



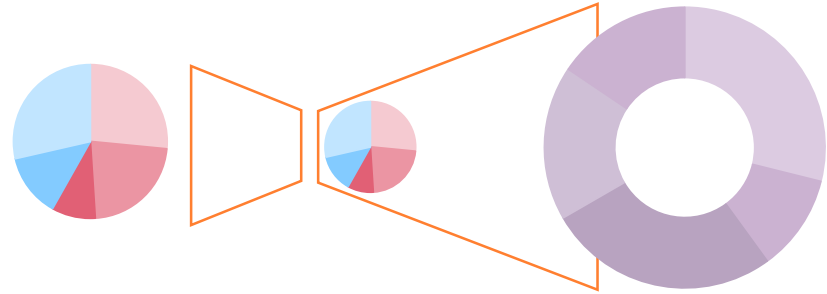
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LTI@MIT CISR: Effectively Delivering on Digital Transformation

Designing a Competitive Innovation Portfolio

Friday, 3 November 2017

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Sydney Water
TD Bank, N.A.
Teck Resources Limited
Tenet Health
Tetra Pak
Trinity Health
USAA
Westpac Banking Corporation
WestRock
World Bank





Key findings (first pair):

- Portfolio allocation (*not* total spend) differentiates the most competitive firms
- Competitive portfolios consist of four types of digital innovation

In 5 years, Audi significantly expanded its portfolio of digital innovation¹

Business Operations

Smart Factory

Key objectives

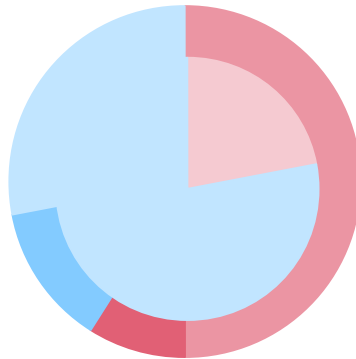
- Operational efficiency
- Flexibility

Employee Experience

Enterprise 2.0

Key objective

Employee productivity



Customer-facing

- Customer experience (*Touch Points – e.g., Smart City*)
- New products/services (*Audi Connect*)

Key objectives

- Revenue per product/service
- Revenue per customer

New Business Models

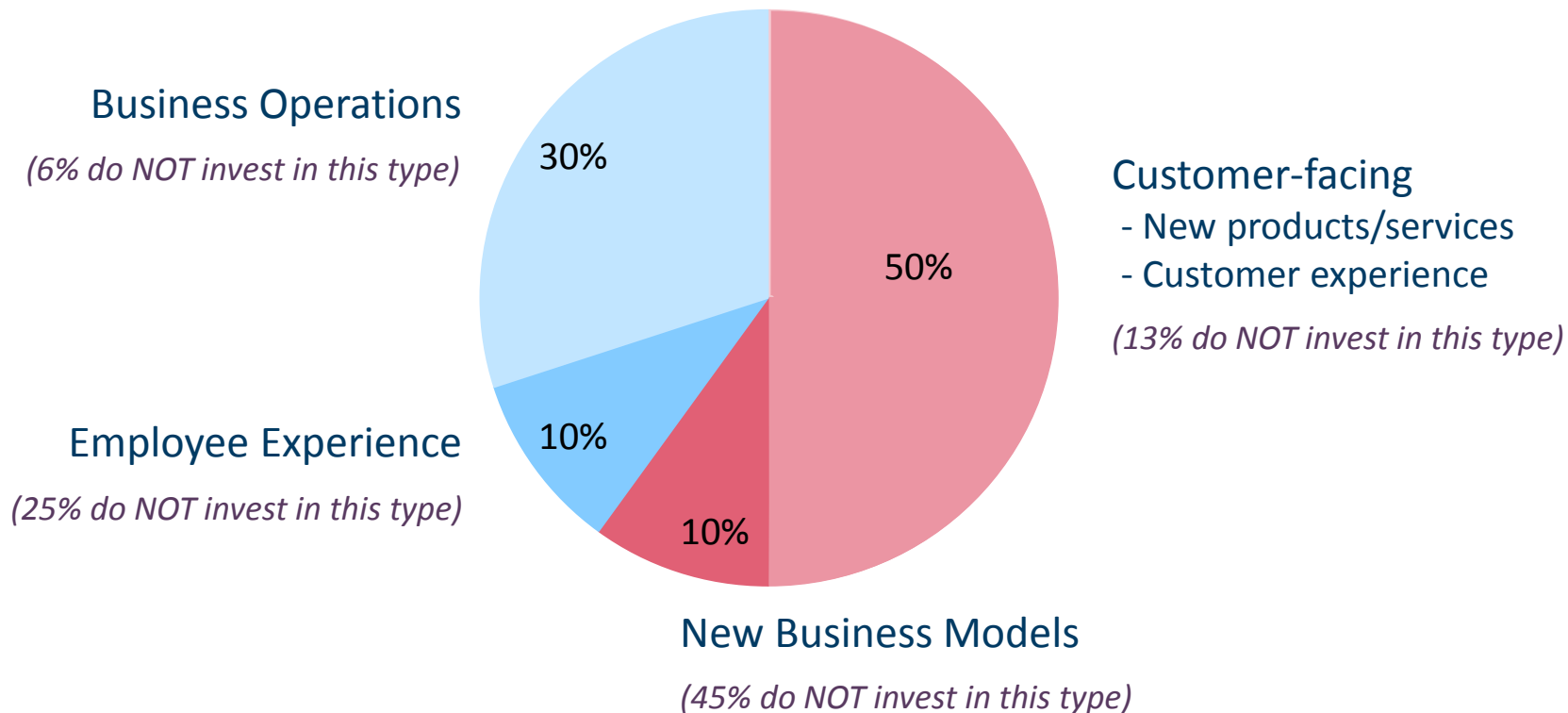
Mobility services (ABI)

