Exploring digital frontiers
The promise of a modernized business platform
Our industry does not respect tradition—it only respects innovation.

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However, IT’s role in and relationship with the rest of the organization is often contentious, not collaborative. Burdened by aging systems, complicated architecture, and legacy costs, the IT department is typically treated as something outside the business. For a CIO, entrusted to use technology to help the company navigate a changing business landscape, this could spell disaster.

The internal tension between technology and business was kindled by sizable—yet now-antiquated—investments in proprietary software and data centers that saddled companies with operational and technical debt, leaving them unable to react to rapid market changes. These sunk investments are driven by long-term planning cycles, but are applied in environments where an entire market can change overnight. This inconsistency has led to many IT departments being viewed as an element weighing down the business.

Inherited software and infrastructure, cost reductions, and internal politics have resulted in sprawling, complicated systems that act as black boxes—slight changes to one process can affect many other systems in unexpected ways. Proprietary software, highly customized on-premises systems, and changing priorities have compounded the issue. As technology refresh cycles shorten and IT systems age compatibility issues will only accelerate and talent shortages and areas of obsolescence will continue to be exposed.

However, when used effectively, IT can be a brain trust for strategy and innovation, enabling new ventures and business lines. For businesses and IT, success or failure in the future is a direct result of past investment decisions.
The voyage thus far

Each new advancement in technology has the potential to drastically change the current state of business and make the legacy business models obsolete virtually overnight.

From the telegraph to the integrated circuit to handheld devices, each new breakthrough opens up a world of opportunities while eliminating others.
“Business models and value propositions expire like a yogurt in the fridge.”
Alexander Osterwalder
Creator of the Business Model Canvas

Competitive headwinds
The most successful startups are unburdened by technical and operational debt, which offers a distinct advantage over their more mature peers. Startups can react and adapt to changes in the marketplace more quickly. For the monolithic, the fragile, or the willfully unprepared, brief product lifecycles, short monetization windows, and rapid shifts in consumer preferences mean the time to act is now. Agile firms continuously reimagine business models and processes while the inflexible face extinction.

Unexplored territories
What are the answers for the problems facing modern enterprises? Executives are bombarded with information, advice, and visions of the future—most of which will never come to fruition. Decision makers are asked to make choices that will have lasting repercussions based on imperfect information. Delaying, under-investing, or outright refusing to make an investment choice is a guaranteed path to stagnation, irrelevancy, and eventual decline. Making the wrong choice—which in some cases is done to protect profitable business lines—could repeat the likes of a Kodak or Blockbuster. All of these companies misread groundbreaking innovations as mere novelty to avoid disturbing the status quo.

A moving target
In modern business, the emergence of digital—called the Fourth Industrial Revolution—offers both unprecedented opportunities and challenges.

New competitors, born in the cloud and engaging customers and employees on a global scale, are challenging business axioms and reinventing entire industries. These companies are reimagining products and services and blurring the lines between verticals. We have witnessed a handful of platforms and apps upend the print, transportation, and hospitality industries, among many others. How long before nearly all industries have been redefined by the unstoppable force of digital transformation?
Propelling the change

Though beset from all sides, in an uncertain environment, with a myriad of vague choices, the situation is not dire—many firms thrive in this chaotic landscape.

Businesses are challenged in understanding customers because we’ve used technology, for decades, to get further away from people.

Brian Solis
Digital analyst, speaker, and author
Plotting direction

Do your business activities align to what the customer ultimately wants—and does the business deliver on those promises?

A customer does not want the bank loan, they want the house; they do not want the television, but the entertainment. Nearly every product and service can be distilled down to a desired outcome or experience. Analyzing the customer holds immense promise—information on what influences decisions, how services are purchased, and how products are consumed can shut down the internal echo chamber.

Information technology can, and should, help drive the change. Whether through managed data, advanced analytics, or artificial intelligence, the IT department is in a unique position to better know the end user, and match products to their requirements. Continuously delivering better experiences, in the time and manner that users want, will not only drive profitability but also customer engagement, loyalty and advocacy.

The transition from proprietary architecture to open modular architecture just happens over and over again.

Clayton M. Christensen
Author of The Innovator’s Dilemma
Piloting uncertainty

In the uncertain marketplace, what is the role of IT?

Business planning relies on assessing risk and the implicit and explicit modeling of potential outcomes. But, modeling the unknown presents a unique problem. Products and services that were unimagined a decade ago are dominating old markets and spawning entire new industries. The remedy for this widespread uncertainty is agility. Being able to react to competitors, to take advantage of fleeting opportunities, or to adapt to market changes and get ahead of trends will decide the trajectory for the modern business. How quickly can a business expand, contract, or reorganize to seize on a profitable business line? In a globalized marketplace where barriers to entry continue to fall, an agile organization is the path to a sustainable organization.

