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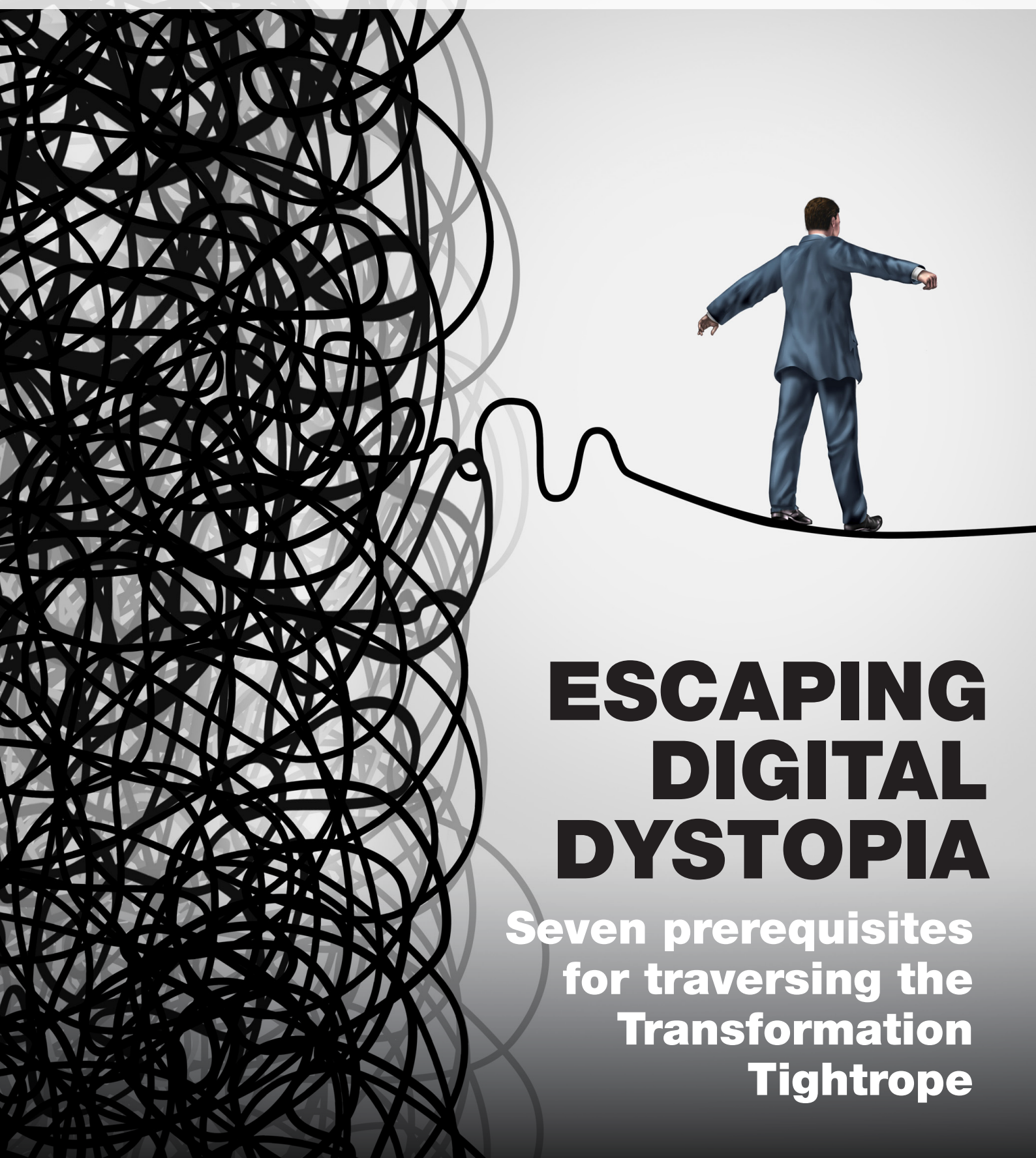
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ESCAPING DIGITAL DYSTOPIA

Seven prerequisites for traversing the Transformation Tightrope

Since Y2K, agile blackbelt big data devops scrums onboarded scale cloud deployment stacks, gamifying paradigm shifts in legacy siloed cyber architecture. A digital transformation. But you knew this already.

The tech industry owns jargon like it claims to own innovation. Business used to be enabled by technology. Today, technology drives business, though not always in a successful direction. So, if you are fundamentally reshaping your business, there are seven things you must watch to ensure that you do not become a prisoner of the technology you adopt.

First, let's start by cutting through the jargon: What is the real purpose of digital transformation?

All areas of economic activity rely on technology. Many businesses have decades-long legacies of technology projects delivering manual and automated processes, robots and CNC machines, alongside software environments, servers, applications and mountains of code linking them all together. Typically there is almost no institutional memory of how all the pieces fit together, or why they were arranged that way in the first place. And when a company grows through acquisitions, the complexity of its technology infrastructure tends to increase exponentially, with multiple environments being connected rather than consolidated. As a result, it is not surprising to see mission critical systems taking input from a 1990s PC, or two key generators producing non-unique 'unique identifiers' for different customers, or different versions of a customer's details being stored in multiple databases.

These technology issues translate into significant business problems, including poor customer experiences, billing problems, or an inability to launch new services. Meanwhile, technology experts love using jargon to persuade businesses that the key to success is to deploy their latest product or service. Just as investors buy into the exuberance of tech bubbles, executives are buying the promises of jargon-driven sales pitches with increasing frequency and cost.

The current mot de jour of technology marketing is 'digital transformation'. You know you need one, but are you really clear that it will add real value and not just a new layer of complexity to the tech stack?

To help you focus, we see seven pre-requisites that are essential to designing a successful digital transformation.

