Digital Transformation:
Leading Success at Growth Companies

A CohnReznick LLP White Paper

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The early adopters have weighed in—a well-conceived digital transformation delivers breakthrough business models, creating unprecedented levels of growth, efficiency, and innovation. Companies are embracing digital as a means to improve customer engagement to drive value creation and competitive advantage. Companies need a high impact, fast response digital approach that is iterative and relevant to their size and complexity. In this paper, we look at the market factors shaping digital transformation and five principles for success.

Today's Digital Environment

Digital technology is *hot*. Start-ups are flourishing, the data scientist has been declared as "the coolest job of the 21st century," and coding has established street credibility. Consumers are enjoying a multitude of connected devices and applications, enabling them to become more astute, social, and empowered. Businesses are leveraging technologies such as mobility, cloud computing, and big data to improve customer engagement, innovation, operation processes, and decision-making. As a result, technology platforms and capabilities to support digital transformation are continuously evolving.

Digital Transformation:

Embracing technology to radically improve the performance or reach of an enterprise.

Digital advances such as cloud computing, mobility, social media, analytics, and smart embedded devices can improve the use of traditional technologies such as ERP to change customer relationships, internal processes, and value propositions.

Market Forces Shaping Digital Transformation

Customers are rapidly changing. The demands of the digital customer have put tremendous strain on the traditional business model as informed and empowered customers wield increased power to choose where and how they spend; influencing how business is conducted. Many companies are struggling to evolve into a customer-centric model where the consumer is at the heart of all business decisions. Those that deliver a personalized customer experience based on consumer preference will hold a significant competitive advantage. The outcome is a dramatic increase in customer lifetime value.

Businesses face intense pressure for internal efficiency. Leaders constantly strive for innovative ways to accelerate speed to market, reduce costs, and improve quality. In today's digital economy, operational excellence demands agility. A lack of investment in core systems has rendered many legacy technology systems obsolete and unable to support today's increased pace of business, inhibiting the potential for efficiency gain. Short-term solutions such as legacy technology extensions to new mobile and cloud-based applications are simply not cost effective and add to an organization's technology debt.

Industry changing technologies are creating opportunity and risk. Unique industry imperatives have caused businesses to rethink how they will anticipate and address future market demands. The commercial real estate industry is a prime example. Digital technology is expected to deliver an abundance of new opportunities such as using beacon technology to target retail shoppers in malls or leveraging sensors for preventative maintenance that can predict equipment failure. Industry specialization will clearly challenge service providers to offer cutting-edge solutions.

External digital disruptors are leveling the competitive playing field. Bold new market entrants such as AirBnB, Uber, and others are forcing well-established companies to digitally modify their existing business models. Late-comers among this digital euphoria risk watching their industry transform around them as they lose market share and opportunities to more agile, forward-thinking competitors.

Executing Transformation is Challenging

While the need for a successful digital strategy is fairly obvious, planning the transformation journey is not. In fact, a 2015 Gartner survey indicated that, by 2016, 70% of digital business initiatives will have failed to deliver business growth. This failure is due to lack of business model innovation, effective change techniques, organizational liquidity, and process adaptability[1]. Many business technology professionals are stymied by an array of new and powerful technologies to build the next generation of solutions.

Companies that attack digitization strictly through technology and traditional implementation methods are not fully achieving the value of digital. A truly digital organization aims to innovate customer interaction processes, workplace structures, information sharing, and even the competition. To succeed, companies need an agile, "right sized" digital transformation approach.

> Many early adopters have found that digitization is more than just a change of tools. According to a recent *Harvard Business Review* article, "A company must embrace a new culture and mindset, where hierarchy fades and innovation happens through networks."

Five Principles of Agile Digital Transformation

Agile digital transformation is based on evidence that successful digital transformations occur through continuous innovation—by radically changing business models and capabilities in measured steps, over time, and as resources allow. This empowers organizations to launch, learn, and re-launch digital initiatives, swiftly reacting to changing market conditions and customer needs.

Agile digital transformation initiatives embrace five core principles:

Principle 1

Start with a Transformative Vision

Start with an overarching vision of the what, not the how. Think about "customer experience transformation" not "mobile marketing" or "social media." More importantly, envision the company's new business model and how the new digital company will advance. Digitization allows a company to dream big, imagine the unimaginable, and push the boundaries of the traditional business model.

