EPISODE 23

Ocado, Transformation and THRIVE

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Hi, it's Rob Llewellyn here and welcome to episode twenty-three of transformation management. Thank you so much for joining me today. As always, I'm going to do my best to help you get better equipped to manage and lead transformation.

Every value chain will be disrupted in the years ahead of us. From Retail and telco to healthcare and oil and gas - the benefits enjoyed by customers and the companies that transform, will be breathtaking by today's standards.

Transformation is about fundamental shifts in how companies do business. It changes everything about how products are designed, manufactured, marketed, sold, delivered, and serviced.

It forces leaders to rethink how companies execute, with new business processes, management practices, and information systems, as well as everything about the nature of customer relationships.

The best CEOs thinking clearly about the quality of transformation research, data and practices they work with. These are the leaders who cut through the clutter and embrace a realistic understanding of business transformation success and failure, and how digital is core to it.

They're conscious of the delusion of lasting success and the delusion of absolute performance - which Phil Rosenzweig wrote about in his book the Halo Effect.

They're also now aware of the delusion of digital transformation that I spoke about in episode two, which is the tendency to label any project or programme involving digital technology as "Digital Transformation".

Let's consider one of the most recent superstars in the world of transformation - Ocado - which has already been referred to as the Microsoft of Retail.

Ocado was established in the UK in the year 2000 and it's already the world's largest pure online grocery supermarket.

Written-off for years by naive cynics, CEO Tim Steiner has pursued his vision and shown us how legitimate transformation can create a new future.

Steiner has said, "Our biggest innovation was not to try and have a single innovation. Our biggest innovation was to become an innovation house. We're working on innovation for every place where we interact with a customer."

Ocado has built a successful e-commerce business in the UK, and is now in a powerful position to help retailers in other parts of the world do the same. And the company is offering consumers a different proposition, because they're built to be online - unlike much of their competition. And they aim to allow consumers to shop online in the way that's most convenient for them.

What enables Ocado to do that is a technology estate that is both broad and deep, and which encompasses real-time control systems, IoT, robotics, machine learning, simulation, data science, forecasting systems, routing systems, inference engines, big data and more.

They use a three-dimensional grid system where 700 washing-machine-sized robots whizz back and forth an area the size of three football pitches, with just half a centimetre in between them.

This is the kind of stuff that separates digital economy leaders from the rest.

Ocado is now the world's leading pure play online grocer and their business model offers a superior customer experience. Their business is based on a cycle of growth, investment and innovation and they pride themselves with a proven management team leading strategy and execution.

One of the main reasons that most transformations struggle and fail is a lack of capability, and companies like Ocado are building their transformation capabilities with real intent. To meet the needs of companies like Ocado forward-thinking professionals are already re-training themselves to build their transformation capabilities so they can work with transformational companies like Ocado.

Just by looking at some of the key vacancies that Ocado sometimes needs to fill, you can see how they look at transformation.

They've established a Transformation Office to drive change in their capabilities, teams and ways of working to be able to deliver and support multiple international clients concurrently.

And so, they need transformation programme managers to help create and then own sets of projects within that Transformation Office. Those programme managers are expected to translate strategy and ideas into tangible project and programme plans, looking ahead 3 to 5 years, and deliver and control complex programmes and multiple projects concurrently.

Another role in Ocado is the Operations Model Lead, who runs a team that owns the ongoing development of the end-to-end business operating model, defining specific operating model capabilities and providing targeted design expertise.

This gives you a taste of the kind of hiring that's happening inside the world's most dynamic transformation-focused companies. Ocado is a company that's undergoing legitimate transformation, and not caught up in legacy thinking, systems and digital sugar coating.

CEOs like Tim Steiner at Ocado are now under increasing pressure to continually balance short and long-term objectives. They not only need to ensure their business runs well, but they also need to reinvent their business, enhance product and service offerings, and invest in other long-term initiatives. The best CEOs - like Steiner - do both well.

While most companies have executive and senior management teams that have excellent operational expertise, transformation experience is often thin on the ground. This is another reason why people who are re-training themselves are becoming very sought-after. Because digital business transformation is about strategy and execution.

To be a transformational company like Ocado, the six guiding principles of THRIVE need to be accommodated. And these principles provide a way that leaders can navigate both the strategic and execution components of transformation.

If you don't already know, THRIVE is an acronym made from six words which are: Transformation, Holistic, Response, Innovation, Value, and Enterprise.

Principle number one is Transformation, because leaders first need to recognise the fundamental difference between change and transformation, before they can lead their companies on a journey of legitimate transformation.

While change is required to maintain and modernise an organisation, this isn't enough to sufficiently elevate both its internal capabilities and external offerings.

Too many companies are being lulled into a false sense of transformation security through siloed digital projects and change initiatives that are not transformational.

To take advantage of the opportunities and protect against threats that new digital business models present, leaders first need to commit to being bold and transformational, ahead of those that remain safely within their comfort zones and traditional ways of working.

Leaders need to communicate this fundamental difference across their organisations to avoid their best resources being tied up making small changes instead of driving transformation. This is also needed to keep the company's best people on board and attract new talent, because the high-performers have an insatiable desire to be part of an ambitious transformation journey. If one company fails to take them on that journey, they'll move to another that will.