1. Quantitative vision: You need clarity as to how developments in technology will shape the competitive landscape around you over the medium to long term. This means thinking well beyond upgrades recommended by vendors and making sure you understand what new functionality will become possible. As an example, if you are a media business and don't understand the product and device roadmaps enabled by 5G and fibre internet, or the inherent limitations of satellite and terrestrial broadcast technologies, then your strategy is being drawn up in the dark.

2. Business model clarity: Next, you should reflect on how these shifts may enable changes in the business models that will become commercially viable for you and for your competitors. Amongst other things, this will help you to understand likely sources of disruptive innovation, as well as how you

Put simply, digital transformation is the replacement of a manual process with a digital or autonomous system. It can also mean replacing legacy systems with a newer (more efficient) system. Neither of these, however, will be truly transformational for a business unless the process improvements and performance gains unlock access to new markets or products, enable deployment of a new business model, or remove an existential threat to the company itself.

may be able to exploit such opportunities yourself.

3. Strategic destination: Against this background you need to identify your company's optimal long-term strategic destination, and then chart a course from that position back to where you are now. This will enable you to define use cases and architectural requirements of a strategic transformation programme that will endure over time, rather than flop when challenges arise.

4. New value pools: In executing, you need to consider how the proposed digital transformation can unlock new sources of value, not simply in terms of bottom line profits, but also in terms of how your business is perceived and valued. For instance, a professional services firm that successfully digitises its due diligence practice might dramatically shrink revenues in its home market, but establish a true global leader valued as a SaaS-based technology business rather than as a professional services firm.

5. New growth pathways: The best digital transformation programmes will open up entirely new strategic horizons for the business, enabling you to enter new product segments or geographic markets with

greater agility and reduced risk. As with the original assessment of the landscape in which you are operating, you should expect to see rigorous quantitative evaluation of these opportunities, not just slick presentation material.

6. Persuasive vision: Finally, no matter how compelling the board presentation or commercial business case, to be successful you must build broad stakeholder support. This means thinking through and communicating the benefits to employees, customers and other stakeholders from the outset. As a broad rule, technology will enable automation of many administrative tasks, including decision-making. Ideally this will enable improved service by facilitating greater human to human interaction.

7. Learn from the past: "History repeats itself, first as comedy, then as farce." With large scale technology projects, failure can have a much more damaging impact on a business than a bad review of an off-Broadway show. So it's helpful to be realistic about why technology projects are riskier than most other major capital projects, as well as the nature of risks that you must navigate.

As with any major initiative, management focus, strong project management and

effective governance are all essential. This will ensure that every element of the transformation programme aligns with achieving the strategic destination identified. Meanwhile, whilst digital transformations can open new product and service flood gates, not all of these opportunities will be strategically desirable, profitable, or in some cases, even legal. Thus care is required to balance the need for open communication and innovation with appropriate ongoing project governance.

Ultimately the steps we advocate above place a strong emphasis on the importance of long-term thinking and design principles at the start of any major transformation project. Pottinger's transformation practice integrates strategic thinking, a deep understanding of technology and commercial nous to enable management teams to make purposeful choices in the face of complexity, and to implement change programmes in a timely and cost-effective manner.

Andrew is a Managing Director of Pottinger. He has advised on c.A$200 billion in M&A and capital markets transactions and transformational strategies (digital and otherwise) for large scale enterprise clients, the formation of incubators and venture capital funds, and has co-founded and raised capital for disruptive start-ups. P

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Many countries and industry sectors are heading into the most turbulentenvironment seen in the last century. Three simultaneous industrial revolutions, dramatic increases in competition, huge fiscal imbalances, growing geopolitical tensions and a fractured social contract are combining to create a veritable smorgasbord of risk and uncertainty.

The hurricane is gathering force and stormy weather lies ahead.

Yet these same factors also imply that this will be the best possible environment for strong businesses to outperform. How can you make the most of this opportunity?

http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger_ perspectives_-_prepare_for_the_hurricane.pdf

About Pottinger

Pottinger is a global advisory firm headquartered in Sydney and New York. We combine strategic, commercial, financial and transaction perspectives, and focus first on long term outcomes, to deliver commercial advice that is practical and complete. We navigate the uncertainty inherent in commercial decisions, helping our clients to identify value overlooked by others, and to avoid risks which others may not see.

Pottinger helps organisations to adapt, innovate and transform, by providing insight and advice on strategy and public policy matters, as well as the negotiation and execution of M&A and financing transactions. Our combination of strategic thinking, M&A advice and financing capabilities allow us to find innovative solutions to the challenges arising in industries facing dynamic change and disruption.

Our team has exceptionally broad and deep strategic advisory and transaction execution experience, encompassing all of the world's top thirty countries. Examples include:

- Advice on market entry, strategic repositioning, identification of new growth opportunities, spin-outs and other forms of restructuring and advice on strategic investments, using our propri-etary Destination-led Strategy® methodology, together with analogous advice to governments on public policy;
- Advice in relation to large and small-scale acquisitions, divestments and takeover responses for both publicly listed and private companies;
- Capital optimisation and financing advice for large enterprises, together with advice on commercialisation planning, capital strategy and capital raising for emerging companies;
- Specialist input in relation to the design, formation, restructuring, sale and dissolution of large scale joint ventures and partnerships; and
- Identification and quantification of risk, by applying advanced statistical techniques to relevant data pools, thus simplifying decisions impacted by significant uncertainty.

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John Sheehy
CEO

Nigel Lake
Executive Chair

e john.sheehy@pottinger.com
e nigel.lake@pottinger.com

p +61 2 9225 8000
w pottinger.com