# The Future of Marketing in Consumer Products

##### At a Glance

* Reinventing the brand growth model requires more than a reallocation of marketing budget to digital.
* CMOs need to reassess growth platforms and future brand portfolios, along with developing a supporting strategy on data and technology.
* By taking the lead on this transformation, CMOs have an opportunity to become stewards of the consumer journey, orchestrating a new brand-building ecosystem.

Not so long ago, marketing consumer products felt like a genteel game of lawn tennis: Established competitors invested in creative with long lead times, using proven models of TV and big-box retail, alongside trusted agency partners. Today, it’s more like a sprawling contest of mixed martial arts, with new competitors playing by different rules; an unprecedented complexity of channels, content and partners; and a step change in speed and ways of working that has punches flying at incumbent consumer products companies.

Fueling the blur of combat is a radical shift in brand growth models. Within the span of most executives’ careers, advances in technology have reshaped how consumers engage with brands. In the US and UK, more than 60% of consumers now discover products online, and 85% of millennials trust reviews from a faceless stranger more than traditional advertising. The same technology advances have dramatically altered the competitive landscape. Reduced barriers to entry in selling and marketing new brands have shortened the shelf life of traditional brands, with 25% of growth going to insurgent competitors, who are redefining consumer expectations of brand purpose, service and engagement. And technology has transformed the tools of the trade: Global spending on digital continues to grow at more than three times the rate of total ad spending, while programmatic spending has grown from 10% to more than 60% of ad spending in the last five years, according to data from eMarketer. The 150 established martech and adtech solutions in 2011 [have turned into 7,000 in 2018](https://chiefmartec.com/2018/04/marketing-technology-landscape-supergraphic-2018/). We expect more than half of all spending on creative concepting and media planning to shift to content generation and technology by 2025 (see Figure 1).

Figure 1

#### The marketing services profit pool will shift radically by 2025

Companies have reacted, of course. Unilever is reshaping its marketing model, and as content moves in-house, established partnerships are breaking. Kraft Heinz has made data-driven marketing and ownership of first-party data a key growth pillar, with the cost per higher-quality impression declining by 40% to date. Adidas has established new learning capabilities globally to refine content, channel and spending choices.

However, the transformation still required across the industry is significant, involving far-reaching changes to consumer products companies’ growth models and the largest buckets of their discretionary spending. And it’s urgent, as consumers and new competitors are moving faster than incumbents can react. Without top-line growth, newfound capabilities for measuring return on investment can quickly turn into a justification for wholesale cost-cutting, which can backfire when it damages critical capabilities and the growth potential of brands.

None of this comes as a surprise to CMOs. Our recent survey underscores that they are living these challenges day in and day out:

* *“We see new businesses disrupting our industry, but we can’t react without damaging our own profit pool, so we wait and see—likely until it’s too late.”*
* *“We’re in a negative spiral. As growth slows, marketing is easier to cost-cut than supply or R&D, and within marketing spend, the new channels are the easiest to cut.”*
* *“I think maybe 10% of my brand managers have the capability and experience to make this change.”*
* *“The incentives with my traditional agency are no longer aligned—do I work with one person I can’t trust or 100 people I can’t manage?”*

What’s the right path forward? Reinventing the brand growth model requires more than a reallocation of marketing budget to digital. CMOs need a reassessment of growth platforms and future brand portfolios, a new understanding of the consumer journey, a supporting strategy on data and technology, and a reorganization of their internal operating model and partnerships (see Figure 2). By taking the lead on this transformation, CMOs have an opportunity to become stewards of the new consumer journey, leading the function with the highest ROI of the company and orchestrating a new brand-building ecosystem.

