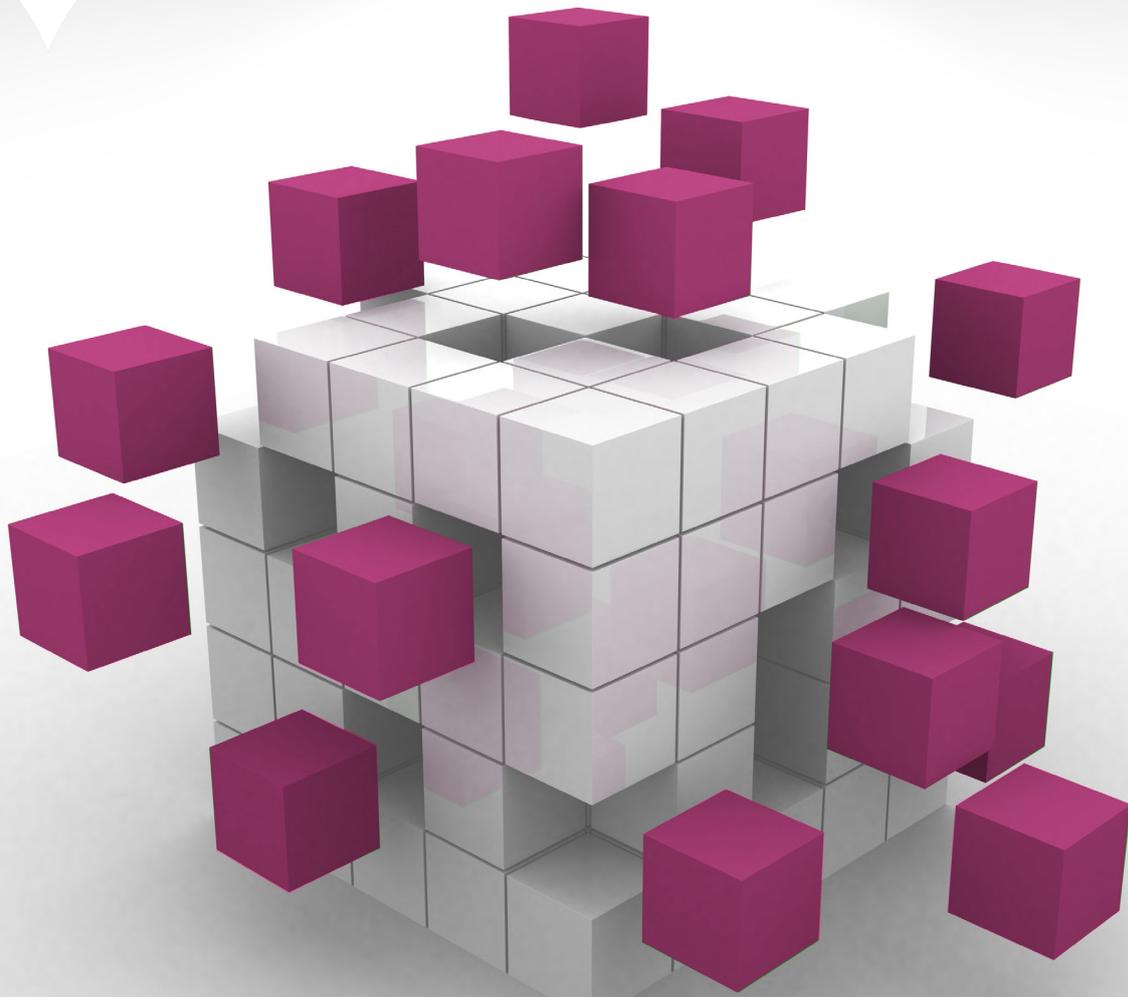
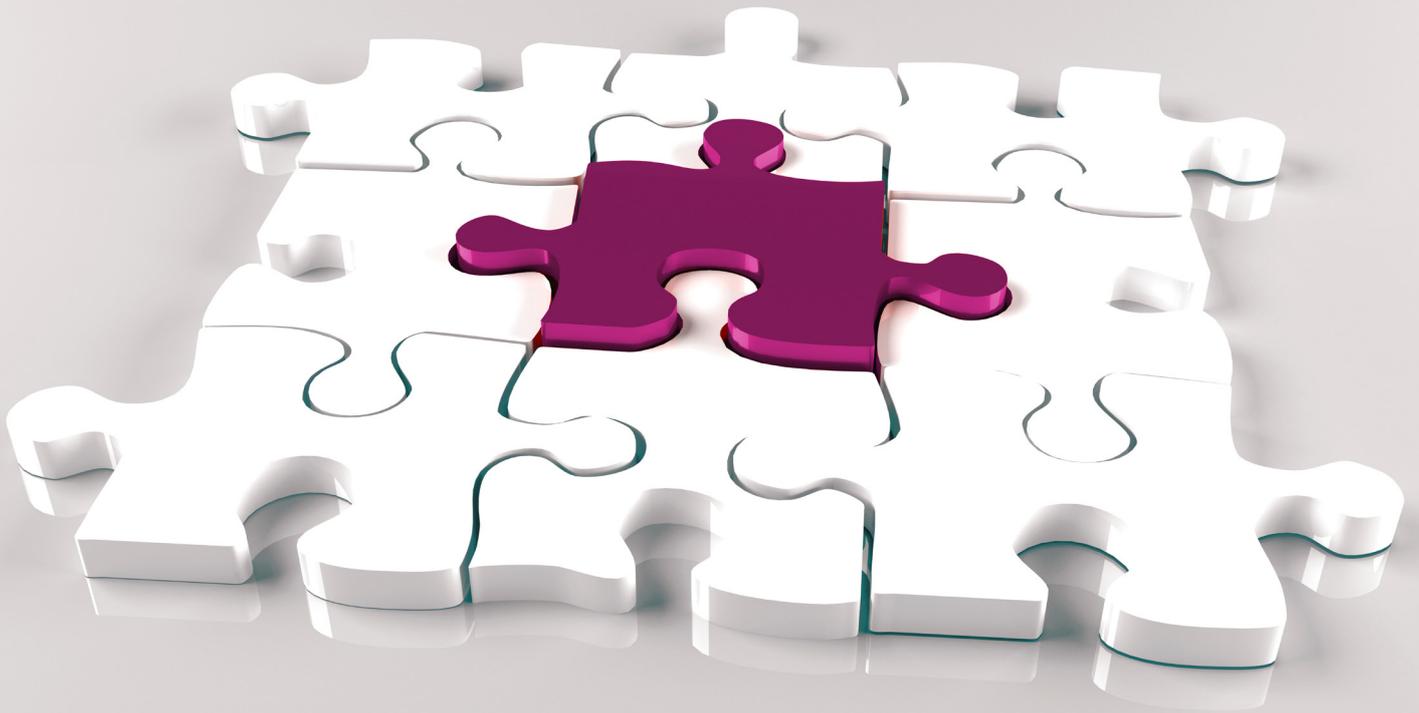


