Digital Transformation: Banking

Crossing the Chasm: Inside the Belly of a Whale

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Agenda

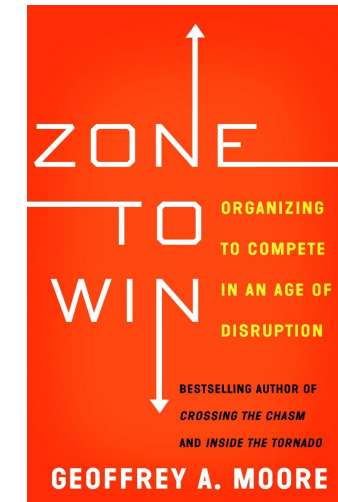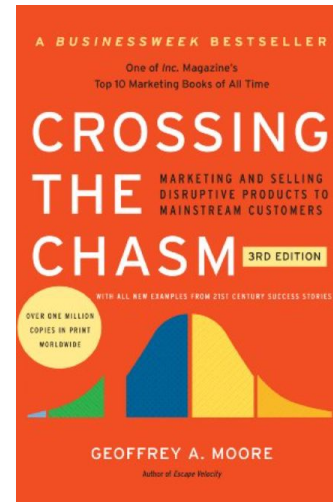**Disrupting Financial Services**
- Digital Customer Experience
- Digital Operating Model

Crossing the Chasm
- Technology Adoption Life Cycle
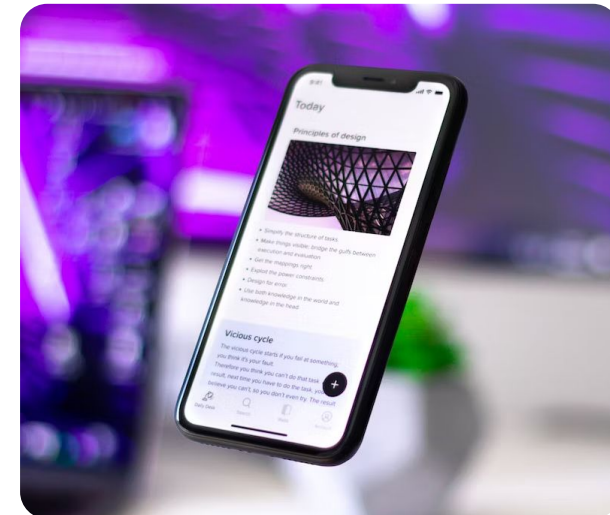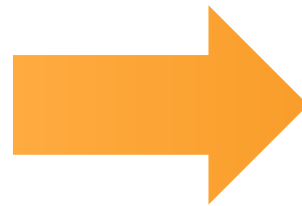- A Crisis of Prioritization

Inside the Belly of a Whale
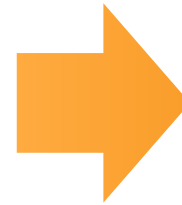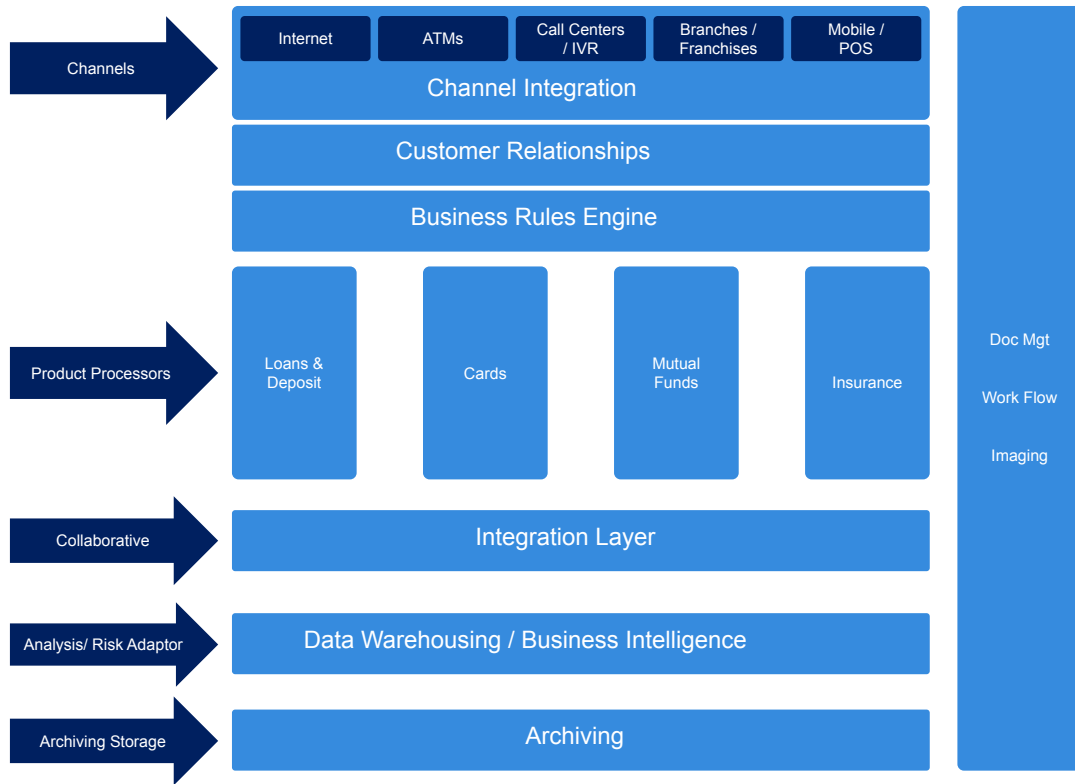- Zone Management
- The Game Plan

Disrupting Financial Services

Digital Customer Experience

Smart phones have digitized all external relationships, pressuring banks to . . .

