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# Retail Digital Transformation Report

*Practical Strategies And Techniques for a Successful Journey*

Michael Baird and Abhijit Killedar  
January 2020



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## **PRACTICAL STRATEGIES AND TECHNIQUES FOR A SUCCESSFUL JOURNEY**

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### **An Enterprise Architect's Guide to Navigating the "Experience" Economy.**

*In order to survive continual disruption, retailers have little choice but to embrace change and transform their businesses as quickly as they are able. However, this is not a simple exercise. While there is no standard recipe, there are practical steps that businesses can take to accelerate their transformation journey. Strong executive leadership is obviously vital. And modern enterprise architecture is a powerful tool for helping business leaders plan, navigate and manage the changes they must make to operate in a fast-paced, customer experience-driven digital world.*

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## EXECUTIVE SUMMARY

### **Real Digital Disruption is Affecting Retailers Globally.**

Digital technologies are now pervasive and they have a profound effect on our personal lives and on society in general. The breathtaking pace of change and innovation will only continue to accelerate. The nature of business has also changed, with organizations seeking to get 'closer to the customer' via these new technologies and to leverage opportunities presented by customers living in an increasingly digital world.

All retailers are facing continuous disruption of their traditional markets often led by changing customer expectations and the actions of new and incumbent competitors who embrace new digital business models and solutions. Ebay, Amazon, Alibaba and others have changed retail forever. Furthermore, digital disruption is borderless, adding a global dimension to the challenges faced by retailers.

To remain relevant and successful, retailers must respond and, most importantly, find ways to move quickly to create new experiences that customers are looking for and will value. Josh Bernoff of Forrester Research described it this way:

“More than any other factor, customer experiences determine whether companies thrive and profit or struggle and fade.”

This can involve new channels, new service offerings (e.g. fulfillment methods), new products, adapting existing systems – or, for the greatest impact, a combination of all of these.

It's not all gloom and doom though. On a positive note, digital disruption can also open up new market opportunities for retailers who have the vision and ability to move quickly to capitalize on them.

### **How Can Retailers Respond?**

From observation of businesses across many industries, it is clear that Digital Transformation is the prime vehicle for responding to their customers' evolving needs and wants. And this is certainly true for large retailers.

### **What Do We Mean by Digital Transformation?**

Digital transformation is the implementation of a significant change in the way of doing business involving new business models, technology solutions and customer experiences, in response to a significant shift in

market context and customer behavior brought about by the widespread adoption and innovative use of digital technologies. By its very nature, digital transformation is a journey requiring a staged approach and a clear roadmap which takes into account that end goals will continue to evolve with changing market dynamics and innovations.

In the absence of a standard recipe for digital transformation, each organization has to design and plan their own path to a new future.

First and foremost, strong executive leadership is vital for not only recognizing and supporting the imperative to transform, but also establishing and sharing the vision and mobilizing their organization. Naturally, detailed analysis and planning are required, and this report discusses how modern Enterprise Architecture (EA) helps business leaders plan, design, and manage the changes they must make to operate in a fast-paced, customer experience-driven digital world.

## PART 1 - REALITIES OF DIGITAL TRANSFORMATION

### **Digital Transformation is a Journey, Not a Destination.**

A critical point to recognize is that digital transformation is much more a journey than a defined destination, and it affects all parts of the organization; there is not a clearly defined endpoint and timeframe, because the disruptive retail landscape is fluid, requiring adaptation. The future path is not always clear and in fact it will inevitably change during a multi-year program. Organizations often “wheel spin” while searching for solutions that are not obvious and clear. Sometimes the problem is not even fully understood or defined. This is when organizations must rethink strategy, learn to cope with uncertainty, and adopt new approaches to how they plan and execute change.

### **Customers Rule.**

A significant aspect of digital disruption is the shift in power to the customer. The aggressive embrace of digital by tech giants such as Amazon, Google, Uber and Netflix has prompted an escalation of customer expectations and trained customers to expect more sophisticated experiences involving rich information, convenience, fast response, innovations, and continual evolution. Customers not only expect their shopping experience to be easy and convenient, but they also expect a ‘wow factor’.

Requirements are now largely determined by customers instead of business managers who used to define requirements and hand them to IT to design and build a solution. How do you manage the new and varied input streams? How do you increase speed to respond before expectations change? How do you reduce risk?

The fact is, retailers cannot write a watertight contract with customers before they begin to build new digital services. Customers will continue to change their minds about what they want – and at a faster pace than ever before. Therefore retailers need to become far more nimble and to keep up.

### **Retailers Ignore Digital Transformation at Their Peril.**

Retailers have a strategic choice: they could choose to merely continue on their current trajectory. How long will customers remain loyal? When will they be attracted away by innovative offers and services from other retailers? Will foreign retailers swoop in and snag market share from their U.S. counterparts? Will the perceived ease of online shopping deteriorate in store sales?

In reality, digital transformation is essential to remain relevant and retain customers, to combat competitive moves, and hopefully increase market share and revenue. It can also help margins and profitability through

business process improvements and operational efficiencies. At the very least, it is a matter of survival in a highly competitive and increasingly global marketplace.