Governance: A Central Component of Successful Digital Transformation

MIT-CDB and Capgemini Consulting Joint Research Program on Digital Transformation





Introduction

Executives in all industries are using digital advances such as analytics, mobility, social media and smart embedded devices to transform their businesses. They are changing customer interactions, internal business processes and even their business models to take advantage of new technological capabilities. However, while digital technology presents new opportunities, it also creates new challenges.

Our research shows that governance is a key determinant of success in managing digital transformation. In this paper, we examine new digital challenges, key elements of digital governance, and how four firms are governing their digital transformations.

New Digital Challenges

Faster and More Integrated Business Cycles

Mobile apps, collaboration networks, connected products or social media create new business opportunities from marketing to manufacturing to customer service. However, they also create new IT challenges including security, regulatory compliance and legacy system integration. An additional challenge comes from business cycles that are getting faster and faster.¹

Creating technology-based business changes quickly and safely requires IT and business people to work together more closely. *“We have a ‘two in a box’ model [for our digital initiatives]. We would be hard-pressed to differentiate the business person and the technology person,”* said one CIO, *“Our challenge becomes more and more the ability to work in a fast paced, fast changing, global and collaborative environment. It is not only about technology skills anymore.”*

New Risks

New digital technologies also create new risks to the enterprise, especially around brand control and regulatory issues.

Brand Exposure in Social Media

Social media reduces a firm’s control over its global brand. A negative customer post on Facebook, Twitter, or YouTube can receive global attention immediately. Even as companies find new ways to work with customers through mobile and social

“Data integration is the biggest challenge in setting up our digital services.”

channels,² they are also paying close attention to their online reputations.

Confidentiality and Regulatory Breaches

Employee use of new digital technologies can have firm-level consequences. Lost phones and tablets can enable hackers to invade a network. Employees may post confidential information online. Customers may see employees’ personal posts as corporate advice on investments or health. Any of these breaches can leave firms liable to reputational damage and millions of dollars in regulatory sanctions.