Digital Operating Model

Left diagram — traditional layered architecture:

Channels →
| Internet | ATMs | Call Centers / IVR | Branches / Franchises | Mobile / POS |

Channel Integration

Customer Relationships

Business Rules Engine

Product Processors →
| Loans & Deposit | Cards | Mutual Funds | Insurance |

Doc Mgt
Work Flow
Imaging

Collaborative →
Integration Layer

Analysis/ Risk Adaptor →
Data Warehousing / Business Intelligence

Archiving Storage →
Archiving

Right diagram — hexagonal AI operating model:

- PeopleOps — AI Ready *Workforce*
- CloudOps — Scalable Modular Infrastructure
- MLOps — Smart Algorithm *Development*
- AIOps — AI Product Delivery
- DevOps — Rapid Software *Deployment*
- DataOps — Dynamic Data *Management*
- SecOps — Secure AI *Operations*

. . . adopt an internal infrastructure that can keep up

Digital Transformation

It's not a restaurant . . .

It's a gym!

Crossing the Chasm
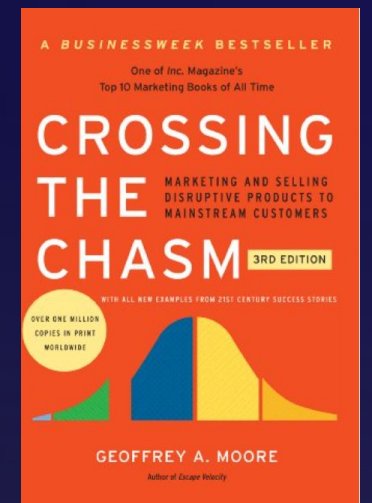
Technology Adoption Life Cycle
The personas that make up a wave

TECHNOLOGY ENTHUSIASTS	**VISIONARIES**	**PRAGMATISTS**	**CONSERVATIVES**	**SKEPTICS**

Each profile wants to engage differently
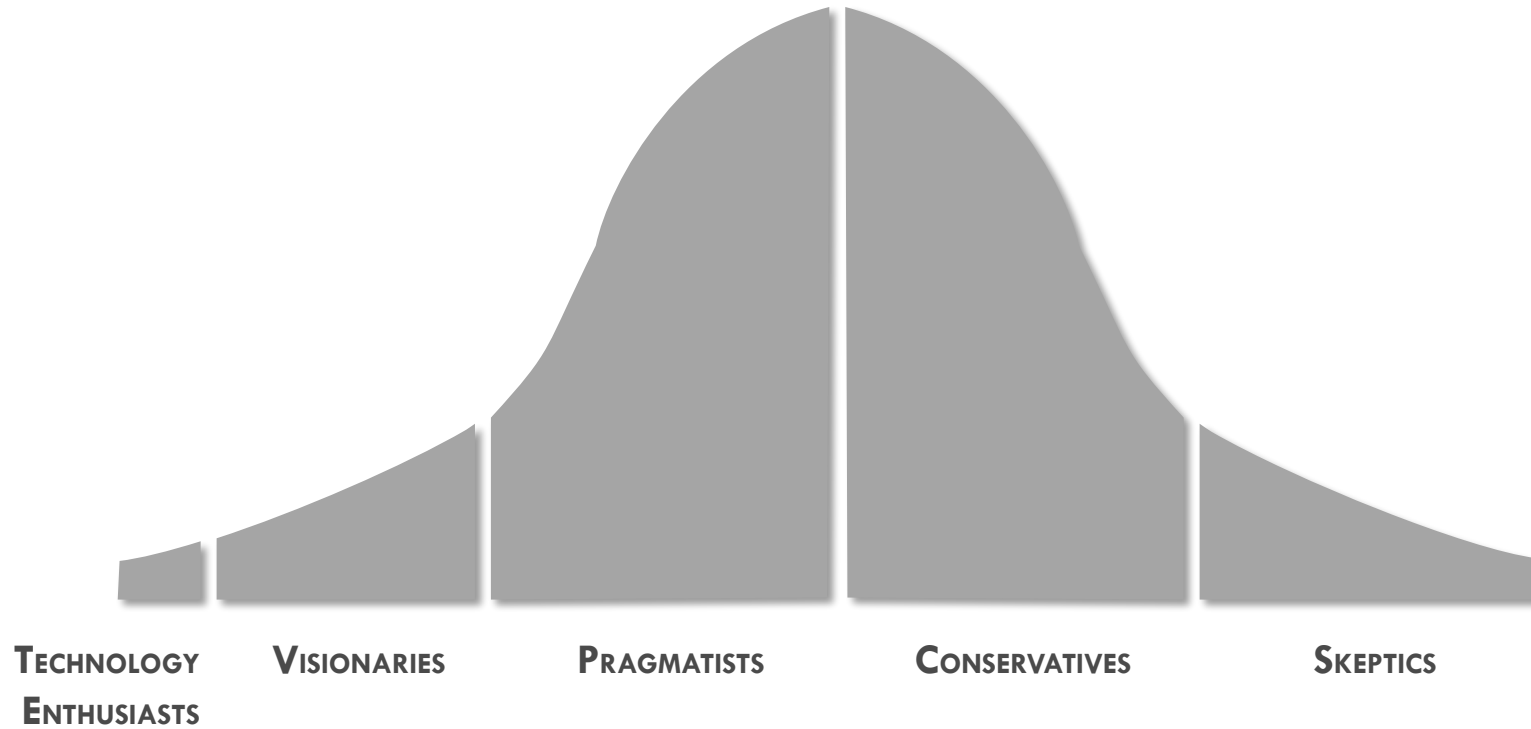
Technology Enthusiast

Visionary

Pragmatist

Conservative

Skeptic

Technology Adoption Life Cycle
How Waves Unfold

Standard Products

TORNADO
We **want** what **they** have

MAIN STREET
We **need** what **they** have

Managed Services

CHASM

Techies

Visionaries

Pragmatists

Conservatives

Skeptics

Projects

EARLY MARKET
We **believe** what **you** believe

BOWLING ALLEY
We **need** what **you** have

Solutions

To catch the next wave you have to run more than one playbook

8

Category Maturity Life Cycle
Catching the Next Wave

Revenue Growth Rate

B
Convert power into performance

C
Perform

D
Convert performance into new power

A
Grow power

Growth Market

B

C
Mature Market

D
Declining Market

Fault Line!