### **Digital Transformation Isn't Easy, But There are Ways to Make it Doable.**

Retail leaders have little choice but to face the enormity of the changes they must make. To complicate matters, they must execute these changes while maintaining current operations, systems, and sales. For many retailers, already under pressure, this represents a daunting challenge.

The obstacles to executing meaningful change are plentiful and can often render teams unable to make effective progress – or at least not at the pace they need to. Even how to start is not always obvious!

Organizations should choose a direction and pace of change aligned with their goals and circumstances. Organizational appetite to invest and capacity to execute changes will be big factors. Given the uncertain nature of digital disruption, a good strategy is to start small and proceed via a test-and-learn approach, discovering what scores with customers. Enterprise Architecture (EA) can be a vital part of the solution.

### **About Enterprise Architecture.**

EA helps organizations navigate the increasingly complex environment in which business operates.

Rapidly changing markets and customer expectations call for new strategic planning and IT delivery methods. Modern EA bridges business and IT, enabling better alignment in order to execute strategy and achieve business objectives. It offers techniques to logically tackle complex business problems, design innovative solutions, and plan pragmatic roadmaps that enable large-scale programs to move forward with confidence and purpose.

Experienced enterprise architects are critical resources here. They bring broad expertise, a strategic outlook, technology knowledge, analytical skills and, importantly, an ability to deal with ambiguity. They also have the tools to describe a desired target state and a logical roadmap of projects to get there.

### **A New Digital Culture is Required.**

Enterprise architecture alone cannot make transformation successful. Strong business leadership, from the CEO down and ideally backed by the Board, is essential. And in a joint effort, enterprise architects must be in lockstep with senior business leaders.

In addition to articulating the vision for digital transformation and a new future, the CEO and Senior Leadership Team (SLT) must create the right climate within the organization and establish a new “digital

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culture”<sup>1</sup>. Speed of delivery, innovation, fast iteration, continual feedback, adaptability, and an enlightened attitude to both uncertainty and “failure” are key attributes of this new world.

### **Architecting the Change Journey.**

Recent research describes EA as “a modern approach to business and IT alignment”<sup>2</sup>. More practically, EA can be described as a logical and pragmatic approach to architecting change in organizations, especially where significant technology assets and new investments are involved.<sup>3</sup>

EA uses a conceptual framework for describing how a business is constructed and how the various parts work together to deliver value to customers. These parts are generally grouped into the following domains:

- Business strategy, structure and processes
- Data and Information
- Applications
- Technical platforms and infrastructure

This framework helps to describe, analyze, map, and communicate how a business needs to change and transform over time in order to meet its goals.

Enterprise Architects perform a range of functions in architecting the change journey, including :

- Understanding the needs of business, short and long term
- Logically analyzing the business problems and opportunities
- Bringing insights and identifying opportunities for change
- Working with business leaders to formulate strategy and paint a picture of the proposed future state
- Advising on new technologies and the opportunities they offer
- Identifying obstacles and mapping how to navigate a path forward
- Creating a pragmatic roadmap, recommending priorities, and defining initiatives (projects)
- Helping to mobilize the transformation program and commence projects
- Designing innovative solutions that consider multiple factors such as current assets, customer needs, processes, people, culture, and technology

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1 BCG, How to Drive a Digital Transformation: Culture Is Key <https://www.bcg.com/digital-bcg/digital-transformation/how-to-drive-digital-transformation-culture.aspx>

2 Svyatoslav Kotusev, The Practice of Enterprise Architecture – A Modern Approach to Business and IT Alignment, 2018

3 The author’s simple definition, especially when explaining enterprise architecture to business executives

## PART 2 - HOW ENTERPRISE ARCHITECTS HELP

### **Practical Ways Enterprise Architects Assist Retail Transformation.**

Working closely with senior business leaders, Enterprise Architects shape and drive many aspects of transformation planning and execution:

- Planning the journey
- Dealing with complexity
- Creating a pragmatic roadmap
- Clearing obstacles to make a start
- Monitoring technology trends and developments
- Building technology awareness among senior executives
- Designing the future state of new and legacy technologies
- Building a defensible business case
- And monitoring transformation progress

### **Collaborate with Senior Business Leaders.**

The art of telling and selling (and re-selling) the transformation story relies on developing a close relationship with senior leaders and having regular conversations, sometimes around a whiteboard, that help senior business leaders truly understand opportunities, the reality of the situation, and the transformation journey that lies ahead. Clearly, progress relies on building mutual respect and trust.

For enterprise architects, clarity of thought and using the right language are critical in these conversations. Senior leaders must be prepared to invest the time and continually question and probe until they have a solid grasp of the opportunities, plans, challenges, and the role digital technology plays (alongside many other elements) in transforming their business. Despite this, both parties will soon learn that a well-defined pathway is not always immediately obvious.

### **Plan The Journey.**

The first step in planning the journey is to create a vision for the business's future and its desired position in its retail segment. This is a high-level view of the way the business wants to be seen by customers and staff, accompanied by a set of goals and principles. Taking an 'outside in view' of the business is advisable.

