WHITE PAPER

TRANSFORM NOW! THE OPPORTUNITY COST OF DIGITAL INACTION

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1. TRANSFORM NOW! THE OPPORTUNITY COST OF DIGITAL INACTION

Most of us know or have heard of the company, Kodak, and its ultimate failure. What most don't know was it was not from a lack of investing in digital technology; rather it was its inability to truly embrace a new digital business model. The company's core product and business model (their golden goose) was film and printing services, not selling cameras.

How it worked: Customers purchased the Kodak camera, took pictures, and sent their film to the Kodak factory where the camera's film was developed, and photos were printed.

Film sales, developing and printing services were very profitable for the Eastman Company, but with the introduction of digital photography in the mid-1990s, their business model was at risk.

Kodak decided to create and launch their own digital camera with the notion that customers would take digital pictures, but continue to print the higher quality images using their services. To host digital photos for customers and offer them printing services, Kodak acquired a photo-sharing site called Ofoto in 2001; the same time that Ofoto's competitor, Instagram, was growing in popularity. Kodak did not recognize that the new trend in photography was photo sharing; not photo printing. Kodak filed for bankruptcy in 2012, the same year Instagram was acquired by Facebook for $1bn.

The right lessons from Kodak are subtle. Companies often see the disruptive forces affecting their industry. They frequently divert sufficient resources to participate in emerging markets, but their failure is the inability to truly embrace new business models the disruptive technology introduces.

Today, companies are facing a similar disruptions — Digital Transformation.

EMBRACE DIGITAL TRANSFORMATION

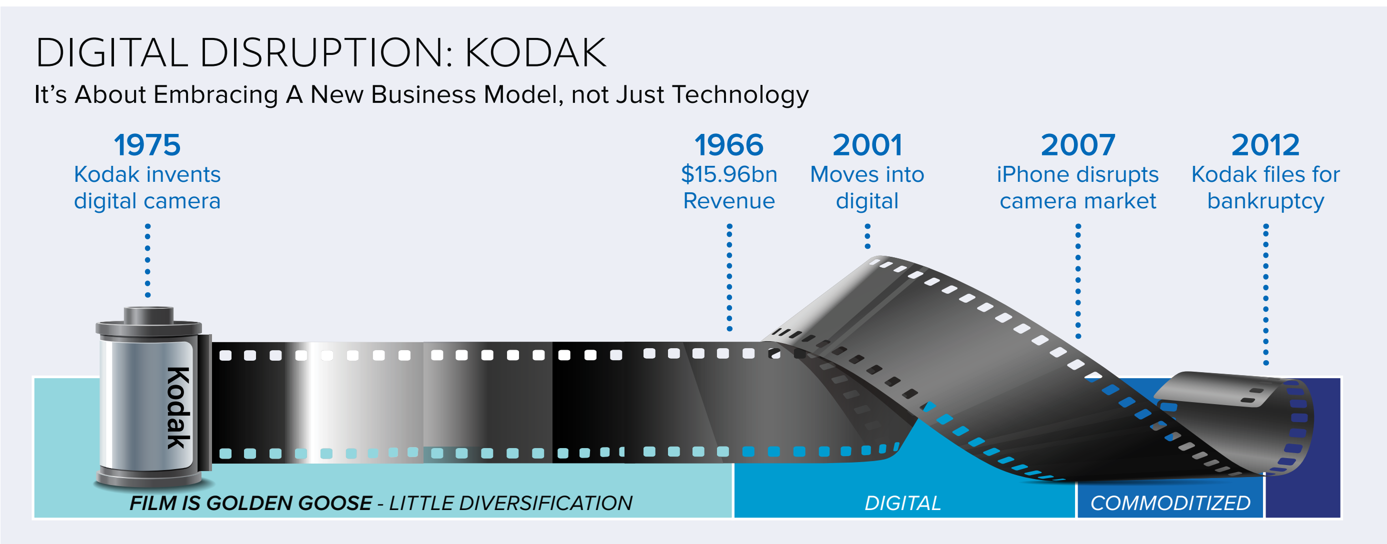
The concept of digital transformation goes beyond the use of digital technologies in business. It is a mindset that focuses on the customer, develops an innovative culture and improves operational efficiencies. Digital transformation varies from company to company. Not every company needs advanced machine learning or artificial intelligence, but there are certain elements that are included when digital transformation is discussed:

- Customer experience
- Operational efficiency
- Culture and leadership
- Workforce enablement
- Digital technology integration

Digital technology is a tool for change and part of digital transformation is deciding which tools are best suited for an organization.