Figure 2

#### The path to a full marketing transformation

What will it take? CMOs can start with five critical questions:

1. **What are my “future back” growth platforms 5 to 10 years from now?** CMOs can no longer forecast forward their current profit pools only by looking to fill in geographies and nearby product market segments. That process risks ignoring the industry’s disruptive trends, as profit pools shift quickly from products to services to experiences and communities, and as mass products evolve into new segments with accelerating personalization. Growth strategy today requires consumer products companies to look “present forward” and “future back”—to create a faster horse while envisioning the car—in order to define new growth platforms beyond their current products, business model and capabilities.
2. **How will I build the right brand portfolio for those platforms?** The turn of the 21st century was the era of global megabrands. From 2000 to 2010, PepsiCo, P&G and AB InBev, among others, all doubled or tripled the number of billion-dollar global brands in their portfolios. Investors looked for growth—and incumbents delivered. Insurgent brands, and the new consumer expectations they create, have changed the game. CMOs need a way to participate in this new growth and define how they buy, build and manage a more diverse portfolio. Brand portfolio strategy is back.
3. **How do I deliver best-in-class performance marketing?** The consumer journey has fundamentally changed, and so has the role of the brand manager. Once guardians of the brief to agencies, today they must lead hands-on content generation, data management, and real-time test-and-learn efforts to redefine the “who, where, what, when” of marketing at a much greater speed. The change management challenge is profound, requiring a strategic reallocation of spending and a reorganization of the operating model, while at the same time driving immediate results with improved in-market execution. One global consumer products company used this approach to increase online sales 15% above plan in-year in a major market, while designing the operating model and transition plan to expand its shopper-led digital marketing capabilities globally. Another leading global brand built the overall test-for-results capability to implement match-market A/B/C testing of media mix, visuals, activation, and timing across online and offline sales, resulting in 15% ROI acceleration across the business in-year.
4. **What is our data and technology strategy and roadmap?** None of this can be achieved without the right data and technology roadmap. Our survey of more than 500 CMOs showed that the marketing leaders own their digital destiny and are 1.6 times more likely than the laggards to understand systems and make the integration of tech platforms a top priority. They test for results and test again, with a higher likelihood of refreshing data weekly (1.7 times more likely) and using data to inform decisions (1.4 times more likely). And they are almost 2 times more likely to manage advertising and marketing tech within their marketing teams, enabling them to take control and make fast decisions.
5. **What operating model do we need to recapture the benefits of scale?** The transformation described here requires a new operating model and partnership structure, with an effective process to manage the transition. Leading companies are acting now to:

* **Unbundle** **creative from content agencies** to allow for faster, lower-cost content development models, tailored for different brands.
* **Upgrade content creation capabilities**, boosting the volume of rich assets for lifestyle content and personalized brand messaging through a combination of in-house resources and specific agencies.
* **Take control of targeting and consumer data** to build differentiated capabilities for retargeting groups of consumers, as well as driving insights and guiding strategy.
* **Work with leading-edge SaaS solutions** to manage the ecosystem, before investing in building industrial solutions.
* **Build agile, cross-functional teams** to rapidly test and learn, developing innovation capabilities in new areas.

This is a pivotal moment for CMOs. Their ability to find the right combination of strategy and execution will not only redefine their roles, but also determine the growth and success of the brands under their stewardship.

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14-

# Fielding high-performing innovation teams

Innovation is a team sport. For projects to succeed, they must be staffed with the right combination of talent. Here is how to ensure your initiatives have the players they need to win.

**The CEO of a globally recognized bank is frustrated** with the lack of innovation performance delivered by her company. She sets up an incubator charged with developing a portfolio of new high-growth businesses. Inside this incubator, she places teams of high performers from the core businesses of the bank in part-time roles. Recipe for success, or a road to nowhere?

CEOs of other companies face similar challenges around innovation. They struggle to identify “intra-preneurs” within their organizations who possess the rare mix of commercial and technical skills to shepherd new products to market. Employees within R&D groups may not have the external orientation to uncover valuable customer insights, while commercial leaders often lack the technical acumen to translate client needs into product attributes. Hiring “innovators” from the outside isn’t always an effective solution as newcomers may struggle to navigate complex, operationally focused organizations.