The issue then is determining how to embark on an effective journey that identifies and executes change opportunities incrementally while contributing to long-term objectives. A helpful early step is to unpack a seemingly incomprehensible transformation agenda into smaller, more manageable (and therefore more achievable) chunks of change and new builds. Thinking about ‘planning horizons’ and ‘waves of change’ are useful for sequencing and grouping potential initiatives, especially where the transformation journey is likely to run over multiple years.

Given the dynamic nature of digital disruption, and the difficulties in laying out a firm plan, it is helpful to adopt a test-and-learn approach. This is quite different to the usual way of proceeding with projects. In this method, continual progress monitoring, outcome measurement, customer feedback, and nimble plan adjustment build confidence about direction and goals throughout the journey, especially through its early stages.

The experience, market knowledge, and judgement of senior business executives becomes paramount in deciding on direction, when to start, and how to proceed during each step along the way.

### **Focus First on the Business Problems, Then the Technology.**

In selecting initiatives, it is important to first focus on business problems and new opportunities, not on the technology solution. Think deeply about customers, products, processes and people, then look at how technology can help solve the problems.

Transformation does not just mean running Agile projects (versus waterfall), or building a funky new website or mobile app, or simply digitizing existing processes. Ideally it should involve end-to-end business process redesign, not just a front-end facelift (i.e. not just new user interfaces for use by customers).

To optimize value, first review and simplify processes before implementing new technology. This aligns with a customer-first approach while enabling improvements in operational speed and efficiency.

Technology is often the easier part these days. However, deploying robust and efficient solutions at scale continues to be challenging to do well.

### **Deal with Complexity.**

As mentioned earlier, digital transformation adds another layer of complexity on top of an already complicated web of systems, processes, and interactions found in most retail businesses. The irony is that using modern digital technologies to provide appealing customer experiences that are easy to use, reliable, and efficient does generate incredible complexity behind the scenes.

To deal with complexity, accept reality and learn to cope with it. There is little choice– in business today. Two useful techniques are active simplification and avoiding analysis paralysis. In other words, just do it. Enterprise architects help businesses apply these techniques through their knowledge, logical thinking,

analytical skills, ability to handle ambiguity, and clear communication via diagrams, words, and many conversations with stakeholders at all levels.

Most businesses operate beyond the abilities of most people to fully picture and comprehend this concept at a detailed level. A common technique for dealing with deeply entrenched complexity is to create pockets of simplicity. This is achieved by decomposing a complex ecosystem into smaller parts until:

- The parts are within the capacity of a human mind to comprehend
- The purpose, function, and behavior (of each part) is understood at a granular level
- Relationships and interactions between parts is visible
- The source or root cause of problems becomes evident and can be tackled

Enterprise architects do this by reviewing available documentation and speaking with a broad cross section of people: business managers, process owners, operations staff, system support people, vendors, users and sometimes customers. It is not uncommon for enterprise architects to “lift the hood” of systems to investigate internal functions and logic.

Humans crave clarity, and automatically seek understanding through analysis. However, when a clear explanation is not forthcoming, there is a tendency to over-analyze or simply grind to a halt under the enormity of it all. This “analysis paralysis” is highly unproductive and should be avoided. Often simply starting can unveil a gradual understanding and a path toward a solution. In unpacking complex situations, starting with a few easy active steps and learning as you go often leads to progress more so than persevering with fruitless analysis. Often, this approach is not widely accepted and will be uncomfortable within many organizations today. The key is for senior leaders to take steps to establish a new climate that empowers the workforce and gives permission for trial and error approaches as part of the learning journey.

### **Create a Pragmatic, Achievable Roadmap.**

As with any journey, digital transformation needs a roadmap of prioritized steps and initiatives that will move the organization towards its target state in a logical, pragmatic way. In addition to the complex web of interactions between a business’s many moving parts, the fast pace of digital transformation further complicates the journey.

Many businesses and traditional IT departments struggle to cope with this complexity, looming uncertainty, and shifting goal posts. Strong enterprise architects’ good prediction and estimation skills make them comfortable with ambiguity. They see several steps ahead and anticipate results. Their roadmaps show how to start the journey, the critical initiatives to deliver important new functionality, and how complications and obstacles should be addressed to make strategy execution successful.

These cannot be ‘set and forget’ roadmaps. They are live documents subject to the continuous planning, continuous improvement regimen. Your enterprise architect team is therefore an active, ongoing participant in

the implementation journey, overseeing system designs to ensure the right balance of alignment, quality, robustness, and flexibility for possible future change.

### **Identify and Clear Obstacles.**

Planning and executing a strategy is not straightforward. Aside from budget availability, the obstacles that hinder execution of meaningful change are plentiful and can often render delivery teams unable to make effective progress.

For instance, existing systems will continue to live and play an important role in providing core retail data and functions to new digital channels. Even if earmarked only to support transition arrangements, this may mean continued operation of the system for another 2-3 years.

Enterprise architects play an invaluable role in analyzing the business and IT landscape to identify potential obstacles that may need attention. These may include: process or system interdependencies, manual processes, systems approaching end-of life, regulatory and compliance obligations (especially where 3rd parties or government are involved), people skills, organizational change management capacity and maturity, industrial relations, or readiness of business partners (e.g. franchisees, suppliers) to embark on the transformation journey.

