



GETTING OVER A DIGITAL BUSINESS TRANSFORMATION SLOWDOWN

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Almost every company that we talk to is working on a digital business transformation—but with new opportunities such as generative AI emerging, transformation is becoming one of several ongoing priorities. When we started measuring transformation progress in 2017, companies were making good progress on becoming future ready, reporting that their transformation was 33 percent complete.¹ Progress continued at a brisk pace: in 2019, companies reported that their transformation was 50 percent complete.² However, at the end of 2022, transformation efforts were stalling, with companies reporting only 55 percent completion.³

In this briefing, we examine the reasons why transformations stall and what actions help companies keep achieving results, and share the most recent financial results of companies becoming future ready. To illustrate how to keep the momentum going, we describe Dawn Foods' transformation journey.

BECOMING FUTURE READY

To become future ready, companies need to transform on two dimensions: operational efficiency and customer experience.⁴ Combining these two dimensions creates a 2x2, with the quadrants—which represent four types of companies—labeled Silos and Spaghetti, Integrated Experience, Industrialized, and Future Ready. Moving up the vertical axis requires increasing the customer experience, measured by NPS or similar metrics. Moving right along the horizontal axis requires improving the efficiency of the company, measured by cost-to-serve, net margin, or similar metrics. Our research shows minimal change between 2019 and 2022 in the percentage of companies each quadrant represents.

Future-ready companies have markedly outperformed the three other types of companies in our past research. But while future-ready companies continue to show a strong performance premium, it was slimmer in 2022 than in 2019, as all companies were becoming more digital and the playing field was levelling out (see figure 1). In 2019, companies in the Future Ready quadrant had a 20.8 percentage point premium for net margin and a 27.8 percentage point premium for growth when compared to Silos and Spaghetti, the lowest-performing quadrant. By 2022, that premium had narrowed to 11.5 percentage points on margin and 15.2 percentage points on growth. As all companies become more sophisticated in future-ready capabilities such as using APIs, adopting modular architecture, and treating data as a strategic asset, the differences between quadrants in the 2x2 may continue to shrink.

However, future ready is always a moving target; companies must continuously evolve their capabilities and generate new value from digital. New technologies, like generative AI, regtech, and climate tech, and newer business models, such as embedded services and partner ecosystems, have the potential to increase the premium.⁵

SLOWING TRANSFORMATIONS

In an MIT CISR event for board and C-suite members in September 2023, the participants described six reasons that transformations are slowing:⁶

1. Lack of top management ownership to drive strategy and execution
2. Slow decision-making, and a persistent focus on products over customer outcomes

1 MIT CISR 2017 Pathways to Digital Business Transformation Survey (N=400). Respondents reported transformation progress based on what they had proposed to their board.

2 MIT CISR 2019 Top Management Teams and Transformation Survey (N=1,311).

3 MIT CISR 2022 Future Ready Survey (N=721).

4 Stephanie L. Woerner, Peter Weill, and Ina M. Sebastian, *Future Ready: The Four Pathways to Capturing Digital Value* (Boston, MA: Harvard Business Review Press).

5 Regtech, short for regulatory technology, is technologies enabling regulatory governance, reporting, and compliance. Climate tech is technologies used to address climate change.

6 The event was the MIT CISR Board and C-Suite Online Digital Summit 2023, in which 104 senior executives participated. We asked participants to draw from their experience and describe in the chat window reasons digital transformations were slowing. We collected, analyzed, and categorized the responses into the six overarching reasons described here.

3. Reduced investments due to competing priorities and the lack of an untouchable transformation budget
4. Changing expectations and moving targets
5. Not demonstrating value
6. A difficult environment including inflation, volatility, and a pandemic

When we asked the participants to rank the effectiveness of activities that kept their companies' transformations on track,⁷ "strong top management team ownership" came out on top (84 percent of respondents). Other highly ranked activities executives identified were "focusing on customer experience" (63 percent), "effective CIO/CDO leadership" (51 percent), "training people" (44 percent), and "regular reporting to the board" (42 percent).

Dawn Foods employed all these methods to regain momentum in its digital transformation after the transformation began to stall.

