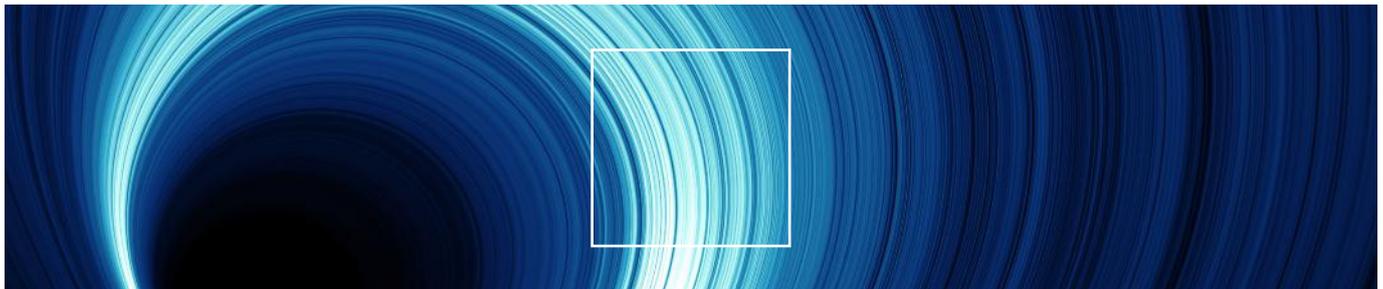


Executive Roundtable: Digitalization

Digital products in non-digital core business: when does “digital” become the new “core”?



Arthur D. Little’s executive roundtable on “digitalization” was conducted in a format that combined impulse presentations from executives with interactive discussions between all participants. For the seventh roundtable, “Hands-on”, in April 2018, the participants met at the Munich Airport Center and discussed several topics inspired by the question, “When does digital become the new core?” The main focus of the cross-industry discussions were insight and solutions for how to stay competitive in environments where “digital business” required new ways of working and thinking and became even more important than the “core” offering. In addition, an example in which a high-risk move was properly executed but still failed was discussed, and led to fruitful insight into the often-preached but seldom-accepted principle, “fail fast”.

Digital roundtable “Hands-on”

The seventh Arthur D. Little roundtable on “digitalization” was opened by Jörg Ebbighausen, Senior Vice President corporate development at the Munich Airport Center and the day’s host, and Volker Pfirsching, Partner in Arthur D. Little’s Technology and Innovation Management Practice and head of ADLdigital. The day’s theme was “Hands-on”. The participants could expect deep insight, intense discussions on the presented cases and an airport bus tour to see the context and products of Munich Airport itself from a different angle. The industrial backgrounds of the roundtable’s attendees were as broad as the range of insight: From aviation to insurance, telecommunications, energy utilities and the mobility industry.



Digital products at Munich Airport

Following the introduction Konrad Best, Vice President Digital, gave the first impulse presentation on digital products at Munich Airport. Just like other airports, Munich Airport has a very clear “core” role: primarily, it is an infrastructure provider. For that reason, it had a situation that could be best described as “greenfield” with regard to digital products and services. While core operations were already strongly supported by IT, digital products and services were rather underdeveloped until a few years ago.

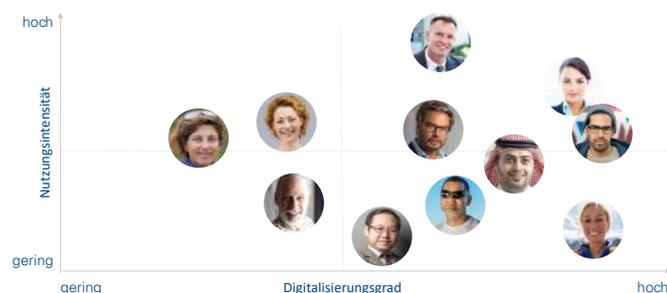
Munich Airport has a broad range of services, mainly around the travel journeys of passengers, as well as other customer services. Best explained two main reasons and triggers for the project to digitalize existing and develop new services. On the one hand, it was a “defensive move” in order to stay competitive in the international market. On the other hand, the airport benefited from the “digital education process” of airlines, which provided almost all of its services in a digital way.