An insurance executive explained: *“We need to approve any content published on our Facebook or LinkedIn accounts to make sure it is compliant with what the regulations require.”* Security of employees’ devices is also a major concern: *“If you lose confidential information, you have to send letters to all of your clients informing them that their information may have been compromised”* added this executive. *“The last thing we want to do is put the reputation that we’ve built for 150 years on the line because of a security incident.”*

Increased Demand for Cross-Silo Capabilities

New digital technologies increase the need for firm-level integration. Customers and employees are demanding that companies work differently.³ Older silo-based operations, centered on products or organizational units instead of customers or business processes, are coming under increasing pressure to change. Analytics initiatives require a unified view of customers or operations.

Integrated Data

As customers demand a more integrated experience, and analytics demands more integrated data, many companies are struggling to unify their disparate data sources. *“Data integration is the biggest challenge in setting up our digital services”* explained an executive, echoing statements by many others.⁴ These firms are working to develop a unified platform for their digital initiatives, from new customer interfaces to automated factories to advanced analytics.

Employee Collaboration

As firms become more global, they are finding the need to collaborate more effectively across geographies, business units, and specialties. Some new collaboration tools, such as video conferencing and instant messaging, have been adopted relatively quickly and easily. Others, such as online knowledge sharing communities, have been successful for some and more challenging for others.

Elements of Digital Governance

To answer these new digital challenges (faster business cycles, new risks and need for more firm-level integration), companies need firm-level governance around their digital initiatives.

“Digital impacts firms globally, across traditional silos. It requires more coordination when making decisions and conducting actions, compared to the way we do business usually. Questions are not local but global and so the choices we make engage the company as a whole, in all countries and business units,” explained a senior executive in an international banking group.

Governance mechanisms implemented by companies around their digital initiatives have impacts of two different natures:

- **Sharing:** Local units use common capabilities and resources (including people and technology)
- **Coordinating:** Local units synchronize and align their initiatives (prioritization, compliance with standards and policies, etc.)

Our interviews showed many mechanisms that companies are using to improve their digital governance capabilities. However, three mechanisms – shared digital units, firm-level committees and new digital roles – are most common.

Shared Digital Units

Several of the companies created shared units to develop digital services for the rest of the company. The responsibilities of these shared units vary from one company to another, but many included the following roles.

Developing Digital Services

Shared units can reduce the cost of digital transformation through reducing redundant initiatives, people and technologies in the local units. A senior executive in a global insurance group explained: *“It would not make sense for the different entities of the group to develop all the digital stuff themselves. It costs time and money, and requires coordination. And by doing it themselves, they would not benefit from the experience gained across the company.”*

Several companies created a “digital service catalog” to show local units what the shared unit can offer. Beyond facilitating communication, the catalog helps early adopters to avoid redundant activity and helps later adopters to move faster.

Shared units can also undertake corporate-wide investments that might not make sense for individual business units. Examples include unified customer databases, an enterprise wireless platform, or advanced analytical tools.

A senior executive in charge of digital transformation for his business unit explained: *“We do not have budget to develop our own capabilities so the question is: How to get the most out of the central platform? How to leverage these capabilities as much as possible?”*

Some digital units have rapid experimentation capabilities to spur innovation. In an apparel company, a retail firm, and a consumer food company, digital labs investigate emerging technologies and business practices. These small labs turn abstract concepts

into real prototypes that spur others to rethink the way they do business. Business units can incorporate the concepts into their subsequent digital initiatives.

Developing New Digital Skills

In our phase 1 study, the most important common barrier to digital transformation was missing skills. 77% of the companies cited skill challenges in areas such as mobility, analytics, and social media. They are actively recruiting experts in these areas, with varying degrees of success. Several of the firms have chosen to centralize new digital skills

“Digital impacts firms globally, across traditional silos. It requires more coordination when making decisions and conducting actions, compared to the way we do business usually. Questions are not local but global and so the choices we make engage the company as a whole”

in the shared unit. *“Of course, the key thing is to have the right people. It must be a combination of our existing people and new people with new thoughts. And looking at service industries, we need that type of competence,”* explained an auto executive.⁵

Although some industries are having trouble finding experts at reasonable salaries, others are more successful at attracting talent. A restaurant executive noted *“We have been hiring analytics experts from other industries. We give them a chance to play a more senior role than they could in their previous employers, where their skills are more plentiful.”* An apparel executive said *“Our digital unit recruits people from Amazon and other places you would expect them to go...quite a talent!”*