DAWN FOODS: REGAINING MOMENTUM

Dawn Foods, Inc. (Dawn) is a family-owned, US-based bakery ingredient manufacturer and distributor with 2022 revenues of \$1.73 billion.⁸ The company has more than 50,000 customers in over one hundred countries; its customers include artisanal bakeries, manufacturers, supermarket bakeries, and food service providers. Dawn began a digital business transformation in 2018 focused on the building and launch of an e-commerce platform, which the company completed quickly and successfully. However, after achieving initial deliverables, progress on the platform slowed. Dawn had to find new ways to stay on track to becoming future ready.

Building an End-to-End E-Commerce Platform

In 2018, Dawn Foods served market account customers—small artisanal bakeries and some small and medium manufacturers—solely via a large team of sales representatives. But the company's customers, most of whom were digitally savvy and ordered supplies from other companies online, were asking Dawn for that option. The company's executive team decided to fund an end-to-end e-commerce system to satisfy changing customer expectations.

The executive team worked with a consulting company to help scope the digital business transformation. The team defined a purpose—their North Star—to become a digital-first company, which resonated internally; and in February 2019 hired a chief digital officer and new executive team member, Bob Howland, to build a digital business model from scratch. In June of 2019, Howland proposed a one-year digital business transformation to the board. The digital transformation push was a big success: in July of 2020, Dawn launched its e-commerce platform.

Developing and launching Dawn's digital business model in one year involved two activities: (1) developing new enterprise-wide capabilities to enable the company to become digital-first by creating eight parallel work streams,⁹ and (2) establishing an e-commerce model with a new digital innovation hub in a ninth work stream.¹⁰

The executive team appointed CDO Howland as a co-chair of each of the eight parallel work streams. Howland worked with each work stream leader to set goals related to the e-commerce platform for their work stream, and the executive team required that each work stream prioritize those goals in the first 10 percent of its deliverables.

Howland led the ninth work stream, starting with a six-month sprint to create the architecture and a roadmap for the platform, and then hiring the digital innovation hub team and setting up a steering committee. The steering committee, which included the president of Dawn's North American business, the head of North American finance, and the CDO, met weekly to review progress on the project plan, ensure that work streams were tracking to targets, and identify potential critical path items. Transparent communication on outcomes was key to meeting what was a very fast timeline.

Hitting, and Getting Over, a Transformation Slowdown

Two years later, in July 2022, more than 50 percent of orders from US market accounts came in online. Customers were satisfied with the platform, with 90 percent saying they would use it again. But after Howland and his team delivered the e-commerce platform, the focus of the business leaders who had headed the eight enterprise work streams shifted to other

7 MIT CISR Board and C-Suite Online Digital Summit 2023. We presented participants with a list of ten items to rank, drawn from our discussions, workshops, and research, that effectively sustain transformation momentum. Participants were allowed to choose as many items from the list as they wanted.

8 The Dawn Foods case example is based on four interviews with two senior executives from the company in 2023. Dawn Foods revenue data is from Dawn Foods, Inc., *Company Summary*, D&B Hoovers, retrieved December 4, 2023.

9 The eight parallel work streams focused on delivering new enterprise-wide capabilities such as an online product catalog, centralized pricing management, go-to-market capabilities for different customer types, and supply chain end-to-end visibility and optimization.

10 These two activities represent transformation pathways from MIT CISR research: Pathway 3—alternating focus between customer experience and organizational efficiency—for the existing organization, and Pathway 4—starting a new, separate initiative built future ready—for the e-commerce initiative. For a description of the pathways, see Woerner, Weill, and Sebastian, *Future Ready: The Four Pathways to Capturing Digital Value*.

priorities. This led to a slowdown in the company's progress on improving the e-commerce platform, broadening its adoption, and cutting additional costs in Dawn Foods' operations.

To get over the slowdown, in 2022 the executive team created a business strategy team to establish dedicated ownership and synchronization of strategic initiatives, including the digital business transformation. The business strategy team consists of the head of business strategy and twenty cross-functional leaders of strategic execution initiatives, including the vice president of Digital, Gireesh Sahukar, who co-leads an initiative on extracting value from e-commerce. The business strategy team reports to the executive team and meets monthly to discuss progress, roadblocks, and decision needs of each initiative.

