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Corporate digital strategy as a compass to navigate through digitization

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Consolidating Reddal's learnings from digitization from the past year, this article shares insights on best practices to form a digital strategy. It offers a strengthened strategy building approach with an emphasis on understanding both the future and the company itself.

Executive Summary

Problem	**Why it happens?**	**Why it happens?**
Many industrial goods manufacturers find it difficult to implement a meaningful digitization strategy. As a result, their portfolio of digitization efforts becomes haphazard, and many initiatives do not deliver the expected results.	Traditional companies lack the required in-depth understanding of the external market and their digital disruptors' drivers. Often a clear assessment of internal capabilities to be competitive in the evolving market is also missing.	The digital strategy building process typically requires an extensive external market analysis that also covers adjacent domains. In addition, a careful internal assessment is needed to set goals and define the roadmap for digitization.

Today, every company is a digital company or on its way to become one. However, many companies face challenges when trying to synthesize a corporate level digital strategy. Often, this also leads to execution failure for digital initiatives. The challenge is particularly pressing for traditional companies, such as industrial goods manufacturers. This article discusses how companies can better develop their digital strategy by forming a complete view of the external environment and assessing their internal reality to successfully define their digitization journey.

In a previous Reddal Insights article (see "*When traditional manufacturers encounter digital disruptors*") we talked about digital disruption in manufacturing, suggesting that traditional industrial goods manufacturers should understand how new market entrants and technologies pose a fundamental change in market dynamics. Specifically, as digital technologies enable new opportunities and competition is expanded beyond the traditional

boundaries of business, a fresh perspective is needed [1]. Faced with digital disruption, many companies have rushed into their own digital journeys, as they present a strategic opportunity to expand their offerings [2] and create new methods of value creation [3, 4]. At the same time, we have observed that the attempts to drive digitization often result in disappointing rewards, or even failures, due to lack of a “big picture” perspective.

Why many companies fail to implement digitization

What we typically see at a company pushing a digitization initiative is the following: First, they have a strong position in their traditional business. Second, they have a growth-oriented strategy which enabled them grow to where they are today. Third, the market for the legacy business has been moderately stable in the recent past. Lastly, there are on-going, scattered efforts with a digital future in mind.

The situation worsens when that company suddenly faces the full force of digital disruption in the market. There are challenges from not only newcomers, but also from traditional competitors who are strengthening themselves or their offerings with digital elements. Customer buying behavior, needs and preferences are also changing rapidly. Compounded by industry convergence and new dimensions of competition, this leads to a fragmented, chaotic ecosystem, which blurs a company’s original position within the market. External forces notwithstanding, there are obstacles within the organization as well. The first is the lack of focus and direction to successfully address those threats and capture opportunities from digitization. Moreover, the organization will have structural and capability constraints, the foundations of which have supported their growth and success in the past. There is a dichotomy between the past and the new reality.

The automotive industry is a case in point. With advancements in technology and a digitally savvy customer base, the traditional market landscape has fundamentally shifted. Previously, the landscape was rather stable, with 13 traditional OEMs in the top 15 producers and only 2 new entrants between 2001 and 2016 [5]. However, the automotive industry is now seeing the growth of new players such as Tesla, BYD, and NIO. Furthermore, as vehicles become a platform for digital experience, tech giants like Google and Apple, mobility providers such as Uber, Grab, and Zipcar are entering the market from other directions [6]. As new entrants leverage their software competence and expand the scope of the industry, traditional OEMs feel the pressure to protect their base and participate in the changing ecosystem, in one way or another. However, players’ assets and prior investments including the workforce act as an obstacle rather than an advantage.

Such complexities indicate that companies need to re-evaluate how digitization is done. While a well-constructed digital strategy is a clear solution, it must be understood that developing a digital strategy goes beyond normal strategy — unlike a familiar strategy building process, digital strategy must address two crucial issues pertaining to external outlook and internal assessment. Only then can a well-coordinated digitization journey emerge.