E
End of Life

A

Technology Adoption Life Cycle

Time
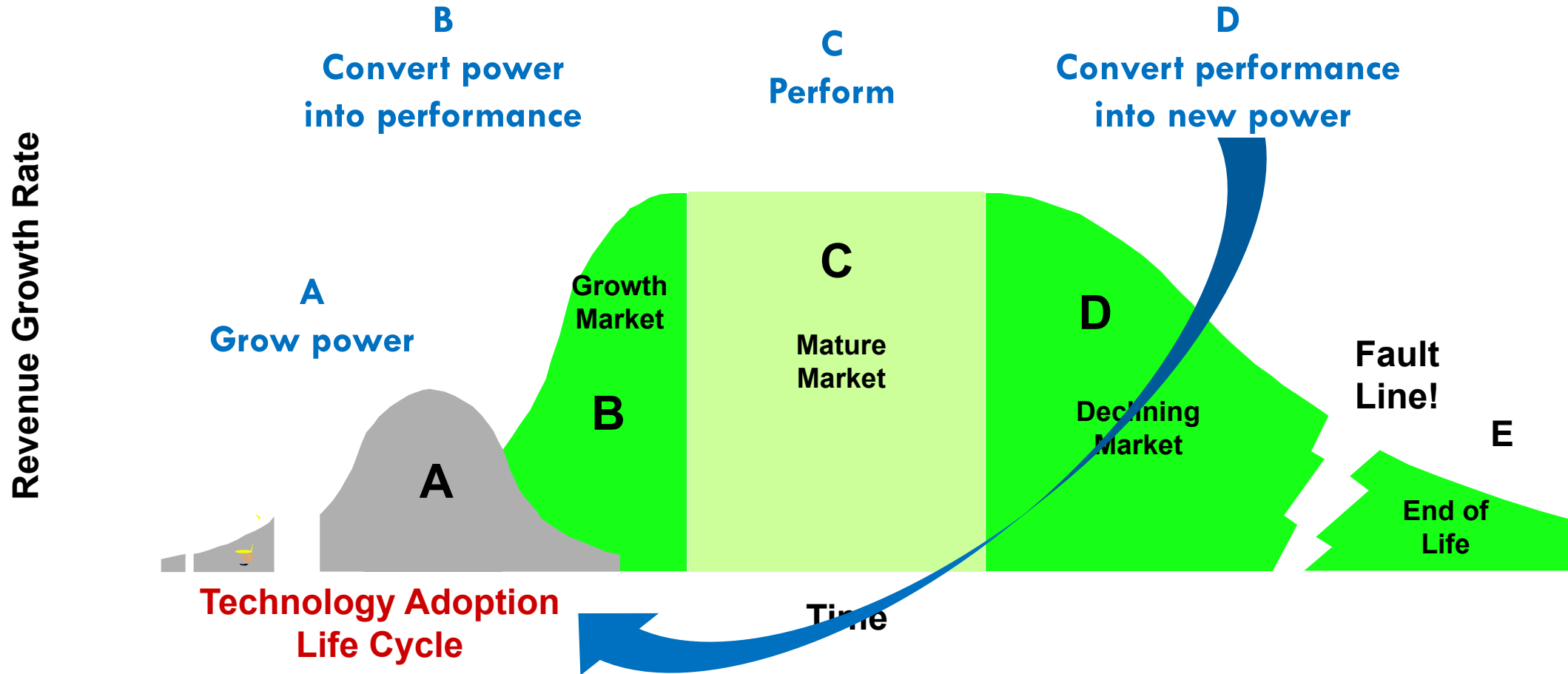
What does it take to put yourself back in the game?