### **Create a Digital Delivery Capability.**

An important early step is to begin to develop or acquire the digital business skills and associated technology development capabilities that are needed to quickly and iteratively build new business models, products, and customer experiences. Various organizational structure models have been tried with varying levels of success, including wholly digital online retailers.

An approach used successfully by a number of organizations is to create a new digital delivery team as a separate department within the organization. This multi-disciplinary team should work collaboratively with business thought leaders and be positioned with clear line of sight to customers. Speed of delivery, innovative solutions, and fast test-and-learn cycles are key aspects of this model.

This type of digital delivery function doesn't align well with current IT operating models, so a new hybrid model for technology delivery and operations is needed that marries new iterative development of front-ends and dynamic customer experiences with stable and reliable (and slower to change) legacy back-end transactional systems.

### **Monitor Technology Trends and Developments.**

Another important responsibility for enterprise architects is to remain vigilant to industry trends and new technology developments and to decide if/when these should be adopted by the organization.

Digital technologies are evolving far faster than previous generations of technology. This acceleration is driven by a combination of the tech giants (Amazon, Google, Atlassian, et al) with their deep R&D pockets, the open source software movement, and cloud computing (AWS, Google Cloud, Microsoft Azure, numerous SaaS vendors). Together these three forces continue to produce a rapid succession of new software architectures, engineering approaches, development methods and frameworks, programming languages, tools, reusable code libraries, deployment models, and the like (microservices, APIs, Agile, automated testing & release, DevOps, continuous delivery, etc.).

While these enable fast, iterative delivery of new digital solutions, and empower teams to be more innovative, they can also add to the chaos and complexity of IT landscapes. Many of these technologies are freely downloadable or available with the swipe of a credit card, falling outside the usual corporate procurement and IT onboarding processes. If not managed carefully, they can quickly create new legacy systems and technologies that will burden a business, add to costs, and impede agility.

As custodians of the overall enterprise architecture<sup>4</sup> for a business, the enterprise architecture team will provide guidance and govern the adoption of these new digital technologies and delivery methods.

### **Build Development and Delivery Teams with the Right Skills.**

In the digital age, the challenge is to build teams with the right mix of new technical skills and business knowledge to implement real transformational change – and do it quickly and flexibly. Skills such as design thinking, UX design, software engineering, agile development, automation, and cloud deployment are the new currency for successful digital transformation.

Tech giants like Amazon, Google, Uber, and Netflix have shown that software development is now a customer-led iterative process, not just an event or a finite project. They have also pioneered new software architectures that offer greater modularity, granularity, security and re-use, such as APIs and microservices. In addition, they use powerful automation enabling rapid development/test/release cycles to deliver working code into production sooner.

Agile methodologies and framework and modern continuous delivery<sup>5</sup> software engineering approaches are merely instruments in the toolbox; they are not the solution. Vision, leadership, plans, people, and organizational ability to execute are critical to building and delivering new solutions.

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<sup>4</sup> Here the term “enterprise architecture” refers to the description of the carefully designed structure (environment, component parts and relationships) and behavior (people, processes, rules & regulations) of the enterprise including its data and information systems. This is the output of the activities of the enterprise architecture team or practice within an organization.

<sup>5</sup> Continuous delivery (CD) is a software engineering approach in which teams produce software in short cycles, ensuring that the software can be reliably released at any time. It aims to build, test, and release software with greater speed and frequency.

Few retailers have the right skills to implement an immediate shift to continuous delivery, APIs and microservices. Available talent for this relatively new technology is in high demand across many industry sectors, particularly in finance, gaming, and social media. Some of these industries are naturally more appealing to younger software developers and technologists. Retailers embarking on a digital technology journey need to think carefully about how they will acquire or develop these skills, and just as importantly, how they will retain and continue to further develop this expertise. This includes confirming skillsets outside the core retailer teams to include any new partners (software, implementation, etc) to ensure they have proven skills in these areas.

### **Build Technology Knowledge Among Senior Executives.**

In the digital ecommerce world, where true customer-centricity is vital to success, technology is now central to the business proposition. This is somewhat different to the past where IT was seen more as a support function. Success is now much more about the experiences and services provided to customers, such as rich information, seamless omni-channel shopping journeys, fulfillment options, social media interactions, simple returns, etc. It is no longer solely about the range and availability of products.

With the need to make technology a core competency for retailers, senior executives will benefit by having a much deeper understanding of new technology and an appreciation for the way it powers their business and creates new possibilities. Armed with this knowledge, they will be better positioned to optimize their business and lead transformation initiatives.

Enterprise architects are in a great position to help senior executives become familiar with modern technologies concepts, terminology, constructs, components, and vendors. The opportunity to build knowledge and understanding comes in the many conversations that necessarily take place as enterprise architects and senior executives jointly formulate strategy, develop technology execution plans, and decide on change initiatives.

For optimal value, this should be a two-way educational activity. Enterprise architects must also learn from business leaders and be tuned in to key drivers and opportunities for value creation and profit generation.

Learning takes many forms. Beyond conversations, for example, senior executives should be willing and active participants in technology demonstrations and agile solution showcases run by internal development teams. They can also learn a lot by attending relevant conferences and technology expos. Enterprise architects can advise on suitable events and arrange briefings from selected technology vendors.