Training and knowledge sharing is another way that digital units build skills across the enterprise. At Nestlé, a multimedia lab named “Digital Acceleration Team” hosts experts from all over the world so that they can share their knowledge in social media and related technologies before going back to their local offices. The firm adopted the same approach for mobile applications: *“[We have] a mobile App lab where we share best practice of building Apps. We don’t want to centralize the app building, we leave that close to the consumer in the markets. But there’s common practice, best practice, efficient app building and we have a lab for that so people can tap into it and we can guide them in making good Apps.”*⁶

Governance Committees

Many of the companies we interviewed established committees at firm-level to

govern digital transformation. Steering committees are a common structure. However, some companies have also established innovation committees to stay ahead of fast-moving digital technologies and business practices.

Steering Committees

The adoption of digital technologies raises questions for executives such as: How do we prioritize and fund digital initiatives in spite of unclear business cases? How do we allocate resources? What policies do we need to ensure regulatory compliance? What rules should we adopt internally to ensure a consistent customer experience? What should be done centrally and what should be done locally? The role of steering committees is to make these decisions: ratifying policies, making investment choices, and prioritizing among competing interests.

Steering committees also make investment decisions that might not be practical for a specific business unit to undertake. Some digital initiatives will be shared across business units or are strategic bets with uncertain business cases. An example is an apparel company’s investment in a global customer platform: *“This investment was primarily based on what I would call an ‘art business case’, rather than the ‘science business case,’ and this was the right thing to do. We did it big enough to be successful, but small enough to not be stupid”* explained a senior executive.

Innovation Committees

Some companies also implemented committees around emerging technology, both to identify technology-enabled business opportunities and to adjust to changing employee or customer behaviors.

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At Nestlé, a multimedia lab named the ‘Digital Acceleration Team’ hosts experts from all over the world so that they can share their knowledge in social media and related technologies before going back to their local offices.

These committees are less common than steering committees, and have a more focused purpose.

According to an insurance executive, *“We cannot be slow to think about these technologies because our field force adopts them quickly. We have regulatory concerns that we have to deal with, we have got training and education challenges. We need people with different perspectives talking together about these emerging technologies.”*

Having people with multiple disciplines improves the discussion and leads to tighter integration between IT and business viewpoints. An executive explained: *“We are bringing together all the people who can say, ‘Wow, we could do this. It’s not a problem.’ That’s our IT architecture folks. And then we’ve got everybody else saying ‘Well, if we do this, how do we protect confidentiality? How do we retain data? How do we train? What’s it going to take to make this usable before we officially condone it to the field?’ So, IT brings all of the right levels of perspective to the table.”*

New Digital Roles

Governance often goes beyond organizational structures to include specific leaders. These new roles include “digital czars” who lead digital transformation at the firm or business level as well as less senior liaison roles.

Digital Czars

In March 2012, Starbucks Coffee Company announced the hiring of a Chief Digital Officer (CDO), Adam Brotman, reporting to the firm’s CEO. According to Brotman, *“[Digital] has been an essential part of how we build our brand and connect with our customers... there’s been such a seismic shift [in our interactions with customers] that we needed to pull it all together and make it a priority.”*⁷

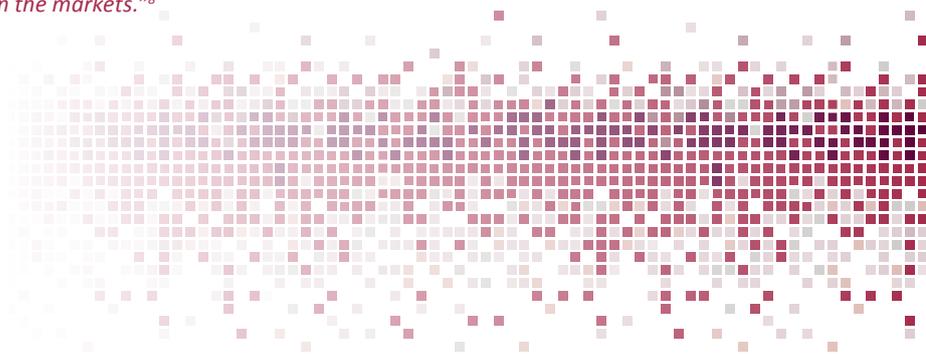
Areas of responsibility for these “digital czars” vary from one company to another according to the strategic priorities of the firm towards digital. Brotman at Starbucks has responsibility for web, mobile, social media, card, loyalty, e-commerce, Wi-Fi, and the Starbucks Digital Network, as well as company’s emerging in-store digital and entertainment teams. At Volvo the firm hired a senior executive to take responsibility for a specific new element of the firm’s digital strategy — connected cars — across different silos such as product design, manufacturing, marketing, and after sales service.

