Why Digital Transformation doesn't work?
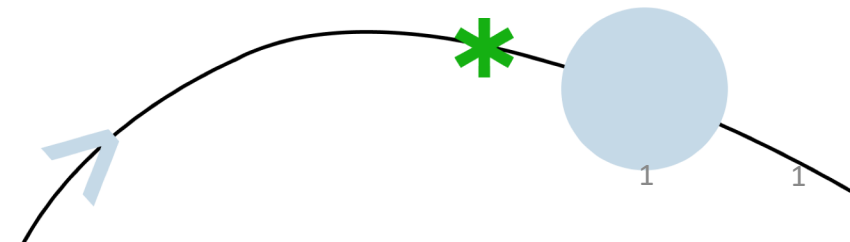
...and how to make DT happened

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1

Causes of Digital Transformation Failure

According to multiple sources

- <u>Skolkovo</u>:
  - Strategy: mistakes of a visionary
  - Technological development of the company
  - Implementing development with a focus on the product rather than the user
  - How a company's organizational culture hinders digitalization

- <u>Cnews</u>:
  - Lack of common understanding of strategy
  - Fuzzy picture of the world and isolation to internal problems
  - Blurred responsibility and lack of direction
  - Lack of effective communication
  - Excessive planning
  - Transformation of technology, not business
  - Personnel problems and lack of corporate culture of innovation development

- <u>VC.RU</u>:
  - Approach digitalization as a one-time event rather than as a system of measures requiring continuous development

- <u>Universal University</u>:
  - Change agent does not know change management
  - No or improperly assembled team
  - Business goals are not set
  - Wrong expectations of change

- <u>All about Business</u>:
  - To think that digitization of business is digital transformation
  - Think digitalization is just a fashionable marketing move
  - Not preparing people for change
  - Consider the elements of digital transformation in isolation

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The Real Causes of Failure

- Focusing on fashion, not on business results:
  - Lack of understanding of what Digital Transformation is
  - Misconceived Business Objectives or lack thereof
  - Following fashion and choosing the wrong technology
  - Vendor bias (who shouts louder)
- Focusing on "business consultants", not on your own needs
- Lack of understanding of the impact and ROI of the project
  - Projects often successful only through economies of scale
- Lack of suitable and/or experienced staff
- Lack of support or control at management level
  - Not everybody in the company is interested in business optimization
- All other project risks

Digitalization vs Digital Transformation

- **Digitalizing** is the translation of processes into a digital format

- **Digitization** is the next level of changes. Here, digitized data and processes can be used to automate / robotize operations and optimize business processes

- **Digital transformation** is a deeper and larger process. It is a comprehensive transformation of an enterprise using digital solutions and technologies. Its goal is to enter new markets, create new sales channels and solutions that generate new net revenue and increase company value.

Shareholder Value

Revenue Growth   **Operating Margin** *(after taxes)*   **Asset Efficiency**   **Expectations**

How Value is Created
(Value Drivers)

Revenue Growth
- Volume
- Price Realization

Operating Margin (after taxes)
- Selling, General & Administrative (SG&A)
- Cost of Goods Sold (COGS)
- Income Taxes

Asset Efficiency
- Property, Plant & Equipment (PP&E)
- Inventory
- Receivables & Payables

Expectations
- Company Strengths
- External Factors

What You Can Do
(Improvement Levers: Business Processes, Assets and Organizational Capabilities)

- Acquire New Customers
- Retain and Grow Current Customers
- Leverage Income-Generating Assets
- Strengthen Pricing
- Improve Customer Interaction Efficiency
- Improve Corporate/Shared Services Efficiency
- Improve Development & Production Efficiency
- Improve Logistics & Service Provision Efficiency
- Improve Income Tax Efficiency
- Improve PP&E Efficiency
- Improve Inventory Efficiency
- Improve Receivables & Payables Efficiency
- Improve Management & Governance Effectiveness
- Improve Execution Capabilities

Marketing & Sales · Product & Service Innovation · Account Management · Cross-Sell/Up-Sell · Retention · Cash/Asset Management · Demand & Supply Management · Price Optimization · Marketing & Advertising · Sales · Customer Service & Support · Order Fulfillment & Billing · IT, Telecom & Networking · Real Estate · Human Resources · Procurement · Business Management · Financial Management · Product Development · Materials · Production · Logistics & Distribution · Merchandising · Service Delivery · Income Tax Management · Real Estate & Infrastructure · Equipment & Systems · Finished Goods · Work in Process & Raw Materials · Accounts, Notes & Interest Receivable · Accounts, Notes & Interest Payable · Governance · Business Planning · Program Delivery · Business Performance Management · Operational Excellence · Partnership & Collaboration · Relationship Strength · Agility & Flexibility · Strategic Assets