It can be tempting for executives accountable for the delivery of critically important innovation initiatives to believe that simply assigning an initiative to high-performing talent will yield success. However, when it comes to innovation, it is rare to see individuals who possess the full range of skills needed to lead an initiative.

For starters, innovation initiatives require skills and mind-sets that are under-developed in even the highest performers. The obstacles that arise in optimizing an existing dominant business model, such as boosting same-store sales or making a factory more efficient, are well-understood. History can be a useful guide in mastering performance in these environments. Scaling a new business successfully, on the other hand, often requires the experience to respond to and navigate new contexts where the rules of success are yet to be written. Innovators must craft bold but realistic visions, conceive entirely new value propositions that sync with customer challenges, and manage extreme uncertainty. In essence, the team must operate more like a start-up that can adapt development and commercialization plans based on continuously challenging assumptions and learning what will propel their business to scale.

It’s unlikely that one person will possess all the capabilities such initiatives demand. The likelihood is even lower in large, successful organizations. Instead, our experience shows that a well-constructed team that brings together the needed abilities of a world-class innovator can compensate for the lack of “founders.” To do this, first you must understand what the critical traits are that drive the most successful innovators, and second, you must have a method of assessing your employees against these traits. With this information in hand, companies are able to form high-performing innovation teams.

## Ten traits of successful innovators

Over decades of combined experience working with companies pursuing innovation-led growth and start-ups, we have identified ten traits that distinguish the most successful innovators (Exhibit 1). While many of these capabilities are well-recognized, we have seen that reframing the discussion from individuals to teams helps tremendously to unlock performance in most organizations.

Exhibit 1

Assessing each team member’s innovation aptitude can help you build a stronger whole. The ten traits can be grouped into four categories. We find that a successful team needs a base level of competence in all four.

### Vision

The first group of traits highlights the ability to identify opportunities and inspire others to pursue them. Articulating a compelling vision, and the skill to translate it into a differentiated value proposition that breaks through the noise of the marketplace is a talent in itself. Uncovering is an intrinsic curiosity to see the possibility in a given context and distill the most valuable insights. “Uncoverers” use these insights and pattern recognition to interpret unmet needs and define highly valuable problems to solve. Generating is the ability to develop meaningful value propositions that solve significant customer problems. The most successful “generators” meld the big-picture market context with a thorough understanding of an organization’s strategic position, including its underlying capabilities. Selling is the ability to explain the nuances of what creates the value for a new proposition and carefully tailor it to the target audience. “Sellers” are compelling enough to motivate people to sway internal stakeholders on the value of pursuing a given innovation opportunity and marshaling the required resources to drive commercialization. These people are also gifted in crafting the marketing elements of a new proposition.

### Collaboration

People with the second collection of traits foster effective teamwork and change management, bringing cohesion to a group. Those strong at motivating tend to be charismatic leaders adept at spurring action by creating a work environment that tolerates failure as a necessary aspect of the innovation process. Networking is the essential skill in maintaining connections among all the stakeholders in a project. Successful innovators seek input from outside the team and—as importantly—outside the organization, linking with ecosystem partners such as universities, other start-ups, or incubators. Orchestrating, meanwhile, refers to the ability to supply projects with the needed resources and to monitor the team’s activities to ensure these resources are effectively deployed; in other words, that workloads are distributed appropriately and the team can “do more with less.” People with this skill combine attention to detail and the ability to anticipate roadblocks with an ease in developing relationships, talents that make them adept at resolving conflicts.

### Learning

Most entrepreneurs exhibit absorbing, a quality manifested in a deep curiosity about anything that could help their venture succeed and a willingness to explore leads as they arise. Such individuals continually pursue new ideas and quickly incorporate lessons from multiple sources.

