Executive UPDATE
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BUSINESS TECHNOLOGY & DIGITAL TRANSFORMATION STRATEGIES

Digital Transformation & Design Thinking, Part III: Overcoming Transformation Challenges

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In Part I of this three-part *Executive Update* series, we focused our attention on the intersection of design thinking (as a method for understanding opportunities through a different lens) and digital transformation (the use of technology to radically improve performance or reach). In many cases, digital transformation is employed in an effort to create competitive advantage, which in today's business environment can at best be a transient advantage because sustaining anything for a long period of time is highly unlikely. Next, in Part II, we took a closer look at the design thinking method and delved into the actual design framework that companies are adopting to advance their ability to digitally transform. We explored the principles of inspiration, ideation, and implementation, along with the benefits of a design mindset. We also broke down some myths that have plagued design thinking in the past. Here in Part III, we conclude this *Update* series with an examination of the top challenges that arise from pursuing a digital transformation strategy and how design thinking tools and the design thinking process can help address these challenges.

Challenges in Implementing Digital Transformation

Transformation of a company and managing through change are inherently difficult. The inclusion of a digital component in this transformation effort makes the work that much more challenging, even for the sharpest and most visionary of executives. Companies undertaking digital transformation, in our opinion and based on our experience, face four major challenges that we believe design thinking tools can help overcome. In the following sections, we describe each challenge and how a design thinking tool can help overcome that particular challenge.

Challenge 1: Understanding the Digital Impact on the Customer Journey

Companies tend to look at the introduction of digital technology, or a change involving digital, as a way to enhance the customer journey. When, for example, a retail store utilizes social media and online tools to begin the customer journey before the customer sets foot in a physical store, or when a theme park introduces a wearable to its guests to make purchasing easier during a visit, these businesses are fundamentally changing the customer experience. If a company does not clearly map out its vision and the impact of the digital change on the customer experience, the risk of confusing the customer increases and is not easy to address.

Design thinking can help through the use of customer journey maps — a visual representation of every stage of a customer's experience and engagement with you as a company. Through the process of mapping every way in which a customer interacts with your business — every touchpoint and every experience of the customer — businesses can better view its experiences from the customer's perspective. Customer journey maps allow companies to gain extremely valuable insight to identify areas requiring attention to improve the customer experience and to help retain customers as their journeys change with the introduction or augmentation of digital components.

Challenge 2: Using Digital to Disrupt Your Business Model

Companies that have seen significant success through digital transformation are those that — upon looking at the digital customer journey — realize that there is a need not only to digitize the customer journey but potentially also to change engagement with its customers and reset their expectations, thereby disrupting the business model.

For example, electronics company Philips has used digital to significantly disrupt many of its market segments by changing its business model. After introducing digital components into its products, the company significantly changed its interaction with customers. This changed interaction has come about through the use of the data Philips can gather from its products and the insights it can provide back to its customers. Today, Philips sells toothbrushes and lightbulbs that connect to mobile apps, for example, offering a different value proposition to its customers. While the company continues to sell its products through traditional channels, its mobile platform has created a new way of interacting with customers and a new channel to offer products and services. Philips recognized that its legacy business models for these products were not sufficient and, through the use of digital and data, created new business models.

In cases like Philips, design thinking — and its use of the *innovation lifecycle* — can help companies and executives. The design thinking community describes the innovation lifecycle in various ways depending on context. We like the following definition:

> *Consider the innovation process as a kind of value chain. Each stage of the process becomes a platform on which the next stage can be built. Such a value chain would have four interdependent elements: the ideation process (basic research and conception),*

project selection (the decision to invest), product development (in tune with the rest of the organization), and commercialization (bringing the product or service to market and adapting it to customer demands).

With the help of the innovation lifecycle, executives can examine their existing business model designs and begin to investigate redesigning their business models to determine whether the disruption or the augmentation approach to using digital creates more value and viability. This can be a helpful first step before investing and rearchitecting the business model to determine what level of change you need.

Challenge 3: Understanding How to Gather and Leverage Customer Data

Connection to the customer journey and changing the business model occurs through the use of data and the value that data-derived insights bring to both the company and the customer. Philips is a great example in the consumer goods industry. Another example is the Disney theme park organization, which leverages the data gathered through its interactions with guests throughout the world to generate a large amount of value. Along with digitizing the customer journey and its business models, the company has also understood the importance of gathering and leveraging the data.

