Executive Roundtable: Digitalization

Digital innovation at scale: What is necessary to manage the important step from innovative solutions to their scaled application?

Arthur D. Little's eighth executive roundtable on “digitalization” was, for the second time, conducted in a “hands-on” format that combined impulse presentations with interactive discussions in an environment that made innovation tangible: cross-industry participants met in the T-Systems Innovation Center in Munich and discussed multiple topics on “scaling of digital innovation”. The main focus was the importance of innovation at scale for different industries, approaches and formats, with their key success factors as well as real-life experiences. All discussions were illustrated with real examples for a cross-industry exchange, and there was plenty of room for discussion among the participants.

“Hands-on” in the Innovation Center

The eighth Arthur D. Little roundtable was opened by Volker A. Pfirsching, Partner in Arthur D. Little’s Technology and Innovation Management Practice and head of ADLdigital. For the second time, the roundtable was themed “hands-on” in order to bring the exchange closer to real digital innovation. This time, Pfirsching had the pleasure of welcoming participants from the energy utilities healthcare, telecom and IT sectors to the T-Systems Innovation Center in Munich.

Right after the introduction, Patrik Brähler, innovation manager at T-Systems, gave a quick introduction to the day's location, including live demonstration of selected elements: the Innovation Center is one of many different formats T-Systems applies to foster digital innovation. While other formats aim for strengthened interaction with external partners, such as collaborations with universities and the hub:raum in Berlin, the Innovation Center team wants to create “appetite” for innovation, implement and test new solutions quickly, and make them tangible.

Clear criteria for fast innovation

The characteristics of the Innovation Center activities are simple:

- Small budgets for uncomplicated activation of ideas
- Fast realization must be possible
- Start-up skills and hands-on mentality

The key criteria “implementation speed” and early feedback are learnings from the past, when solutions were developed that customers did not need or value. The participants discussed “small budgets” from their perspectives. Brähler explained that first implementations started at €15,000 to €20,000, growing in budget with increasing complexity of the final product idea.
With his tangible introduction involving some exhibits on the premises, Brähler led over to the day’s key topic, “scaling.” The Innovation Center is designed as a nucleus for identification of solutions that may or may not be scaled. The following impulse presentations showed alternative formats, and also gave insight into success factors for scaling.

**Why innovation at scale matters in healthcare**

Nils Krause, project manager – digital innovation at Fresenius Netcare, took over after the introduction and gave the first industry-specific impulse on digital scaling. He started with a quick overview of the importance of “digitalization” in healthcare, which is driven by three developments. First, the industry is in a situation of increasing expenditure and high cost pressure, as well as high demand for digital and information technologies to drive efficiency. Second, patients across all age groups are increasingly expecting digital healthcare services. And third, today’s technology systems used across hospitals, general practitioners, pharmacies and home-care facilities are not sufficiently integrated to provide optimal support. Digital technologies play a significant role in all three developments, if introduced and scaled appropriately.

A participant added an example that underlined the importance of careful introduction and appropriate scaling: a video cabin-based remote pharmacy concept that had been scaled with significant effort right from the start had failed due to lack of customer acceptance – an issue that could have been identified quickly with pilot-based approaches and short feedback cycles. Krause agreed and led over to Fresenius’ “human-centric approach,” which was designed to avoid similar costly mistakes.

**Human-centered scaling approach**

Fresenius Netcare’s “human-centric approach” is applied to identify, develop and scale new digital products and services. Krause explained that the approach’s focus on the patient and their ecosystem brought significant insight and ideas for innovation. While others had tried to implement the “big picture” immediately, Fresenius implemented very specific and initially small changes and offerings that brought value-add for patients significantly quicker, and thus became a nucleus for additional services and broader scaling.

**Think big – start small**

Krause underlined this experience with a clear credo: think big – start small – and invest carefully.