Key objective: New revenue from new customers

1. A **digital innovation** is a new (from the point-of-view of your company) or significantly improved product, service, or process that relies in large parts on digital technologies such as social, mobile and cloud computing, analytics or internet of things technology.

Source: MIT CISR Survey on Digital Innovation; data collected from Sept.-Nov. 2016 (N=201)

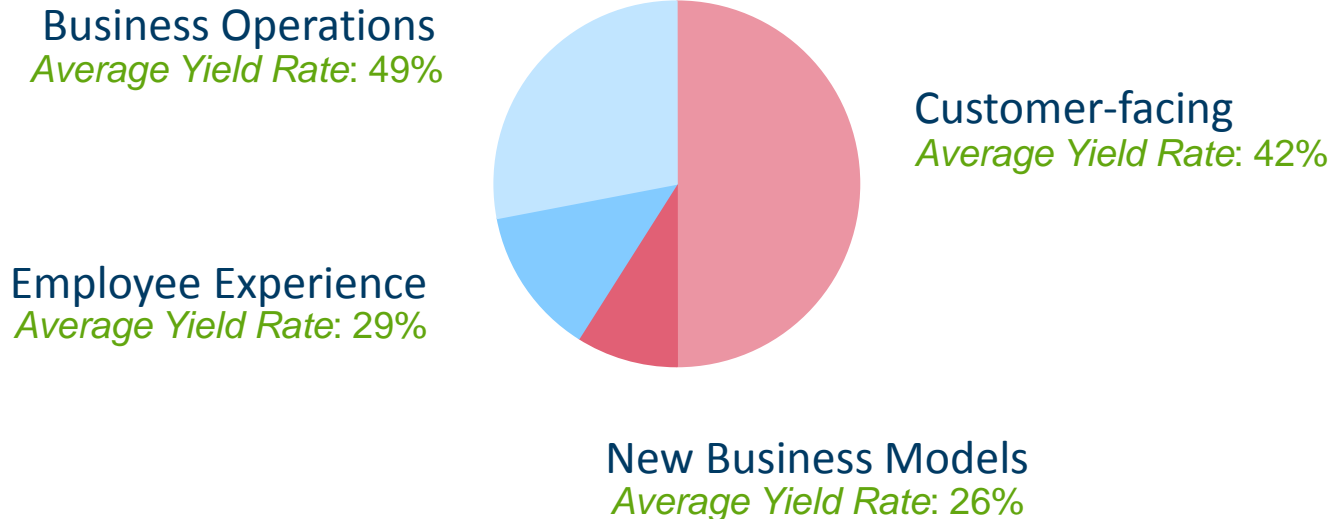
Digital innovation consists of four types; not all firms are investing in all four types



Digital innovation is inherently risky



Overall Yield Rate: 45%
45% of total spend on digital
innovation leads to measurable
positive business value



Average portfolios of top performing firms on four business outcomes... are different



TOP QUARTILE PERFORMERS ON:

AVERAGE PORTFOLIO

Employee Experience

Business Process

Customer Facing

New Business Model

Innovativeness

10

20

45

25

Efficient Business Process

20

50

20

10

Customer Satisfaction

25

25

40

10

Revenue Growth

10

30

35

25

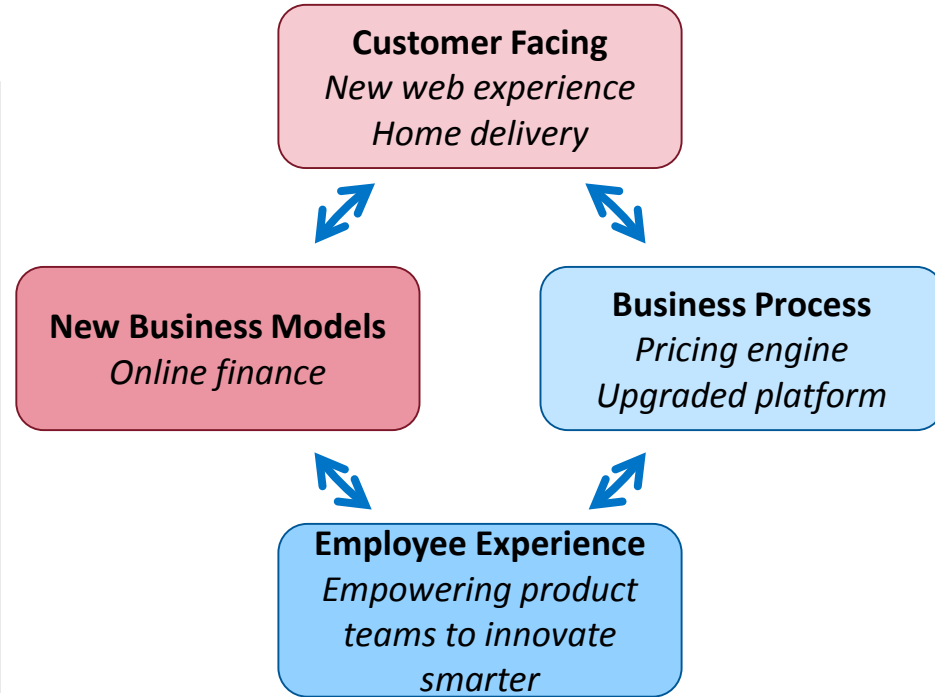
Competitive Portfolio: For several performance outcomes, performance can be predicted by a distinct *portfolio strategy* (e.g., high performers invest a greater percentage in Type A and a smaller percentage in Type B; low performers do the inverse). For each business outcome, the *competitive portfolio* is the average of the top 25% of firms on the most competitive end of the portfolio strategy.

Source: 2016 MIT CISR Survey on Digital Innovation (N=201)

Top performers in customer satisfaction balance customer facing with employee experience



CARMAX

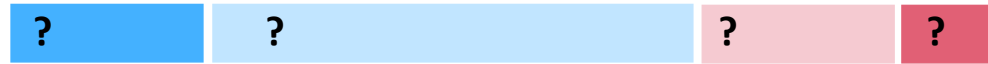


Results (2017): Sales increased 5% to \$15.9B
NPS of 81; 13 consecutive years on *FORTUNE* magazine's 100 Best Companies to Work For® list

Use your portfolio as a compass; Use the average portfolio of top performers as your due north



Your organization's
portfolio



TOP QUARTILE
PERFORMERS ON:

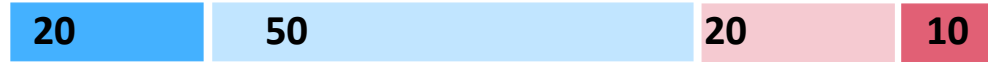
AVERAGE PORTFOLIO

Employee Experience	Business Process	Customer Facing	New Business Model
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Innovativeness



Efficient Business Process



Customer Satisfaction



Revenue Growth



Competitive Portfolio: For several performance outcomes, performance can be predicted by a distinct *portfolio strategy* (e.g., high performers invest a greater percentage in Type A and a smaller percentage in Type B; low performers do the inverse). For each business outcome, the *competitive portfolio* is the average of the top 25% of firms on the most competitive end of the portfolio strategy.

