

WHY DIGITAL MATTERS NOW

The road to Future Ready

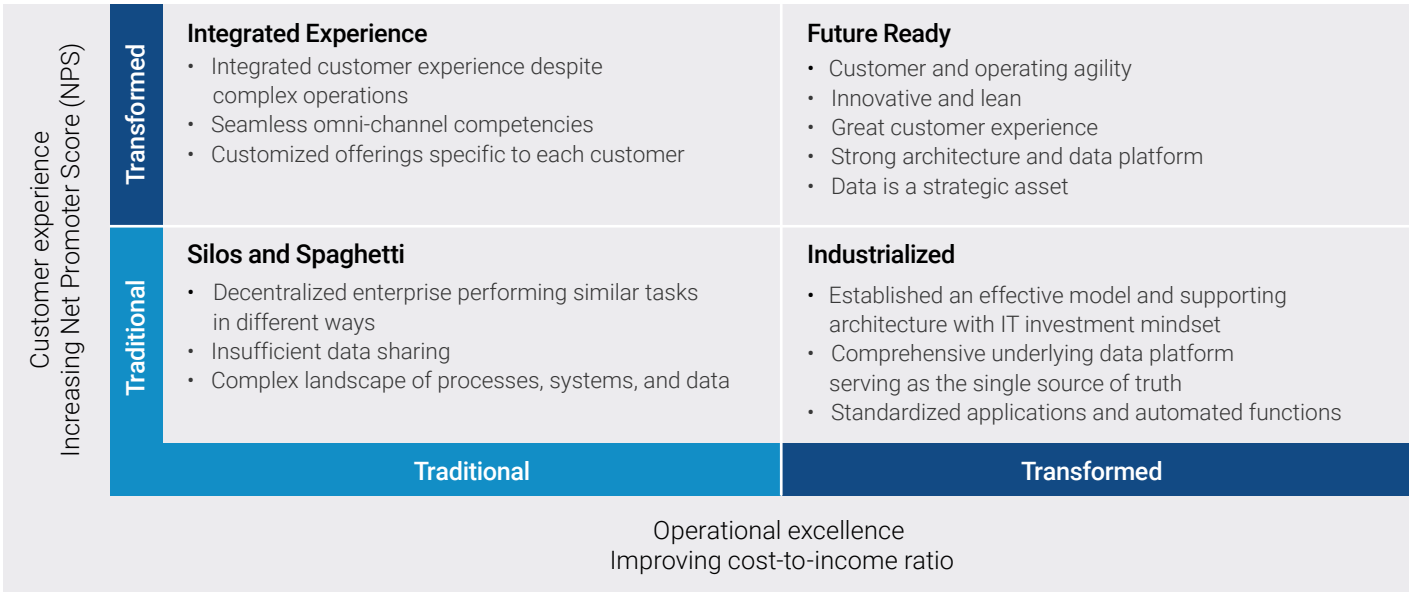
Most business leaders understand the *why* of digital transformation: the greater a company’s digital capabilities, the better the company will perform. The *how* is another matter altogether.

To confirm the *why*, joint research conducted by AlixPartners and the MIT Center for Information Systems Research (CISR) in 2017 concluded that digitally transformed companies are more profitable and valuable than their industry peers.¹ Recent MIT CISR research and interviews in 2020 confirm the findings: these companies are even more profitable now.²

To touch on the *how*, such companies, which we call Future Ready, are distinguished from their less digitally advanced rivals by the presence of comprehensive underlying data

platforms. These powerful platforms collectively manage all data and digital capabilities that enable both strong customer experience and operations excellence. Future-Ready companies give their customers a great experience regardless of which of the company’s channels they engage through. The company’s operations are managed with near real-time information using data as a strategic asset through a single source of truth, enabling them to operate more efficiently and engage stakeholders more effectively (figure 1).

FIGURE 1: STAGES OF DIGITAL MATURITY



Source: ©MIT Center for Information Systems Research (CISR)

1. *The Race to Become Future Ready*, AlixPartners, April 21, 2017

2. Weill, Peter and Woerner, Stephanie. Update on the Four Pathways to Future Ready, MIT CISR, MIT CISR Research Briefing Volume XXI, Number 2, February 2021

By contrast, traditionally run organizations that use old-fashioned, silos-and-spaghetti business models come up short in customer experience and operational excellence. They cannot effectively compete for customers because they can't effectively target or service them as Future-Ready companies can. They also can't operate their business as efficiently because of their disparate and overly complex data systems.

Broadly speaking, there are four categories that companies fall into on their digital transformation journey.

Companies that have not begun their journey fall into the Silos-and-Spaghetti stage. These companies are decentralized and perform essentially the same tasks in multiple ways. There is little data sharing across departments and functions, and their IT landscape is fragmented, with diverse and disparate processes, systems, and data.

