



Rebooting IT: What separates digital leaders from the rest

To meet rising customer demands and capture fast-moving opportunities, most organizations will need to make big changes in the way IT works.

By Steve Berez, Vishy Padmanabhan and Stephen Phillips

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If you were to build an IT organization from scratch today, you would build it very differently from the one you're working with. You would build an IT organization tuned for speed to market, one that delivers the digital capabilities that customers want: more personalization, greater transparency and convenience and a seamless omnichannel experience. You would build one with a modular architecture that relies extensively on cloud-based delivery models. You would also build tools and processes to analyze vast amounts of data so you could develop effective products and services.

Of course, few companies have the luxury of starting from scratch. Instead, almost all large enterprises are working to update their existing IT organizations so they can do far more than they could just five or ten years ago, when their primary function was to deliver predictable, reliable performance and static analytic and reporting capabilities. The maturity of new development processes and technologies—for example, DevOps, cloud and better analytic tools—provides an opportunity for companies to transform their IT operating model and speed their time to market while improving security, performance and scalability.

Now, the rise of digital products and services has moved technology to the center of company strategy, particularly in industries such as financial services, retail, telecom and media. Upgrading IT is a C-level priority. As executives consider how to transform their old IT organizations, they are asking three big questions:

- How do we create a more nimble digital technology operating model to deliver a superior customer experience?
- How do we modernize the legacy stack to reduce running costs and work more effectively with omnichannel business models?
- How do we accelerate this journey and manage it responsibly within an affordable cost envelope?

We believe that executives need to address these three questions in an integrated way; you can't table one issue

while you deal with the others. Legacy systems and processes need to coexist with newly created digital applications and capabilities. Both are necessary to deliver the digital and physical aspects that are indispensable parts of life and business today—a phenomenon we at Bain call *Digital*[®], which is reshaping not only the way people live, but the way companies operate.

We wanted to find out how some companies move faster than others—how they become digital leaders. We benchmarked more than 250 companies in Europe and North America on their ability to deliver digital capabilities like mobile enablement, a seamless omnichannel experience, next-generation payments, flexible fulfillment and advanced data analytics. We also considered their financial performance and digital-sales growth, though we understand that success there depends on much more than digital prowess. We used these outcomes to identify a cohort of digital leaders and another of digital laggards. We then reviewed how these leaders and laggards differed in their approach to IT on a range of parameters to identify the characteristics associated with digital success (*see Figure 1*).

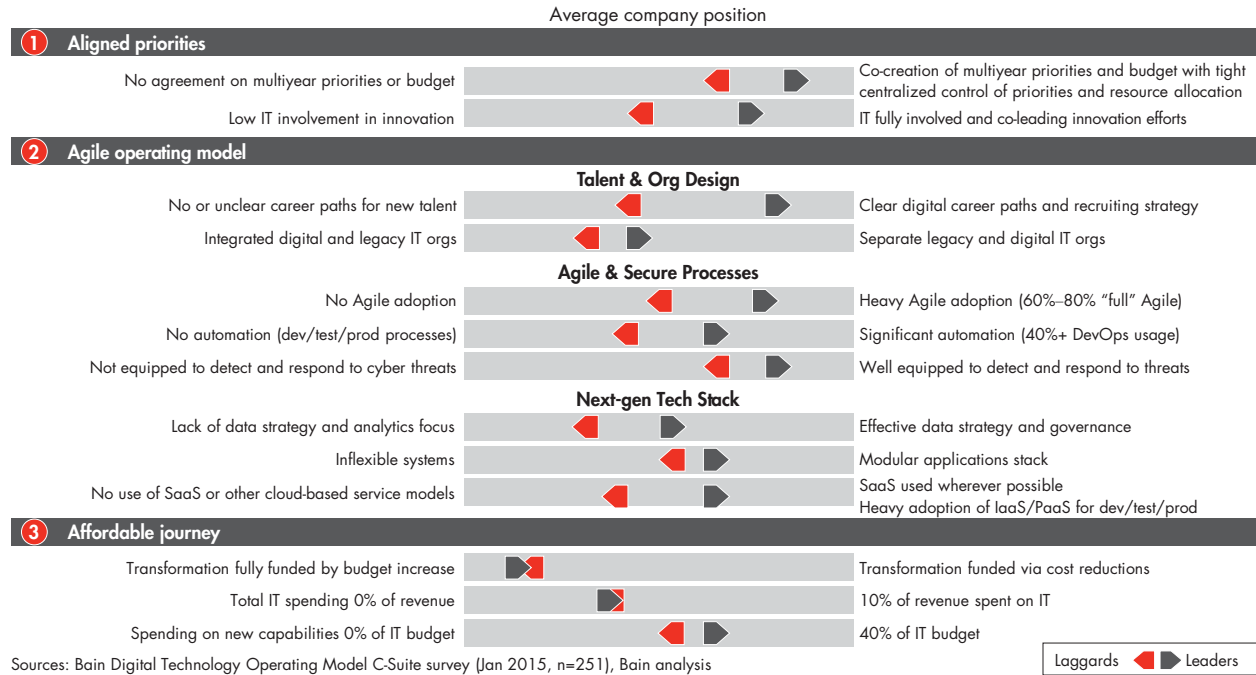
Some organizations are more effective than others at overcoming historic barriers and developing the capabilities for success in today's highly competitive and rapidly evolving commercial environments. For most, the transformation required is so great that we compare it to rebooting the IT organization. To help companies think about the end state and how to get there, we pulled these characteristics together into a reference model, which can be thought of at the top level as the three A's (*see Figure 2*):