Ideally enterprise architects and senior leaders will spend as much time talking about their existing business processes and systems as they do in exploring exciting new technologies. As mentioned previously, leveraging and adapting existing systems will be a vital part of most transformation journeys. Some of the early steps may well be quick wins generated from clever use of existing capabilities. In any event, effective

interworking between new digital channels and existing legacy retail systems will be a key ingredient in transforming the business.

As digital technology becomes a critical part of how businesses operate in this new world, it will be difficult for senior executives without firsthand knowledge to be strong advocates and leaders of transformation. While the CIOs and enterprise architects play vital roles, moving to be a digital business is far too important to be left largely to the technologists in the organization.

### **Justifying Investment in Technology Asset.**

Enterprise architecture has a pivotal role to play in helping the organization build a case for investing in new and existing technology assets. Digital transformation is not a cheap exercise, and investments should be justified by the benefits and value they bring. Enterprise architects are central to imagining and designing new digital channels and experiences. They also play a critical role in defining and explaining the less visible but equally important changes required to existing core retail systems.

Retailers have built up significant assets on which they run their operations – point of sale, self-service kiosk, inventory management, promotions, merchandising, supply chain, payments, etc. Typically they have been in place for many years and represent significant investments made over a long period of time. Furthermore, they have been designed around physical stores and relatively slow moving sales and replenishment cycles. They are slower to change, having been built in a past era and operated within a more rigid IT test-and-release management regimen.

How do businesses justify the changes needed in these systems in order to support the new digital channels and customer experiences? How does IT accelerate the change process for legacy systems to better align with the pace of the digital world?

Two demanding new characteristics of digital are customer expectations for: (1) accurate real-time information about products and availability; and (2) the desire for seamless omni-channel shopping journeys, e.g. order online and pick-up in store. Legacy retail systems are typically not equipped to meet these new needs, having batch interfaces for updating price and inventory information, unique interfaces for connecting different channels often in a siloed manner, hard coded functionality, and other limitations.

Enterprise architects need to navigate these deep-seated technical challenges and analyze the options for modifying or adapting legacy systems. At a minimum, new interfaces will inevitably have to be designed on legacy systems to enable connection of new digital front-ends. In some cases, the best course of action will be to completely replace a legacy system – no doubt an unpalatable decision for many senior business executives and the CFO, as well as potentially disruptive for all levels of the retail operation. Either way, explaining the options, costs, and investment justification to sponsors is a very critical task for enterprise architects, since the journey cannot proceed without executive buy-in.

**Beware of Over-Simplification.**

It is easy to underestimate the difficulty of transformation, especially when the real complexity of the business IT landscape fades from view in simplified representations and grand visions presented to senior executives and the Board . Nobody likes to deal with complexity and it is human nature to prefer simplicity, so people naturally gravitate to these simplified pictures. However, they can be misleading and create a false confidence.

With knowledge and insights, an ability to handle ambiguity, and good communication skills, enterprise architects can add clarity to transformation story and convey the intricacies of the journey into a digestible form. Over-simplification can be fatal when too much reliance is placed on slick PowerPoint presentations and glossy A2 posters as the main forms of communication.

## PART 3 - MAKING TRANSFORMATION REAL

### **Building a Defensible Business Case.**

Since businesses need to be viable and sustainable to survive, a positive business case is needed to garner approval for investing capital and other resources. However, a digital transformation strategy involves a tremendous shift in how to do business and calls for a different approach to justification compared to traditional business cases.

Proving a hard return on investment (ROI) can be the most difficult aspect of a digital transformation program. Waiting to prove a water-tight ROI may mean that meaningful change work never starts or is significantly delayed. The danger here is that competitors get a head start, forcing the laggard retailer to play catch-up and work doubly hard to win back customers.

But committing funds without a good sense of likely outcomes and financial returns is equally problematic. A more balanced, but no less rigorous, approach is needed. Building a business case for transformation is part art and part science. To maintain momentum, senior executives and Board members will need to display courage and make decisions based on their industry experience and 'gut feel' about future opportunities. This is a business judgment call versus a fact- or data-based decision. Judgment-based decision making is a common aspect of investments in digital transformation.

The evolving and uncertain nature of digital transformation journeys is both a blessing and a curse. Lack of certainty makes the big up-front decision difficult. However, since the journey will proceed in planned steps, discrete investment decisions can be made progressively with phased release of funding as a control mechanism. CFOs and risk managers welcome this approach - provided that each phase delivers expected value, whether financial or intangible.

Tranches of funding tied to milestones and achievements with defined outcomes and value provide a way to manage investment risks. It also helps manage changes in direction and priorities that will arise from time to time.

In the new reality of the digital world, a business case moves from being a document prepared at a point in time and signed off once, to a living dynamic management tool. In practice a series of business cases will be prepared progressively, reflecting an open approach to an unknown future.

Other main ingredients for a successful business case include:

- Vision and strategy

- Senior leader advocacy
- Roadmap with short and long-term actions and major milestones that support phased funding
- Relevant value metrics
- Adjustable plans based on reality and communication.

