



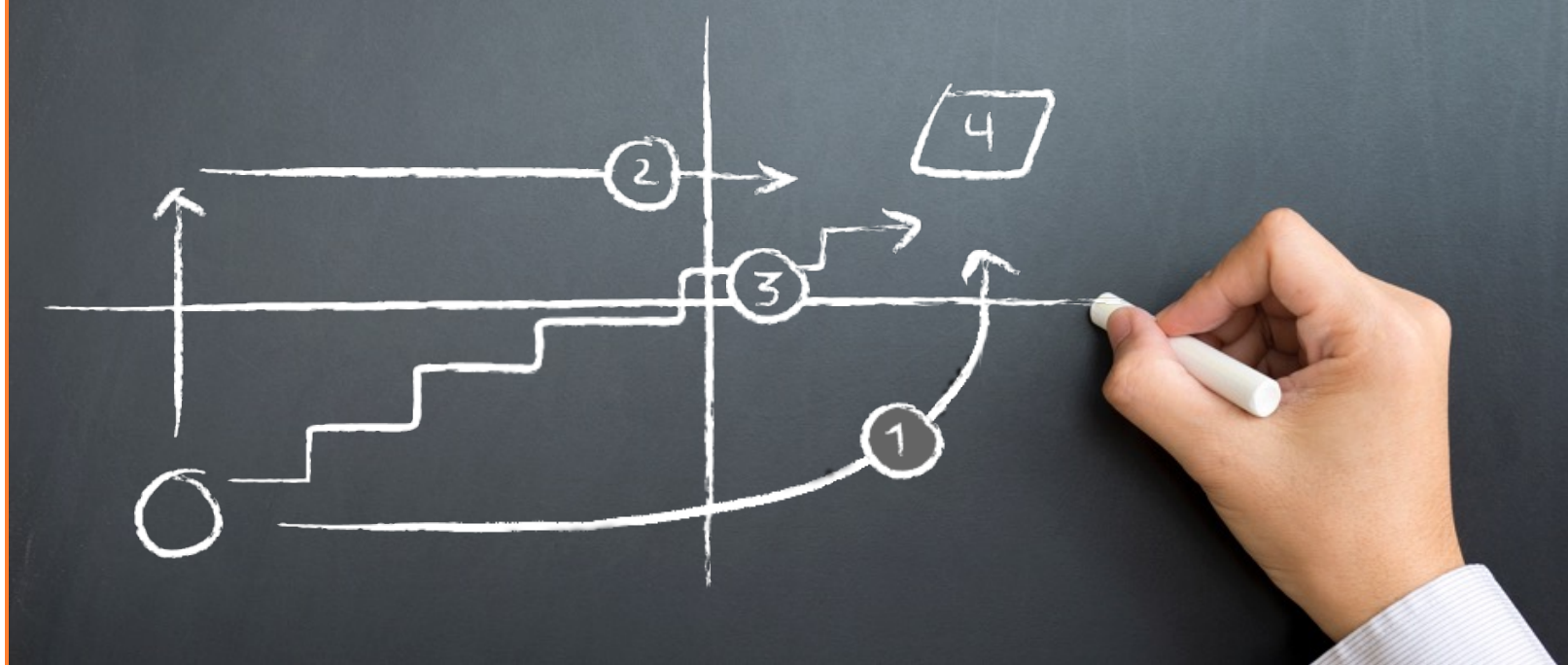
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MIT ILP Digital Transformation Webinar Series

Pathways to digital business transformation

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2020 MIT CISR Research Projects

- Re-Platforming Your Enterprise
- Data Sharing Across Company Boundaries
- Defining Digital Operating Models
- Ecosystems, Circa 2025
- Scaling and Systematizing New Business Models
- Breaking Down Barriers to Pervasive AI Adoption and Use
- Digitizing Work to Work Digitally
- WHAT vs. HOW: Governance for Aligned Autonomy
- Building Data Monetization Strategies That Pay Off
- How Much Does IT Really Cost?
- Value Creation and Value Capture in Digital Models