1. **Understand what it is that patients really want and the best way to give it to them.**
2. **Break the idea down into smaller pieces, test quickly and learn fast – with scaling in mind.**
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**Can digital services replace personal treatment?**

To make things tangible, Krause then gave an overview of specific use cases for increased patient adherence to prescribed treatment plans and, in particular, concrete digital use cases in home care. Impressed by the possible extent of digital health services, the group discussed the areas in which technology had the potential to complement or even replace human healthcare. When abstracted to a broader perspective, this question is highly relevant for a large extent of service industries. One key finding emerged quickly: customer acceptance required convincing service portfolios first. That means services that offer superior efficiency (e.g., over physically visiting a doctor), better quality (e.g., data-based health advice) or faster response (e.g., in emergency situations). Heritage, brand and other assets can be necessary, but will not suffice to convince clients to change behaviors, share data, or accept inefficiency in the long term.
Platform and governance for successful scaling

Asked for Fresenius’ governance model for scaling of innovation, Krause explained that the company’s business units had individual innovation units with differing approaches due to the nature of their businesses. Structured exchange on selected services with overarching relevance ensured alignment and efficiency.

The technological counterpart to generate synergies across the areas was the Fresenius Healthcare Platform, which integrated healthcare provider source systems with the backbone and – very importantly – the consumer platform. The platform thus represented the foundation for new or improved patient services and interaction between existing systems.

Scaling via corporate-academic partnering – the example of Arvato’s ERCIS omnichannel lab

With a direct connection to previous discussions on ecosystem and partner management for scaling of digital innovation, Karsten Kraume, CSO/CIO at Arvato CRM Solutions, gave the next impulse. He discussed experiences from Arvato’s omnichannel lab, a partnership between the European Research Center for Information Systems (ERCIS) and Arvato CRM Solutions. The lab combines the academic research and teaching activities of ERCIS with Arvato’s practical experience of delivering tech-enabled omnichannel CRM solutions.

Challenging integration of partnerships and line organization

After some examples of collaboration fields, Kraume explained the organizational cornerstones for the actual work of employees in the partnership, and the participants shared their experience on the topic. Most participants confirmed that intrinsic motivation of employees was extremely high for external partnerships. A key success factor was the integration of “partnership activities” and “line organization activities.” Kraume named four key measures:

1. Commitment of own dedicated resources with relevant knowledge: partnerships are not a free lunch
2. Alignment of personal and company goals with partnership activities
3. Fostering of collaboration on all relevant levels, from management to operational level
4. Structured management of partnerships: e.g., regular evaluation, (re)alignment and adjustment of the partnership portfolio according to company goals

Important balance between freedom and defined boundaries

Kraume then shared some insight into the results of the academic partnership, which, according to him, had developed a good balance between “academic standards” and “practical application.” In contrast to contract research, for which typically concrete and predefined results can be expected from the start, the outcome at the beginning had been broader and had opened up an entire array of potentially interesting questions. On that exploratory basis the most promising and practically relevant projects had been chosen and executed. They ranged from visual analytics, over leveraging of conversational AI frameworks with 5,000 students and social analytics to digital reference models for the Arvato CRM organization with over 40,000 employees and operations in over 20 countries.

Hence, the specific set-up of academic partnership required freedom and variety, as Kraume explained:

- Regional proximity to foster interaction between the partners
- Focus on growth rather than optimization
- Consideration of employee preferences to strengthen relationships within the partnership
- Lean policies and regulations for the collaboration to allow for flexibility and creative results

All in all, Kraume summarized, academic partnerships had the potential to deliver high value for relatively low investment. When established appropriately in the company and set up with the required degree of freedom, they could have significant impact – and become an excellent recruiting tool as well.
Summary and outlook

After the discussions and a final tour around the exhibits in the Innovation Center (including IoT applications for construction machinery and connected beehives), Volker Pfirsching wrapped up the day’s findings:

- Small budgets can suffice to set the foundation for scalable solutions.
- “Think big, start small” is the credo of choice for an innovative company environment.
- Innovation and scaling require different approaches with regard to profitability goals: innovation can signify inspiration without an immediate business case. Scalable solutions require a business case-driven perspective to justify investments and measure success.
- The value of partnering is significant, but requires appropriate management. Business partners and scholar partners add value in different areas.
- Commitment and anchoring of concrete innovation goals in company and personal targets are important mechanisms to successfully realize scaling ambitions.

Due to the abundant feedback, three major themes emerged and will be covered in subsequent roundtables:

- Technology evaluation: How can innovative digital technologies be identified? Where are sources of error? What pitfalls need to be considered?
- Artificial intelligence: What are the capabilities of the different stages of AI? How to deal with the ethical questions of AI?
- Fail often, fail fast: What can we learn from failed digital innovation approaches?

The next roundtable, focusing on one of the topics above, will be organized in the third quarter of 2019.

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Arthur D. Little

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