Best’s team focused on four work streams to tackle the digital challenge: digital offerings and channels, digital assets, data & IT infrastructure, partners, and organization & culture. The first results confirmed the greenfield assumption of the current service landscape: Seventy-nine out of 80 services were non-digitalized, meaning many services were in place but not digitally reachable for customers.



Persona-based target modeling

The core logic of Best's team had been a highly customer-centric approach. The central ingredient had been different personas that represented both the majority and the diversity of the airport's customers: local and international vacationers, business travelers, non-aviation customers and many more. In the next stage of target modeling, existing services and channels had been adjusted according to the persona-based customer journeys. While some participants shared their experiences with analytics-based methods for service mappings, Best explained the 1:1 deduction his team had applied in order to represent the demands of their clients.



Key takeaways for Munich Airport from the persona-based target modeling

- Heterogeneous target groups: culture, digital behavior, motivation, travel routes
- Broad variety of needs: from orientation and support to entertainment and discounts
- The customer journey starts at home: the travel journey starts long before packing bags
- Fragmented customer journey: different sources of information, devices and touch points

The challenges of "non core" business

A very vivid discussion emerged from the core challenges of digital non-core business development and ways to get roadblocks out of the way. While the specific challenges of the discussed industry were quite divergent, some core patterns could be identified:

- Team setup: A good mix of functional experts with core business knowledge, as well as "digitals", is necessary
- Mind-set: It is critical to convince employees that the project is necessary to be/stay competitive (even though it is far off the core business "infrastructure")
- Progress: Particularly in business, where core products are visible and "growing" (and digital ones are not), communication of progress fosters internal acceptance
- Business case: Justification of funds without a clear picture of the final product is in stark contrast to the traditional business-case logic of large corporates. New metrics, e.g. average revenue per user can be used as an ambition

From digital delivery to new platform thinking

As a next step to strengthen the digital footprint, Munich Airport was planning to further integrate its digital services across the travel journey. One topic area was stronger integration of shopping and airport services (e.g., lounge, parking), which were largely separated as of the date of the roundtable discussion. A second large focus topic was the integration of services to provide a platform for serving the entire travel journey. One example: instead of "time to gate" information, customers were interested in information pertaining to "Will I catch my flight?"

Greenfield approaches in a brownfield environment

While Munich Airport had had the opportunity to conduct the above-described "greenfield approach" to establish digital services, it was agreed that most grown companies found themselves in brownfield situations. However, although details may have differed, the fundamental idea of target modeling without regard for current restrictions was confirmed as a valid design method, in particular for digital products and services.

Agile transformation of an insurance company

External trends make digital a necessity

Dr. Florian Hamel, Head of IT Strategy at AXA Schweiz, presented the second impulse, insight into the agile transformation journey his company has gone through in the last years.

Hamel started with a short introduction that included a few examples of drivers that had triggered AXA's agile transformation journey:

- "Digital natives" required the insurance industry to change – on the client side as well as the employee side
- An autonomous, shared vehicle would need its own insurance – not the driver!
- New competitors, start-ups and, increasingly, fintechs were changing market dynamics

- Other companies in the ecosystem (e.g., leasing companies) were occupying the customer interface

As a result, the customer interface would increasingly receive pressure from other market players. Nevertheless, AXA had decided to deliberately keep and strengthen its interaction with customers, which required significant changes to its IT landscape.

Internal triggers drive digital transformation

The decisive triggers that had initiated the organizational transformation, on the other hand, had been internal: young employees had simply started to work with agile models in their project teams. The success and spreading of these employees within the organization had led to more and more projects that applied agile models. One year later, the company's IT management had decided that the organization needed to work agile – or lose its young, motivated employees. The next steps that had followed involved a pragmatic, two-month vision and concept phase and a top-down organizational transformation that is still ongoing today. The most striking visible result: AXA's CEO had announced the informal German "Du" (informal "you") as the way to talk to each other among colleagues.



