



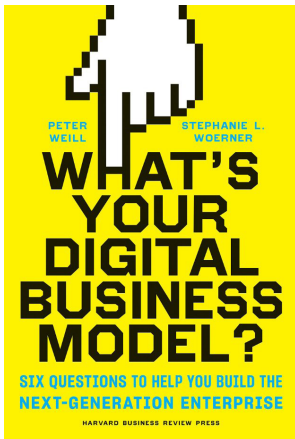
# SIX QUESTIONS TO HELP YOU BUILD THE NEXT-GENERATION ENTERPRISE

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Digitally enabled business transformation is not primarily about technology— it's about change. And it is not whether that change will come, but a question of when and how.

In the new digital economy, many companies won't succeed by merely tweaking the management practices that led to past success. To thrive in a digitized universe, businesses of all sizes will need to reinvent themselves and substantially change their organizations. Yet leaders often lack a common language to assess the degree of threat that digital disruption poses to their business, and—more importantly—the language to create a compelling vision for their company's success.



Since 2012, we have been studying top financial performers via field-based research and through both executive education and workshop facilitation with senior management teams and boards of directors. We have conducted interviews with over fifty companies and collected responses to six surveys from more than a thousand companies.<sup>1</sup>

In this briefing, we identify six key questions to help executives as they develop a company's transformation strategy, and provide an overview of the actions required for success. The briefing derives from our May 2018 book, *What's Your Digital Business Model?: Six Questions to Help You Build the Next-Generation Enterprise*.<sup>2</sup>

1 This research draws from several MIT CISR projects: Digital Business Models (2011–2013), The Next-Generation Enterprise (2012–2016), Digital Disruption (2014–2016), Mobile Apps (2013–2014), Boards (2014), Internet of Things (2015), and Digital Workplace (2014–2016); and surveys: Board survey (N=83), Digital Business Models survey (N=118), Next-Generation Enterprise survey (N=200), Digital Disruption survey (N=413), Mobile Apps survey (N=334), and Digital Workplace survey (N=313).

2 Peter Weill and Stephanie L. Woerner, *What's Your Digital Business Model?: Six Questions to Help You Build the Next-Generation Enterprise*, (Cambridge: Harvard Business Review Press, 2018).

## CHALLENGES ON THE ROAD TO TRANSFORMATION

To achieve successful business transformation requires that leaders grapple with six challenging questions, in the order listed. Your answers must be succinct and evidence-based, and lead to specific investments and behaviors:

1. How strong is the digital **THREAT** or opportunity to your business model?
2. Which business **MODEL** is best for your enterprise's future?
3. What is your key competitive **ADVANTAGE**?
4. How will you use mobile technologies and the Internet of Things (IoT) to **CONNECT** and learn?
5. Do you have the crucial **CAPABILITIES** to reinvent the enterprise?
6. Do you have the **LEADERSHIP** at all levels to make transformation happen?

## WAYS ENTERPRISES ARE MEETING THESE CHALLENGES

Rather than provide frameworks that help you answer each of these questions explicitly—that would take a whole book!—we'll illustrate an approach to each challenge to stimulate your thinking about your own enterprise.



### THREAT: WeChat and WeBank—Enabling Daily Life

WeChat is a social platform that supports the daily life of over nine hundred million active daily users in China. Via WeBank—an online bank launched by Tencent Holdings, which owns WeChat—WeChat provides a digital wallet and associated banking services to its users to enable payment in activities such as going out to dinner, traveling, making investments, buying products, getting health care, or renting an apartment. The company aims to free the user from ever needing to visit a bank or banking app, and provides financial services seamlessly in the background. Many Western travelers in China have suffered the embarrassment of trying

to pay a vendor who won't take cash or credit cards but will take WeChat (it's accepted almost everywhere in China).

WeBank—which employs mostly data analysts, not bankers—and WeChat represent a major threat to traditional banks, and could eliminate the need in its market for a traditional bank. What kinds of threats affects your business?

### **MODEL: Aetna—Building a Healthier World**

Aetna, a \$60 billion managed healthcare enterprise serving both individuals and employers, has a vision to become a healthcare destination—a big shift from its beginnings of selling health insurance to employers. This vision helped propel the company's 12 percent annual growth over the five years preceding 2015. Beyond the inclusion of its health plans in many public health exchanges, Aetna wants to become the place that a subset of customers increasingly heads to for their health and wellness needs. To reach this goal, Aetna needed to extend its business from primarily B2B transactions (managing enterprises' healthcare plans) to both B2B2C (B2B plus engaging end customers directly on healthcare solutions) and B2C (solely direct end-customer engagement) while learning more about its customers' health and wellness needs. Aetna is increasingly focusing on a multiproduct and multiservice customer experience that integrates the enterprise's own products with those of third parties, such as health and nutrition coaches, and other related services, such as credit cards.

Perhaps Aetna's success in reinventing its business model and becoming a healthcare destination explains why CVS is acquiring the enterprise. What is your future business model?