According to a recent Gartner survey, 63% of business leaders indicated they don't really know the possibilities of next-generation technology. Not surprisingly, just 13% of respondents said they have identified the next major digital business technology investment. The reason for this is simple. The company lacks a *transformation vision* that will map out digital strategy and, more importantly, give the business the ability to measure progress and make real-time adjustments to improve outcome. Senior management must create, articulate, and communicate the compelling future digital vision. Transformation does not occur bottom-up.

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[1] *http://www.gartner.com/document/code/273009?ref=grbody&refval=3119120*

Focus on Building Digital Customer Engagement

In the late 20th century, marketers made products and services available through digital channels. Today, product portfolios are becoming apps. Customer expectations, swayed by digital innovations, stress legacy models as customers rarely accept an experience that is good enough, causing business models to transform to deliver exciting and personalized customer experiences and to maintain engagement. The music industry transformed when it responded to what customers really wanted— ongoing access to their favorite music united with perspectives from friends, critics, and the musicians themselves—through a business model that disrupted the limitations of a physical world.

Successful digital transformations center on building customer intimacy to drive engagement. Digital customer engagement is approached differently than traditional digital or marketing projects. They include three characteristics:

1. Digital technology is built around the front-end customer experience—unlike marketing initiatives of the past that were more back-office marketing automation and Customer Relationship Management (CRM) focused.

2. Technologies and techniques cannot be purchased off the shelf as an integrated package. Instead, there are sets of applications and emerging platform tools that create value by enabling a digital ecosystem that automates the customer experience through social, data, cloud, and mobile.

3. Exposure to new growth opportunities—not by adding digital features to existing products, but by changing direction and considering how products and services adapt to the digital customer.

Support the Vision with Secure Digital Platforms

When using our mobile devices and tablets, we rarely consider the underlying infrastructure that enables our digital experience. In the corporate environment, Enterprise Resource Planning systems have molded and dictated the application landscape for more than 20 years, resulting in monolithic structure, high cost, and limited flexibility. Over the past few years, the Cloud has begun freeing up the application landscape, wrestling control away from the handful of dominant traditional development vendors. Today's applications originate from a variety of new sources including online catalogs and exchanges. Seemingly the entire world can now be considered part of a company's IT organization.

In this environment, platforms are the dominant innovation channel. Some of the best innovation in today's marketplace is happening outside of the company's four walls, limiting the need for the expansive research and development teams of yesterday. These powerful digital platforms feature open Application Program Interfaces (APIs), open datasets, service catalogs, integration frameworks, solution guidance, and collaboration tools enabling a business to quickly create their own market based on customer-focused solutions leveraging enterprise grade information and services. With limitless technology partners, digital platforms allow for intelligent use of Cloud, Big Data, social media, smart "Things", and mobile devices. Leading organizations are implementing, in gradual phases, digital platforms to bridge the steady and predictable world of enterprise systems with the agile, opportunistic landscape of digital transformation. Digital platforms let business owners, partners, and even consumers rapidly create next-gen solutions based on market or customer change.

> "Kaiser Permanente implemented its digital health platform to enable clinicians and its 9 million members real-time access to medical information.
>
> This digital platform empowered the company to service its clients via mobile apps, self-managed services, and virtual consultations, along with storage of biometric consumer device data."

While next-gen solutions and digital platforms have opened a host of new, low cost, dynamic solutions, they have also introduced a Pandora's Box of next-gen risk. The digital world is one of extreme connectivity and open architecture. This has challenged IT departments in keeping up with security and risk management solutions. The clash lies in the inherent slowness of back-end IT compliance versus the swiftness and agility of digital platforms. However, hiding behind an impenetrable firewall is a digital innovation killer, so these new risks must be managed.

Organizations must prioritize risks germane to their specific operation. With the hottest application today being security, they must manage risk using smart tools to quickly detect intrusions and respond in real time. Secure interfaces to digital platform components are the key to liberating existing IT assets and enabling digital innovation and growth. While security of assets and data is paramount, the right strategy will support the speed, safety, and growth required in today's digital economy.

Drive Insight with Data-Driven Visualization

Principle 4

Progressive digital organizations not only constantly gather data but connect and visualize that data in a context that generates insights that can be acted upon. The key to unlocking real-time data intelligence for dynamic and unified customer engagement is understanding and addressing customer personas and micro segments.