Digital Liaisons

Some of the companies we interviewed have positioned liaisons in business units to lead digital transformation at a local level. Spanish media group Prisa, has assigned CDOs in each division to lead implementation of the digital transformation in their division and to coordinate with the corporate CDO. A global insurance group executive said that, in his company, *“The role of [digital liaisons] is first to help business units to take the digital dimension into account and second to encourage the use of central resources.”*

Some liaisons have knowledge sharing rather than leadership roles. Nestlé’s “Digital Acceleration Team” hosts people from all countries to develop their digital expertise and take it back to their home offices. *“We have something like 15 people, from all markets, who have an interest or have already good experience in digital, who are sharing and connecting with the world in general with the Internet and social media. They are building expertise and then sharing that with other people in the markets.”*⁸

Governance often goes beyond organizational structures to include specific leaders. These new roles include “digital czars” who lead digital transformation at the firm or business level as well as less senior liaison roles.



The table below summarizes how these three governance mechanisms help sharing and coordination, and shows common benefits and implementation challenges we identified in our interviews. In the next chapter, we give examples of how four companies are implementing digital governance.

Table 1: Common Digital Governance Mechanisms

	Role in sharing and coordination	Typical benefits and challenges
Shared Digital Units	<p>Sharing is the main objective of these units. Resources with specific skills are pooled together to develop digital services for all units in the company. Some coordination also comes naturally as the units develop technology standards and implement policies governing use of their services. However, coordination of digital initiatives requires additional mechanisms.</p>	<p>Benefits: New digital skills, shared digital services, economies of scale.</p> <p>Challenges: Structure and positioning in the organization, coordination difficulties with local unit leaders, definition of the “service catalog.”</p>
Firm-Level Committees	<p>Firm-level committees aim for coordination</p> <ul style="list-style-type: none"> ▪ Steering committees: Making investment decisions, prioritizing resources, ratifying policies and standards. ▪ Innovation committees: Identifying technology-enabled opportunities, proposing rules and standards around new technologies. <p>However, some of the decisions and policies adopted by the committees may mandate sharing of resources and capabilities.</p>	<p>Benefits: Digital standards and policies, consistency across digital initiatives, resource optimization, adoption of new digital trends.</p> <p>Challenges: Additional mechanisms are often required to lead transformation or to enforce standards and policies.</p>
New Digital Roles	<p>New digital roles drive the use of shared digital resources, such as helping local units to adopt firm-level solutions or use centralized resources. These roles also coordinate across different initiatives and organizational units.</p>	<p>Benefits: Relay the digital strategy, help to enforce firm-level policies, facilitate adoption of shared capabilities by local units, facilitate cultural changes</p> <p>Challenges: Positioning in the organization, relationship with the local units, building the networks of local champions.</p>

The Importance of Digital Platforms

An important objective of governance is to make enterprise-level platforms happen. It can be very difficult to build a single view of customers or an integrated view of operations without strong leadership and governance. The platforms provide clearer information to decision-makers and serve as the bases for advanced analytics capabilities and new digital services.

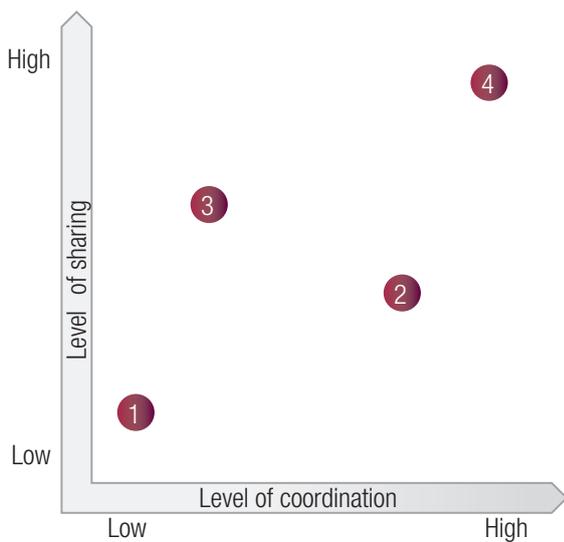
In return, these platforms tend to make governance easier: as the platforms take shape, local leaders often start to see the benefits of using corporate digital capabilities rather than building their own. And corporate leaders can drive standard processes and capabilities across the firm more quickly through a shared platform than through negotiation.

