BOXWOOD

Point of view:

Digital last

Why a 'digital first' strategy can destroy value.

Overview

Why a 'digital first strategy can destroy value.

Many of Boxwood's clients are busy grappling with 'digital strategies', creating 'digital roadmaps' and building 'digital capability'. All laudable stuff you might think, given the opportunity that new technology presents for commerce.

Unfortunately, many of the digital projects being pursued are ill-conceived and value destroying. The proverbial 'tail wags the dog': when technologists' over-enthusiastic digital plans triumph over customer needs and business common sense. The result is value destruction as customer expectations around personalisation and convenience are raised and the cost to serve goes up without any sign of an associated price rise. Margin is destroyed and the cycle grinds on until only those with the deepest pockets are left. Of course, ignoring the technology revolution and hoping that it all passes you by is also not an option. Eventually, you pay the price. Either your business will die as customers flock to a more relevant competitor, or you will have to invest heavily to catch up.

There is a smarter way. Instead of a 'digital strategy', technology investments should be driven by your customer engagement strategy or your productivity programme. Fundamentally, with the exception of essential IT spend to deliver fundamental services, any technology investment should be closely aligned to your value proposition and must help to deliver a sustainable competitive advantage.

This viewpoint sets out the reasons why leaders are often seduced by technology. It then provides a framework for making good decisions on technology investment. Finally, it provides some tips on how best to make this happen.

Boxwood works with ambitious business leaders to transform their business and deliver profitable growth. The most common challenge we are currently dealing with is how to adapt the value proposition and operating model to embrace the benefits of technology and drive customer loyalty without losing money.

So, let's begin by exploring some of the hype.

Why technology is so alluring...

1.

Clever people say it's important.

'The web changes everything. (Everything = Everything). Embrace it. Totally. Or else.'

Tom Peters

Management gurus, consultants and technology companies have a vested interest in this topic. It is no surprise that every conference you go to and every white paper you read bombards you with the need to 'digitise' your business. There is, of course, a great deal of truth in this. However, spotting the difference between a genuinely innovative idea that will enhance your customers' experience and something that someone wants to sell you because they built it in a software factory in India is increasingly difficult.

Unfortunately, tech-savvy execs within many companies are seduced by the hype and use it to justify increased budgets, enhance CVs and generally do exciting work. As a result, many leaders find it difficult to maintain a balanced perspective. It is very easy to be persuaded when you are subjected to well crafted, technology-driven arguments about why you must invest or die.

2.

Technology is advancing at a scary pace.

We all know about smartphones and tablets. The speed of adoption for new devices is accelerating exponentially. In 2012, the number of mobile phones in the world exceeded the number of people. Gartner estimates that the number of tablets globally will rise from 120m at the end of 2012 to 665m by 2016. The next thing is wearable devices that claim to be your 'life assistant'.

Google Glass is a pair of spectacles weighing 45g containing sensors, a camera, a microphone and a prism for beaming data directly into your eye. It has more computing power than the Cray-1 supercomputer, which cost $8.8m to build. It guides you through busy streets, receives personalized offers in stores and allows you to communicate with your friends at the touch of an ear lobe.

It's not just hardware of course. A dizzying array of social media platforms have sprung up. In addition to the usual suspects - Facebook, Twitter, YouTube and Google - there are newer arrivals: Pinterest, Tumblr, Foursquare, Flickr, Instagram, VK and many more. There are now 10m photos uploaded to Facebook every hour, 3bn likes or comments every day and a billion tweets every 2 days. The result is that every day the internet expands by half the size of the whole web back in 2005.

These innovations offer an unprecedented opportunity to engage your customers in new ways and create a more meaningful and valuable relationship. They also offer a great way to rapidly destroy your cash reserves and your brand if you make a mistake.

3.

(Most) consumers are adopting technology and new shopping behaviour.

Generation C is the latest demographic segment. 'C' stands for 'connected'. This generation is not defined by age but by behaviour, enabled by technology. Here's how they think:

'I trust my friends, not companies/brands'

'I want a personalised, relevant experience'

'I will share my data, but I want something back'

And most importantly:

'I am in charge'

This generation has overcome the 'big data is watching you' fear and plunged into a world where their data is everywhere. IBM estimates that 90% of the data in the world has been created in the last two years, largely driven by social media.

