

## CHAPTER 12

# DESIGNING ORGANIZATIONS FOR DIGITAL SUCCESS

—by Amy Kates

### INTRODUCTION

The introduction of digital products, services, channels, and interfaces over the past 15 years has posed a challenge for leaders of traditional companies considering how best to design their organizations. Digital technology introduces a dimension of the organization that rarely stands on its own; it must be linked and integrated into the other parts of the company.

Consider these scenarios:

At *Scottrade*, a pioneer of online consumer securities trading, the product is a digital platform. Should it be owned internally by the IT organization or by the marketing function? What is the best design for the product development process, given that it spans both these arenas?

The Keurig unit at Green Mountain Coffee Roasters sells brewers from its Keurig.com site as well as the single serve “K-Cups®” used in the brewers. The site is also an important

brand-building component of the firm's marketing strategy. Should the e-commerce channel be managed by marketing, as a brand, or by sales, as a distribution channel?

Levi Strauss & Co. sells clothing around the world through large retailers, its own branded retail stores, and direct to consumers through its Levi.com site. How does it successfully create an omni-channel strategy that avoids internal competition and cannibalization of sales?

LexisNexis Risk Solutions aggregates public data and sells it back to the government and to other businesses. The company adds value to this information by making connections between discrete data points to improve everything from the tracking of tax fraud to the targeting of marketing campaigns against microdemographic segments. When your product is information, how do you design your "factory"?

We will examine these dilemmas through the lens of organization design—the process of configuring a company's resources to execute on a given strategy. Through this lens, we'll highlight ways that traditional organizations can harness the inherent tensions that the new organizational dimension of digital content and delivery introduces into productive new capabilities.

## WHAT DO WE MEAN BY "DIGITAL"?

Digital technology, which transformed the media industry, is now transforming many other industries. As the examples above illustrate, the definition of *digital* differs by company.

Our definition here is broad. Scott Brinker, a marketing technologist, makes a helpful distinction between types of digital technologies. *Internal technologies* include analytics, search engine optimization, competitive intelligence, and social media monitoring. *External technologies* consist of the platforms used to reach customers and deliver content—website, ads, landing pages, e-mail campaigns, and apps of all kinds. *Product technology* includes social sharing features, GPS, RFID, and all forms of connectivity.<sup>1</sup> All of these are digital and none fit neatly in the traditional domains

of marketing, product development, or information technology (IT) functions.

Our focus here is not on the digital natives—companies founded on the premise of an interactive experience such as Amazon, Google, or LinkedIn. Rather, our focus is on well-established companies that are adding digital offerings such as analytics, mobility, social media, and smart-embedded devices into their core businesses. Many of these companies are already pursuing complex strategies with multidimensional organizations comprised of a matrix of product lines, customer segments, regions, and functions. Jay Galbraith suggests that digital technology, and particularly its manifestation as big data analytics, will become a fifth strategic dimension needing to be accounted for in many companies.<sup>2</sup> More and more firms will need to find a way to integrate this capability into their existing business models.

In addition to the digital natives, many established firms are well on their way to fully integrating technology into all aspects of their business. UPS describes itself as a technology company that delivers packages. The Warner Music Group is still in the business of promoting artists, but digital technology is no longer just another distribution channel; it is fast becoming the only channel. For companies like these, the technology and the product are on their way to becoming almost inseparable.

Plenty of companies, however, use digital content and delivery as an adjunct to a core business. Digital technologies are used to create user and consumer communities, provide brand building and e-commerce channels, or embed differentiating product features into their core offerings. For example, John Deere adds technology to its vehicles that can use real-time weather and GPS data to determine when best to sow seeds. Welch Allyn, a 90-year old medical-device maker, hired a software executive out of Silicon Valley to be its most recent CEO. The company is developing a software platform that doctors can use to connect all of their frontline diagnostic equipment. Temperature, heart rate, blood pressure, and other readings are now fed directly into a medical record.

We observe the biggest organizational tensions occurring in companies where digital considerations are an adjunct to the core

business. Managers struggle with the questions of whether digital work should be centralized or decentralized. Who should manage digital strategy and where should it sit in the business? How should it be linked to other functions and operating units? Who governs investment decisions and priorities? How is success measured—is it overhead cost or a profit and loss center? How is the talent profile different than for traditional marketing and technology staff?

These questions are best considered in the context of a framework for organization design.