But creating the agile IT department and the agile business is no simple feat. Agility requires not only the replacement of dependency-ridden legacy systems but also a change in culture and mindset: the IT department is not a necessary evil and a cost-center—it is a business enabler and a driver of profit.

Casting off constraints

Why does the IT department work the way it does? Is there a better way?

Few companies can, or should, differentiate on their IT prowess. It does not represent a competitive advantage for most companies. It’s also inherently risky. Maintaining on-premises datacenters and software packages is expensive and fraught with vulnerabilities. There are many recent examples where unpatched software and lax security have resulted in massive data breaches, global service disruptions, and billions lost to cybercrime.

The answer may be to relinquish some control in a balanced way. The flexibility offered by cloud-based architecture, the availability of talent for open-source platforms, and the expanded offerings in an open ecosystem create a more robust platform. This should not be viewed as losing control, but as gaining agility to explore the opportunities of other business lines, while managing risk.

An excellent example of platforms that embrace an open ecosystem are social networks, which enable experiences from online dating to ordering pizza to financial transactions where, when, and how the user wants. Imagine the improvement in employee engagement when instead of submitting requests into an opaque ticketing system, IT services can be accessed around the clock, from many channels.
EXPLORING DIGITAL FRONTIERS
EMPOWERING BUSINESS FOR WHAT’S NEXT

Steering the ship
Nowhere is the partnership of technology and business clearer and mutually beneficial than in the startup world. The IT department, despite having fewer resources, is a key driver of business outcomes: it underpins key activities. Yet this alignment is not the exclusive domain of Silicon Valley entrepreneurs and young companies: large enterprises can also take these examples to heart and drive value creation.

How, then, would the future look if larger businesses adopted that same mentality? If agility is the top driver of success in a digital world, then agility joined with access to capital, institutional knowledge, and customer experience is logically better. By employing a secure digital platform, that can scale, react to changes, and exploit opportunities, the IT department can be an equal partner in the company and enable the future of business.

The engine of shareholder value
From a valuation perspective, even unexploited opportunities have tangible value—a concept known in corporate finance as real options. Though the math is complex, the logic is simple: investments in opportunities that generate even more opportunities have a positive impact, even in the face of uncertainty.

Instead of avoiding risk, in an agile business, the CIO should accept and try to capitalize on it. By selecting and exploring investments that will further add to the firm’s future flexibility, the CIO and the IT department can create shareholder value, even when the choices fall short of expectations.

New endeavors
The most significant departure from the status quo requires a notable change in a CIO’s mindset: to think like a venture capitalist.

Though not seeking failure, the venture capitalist understands it is an integral cost of doing business. Savvy financiers carefully seek investments that have monumental returns by understanding that in many cases these investments may not work out. This matches the innovation cycle: the value of incremental innovation continues to decrease, and the future will be defined by the monumental technological innovations.

The c-suite navigator
In a future where companies great and small are unburdened by technical and operational debt, the role of the CIO will be altered. No longer bound by legacy constraints, the modern CIO has developed a more strategic outlook, and is free to explore options, to enable business opportunities and help plot the course for the future of the firm.
Journey boldly

We understand that the digital transformation journey can be daunting because we’ve gone through it ourselves.

We also know that there are hundreds of options available and you may not know where to turn. At Microsoft, we have worked alongside great companies from around the globe as they embarked on their digital transformation journey. We have learned much about what worked well—and what not-so-well—as the roles of people, processes, and technology continue to change in a modern business.

We’re often asked, “What should we do next?” Our answer is that it depends on where you are and where you want to go. We know it is a voyage, often into the unknown, yet it needs to have clarity and tangible outcomes. In many cases, organizations already have some of what they need to start; it’s just a matter of putting the pieces in place.

Our approach is to start with a basic maturity assessment with the core topics introduced here, and work with you to develop a clear roadmap and quick wins to empower confidence. We accomplish this task by drawing on our experiences and those our customers share with the community. Our collaboration with you can help you improve how you serve your customers through data and technology platforms as you continue your digital transformation journey.
What’s next?
No matter where you are on your digital transformation roadmap, Microsoft Enterprise Services can help.

Empower employees
Empower a high-quality, committed digital workforce to work as a team anywhere, on any device, with seamless data access—helping you innovate, meet compliance requirements, and deliver exceptional customer experiences.

Engage customers
Reimagine the customer experience for a digital world and deliver more value through insights and relevant offers by engaging customers in natural, highly personal, and innovative ways throughout the customer journey—driving increased relevance, loyalty, and profitability.

Optimize operations
Gain breakthrough insights into risk and operational models with advanced analytics solutions and act on real-time intelligence to optimize risk management and meet regulatory requirements.

Transform products
Drive agility with open, connected systems and automated digital processes to support new product development and optimize distribution channel strategies, while meeting the security, privacy, and transparency expectations of customers, regulators, and shareholders.

Credits
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