

## **What is business transformation? V3**

### **What is the purpose of this article?**

This article enables shareholders, the board of directors, C-Suite and others to discuss business transformation.

This article does not provide tax, legal or financial advice.

You must do your own research and fact-based analysis using current and relevant information.

### **What are the critical learnings in this article?**

- 1) There is no commonly agreed upon standard definition of business transformation.
- 2) Your company must create your own definition and criteria for what is business transformation, which everyone understands.

### **What are some definitions of business transformation?**

#1 "Transformation is about improving performance, not just cutting costs. Companies boost the odds of achieving breakthrough results when they simultaneously improve their operating discipline and make portfolio moves that collectively redefine their business."<sup>1</sup>

#2 "Transformation spans your entire organization, to address all the changes needed to reach your full ambition."<sup>2</sup>

#3 "...rapid, visible, and sustainable step-change improvement in business performance; strengthen their organizations to win in the future; and turn their companies' upside potential into radical performance gains."<sup>3</sup>

#4 "Business Transformation is the process of fundamentally changing the systems, processes, people and technology across a whole business or business unit, to achieve measurable improvements in efficiency, effectiveness and stakeholder satisfaction. As such, a business transformation project is likely to include any number of change management projects, each focused on an individual process, system, technology, team or department"<sup>4</sup>

#5 Business transformation has three categories of effort:<sup>5</sup>

- 1) Operational: Do what you are currently doing, better, faster, or cheaper
- 2) Core transformation: do what you are currently doing in a fundamentally different way e.g. Netflix changing from sending DVDs through the mail to streaming video.
- 3) Strategic – Change the very essence of the company e.g. Amazon from retailing to cloud computing services.

#6 Transformation is described in terms of the changes to the company's business model. The business model describes how a company creates value for itself while delivering products or services to C&U (Customers and Users).

There are 9 components to the business model:

- 1) Target C&U segments
- 2) C&U value proposition
- 3) C&U relationships
- 4) Channel
- 5) Key partners
- 6) Key resources
- 7) Key activities
- 8) Cost structure
- 9) Revenue streams

Each type of transformation is described in terms of changes to the three critical customer components of the business model and other business model changes.

- 1) Who are the target C&U segments? Who exactly is the company creating value for? What are the geographic, social, and demographic characteristics of each C&U segment? What is the market size?
- 2) What is the value proposition of each target C&U segment? A value proposition is the C&U perception of value i.e. All of the C&U perception of achieved benefits vs all of the C&U perception of incurred costs. Benefits may include: financial and non-financial e.g. time savings, convenience, status, etc. Costs may include financial (purchase costs, costs to switch, other adoption costs, ongoing costs) and non-financial (e.g. time, inconvenience, loss of status, etc.)
- 3) C&U relationships. What type of relationships do C&U expect to have with the company?

Customer needs, the competition, technology, the economic and political climate are constantly evolving and changing. Successful companies understand the outside world and evolve as the world around them changes.

Transformation becomes an issue when the company's leadership no longer understands the outside world, makes decisions in this isolation, and then has a crisis.

There are five types of transformation. A company may be undergoing more than one type of transformation at the same time.

#### #1 Restructuring

- 1) Target C&U segments: The company remains focused on the same (or subset) of target C&U with the same set of problems and needs.
- 2) C&U value proposition: The value proposition perceived by C&U is little changed.
- 3) C&U relationships: Limited changes to C&U relationships
- 4) Other business model changes: The actions taken have a financial focus: reducing debt, selling assets, reducing the number of C&U (Customers and Users), reducing unprofitable C&U, reviewing all components of the business model to reduce debt and costs, selling pieces of the company, etc.

#### #2 Turnaround

- 1) Target C&U segments: The company remains focused on the same (or subset) of target C&U with the same set of problems and needs.
- 2) C&U value proposition: Focus on fast major improvements to the perceived value proposition.
- 3) C&U relationships: Focus on fast major improvements to the C&U relationships.
- 4) Other business model changes: Changes necessary to support the value proposition and relationship changes.

#### #3 Operational Transformation

- 1) Target C&U segments: Focused on the same (or subset) of target C&U with the same set of problems and needs.
- 2) C&U value proposition: The value proposition perceived by C&U is little changed.
- 3) C&U relationships: The C&U may expect major changes to their relationships with the company e.g. move from in-person to mobile app.
- 4) Other business model changes: Components of the business model are improved by a large factor e.g. 10 times.

#### #4 Business Model Transformation

- 1) Target C&U segments: The focus is still on the same C&U, but their problems and needs have fundamentally changed.
- 2) C&U value proposition: The solution perceived by the C&U requires fundamental change.
- 3) C&U relationships: The C&U expect fundamental change in their relationships with the company.
- 4) Other business model changes: Most or all components of the business model require fundamental change.

#### #5 Strategic Transformation

- 1) Target C&U segments: There are new C&U with new problems and needs requiring a new business model. Think of Google. It started out to be the best search engine. Now Google produces the Android operating system, smart phones and has been working on driverless cars.
- 2) C&U value proposition: These new C&U will have different value propositions than those for existing C&U.
- 3) C&U relationships: A strategic transformation is basically creating a new company.
- 4) Other business model changes:

#### **What are potential measures of transformation outcomes?**

- 1) Customer perception e.g. NOS (Net Promoter Score), Customer Satisfaction, Customer perception of competitively differentiated value proposition)
- 2) Customer behaviour e.g. Retention, Market share, spending per customer
- 3) Employee perception e.g. Employee satisfaction, employee engagement
- 4) Employee behaviour e.g. % of desired hires who accept, retention/turnover
- 5) Company operational e.g. productivity measures, elapsed time for tasks.
- 6) Company financial e.g. Return on investment
- 7) Shareholder e.g. perception, total shareholder return
- 8) Partners and suppliers e.g. perception, ease of doing business, revenue and profit.
- 9) Regulators e.g. perception and compliance reports

- 10) Politicians
- 11) External analysts e.g. variety of measures
- 12) Society and the public e.g. a variety of perceptions.
- 13) Board of directors

**Who needs to change or act differently in order to achieve the target outcomes?**

- 1) It depends upon the scope and type of transformation.
- 2) People could include: cash paying customers, users, partners & suppliers, board of directors, CEO, C-Suite, employees.

**What is the greatest challenge in achieving the outcomes?**

- 1) Those who need to change do not understand the benefits to them and thus resist or do not change.

**What are your next steps?**

- 1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.
- 2) Define for your company the criteria for what is business transformation. Not every project is a transformation project. Use some examples.

**Footnotes**

<sup>1</sup> McKinsey, "The truth about transformation",  
<https://www.mckinsey.com/featured-insights/the-truth-about-transformation>

<sup>2</sup> Bain, "Business Transformation"  
<https://www.bain.com/consulting-services/transformation>

<sup>3</sup> Boston Consulting Group, "Business Transformation"  
<https://www.bcg.com/en-ca/capabilities/business-transformation/overview>

<sup>4</sup> Change Associates, "What is business transformation?"  
<https://changeassociates.com/what-is-business-transformation/>

<sup>5</sup> Scott Anthony, Harvard Business Review, Feb 29, 2016, "What do you really mean by business transformation".  
<https://hbr.org/2016/02/what-do-you-really-mean-by-business-transformation>