Case Studies in Digital Governance

Companies design their digital governance to achieve different levels of coordination and sharing (see Figure 1). In the rest of this chapter, we describe four case vignettes, illustrating how each company implemented governance mechanisms to achieve its coordination and sharing objectives.

- 1 **“InvestCo:”** Executives, experiencing difficulties with localized governance of digital initiatives, have begun to implement stronger governance at the corporate level.
- 2 **Volvo Car Corporation:** Implementing digital governance for a specific new capability: connected cars.
- 3 **“ApparelCo:”** A shared digital unit helps the firm harness the full potential of digital transformation.
- 4 **PRISA:** Using digital governance to transform the company’s global operating model.

Figure 1: Level of coordination and sharing



Note: For each case vignette below, a small figure illustrates the governance structure implemented by the firm. These figures are illustrative only and do not reflect the formal organization of the firms.

InvestCo: Challenges of Diversified Governance



Legend:



Context

InvestCo provides investment products and services to individuals and institutions in over 40 countries. Although much of the firm's management and decision making has been centered around its headquarters, the company's business units operate highly autonomously. Recently, globalization and new digital business opportunities have triggered changes in the way the firm governs its technology initiatives.

Internally, employees use instant messaging and video conferencing extensively to collaborate both in headquarters and across global regions. On the customer facing-side, the company is increasing self-service and upgrading its online information resources as well as experimenting with social media.

Most digital initiatives have historically been managed separately. Business-unit autonomy has led to a digital platform in which systems are not unified. However, globalization, customer requirements and regulation are raising pressures to integrate information across business units and regions.

Governance Mechanisms

Historically, InvestCo had no digital governance beyond the decentralized governance used for IT. In approximately 2010, the executive team started to rethink their approach. The change began by linking IT and operations more closely at the global level. This enabled a more integrated approach to defining global processes, setting the stage to transform the company's many IT systems into a unified global platform. Recently, governance has been extended to include new digital initiatives such as social reputation monitoring, micro-blogging, video promotions and mobile selling.

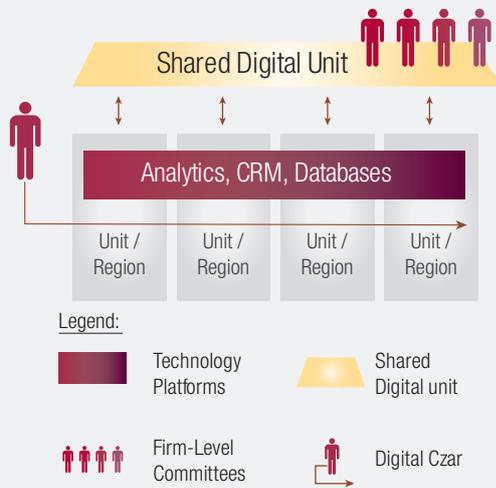
Platforms and Benefits

The intent of transforming the firm's platform was to answer a growing demand for unified systems and information. The change is expected to generate economies of scale and reduce time-to-market. In addition, executives want stronger analytics capabilities. The head of global IT applications explained: *"There is a lot of focus on gaining intelligence. This trend is clearly happening across all the businesses."*

Technology capabilities are also intended to improve technology sharing across business units and regions. The head of e-business said, *"There may be somebody in another office working on something we could benefit from, and if we work together, we can lighten the workload. So, we can pool money and resources if we work on the same types of effort. That works sometimes, and sometimes it doesn't because the requirements are too different. But we all collectively believe that, in the end, it will help us."*

“If we work together, we can lighten the workload. So, we can pool money and resources if we work on the same types of effort.”

Volvo Car Corporation: Governing Specific Digital Capabilities⁹



Context

Volvo Car Corporation relies on a network of 2300 local dealers to sell its cars in 100 countries worldwide. Headquarters manufactures cars and conducts market research about classes of customers, but has little direct knowledge of specific customers. In recent years, however, the firm has begun building a new digital business model — connected cars — to augment its existing businesses. The intent is to develop a more direct relationship with the end customer without disrupting the relationship dealers have with them.

The connected cars concept enables Volvo to offer more services to customers (remote control, roadside assistance, maintenance reminders, etc.), and develop new approaches to marketing to consumers. Volvo also expects to reinforce the link between end customers and local dealers through increased loyalty, and driving customers to dealers for additional services.