Source: 2016 MIT CISR Survey on Digital Innovation (N=201)



Key findings (second pair):

- **For both high and low performers, 45% of investments result in positive business impact**
- **High performers actively manage synergies across all four types of digital innovations**

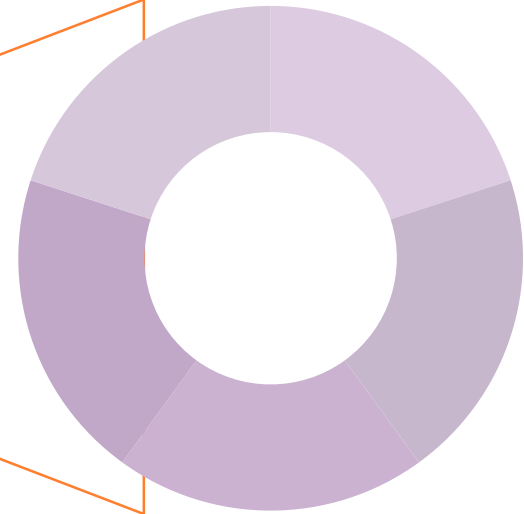
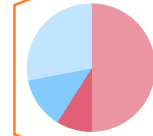
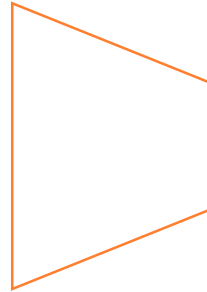
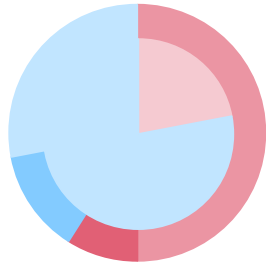
Top performers do two things differently with digital innovation