Kodak chose to ignore the digital technology that led to its demise. In the same way, companies can choose NOT to participate in a digital transformation. However, Tom Siebel suggests that if a business is not awake to the need for digital transformation, it will die.

What opportunities will your company miss and how much will they cost you if you don't execute a digital transformation strategy?



2. QUANTIFYING OPPORTUNITY COSTS

Opportunity costs are the benefits businesses do not realize because they chose one option over another. Understanding the opportunity costs of multiple options enables decision-makers to make a more educated choice.

For example, it will cost your business $100,000.00 to move to the cloud. By moving to the cloud, you can reduce your IT staff and let salespeople enter orders remotely. Let's assume that your current IT payroll is $150,000 per year plus benefits. Your annual sales revenue is about $625,000.

> “Understanding the opportunity costs of multiple options enables decision-makers to make a more educated and strategic choice.”

Let's also assume that the move to the cloud reduces the IT staff by half and increases sales order processing by 15%. Assuming 25 orders per day at an average of $500 the increased revenue would be $125,000.

If you do nothing, your company maintains its sales revenue, less the $150,00 for the IT staff for $575,000.

> “By moving to the cloud, you can reduce your IT staff and let salespeople enter orders remotely.”

If you move to the cloud, you pay $100,000, increase your sales to $757,000 and reduce expenses by $75,000, resulting in an annual sales revenue of $582,000.

The opportunity cost would be a negative $5,000 (-$5,000) per year if you decide to do nothing.

Which do you choose?

You see how close the two options are in terms of opportunity costs so you decide to put off the move for a year. You could use that $100,000 for expansion. You put off the move for a second year. How many years can a business afford to put off embracing the disruptor?

Kodak waited close to 25 years.

3. THE OPPORTUNITY COSTS OF DIGITAL INACTION

The five elements of digital transformation are five places to look at the opportunity costs of doing nothing.

» Customer experience

» Operational efficiency

» Culture and leadership

» Workforce enablement

» Digital technology integration

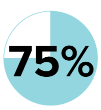
Let's look at these more closely.

START HERE: CUSTOMER EXPERIENCE

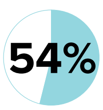
Today's business model, fueled by digital transformation, is customer-focused meaning the buyer is driving change. The company no longer controls when a market change occurs instead it responds to customer expectations. If an organization is unable to meet consumer expectations, it cannot succeed.

In the past, consumers based their purchases on quality and price; then, customer service became a differentiating factor. Today, the overall customer experience or customer journey has the greatest impact on customer loyalty. In fact, 86% of buyers will pay 13% to 18% more for a product or service if the buying experience is positive.

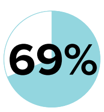
Consumers want a buying experience to be personalized. A 2019 report on customer expectations found:



of consumers are more likely to become repeat buyers if a company provides personalized recommendations based on individual needs and preferences.



would make a purchase based on an agent's recommendation.



of consumers said they'd champion a brand if it provided personalized services.

On the flip side, 17% of people would leave a company after one negative experience.

Today's connected, app-centric customers want relevant content in a readable format on the device of their choosing. In many ways, they control a company's business strategy because they control the journey. To compete, companies must embrace the digital technologies that provide an unparalleled customer journey.

Providing a personalized experience means knowing the customer, not as a demographic group, but as an individual. Knowing the individual requires data. Data on what they buy, when they buy, what their price points are, their preferred form of payment.

> "Today's connected, app-centric customers want relevant content in a readable format on the device of their choosing. In many ways, they control a company's business strategy because they control the journey."

Collecting data has no value unless it is turned into actionable information. Unfortunately, the vast majority of organizations lack the technology to analyze and distribute useful information. For example, 81% of consumers conduct some form of online research before making a purchase. Yet many companies provide conflicting data, depending on the delivery channel. That lack of consistency contributes to a negative customer experience. It is impossible to provide a seamless experience that 85% of consumers want if the information varies from channel to channel.