### Execution

The final group of traits enables quick decision-making amidst uncertainty while maintaining a realistic pace of progress. Pioneering skills enable individuals to break down ideas into an achievable sequence of activities. These team members tend to be the first to challenge the status quo, have resilience and perseverance when faced with setbacks, and quickly adapt plans to new input or conditions. Deciding encompasses strong critical-thinking skills that enable people to draw conclusions from imperfect information. “Deciders” blend pattern recognition with a high degree of pragmatism which enables them to synthesize insights, draw implications, and get things done. Tabulating, meanwhile, is the ability to apply financial modeling to size an opportunity and then use scenario planning to de-risk a given project. “Tabulators” use their quantitative orientation to accurately judge risks and payoffs as they plan their initiatives.

While some of these traits are complementary—for example, pioneers are often good decision makers, owing to their ability to forge paths and make judgments amidst uncertainty—almost no individual will possess all ten. Some leaders are great at inspiring others, but poor at timely delivery of results. Others excel at planning but need help with selling the vision. Just as the best entrepreneurs know what qualities they lack and surround themselves with individuals who complement their strengths, so corporate innovation teams must ensure that the group as a whole represents all the key capabilities. A team lacking people with uncovering skills will likely end up focusing on incremental change. A group without networking capabilities may end up tackling a problem outside the company’s core competence without spotting an opportunity to bring in a partner.

### Staffing innovation projects right

Turning back to our banking incubator, was the CEO able to assemble the best possible teams to execute her vision? Six months into the projects, one of the innovation teams had built a minimum viable product (MVP), but its members struggled to articulate the offering’s value to users. While the MVP had lots of functionality, each team member voiced a different interpretation of the product’s ultimate purpose and the team lacked a cohesive plan for where to focus development. Amidst this confusion, progress slowed and the team failed to reach project milestones. Initial customers weren’t adopting the new product and the team was unsure how to respond. Meanwhile, the bank continued to spend on digital development to add functionalities in the hopes of improving the strength of the value proposition.

Up-front analysis had defined a substantial profit pool associated with this idea. The promise of strong financials was one of the core reasons the business case was approved. However, the unforeseen roadblocks suggested that even this initial perspective was flawed. But was the idea the problem, or was it perhaps the team’s inability to find the “path to profit” that was the challenge? Carefully constructing the team with the right mix of skills could have dramatically changed the odds of success.

Roadblocked, the company decided to assess the team against the ten traits (Exhibit 2), scoring each team member.

Exhibit 2

This survey revealed to the bank that the team composition was relatively strong in its ability to identify the customer problem (uncovering) and would likely be able to execute a robust development plan, judging by its average scores on traits related to execution. However, the overall scores showed the group to be lacking real strength in any of the ten traits, and highlighted substantial gaps in generating and selling. It turned out that this “profile” was mirrored in many of its incubator teams. As a result, project teams repeatedly needed interventions to keep initiatives on track. Once the bank recognized its deficiencies, it launched an external talent search to identify talent to fill in the missing skills, and developed an intensive “entrepreneur academy” to identify internal innovators and build their skills.

To minimize innovation failures, companies should be more strategic in the composition of their teams. One large consumer packaged goods company made the Innovation Talent Wheel assessment an explicit part of its innovation team onboarding process. It has found that innovation ideas often originate from individuals who accel in generating, orchestrating, and deciding. As a result, this company’s innovation governance board now insists on evidence that a project leader has built a well-rounded team before it will fund a project. Moreover, teams are re-evaluated at critical points, such as when a project is about to scale. This helps ensure that the team make-up fits each project phase, and that as members master new skills, they are challenged with greater responsibility. Since instituting this policy, the rate of innovation “false starts” has decreased markedly—from more than 50 percent of projects to fewer than a quarter.

One additional insight from the bank’s experience is that the progress of a project has to be balanced with ensuring the well-being and motivation of your people. When individuals are pushed to work across too many dimensions of the wheel that are not their intrinsic strengths, such “stretch” roles can easily turn into exhaustion that reduces productivity. Innovation high performers should be encouraged to build from core strengths while learning new ones through a combination of being surrounded by team members with complementary strengths and proactive training. Getting this balance right will energize your organization as people work “in the zone” a higher percentage of the time.