A crisis of prioritization

Three Investment Horizons

Do well here too

Next-Generation Businesses

Invest in new categories to expand the portfolio

HORIZON 3
ROI in 36 to 72 mos

Core Business

Meet performance commitments

HORIZON 2
ROI in 12 to 36 mos

Future Options

Develop options for future growth

Get stuck here!
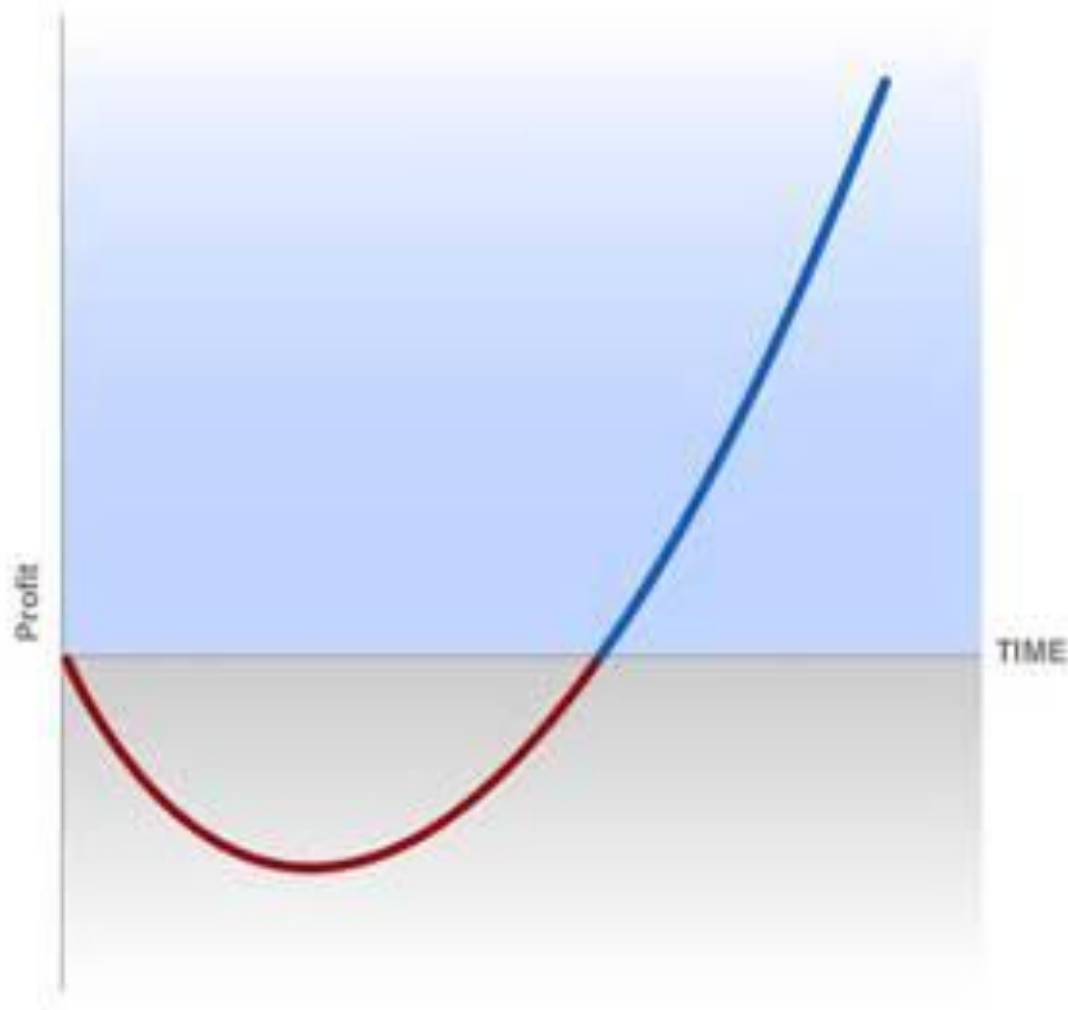
HORIZON 1
ROI in 0 to 12 mos

Do well here
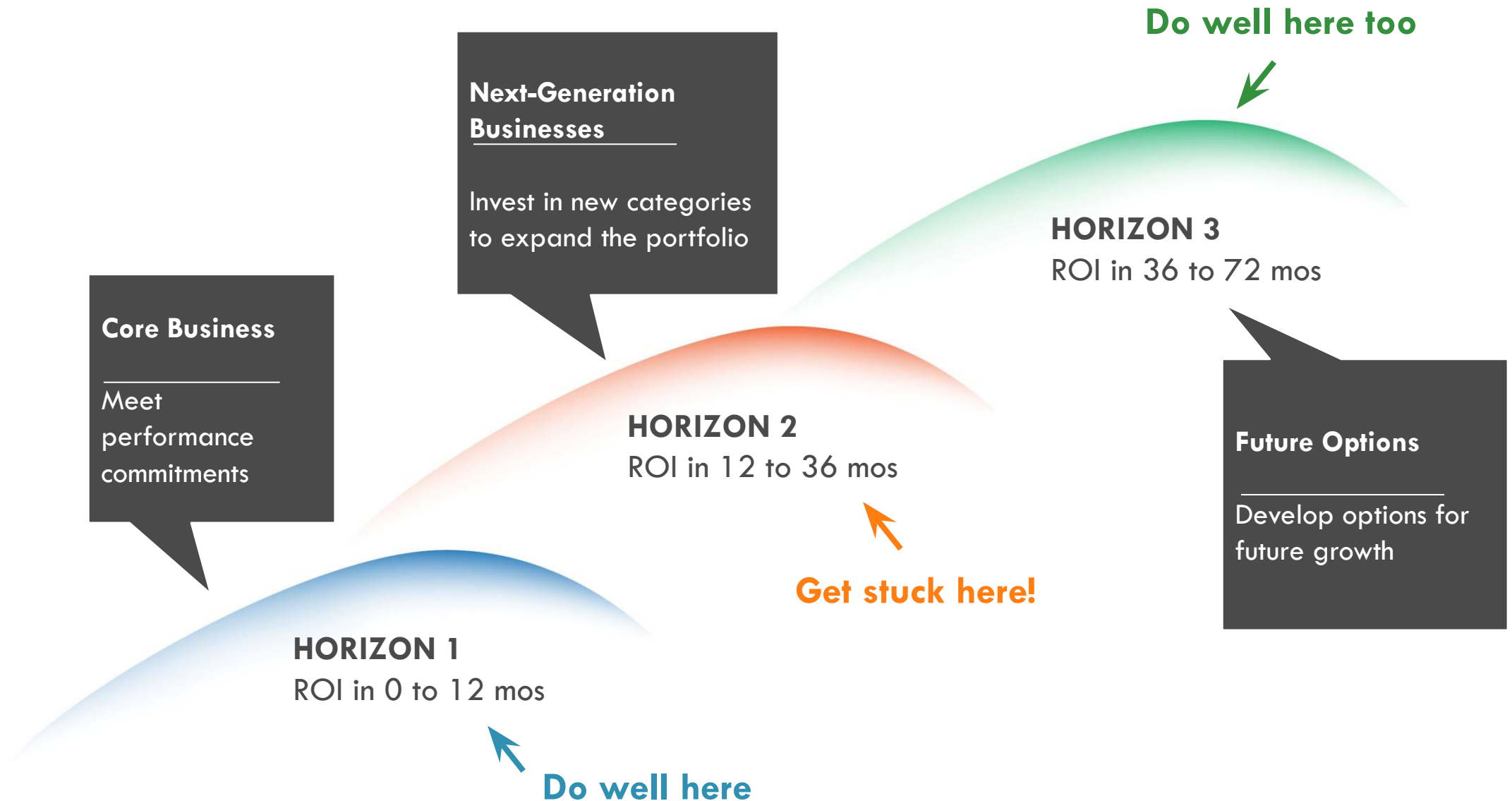
The Horizon 2 Challenge

To catch an ***S*** curve

You must go through a ***J*** curve

The Horizon 2 Challenge

WHO'S UP FOR THIS?