Phase 1: Conduct external analysis for market outlook

The first phase to building a digital strategy is forming a vision of the future market through external analysis. By drawing implications of digitization trends and understanding opportunities and threats thereof, a company can prepare for a digital future. At Reddal, we have noticed that this external analysis is best conducted through four steps:



Figure 1. The four steps of external analysis.

Mapping and understanding digital trends is the first step. The key is to be as objective as possible. While internal experts provide insights into market trends, it must be understood that digital forces can drive the market in a completely new direction, as we have seen in the automotive industry. As such, it is important to carefully identify and evaluate the forces driving the industry change. These include technological and regulatory trends, as well as the changing wants and needs of the customer.

Once a company understands the forces driving industry digitization, it must gain insights into their business implications. In practice, this amounts to prioritizing certain trends to focus resources for further actions. Prioritization, in turn, must consider the implications to value creation, including new business opportunities, cost structure implications, and the cost of remaining passive to digital trends. Eventually, understanding the prioritization of trends and value creation implications will lead to a view on possible directions of industry development.

The third step of external analysis is verifying industry scenarios and the relative maturity level. After establishing a view of the industry, a company must understand what it means to be competitive. The current state of the industry must first be assessed. This can be done through a benchmark analysis of digitization activities and maturity of competitors including traditional competitors, market disruptors, potential market entrants, and players in adjacent industries. Based on developments of industry players, a company can consolidate the most likely direction of industry development.

Lastly, the company’s vision of the future industry is finalized. After having mapped overall digitization trends and understanding business implications, industry development scenarios, and requirements of competitiveness, a company must formulate its consolidated view on the future field of play. Based on its stance, an analysis can be done on the future state of the value chain and ecosystem roles. This helps to gain a solid big picture view.

In a recent engagement, Reddal interviewed executives and sales managers from various levels in a global industrial equipment manufacturer undergoing digitization. The focus of the interviews was to identify what customers aim to do with digital technology and how the company could support their initiatives by enhancing or expanding its offerings. The wide applicability of their equipment obfuscated overall trends, as it became clear that industries have varying expectations of what value digital offerings can bring. To establish a digital

value creation logic for the company, a series of workshops with different stakeholders were held to agree on which trends to prioritize. One major finding was that market players utilize digitization as a tool to expand their offering scope. This trend, along with others, was then corroborated with competitor benchmark analysis and finally verified with customer interviews. Based on these findings, digital opportunities and threats were identified to complete external analysis portion of digital strategy.

Phase 2: Assess internal capabilities for digitization

The second phase of digital strategy development is an examination of internal capabilities and future readiness. Note that sometimes phases 1 and 2 can occur in parallel and can feed each other. The basis for this introspection is the big picture view emerging from the external analysis. Depending on the goals of digital initiatives so far established, the scope of the following inquiry and thus, digital strategy, will greatly vary. Furthermore, it is crucial that an objective, cool-headed assessment is carried out, as this phase requires a deep dive into the strategic decisions, product offering, and the supporting operating model that have enabled the company's growth and success. The internal assessment can easily become political, so care is needed to make sure this does not happen. Like its external counterpart, internal assessment can be done through four steps.



Figure 2. The four steps of internal assessment.

The very first step to assess the strategic distance to the new or upcoming operative reality. Since digitization is inherently new and disruptive, it is imperative to judge whether ongoing strategy and initiatives are critical and compatible with the digital future. After evaluation, a decision can be made whether to complete the current strategy cycle implementation before moving further or proceed on digital strategy.

Secondly, a company must assess its offering maturity. Digitization enables both strengthening of core offerings and expansion into new offerings. In our work we have observed that in some cases digital solutions are packaged with traditional hardware offering and in others the company in question shifted its focus from offering hardware to AI-powered software solutions. Regardless of which path a company chooses it must first evaluate the maturity and competitiveness of its offerings, and readiness for (further) digitization. This includes not only technical capability analysis but also a realistic assessment of the customers' readiness for digitally enhanced core offerings.