- Aligned priorities
- Agile IT operating model
- Affordable journey

We also identified the most important practices that drive success for each of the three A's. By comparing its current state to these best practices, any organization can identify the actions needed to move toward leadership in digital.

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Figure 1: Digital leaders outperform their peers on the characteristics that matter most for success



Aligned priorities

Digital leaders are better at bringing IT and the business together to create a long-term vision for the future customer experience, and to work together to create the roadmap and capabilities that will make that experience possible. These companies encourage a culture that rewards experimentation and collaboration between the business and IT. Our survey found that among leaders, 71% of companies co-create and fund multiyear innovation efforts. Among digital laggards, only 47% said they did this.

Leaders also build centralized, highly visible innovation capabilities with dedicated funding and a mandate to tie innovation to business performance. They prioritize ruthlessly and are not afraid to eliminate noncritical projects, which results in a cleaner and more streamlined innovation agenda. At digital laggards, 37% of executives cited “too many projects” as a cause for rising IT costs; at digital leaders, only 21% of executives said this was a factor.

Interestingly, we found a much stronger consensus across companies on the imperative of senior leaders

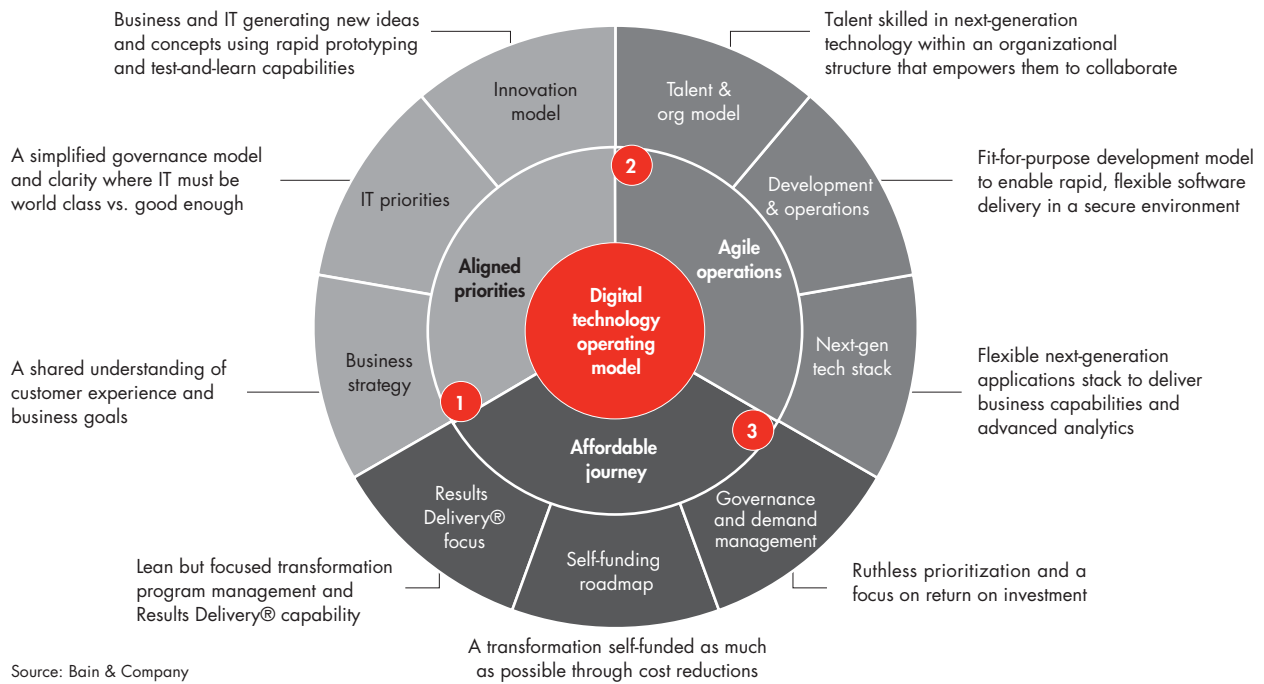
sharing IT’s priorities: 82% of digital leaders and 71% of all companies believed their CEO had clear visibility into IT innovation priorities.