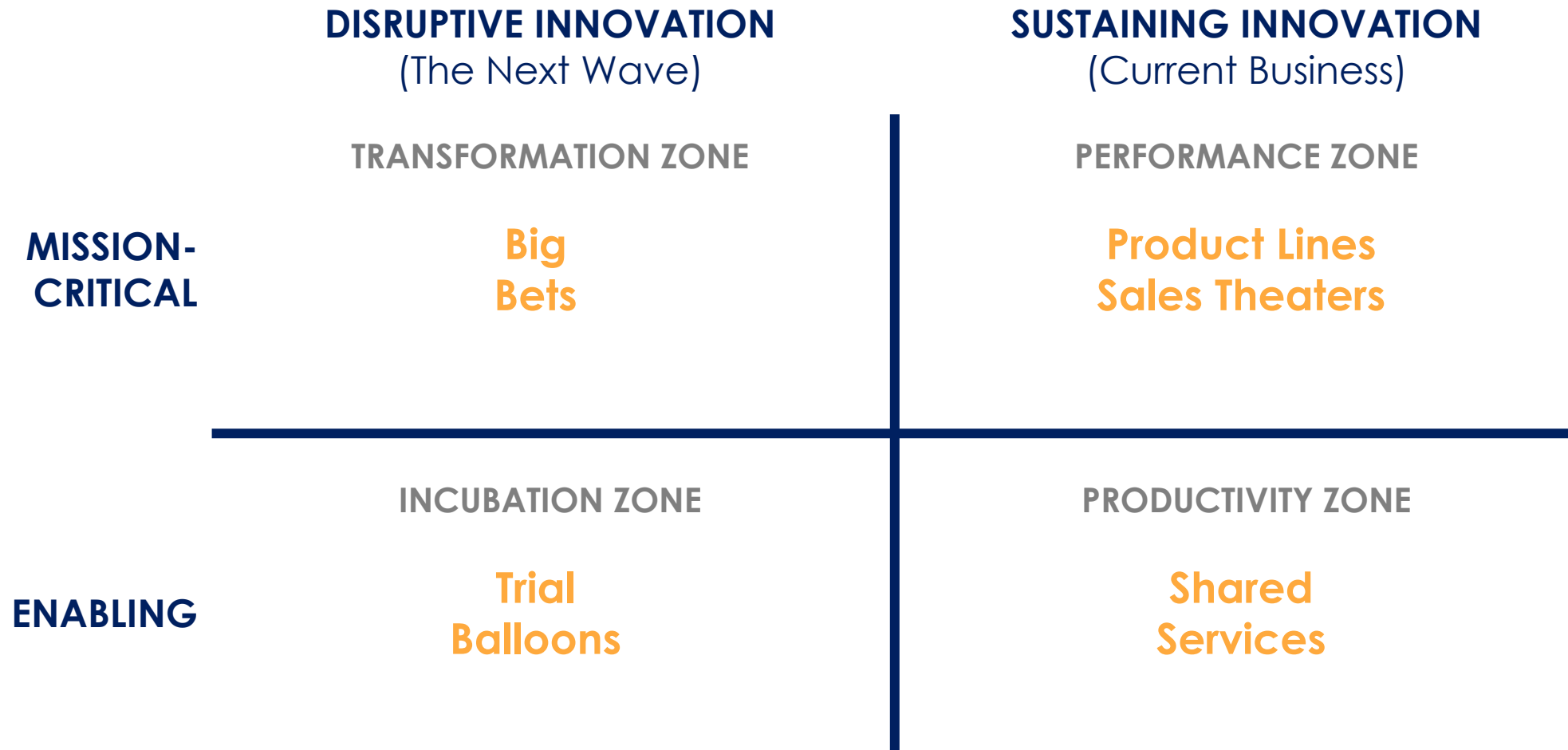|	
• Venture capital investors?	**YES**
• Public market investors?	**NO**
• Next-gen product teams?	**YES**
• Mainstream product teams?	**NO**
• Emerging partners?	**YES**
• Established partners?	**NO**
• Enthusiasts and visionaries?	**YES**
• Pragmatists and conservatives?	**NO**