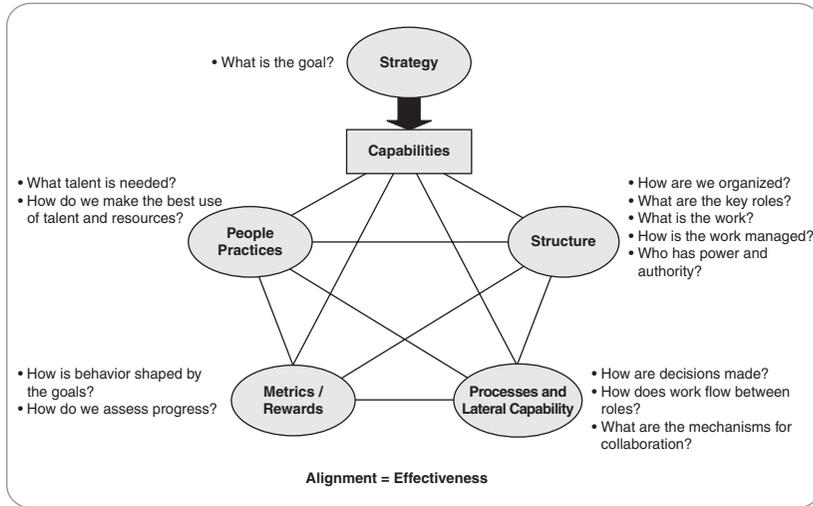
## THE STAR™ MODEL FOR ORGANIZATION DESIGN

Organization design is the art and science of aligning structure (power), lateral connections (linkage), metrics, and people practices to achieve a given strategy. Each company, even those in the same industry with similar products or customers, will have a unique organizational configuration. The design of your company needs to reflect your particular formula for success. The right alignment of components provides a source of competitive advantage, as it ensures that your organization is purpose-fit for your particular context.

A useful model for thinking about organization design is Jay Galbraith's Star Model, shown in Figure 12.1, which has served as the core framework for organization alignment for complex and global companies for nearly 30 years.

As with all good models, the power of the Star Model is in its apparent simplicity. Successful organizations start with answers to basic strategy questions—what are we trying to achieve, what is our unique position in the marketplace, what capabilities differentiate us from competitors and are hard to copy?

The organization can then be seen as a mechanism of strategy execution. A leader should not have a goal of getting the organization “right”; rather, the goal should be an organization that aligns the energy and talents of the firm toward achieving the strategic goals. When the strategy or environment changes,



**FIGURE 12.1** The STAR™ Model: Jay Galbraith's model ensures a holistic perspective on organization design.

or the company outgrows its organization, then the organization configuration must change and evolve to get the new work done.

Capabilities are the elements of the strategy that differentiate and are hard for competitors to copy. They represent the “organizational muscle” that is built through deliberate management attention and practice. For digital technologies, a capability might be “turning customer and operational data into insights that feed the product development process.” Another might be “creating an engaged and loyal consumer community.” A third could be to “turn data and insights into a monetized service offering.”

Structure, lateral connections, metrics, and people practices—these encompass the tangible decisions that a leader can make to create the right conditions for building needed capabilities. Culture, behaviors, and performance are all outcomes of organization design. They are identified as part of the strategy work. The other four elements then are configured to make it easy for employees to come to work and create the culture and business performance that you want.

Our research reveals a set of questions that leaders in more traditional companies seeking to build digital capability should

consider. The answers presented here are based on our consulting work, in-depth interviews with marketing and technology leaders across a range of industries, and a review of major studies recently conducted by MIT, econsultancy.com, and others examining this topic. For further resources, please see the suggested reading list at the end of this chapter.

In the next section, we will review the design questions associated with each of the points in Jay Galbraith's Star Model.

## ASKING THE RIGHT QUESTIONS IN DIGITAL ORGANIZATION DESIGN

### Structure Design

As much as the popular business press would like us to believe that we are past the time of structures and hierarchies in organizations, the question of how to group resources and allocate decision authority has not gone away. In fact, as business strategies become more complex and many companies add product lines, customer segments, and geographic markets, the need to organize and coordinate becomes even more important. Structure is just one lever for creating an aligned organization, but it is still an essential one.

### Should digital work be managed as a function?

When considering a digital strategy, the first question many leaders face is where should this capability live in the organization and who should "own" it. While digital responsibility can be housed in a number of places successfully, it benefits from strong functional leadership.

As with most new work, digital endeavors tend to start in a fragmented way, with managers in various departments—typically marketing, sales, and technology—recruiting people that have some skills in this area. As activity increases, leaders find they need to consolidate oversight of the digital work in order to afford specialists, ensure everyone is using common tools, and make sure that digital projects are coordinated where they need to be. Consolidating the work into a function with a dedicated leader

allows for focus, accountability, and the ability to create common technology platforms and build deep technical skills.

A 2011 survey of almost 200 digital and e-commerce managers across a range of industries confirmed the expected advantages of configuring digital work into a dedicated function:<sup>3</sup>

- ▶ **Shared Learning:** Experts and specialists benefit from close connection to colleagues for learning, idea sharing, and mentoring.
- ▶ **Consistency and Control:** Oversight of processes, practices, terminology, standards, methodologies, tools, and measures can be provided by a single department.
- ▶ **Governance:** This ensures that scarce resources are applied to the most important projects.
- ▶ **Economies of Scale:** Whether using internal staff or contracting with vendors or partners, a benefit of a function is the ability to afford specialized resources that are available across the enterprise.