Digital Business Transformation: Becoming Future Ready



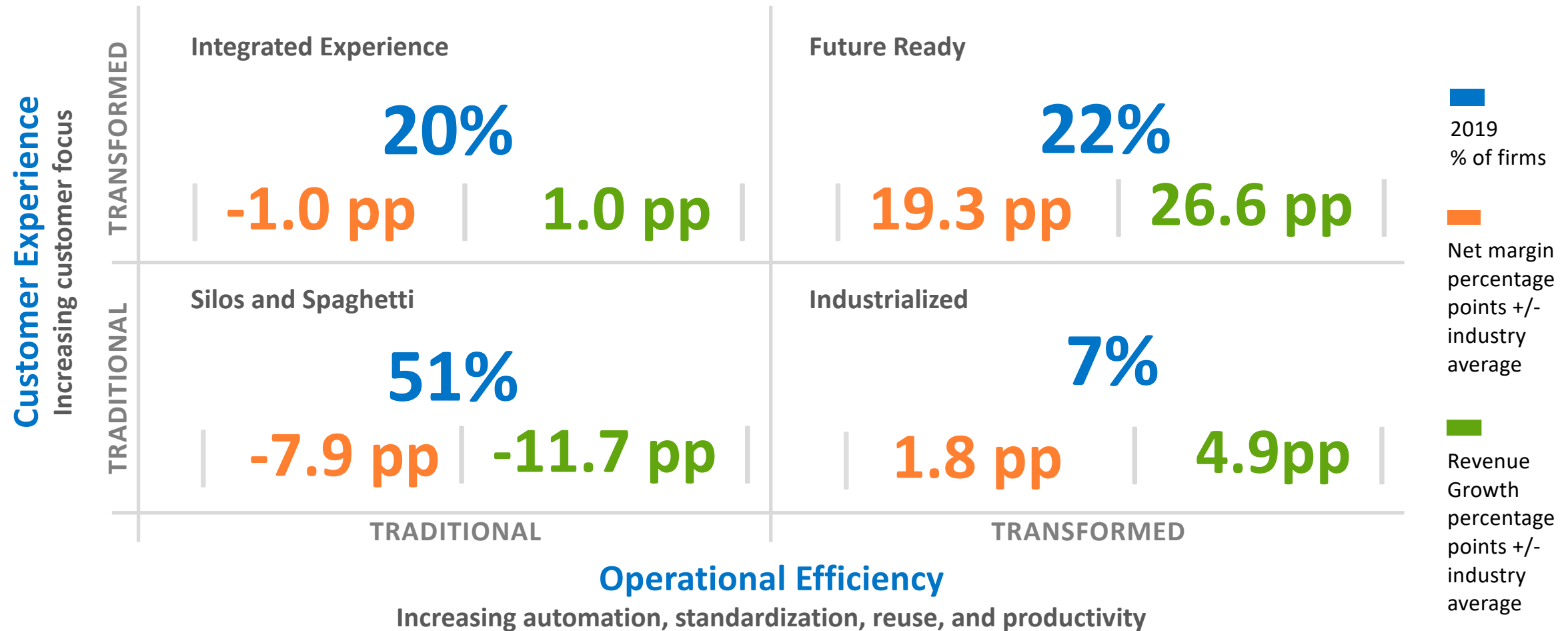
Customer Experience
Increasing customer focus

| | | |
|--------------------|--|---|
| TRANSFORMED | Integrated Experience <ul style="list-style-type: none">• Customer gets an (simulated) integrated experience despite complex operations• Strong design and UX• Rich mobile experience including purchasing products | Future Ready <ul style="list-style-type: none">• Both innovative and low cost• Great customer experience• Modular and agile• Data is a strategic asset• Ecosystems ready |
| TRADITIONAL | Silos and Spaghetti <ul style="list-style-type: none">• Product driven• Complex landscape of processes, systems and data• Perform via heroics | Industrialized <ul style="list-style-type: none">• Plug and play products/services• Service enabled 'crown jewels'• One best way to do each key task• Single source of truth |
| | TRADITIONAL | TRANSFORMED |