The third step is to evaluate the readiness of the company's operating model for digitization. Digitally enhanced offerings, as well as their delivery, affects many business processes as digitization paves way for automation, tailoring, and scalability that are usually not built into the existing operating model. Furthermore, digitization can play a big role in unifying the

company in terms of processes and operations across geographies. Given this nature of digitization, the current operating model must be thoroughly revisited for a comprehensive gap analysis, including process, organizational structure and responsibilities, IT tools and data, and soft skills (for more details on the role of soft skills, see "*Optimizing sales managers' role in digital sales transformations*").

Finally, a company must assess its financial and operative capabilities to support digital strategy implementation. The objective is to conclude whether a company can afford digital initiatives by carefully looking into available financial and operative resources, and to understand what limitations must be taken into consideration. Often digitization may result in cannibalization of some existing offerings, and this must then be carefully assessed to derive the appropriate path forward.

In a recent client engagement, we assessed internal readiness by working together with specialists from different business units. The findings supported the hypothesis that the company was ready for digital strategy and were coherent with the external analysis indicating that digital offerings were crucial to the customers. Using inputs and expectations obtained from customer interviews, we defined a set of digital core offerings for short- and long-term goals. With a target offering in place, we identified gaps in the current operating model, culminating in a transformation roadmap for processes, IT tools, and other elements of the to-be operating model.

Phase 3: Form a unified, corporate level digital strategy

Once the input from phases 1 and 2 regarding external and internal assessments are ready, synthesizing a coherent overall digital strategy on the corporate level becomes the natural next step. Here we provide a brief overview of this phase, with an emphasis on defining and evaluating digitally enabled strategic options:



Figure 3. Methodology for forming a corporate level digital strategy.

The first step is to define ambitions and structure the issues. A good practice is drafting first hypotheses to formulate an initial set of ambitions and issues, which can be modified on an as-needed basis as new facts and insights come into light.

The next step is to build the storyline and roadmap for the strategy. In other words, assess and decide on strategic options. This is particularly important in digital strategy as digitization provides a company with many different options. For instance, a company may choose to digitize any combination of its offerings, internal operations, sales, customer relations, and so on. In addition, there are further options of M&A and other potentially novel structural options to implement digitization. Thus, it is important to understand the value creation logic behind each action by asking questions such as how to optimize the sequence

of digital building blocks and managing them to reap the intended effects. Evaluating these options and testing sensitivity is crucial to develop an actionable execution plan.

The third step is planning the execution and aligning the operating model. Specifically, defining strategy phases and key actions, establishing a timeline and KPIs for assessment, finalizing resources for mobilization are required. Also, in this step — with gap analysis from phase 2 serving as input — potential issues with the operating model should be addressed.

Finally, an implementation plan is drafted, laying out the phases of implementation and defining resources needed in the initial stage and follow-up processes. It is particularly important to define an iteration cycle and how to align management planning as the strategy evolves (more about this in "*Securing strategy implementation through iterative operating model design*"). This not only makes the digital strategy more effective but also provides flexibility to changes and further market dynamics.

External and internal analysis: missing puzzle pieces of corporate digital strategy

Faced with the changing winds of digitization, traditional companies such as industrial goods manufacturers often face difficulties in forming and implementing a successful digital strategy. Their strong position, growth-oriented strategy, and stable market in their legacy business contribute to the challenge. Adding to the headache are digital disruptors and digital initiatives from traditional competitors that stir up the ecosystem. Fragmented efforts towards digitization in this context are to no avail.

Fortunately, drafting a digital strategy can be done through an iterative strategy building process with an emphasis on drawing a clear picture of the external environment and internal reality. The external analysis aims to draw implications of digitization trends to understand the opportunities and threats, thereby enabling the company to prepare in advance. Its internal counterpart is to evaluate whether and how the required changes can be done. Once these elements are in place, an industrial manufacturer can integrate them into a digital corporate strategy.

Lastly, it is important to remember that building a strategy is an iterative process that benefits from broad participation (see "*Using a (massively) participative strategy process for corporate change – lessons learned*"). Digitization may have ripple effects throughout the whole organization, serving as a unifying factor across business units, processes, and operations. With this in mind, corporate executives should build and refine digital strategy with input from all business levels, again and again. The resulting global, corporate-level, unified digital strategy will reap the benefits of digitization.

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