### **Vision and Strategy.**

A clear vision and strategy for digital transformation is an essential prerequisite. There is no point to take a business case to the Board if they have not already bought into the idea of digital disruption, the imperative for change, and a new vision for the business. It is typically the responsibility of the CEO to articulate vision and present strategy to the Board for approval.

Providing clarity around such a complex story and execution plan normally requires multiple conversations with individual Board members. A well-articulated, formally presented strategy paves the way for these discussions, enabling deeper examination of the transformation agenda, the proposed roadmap, and the business case arguments. Then will the time be right to ask for formal Board approval.

### **Senior Leader Advocacy.**

Winning backing for a digital transformation case takes time and requires support from most areas and multiple levels of the organization. To complicate matters, it is invariably a complex story to tell, often with many assumptions rather than precise steps, dates, outcomes, and value. Furthermore, every organization has a history of past projects some of which introduced a new technology that didn't deliver promised outcomes. Past disappointing results may have made some Board members wary of large change initiatives or skeptical of technology value.

A strong and articulate senior advocate can be a powerful ally in winning support across the organization for the case for transformation. In particular, a credible and trusted senior leader who has influence with Board members and can explain the plan, the benefits, and the risks in language they understand, can be instrumental in elevating the business case onto the Board's formal decision agenda.

### **Pragmatic Roadmap.**

Once the concept of transformation and the goals and broad strategy are accepted, the next step is development of a pragmatic roadmap that describes how transformation will be achieved, setting out short and long-term actions and providing major milestones for the journey. This is also the basis for creating workable project management plans for major initiatives.

Importantly, it spells out when initiatives will start and are expected to finish and when business leaders can expect to see value delivered (see Value Metrics below). This information is central to the management of phased funding which, as discussed earlier, helps facilitate investment decisions and risk management.

Short-term initiatives should be quite detailed around scope objectives, execution plans, resources, and expected outcomes. Longer term initiatives will be less well defined, and there should be flexibility in the roadmap for adjustments based on findings and learnings from earlier projects.

### **Value Metrics.**

For many businesses, demonstrating effectiveness and proving a hard ROI up-front is a very challenging aspect of a digital transformation project. While project costs are generally easier to estimate and measure, the quantum of proposed changes and the uncertainty of the journey make it difficult to accurately predict the future state and outcomes.

It is important to identify relevant value metrics from the outset so that success or failure can be monitored and continually assessed. Some will be hard metrics (e.g. customer visits, orders, average basket size, abandoned shopping carts, revenue), while others will necessarily be soft indicators. The latter includes such things as productivity, executive pulse, staff engagement, brand sentiment, and customer satisfaction.

Establishing metrics is not always straightforward. For instance, some may not become effective until later stages of the transformation journey, and so applicability of metrics needs to be built into the plan. Also, there may be metrics that don't have an established baseline in the current business, such as mobile app downloads or customer NPS.

### **Adjustable Plans Based on Reality.**

In many cases when retailers embark on a digital transformation journey they do not, and cannot, have full control of the environment in which their business is operating. This is the new reality.

Along the digital transformation journey, things change – some by design and some due to dynamic customer expectations and competitive marketplace. Accordingly, there is a need for continual monitoring and a preparedness to learn and quickly adjust plans and development priorities.

To do this, regular feedback is vital, along with continual assessment of progress and evaluation of outcomes. Particularly under a phased funding model, it is important to regularly report progress and achievements and, equally important, to flag potential misses, unexpected obstacles, and shortfalls as early as possible. This depends on a culture that embraces missteps and failure to get desired results as valuable learning opportunities.

Furthermore, metrics may prove either ineffective or reach a point where they are no longer relevant. In other cases, metrics may be appropriate but expected ROI is not realized. Either way, metrics must be constantly reviewed for relevance and effectiveness as the transformation journey progresses.

### **Communication.**

Transparency and clarity must balance uncertainty throughout the digital transformation journey. Regular communication is vital to maintaining momentum, focus and confidence as unexpected obstacles and other discoveries necessitate a change in direction and replanning.

Communication must start as early as possible (well before the business case is presented) and continue throughout the journey, guided by a well thought out communication plan. All stakeholders should be updated regularly and proactively using a range of methods, media and supporting documents to ensure that everyone continues to understand and support the program. With a large number of different stakeholders to be engaged, the appointment of a comms professional is advisable.

While the focus of communication in the early stages is to explain the plan and win support and initial investment approval, going forward every opportunity should be taken to publicize progress, milestones and successes, and to share discoveries and changes in direction. Major events and achievements should be celebrated with staff as this helps build morale, energy, and confidence for the next stage of the journey.

### **Measuring Progress.**

How do we know that our transformation journey is heading in the right direction and progressing satisfactorily? How do we measure success in digitally transforming our business?

As mentioned earlier, each industry and each business will chart its own course and use a different approach. Transforming a traditional banking operation or an insurance company is necessarily different to transforming a retailer. And transforming grocery retailing will take a different path to that for a department store or luxury goods retailer. Customer expectations, competitive landscape, value of merchandise, profit margins, existing systems, and organizational change appetite all play a part in shaping the journey.

