

3 steps to market-driven digital transformation

Climb the Stairway to Digitalization, a step-by-step model to help executives structure their companies' digital transformation



January 1, 2017

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"Digital transformation" has been a hot topic among executives for a decade, often related to the problems, anxieties and fears that get stirred up anytime a new phenomenon arises that requires a radical change to a business's usual way of working. Lately, however, the conversation has started to shift from resistance to acceptance, as executives see the advantages of digital technologies for relating to customers and competing more effectively in rapidly evolving markets.

Sales and marketing executives are among the leading proponents of this shift. This should come as no surprise, given that the need for digital transformation is largely being driven by customers and the market, and these executives are well-positioned to pick up on these indicators.

But it is not just a priority for sales and marketing executives. Digital transformation touches everyone: operations, finance, human resources and IT. Yet they need guidance on creating a cohesive digital strategy. When and how to get started? What are the best practices? What can we learn from others, both the successful steps they have taken as well as their missteps along the way?

To answer these questions, we undertook exploratory research involving 22 companies from diverse sectors. We combined what C-suite executives from these companies told us about their experiences of digital transformation with our own review of the current research on the topic. Then, we developed a model, which we presented to half the executives we talked to before as well as hundreds of other managers, in order to incorporate their additional feedback. We call our model the Stairway to Digitalization (see **Exhibit 1**).

We recognize the muddle that executives sometimes find themselves in with digital transformation, perhaps due to information overload and the rapid rate of change. Our model aims to give an ordered structure to digital transformation, so executives can identify what stage their company is currently at, and what factors might be stalling their progress. We have mainly talked to incumbent firms that were not born digital, so our model is especially designed to help them become competitive in a digitally transformed future. However, we think our model can also help digital pure players as they see competitors catching up.

It starts by deeply understanding the market — how it is changing and how this change will impact the firm. Then, senior management must fully commit to the transformation. Lastly, we identify the essential levers necessary for executing the steps, so that the strategic goal of digital transformation might be achieved — resulting in a new business proposition for the firm.

Step 1: Interpret market forces

Virtually all the C-suite executives we spoke with pointed to changing customer habits as being at the root of digital transformation. Hence, a fixation on customers lies at the epicenter of digital transformation.

Consider an industry that has been profoundly affected over the past decade: travel. Customers looking for a place to stay have very different sources of information than they did just a few years ago, such as other customers' ratings and photos posted on any number of sites such as Booking.com or TripAdvisor. Even after making a reservation, they may keep looking at other hotels and cancel their booking at the last minute if they find a better deal. Or they might rent anything from an apartment to a castle from a private owner on Airbnb. Clearly, the consumer journey has changed a lot.

Worryingly, not all boards and CEOs fully appreciate these changes and where the market might go next. There appears to be a lack of executives and board members with deep knowledge and expertise of the digital world. If the top people in an organization are unable to correctly interpret these changes, they will never be able to start a digital transformation journey.

This is especially important when you consider that it is not just your existing customers that you need to fixate on, but your non-customers, too. It may well be that you are failing to read the signs of digital transformation because your current customer base is not there yet or behaves in an unrepresentative way. You not only need the inside-out market perspective, but you need the outside-in market perspective, too. Non-customers give you additional market information, while your current customer base could be feeding you with self-reinforcing ideas. You want to expand the pie, not just know your own section of the pie really well. It's Steve Jobs' maxim that your customers may not be able to tell you what they want because they may not know themselves until they are presented with it.

By all means, start with your customers, but recognize that you need to cast the net wider. Customers' evolving needs do not happen in a vacuum, but are often shaped by other market actors and the wider environment. Accordingly, managers must be aware of their competitors, collaborators and context.



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