

Innovation & Transformation

Digital Transformation

Digital transformation is the fundamental rethinking of a company's management that uses the digitalization of operational customer relationships, business strategies, and processes to initiate a far-reaching change process to prepare products, services, and business models for the conditions of an increasingly digitized world.

In this article, you will learn more about digital transformation and learn to see this reality as an opportunity rather than a threat.

This article is of only for managers and executives, but for everyone who wants to understand the fundamental changes in the business world.

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1. Digital Transformation

The emergence of new digital technologies and the threat of replacing existing solutions and processes (digital disruption) are forcing companies to change and transform their business models and processes. The fundamentals, rules, and assumptions that used to govern the evolution of business processes are no longer valid, as the digital age and pandemic have changed the rules of the game. This digital revolution is here to stay.

And many companies are asking the question: How can we adapt to the digital age and transform ourselves?

But more important that HOW is WHAT and especially WHY to transform, so that a clear understanding of the best way to change and transform emerges.

2. Definition of Digital Transformation

There are many definitions of digital transformation. If we Google the string "What is digital transformation?", the following definitions are the ones that appear on page 1 of the search results:

- “Digital transformation is the integration of digital technology into all areas of a business, fundamentally changing how you operate and deliver value to customers”, The Enterprise Project
- “Digital transformation is the rewiring of an organization, with the goal of creating value by continuously deploying tech at scale”, McKinsey & Company
- “Digital transformation is the process by which companies embed technologies across their businesses to drive fundamental change. The benefits? Increased efficiency, greater business agility, and, ultimately, the unlocking of new value for employees, customers and shareholders”, Accenture
- ...

Common to all of those definitions are the following terms:

- Digital technologies
- Business processes
- Products and services
- Create and deliver value
- Customer experience

But Digital Transformation goes beyond these terms. For us, Digital Transformation is not a purely technological issue. Digital transformation is a question of strategy, new ways of thinking, and actions. Much more important than changing the IT architecture is for a company to update its strategic mindset.

Digital Transformation must be led and driven by those with real decision-making power, and in this way, support and promote the necessary changes (and transformations) at all organizational levels.

Our definition is therefore:

"Digital transformation is the cultural, organizational, and business transformation of an organization, making use of digital technologies, and having its customer at the center of this transformation".

3. **What is the difference between digitizing, digitalization, and digital transformation?**

- Digitized involves making something digital or creating it digitally. For example, if you create an online version of a printed newsletter or magazine or use an electronic signature to sign documents online.
- Digitalization is about using digital technologies to change your business model and become a digital organization. An example is the use of cloud computing to store data or automation to streamline workflows.
- Digital transformation is a process of reinvention. It involves leveraging digital technologies and processes to create new systems, cultivate a digital mindset, and exploit new business opportunities.

4. **What is the difference between change and transformation?**

Transformation means creating a new future through change, without the limitations we had in the past. And innovation is an important part of any organization's transformation. But today, there are countless organizations that claim to be in transformation, when in fact they are only undergoing change.

A sentence once appeared in SAP's Business Transformation Journal that said: *"When a snake sheds its skin, it changes; when a caterpillar becomes a butterfly, it transforms".*

And MIT's George Westerman articulated this point well when he said: *"When digital transformation is done right, it's like a caterpillar turning into a butterfly. But when it's done wrong, all you have is a very fast caterpillar".*

Organizations involved in change initiatives often have only the illusion of transformation. They improve the models of the past, but transformation means creating the future.

And as long as leaders do not understand the difference between transformation and change, they will cling to the illusion of transformation, believing that they are transforming, when in fact they are only repairing the past, trying to make up for the failure to modernize in previous years, to pay off their "technology debt".

These organizations are so busy and preoccupied with creating fast caterpillars, that they remain static in the face of transformation, becoming increasingly vulnerable to the digital disruption they can't see coming.

5. Dangers of Digital Disruption

Digital disruption refers to a change in expectations and behaviors caused by digital capabilities, channels, or assets, which radically alters industry, market, and culture. New digital technologies, services, capabilities, and business models affect and change the value of existing services and goods in any industry. Portfolio evolution happens in a disruptive way during disruption because you are unprepared for fundamental change.

These new elements disrupt the status quo and force organizations to re-evaluate the current market in relation to the goods and services being delivered and, possibly, adjust. This does not work in every case.

6. Opportunities of Digital Disruption

History has many examples of superior technologies supplanting the status quo, some disruptive developments have been:

- The automobile replaced the horse.
- Electric light replaced oil lamps.
- Cell phones killed the landline phone.
- Video killed the radio stars.

