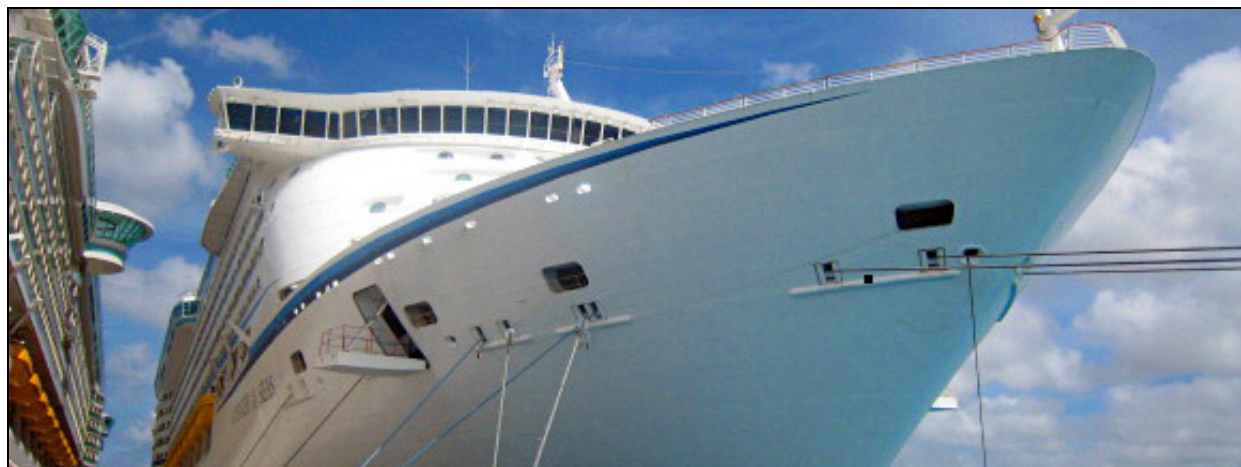


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Digital Strategy Does Not Equal IT Strategy

by Mark P. McDonald | 8:00 AM November 19, 2012

Everyone thinks they have a digital strategy these days. But while your company may have a business or IT strategy that incorporates digital technology, an IT strategy does not equal a digital strategy.

Why? Because most IT strategies treat technology in isolation. Think about it — your company may be working on a cloud strategy, social strategy, or mobile strategy. But today's hottest customer-facing solutions rely on pervasive digital connections in which the individual technologies (cloud, near field communications, mobile, big data, etc.) merge to deliver an experience that looks and feels an awful lot like our natural behavior. In other words, the more connections between people, places, information, and things (aka digital density), the more customers can interact with companies and each other in a seamless and satisfying way. Does your strategy capitalize on that?

Furthermore, organizations that focus their strategy on digital transactions based on automating and substituting physical resources for digital will only feel digital. Such digital substitution strategies create virtual copies of the real world, creating e-channels, e-stores and other e-surrogates for physical processes. An e-store, for example, still uses the same basic business model and business processes of its brick-and-mortar equivalent. That may be more efficient, but it's also easy to duplicate. The result is greater commoditization via price transparency and a reliance on advertising or "free" revenue models few companies can profitably support.

A digital edge is different from digital automation.

Organizations looking to create revenue from digital technology need a strategy that is more powerful than digital substitution. They need to create a digital edge, where digital information and physical resources combine in new ways to create value and revenue. Enterprises seeking a digital edge transform processes, business models, and the customer experience by exploiting the pervasive digital connections between systems, people, places, and things. Any company large or small, old or new can use this digital technology to create a winning edge for its business and perhaps, its industry.

Consider Royal Caribbean and its Oasis-class ships. The Oasis-class is the world's largest cruise ship with more than 5,000 passengers. Royal Caribbean built its Oasis-class ships with pervasive digital connections (<http://www.royalcaribbeanpresscenter.com/video/184/smart-technology-innovations-on-allure-of-the-seas/>) that transform guests' cruising vacations into ones that allow them greater individual control to influence their experience. To do this, Royal Caribbean thought about every aspect of the ship and its operations from a guest's perspective. That experience formed a simple, yet powerful, goal: Zero tolerance for lines. "If you have to stand in line," explained Bill Martin, vice president and CIO, "the ship suddenly seems too big and the experience diminishes sharply."

Imagine the potential for lines when 5,400 people on a single ship want to eat dinner, see a show, or take an excursion. Rather than making lines more endurable, Royal Caribbean sought to eliminate them. How? By implementing different combinations of digital and physical resources across the twenty-six processes where

passengers could potentially experience a line. The company used shape recognition cameras to determine restaurant capacity and made the information available to passengers within their natural behavior flows. They used smart cards to turn the process of offshore excursions into one as simple as walking into an office building. They transformed the twenty-six process to eliminate lines while protecting passenger privacy, creating passenger choice, and creating the potential for each passenger's experience to match the capabilities of the world largest class of cruise ship. The result is a digital edge based on combining digital capabilities rather than merely replacing clipboards with iPads.

A digital edge is a performance edge.

Having a digital edge matters. According to our research of more than 2,000 companies, firms with above their industry average levels of digital revenue outperform their peers. They grow faster. They have higher net margins. They are more capital efficient and deliver more to shareholder equity. They deliver more because leaders think broadly about how digital technology creates value and revenue. They think about how it will combine to create new capability rather than replace old operations. That is the essence of a digital strategy.

After years of investing in "transformation" programs, executives understandably are reluctant to engage in strategies that go beyond specific, measurable and achievable point solutions. Digital technology just sounds like another expensive and disruptive technology wave that requires funding significant activities with limited results. That is true when digital technology is viewed in isolation such as building big data in customer service, social media in marketing, or mobility in the sales force.

A digital-edge strategy is different for three reasons:

- First, the nature of digital technologies like mobile, social and analytics is different. These technologies compliment rather than compete with current systems and information, enabling greater leverage with less disruption.
- Second, a digital edge brings together digital and physical resources resulting in business innovation rather than business disruption.
- Finally, successful digital strategies concentrate on specific business outcomes rather than implementing grand strategies. This gives the effort a clear and manageable focus.

If these aspects are not part of your company's current digital strategies, then it may be time to consider a different approach. Digital density will continue to grow exponentially in the near and long term. Revenue sits on the table for those companies willing to move beyond mere process automation and explore how to combine their physical and digital resources in innovative ways for the customer and business.