Change What You Do
- What you provide
- Whom you target and serve
- How you compete
- Where you deploy resources
- Which operations you outsource

Do What You Do Better
- Strengthen governance approaches
- Align resources with strategies
- Improve business processes
- Hone strategic capabilities
- Manage tax impacts and opportunities
- Improve control / reduce risk
- Collaborate more effectively
- Satisfy customers, employees and other stakeholders

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Some examples

Huge bank became thebcloud provider

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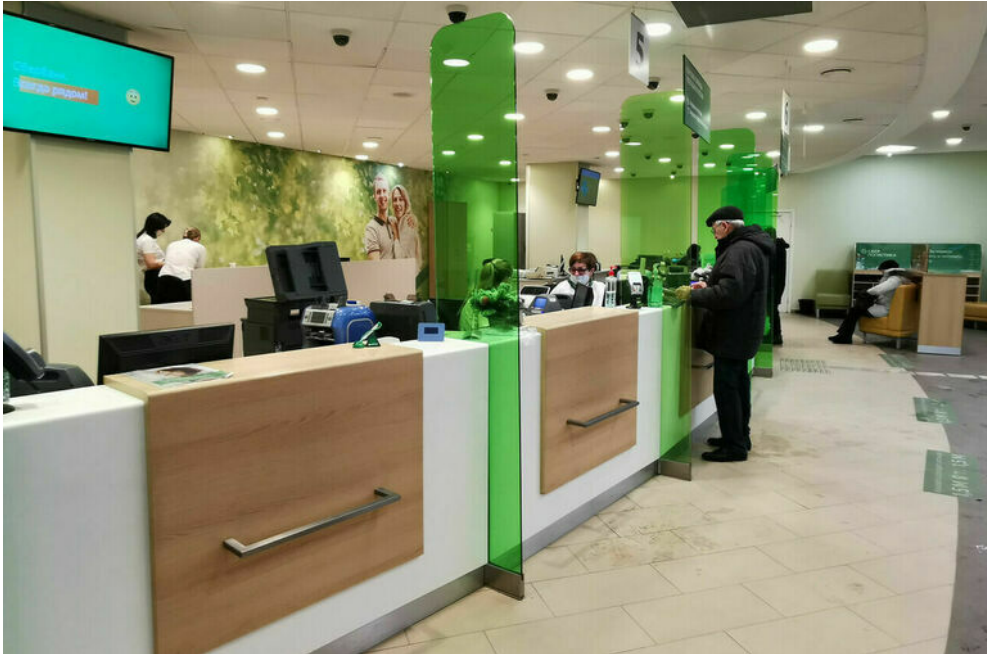
Oil company produce "Digital Twin" solution

Цифровой двойник месторождения им. Александра Жагрина

>1000
скважин

>250 км
трубопроводов

>2500 м
глубина залегания пластов

212 млн т
извлекаемые запасы

ПОДГОТОВКА НЕФТИ

СИСТЕМА ПОДДЕРЖАНИЯ ПЛАСТОВОГО ДАВЛЕНИЯ

ТРАНСПОРТИРОВКА

ДОБЫЧА

Повышение качества прогнозов

Повышение уровня промышленной безопасности

Экономический эффект до конца 2023 года более 1 млрд рублей

Расчет оптимальной стратегии развития актива

Weapon manufacturing presented Electric Car

The Phases of Digital Transformation

0. Digitalization. CDTO's role as a "business process" optimizer

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1. Using third-party solutions for processes digital transformation

2. Development of your own solutions to be used within the company

3. Bringing developed solutions to the market or develop the new solutions for the market

So what exactly business wants? What powers and resources does they allocate to DT project?

How they wants to reach it?

1. To buy the existing business?
2. To hire the "Guru" from the market?
3. To develop company own expertise?

WHAT WILL BRING VALUE FAST and FIRST:

- Business systems audit
- Automation of routine operations
- Center of Competences
- Unified knowledge base
- Training courses catalog
- Employee Assessment System
- Data democratization
- Feedback and suggestion collection system
- Remote workplaces

Internal Center of Competence for Company Digitalization

Necessary for shaping the environment and promoting ideas of transformation in the company

It's not just one department! It involves people from all departments.