This disruption fundamentally and comprehensively affects the way business is done. It affects technology (e.g. invention, use, design, etc.), business (e.g. marketing, development, pricing, etc.), industry (customers, methods, processes, norms, etc.), and society (movements, culture, habits, etc.). In these extrinsic impulses for change, companies can pull along and gain.

7. Importance of Digital Transformation

The following are some examples of a completed transformation. There are companies in the sectors of business and society that have been successful and some that have failed due to digital disruption.

- Netflix disrupted Blockbuster by focusing on DVDs instead of VHS tapes. Netflix continues to disrupt the status quo as a major player in the video streaming business.
- Smartphones should be part of every conversation about disruption. Today, smartphones are everywhere and have virtually killed landlines and payphones.
- The invention of email has put a dent in post offices – why bother writing a letter, mailing it, and waiting for several days for the recipient to receive it when you can send an email in a fraction of the time?
- Why would anyone want to invest \$1,000 in buying these bulky encyclopedic volumes, which will end up being obsolete in five years, when you can log on to Wikipedia and get up-to-date information faster and cheaper?
- Miniaturization, increased processing power, and the advent of wireless technology have rendered desktop computers almost obsolete. Laptops and tablets offer everything a computer can offer, but with the added advantage of mobility and convenience.

Digital transformation is no longer a buzzword; it is a necessity. An organization can undertake digital transformation for several reasons. But by far the most likely reason is that it must. Digital transformation is a matter of survival.

8. Framework for Digital Transformation

While digital transformation varies widely based on the specific challenges and demands of each organization, there are some common constants and themes. There are many published case studies and frameworks that business and technology leaders can consider as they embark on digital transformation. For example, the following elements are frequently mentioned in any digital transformation:

- Customer experience
- Operational agility
- Culture and leadership

- Workforce enablement
- Digital technology

We can particularly suggest **David Roger's Five Domain Framework**, which provides a structured approach to define an organization's digital transformation strategy.

This framework recommends five domains to develop the transformational strategy:

1. **Customer:**
Understand and meet changing needs and expectations of digital customers.
2. **Competency:**
Identify and respond to digital disruptors and new market entrants.
3. **Data:**
Leverage data to drive insights, innovation, and operational efficiency.
4. **Innovation:**
Develop a culture of continuous innovation and agility.
5. **Valor:**
Re-evaluate the creation and delivery of value in the digital world.

Across these five domains, digital technologies are redefining the principles of strategy and changing the rules for organizations to succeed.

Many old constraints have been removed and new possibilities now exist.

Pre-Internet organizations need to realize that they must now update their fundamental assumptions if they are to survive digital disruption and have a future in the digital age.

9. Digital Transformation and Customers

In the wake of the pandemic, an organization's ability to adapt quickly to disruption (supply chain, time to market, rapidly changing customer expectations, etc.) has become critical.

And improving the customer experience has become a crucial objective and, therefore, a fundamental part of digital transformation. Customer experience drives digital transformation. Every digital transformation begins and ends with the customer.

As digital technologies reshape industries, organizations must adapt or risk becoming obsolete and suffering from digital disruption.

As we've mentioned before, digital transformation is not only about technology but also about strategic mindset, business models, organizational culture, and customer experience.

It's about new ways of thinking and doing.

10. **Opinion**

Organizations that want to grow and succeed in the face of digital disruption may consider adopting the following five actions:

1. Develop a consistent digital culture across the organization.
2. Create new customer experiences and generate unique outcomes.
3. Move from time-based decisions to data-driven decisions.
4. Incorporate new business models and technologies into existing services and products.
5. Work with business partners to create and innovate new products and services.

In the past, digital leaders focused on automating and improving the processes of an existing business. Today, digital leadership requires the ability to reimagine and reinvent the business itself.

Whether you are a seasoned professional or a budding entrepreneur, we want you to be inspired to embrace digital transformation as an opportunity, not a threat. After all, in the digital age, the future belongs to those who are willing to adapt, innovate, and continuously evolve.

For a successful Digital Transformation, organizations need to update their IT architectures, but the most important change concerns strategic thinking.

About advisio

The advisio GmbH team consists of competent employees with many years of experience in the areas of business innovation and transformation, organizational project management, and information and technology governance.

The use of frameworks and practices for organizational innovation and transformation is one of our core competencies. Upon request, our specialists offer consulting and training services in the areas of business transformation, customer experience, business innovation, product management, value management and change management. With this knowledge and experience, advisio GmbH accompanies its customers on their innovation and transformation journey into the digital age.

If you are not sure how to start the innovation and transformation process in your company, advisio will help you to identify it. Do not hesitate and make an appointment for a non-binding consultation.

About the Author

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