This is why start-ups can outperform global enterprises
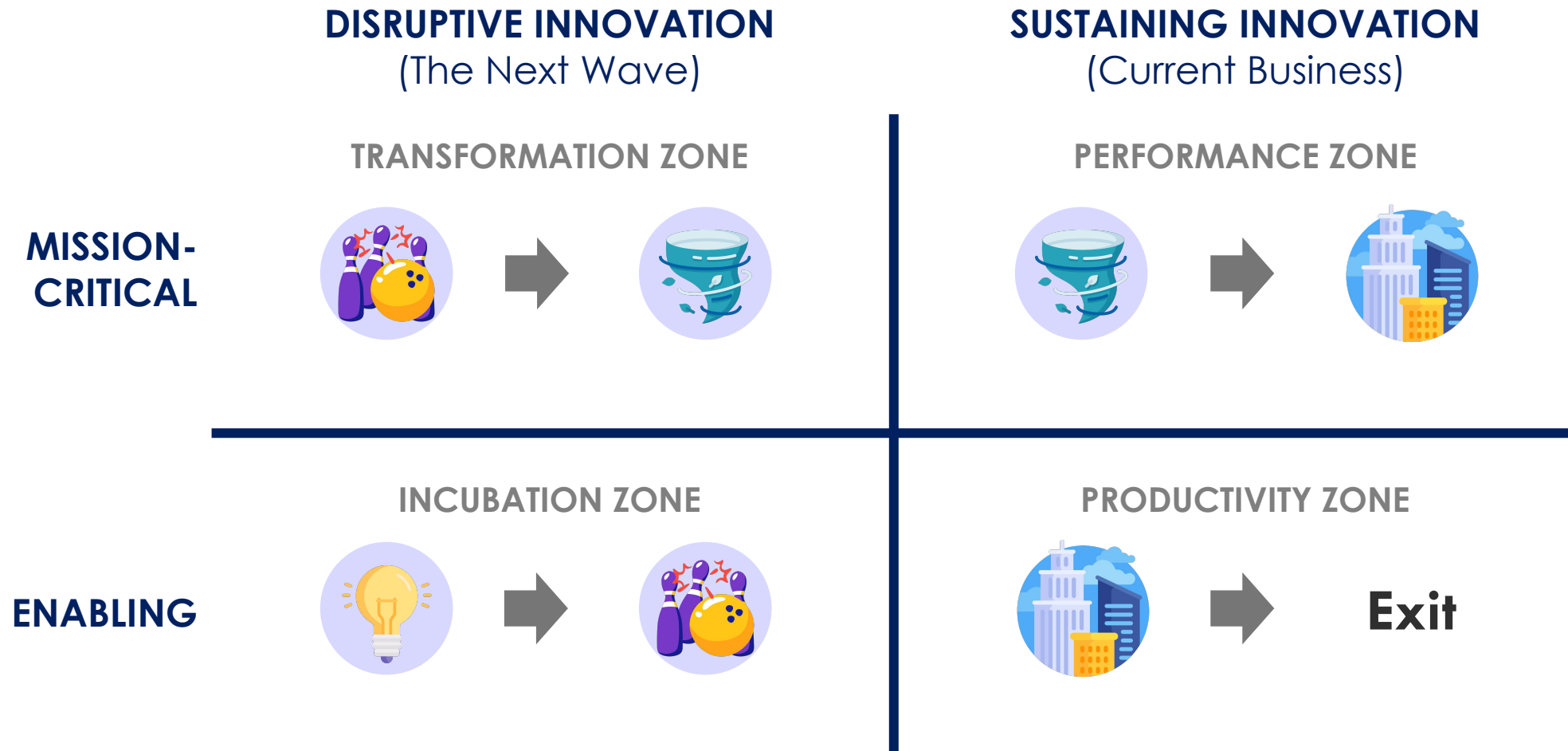
Zone Management

(Innovating Inside the Belly of a Whale)
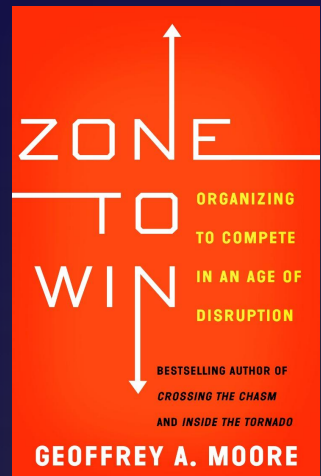
Zone Management Framework

	DISRUPTIVE INNOVATION (The Next Wave)	**SUSTAINING INNOVATION** (Current Business)
MISSION-CRITICAL	TRANSFORMATION ZONE **Big Bets**	PERFORMANCE ZONE **Product Lines Sales Theaters**
ENABLING	INCUBATION ZONE **Trial Balloons**	PRODUCTIVITY ZONE **Shared Services**

Each zone hosts different kinds of work

Market Development Playbooks by Zone

DISRUPTIVE INNOVATION
(The Next Wave)

SUSTAINING INNOVATION
(Current Business)

TRANSFORMATION ZONE

PERFORMANCE ZONE

MISSION-CRITICAL

PRODUCTIVITY ZONE

INCUBATION ZONE

ENABLING

Exit

Each zone aligns with a specific transition in market development

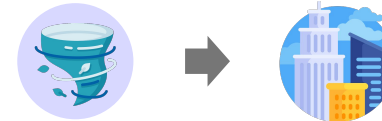# Implications for Leaders
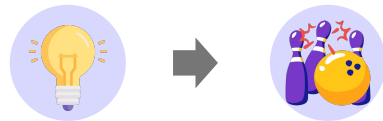## Each zone rewards a different style
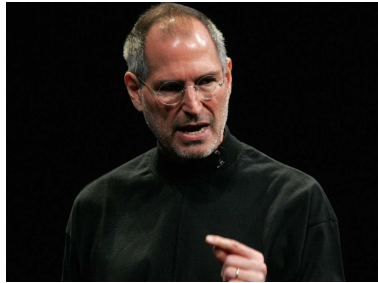
TRANSFORMATION ZONE
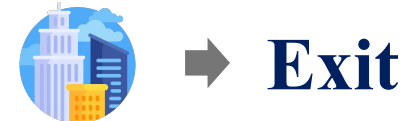
STAY FOCUSED