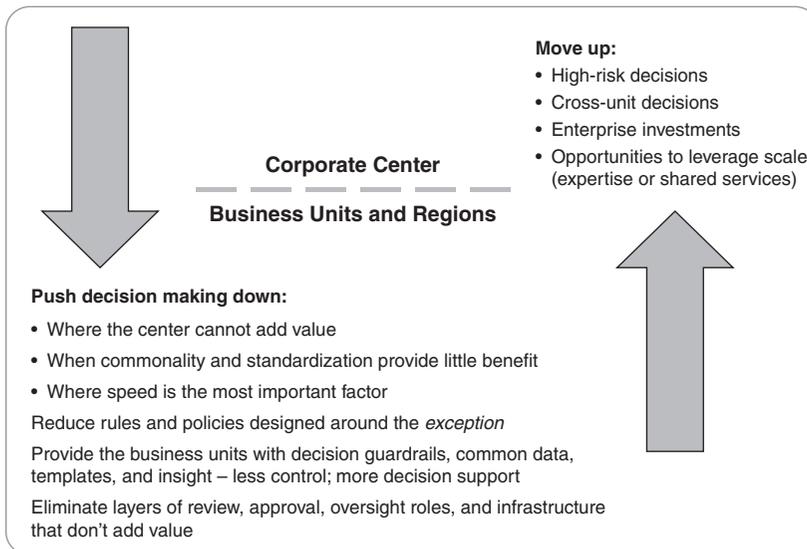
These benefits are difficult, if not impossible, to realize if left to employees to self-organize, no matter how well intentioned. Gaining these advantages requires a strong leadership that can connect a digital vision to the business strategy.

### **What belongs in the center and what should be embedded in the business units?**

When a company has multiple business units, customer segments, or geographies, the next question that arises is what activities and decisions should reside in the center (corporate, headquarters), and which should be embedded in the operating units. Many leaders make the mistake of swinging between the extremes of centralization and decentralization, never getting the best of both. We find the concept of *center-led* to be helpful here. Center-led is a granular approach that looks closely at what work and decisions are best made at what level in order to balance the often competing objectives of speed and scale. Figure 12.2 illustrates the concept that the center provides an important role in setting standards and making decisions for a small subset

of high-value or high-risk decisions for the enterprise. This might include technology platforms, brand guidelines, and vendor contracts. It might also include shared services for utility functions such as analytics that can be leveraged across the company. The operating units, which tend to be closer to the customer and competing in local and niche markets, are then provided some freedom to make decisions and investments in the people, skills, and work arrangements that make the most sense for them.

Even where digital staff in the operating units have a high degree of autonomy, it is useful for them to have a strong connection back to the central group and to peers in other units to ensure the maintenance of deep functional expertise. This can be accomplished through communities of practice, rotational assignments, shared learning and development activities, and forums for best practice sharing. In this way you gain the benefits of both strong centralized guidance where consistency pays off for the enterprise, and local speed where variability is needed to meet the specific needs of customers.



**FIGURE 12.2** Using the Center-Led Approach: The center-led approach helps organizations to avoid getting caught in the centralization/decentralization trap.

### **When should digital work stand alone and when should it be embedded in other parts of the organization?**

With the lines between marketing, product development, and technology blurring when it comes to digital work, a case can be made for many places for the function to sit. A study of 30 firms found that in large companies there is often a “Director of Digital” role reporting into marketing.<sup>4</sup> In another study, the majority of respondents (66 percent) had less than 10 people allocated specifically to digital work and these small teams were mainly housed within the marketing or communications function.<sup>5</sup>

E-commerce is often the most difficult digital function to find a natural home. When e-commerce is still a relatively small sales channel, it is often a part of marketing and a peer to the digital marketing team or embedded in another function. For example, Keurig.com is both a brand-building website and an e-commerce channel. For now, its primary function is to serve as a portal into the brand and to tell the brand story so that it differentiates Keurig. However, the e-commerce channel is growing rapidly. In 2012, it represented \$0.5 billion sales channel out of the total brewer and K-Cup portion pack revenue of about \$3.5 billion. Perhaps most importantly, it is the most profitable place that Keurig sells its brewers and portion packs. At Levi Strauss & Co., e-commerce lives in the retail unit.

When e-commerce represents a significant source of revenue, it is often pulled out to stand on its own. At Warner Music, digital sales grew from a rounded error on total revenue in 2005 to over 50 percent of revenue in 2010. The digital function was pulled out to report directly to the CEO, reflecting the importance that digital sales and the monetization, through advertising, of Warner Music’s over 1,000 artist websites now represented to the company.

### **What is the typical work of a digital function?**

A core set of sub-functions typically comprise digital work. However, there are multiple ways to group this work within the digital team, and not every company will need all sub-functions. Many of these sub-functions overlap with marketing and technology

Traditional Marketing	Digital Sub-Functions	Traditional Technology
Brand	Digital strategy	Platforms and systems
Customer segmentation	Web analytics data	Tech support
Content	CRM	Web build
Customer insights	Social media	
	Affiliates and partnerships	
	Mobile marketing and mobile apps	
	Community management	
	Content marketing	
	Paid search	
	Search engine optimization	
	User interface	
	Web design	

FIGURE 12.3 Typical Digital Components: Digital endeavors typically overlap with traditional marketing and technology functions.

work and, if not housed in a dedicated digital group, may often be placed in one of those functions (see Figure 12.3).