Governance Mechanisms

While Volvo's traditional governance mechanisms were sufficient to manage most activity in the company, Volvo executives established a separate set of governance mechanisms for the connected cars concept.

- **Digital Czar:** Designing an effective connected-cars experience for end-customers requires strong coordination between marketing, manufacturing, R&D, sales and other entities that had different relationships for Volvo's traditional B2B focus on relationships with dealers. To take up this challenge, the firm hired a senior executive in charge of connectivity across traditional silos such as manufacturing, after-sales services or marketing.
- **Firm-Level Committees:** A "Connectivity Hub," composed of middle and senior managers from across the company (including R&D, marketing and IT), meets every week to address tactical decisions. The "Connectivity Committee," composed of senior executives from the different functions, meets quarterly to address strategic topics. Other committees exist to ensure strong alignment between connectivity teams and technology teams such as mobile apps and innovation.
- **Shared Unit:** Volvo has also established a shared technology support unit whose scope extends beyond the connectivity strategy.

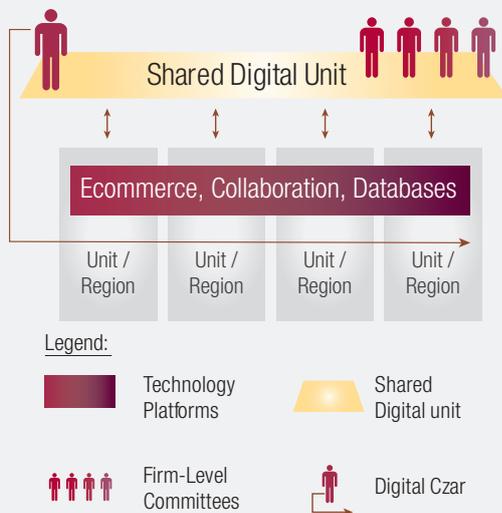
Platforms and Benefits

Volvo has already released new connectivity services such as remote control or on-road assistance. Although some elements such as roadside assistance call centers are implemented locally, all operate under global framework agreements.

Internally, Volvo implemented new technology platforms to improve customer knowledge and improve marketing capabilities. The platforms include customer databases, analytics capabilities and a CRM solution. *"We now have much better data: who our customers are, which cars do they own, how long have they owned their cars, how often they go to service, how much they spend on their car. Instead of maybe targeting towards the cars in different car segments or model segments, we'll use the data to segment the customers into different customer segments. Then we'll actively go from mass marketing to one-to-one marketing"* explained Timo Paulson, Senior Manager Ownership Services and Brand Protection for VCC global.

The firm hired a senior executive in charge of connectivity across traditional silos such as manufacturing, after-sales services or marketing.

ApparelCo: Developing a New Digital Unit



Context

ApparelCo is a global manufacturer of clothing, footwear and sportswear. The firm has built its successful business by combining good products with compelling branding. Its entrepreneurial spirit has led to growth in product silos, and digital initiatives have been undertaken separately from each other.

ApparelCo uses its website and new social media capabilities extensively to engage with customers. E-commerce includes some advanced customization possibilities. The firm is also developing a range of “digitally-improved” products.

Digital technologies are also widely used internally. Product design moved from paper to digital, the company increased its digital integration with suppliers, and several corporate functions established platforms to improve global collaboration. Although many of the digital initiatives were effective, they were managed separately from each other.

Governance Mechanisms

- **Shared Digital Unit:** ApparelCo created a shared unit to deliver all digital capabilities for the firm. The digital unit is in charge of digital platforms and provides services to assist the company in developing digital capabilities such as mobile apps. It also develops and sells some digital or digitally-improved products. Rules have been defined to clearly state the areas of responsibility of the unit, especially towards marketing and communication.
- **Digital Czar:** The head of the shared unit is in charge of digital business and all digital marketing campaigns for the company. Part of the czar’s role is to help the business units (product lines) to leverage digital commerce capabilities as much as possible.
- **Firm-Level Committees:** A steering committee drives digital strategy and monitors progress. Senior executives of all functions are part of this committee. In addition, each major product line, as well as the digital unit, has an innovation group. These groups identify new ways to use digital technologies to improve products.