This major behavioural shift in consumer behaviour is a serious challenge for consumer facing companies. The customer is increasingly in control, well-informed and willing to use their power. It is tougher than ever to win trust and easier than ever to destroy it. Let's not forget, however, that not all customers are 'Gen C'. 95% of grocery shopping is still done in a store. Ignoring these customers is a very bad idea. This is a case of and, not either/or.

So, as always, it's a balancing act. Ignoring the impact of technology is as bad a response as over-reacting. Many companies have adopted a 'spray and pray' approach (sometimes labelled as 'agile'). Deploying technology at an alarming rate without thinking it through wastes a great deal of money and can damage your value proposition rather than enhance it. Reacting quickly is important in the digital world but not at the expense of intelligent choices and managing execution risk.

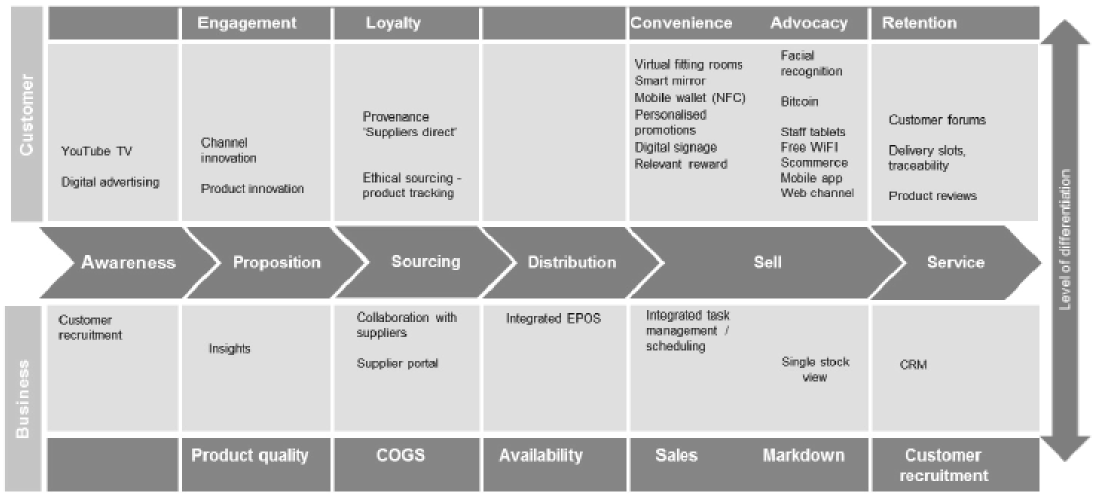
How to avoid making (many) mistakes…

Fundamentally, it all starts with a deep understanding of why customers should buy anything from you. Why is your proposition compelling, relevant and sustainable? It may be one thing, but is more likely to be a series of small advantages woven into a unique offer that wins.

Leaders must have a deep and shared understanding of what differentiates their business. They also need to know what hygiene factors they cannot afford to ignore.

Then they need to know which activities actually deliver this advantage and how good they are at doing them. They also need to understand where trade-offs exist: time, quality, service or capacity. This level of understanding is surprisingly rare, especially today when customer preferences are changing at pace.

With clarity comes confidence. However, a decision-making tool also helps. Boxwood has developed a tool that helps leaders identify which technology investments will add the most value to customers and the effectiveness of the business.



How it works…

The diagram depicts an example of value-adding digital investments mapped onto a retailer's value chain. At the top are those investments that materially improve customer engagement. On the bottom are those investments that increase productivity and allow the business to deliver faster, cheaper and better. The nearer the core of the value chain, the more of a hygiene factor the digital opportunity is. The closer to the edge you are, the more differentiating and value-adding.

The text around the edge of each box indicates which part of the proposition you are improving. This diagram should look different for every organisation and reflect their point of difference.