### Who owns social media?

A recent survey found that many businesses outsource management of their social media sites and online communities to a marketing agency. Social media management is not perceived as a core competency by these companies, but rather a specialized channel that is best monitored by an experienced partner.

However, it appears that firms that see their social presence as a differentiating element of their strategy keep social media close to home. Clearly this is important for consumer-focused companies, but community building is also moving into the business-to-business world. Two examples illustrate this.

*Scottrade* is one of the few financial services firms actively communicating with investors and providing customer service support through social media networking communities and through social media outlets. *Scottrade* is in a highly-regulated industry and many financial services firms have yet to even dabble in social media.

What began as “listening” has evolved into a social strategy focused on providing value through customer interactions. We maintain two Facebook pages, four Twitter handles, one YouTube channel, a company blog, and a Flickr page. These channels work together to engage customers and further connect them to the *Scottrade* brand. We manage all the conversations in real time, so we need to own this. The social media team (in the marketing group) will answer some questions that come up directly. If the question or comment is about a specific account, then it goes to the service team or to a branch. We have immediate response. Within 15 minutes of an issue being posted it is escalated to a service team, which will then respond to the client directly.

We also have a closed community of *Scottrade* clients that we launched in 2008. We have found that the more engaged they are—panels, contests, interacting with one another—the more activity they do with us. Social engagement is one of our top priorities. In 2010, we launched a Chinese-language online community. We’ve done the same for registered investment advisors so that they can collaborate and meet other like-minded financial professionals. We manage these communities and they have become as much a part of our brand as our other products and services.<sup>6</sup>

—Kim Wells, Chief Marketing and Digital Officer, Scottrade

At Keurig, they call it the “on-going hand hold” with customers. In 2012, there were hundreds of social media interactions on Facebook and other sites each day that mentioned Keurig, with either compliments or complaints. The social media team responds to issues within five minutes of a post. It becomes a way to surprise and delight customers. This emphasis made Keurig.com number four in customer satisfaction among the top 100 websites in 2012.

We don’t farm out our social media. The way we interact with our customers is a proprietary advantage. The social media group sits right down the hall from me. If something blows up on Facebook, we can make decisions real time and react in real time. People expect that we are listening to them. And we are. Marketing is real time today. You can’t hire this out—you can’t outsource it. If you are just getting reports, then you are not really involved with your consumer.<sup>7</sup>

—Dave Manly

In addition, Keurig has a database of five million people that they can communicate with proactively. This is an advantage for companies that have both e-commerce and brand-building sites. Direct access to consumers allows for analytics, insights, and touch points that other companies don't have.

Compare this to Coca-Cola, one of the most valuable brands in the world. In November 2012, Coke announced a complete revamping of its website for the first time since 2005. Since it doesn't have e-commerce, the intention of the change was to engage with customers through content. Ashley Brown, director for digital communications and social media, explained the strategy to the *New York Times*:<sup>8</sup>

The hot thing is to talk about being publishers. We have this belief in great, real content and creating content that can be spread through any medium as part of our "liquid and linked" strategy. My team has been re-formed in the last year to look more like an editorial team at a magazine with a production schedule and an editorial calendar.

### **Who owns the user experience?**

The user experience sub-function is one of the most important for digital work. It is here that the interface is created and the brand is brought to life as customers interact with the site or app. User experience has a high degree of impact on whether customers stick with a site and a product or service.

User experience typically is located within a marketing group, but where it sits—with a digital team or with a customer segmentation team—can vary. What is important is that this person or group is set up to be neutral—the Switzerland on the marketing team. The user experience folks are there to represent the best interests of the customer. They have to be independent of the brand teams and the demands of the product launch schedules. They need to challenge the product developers, marketers, and technologists to design from the customer backward.

### **How should we manage continuous change in the digital space?**

Your digital groups are unlikely to look like other functions that you traditionally find in organizations such as legal, finance,

HR, compliance, or sales. Digital capabilities and customer expectations are evolving quite quickly. As of this writing, while the consensus seems to be that pulling it out and providing focus is a smart way to get started, that may not hold for long. At some point, when digital thinking and skills become part of the company DNA, “digital” may even cease to be called out as a separate element and this whole discussion may seem quite old-fashioned.

For now, because digital capabilities are distinct and touch so many aspects of any organization, including customer interface, marketing insights, product development, sales, technology, and IT, digital staff and their work and decisions must be closely linked to the groups they collaborate with and support. Small teams, with strong digital players and their cross-functional counterparts configured around projects and opportunities, provide the speed and agility needed. You may start with some people at the center and a few in your operating units and then shift the balance of skills and focus as your customer needs change and your capabilities mature. The next section focuses on how to do this.