Understanding the traits of innovation talent and the need for project teams to have balanced combinations of these traits will help companies get better and faster returns from their innovation investments. What’s more, by identifying and encouraging people who possess these traits, then steering them into supervisory roles, organizations can build a ready cohort of innovation leaders who can drive projects in the future.

15-

The seven decisions that matter in a digital transformation: A CEO’s guide to reinvention

By Peter Dahlström, Driek Desmet, and Marc Singer

14-17 minutes

A successful digital transformation requires making trade-off decisions. Here’s how successful CEOs guide their businesses’ reinvention.

Being the CEO of a large company facing digital disruption can seem like being a gambler at a roulette table. You know you need to place bets to win, but you have no idea where to put your chips.

Of course, digital transformations aren’t games of chance. But they do require big and bold commitments in the midst of uncertainty to reinvent the business rather than just improve it.

Many of the digital initiatives large incumbents have already tried to date have tended to operate at the margins of the business. Innovation labs or apps can be useful for learning and can even provide a boost to the company. Meanwhile, the legacy business remains in place, largely unperturbed.

Without a transformation of the core—the value proposition, people, processes, and technologies that are the lifeblood of the business—any digital initiative is likely to be a short-term fix. The legacy organization will inevitably exert a gravitational pull that drives a reversion to established practices. Reinvention of a business is, by its nature, bold. But it’s one thing to be bold; it’s another to be thoughtfully bold. A digital reinvention requires the CEO to make tough decisions, which involve hard trade-offs that it is tempting to ignore, defer, or rush into. Yet knowing which decisions to prioritize and how to implement them can make the difference between a successful transformation effort and one that struggles.

These decisions occur in the four phases of a successful digital transformation program:

Discovering the ambition for the business based on where value is migrating

Designing a transformation program that targets profitable customer journeys

Delivering the change through an ecosystem of partners

De-risking the transformation process to maximize the chances of success

In each of these areas, the CEO has a lot of things to do, from modeling new behavior to driving a change in culture to executing strategy.1 But this article focuses on some of the big decisions CEOs need to make, and how they can go about making them. Based on our experience with dozens of digital transformations, we believe these seven decisions are the most important ones.

DISCOVER—Set the ambition for the business.

Decision 1: Where the business should go

Few decisions are more momentous than choosing the business direction. While the almost existential nature of this decision can seem overwhelming, most incumbents don’t have a choice, since they are already facing disruptions that can threaten their long-term viability.

Data and analysis, as well as a disciplined framework for thinking through options, provide a helpful structure for making the decision. As a starting point, we recommend a thoughtful review of the market and business based on those stalwarts of economic analysis, supply and demand.2 It’s important that any analysis be dynamic and forward-looking, based on an understanding of how digital technology could lead to changes in the future.

Almost every notable digital innovation we’ve seen has been based on using connectivity and data to transform the customer experience or to reshape products and services by allowing customers to interact with them in new ways. So that’s a good basis for thinking through the possibilities. Incumbents can also look to approaches used by digital innovators—both within and outside their sectors—to spur fresh thinking.3

While analysis is crucial, it is no substitute for imagination. C. S. Lewis called imagination “the organ of meaning,” and CEOs need to tap into it. One approach might be to imagine how the industry would work if it were completely digitized.4 Often, a creative leap is needed to identify how the firm might serve customers in new ways across their entire journey. We have found 24-hour hackathons with senior leaders to be a very effective way to break through old thinking and encourage executives to adopt completely new ways of doing things.5

GE is an example of an incumbent that envisioned how its industry would evolve and acted in response. CEO Jeff Immelt noted that “15 percent or 20 percent of the S&P 500 valuation is consumer Internet stocks that didn’t exist 15 or 20 years ago. The consumer companies got none of that ... If you look out 10 or 15 years ... that same value is going to be created in the industrial Internet.”6 Based on this insight, GE launched GE Digital, a software and analytics group that works closely with all the company’s business units, and Predix, a branded digital platform that invites developers to build new applications using GE data.

