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Running your company at two speeds

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Digital competition may dictate a new organizational architecture in which emerging digital processes coexist with traditional ones.

When a retailer recently tried to launch a new e-commerce business, it found itself stymied by the fact that IT-spending amounts were capped as a percentage of revenue and by a lengthy and cumbersome approval process for new projects. The company's goal of launching the business in two months proved hopelessly optimistic.

This retailer's time-to-market problem is symptomatic of a dilemma many companies face as they seek to develop new products at a faster tempo, digitally optimize processes, or otherwise place major strategic bets in response to the digitization of their businesses. Digital competitors are now biting into a range of industries, creating a need for a rapid response. Yet the technology processes running many large-scale businesses are also mission critical. There's no room for compromise on the performance of current technology-enabled (and often transaction-oriented) operating processes, even as organizations try to increase their pace of digital innovation.

The retailer's board responded by creating a new budgeting and approval process in which projects supporting major digital strategic thrusts are now treated separately from the rest of the IT budget. Solutions like this, in our experience, are an effective means of addressing digital timing challenges. Many companies need to create a two-speed architecture—a *fast speed* for functions that address evolving customer experiences and must change rapidly, and a *transaction speed* for the remaining functions, where the pace of adjustment can remain more measured.

Although this sounds simple, it is anything but. Pulling off this split typically means confronting a framework of IT practices and organizational processes that have evolved over time and are at the core of the technology that keeps businesses running. In a separate article,[1] we offer a detailed road map for IT leaders hoping to maintain the transactional world's large-scale systems while pursuing daily deployments of digital features, customized cloud-based

solutions, and real-time data analytics. Here, we'll briefly lay out some broader management principles that are important for a wider cross section of executives to keep in mind.

Make the digital dialogue more strategic

Solutions like the retailer's work only if there is clear agreement on what constitutes a digital priority worthy of a fast speed. In our experience, that rarely happens, because far too often, the digital dialogue never becomes sufficiently strategic to galvanize top management. At the retailer, by contrast, top management brought its budgeting challenges to the board, which approved the new, two-speed ground rules. Top management has also begun revising its agenda to elevate the importance of discussing strategic technology initiatives, including comparisons between them and other major thrusts, such as entering new regions.

Achieving this level of dialogue often means changing mind-sets, such as the common one that IT spending is a "tax" required to "keep the lights on." At one major consumer-packaged-goods company, this mentality consistently meant that small, short-term fixes were prioritized over large, company-wide investments. In response, the company's top management engaged the board in a discussion of digital priorities

that could redefine the business model. Once it's clear that certain types of technology spending are an investment in new business strategies, it becomes much easier to agree that the resulting initiatives should be implemented quickly.

Evolve the organization

When the IT organization is asked to release new digital functions on a faster deployment cycle, it requires new levels of agility and coordination that may require substantial organizational change. One large industrial company recently established digital-product management as a separate organizational unit accountable not only for the company's website, mobile applications, digital interactions, and new functionality, but also for collaborating closely with business and IT leaders.

This type of setup is found among most companies that are "digital natives" but is much rarer in large, traditional organizations. The rule in many of the latter is to let individual businesses identify and prioritize their IT requirements and then to tackle priority projects (assuming that the company has the IT-development capacity) through quarterly releases. That approach had proved problematic for the industrial company because requirements for digital tools often overlapped among businesses but had to be modified every week—leaving no time for meetings to

grind out an alignment among affected businesses and functions. The new product-management unit solved this problem without compromising the development or maintenance approach needed for core transactions, which were managed separately.

Creating joint IT–business teams to coordinate new initiatives also proved invaluable at a bank trying to catch up with rivals that use big data and advanced analytics to change products and marketing on the fly in response to evolving customer preferences. Product specialists now collaborate closely with model builders to create the automated tools that can assess customer needs in real time and make offers for related financial products. The IT organization collaborates closely as it selects the best data-processing technologies to support the new algo-rithmic models. None of this compro-mises the bank's transactional backbone, which again is managed separately to ensure its ongoing integrity.

Digitization has led to bifurcated competition that challenges monolithic corporate structures. A two-speed approach to architecture will help companies navigate what's likely to be a tricky period of transition.○

[1] See "A two-speed IT architecture for the digital enterprise," *McKinsey on Business Technology*, Number 36, Winter 2014, on mckinsey.com.

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