### **Process and Lateral Connections**

Leaders frequently lament the organizational silos that prevent people from working together. The fact is, all structures create silos. Whenever people are grouped according to one logic, boundaries are created that make it difficult for them to interact with groups formed according to a different logic. This is not a problem if the strategy does not require a high level of interaction or collaboration across these boundaries. But if the strategy does require collaboration, then the organization’s structure—no matter how well thought out—will likely create some barriers. Collaboration, however, requires an investment in new roles and processes, as well as of management attention and time spent on internal coordination. Leaders have to believe that this investment will pay off.

We have made the case that many companies will benefit from bringing their digital staff together under strong functional leadership. The predictable downside of this approach is that a dedicated function creates new organizational boundaries. Leaders

responding to the MIT study called out three organizational challenges created by forming a functional digital group:

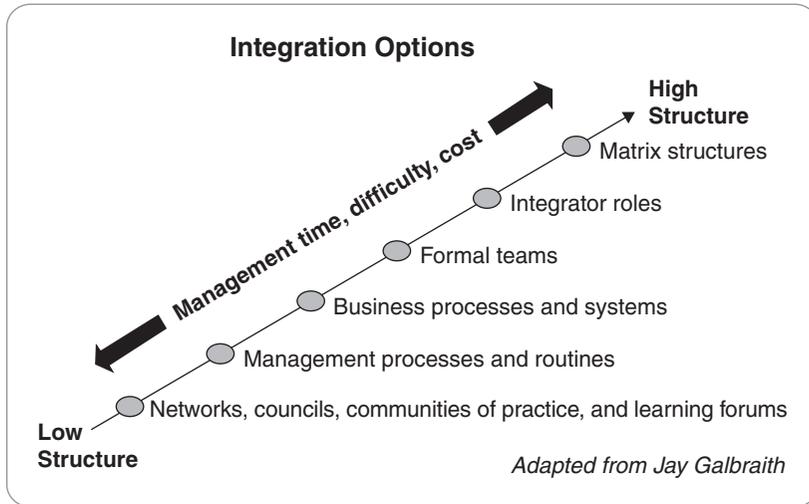
- ▶ **Learning:** Separating out digital expertise from general marketing and other functions makes it more difficult to increase the level of knowledge of digital marketing among nondigital specialist staff.
- ▶ **Hand-offs Rather than Co-creation:** It may be more difficult to integrate digital work right from the start and join up data more effectively across departments and within the organization if the digital work stands alone. This can be a potential hindrance to multichannel marketing and integrated product development and technology projects.
- ▶ **Priority Setting:** A third potential risk is that a dedicated function will focus on fulfilling the needs of larger business units, leading to frustration among the smaller business units if they are unable get projects prioritized.

Further, respondents in the study concluded that when their companies lacked effective coordination they did not get the most value possible from their digital transformation initiatives.

### **What are my options for linking digital into other functions and work?**

The organizational challenge is how to bridge internal boundaries and integrate activities. As a leader, you have a number of options. They can be arrayed from low to high along a scale that indicates how much management time and attention is required and how much internal complexity is introduced (see Figure 12.4):

- ▶ **Communities of Practice:** In your firm, digital work may be a piece of many people's roles. Or, the digital needs of your various product lines or markets may be so varied that the benefits of consolidating into one function may be outweighed by the need for differentiation and speed. Digital staff embedded in the operating units, although focused on their own customer needs, will still require a



**FIGURE 12.4** Integrating the Digital Function: Always start with the lightest touch possible to minimize complexity.

way to connect with one another. In this case, a community of practice can help to create some alignment, sharing of best practices, and network building. A community of practice is different from a formal team in that it has no set objectives, outputs, or accountabilities. A successful community of practice does need to be designed and supported, however. This can be done through helping staff meet each other, management encouragement, and a travel budget for in-person meetings.

- ▶ **Co-location:** Just having technologists and marketers sit together, regardless of reporting relationships, can be a powerful way to create the common digital language that draws from both these domains. Despite all the advances in virtual communication tools over the past 15 years, there is still no substitute for face-to-face communication when complex problems need to be tackled from diverse perspectives.
- ▶ **Management Processes:** Of course, anytime you have a scarce resource, such as developers of analytic algorithms, there will be conflicts over priorities. At LexisNexis Risk

Solutions, they found that a strong priority-setting process based on return on investment is essential to ensuring that data is viewed as an asset and used for the greatest return. Otherwise, there is a danger of in-demand digital resources working on projects based on other, wrong criteria: what is interesting to the staff, influence of a strong project leader, demands of a low priority customer, or executive pet projects.

- ▶ **Decision Rights:** Clear accountability for decision making can also facilitate coordination and reduce organizational tensions. Some decisions, such as what customer relationship management system to use, should be made centrally or by clear agreement of all the operating units. Common platforms are the foundation for analytics. On the other hand, decisions regarding search advertising and customization of landing pages can be made by the business units that know the local market best. This level of specificity and clarity helps to speed decision making and reduce tensions.
- ▶ **Teams:** Teams are formal groups that cut across the structure to get project or ongoing work accomplished. For example, new product development teams that include representatives from the digital function at the earliest possible stage help avoid design and customer issues later. Teams, when given a clear charter and support, can be a powerful way to quickly reconfigure resources around problems and opportunities. Amazon Web Services has been described as looking like a collection of 40 start-ups with the build-out accomplished by 800 small teams. Jeff Bezos, CEO of Amazon, believes in limiting team size to what he calls a “two-pizza team.” Eight to ten is the number of people that can be fed by two large pizzas and seems to him like the ideal number to balance the need for speed with gaining the benefit of diverse viewpoints and expertise.<sup>9</sup>
- ▶ **Joint Accountability or Matrix Management:** At the top of our integration spectrum is the creation of formal linkages through shared reporting and accountability.