The purpose of the tool is, of course, to allow leadership teams to seize control of technology investment and ensure that money is only being spent on things that will make a difference. By considering all potential investments this way and comparing with strategic priorities, choices are more easily made and bets placed with more confidence.

For example, for this fashion retailer ethical sourcing is a vital part of building trust with consumers, so a 'supplier direct' digital channel is a key investment priority. Providing consumers with a direct view of manufacturing conditions and the opportunity to interact with suppliers is a critical differentiator.

Once you have decided what your digital priorities are, this should be combined with other, non-digital, investments in a business transformation roadmap to create a complete picture.

Tips on how to make it happen…

The new world out there requires some new thinking within your company to ensure success:

1.

Adopt a new model of decision making.

One of the main impacts of 'big data' is actually on how leaders make decisions. We are moving from an age of causality to one of correlation and making purposeful choices on where to invest in technology is a good example. Essentially, this means that the old method of hypothesis-led, root cause analysis driven decision making is increasingly less relevant. The vast array of data available now means you can analyse what is happening and accept it as the truth, without needing to know why. This is a big shift and challenges the 'justify my gut instincts with data' approach often adopted by leaders. It also places much more power with those who control the data and interpret it. This is mainly the CMO, who becomes more accountable and powerful. They must own customer insight and the act of translation.

This change will take time. It is still not possible to predict everything based on data. The day 'big data' runs our lives is still some way off. 'Rubbish in, rubbish out' is still a fundamental issue.

2.

Be agile.

Agile can be a misused term and an excuse for chaos. It does not have to be. The concept of rapid testing and development is a good one, especially if combined with some good choices on strategy.

An example: one of our fashion retail clients has recently been testing a series of innovations in store. They are a good example of using an agile testing method and applying the 'fail fast, fail forwards' principle. One of many examples is iPads in store. They tested fixed iPads where customers could browse for stock in a dedicated part of the store. This became a dead zone in the trial stores. Customers clearly did not come into the store to use technology, they wanted to see and touch the product; experience the brand. On the other hand, iPads deployed with shop floor staff turned out to be a major success. When customers could not find the items they were looking for a staff member could locate the stock on line and transact there and then for home delivery or collection at any store. Winner. Sometimes, technology cannot replace a human touch.

3.

Engage, educate, eradicate.

Even in a digital world, people are still the most important thing. Getting your people to embrace a new way of working that leverages technology for the benefit of customers is not without challenge.

The first, and often biggest, challenge is the leadership team. Phillip Clarke took on a 'reverse mentor' – a 28 year old who sits with him once a month to explain how he is using social media. One CEO we know collected all the leadership team's BlackBerrys and threw them away in favour of smartphones. If you are going to win connected customers, you need to be connected.

The next challenge is building confidence in technology among your staff. Two thirds of retailers provide one day or less of technology training each year. Laura Wade- Gerry described this as one of the biggest challenges at M&S. Staff in stores were typically not as tech-savvy as their customers and it took an extensive education programme to help the staff get comfortable with the in-store tablets and use them with customers.

Sadly, there will always be those who refuse to engage with the technology required to do the job. Fear of technology and a resistance to learning new things is a natural response. However, this is not acceptable to connected customers. If staff are not able or willing to adopt new ways of working and engage with the necessary technology or data, they have to go.

Conclusion

'Digital first' is not a retail strategy. Customer centricity is. However, ignoring the impact technology can have on your business is also not an option. Creating the right environment where you can make very deliberate decisions on what key technology investments will accelerate your business's performance is critical. This, rather than the technology itself, is the number one challenge.

Of course, this challenge will fall predominantly on the shoulders of the leadership team. Embrace it. Commit to it. Enjoy it. Remember, as Steve Jobs said: 'The journey is the reward'.

Talk to Boxwood.

Matt Clark | Director
T +44 203 170 6025 | E. matt.clark@boxwood.com

15 Old Bailey
London
EC4M 7EF
United Kingdom
Tel +44 (0)203 170 7240
Fax +44 (0)203 170 7241
Email info@boxwood.com
www.boxwood.com