OPPORTUNITY COSTS OF SACRIFICING CUSTOMER EXPERIENCE

A company can choose to do nothing or it can begin a digital transformation to improve the customer experience. It is projected that 2020 is the year that experience will become the determining factor in a person's buying decision. That means a company without a positive customer experience is losing customers to a company that does. A recent study showed that about one-fourth of customers will leave without making a complaint. The adage of no news is good news doesn't apply when it comes to customer experience in the 21st century.

Doing nothing means a potential loss of 25% of a company's customer base. What about the 75% of add on purchases? A company without a positive experience is also losing out on the 13% to 18% of potential added revenue.

The opportunity costs for doing nothing are staggering because that cost isn't one-time. It is a cost that repeats itself year after year as the gap between positive and negative experiences widens. The cost of adding technologies to improve the customer experience is one-time, with incremental expenditures for upgrades and enhancements. Honestly, no matter what the cost of technology, it is preferable to the alternative. No company wants to have a "Kodak Moment."

4. NEXT: IMPROVE OPERATIONAL EFFICIENCIES

Digital transformation is more than creating electronic versions of hard-copy documents. In the beginning, using accounting software or a CRM package was considered "becoming digital." Today, digital means using advanced technologies such as machine learning, artificial intelligence or augmented reality to improve operations throughout the enterprise. If a company isn't looking at technology for more than digitizing paper, it will have a hard time competing with those that are incorporating the latest technologies into their operations.

> "Today, digital means using advanced technologies such as machine learning, artificial intelligence or augmented reality to improve operations throught the enterprise."

BLACK + DECKER

For its manufacturing plant in Mexico, Black & Decker wanted a solution that increased material and assembly visibility to floor managers. The company needed a better way to manage production and improve quality.

Black & Decker deployed a wi-fi system that placed identity tags attached to the material used during production. These tags made it easier to track materials and to speed up or slow down processes based on availability. The system also allowed managers to observe employees as they completed their tasks.

By implementing an IoT-based solution, the Mexico plant achieved:

10% An estimated 10% increase in labor efficiency

16% An improvement in the quality based on a 16% reduction in first-pass defects

10% A 10% increase in resource utilization

An improved use rate of **80% - 90%**

Using the digital concept of IoT, Black & Decker realized operational efficiencies that can be replicated across the enterprise, increasing efficiency corporate-wide.

SCHNEIDER ELECTRIC

In June of 2019, Schneider Electric declared its Lexington, Kentucky facility to be the first smart factory in America. With 500 employees, Schneider transformed its 60-year-old company by modernizing and digitizing critical areas of operation.

The smart-factory integrated a number of digital tools such as augmented reality and process digitization. Deploying AR resulted in a 20% reduction in the mean time to repair and implementing process digitization eliminated 90% of the company's paperwork.

Schneider Electric's faced a formidable challenge as it transformed a 60-year-old facility to compete in a digital world. The company recognized the transformation had to occur over time using a step-by-step approach. Their strategy balanced the need for transformation against business needs and budget constraints. This incremental approach resulted in:

3.5% A 3.5% energy savings year after year

5% A 5% reduction in downtime of critical processes with a return on investment in less than six months

33% A 33% ROI in the first year of its RFID implementation by eliminating 128 daily fork-truck miles and $500,000 in work in progress inventory.

Although the transformation took years to complete, Schneider now has an agile company ready to compete in a digital world.

OPPORTUNITY COST OF NOT FULFILLING THE WORKFORCE NEEDS

Efficiency has become a high priority, especially in manufacturing. Why? The skilled baby boomers are 56 to 74 years of age, with many of them already exiting the workforce. This labor shortage is only exacerbated by the changing business model that demands more personalization in consumer products. And there are fewer workers in the pipeline to fill manufacturing jobs.

To ensure efficiencies despite a skills shortage, companies must deploy technologies to perform routine or repetitive tasks, reducing the number of employees. Implementing technological solutions means labor can be re-allocated to perform more complex tasks. This is one way technology allows for greater production efficiencies that drive costs down and reduce the time to market.