Can be formed on the basis of the analytical department or business application development

Using data democratization as an example: the Center of Competence trains analysts and makes "data stars" of them, who form a community and begin to train other analysts and users on new tools

They also provide "feedback", which can be used to find bottlenecks and form projects to optimize the company's work

Unified knowledge base

- It accumulates all the company's knowledge: job descriptions, work regulations, catalogs of training courses, calculation of key performance indicators (KPIs), list of tools, reports and regulations for requesting access to them, as well as materials useful in daily work.

- The goal is to provide employees with all the information they need when entering their role and their daily work. Additional value - the ability for employees themselves to supplement the knowledge base with effective work practices.

- The purpose for management - a single picture of the truth in the calculation of indicators. In the knowledge base is formed section where the business agrees on the name of the indicators and the methodology of its calculation.

- The knowledge base can be a good source of ideas for process optimization.

- The Knowledge Base stores Know-How, so that when an employee leaves, knowledge is not lost.

- Can be a communication tool (Chatter)

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Training courses catalog need for:

Training of a new employee when hiring or transferring to a new position

Training for an employee temporarily replacing an absent one

Launch of a new product or service

Employee development planning

Employee Assessment System

Assessment of qualifications:

- Necessary for personnel evaluation after professional training

- Does not just "take a course," but remembers something

- Allows you to evaluate employees who are ready for new products and services or for transfer to a new position

Performance Evaluation :

- Based on clear and described in the knowledge base of key performance indicators - goals. Goals must be SMART:

- a.   Specific;

- b.   Measurable;

- c.   Achievable;

- d.   Result-oriented;

- e.   Time-bound.

If staff know their goals and how their performance affects their grade and bonus, it increases performance and loyalty.

Main idea:

A trained and equipped with modern tools employee will bring more money to the company

New tools should be easier to learn by ordinary employees (civil analysts for BI as an example)

What prevents a company from being Data-Driven?

- Difficulty in obtaining timely and reliable information to make informed management decisions

- There is no "single version of the truth" - each department has its own figure

- Very complicated process of getting the "right" information

- "Excel-Anarchy" - unmanageable business analysis process, underground databases and analytical tools

- Complexity of maintaining multiple disparate BI tools, lots of teams. And IT is overwhelmed with "repaint button" requirements

- Inability of business users to "find the truth" on their own without contacting IT or the analytics department.

- No control over the security of the data provided, especially in "underground databases"

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How to became Data-Driven?

- Single catalog of indicators - all on the "same wave" and operate with the same indicators at the company level

- Equip with the necessary tools to support independent decision-making, such as Qlik Sense - saving money by reducing support for multiple disparate analytical tools and Excel-anarchy

- Provide the data upon which decisions are made. Business users will be able to get answers to their questions instantly and independently, no need to wait for answers from colleagues - Quickly make the right management decisions based on the analysis of reliable and up-to-date information.

- BUT! It's not enough to provide a tool, even the most perfect one. It is necessary to teach how to use it and monitor its use (Data Literacy) Plus - training and mentoring.

- Teach how to make decisions. Analysis results are not yet a diagnosis!

- Empower staff to make their own decisions - Increase speed of work, decision making and productivity.

- Get feedback, listen to staff and respond. Believe me, they may know more about the business than an analytics department or even a specialized consulting firms.

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Feedback and suggestion collection system

- It is not enough to provide everyone with data and information. It is necessary to make decisions and control the result (virtual project teams, agile).

- We can take a bunch of tests, but will we diagnose ourselves without medical training? Probably not. It's the same with decisions - you need to teach your employees how to make decisions.

- Moreover, you need to be able to collect feedback, hot offers and suggestions to improve the company efficiency - believe me, if your employees don't know it, you are unlikely to get any tips from an external consultant.

- The task of CDTO is to create a structure which covers the whole company and provides a continuous process on optimization of business processes inside the company and work with external contractors. This is done on the basis of the Competence Center.

- Thus, the Competence Center pro CDTO turns into a powerful tool to increase productivity, optimize business processes and the company as a whole.

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Part II (Than you will finish part I)

- Digital Transformation:
  - Research and Development
  - New Products
  - New markets
  - New ways of interacting with the customers
  - BigData, ML, drones, 3D printing, digital twins, IoT and other blockchain

Developing Success

After implementing Phase I: Digitalization you will be ready for Phase II: Digital Transformation

You will conduct an audit of your existing resources;

You will have a competence center, which will serve as the backbone of the research department (R&D) and will cover most of the company's departments;

Through feedback, you will identify a number of interesting projects, and through expert advice, you will be able to identify the most profitable, fastest and least risky ones.

Let the force be with you!

25

Questions?

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