Howland and his digital team continue to improve the platform, which is now in its fifth iteration and has continuously high customer retention and engagement scores. The digital team recommends goals and metrics for the next four years to the business strategy team, which help that team prioritize resources. One key metric the business strategy team tracks is average customer value, which the team has found is 10 percent higher for online customers than for customers who engage with sales representatives offline.

In addition, new ways of working with customers and internally have helped support momentum. The digital team created a

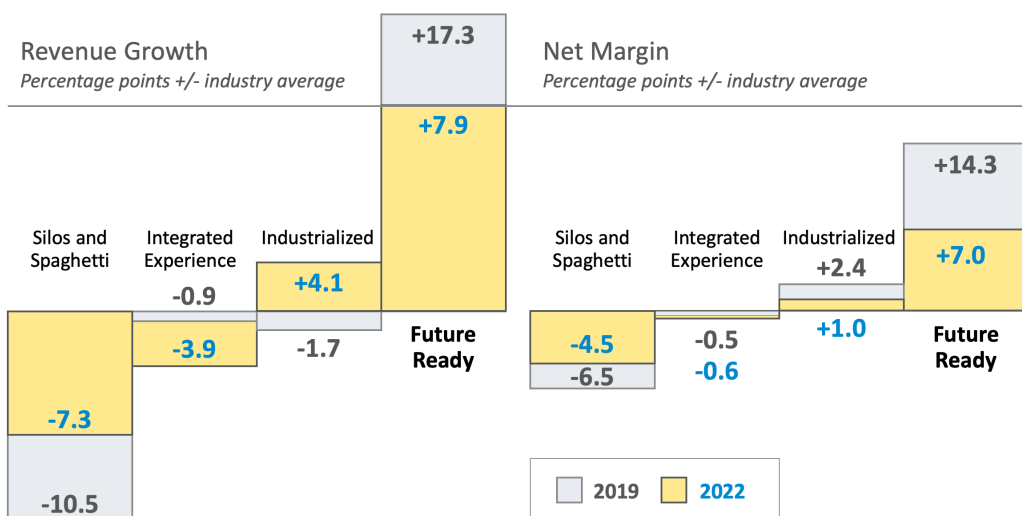
voice of the customer program, which includes an online form and a monthly survey for customers, with feedback published as part of a company roadmap. Employees at the manager level and above meet twice a year for a digital summit to discuss the overall business, present each function's achievements and ambitions, and make collaborative decisions.

GETTING OVER A TRANSFORMATION SLOWDOWN

Slowing transformation efforts are increasingly common as other priorities emerge. But the capabilities being built in a transformation today enable future technology efforts such as incorporating machine learning and generative AI and business model evolutions such as leading a digital ecosystem.

As we have seen with Dawn Foods, it often takes a refocusing effort to regain momentum, involving more stakeholders such as customers and business leaders and continuing to automate repetitive tasks and make more data accessible. Transformations need close attention to keep the momentum going, often including reporting regularly to the board, measuring customer experience, providing real-time dashboards to enable fast sensing of issues, and sometimes pursuing a refresh—like appointing a new leader with new ideas and energy—or a newly expanded goal.

Figure 1: Future-Ready Companies Still Lead, but Their Performance Premium Is Narrower



The four types of companies are derived from the MIT CISR Future-Ready Framework, which assesses digital business transformation in a 2x2 created from two dimensions: operational efficiency and customer experience.

Sources: MIT CISR 2019 Top Management Team Survey (N=1311) and MIT CISR 2022 Future Ready Survey (N=721). 2022 firm performance numbers are self-reported, adjusted for industry and 5% mean trimmed to remove outliers. 2019 self-reported net profit margin/revenue growth numbers correlate significantly with actual profit margin/revenue growth at the $p < .01$ level. 2019 net profit margin and revenue growth are compared to industry and 5% mean trimmed to remove outliers.

Type of Company	Company Characteristics
Silos and Spaghetti	A complex landscape of business processes, systems, and data producing a fragmented and frustrating customer experience
Integrated Experience	An integrated customer experience despite complex operations, often by putting a digital wrapper around the product silos
Industrialized	Discipline instilled into company operations by simplifying and automating processes and decisions. Data becomes more accessible, useful
Future Ready	Ambidextrous, innovating to engage and delight customers while simultaneously reducing costs. Ecosystem-ready and able to work with a wide variety of partners through digital services and APIs

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