But what happens to companies that do nothing?

Kodak faced this same dilemma as it looked for ways to survive.

1. Kodak did not have people with the right skills for a digital model. They had thousands of employees trained in the legacy system, but retraining would take too long to implement.
2. Kodak could not adjust its production capacity to accommodate smaller batches as their market dwindled. The lack of agility meant the company had to stop producing certain products or absorb the added cost of smaller runs. Increasing the sale price was not an option. So, Kodak continued production even when the run was not at full capacity.

When evaluating opportunity costs, companies only need to look at Kodak. Failing to consider a digital disruptor prevented them from implementing a training program to transition its workforce. Its inability to scale created cost-prohibitive operations. Failing to embrace the digital disruptor cost Kodak its future.

CULTURE AND LEADERSHIP

When companies think of digital transformation, they rarely include a company's culture or leadership. Yet, these may be the two most important factors for a successful transformation. Why? A digital transformation is not just about technology; it is also about changing a mindset. It means using technology in support of:

- A customer-focused culture that creates positive customer experiences
- An agile environment that adapts quickly to change
- An ecosystem that rewards innovation and empowers employees

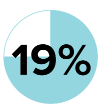
Without the right mindset lasting transformation cannot happen.

As Kodak began to fail, executives began to operate in survival mode. Each jockeying for a position that wasn't destined for extinction. This internal conflict led to constant infighting and created a toxic environment for employees as well as management. Company-wide cooperation was no longer possible.

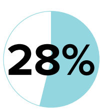
Today, companies point to Kodak's decline as a reason to create an innovative corporate culture. If Kodak had been more innovative, it could have survived. But, Kodak's management was focused on maximizing profits from its existing products and failed to address the digital disruptor that defined its future.

Many of today's companies face the same issue. Executive leadership is not involved in an organization's digital transformation. Executives pass the responsibility to lower management while they continue to plan using existing strategies. It's no wonder that **70% of companies fail in their attempt at digital transformation**.

An innovative ecosystem can lead to more engaged employees, which can result in:



A 19% increase in operating income



A 28% increase in earnings growth

But, it is impossible to create that culture if executives are not actively involved. If an organization is not supportive and fully behind a transformational effort, it cannot succeed. It needs leaders who are motivated to help the organization with its transformational strategy.

OPPORTUNITY COSTS

As they say, hindsight is 20/20. It's easy to see where Kodak's management went wrong and how much not innovating cost them. Even today, companies struggle with finding the right leadership to lead the digital transformation.

> "A digital transformation is not just about technology; it is also about changing a mindset."

GE, Ford and Proctor & Gamble learned that lesson the hard way. All three organizations attempted some form of transformation. All three fired their CEOs because their attempts failed. The CEOs

- were focused on short-term goals.
- did not integrate technology into the corporated structure.
- did not develop a strategy for incremental growth.

Although all three companies were able to correct their mistakes, their experience shows that today's organizations are not as far removed from Kodak as they might believe.

To lead a successful transformation, corporate leaders need to ask what the opportunity costs are for not creating a positive culture that realizes true transformation.

- A positive culture can differentiate an organization from its competition so it can gain a sustained advantage in its market niche. If a company can achieve innovative outcomes such as Google, Amazon, or Apple have, it raises a company's perceived value. That perception gives them bargaining advantages that can increase corporate value and maintain market share.
- A positive culture can lead to a 19% increase in operating income and a 28% increase in earnings growth.
- An innovative culture can prevent another "Kodak Moment."

The right corporate culture under knowledgeable leadership can result in a digital transformation that ensures a sustainable outcome.

WORKFORCE ENABLEMENT

Workforce enablement means taking employees beyond engagement to empowerment, where with the right tools and circumstances, they can deliver quality results. Before a company can enable employees, it has to engage them. Unfortunately, over 70% of employees are disengaged at work.

Companies are well aware of the cost of disengaged employees.

- In a study released by Forbes, companies with higher levels of employee engagement saw a 21% increase in profits over those businesses with a low level of engagement.
- Employee disengagement costs employers anywhere from $450 billion to $550 billion every year.
- Healthcare providers found that companies with high engagement levels had 70% fewer safety incidents than companies with lower levels of employee engagement.