Traditionally companies have a reasonably strong foundation of sales transactional data. However, this data often lacks the necessary dimensionality to create meaningful demographic, attitudinal, and predictive insights. In addition, data rarely is augmented by leveraging publically available and purchased data.

CASE STUDY: Transforming Restaurant Sales Through Data Visualization

A national restaurant chain used data visualization to inspire actions that could increase same store sales. They found that creating impactful visualizations and dashboards is not just an exercise in providing information to the masses.

When developing visualizations or a dashboard, the company identified the highest priority personas and user stories. The company resisted the temptation to create a dashboard that meets the needs of every stakeholder.

Next, a prototype was created to provide visuals to answer questions that drove meaningful actions for the organization. For example, measuring overall market share, while nice, likely won't change significantly on a day-to-day basis. The company defined a threshold for regional concerns when market share fell outside of statistically significant norms. This approach ensured visualization contained actionable and meaningful content.

STORIES
- User Research
- User Personas
- Scenarios of Use

VISUALS
- Legacy Systems
- Brand Standards
- System Designs
- Creative Design

DATA
- User Research
- User Profiles
- Scenarios of Use

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The restaurant chain then worked with the data to better use white space and data hierarchy to tell clearer stories. This helped various audiences to:

- Quickly understand high-level overview information from data

- Access more information as needed

- More readily use the company's data to answer questions and strategize effectively.

In addition, the restaurant chain learned that:

- Visualizations enabled eventual user acceptance, co-designers became key project advocates

- Iterative simulations facilitated enhanced user feedback, enabling the Management team to better anticipate and respond to project risk.

- Additional cycles of user feedback helped identify functionality best suited for specific populations.

- Visualizations became robust vehicles for communication and advanced end-user training of the future system vision (movies, etc.)

- End-user engagement created "project buzz," ultimately supporting the communications and change management efforts
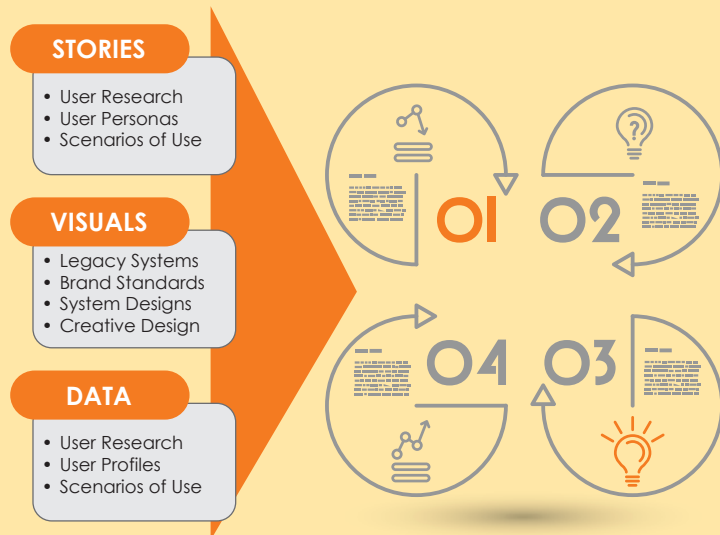
Many organizations are using data visualization to communicate information clearly and efficiently to users through statistical graphics, plots, infographics, and dynamic tables and charts. Effective visualization helps users in analyzing and reasoning data and evidence. Data visualization makes complex data more accessible, understandable and usable. It accelerates a stakeholder and executive's understanding and decision-making around technologies and capabilities, reducing rework and, ultimately, application development costs.

Embrace Digital Agility to Create Advantage

Business leaders often struggle to execute expansive projects due to constantly changing market and customer conditions. The traditional business model features disconnected, non-integrated platforms by business function and projects with 6-18 month lifecycles. Quite often, by the time the project is completed, market and customer requirements have changed with success criteria and ROI seldom realized.

To avoid these pitfalls, companies must embrace adaptable differentiation by developing a "digital agility advantage" that allows a company to embrace market and operational changes as a matter of routine through the use of digital technologies. Digital agility initiatives are rooted in 30-day sprints with new iterations built better and faster. This allows an organization to consistently experiment and adjust—the concept of learn, launch, re-learn, re-launch—refining the approach in manageable iterations. Successful firms in the digital age must demonstrate an awareness of how to be agile. Then, they must be able to execute in an agile way—including how they manage innovation and governance.