### **ADVANTAGE: Schneider Electric—Creating a World-Class Customer Experience**

One of us vividly remembers speaking at a strategy retreat for Schneider Electric senior executives in Hong Kong in 2012. There was huge excitement in the room about digital's potential in new value creation at Schneider Electric while building on the core strengths of the enterprise. When asked what the best source of competitive advantage would be in three years, Schneider Electric's executives responded with overwhelming agreement: world-class customer experience. This mutual call to action would require substantial work on the company's product offerings and digitized platforms. Schneider Electric then embarked on a three-year internal company transformation program called "One Schneider." It connected the diverse set of assets, platforms, people, and brand identities amassed by the company over years of acquisitions. The goal was to form a cohesive identity within the enterprise that would

enable employees across all levels and departments to unite in delivering a great customer experience. The result: a 20 percent increase in revenues from cross-selling.

Schneider Electric is unifying around building a better customer experience. What is your key source of competitive advantage?

### **CONNECT: Competing to Control Your Smart Home**

Enterprises are already waging a battle over your home. For example, Philips and FluxSmart manufacture IoT-enabled light bulbs, Motorola and Belkin produce connected cameras, and Honeywell and Nest enable IoT-connected environmental management. There are IoT-enabled locks by Schlage and August, IoT televisions by Sony and Vizio, and IoT-enabled everything else is on the way. Which enterprise will you trust to coordinate the varied connected home products you have chosen, controlled via a single app on your mobile device? That enterprise will have access to your data, and tremendous power in the IoT network.

Notice that in each of the preceding challenges, there is a traditional player and a new entrant vying for leadership. That is a typical pattern of digital disruption: traditional businesses undergoing transformation are being challenged by new entrants. It's no surprise that Apple introduced Apple HomeKit to coordinate your smart home. But what about Amazon (via Alexa), ADT, AT&T, and the many others? All these enterprises are vying to be the "controller" of your smart home. How will your enterprise use the IoT and mobile to connect and learn?

### **CAPABILITIES: DBS Bank—Making Banking Joyful**

One of Asia's largest banks, DBS Bank, has been on a journey of digital transformation, building new capabilities that include innovation at scale, improved customer knowledge, and reusable digital banking services. This has resulted in increased innovation, revenue growth, and cost savings, and produced more engaged and committed DBS employees and happier customers. To align employees on a simple but common goal, DBS senior management chose a key performance indicator: the number of customer hours saved in engaging with DBS. So far, DBS's improvements—the outcome of initiatives that include automating processes, mapping customer journeys, and strengthening data analytics—have saved two hundred fifty million customer hours, while also improving internal productivity to save one million employee hours.

To achieve such outcomes, DBS asks its senior leadership to be more facilitative and less directive, as well as more

innovative. The result? As of November 2017, 14,800 of DBS's 22,000 employees were actively engaged in the bank's more than sixteen different innovation programs. In an example of innovation, DBS launched a paperless, branchless, mobile-only bank in India: digibank, where a customer can open an account in just ninety seconds, and which attracted over one million new customers in the first year. What new capabilities do you need?



### LEADERSHIP: BBVA—Learning from Success

Francisco González, Group Executive Chairman of BBVA, declared in 2014, “We are building the best digital bank of the 21st century.” The vision and cultural changes were summarized into six strategic priorities to help achieve the chairman’s declaration:

- Create a new standard in customer experience
- Drive digital sales
- Develop new business models
- Optimize capital allocation
- Obtain an unrivaled efficiency
- Develop, inspire, and retain a first-class workforce

The results have been very encouraging, with BBVA achieving number one or number two in customer experience in its top countries. Digital sales are up significantly, to about 25 percent of total sales.

Several of the important lessons BBVA has learned have been about leadership. Digital transformation mandates a

strong vision, with leaders’ hard decisions guided by company purpose. Digital transformation requires a single team with a single plan—like the bank’s global and local units that, once distinct, have joined forces in hundreds of agile scrum teams. Enterprise leaders have to find the right balance between pragmatism and a visionary approach. Finally, leaders must get the entire organization onboard, including every person in the branch network. Every employee has to play a role in the new digitally transformed enterprise—to feel like part of the team and that their contributions matter.

Is your leadership—and entire enterprise—ready?

### TRANSFORMATION CAN TAKE A CIRCUITOUS ROUTE

We have found that companies transforming using digital capabilities—23% of companies in our research—have margins 16% points higher than their industry average.<sup>3</sup> But most enterprises don’t get their transformations right the first time. Iteration is as critical as vision and inspiration. It’s rare—in fact, we can’t remember any examples—to see an enterprise create a great vision, plan for transformation, and implement without significant course corrections. Enterprises need to answer and act on the six questions we’ve posed and then iterate, learn, and course correct to get to the next step in the continuous journey of reinvention—all while getting buy-in across the enterprise. Flexibility, resilience, and perseverance differentiate success from failure.

<sup>3</sup> P. Weill and S. L. Woerner, “[Future Ready? Pick Your Pathway for Digital Business Transformation?](#)” MIT Sloan CISR Research Briefing Vol. XVIII, No. 9, September 2017.



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