Despite study after study, companies fail to keep employees engaged. There is no shortage of suggestions on how to engage employees or how to retain them. The problem is none of them seem to be working as well as employers would like.

As part of their digital transformation, companies should consider people analytics. Not only can analytics help find the right employees for the job, but it can also predict when employees may be leaving the company.

The National Bureau of Economic Research published the results of a study testing whether humans or people analytics were better at selecting the best hires. The study was based on 300,000 hires in high-turnover jobs at 15 companies. The results showed that computer-picked employees stayed longer and performed better than those picked by humans.

A group of University of Minnesota professors analyzed 17 studies related to hiring. They found that hiring algorithms outperformed humans by 25% at all levels from front line, through management to C-suite hires.

Predictive analysis can be used to identify employees who may be leaving the company far enough in advance to prevent the departure. Since 75% of voluntary terminations can be prevented, the advanced warning can save companies money when it comes to employee turnover.

OPPORTUNITY COSTS

Using the predictive capabilities of analytics, companies can save millions in turnover costs. Retaining voluntary terminations means less work disruption with increased productivity. That doesn't mean that companies can forget about engagement, enablement and empowerment, but it does mean that their efforts should be more productive since the employee was a better hire from the start.

The opportunity costs for not deploying predictive analytics can be significant, especially in high turnover jobs. With less turnover, companies can:

- lower training costs
- lessen work disruptions
- retain top talent employees

At an estimated cost of $15,000 per lost employee, attracting and retaining talent presents a formidable cost savings.

Digital transformation is more than adding technology to reduce paperwork or speed up the factory floor. It is using technology to improve the quality of new hires and prevent the loss of top talent, both of which have a positive impact on a company's culture.

DIGITAL TECHNOLOGY INTEGRATION

From the outset, digital transformation has been about more than technology. It has been about the mindset that focuses on:

- Customers and their buying journey
- Agile processes that adapt to changing operational requirements
- Dedicated leadership that empowers employees and rewards innovation

The transformation process uses technology as a tool in support of change. It doesn't see technology as a stand-alone deployment; it sees technology as part of a company's DNA.

Making integration a part of the process can minimize the number of stalled projects and poorly executed implementations. Integration can help companies avoid "pilot purgatory," where nothing actually makes it into production. A digital transformation strategy can keep companies out of pilot purgatory because it is easy to lose sight of the goal without a plan to follow.

Shep Hyken illustrates how easy it is to get side-tracked by technology. Companies have become obsessed with multichannel delivery. If there's a digital touchpoint, they want to be there. What they don't realize is that they are jeopardizing their customer relationships by delivering mediocre experiences across multiple channels instead of an extraordinary experience on one. Specifically, companies:

- Fail to deliver an adequately tested solution
- Fail to deliver a consistent experience across all channels
- Fail to have a single source of truth

These failures result in a frustrating customer experience. It also illustrates the importance of evaluating opportunity costs. How much does it cost a company if they deliver a poor experience across multiple channels? How much will it cost a company if they only deliver a superior experience on one channel?

At first glance, Kodak's failure to embrace its market disruptor appeared to be a simple lack of foresight. The company chose to ignore what was happening in front of them. In reality, Kodak's demise was far more complex and it came as a result of choices that were made long before Samsung's digital camera hit the market.

Kodak chose to ignore their customers. They failed to develop operating processes that would allow for scaling up or down. The company's leadership chose to maintain the status quo and the company failed to train its employees for the future.

Today's companies are faced with similar choices. Are they providing a positive customer experience? Have their operations become agile enough? Are employees being empowered to grow in their positions? Is the company's leadership committed to a digital transformation?

Perhaps the lesson from Kodak's demise is not the failure to innovate, but the realization that companies are facing similar choices 50 years later. And, their choices could result in their company becoming the next Kodak.

ABOUT GT

Gutenberg Technology's digital platform enables organizations to deliver information to multiple endpoints from a single source of truth. If you need help developing a digital strategy, we have the experience to ensure a sustainable outcome.

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