For example, at *Scottrade*, marketing product managers and technology architects are jointly accountable for the product roadmap. Rather than a hand-off, they have joint metrics. The same approach is used when development is outsourced to a vendor. Vice-president-level staff from the two functions are jointly accountable for the product being right and meeting the project timeline. *Scottrade* has found that this helps the company move faster in a cohesive manner.

With a matrix, one person is accountable for the outcome, but that person has dual-reporting responsibility to two managers; for example, one in marketing and one in technology. This can work well to knit the organization together, but should be used sparingly. Matrix management—sharing of resources—introduces complexity that requires a sophisticated and highly functioning management team. Only a few key roles at a fairly high level should be in dual reporting. At levels below, keep it simple. For example, at a heavy construction equipment manufacturer, a Digital Solutions Group has responsibility for developing the smart GPS and other technology that is being built into the vehicles. Executive leaders rightly concluded that this group (with 1,000 employees) needs to be tightly connected to marketing, product engineering, and technology. However, they have done this through four levels of matrix reporting. While all of this matrix reporting certainly forces the right conversations and brings together the right perspectives, the company's leaders found that the internal complexity slowed decision making and diffused accountability for results. They are now redesigning to better balance accountability and focus with integration and linkage.

In organization design, there are always trade-offs to be made. In general, first design for focus and accountability. Then add in the integrating mechanisms as needed, always using the lightest touch possible.

### **How can we assure an integrated technology platform?**

Collecting data from customers and internal operations continues to become easier and cheaper. Making sense of this data

and turning it into insights that guide decision making is much harder. At many firms, data is just a by-product of the more tangible service or product that is the core business. Systems are not designed to connect and analytics is a weak muscle at best. In fact, many of the conflicts that we see in multidimensional companies occur because there is more than one source of truth. If different data sets are used, even if the same logic is applied, managers come to different conclusions regarding investments and performance. Econsultancy.com's survey found that "legacy systems and processes" and "difficulty joining up data" were identified by respondents as the top two barriers to digital progress for their companies.

For companies that are looking to gain more from their data, studying a company for which data is the product can be instructive. At LexisNexis Risk Solutions, the business unit front ends are organized around three market segments: insurance, financial services, and government. These front ends are primarily focused on product management, marketing, and sales.

Content operations is a shared utility that purchases and manages the data that all of the business units use. For example, a data set might be names and phone numbers within a region. Within the content operations function is the core of the company—the "factory," so to speak. This is a proprietary platform called the high performance computing cloud (HPCC). Getting this platform right, including continual investments in upgrades, is the foundation of the company's success. From this foundation, hundreds of developers create the algorithms that link the various sets of data and mine the "smart decisioning" analytics that provide insights for Risk Solutions' customers.

Compare this approach to the hodgepodge of systems at a typical company that don't interact with one another, and the frustration for managers to get analytics on operational data, insights into customer behavior, or even a current org chart.

## Metrics

Metrics and rewards align individual behaviors and performance with the organization's goals. For employees, a company's scorecard and reward system communicate what the company values

more clearly than any written statement. In complex organizations, the overriding challenge in designing metrics and rewards is how to create incentives for collaborative behavior and keep everyone aligned toward the same goal.

Once an organization has defined its digital vision, leaders must translate that vision into a set of targets that drive success. Even if the digital function is not measured as a business, it should have clear performance indicators that create accountability and serve as guideposts of progress.

### **How should we measure success of digital initiatives?**

In the first Internet boom of the early 2000s, many start-ups defined success by volume of clicks or “eyeballs” on a website. But when the clicks and scans didn’t translate into revenue, those pioneer firms were soon gone. Just as with the second wave of Internet sites, which have found how to monetize page views, traditional companies building successful digital capability today are quite clear about which metrics represent success.

At *Scottrade*, success is a person clicking the “open account” button and following through, or depositing more assets into an existing account as the result of a marketing campaign. The team works back from that metric to create a set of customized landing pages that will draw in a customer based upon where they started from on the web or what search term was used. A Google search, a Yahoo! ad, or a link in a Motley Fool newsletter will all go to customized pages reflecting the likely profile of the person searching.

At Keurig, a similar approach is taken. The annual operating plan will have a clear target for selling portion packs through the website channel. The digital team creates algorithms for traffic volume and conversion rates. Skills on the team are organized to optimize each step required to meet these goals. Marketers create the promotions targeted to microsegments of consumers. Internal experts in search and in building partnerships with other sites create ways to drive people to the site. Other staff, who know how to convert browsers into buyers, create the engaging user interface and work to continually simplify the checkout process.