Operational Efficiency

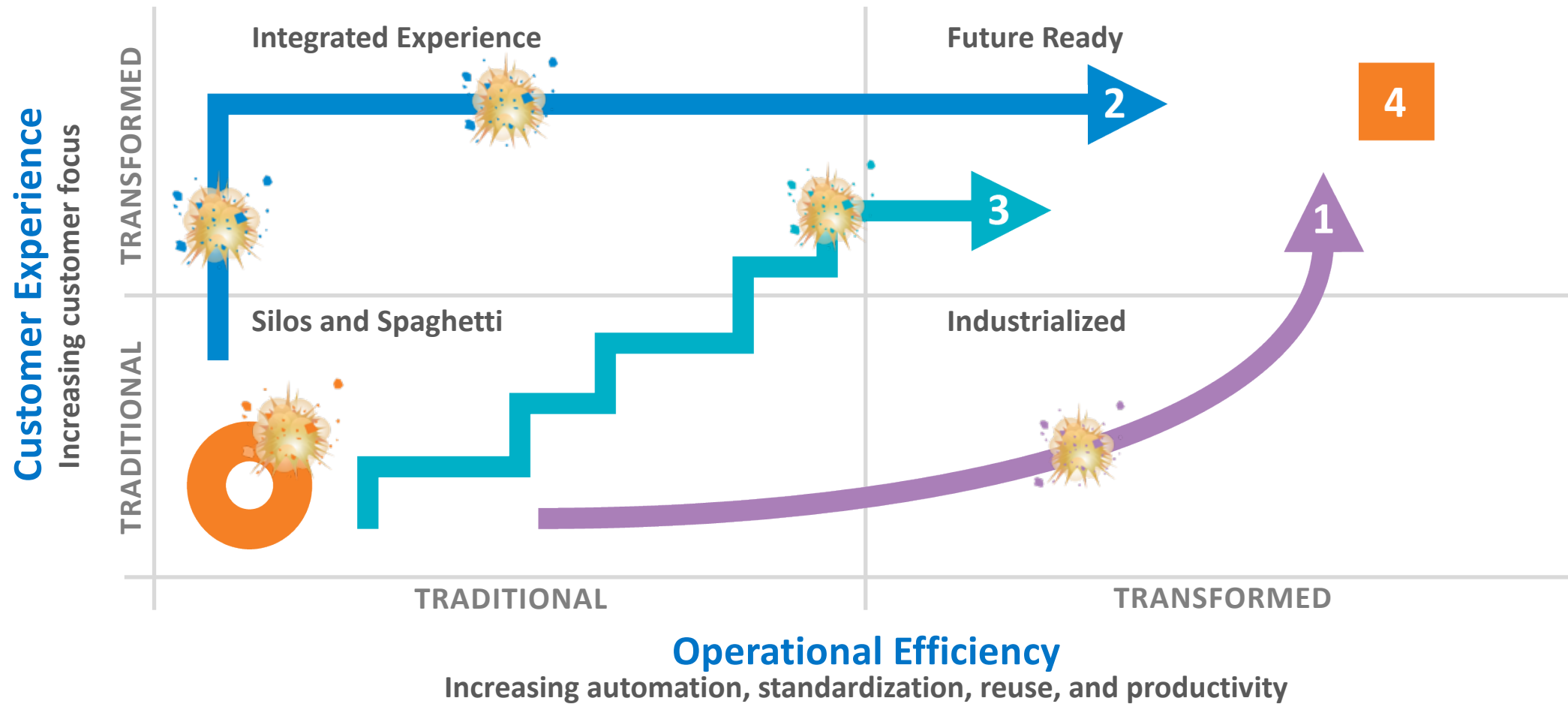
Increasing automation, standardization, reuse, and productivity

