

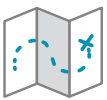
# Hidden Champion IT:

Why the digital transformation is not possible without an IT transformation

Many companies are thinking about the digital transformation. Some under-estimate the role of the IT transformation as the cornerstone in this process. The success of the digital transformation depends on the right infrastructure and a new way of doing things. To this end, the IT environment must be reorganized.

One factor is often overlooked when examining the ability of start-ups to upend and revolutionize entire industries: It is not just their ideas, innovations and corporate culture. They also have technical environments that are different from established companies, because they have created their infrastructure from scratch. Agile, scalable workloads, platform-based systems – these are things that they start with rather than convert to. That too makes them significantly faster. On the other side we have stories of decline – brand names such as Gerry Weber or Loewe, which slip into insolvency, often precisely because they fall behind in terms of digitizing their sales, product or service portfolios.

Most companies are somewhere in-between. Currently, more than 20 percent of added value is generated digitally. And it is clear that companies have to become more digital to remain successful and maintain their position in the market. In order to achieve successful digitization, the ability to integrate in-house digital ventures or pilots into the core business and collaborate with partners along the value chain, companies must have the right IT infrastructure. For the IT teams and their managers, this means not just creating the technical basis but also different processes and a different strategic image of their role in the company.



## Ensuring the long-term success of digitization

In recent years, companies often employed an approach of developing less complex and obvious digitization potentials as part of a first step, and giving priority to implementing such projects. However, the underlying IT infrastructure was usually left unchanged, and the IT teams were left alone to deal with the changing requirements.

In the long term, business processes cannot be digitized without also reorganizing the IT infrastructure and applications. That is because IT systems that are based on conventional analog business processes can only be used for company-wide digital transformation projects after extensive restructuring. Many

companies are already at the point where they can go more in-depth after these first projects. Now, the digitization projects are no longer separate IT or business processes but rather form part of the key value creation process.

This also changes the role of IT departments. They require different processes for supporting digital business processes. The optimization, continuous improvement or even simple monitoring of processes is often neglected, however. In addition, many IT managers struggle with fragmented infrastructures, obsolete application environments and unclear responsibilities in the organization, as well as permanent cost pressures.



## IT becomes an internal partner with a pronounced product orientation

Starting from scratch in terms of technology is usually the more elegant and efficient solution, rather than trying to modernize the existing situation. First, the current requirements from the business and the IT strategy must be compared against the options offered by the existing technologies. The analysis of existing and required capabilities highlights the gap that must be addressed. Then, the required measures can be defined and the road map to the destination can be developed.

It is also important that the IT department develops a different understanding of its role: It must position itself as a Business Partner, better understand the company's business and meet the latter's requirements - also for future projects. A modern IT organization connects development and operations (DevOps). Innovative IT departments rely on bimodal IT as the driver for new models. This means that IT systems are separated into two areas, one for the efficient operation of reliable and predictable core systems, and another one for experimental, agile and customer- and partner-focused applications. The result: the seamless integration of independent services of internal and external service providers, with the goal of providing tailored services for managing business processes, hence a business outcome-aligned IT organization. That is only possible if the IT department moves close to the product owners and their requirements.

What does that mean exactly? Until now, IT departments have developed new products according to the "Plan-Build-Run" model. It offers the advantage of clear roles and responsibilities, predictability and efficient use of resources. But the conventional approach is usually based on the input and not the desired results. In addition, these extensive processes lead to drawn-out innovation cycles as well as silos and transfers between the participating teams. It is one of the reasons why

applications cannot be flexibly adjusted to new requirements. This has led to the concept of a decentralized IT organization. Here, a higher-level team looks after the planning and development of an application. However, ensuring an IT orientation to business results without creating new silos can only be achieved when the team is also responsible for on-going operations. It makes sense to use the shared infrastructure as a basis while also breaking up the rigid divisions. Then, the team can look after multiple applications or multiple teams can work together on one product. This creates numerous advantages for companies, such as the ability to respond quickly, business domain expertise, efficient scalability and a focus on results, because the work processes in IT are no longer based on how a solution is produced but rather how it is used.



## The IT Factory as a flexible, scalable business environment

Continuing this line of thought quickly leads us to the model of a IT Factory, which consists of a shared infrastructure and application environment. It not only avoids silos but also offers a high degree of standardization with flexible scaling capabilities. In terms of its functionality, it can be compared to a Public Cloud and offers the same advantages.

Such a shared infrastructure in the IT organization is similar to a Business Center: Just as the latter offers services from office chairs to communication resources and reception services to different customers, it can also be flexibly applied for the requirements that result in the different teams. Companies avoid high start-up costs for site equipment, excess capacities and the risk that the purchased resources cannot be used if the growth is not as calculated in the business plan.

In the IT segment, there are standardized platforms at the infrastructure and application level available for this purpose. The Cloud-based solutions offer flexible scaling options and suitable interfaces to ensure governance. Now companies can create the configurations that they require from a product-focused perspective.

The following are used in this context:

- Bimodal IT and DevOps
- Standard services and applications as shared infrastructure
- Solid and standardized IT at the infrastructure level as a basis
- Processes for high speed and product-focused action






In addition to continuously monitoring their information security concepts, companies should also review and adjust the same particularly when switching to Cloud-based solutions. Conventional security architectures are usually based on the premise of protecting the company's own computer center and the net-

work perimeter. Therefore these concepts often fail to take into account Cloud products, some of which are hosted outside of the firm's network, or the use of mobile devices or IoT devices by employees. In addition, business and work processes, along with the applications that are used, change constantly - as do the requirements for security and compliance. Therefore a security concept is only current for a limited time, and it must be continuously subjected to a strategic review.

### How companies benefit

These approaches for the IT transformation - if implemented correctly and with the correct requirements management - can generate many benefits.

They include:

-  Increased efficiency through automation
-  Lower costs for growing resource requirements in the infrastructure
-  Increased transparency in IT management
-  Flexibility in IT sourcing as dependency on suppliers is reduced
-  Own resources become available for "value-adding activities" close to the customer
-  The IT organization becomes a Business Partner and increases the business value of the services
-  Possibility of co-innovations between business and IT
-  Higher customer satisfaction through the flexible fulfillment of requirements

### Outlook

The value of this approach is clear. A practical implementation of the IT transformation raises two important questions: How can the IT strategy be transferred into on-going opera-

tions, i.e. how can it be made workable? And how can the IT department be positioned for the future and transformed in the direction of the target objective? These questions will be addressed in future articles.

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