This is as much engineering as marketing. We have to get the formula right. But then we organize by the formula and continually measure against the formula. If our goal is to sell 30 million portion packs and we miss, then we can see where we missed and fix or change the formula. Analytics are real time, with people who can analyze and make decisions quickly. We'll try three campaigns and see after 10,000 e-mails how we are doing and then make a change.

—Dave Manly

### **How should channel conflicts be managed?**

One of the knottiest problems in designing for digital marketing is to get the metrics right across sales channels when an e-commerce site can be seen as a threat to wholesale customers, a retail business, or even other internal sites. The MIT study found that channel conflict is a major source of tension between managers in traditional units and those in the digital function, especially when the former see themselves losing when new businesses gain.

At Keurig, with e-commerce representing about 10 percent of total sales, the site managers are careful to never conflict with retailers or sell brewers below the price of the retailers. They will promote discounts to customers through their loyalty club, but not on the open website.

The primary channel for Levi Strauss & Co.'s (LS&Co.) brands—Levi's® and Dockers®—is through third-party retailers. LS&Co. also operates nearly 500 of its own stores and approximately 1,800 franchise stores, and sells through retailers' e-commerce sites (for example, Amazon.com, Macys.com) as well. When the Levis.com site was set up to sell directly to consumers through the web, it was soon clear that the LS&Co. organization was not aligned to support this. Attracting consumers and delivering merchandise was the easy part. But the retail stores and e-commerce site were measured independently. Therefore, store managers had little incentive to direct consumers to the Levi.com site.

The solution was to redefine success from the customer's point of view. It is fine if the shopper tries on the product in the store and then buys it online, or explores the product online and then buys in the store.

The goal is to become channel agnostic. If someone buys the product at Macy's or Macys.com or our site or our store or Amazon, it's all OK. We found that 60 percent of people who visit our site plan on making an off-line purchase. People still want to see and try on clothing. When we start looking at this as a system, rather than channels, then it puts a different justification on the investment in digital.<sup>10</sup>

—Jen Sey

While an e-commerce function should have clear accountabilities and metrics of success, it is not so clear that it makes sense to give it a profit and loss and consider it a business unit. Since your customers usually don't distinguish the retail and dot-com channels as separate, measuring them as separate businesses creates unnecessary internal conflict. To avoid unhealthy internal competition, senior executives need to set a clear vision from the top that spells out the role of e-commerce in the strategy, and then work through the right set of metrics that will make cooperative, customer-centric behaviors rational and easy to demonstrate.

### People Practices

Leadership and technical staffing are clearly critical elements of the transition that companies must manage in the transition to a digitally focused strategy and capability. Know-how and mindsets must change in order for digital strategies to thrive as an integrated portion of the business.

#### What is the profile for the digital workforce?

A success profile emerges from the literature and discussions with leaders hiring and managing digital staff. In the not-so-distant future, this skill set and mindset may become more widespread, but for now they represent a distinct profile.

While technical and marketing domain knowledge is needed, that seems easier to find than the deep systems thinking needed to understand how all the channels and digital properties work together and can then create strategies to optimize and integrate them. At the design firm IDEO, they have coined the term *T-shaped* people. The vertical in the T represents a deep skill, an

area of expertise that can be contributed to a team. The horizontal represents the breadth of business understanding that allows this expert to collaborate with people from other disciplines.<sup>11</sup>

While this type of mindset seems valuable in any role, it is particularly critical to the digital function, because of its position at the intersection of other disciplines. As digital work evolves from simply messaging and transactions to the creation of true digital experiences with and for customers, channel integration becomes more important. People who are able to apply deep vertical skills yet collaborate with others will be highly sought after. Ben Malbon, managing director of Google Creative Lab in New York is quoted as saying “We need people fluent in one language but literate in many.”

For many firms this deep understanding of customer and consumer, and how the business model plays out and interacts across multiple channels needs to be nurtured in-house, not outsourced or bought only when needed.

I call it digital DNA. You have it or you don't and I can't teach it. But I can tell in the first six months whether or not you are going to get it. My best staff are digital systems thinkers. They may be deep in a channel, but they understand across how clients consume digital. My head of e-mail thinks about how to get a person to open the e-mail, get them to click, where the click takes them and then how to measure it.

The profile is someone who values and knows how to use the research from our clients. The background could be technology, user experience, or content, but they have to be passionate about all three. I find that they tend to think visually. I don't see that anyone is teaching this in colleges today.<sup>12</sup>

—Kim Wells

The profile is one of a deep digital technologist, not a generalist marketer with some exposure to technology. Companies are looking for people who live and breathe this and have grown up in digital, not just added it to their toolkit along the way.

The LexisNexis Risk Solutions business model underscores the need for digital staff that are able to work at a faster pace than traditional marketing or IT personnel. Lee Rivas, CEO of Public

Sector and Healthcare at LexisNexis Risk Solutions provided us with this profile.