Through its digital transformation efforts, especially the introduction of the MagicBand, a digitized wrist-band, Disney now monitors usage of its smartphone apps. The wristband has allowed the company to gather various points of data, including rides families frequent, the characters that kids and parents interact with most, and the television and film merchandise on which customers spend money. Such unrestricted access to guest data has helped the company streamline its park logistics and reduce turnstile transaction times by 30% while increasing park capacity. As a company that understands how to gather and leverage customer data without harming its reputation, Disney's parks division saw operating profit rise 18% in 2018, to $4.5 billion.

Using a design thinking tool called an *empathy map*, Disney has been able to understand its guests from multiple dimensions. An empathy map is a collaborative visualization used to articulate what is known about a particular type of user. The empathy map externalizes knowledge about users to create a shared understanding of user needs and to aid in making decisions about what types of data will help understand the customer. Disney combines the use of empathy maps with an ethnographic approach that promotes the idea of studying, in depth, the relationship between Disney guest demographics and guests' experience as they visit Disney parks. Through observations and interactions, the company can truly empathize with users and their experience while determining the need for insights and data across the different parts of the customer journey through a digital interaction. An example would be the ability to notify guests when a ride has been shut down due to mechanical or weather-related issues and to redirect those guests to other attractions. This is only possible because Disney fully understands its guests' experiences and their customer journey through the company's parks.

Challenge 4: Legacy Mindset to Organizational Willingness to Change

Perhaps the most significant obstacle to transformation is the inability and unwillingness of an organization to change its mindset and culture. Unless a business can overcome this challenge, the likelihood of any digital transformation effort succeeding is very small. Much has been written about companies unwilling to make significant changes and those suffering the consequences when faced with market disruptors that were willing to act on decisions to help them leapfrog the market and incumbent companies. In his popular book, *The Innovator's Dilemma*, Clayton Christensen depicted this situation by describing why it is common for market leaders and incumbents to fail to seize the next wave of innovation in their respective industries due to a legacy mindset. The following excerpt from the book perfectly captures the challenge of a legacy mindset and an unwillingness to change:

> *The reason [for why great companies failed] is that good management itself was the root cause. Managers played the game the way it was supposed to be played. The very decision-making and resource-allocation processes that are key to the success of established companies are the very processes that reject disruptive technologies: listening to customers; tracking competitors' actions carefully; and investing resources to design and build higher-performance, higher-quality products that will yield greater profit. These are the reasons why great firms stumbled or failed when confronted with disruptive technological change.*

Countless companies have suffered the mindset fate, like Kodak, Sears, and Blockbuster, while others have succeeded in changing their culture to adjust to a "new normal." Through various design thinking approaches, companies can position themselves to overcome the first three challenges described above and thus make more visible and tangible the ability to change their mindset and culture. To overcome this last challenge completely, design thinking offers an additional tool that may help executives "turn the tide." The best way to move from a traditional mindset to a responsive one and to align the culture toward disruption and adaptivity is to engage employees directly in the process and encourage disruption as part of the culture. Hackathons are a great way to achieve this objective. As a design thinking tool, a hackathon is a design sprint-like event in which teams comprising cross-functional groups collaborate intensively on projects relating to some challenge. In the case of digital transformation, the challenge is likely associated with a change in how the company utilizes technology in its business or operating model.

The goal of a hackathon is to create novel ideas and prototypes that can help determine the value of introducing a change at scale. By involving the employees in this process of disruption, they become part of the change and see it in motion as they move from traditional to responsive and innovative.

Conclusion

Design thinking is a human-centered approach to discovering and designing solutions to overcome challenges and, ultimately, seeking opportunities for incremental and transformational change in organizations. As we explored in this three-part *Update* series, at its core, design thinking is a system

of beliefs, a way of thinking or "mindset," and a process and methodology. We can also consider it as a set of practices across the three stages of inspiration, ideation, and implementation (e.g., empathize, define, ideate, prototype, and test).

Digital transformation is disruptive by its very nature. We cannot easily overcome its associated challenges, but we hope our thoughts on the role of design thinking when it comes to transformation will help you with these challenges. We encourage you to send us your thoughts, ideas, and feedback on this *Update* series.

About the Authors

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