Organizational and cultural change become key for digital change

Hamel summed up the strict approach briefly: "Agile IT development does not only mean that I can send my team through some SCRUM, SAFe or LEAN courses and I'm done. It is much more than that." Instead, he applied a broad portfolio of methods and principles:

- Self-organized product teams
- Agile IT transformation: IT is not the only department that needs to work agile!
- Company-wide transformation, instead of "garages next to the core business"
- Co-located working in agile teams (houses of product)
- Tailored combination of different agile tools and frameworks into a "solution delivery framework": best of breed and adaptation where necessary
- But: the organizational structure was initially not adjusted

However, Hamel and his team had also experienced significant challenges during the transformation. Reallocation of experts, for example, from their previous roles to their new roles as product owners, had been one painful experience for the organization. Consequently, in his talk, he also indicated slight loss of productivity at first, but significant improvement in the long term.



Cooperation for long-term success

The logical next step for further improvement of time to market and innovation competitiveness was the broader use of cooperation and ecosystems. Hamel explained that AXA was cooperating with several start-ups (e.g., for language processing of Swiss dialects), mature companies (e.g., vehicle comparison platforms) and universities (e.g., for blockchain applications). Also in this context the organization had benefited from its agile transformation. It had accelerated interactions, increased attractiveness for partners, and thus improved competitiveness in the race for attractive products, services and the customer interface.

Convergence of digital and non-digital products: Why do some approaches fail?

In the final impulse of Arthur D. Little's roundtable, Dr. Oliver Klaus, Strategic Deal & Business Development Executive at T-Systems Schweiz AG, illustrated another highly interesting, real-life example of digital transformation: He explained why some companies had failed to manage the convergence of digital and non-digital products.

Klaus discussed the situation in the telecommunication market after the market entry of WhatsApp. The presented telco company had decided to react to the market entry by disrupting its own product and price point with an IP-based text and voice service at a much lower price than before.

The implementation approach had applied many principles that had proved to be successful in other cases:

- Organization units outside of the core business
- No "classical" reporting structures
- Cooperation with start-ups for more speed
- High budget and huge marketing effort for product launch



Initial success, but lack of sustainability

The initial results had been overwhelming: the product launch had been a huge success with – relative to market size – extremely high download and user numbers that had exceeded expectations. In the long term, though, the initial idea to offer and charge additional services had not materialized. Plus, the services had failed to remain competitive in comparison to WhatsApp, which offered worldwide reach and a growing portfolio of services. In the end, the service had been discontinued.



Why the right execution is not necessarily a guarantee of success

Following the introduction, the participants discussed reasons for the long-term failure of the presented example. Although many things had been done right in the implementation approach, the previous strategic decision, “What is our new digital core?” had not been answered – with full consequence. The result had been a local offering that competed with a global platform and was not able to offer enough value-add.

To round up the discussion, Klaus and other participants highlighted the positive aspects and takeaways from the case, which were just as insightful as the reasons for failure:

- Successful reasoning and enforcement of internal cannibalization (“destruction” of 30 percent of revenues)
- Successful implementation approach and market entry
- Try and learn: Learnings had been absorbed and internal reorganization had been conducted in hindsight

Summary and outlook

Following the discussions on three very different case examples – two success examples and one failure that provided just as much insight – Volker Pfersching summarized the key findings and gathered feedback on topics for later roundtables.

From the numerous feedback, two major themes emerged and will be covered in the following roundtables.

- Measurement of digital projects in the classical world: How can digital projects be reasoned in a classical KPI world? What steering mechanisms allow enough flexibility? How can courage be incentivized and rewarded?
- Innovation at scale: Hubs/labs/incubators: What are the right formats for what purposes? External innovation units are prevalent. But which ones are really successful? How can scaling be organized?

The next roundtable, focusing on one of the topics above, will be organized in the fourth quarter of 2018.

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Arthur D. Little

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