DESIGN—Create a plan for the digital transformation.

Decision 2: Who will lead the effort

A program that will deliver the needed degree of transformation is not something CEOs can delegate; they must lead the charge themselves.

Some CEOs, like Daniel Gilbert, cofounder of Quicken Loans, serve as the public face of the company’s digital-transformation program. Gilbert was the primary evangelist for Quicken’s Rocket Mortgage initiative, touting it as the “mortgage industry’s iPhone moment.”7

CEOs, however, can’t do this on their own. Like the conductor of an orchestra, the CEO provides vision and ongoing direction. But a group of other senior leaders needs to drive the effort day-to-day. Thus a key decision for the CEO is selection of the members of the orchestra, based on the skills needed to be harmonious and effective.

One criterion for inclusion, naturally, has to be skill in and knowledge of digital. That’s why some CEOs turn to a chief digital officer (CDO). Appointing a CDO is the right answer for many companies, but it’s only part of the solution.

This decision needs to extend to putting in place the right team of people to drive the change. Since digital affects almost every aspect of the business and requires an unprecedented level of coordination across the entire organization, any leadership group has to include executives from multiple functions. While it can be important to have people who are visionary and inspiring, the team will also need respected executives with a deep understanding of the mechanics of the business, as well as expertise in change management. In addition, the CEO should select leaders who embody and will forward the key values of a digital culture: customer-centricity, a collaborative mind-set, and a tolerance for risk.

This leadership team doesn’t need to be large. In fact, it can be quite small, as long as its members, and the people working with them, have the requisite skills. At Starbucks, for example, Howard Schultz had the CIO and CDO guide a decade-long digitization effort that has driven widespread adoption of mobile payments at North American stores, tightly coupled with the company’s customer-loyalty program.8 At a European energy company, it was a COO, CMO, and CSO (chief sales officer) who led the charge.

Decision 3: How to ‘sell’ the vision to key stakeholders

Any change effort requires active communication of the vision and an explanation of why it’s necessary. For this reason, the CEO needs to decide not only what to say but also how—and how long—to communicate.

One approach is to think of the change program as a product and brand it. When Angela Ahrendts took over as CEO of Burberry, she launched a bold Art of the Trench campaign and an aggressive move into digital, which signaled her high level of ambition and rejuvenated the organization. In early 2014, Ralph Hamers, CEO of ING Group, announced his vision for the company, called Think Forward, Act Now. Its goal was to deliver a differentiating customer experience through faster innovation and better use of analytics. Late in 2016, Hamers updated the vision with Accelerating Think Forward, which focused on mobile banking.9

It’s crucial to decide when to communicate and with whom. The CEO should focus first on winning over influencers both inside and outside the company, then on propagating the change to their networks. CEOs also need to adopt a campaign mentality. This means delivering crisp and clear messages, in a steady cadence, using all relevant formats and channels. It’s an influencing program, so messages need to be tailored to each audience—from employees to the board to shareholders.

A bold, long-term orientation, well communicated to all key stakeholders, can be a crucial counterbalance against pressures to hit short-term financial targets once the transformation program begins.

Decision 4: Where to position the firm within the digital ecosystem

New companies are able to challenge established businesses because an ecosystem of relatively cheap and plentiful resources—from technologies to platforms to vendors—is in place. This has been a boon to disruptive attackers, but the same resources can be used by incumbents, too.

CEOs need to figure out which capabilities, skills, and technologies available in the ecosystem complement and support their business’s strategic ambitions. How much to rely on these relationships and how to structure them, are also crucial decisions. Making them requires a clear sense of how to secure the company’s most valuable assets, such as relationships with customers or data.