Agile IT operating model

Rebooting IT’s target operating model allows established companies to keep up with rapidly evolving customer demands and digital-savvy competitors. Transformation focuses on three areas: acquiring and keeping the right talent, building a new digital enterprise while maintaining and improving legacy operations, and adopting new development processes to bring applications, products and services online more quickly than before.

Talent. Rebooting IT requires a nontraditional talent profile that blends technical skills with business savvy. Few companies have the right people on staff today: Bain research indicates that 51% of companies say talent is one of their top three issues and 35% of current IT staff will need to improve their skills for the next wave of IT evolution. The right experts bring a deep understanding of new technologies, next-generation architectures and techniques

Figure 2: A digital technology reference model focuses on aligned priorities, an agile operating model, and an affordable journey



for modernizing legacy systems. Depending on their role, their toolkit may include Agile development, DevOps, advanced analytics, cloud engineering, next-generation mobile development and cybersecurity capabilities.

Two-track organizations. About half of leaders have experimented with two-track models. Typically, both groups report to one CIO and share some resources. Companies are more likely to take this route when IT is paralyzed by legacy systems that are too difficult to quickly fix, or when the IT group hasn't been able to attract the talent it needs to transform the organization. Of course, a two-track model is not a silver bullet: While it creates a better environment for talent and innovation, it costs more to run and can create cultural rifts within the organization. As such, we see the two-track model as a transition state lasting no more than a few years on the way to a more nimble, effective unified organization.

Software development. Next-generation digital systems require faster and better ways of developing and launching applications. Leaders adopt Agile development processes,

DevOps and cloud infrastructure to speed delivery and reduce costs. Agile coupled with DevOps reduces costs by more than 30%, and cuts development time in half. Agile development practices require daily collaboration between the business and IT to prioritize and continually refine functionality. DevOps practices complement Agile by creating tighter linkages between development and operations teams, emphasizing continuous delivery and a culture of re-use. Teams should also be taking a “cloud-first” approach to new development, opting for cloud wherever possible and preferring public cloud unless security or performance concerns dictate the need for private cloud. (For more on this, read the Bain brief “Tapping the cloud’s full potential.”)

Applications architecture. Understanding the limitations of existing architecture and putting in place a plan to modernize architecture is a critical first step in a digital transformation. Replacing core systems is a challenging project, requiring years of focus and a substantial, long-term investment. Few companies are eager to embark on the challenge, but our survey found that about 60%

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of respondents believe they will have to upgrade their application architecture. Four indicators suggest that it's time to consider it:

- *Rising maintenance costs* to run legacy systems can leave too few funds to build new digital capabilities.
- *Unstable performance* can lead to system outages and software errors that require manual rework, making operations unreliable.
- *Difficulty implementing new functionality* in legacy applications that are hardwired for old routines can delay new products.
- *Inability to perform advanced analytics* and outdated modes of handling data in legacy systems can create obstacles to modern analytics.

Affordable journey

Digital leaders conscientiously manage their costs as they embark on a digital transformation by refocusing on the most critical priorities and embracing next-generation development models and cloud capabilities to reduce costs and speed time to market. A “blank sheet” approach offers the best chance for self-funding success because it reexamines both what IT does and how it does it. Quick wins come from stopping unnecessary work and focusing on the things that really matter. But redesigning IT's operations unlocks more value in the long run. Combined, these approaches can reduce IT costs by 20% to 30%.

Companies that take a blank-sheet approach prioritize ruthlessly, stopping work on all but the most critical IT initiatives and resisting demands from the business to provide more functions or customization. In a traditional transformation, IT has to justify to the business why service levels need to be adjusted. But in a blank-sheet approach, business units and functions need to justify why they require high service levels. This approach underscores IT's transition from a mere service provider (or order taker) to a key driver of the organization's most critical digital priorities.

Rebooting IT is a critical and non-negotiable requirement for companies to succeed in a time of ever-increasing digital demands. Successful transformations begin with a comparative diagnostic: How does your organization compare against the performance of digital leaders along the spectrums described in Figure 1? The answers will help executives define a transformation plan, indicating which areas may need only minor adjustments and which require a major rethink. In most cases, it's possible to capture substantial business value along the way, as the organization moves through a broader transformation. In all cases, success requires company-wide support—and therefore the enthusiastic sponsorship of senior executives, not just the CIO. Only through such a process can a business hope to capitalize on new digital opportunities and deliver against rising customer demands. 

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