From a practical point of view," Gallant asked the group, "What stands in the way of becoming a digital enterprise?"

"One of the challenges," German started, "Is that as we move into the digital era, and my users and my partners in the company expect more and more from IT, we're still struggling with legacy rollouts and functionality, and the level of comprehension across the company is dropping. It was never very high to begin with, and it's dropping even lower."

"So it's managing the legacy environment while trying to move into the new, and there's an allocation of resources issue," Gallant re-stated. "OK, what else, what is someone else's biggest obstacle?"

"That wasn't the biggest," German laughed. "That was only one. The biggest is people, talent, idea generation."

"I'd build on that to say, 'creating a culture of analytics,'" Sturgill added.

> To be successful, we need a baseline of analytic skills everywhere. If you're a professional-level employee, now you *have* to come with some level of analytics capability that doesn't exist today. Bridging the gap between where we want to be and where our talent currently is will be non-trivial.
>
> Years ago, if you had the data you had the power. But now everybody's got the data, so it's those that turn the data into wisdom who win. That can't be a centralized core group: They can supplement, but the skills must be in the business; they've got to be in every function; they've got to permeate the culture.

"Where *do* the analysts sit in your organizations?" Gallant asked the group. "At IDG, we had analysts in IT; we had analysts in finance. But our marketing director kept pushing us, and finally we agreed to put analytics into the business. Then it wasn't someone else's data that we might not like, or not trust, being given to us anymore. The business now *owned* the analytics, and that was transformative for us."

"We have a core group of data scientists who sit in my area," Sturgill answered. "But the vision is that these people are on the leading edge of very complex models. If we don't drive the analytics capability into the business, we will fail."

"But these people are scarce, and they're in high demand," Paanakker observed.

> The key therefore is to create leverage of those resources. The revolution doesn't start within the monarchy, and if you apply the old models, they never work. So we put the analysts into the business, with some governance on the IT side to make sure we're looking at the same data differently, rather than at different data differently. There is some control over what they look at, but they're in change of how they look at it and what they do, because they're close to the business.

"The worst thing you can do is to predefine their job exactly," Smith agreed. "If you're hiring good analytics people, within six months they'll be telling you what *you* should be doing. If you over-constrain the job up-front, you're missing the whole purpose of having these people in your organization."

"And there's a whole new domain that we never touched before in operational analytics," added Mark Meyer, Tetra Pak's Head of Global Information Management.

> We've never played with all the stuff that comes out of sensors and machines, and it's a completely different load and type than the transactional data we're used to. The advanced part is not just to aggregate and drill down, but actually to run models to look for correlations. Only the scientists know how to do that part, but they don't know the questions: the business has to bring those.

Craig May urged the group to make sure everyone gets the message:

> We're using all these tech buzzwords, but take this out of the tech world: How can this help our business world? What do we mean by 'data science?' How can we use 'predictive analytics?' If we can just get to a level of basic fluency, we can form a vision of what to do in the company. A company like Chevron can move mountains when we get our eyes fixed on something and commit to it. But we have to have a clear vision of what we are trying to do.

"Asked another way," Gallant interjected, "How do you essentially 'infect' the rest of the organization with this data culture?"

Burrows described a visit to Nestle's data operations center to answer how they tackle the problem:

> Nestle gets a lot of insights and intelligence out of their main data operations center, and at one point they realized they were creating proponents for data-driven decision making, for insight-driven decision making. So now they identify high-potential young people from around the world, bring them to the data ops center for a few months, and they leave having been converted. Then their job is to infect the organization they go home to — it's part of deliberately changing the culture.

"It reminds me of visiting an oil company and learning they had to have 25-year field guys in the data analysis room to place calls back to their peers," Meyer remarked. "Otherwise their peers in the field would never believe the young high-potential data guys who had never been anywhere near a rig. It's part of evangelizing and legitimizing the data."

"Eastman is a hard-core engineering culture," Sturgill commented, illustrating Meyer's point. "We believe we are making data-based decisions, but when you dig under the surface, there's a surprising amount of emotion and opinion. Moving an engineering culture to data-based decisions has been harder than I would have imagined."

"People balk at data when someone says, 'I've done the analysis and it says you've been going right, but you need to go left,'" Stewart observed. "It changes everything they believe in, and it scares them. Data is effective when it's brought into the system as 'Hey, let's test that. What are we trying to understand? Let's test it, and all agree in advance how we will read the tests.' Then you're not imposing data on them, you're creating a conversation about data."

"The emotion is the symptom, not the cause," Smith explained. "Emotion is elicited because we are all slaves to processes and paradigms. We've been successful with them, as individuals and as organizations. This is the change management we all have to get past."

"Emotions are connected to beliefs, and when your belief is disproved, you will go the other way," Meyer agreed. "It's a condition we have, but it can be cured with absolute data. When the answer is right there, and you know where it came from, suddenly it changes the future."

"So the data's been there all along," May summarized. "And the trick is gleaning new insights, and explaining the different correlations that we hadn't realized: displaying that to the right people so that the data jumps off the page. Data is the language through which the business can tell us what it needs."

The Incubation Realization (with apologies to The Big Bang Theory)

"In the end," Gallant asked, "Who's responsible for driving the digital enterprise, for driving these initiatives? Is there a case to be made for the role of a Chief Digital Officer?"

"That's not a role that's going to stick around forever," Brechbuhl answered. "In certain industries, in certain companies, the role may be useful to push something forward if you have to break down barriers and maybe break some dishes. But long-term, it's going to be the CIO, in a healthy relationship with the people who run the different businesses."