Regardless of the actual direction, path and timing, there are a number of indicators of progress that organizations might choose to monitor their transformation journey:

- Executive involvement, buy-in, and advocacy for the transformation
- Mobilization via a documented plan, committed funding, and evidence of an actual start being made on tangible change initiatives
- Customer uptake, usage, and feedback about new digital channels and experiences
- How change activities are translating into measurable financial impacts, such as market share, sales, new revenues, customer acquisition cost, reduced operating cost, and profitability

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By design, many of these are soft indicators, given that many transformation journeys take an evolving path as the organization experiments, learns what works, and responds accordingly.

Executive buy-in and involvement is a strong indicator especially in the early days. Are the CEO and all members of the SLT on board with the need to transform? Will they support changes that will impact the organization including structures, people, processes, and systems? Is the Board endorsing the strategy proposed by the CEO and backing it with approved investment budgets? How well is the CEO promoting and explaining this to staff at all levels in the organisation? Are words being followed by tangible actions? Are performance plans and KPIs being adjusted to match vision and plans? What steps are being taken to create a digital culture in the organization? Is a formal change management plan in place and being executed?

For the program to proceed, there needs to be a roadmap of key change initiatives and appropriate supporting budgets. It is not practical to allocate total budget up-front for a multi-year transformation journey. However, strong commitment to multiple Wave 1 initiatives over (say) the first six months is essential. Then, mobilization of resources and project management to actually make a start on selected initiatives is critical to creating energy and early momentum for the long journey. Invariably, early projects create the platform for more significant change initiatives in later phases. Commencing and successfully completing projects is a powerful measure of progress.

Different from normal project management reporting, for Agile digital delivery teams, story point burndown, iteration reviews and actual software releases into production are the usual ways to show progress. Solution showcases are also a key way to demonstrate progress especially for senior executives who may be uncomfortable with the perceived lack of rigor sometimes associated with Agile delivery projects.

What customers are saying about new digital experiences is a reflection of how well their expectations are being met. While digital transformation is all about being tuned in to customer needs and responsive to their desires, there should also be a large element of innovation and proactively offering new experiences. It makes sense therefore to have a range of customer related measures of progress and satisfaction.

For most retail businesses attracting and retaining customers and winning their repeat business is a big factor in determining business success. Are customers coming to your new website? How long are they spending there? Is it translating to completed purchases and payment? How many abandoned shopping carts are you seeing? How many times is a new mobile app downloaded? What uptake are you getting for innovative new shopping experiences such as Click & Collect or curbside pickup?

When surveying customers, what Net Promoter Score (NPS<sup>6</sup>) score do they give and what comments do they offer? What are they saying in focus groups and on social media? What comments and complaints are customer service personnel sharing? What are you seeing on customer care channels?

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<sup>6</sup> Net Promoter Score (NPS) is a management tool that can be used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research and is claimed to be correlated with revenue growth. Source: Wikipedia

Finally, the ultimate endgame for digital transformation is maintaining and hopefully increasing market share, revenue, and profitable sales. Financial measures become the true measures of success in the long run. However, an uptick in financial indicators takes some time to register as the team develops solutions and discovers what really appeals to and works for customers.

Further, large-scale change comes at a significant cost, and investments have to be recouped, so it will take some time for profits to flow to the bottom line. Nonetheless, deciding on relevant financial measures and putting appropriate metrics in place is an important measure of transformation progress.

In addition, data analytics is increasingly being used to help measure and analyze customer sentiment, behavior, preferences, purchase patterns, and other attributes with a view to being able to generate more personalized offers. Thus, designing data capture mechanisms into systems is an important new aspect of measuring progress in the digital world.

### **Continual Monitoring and Adjustment.**

In the fast moving digital world, how do retailers stay abreast of changes and make course corrections to transformation journeys? Continual monitoring of customer response to new initiatives and shifts in the broader external environment is critical, followed by periodic adjustment of the plan. There are three main elements to this.

First, business leaders must continually watch the dynamic marketplace for competitors' moves and product and service innovations. But care must be taken to not fall into the trap of solely measuring against others, especially the tech giants, and trying to match every move and innovation. Most retailers simply don't have the financial firepower nor tech resources to do this.

Instead, the direction and pace of change must be matched to the specific circumstances of the organization's goals and capacity to execute changes. As stated earlier, a good strategy is to start small and proceed via a test-and-learn approach. The message here is: deal with your own reality, and avoid external hype.

Second, customer feedback is vital. Customers must be polled regularly for feedback on their experiences and newly deployed solutions. For an accurate gauge, a range of techniques should be employed, such as tracking actual website and mobile app behavior, A/B testing, NPS surveys, focus groups, analyzing feedback on customer care channels, and monitoring social media commentary.

Finally, the digital revolution is producing an unprecedented array of new technologies, and tools used to deliver new solutions are in almost constant flux. Enterprise architects and digital tech specialists in delivery teams must constantly review and assess new software technologies, frameworks, and tools to determine

their applicability and value. The organization needs to accept that changes in primary technologies will happen during the transformation journey, and possibly several times. Managing these transitions is critical to maintain momentum and productivity and minimize technical debt.