INPUTS

1. Total Amount Spent

2. Allocation of Spend

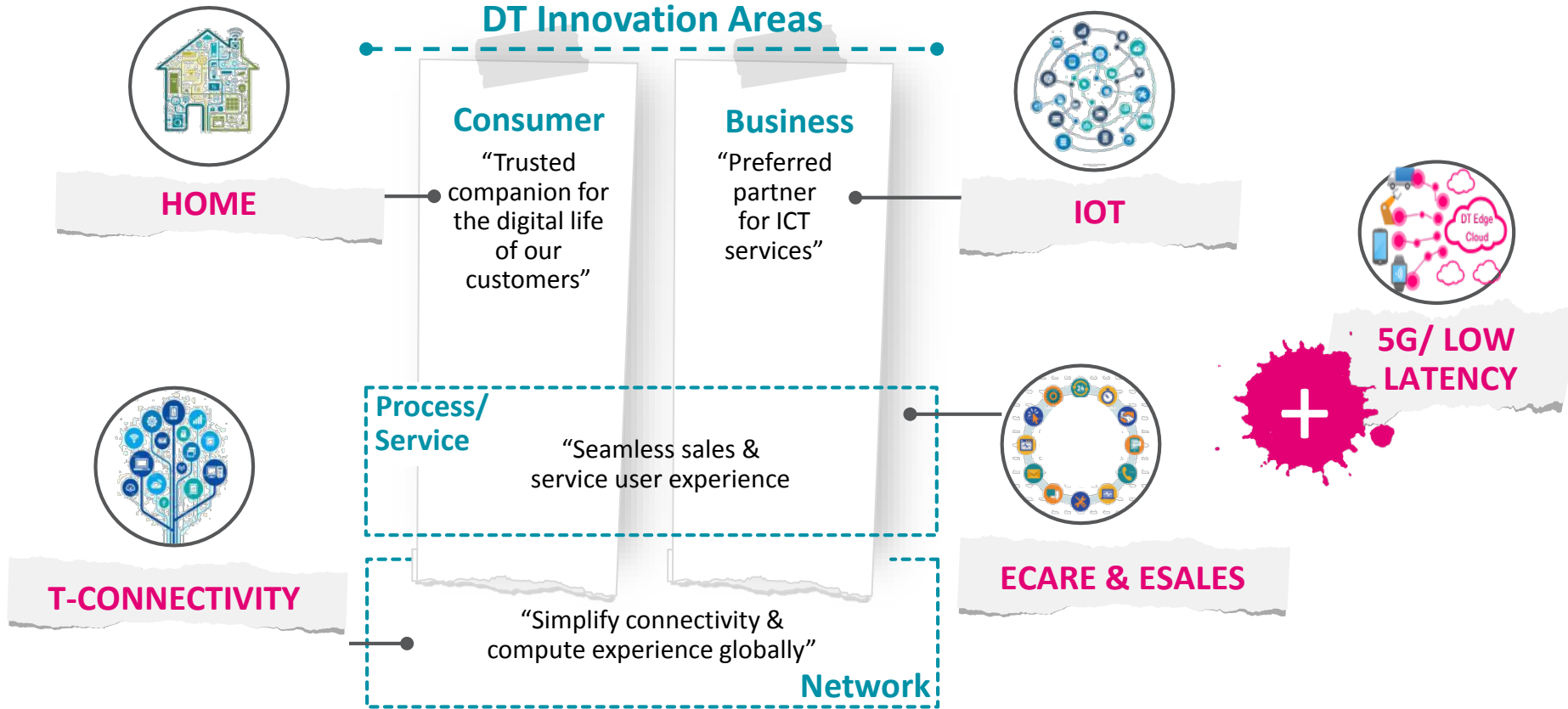
3. Key Practices



PERFORMANCE OUTCOMES

1. Innovativeness
2. Efficiency
3. Customer Satisfaction (e.g., NPS)
4. Revenue Growth

Deutsche Telekom 2017: A focused and synchronized approach to digital innovation



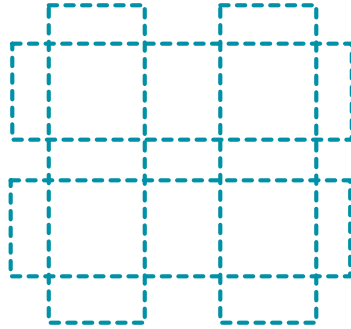
Amplifying the impact at DT:

Active portfolio management consists of three key aspects

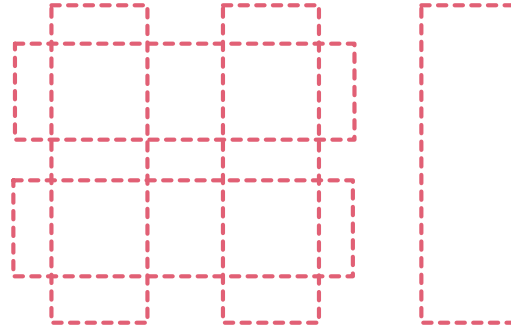


1. Focused and synchronized portfolios

Common, stable,
corporate-wide reference



Synchronized portfolio,
changes based on evidence



2. Flexible, VC-inspired funding

- Any unit can propose a project at any time
- Initial funding earned from a pitch
- Subsequent funding earned from tangible, customer-centric results

3. Deep, sustained engagement

- Greater involvement of Board and ExCo
- Joint ownership of innovations
- Integrated external experts and partners

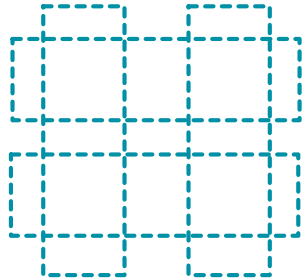
DISCUSSION

Which of the three aspects of active portfolio management would you strengthen first? How?

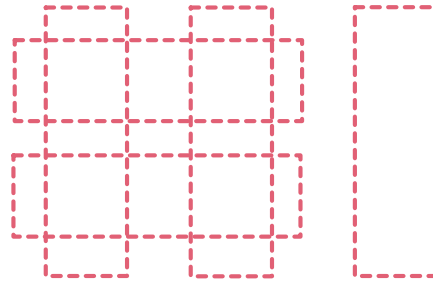


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3. Collaboration and Partnerships

- Greater involvement of Board and ExCo
- Joint ownership of innovations
- Integrated external experts and partners

Next steps to innovating competitively

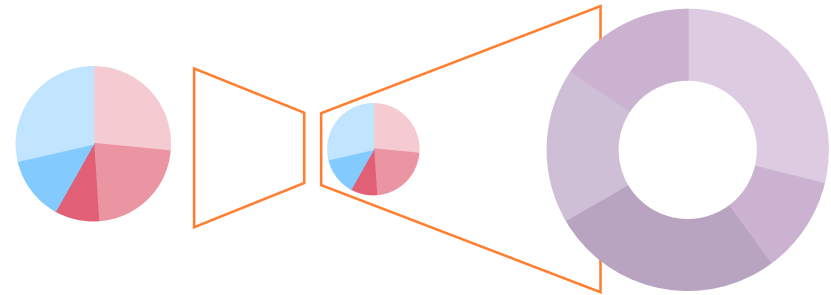
1. Use your portfolio as a compass

- The portfolio, rather than total spend, is what matters
- Invest in all four types
- Decide on your goal for innovation; weigh investments accordingly

2. Actively manage your portfolio

- Enhance the impact of individual innovations
- Realize complementarities across innovations
 - Provide a common focus
 - Include flexible, VC-inspired funding
 - Ensure engagement throughout
- Foster a start-up culture

3. Reward learning from successes *and* failures





Thank you!

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