"As a P&L leader, I have to ask, 'What's the CDO role going to do for me differently than what I already expect? Why is this not already embedded?'" Smith demanded.

"It's not a long-term viable role," Day answered. "But if a company is trying to go through a major transformation, and there's not a lot of communication between different business functions, then there could be a short-term role for a CDO to uncover opportunities and help organize to execute them."

"If you're trying to create something and the capability is not mature across the organization, initial centralization may have a purpose," Murrell concurred. "But having it centralized in a part of the organization which is not customer-facing means it's not accountable for results. As the business becomes inherently digital, the team has to be digital at its core. You have to architect for agility to empower business units to be fully digital at the point of customer engagement."

Meyer continued with Murrell's theme: "In order to move from where you are to having digital as part of your business model, you're going to go through a transformation, and the role of the CDO is to focus on driving you from here to there. But then it becomes the new normal, where IT is inherently part of everything you do — it's not afterthought or an add-on, it's not a separate function."

"Isn't that the role of the CIO?" Sturgill asked.

"The CIO has to lead the part that's technical," Shurts suggested. "The business functions have to lead a huge part of becoming digital. Having a separate CDO can be an accelerator to help you get there, but then digital has to become the fabric of what each of us do, as CIOs and as business leaders. So a CDO could be a way to accelerate, but it could also become a way to make sure that the antibodies kill everything, because digital isn't embedded in the organization as your starting culture."

"We may actually be in agreement," Smith reflected. "There's nothing 'chief' about the title 'CDO.' We *have* to have people in our sales and marketing teams who understand the role digital can play, and then create demand for the IT organization and the full digital solution."

"So the CDO position might actually be more permanent," Taylor suggested. "There just might be more of them, scattered throughout the different business units."

Paanakker was not convinced: "IT has to come together with the businesses to drive digital, or it doesn't work. The more you segregate it, the more excuses you create for the corporate antibodies to reject it, or go a different route, or silo it. Bring the ownership together: CMO and CIO, CIO and CFO — they need to figure this out."

"Yes, but there are organizations that don't even know how to get started," Day rebutted.

> You have to have an innovation culture that continuously challenges the status quo and understands where you need to grow. If you can already do that, getting to digital is not as big of a leap. But for others, they need someone to come in and challenge, to come up with the concepts of where they need to be headed. That's not the person who's going to execute everything, but just to get over the hump.

"Right now we have a very risk-averse culture," Braun said, supporting Day's comments. "We have very effective risk identification and mitigation and low risk tolerance: Not exactly what you need in an agile fail-fast mindset. There's a bell curve of where the leaders are in terms of pushing the envelope versus dragging the ball and chain. So we have some re-wiring to do, both of our people and of our leaders."

"You do need a vision for how to make this happen," Stewart concluded, "And you also need organizational support and runway to put that vision into play. At Levi's, e-commerce was part of the retail organization, and over time it probably will be again, but there is a period to incubate the business and say, 'We need leadership representation just for e-commerce, with expertise to be able to build out that business.'"

Famous Last Words

Gallant probed more deeply into the leadership question: "What do you need from the CEO and the board in order to make your companies better at this?"

"They need to understand what's at stake," Sturgill answered. "They need to have a gut-level understanding of *why* we need to do this. Then they need to provide the mandate to form a cross-functional team made up of VPs and SVPs representing critical functions in the business to figure it all out. It can't be just the CIO."

"They have to not apply the old standards for investment to something as strategic as this," Shurts suggested. "If you try to do an ROI on every one of these projects, you'll kill the baby before it grows."

"There has to be the willingness to experiment, to try things, and not necessarily know the answer or have the ROI built out," Blausey added. "It's ok to try some things and not find anything, so then try some other things. But this kind of experimentation is a bit of a culture-shock to a system that is very process-oriented."

"Not everything can fail, you have to have successes to get your momentum going forward. But it almost sounds like it would be good to have a failure and let top management go through it and find out that their lives didn't end," suggested CDS Executive Fellow Don Castle.

"You do have to be set up to succeed right from the start," emphasized Cussen. "The team has to present the new approach, the board has to agree. You have to sell them the plan, and they have to allocate the resources."

"We have to be set up to succeed," German agreed, "But we have to be prepared to fail. With digital, we're going to fail quite a few times. You need to have the support from the CEO and the Board to understand that we are taking this risk because technology is changing so fast, and we don't really have the answers to the questions we're going to be posing. We need to convey that message continually, or the transformation effort is going to be measured traditionally, and that will backfire."

"When the web came out," Gallant reflected,

> In the media industry we all structured with the separate model. We all spun off a little internet group to get people good at this. What we didn't realize was, the internet *was* the business. It was small at that point, but ultimately it was the business, and most organizations were slow to get where they needed to go because none of the learnings were coming back from the other group. We weren't understanding customer behaviors as well as we should have, and a lot of people were trying to protect things that they had always done, because they did them well.

"Those are the famous last seven words of an organization: 'We've always done it that way,'" Sturgill observed. "There's a Mark Twain quotation that gets this exactly: 'It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.' So I don't know if I'd change the organization so much as challenge each of the heads of my business organizations to define an explicit digital business strategy."

"If you look at the gap between how you do business today and digital business, whatever your definition of digital business is, then you have to decide, How long do I have?" Sturgill continued, summing up the question of the day. "Three years, or ten years? If it's three years, you better make digital the default sooner than later. I'm personally more in the three years than ten years group. We all are going to have to make some really big bets quickly in this space, or we will get behind, and never catch up."

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