Digital agility supports digital innovation in empowering a company to continuously evolve digital strategy based on prior outcomes and program feedback. Best practice companies typically assess their digital maturity across capabilities while exploring innovative options to drive radical growth for their business. A digital innovation framework is essential for successful transformation management.

Digital governance presents a challenge in that there are numerous internal and external partners involved as well as numerous platforms, frameworks, and designs. To further complicate matters, the work may be deployed globally, making geographic management and risk mitigation a challenge. Most common is centralized coordination of digital programs. This governance structure outperforms silo, hub, and global organizational mechanisms. Coupled with a monitoring program through key performance indicators and scorecards, radical organizational change can be achieved.

Business Outcomes from Agile Digital Transformation

We're in an era of digital disruption. Agile digital transformation is a way to bridge the gap between traditional and new business models. Globalization is commanding efficient integration of businesses which can only be achieved through digital processes and collaborative platforms. Customers are demanding new ways of engaging. As competitors and new players make digitally-enabled practices a reality, businesses must harness the power of transformation to remain relevant and competitive.

What benefits should a company expect to see from its transformation? The answer: increased revenue resulting from superior customer experiences, improved long-term enterprise value though enhanced process agility, continuous innovation, and improved returns on IT investments through best-of-breed platforms that reduce an organization's technology debt.

Increased Value	Improved Profits	Reduced Risk
Accelerated revenue performance through better conversions	Increased agility and reduced TCO enabled by streamlined customer processes	Better insights, reliable processes and future-proofed platforms

Summary

With shifting customer demands, companies with inflexible platforms will lose customers and market share to their more agile and disruptive competitors. Agile digital transformation allows companies to dream big and improve incrementally by taking smaller steps quicker while making real-time adjustments to improve outcomes.

With the customer at the center of the digital universe, companies must leverage technology to deepen customer engagement. The five principles of agile digital transformation enables companies to unlock transformational value by creating a vision, building a flexible and secure platform to support the vision, driving insights to make quick and impactful business decisions, and leveraging agility to govern continuous innovation as a competitive advantage.

The digital world will continue to up the expectation ante and agile digital transformation empowers the company to meet these demands head on. Those companies that embrace digital transformation can radically change their business models in a short period of time, providing a sustainable edge based on elevated insight, agility, and the continuous innovation that today's digital world demands.

CohnReznick Digital and Innovation Services

Our digital and innovation services team helps clients unlock value through agile digital transformation. Leveraging our five core principles, clients can revolutionize their business to meet changing consumer demands, discover new sources of growth, satisfy unique industry imperatives, and protect market share. Digital changes everything. CohnReznick changes digital.

Contacts:

Paul Gulbin, Managing Director, Digital and Innovation Services
203-399-1916
Paul.Gulbin@cohnreznick.com

Paul is focused on advising companies on ways to become more agile, innovative, social, mobile, and customer- and employee-focused by making digital a core part of how they conduct business.

John Yin, Managing Director, IT Strategy
973-863-4301
John.Yin@cohnreznick.com

John leverages and maximizes the use of technology to enable significant business performance improvement, with a concentration on digital commerce platforms.

Matt Giroux, Managing Director, Information Management and Analytics
732-590-3966
Matthew.Giroux@cohnreznick.com

Matt helps clients create the business of tomorrow by driving actionable insights. He is well-versed in leveraging analytics to drive SEM results and conversions.

Dean Nelson, Principal, National Director, Technology and Digital and Innovation Services
857-264-3875
Dean.Nelson@cohnreznick.com

Dean leads a team of IT strategists that advise clients on how to leverage technology to support organizational goals and maximize operational effectiveness.

Our Technology Consulting Practice

Today's companies leverage technology to create immersive customer experiences and embrace solutions that help executives stay ahead of the complexity inherent in today's business environment. CIOs must spearhead value creation through game-changing technological agility, innovation, and analytics. CohnReznick helps clients develop IT strategies that enable business transformation, open new revenue streams through digital services, implement cloud solutions to retire dead-end software platforms, and protect digital and financial assets. Our solutions include:

- IT Strategy Consulting
- Digital and Innovation Services
- Enterprise Resource Planning
- Information Management and Analytics
- Microsoft Cloud Solutions
- Cybersecurity

About CohnReznick

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