When data is your business, markets can change very quickly, even on a daily basis, requiring a change in functionality or user interface for a customer. Our business requires people that are comfortable dealing with ambiguity; people who can look at trends and statistics, and make a call how we should proceed or alter our course.

This is felt at traditional companies adding in digital capabilities, as explained by Jen Sey at LS&Co.:

I need people in e-commerce that are comfortable making decisions without complete information. It's a completely different mindset than wholesale marketing. Whatever we're doing now, in six months it's going to change. We have to operate in real time at the pace of the consumer.

### **Do marketers now have to become technologists?**

Scott Brinker makes the case that a whole new competence has emerged: the “technology savvy marketer.” Web apps, widgets, phone and tablet apps, interactive ads, landing pages, micro-sites, social media outposts, and even the connected features of products are now part of marketing's realm.

Brinker goes further to propose a new role—the chief marketing technologist—reporting into the chief marketing officer. The profile is of a technologist, with a strong background in software and technology management, but with a focus, passion, and allegiance to the company's marketing mission. He sees the marketing CTO perched at the intersection of marketing, product development, and technology.

Instead of marketers having to take what those other technologists say at face value—which leads to challenges when incentives and end-to-end business objectives are not perfectly aligned—the marketing CTO can provide checks and balances. Timeframes, technical specifications, architecture

choices, and final deliverables can all be reviewed by an expert who is perfectly aligned with marketing's agenda... that is how marketing must embrace technology—as a new fundamental building block of its DNA. Technology must become infused into marketing's culture.

This type of integrative role may help to mitigate the tension that often exists between marketing and technology functions when trying to determine who owns marketing technology. Brinker goes on to say:

IT and marketing simply have different incentives and priorities. IT is primarily concerned with stability, security, economy, standardization, and functional specs. Marketing is more concerned with speed, agility, innovation, market impact, differentiation, and customer experience. It's not that IT doesn't appreciate marketing's priorities—or vice versa. It's just that their incentives cause them to value their own respective priorities more.

### **What is the right approach to sourcing and developing digital talent?**

The challenge of finding staff with suitable digital skills was listed as the fourth most significant barrier to progress in e-consultancy.com's study. Analytics and insights comprised the skill set perceived as the most difficult to recruit for. It requires someone with both marketing and computer science skills, sometimes called computational marketing. Digital leaders identified social media, content marketing, search engine optimization, website design and build, and mobile marketing and mobile commerce as the other scarcest skills sets in the labor market.

Interestingly, this survey of over 100 digital leaders also found that having an office located outside a major urban area was a major barrier to attracting people with desired digital skills profiles. Despite the inherent nature of digital technology lending itself to virtual ways of work, those who work in the digital

realm prefer to live in dense, urban areas with other like-minded people.

The MIT survey of digital leaders found that most hired the skills they needed after trying to unsuccessfully retrain existing employees. However, internal high potentials that may be short on experience but high on energy and enthusiasm can be harnessed to work with vendors to incubate and grow needed capabilities. In addition, there is actually a role where being an insider provides an advantage. Highly regarded senior executives who embrace the digital vision will have more credibility when advocating for change than hotshot stars brought in from the outside. These insiders should be used to lead the business element of the digital change and sponsor the coordination necessary across various functions. While outsiders are often necessary to bring the vision and skills, successful culture change is much more likely when long-tenured internals embrace it and champion it.

## CONCLUSION

The Star Model of organization design provides a path for leaders that want to build digital capability in a traditional organization:

- ▶ **Strategy and Capabilities:** Start with a clear vision of the contribution that digital investments will make and the capabilities that will make a difference for your context. Although digital thinking is all about twenty-first century ways of work, it requires strong leadership and management attention from the top. If you allow it to self-organize from the bottom up and fragment across the company, you will miss opportunities to invest in the platforms and technologies required for analytics and other tools. While this may seem self-evident, one of the top three barriers to digital success uncovered by the MIT survey was a lack of “senior management buy-in for investment in resourcing and training.” Many digital efforts fail because actions on the ground don’t match stated ambitions.

- ▶ **Structure:** Many structural configurations and placements can work. While digital teams typically live in marketing functions today, whether these staff are centralized at a corporate level or include embedded staff in the operating units depends on the diversity of your business portfolio and which decisions are best made at the center, and which are best left to local discretion. Regardless of the structure, digital success requires strong functional leadership to guide investments, build skills, and configure the right resources around problems and opportunities.
- ▶ **Lateral Connections:** Digital strategy is all about linking, primarily the links between the marketing, technology, and product development staff. Whether you use a light touch, such as a community of practice, or a more formal connection through matrix reporting, these linkages have to be deliberately designed to ensure the right people are having the right conversations.
- ▶ **Metrics:** These are perhaps some of the most important, and often overlooked, elements of organization design. Set targets in a way that make it easy and logical for people to collaborate and align their work agendas across the various departments that are essential to digital success.
- ▶ **People Practices:** The talent management aspect of digital work requires attracting, developing, and rewarding people that have the currently scarce digital DNA—systems thinkers, deep in marketing and technology, that can move at the pace of your customers and competitors.

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