

Options for Formulating a Digital Transformation Strategy¹

Thomas Hess, Christian Matt, Florian Wiesböck,
Ludwig-Maximilians-Universität München (Germany)
Alexander Benlian, Technische Universität Darmstadt (Germany)

Executive Summary

CIOs and other senior executives face the challenge of how to handle the opportunities and risks of digital transformation. We believe that firms need a standalone digital transformation strategy that signposts the way toward digital transformation and guides managers through the transformation process resulting from the integration and use of digital technologies. A digital transformation strategy impacts a company more comprehensively than an IT strategy and addresses potential effects on interactions across company borders with clients, competitors and suppliers.

The full report describes how three German media companies successfully approached digital transformation. Each of them chose a different approach to digital transformation, depending on their individual business models and strategic visions for digital technologies. Together, these three cases provide a rich picture of the different options for formulating a digital transformation strategy. Based on insights from these cases, we provide a list of 11 strategic questions and possible answers (options) managers can use as guidelines when formulating a digital transformation strategy.

Key Decisions for a Digital Transformation Strategy

Use of technologies

1. Strategic role of IT?	Enabler		Supporter	
2. Technological ambition?	Innovator	Early adopter		Follower

Changes in value creation

3. Degree of digital diversification?	Electronic sales channels	Cross-media	Enriched-media	Content platforms	Extended business
4. Revenue creation?	Paid content	Freemium	Advertising		Complementary products
5. Future main business scope?	Content creation	Content aggregation	Content distribution	Management of content platforms	Other

Structural changes

6. Responsibility for digital transformation strategy?	Group CEO	CEO of business unit	Group CDO	Group CIO
7. Organizational positioning of new activities?	Integrated		Separated	
8. Focus of operational changes?	Products and services	Business processes		Skills
9. Building of competencies?	Internally	Partnerships	Company takeovers	External sourcing

Financial aspects

10. Financial pressure on current core business?	Low	Medium		High
11. Financing of new activities?	Internal		External	

¹ The full article is published in the June 2016 issue of *MIS Quarterly Executive*, available online at www.misqe.org.

The 11 strategic questions and options are grouped along the four dimensions of the *Digital Transformation Framework* identified by three of the authors in 2015: (1) *Use of technologies*, which reflects a firm's approach and capability to explore and exploit new digital technologies; (2) *Changes in value creation*, which reflects the influence of digital transformation on a firm's value creation; (3) *Structural changes*, which refers to the modifications in organizational structures, processes and skill sets that are necessary to cope with and exploit new technologies; (4) *Financial aspects*, which relates to both the need for action in response to a struggling core business and the ability to finance a digital transformation endeavor.

Guidelines for Formulating a Digital Transformation Strategy

When formulating a digital transformation strategy, management must answer 11 questions. The first two relate to the use of technologies dimension, the next three to the changes in value creation dimension, the next four to the structural changes dimension and the last two to the financial aspects dimension,

1. How Significant Is Your Firm's IT to Achieving Strategic Goals? Some firms regard IT as an enabler of new business opportunities, while others regard IT as a means of supporting business change.

2. How Ambitious Is Your Firm's Approach to New Digital Technologies? More conservative firms may adopt established and widely used technology solutions, while others may deploy new technology solutions at the early stages of their development. A more aggressive approach is to act as an innovator and create and introduce new technology solutions into markets.

3. How "Digital" Is Your Interface to the Customer? Managers have to consider the extent to which their firm should diversify its business into the digital world. Larger firms will likely diversify their traditional businesses and actively leverage the possibilities offered by digital technologies. Smaller and medium-sized firms will likely emphasize the stability of their core businesses in their digital transformation efforts.

4. How Will You Create Revenue from Future Business Operations? Four options are available for media companies: paid content, a freemium model (providing a basic free version and a paid version that creates additional value), advertising and complementary products.

5. What Will Your Future Business Scope Be? The cases demonstrate that media companies generally maintain their focus on traditional activities (content creation, aggregation and distribution) but attempt to exploit the opportunities offered by digital transformation through managing content platforms.

6. Who Is in Charge of the Digital Transformation Endeavor? Ideally, the CEO (group or business unit) should be fully responsible for the digital transformation strategy, although it could be the CIO if the focus is on business processes. In companies whose digital focus is on the interface with customers, a chief digital officer (CDO) working alongside the CIO could manage the transformation.

7. Do You Plan to Integrate New Operations into Existing Structures or Create Separate Entities? Firms must decide whether to integrate new digital operations into their current operations or to organize them as distinct, separate units (perhaps as a newly formed subsidiary).

8. What Types of Operational Changes Do You Expect? A digital transformation strategy can result in operational changes internally (through business processes) or at the customer interface (through products and services). Operational changes may also occur because of the new skill sets needed to exploit digital technologies..

9. Do You Need to Acquire New Competencies? If so, How Do You Plan to Acquire Them? Changes in products, services and business processes to digitally transform an organization will likely require new skills. Firms can build on their current capabilities and acquire the required competencies themselves (e.g., by training or hiring new employees). Other options are to partner with or takeover a firm that already has the required skills, or to use outsourcing firms.

10. How Strong Is the Financial Pressure on Your Current Core Business? The willingness of top management to embark on a digital transformation journey often depends on the competitiveness of the current core business.

11. How Will You Finance the Digital Transformation Endeavor? To finance their digital transformation endeavors, firms can choose either internal or external financing options. But firms that are already financially struggling will find their options for financing digital transformations are severely limited.

In conclusion, the most important thing for managers charged with formulating their firms' digital transformation strategies is to know the right questions to ask. Answering these 11 questions within their own business contexts will provide managers with a comprehensive and structured approach to digital transformation that will enable them to cut through the complexity of digital transformation strategies.