PERFORMANCE ZONE

THINK FAST

INCUBATION ZONE

THINK DIFFERENT

PRODUCTIVITY ZONE

THINK SLOW

Exit

Match your style to the zone

Accountability Metrics
Each zone measures success differently

TRANSFORMATION ZONE
Portfolio Outcomes

- Revolutionary growth
- Tipping point achieved
- Investor recognition

PERFORMANCE ZONE
Market Outcomes

- Bookings vs. plan
- Revenue vs. plan
- Contribution margins

INCUBATION ZONE
Adoption Outcomes

- Product/market fit
- Marquee early adopters
- Repeatable use cases

PRODUCTIVITY ZONE
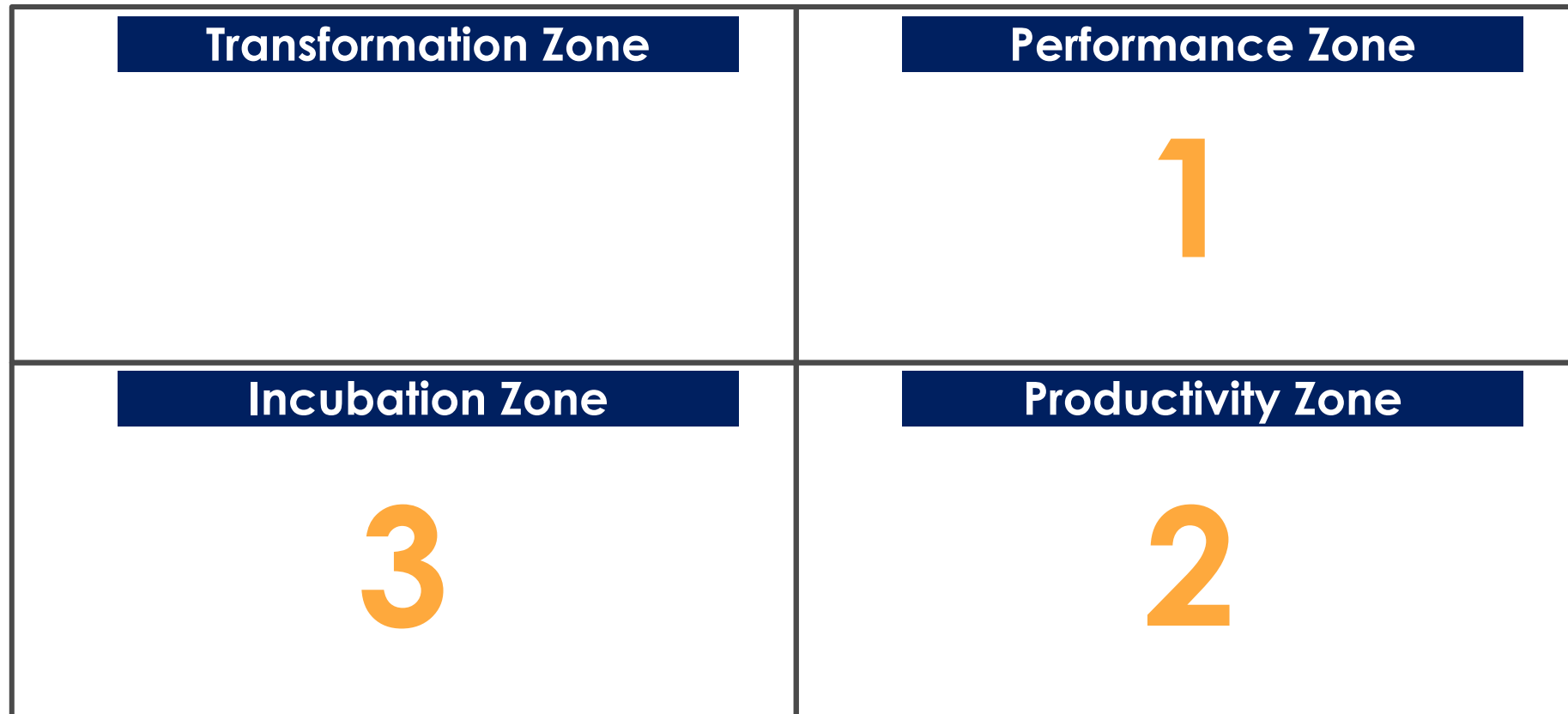### Internal Outcomes

- Process improvement ratios
- Program objectives
- Compliance standards

What we know: *What gets measured, gets managed*
What we miss: *What gets mismeasured gets mismanaged*

Game Plan

# When There is No Transformation Under Way
Invest in the existing business

Transformation Zone	Performance Zone
	1
Incubation Zone	**Productivity Zone**
3	**2**

Execute in the core, build up your reserves

Convert to a Digital Operating Model
Neutralize the disruption to maintain your market position

Transformation Zone	Performance Zone
1	**3**
Incubation Zone	**Productivity Zone**
2	**4**
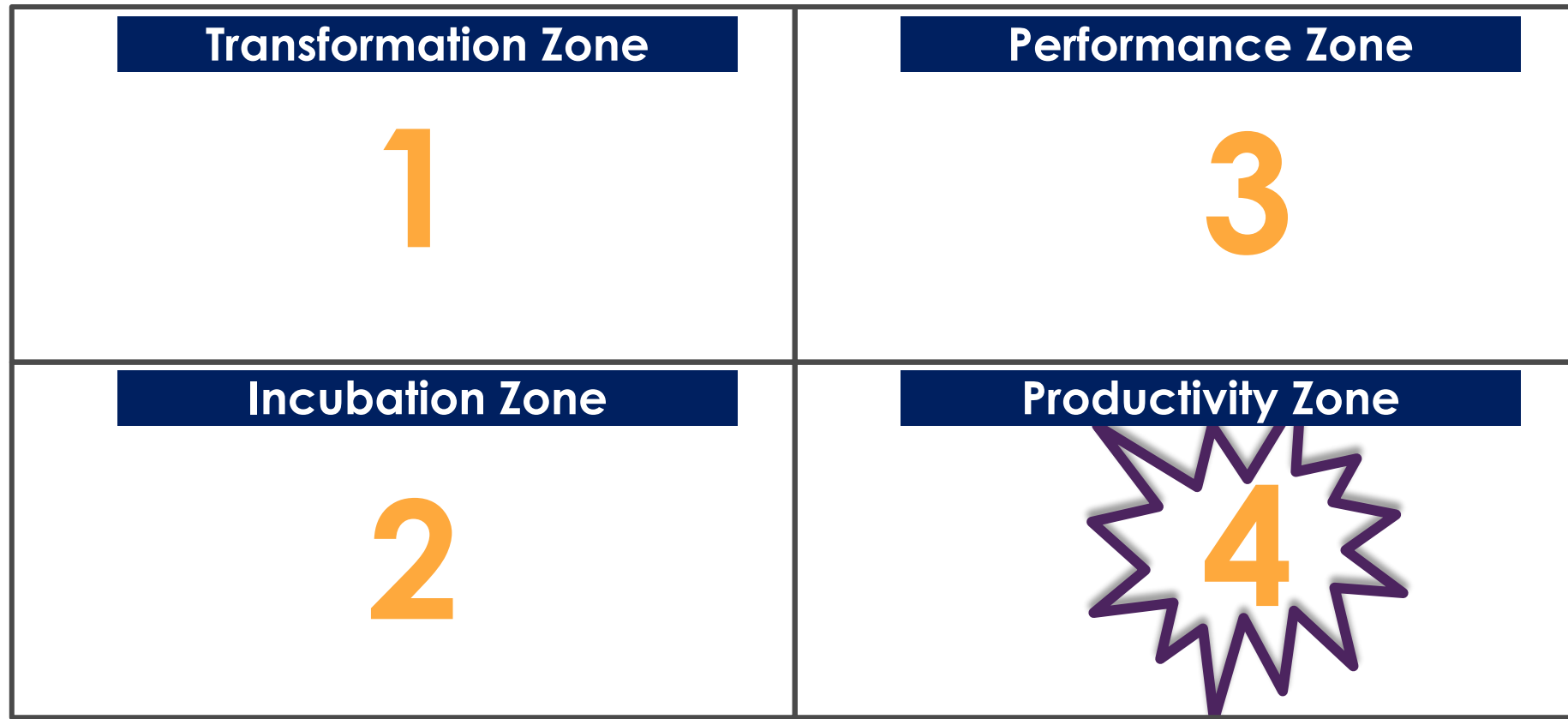
Enlist *everyone* in modernizing the operating model ASAP