Future Ready firms have the best profit margin & revenue growth



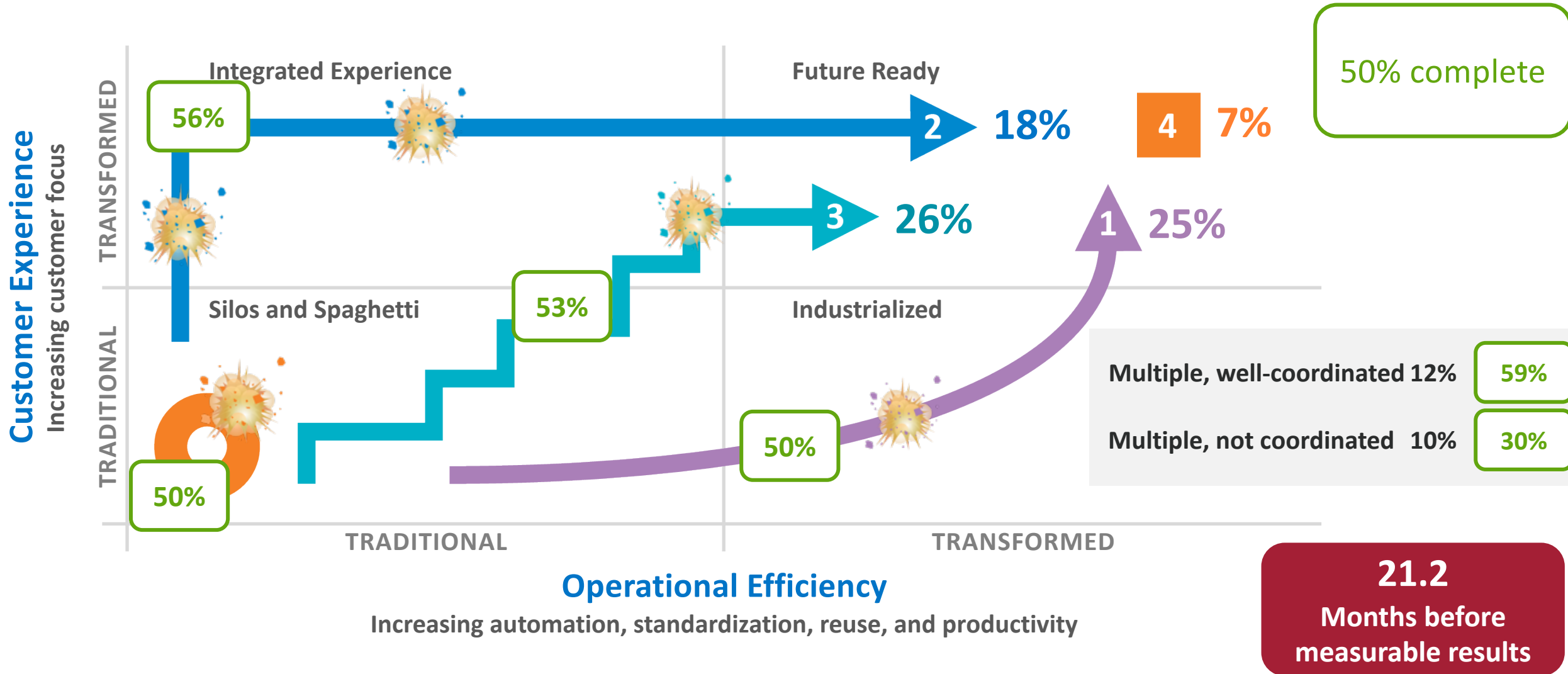
Source: MIT CISR 2019 TMT and Transformation Survey (N=1311). Self reported net profit margin correlates significantly with actual profit margin at the p<.01 level. Net profit margin is compared to industry. Self reported revenue growth correlates significantly with actual profit margin at the p<.01 level. Revenue growth is compared to industry. Each dimension is calculated using 4 measures.

The Four Pathways to Future Ready



Note: Pathway lines are based on a series of informal interviews (conducted between 2015 and 2017) on digital transformation with senior executives globally. The lines were confirmed via the MIT CISR 2017 Pathways to Digital Business Transformation survey (N=400). Explosions represent significant organizational changes.

Which pathways are the most popular?



Source: MIT CISR 2019 TMT and Transformation Survey (N=1311). 2% of firms have not started on a business transformation.