Balance is required between staying with current tools and gaining the benefits of new tools. A change of tooling will involve investment in licenses and developer training, but the benefits of creating new experiences that can be efficiently delivered may make the transition worthwhile. Enterprise architects can help make this call.

### **Leadership From the Top is Essential.**

There has already been much discussion about the important role played by enterprise architects. However, no matter how good a job they do, these people cannot make transformation successful without strong business leadership to provide the vision and establish a new “digital culture”.

Speed of delivery, fast iteration, innovation, continual feedback, adaptability, and an enlightened attitude to uncertainty and “failure” are critical attributes in this new digital world. This is not purely about going faster; it involves a change of mindset throughout the organization, woven into every fiber. It also involves embracing a test-and-learn approach, continual monitoring of progress, measurement of outcomes, and assessment of customer feedback .

The CFO too will need to adjust how business cases are viewed without a neatly quantified ROI being locked-in up front. Digital transformation requires organizations to broaden their perspective about risk management. Digital Transformation should be seen as a calculated approach to an uncertain journey that responds to the dynamic nature of digital disruption.

The first step toward successful digital transformation is starting.

Like all journeys, successful digital transformation depends on a range of factors, not least of all having a goal in mind, developing a broad plan, and simply starting.

Digital disruption is forcing retailers to transform their businesses and quickly address competitive pressures and meet changing customer expectations. In an increasingly complex and fluid environment spawned by disruption, mapping out an achievable transformation journey is a daunting challenge. Retailers must overcome the urge to over-think the challenge and instead plan, mobilize and begin.

The organization must embrace uncertainty and display a commitment to stay the course but to flex and adapt as necessary based on learnings, customer feedback, and shifts in the competitive marketplace. This mindset requires a willingness to experiment - test and learn - enabled by a new digital culture spearheaded by senior executive leadership and an enlightened culture.

Alongside leadership, modern EA is a valuable resource helping retail organizations chart a transformation course and navigate this complexity to achieve significant positive business change leveraging new digital technologies.

Your EA team can advise on practical ways to progress that will see you start sooner and rapidly achieve real success on your digital transformation journey.

## ABOUT THE AUTHORS

### **MICHAEL BAIRD**

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Mike is a seasoned IT strategist who brings a blend of business acumen, technical savvy and deep expertise in ICT strategy, planning and enterprise architecture acquired through many years working across a diverse range of industries including retail, banking, funds management, postal services, mining and construction management.

Recently Mike was Retail Domain Architect at Australia Post where he developed the strategy and transition roadmap for digital transformation of Post Offices throughout Australia. Prior to that he was Enterprise Architect at Newcrest Mining where he led development of a new Technology Strategy. Previously he was Head of IT Strategy & Architecture at Vanguard Investments Australia, planning systems for the fast growing local business and for tighter integration with the US parent company. Earlier on he held senior IT planning and architecture roles with ANZ Bank (retail banking) and multi-brand retailer Coles Myer. He has also completed various consulting assignments in IT strategy and enterprise architecture.

Mike brings a strategic outlook and a practical mindset to helping organisations transform. He has a track record of thought leadership, driving change, designing innovative solutions to business problems, and ensuring that the future systems portfolio and IT operating model are suitable for the business challenges that lie ahead in the new digital world.

### **ABHIJIT KILLEDAR**

CTO - OneView Commerce

Abhijit is the Chief Technology Officer and is a member of the Executive Team at OneView Commerce. Abhijit brings 18 years of expertise in product development, implementation and support including extensive experience creating and managing product development and support teams worldwide. He is responsible for the technology roadmap which includes research and validation of upcoming technologies, products and integration partnerships to ensure OneView products remain at the forefront for thought and industry leadership. In addition, he provides technology leadership to support the sales cycle, including C-Level strategy presentations and technology deep dives that have led to most of OneView's global customer wins.

Prior to OneView, Abhijit was the director of support and product manager at Reflexis Systems a privately held retail software provider with more than 250 customers. In that role, Abhijit held dual accountability for

managing enterprise production clients and leading the product development of specific workforce management applications. In addition, he specialized in working directly with Fortune 100 clients to solve business challenges by aligning the Reflexis product offerings to individual client needs. Abhijit holds a Bachelor of Engineering degree from University of Pune, INDIA.

## **ONEVIEW COMMERCE**

OneView Commerce has pioneered digital transformation in retail by aligning with global innovators to bring the only headless, API-first retail-as-a-service platform into production that empowers retailers to build POS, commerce and digital experiences fast. The OneView Digital Store Platform's feature-as-a-service transaction engine enables digital leaders to focus on experience innovation and relevant, agile customer engagement to create the signature brand experiences that disrupt, differentiate, transform and delight customers. The platform combines point of sale, real-time inventory management, enterprise promotions, and omnichannel orchestration to increase engagement, expand basket size, and improve margins. OneView significantly reduces regret spend and dramatically increases the speed to market with a commerce engine that empowers control and innovation at every touchpoint. The Kroger Company, Australia Post, Molton Brown, and Carhartt are among the global retailers revolutionizing their customer engagement with OneView Commerce. For more information, visit [www.oneviewcommerce.com](http://www.oneviewcommerce.com). Twitter: @oneviewcommerce

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Build POS, commerce + digital transformations, fast.