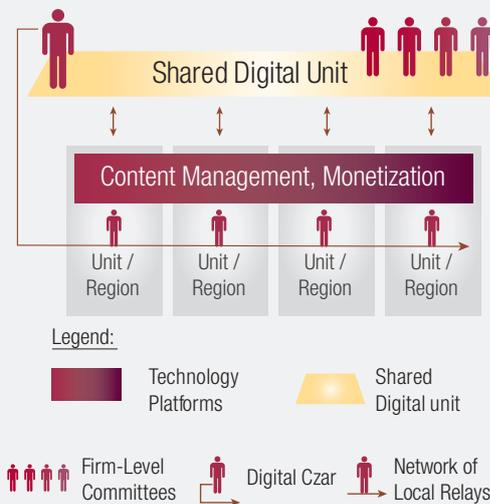
Platforms and Benefits

A key objective of digital governance – and the digital unit – at ApparelCo is to shift from product-centricity to customer centricity. *“We have evolved the organization drastically to make sure that we can create one digital voice, one digital focus. We’re focusing not only internally but also, more importantly, externally to our consumers”* explained a senior executive.

To improve customer intimacy, the firm invested in a consolidated platform for customer-facing activities. Internally, the firm replaced the multiple existing collaboration platforms by one firm-level solution. An executive explained: *“Now, as we move forward in the collaboration space at corporate level, it is unified instead of being separate solutions offered by different business units for internal work.”*

“We have evolved the organization drastically to make sure that we can create one digital voice, one digital focus.”

PRISA: Digital Governance to Transform the Organization¹⁰



Context

PRISA is a Spanish-language-based global media organization with businesses spanning television, press, radio and educational publishing. As with many media organizations, PRISA was faced with a rapid transition to digital in most of its core businesses, and a move away from more traditional media.

PRISA executives challenged the organization not only to adopt digital media in its many media properties, but also to use digital technology to improve collaboration across the properties. The digital transformation vision had four key pillars: creating a federated digital organization, creating a next generation digital distribution and monetization platform, injecting new digital skills and experience from outside the company, and encouraging digital innovation in the business lines.

Governance Mechanisms

- **Shared digital unit:** The CEO instituted a radical change for the highly decentralized organization by creating a centralized digital unit to coordinate and assist in building digital businesses. This shared unit encompasses several economic models. Kamal Bherwani, Group Chief Digital Officer, explained: *“PRISA Digital does innovation as an investment model. The digital sales strategy is a P&L model and ‘PRISA Servicios Digitales’ is a shared service model, which is service delivery of high quality and low costs.”*
- **Firm-Level Committees:** Digital transformation is managed closely by monitoring a variety of metrics. Committees regularly review these metrics and make adjustments if required. An innovation group is also in place in the digital unit.
- **Digital Czar:** PRISA’s global Chief Digital Officer (CDO) reports directly to the CEO of the Group. He runs the shared digital unit, and sets direction for most digitally-related questions. He also engages the network of chief digital officers located in local units.
- **Liaison Roles:** Each division appointed a CDO, coordinating with the central digital unit. These people manage implementation and coordination of digital transformation for their divisions.

Platforms and Benefits

PRISA created a global content management system for sales, marketing and distribution of its various products and services. The digital platform enables the firm to maximize leverage of existing assets such as content, advertising, customer information, e-commerce, video on demand, and analytics-based marketing.

“PRISA Digital does innovation as an investment model. The digital sales strategy is a P&L model and ‘PRISA Servicios Digitales’ is a shared service model, which is service delivery of high quality and low costs.”



Conclusion

Digital governance should not be left to chance. Ineffective governance creates waste and missed opportunities, making digital transformation riskier and costlier than it needs to be. Governance requires conscious design and engagement by the company's most senior executives. No governance model is optimal for all companies, but lack of governance is never optimal.

The right governance model provides appropriate levels of coordination and sharing for digital initiatives, in line with the company's structure, culture, and strategic priorities. InvestCo is increasing coordination and sharing to get more value from its digital initiatives, a path Volvo took in the early 2010s when launching digital services around cars. ApparelCo successfully developed digital capabilities in silos, and recently created a shared unit to generate synergies between digital initiatives. PRISA is using digital governance to radically restructure communication and sharing across its independent business units.

Senior executives should plan to revisit their governance models periodically. Executives can understand when it is time to adjust their governance models by paying attention to the behaviors governance is intended to enhance, and adjusting governance to encourage new behaviors. As coordination and sharing become part of the culture, some governance mechanisms may become redundant. Competitive changes can also require companies to change their extent of centralized control.

When it comes to governance, senior-executive engagement is essential. No governance model is ideal for all companies. The right model for today is not always the right model for tomorrow. But creating and evolving digital governance is essential to help your company thrive in a digitally transformed world.

The right model for today is not always the right model for tomorrow, but creating – and evolving – digital governance is essential to help your company thrive in a digitally transformed world.

Sources

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