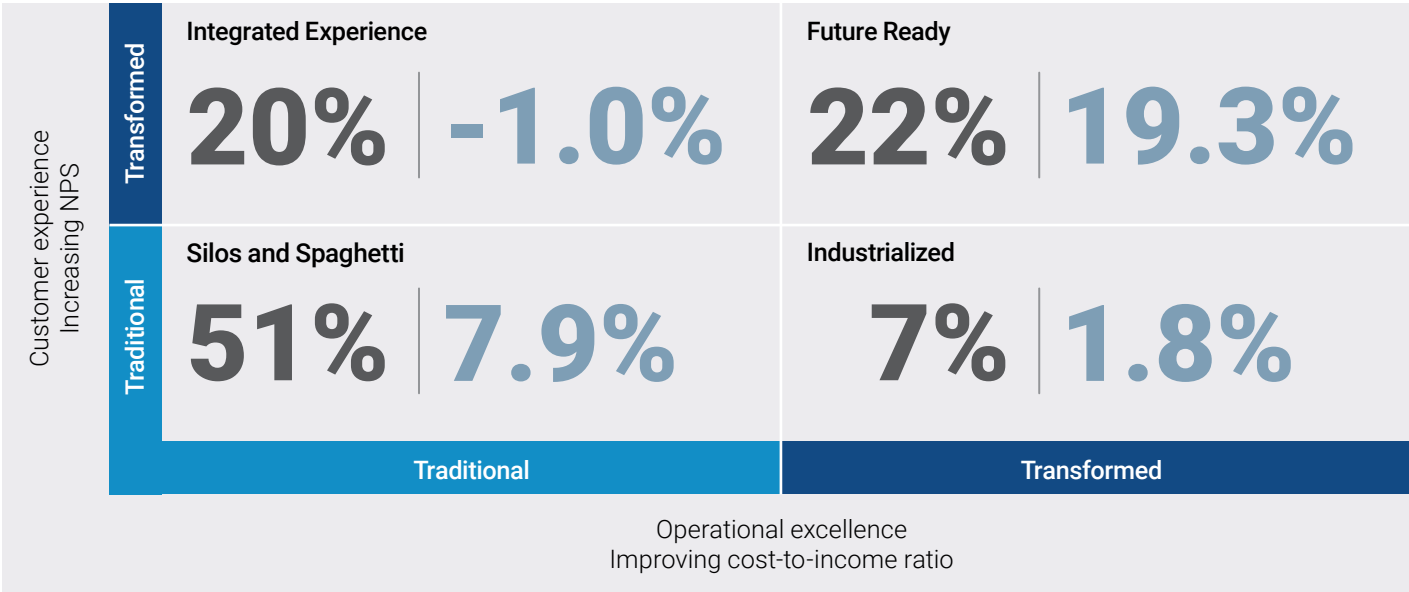
Companies that have advanced to the Industrialized stage have started to break down silos and develop an underlying data platform that makes it easier to collaborate across their organizations. They have standardized the way common functions get performed, and they continually strive to automate them. However, they have not yet made digital investments in improving customer performance.

At the Integrated Experience stage, heavy investments in front-end technologies have started to pay off in the form of new customers and sales growth. But because investment in operational technologies has not kept pace with front-end investment, Integrated Experience companies struggle to execute on customer experience and service, suffering reputational erosion because they can't fully deliver on their promises to customers.

Future-Ready companies have a unified IT environment that relies on comprehensive data platforms that serve as a single source of truth and enable common, enterprise-wide processes, standardized applications, and automated functions. Their customers experience a seamless transaction process and are highly satisfied with the purchase experience and ongoing customer service.

The differences in performance among companies that have digitally transformed (Future Ready) vs. those that have not (Silos and Spaghetti) and have in part (Integrated Experience and Industrialized) are compelling. Approximately 22% of companies are Future Ready, and they are nearly 20% more profitable than their industry peers. Integrated Experience companies, which focus on customer experiences, see temporary uplifts in revenue at the cost of declining profits. Industrialized companies, which emphasize operations excellence, achieve profitability gains at the expense of revenue growth. Traditional companies that have made no progress toward digital transformation lose all the way around, suffering steady declines in revenue and profits (figure 2).





FIGURE 2: FUTURE-READY COMPANIES HAVE HIGHER NET MARGINS COMPARED WITH THEIR INDUSTRY PEERS



■ Percentage of firms ■ Percentage points above or below industry average net margin
Source: ©MIT Center for Information Systems Research (CISR)

Below are examples of companies that have met requirements to be Future Ready and are reaping the benefits (figure 3). They balanced their efforts to improve the top line and sustain operational excellence to mutually reinforce growth and profitability.

FIGURE 3: THE FACE OF FUTURE-READY BUSINESSES

INDUSTRY	BUSINESS NEED	REVENUE LEVER	OPERATIONS LEVER
Consumer products 	Improve inventory management and customer experience	Show customers what's available in stock and when it can be shipped	Inventory data platform with algorithms that dictate purchasing and items picking/shipping decisions
Manufacturing 	Improve demand forecasting and manufacturing efficiency/effectiveness (Sales & Operations Processes – S&OP)	AI analytics platform that predicts customer orders based on history and numerous assumption inputs	Product profitability and scheduling solution that determines best way/place to manufacture to maximize profit and deliver timely to customer
Healthcare provider 	Improve skilled labor utilization and maximize revenue per patient visit	Matching supply of physicians and other clinicians to patient and care facility demand	Collection calculator tool that determines what to collect for each visit based on procedure, payer, and clinician type
Oil & Gas production 	Improve asset utilization and ROI	Price sensitivity simulator showing the profitability of a given well, depending on price, to decide whether to operate the well	Comprehensive fully-loaded cost system that accounts for all costs of operating each well and adjusts for cost movements

Now that we’ve established the financial rewards at stake and identified pathways for transformation, we will explore what it takes to get there in future articles. Companies that are lagging need to move quickly to develop an underlying digital platform with strong business intelligence capabilities and utilize it to provide customers with a great experience and manage operations with near real-time information and automation on the road to Future Ready.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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