Transformation: Best Practices

Transformation strategy
Zone offense vs Zone defense

Zone Offense
(Disruptor)
AWS

- Target a promising business in the Incubation Zone
- Drive it to 10% of total revenue to get a change in valuation
- Focus on *radical differentiation*
- Get to *escape velocity* and sustain it until you reach scale

Old   1   2   3   4   5   ☐   7   8   9   10   New

Zone Defense
(Disruptee)
Azure

- Release a core business from Performance Zone metrics
- Get help from anywhere you can to modernize your operating model
- Focus on *rapid neutralization*. Treat technology as context, not core
- Get to *good enough* fast enough to ward off the invaders

Best Practices for the Transformation Zone

- **Transformation trumps all other commitments**
  - Failure is not an option—everyone must commit, no one can opt out
  - Making the Performance Zone plan is <u>not</u> the top priority
- **Total alignment is required**
  - CEO fully engaged: secures access to all needed resources
  - Leaders who are not aligned must depart
- **Turn the boat in less than two years**
  - Skeptical stakeholders need to see progress
  - Past the tipping point, on the way to end goals
- **Time is your enemy**
  - Must act now, even with insufficient data
  - Studying the problem does not help

Massive stress on resources

Must not attempt two at the same time

The Example of Microsoft (2013 – 2016)
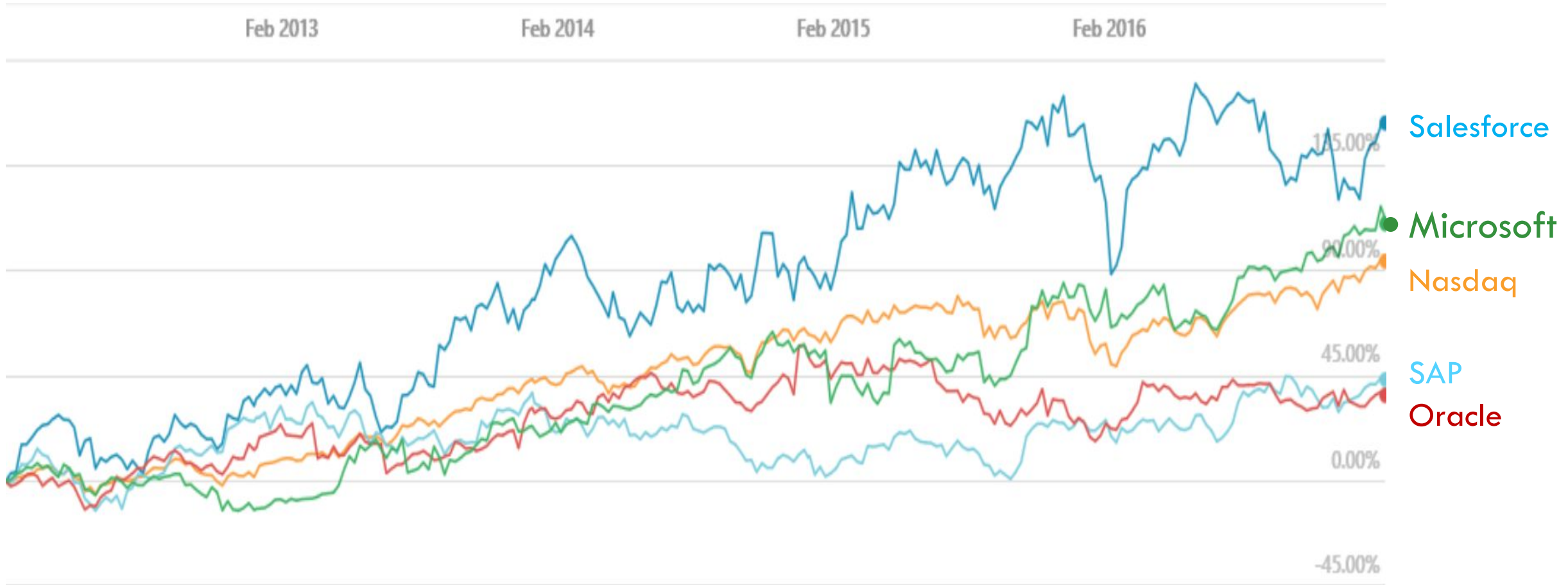
Resuscitating a core business sustains your valuation

The Example of Microsoft:
18 months later

MSFT 69.00   ^IXIC 6100.76 ✕

Open	64.63
High	66.19
Low	64.35
Close	65.86
Volume	88.48M

259.61%

121.58%
111.43%

56.85M

A whole new ball game!

THANK YOU

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