Legitimate transformation - like the kind found in companies such as Ocado - also requires a fundamental shift in other aspects of an organisation. Appropriate governance, mindsets, business and operating models, capabilities and culture are just some of the transformation fundamentals that THRIVE addresses.

Companies need to put all options on the table, including rethinking the core business model and answering the fundamental question: What do we do? This is where companies need to zero in on their value proposition and how they deliver on it. Just like Ocado has done.

Principle number two is Holistic. Unlike business process re-engineering, which focuses on business processes, or app development which focuses on technology, or projects, which focus on producing outputs, digital business transformation requires a more integrated and holistic approach.

THRIVE helps leaders take a holistic and integrated perspective of their enterprise and its complexity. It doesn't re-invent individual management disciplines, but it provides a framework that integrates individual disciplines, which should be sufficiently mature to undertake successful transformation.

From digital business models, capabilities and roadmap design, through to culture, portfolio governance and transformation execution, leaders need to consider the big picture and not limit their focus to only some of the key enablers of transformation.

Most transformation strategies are not successfully executed upon, and only a holistic approach to transformation will produce the outcomes a company aspires to achieve. Through holistic transformation, leaders will dramatically increase the odds of success, and be among the minority that actually achieve their transformation objectives successfully and live up to stakeholder expectations.

Principle number three is Response, and we can see organisations like Ocado respond strategically to the opportunities and threats they are presented with - both inside their organisation, and externally in the market.

Internally this could involve responding to the evolutionary needs of the company's culture, maturing the capabilities required to achieve transformation excellence, and the establishment of new governance that facilitates innovative transformation while minimising bureaucracy.

Externally it could involve defensive and offensive responses to the changing dynamics of the market caused by disruption or seizing the opportunities that digital technologies and new business models can be used to take advantage of.

These and other responses form part of the transformation strategy that needs to be shaped, and then planned as part of a short, medium and long-term roadmap, which is then governed and executed upon.

It's vital that the transformation response not only strategically addresses all the key threats and opportunities the organisation faces, but it must also be supported by the appropriate leadership mindset, workforce culture and capabilities required to transform strategy into reality.

Principle number four is Innovation, which is at the heart and soul of Ocado. The likes of Machine learning, the Internet of Things and Robotics, can enable powerful business

transformation when used strategically. Only through the innovative convergence of digital technologies can companies expect to transform in the way Ocado has.

Plugging in individual digital solutions in non-innovative ways lulls companies into thinking they're transforming, when in fact they are merely updating their technology and changing nothing fundamental about their business. This only achieves change, while transformation should be the goal.

Innovation empowers companies to consider many new possibilities that can be part of its strategic response, and this requires effective approaches to innovation, which transcend technology upgrades and simply doing the same things faster, better or cheaper.

Companies need the ability to envisage how new technologies can be converged into a scalable architecture that is prepared for near, mid and long-term digital adoption. While the Internet of Everything will take years for most companies to derive value from, the foundations can be laid now, with capacity for the future in mind.

Principle number five is Value. External value represents the benefits transformation creates for its customers, while internal value represents the benefits delivered into the business as a result of transformation investment.

External value is generated through digital business models shaped by strategic responses to what is happening in the market. This enables companies to tap into the known and unknown needs of its current and potential customers, in ways that create competitive advantages, then seize market share. These models can also be used to reclaim market share after disruption and protect a company's position in the market.

As markets are disrupted, the opportunities to satisfy the need for value have changed. In 1999, millions of customers weren't expecting 24-hour delivery of products purchased via a smartphone, but today they do. The world has changed, but too many companies still rely on antiquated business models.

Internal value is generated through initiatives that provide stakeholders with tangible or intangible return on investment. This could involve higher revenues in a particular line of business, increased workforce capabilities, better operational excellence or more effective marketing. All of this in turn enables the company to serve customers better and increase market share.

And principle number six is Enterprise. Transformation needs encourage, embrace and educate people from across the enterprise and build a collaborative culture of new capabilities and mindsets.

CEOs like Tim Steiner at Ocado foster a transformation mindset among their executive teams, which is aligned with the strategic aims of the company. This transformation mindset then needs to shape the company's culture at every level, to create an environment within which innovation and digital business transformation can thrive.

Opportunities to upgrade workforce capabilities - in the way Ocado does - need to be identified and people made to feel safe and comfortable about innovation, success and failure. The right support and training is vital to achieve this, without unrealistically expecting an operational workforce to become overnight transformation masters.

This can be a major undertaking, particularly for organisations that have been shaped over many years by operational goals, roles, processes, values, and attitudes. While this will have created operational excellence, it's also prone to preventing attempts to change "how we do things around here". Such an environment will inhibit even the finest transformation strategy, so creating the right internal transformation environment is vital to transformation success.

So that's a brief introduction to THRIVE. If you want to learn more about THRIVE you'll find a link in the show-notes.

I appreciate you listening, and here's a quote to finish off the day from Tim Steiner - the CEO and Co-Founder of Ocado.

"This is a transformational period for Ocado. We have developed unique and proprietary technology to offer retailers an end-to-end operating solution for grocery retail that enables them to meet the changing needs of consumers."

How is your transformation exploiting technology to meet the changing needs of customers?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.