Michael Busch, the CEO of Thalia, Germany’s leading bookstore, systematically evaluated the entire supply chain before launching his company’s digital book offering. He created a network of alliances with other book retailers and partnered with Deutsche Telekom, which provided the technology and digital distribution backbone. He did not, however, make any agreements that separated Thalia from its customers, which it saw as its core value.

Over the past decade, BBVA Compass, a Spanish bank with a growing global presence, has aggressively remade itself into a digital organization.10 In 2016, it launched an API marketplace, which allows fintech start-ups to build apps that interface with BBVA’s back-end systems. This arrangement channels the energy and creativity of entrepreneurs while ensuring that BBVA retains a leadership position within the ecosystem.

Decision 5: How to decide during the transformation

As boxer Mike Tyson once said, echoing Joe Louis, “Everyone has a plan ’til they get punched in the mouth.”11 No matter how well a transformation effort is designed, there will be surprises and unforeseen developments. To deal with this reality, the CEO and top team need to decide on governance and escalation rules to allow for inevitable course corrections.

Frequent check-ins—at least weekly—with senior leaders should be planned to gauge whether the digitization effort is on course and institute changes if it is not. That sounds like a lot, but devoting even one hour a week to a program that transforms the company is just 1 to 2 percent of a CEO’s time. The challenge is to book this time and stick to it.

To support this approach, the CEO needs a dashboard developed to track progress on key initiatives that reflect the ambitions of the transformation. A digital transformation is a long-term effort, and as a result, yardsticks that focus on the short term, like ROI, can be misleading. Nontraditional metrics that evaluate digital adoption, such as new registrations on digital channels or digital-engagement levels, are better gauges of the progress of a digital transformation.12

DELIVER—Execute the transformation plan, allowing for ongoing adaptation and adjustment.

Decision 6: How to allocate funds rapidly and dynamically

The key lever CEOs and senior teams have to drive a digital transformation is resource allocation. This isn’t just about making sure resources get to the right places, a decision CEOs already make as part of their everyday work. With a digital transformation, the CEO needs to decide what the allocation process should be and at what tempo it should operate.

Our research shows that raising a company’s Digital Quotient, or DQ®, requires targeted allocation of both capital and operating expenditures.13 The CEO and top team should act like venture capitalists by following a digital initiative’s progress closely, pulling the plug for projects that lag expectations, and investing more in those that do well.

This requires speeding up budgeting processes, which at large companies tend to follow annual cycles. During a digital transformation, budgeting should shift from annual to quarterly or even monthly cycles.

Succeeding with a digital transformation often requires cutting budgets for legacy operations. In the midst of its transformation effort, a large bank realized that even after making massive investments in digital, branches still accounted for 90 percent of its operating expenses—and that 70 to 80 percent of the transactions done in branches could be executed digitally. In response, they shifted almost all future capital spending to digital, closed a number of branches, and launched a program to migrate customers who relied on branches for routine services to ATMs or web/mobile channels.

DE-RISK—Increase the transformation’s prospects for success.

Decision 7: What to do when

More than 70 percent of transformation programs fail.14 While the decisions covered in this article go a long way toward improving the odds, loss of momentum can undo even the best transformation efforts. To forestall that possibility, CEOs should carefully decide how to sequence the transformation for quick wins that yield revenue payoffs and reduce costs, gains that can then be reinvested. One e-tailer, for example, unlocked $300 million in just five months by prioritizing initiatives with the fastest payback. That turned into more than $800 million within a year, thanks to momentum from the early windfall.

Effective sequencing requires clear criteria to evaluate the potential payoff of various parts of the transformation initiative. These should include a hard-nosed assessment of projected benefits, the time needed to capture them, dependencies, investments required, and impact on the overall transformation journey. Sequencing with an eye toward cumulative effect is also necessary, so the business builds towards a cohesive digital whole rather than a jumble of loosely affiliated programs, which can undermine the ultimate benefits of scale.

Digital is the defining challenge for today’s generation of CEOs. And the decisions they make will determine whether their businesses thrive or fade.