How far along is your enterprise on its transformation journey?

- Less than 20% complete
- 20% to 40% complete
- 40% to 60% complete
- 60% to 80% complete
- More than 80% complete

Moving toward completion is good for your bottom line



| % Complete | Average % Complete | Revenue Growth | Net Margin |
|---------------------|---------------------------|-----------------------|-------------------|
| Bottom Third | 23% | -12.2 pp | -8.9 pp |
| Middle Third | 50% | -0.7 pp | 1.4 pp |
| Top Third | 77% | 10.5 pp | 5.9 pp |

Source: Source: Source: MIT CISR 2019 TMT and Transformation Survey (N=1311). Perceptual revenue growth/net margin significantly correlates with actual revenue growth/net margin at the p<0.01 level. Perceptual net margin significantly correlates with actual net margin at the p<0.01 level. Firm performance measures are compared to industry. All differences between categories are significant.

All pathways pay off

Need to fix culture to get
CSF pay off



Average margin 14% higher
and growth 26% higher
comparing firms above
and below 50% complete on
transformation.

| PATHWAY | MARGIN | GROWTH |
|---------|--------|--------|
| | | |
| | | |
| | | |
| | | |





Becoming Future Ready Requires Explosions



| | EXPLOSION | MOST IMPORTANT CHALLENGE |
|---|------------------------|--|
|  | Decision Rights | Getting the right people to lead key decisions <i>e.g., What vs how, offpath spend, compliance, new customer offers, "we are different"</i> |
|  | New Ways of Working | Changing the culture <i>e.g., Customer voice, agile, evidence based, dashboard</i> |
|  | Platform Mindset | Connecting organizational silos <i>e.g., Reuse, APIs, data sharing, less spaghetti</i> |
|  | Organizational Surgery | Removing organizational complexity <i>e.g., Reducing alignment challenge</i> |

Dealing with explosions



| | EXPLOSION | Average | Top Performer ¹ |
|---|------------------------|---------|----------------------------|
|  | Decision Rights | 53% | 68% |
|  | New Ways of Working | 63% | 73% |
|  | Platform Mindset | 60% | 73% |
|  | Organizational Surgery | 55% | 70% |

Source: MIT CISR 2019 TMT and Transformation Survey (N=1311).

¹ Top Performers are the top quartile of firms on net margin, adjusted for industry. Self reported net profit margin correlates significantly with actual profit margin at the $p < .01$ level.



CEMEX is a global building materials company

Annual revenue: \$13.1B

EBITDA margin: 18.1%

Countries active: >50

FTE: 40,000+

(all figures presented as of December 31, 2019)

The Four Explosions: How they were handled at CEMEX



Decision Rights

CEO is fully involved in the transformation, and made the executive decision to primarily focus investments on customer experience initiatives

Moved from three heads of digital to Executive Committee responsibility

Management gave up control to provide more autonomy to digital development teams



New Ways of Working

Leveraged existing discipline in efficient operations and safety to instill a focus on the customer

Trained organization on creating a 'digital mindset', more agile, more collaborative, more iterative, less hierarchical, emphasizing continuous testing & learning

Senior management aligned transformation efforts through participation in executive education, workshops



Organizational Surgery

Split IT into a 'digital enablement' (customer focused) and a 'global IT operations' (enterprise focused) unit

Created local customer experience offices, along with new functions in advanced global analytics, UX / design, digital architecture, and emerging technologies



Platform Mindset

Developed an integrated multi-device digital platform that offers services along the entire (end-to-end) customer journey

Standardized processes, solutions, and (former) shadow IT efforts for global use

Exploring an open ecosystem using APIs





Control The Explosions On Your Pathway(s)



The Challenging Path to Value

First agree on which pathway(s) the company will follow. Then create a common language around how you will transform.

You will need to anticipate the impact of the explosions, and envision how you will...

-  Change the status quo to ensure the right people lead key areas.
-  Establish a culture change. Connect organizational silos through reusable platforms.
-  Connect organizational silos through reusable platforms.
-  Restructure the organization to remove complexity.

... to progress to Future Ready



