



# Digital Transformation

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By

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## Introduction

CIO Brief 2.0 is an inter-organizational learning forum of CIOs from leading edge organizations who meet to exchange best practices concerning IT management strategy. The 2016 CIO Brief explored four dimensions of becoming more digital. The first looked at what a digital strategy is and the steps two organizations are taking to create one. The second examined the Internet of Things and how to understand and utilize it. This third session discussed business ecosystems and how to leverage them. This final session considered how to actually accomplish digital transformation.

## Discussion on Digital Transformation

Jim McKeen, Co-Director of the CIO Brief, led an open discussion with the members on digital transformation.

***Is any sector immune to the effects of digital transformation?*** Organizations increasingly need to have a digital presence in the market. No one is immune to this, said the group. However, many leaders still see digitization as only a vague and nebulous future, not a current threat.

***What happens in an industry when one player disrupts the basic business model?*** Members pointed out that most disruption comes from outside an industry not from within, and this is what catalyzes companies to make changes. For example, Airbnb and Expedia are viewed as threats to the hospitality industry. "These threats are shifting how and where we spend our money," said a member. "We have to go online and we have to acquire digital capabilities, often through mergers." External threats are prominent in other industries as well, but they are also a huge opportunity. "Just saying 'the sky is falling' doesn't always work," said a member. "Our leaders need to understand that in many cases a digital approach can lead to significant revenue increases."

Members pointed out that markets are disrupting themselves as well, since millennials tend to prefer to undertake business online. "The malls are increasingly empty", said a member and this is affecting both the retail and the real estate industries. The group predicted that the rise of autonomous cars, Uber, and shared vehicles will dramatically change the transportation industry as well, particularly trucking. However, it is unlikely that companies will disrupt their own industry because they don't have the ability to think about their markets in a disruptive way, the group concluded.

***Is your company really interested in digital transformation or just adding a digital veneer to your current offerings?*** Most digital veneers on top of a legacy infrastructure work about as well as "lipstick on a pig", members agreed. There are however, other options for digital transformation. One is a segmentation strategy that extracts data and uses APIs. Another option is to utilize cloud hosting. "This works well," said a member. "You have a choice in the cloud these days." However, cloud computing is still a challenge for truly global companies that work in places where

telecommunications are spotty and where high speed access is not available. Overall, "companies almost have no choice; they must redo their front ends," said a member.

More fundamental disruption is risky because it can undermine a company's major sources of revenue and profit. "The key to true transformation is that existing business units must be more accommodating about the constraints they impose on new ways of doing business," said a member. In many cases, disrupting entities "nip away at the edges of an existing business model" and thereby avoid dealing with complexity and making an end run around regulators. "One of the best ways to deal with this type of disruption is to acquire some of these smaller, more technically-advanced companies to create an ecosystem to deliver customer value," said another member. "Partners can complement more traditional ways of working. This approach works amazingly well."

***What is the role of the CDO and the CIO in digital transformation?*** A Chief Digital Officer needs an intimate knowledge of a company's operations in addition to understanding technology, said the group. As a result, good CDOs are hard to find. In some organizations, a CDO works specifically to develop new markets and revenue streams with new technologies by incubating new business models – areas that wouldn't fit with the existing business – until they prove themselves. When they grow to become significant revenue-generators and can hold their own against the rest of the business, they are spun back in as a new business unit. Others have found that creating a separate digital entity didn't work and that they lost customers when they brought it back. "Reintegrating these new business units is a challenge," said a member. "If you're going to do it, make sure you work through the political issues at the very top."

## Digital Transformation at Sonnet

Daniel Shum, a Partner with Deloitte's Insurance Practice, introduced the Sonnet story. Two years ago, Economical Insurance made a decision to become a public company and began to explore how it could grow in the current marketplace. Company leadership realized that its current sales strategy of using brokers would not be adequate to reach a new generation of underserved insurance customers. "Therefore, they decided to develop a fully-digital online channel," he said. This became Sonnet Insurance.

Alice Keung joined Economical as SVP and CIO to broker this digital transformation. "Economical realized that it had to disrupt or be disrupted," she said. "So its leaders started a journey of digital transformation based on their market research and understanding of changing customer expectations and the importance of data analytics and sophisticated technical infrastructure to deliver insurance products. Sonnet is customer-centric and we have developed a very user-friendly service that is customized to the needs of individual policyholder."

Economical is a 145 year old company based in Waterloo Ontario with a high commitment to customer experience. Its research showed that disruption is most effective when it is focused at the intersection of unmet customer needs, enabling technology, and new business models. "Often companies only look at disruptions through a technological lens," Alice said. "We found that there are many customers who prefer online transactions rather than working through a broker. These customers are generally younger, have simpler insurance needs, and don't need to speak with someone to make a purchase."

Sonnet's vision for customer experience with this market segment is based on three pillars: make it simple; make it available at their fingertips; and offer a customized product that best meets their needs. "These principles guide everything we do," she said. Before development, the Sonnet team first mapped the end-to-end customer journey through the discovery, quoting, purchasing, servicing, and claims processes, ensuring that these three pillars were addressed at every touch point.

Sonnet's technology component involves several innovative approaches. Agile development and DevOps practices were introduced to development through its life cycle to delivery and ensure flexibility, scale, and speed in development and deployment. Small, multi-disciplinary self-contained teams were created and continuous integration and implementation adopted. A hybrid model of cloud and on-premise technology has been developed. "We have also invested heavily in big data," said Alice. "This incorporates third party data, both structured and unstructured, and real time analytics to provide instantaneous real time responses and questions at every point to offer customers a unique product tailored to their needs. This took a lot of work to make sure that we got it right."

Its new business model was developed by creating a separate team located at a different place. The team adopted a collaborative working model to facilitate problem solving. The desire to re-write the insurance experience was core to the Sonnet design. Today, Sonnet is a completely digital end-to-end insurance business. "This is unique in the Canadian insurance business," said Alice. "Other companies are only partly online and require a customer to contact a call centre to complete the buying journey." In contrast, Sonnet has a self-service business model. "We aim to make the experience simple and always-on, although we do interact with customers, at their request, through chat, email, and phone calls as well," she added.

Sonnet went live with property insurance first in the spring and more recently with auto insurance. The company's next step is to leverage the Sonnet platform to digitize the other parts of its business, including its broker channel.

## Discussion

***You joined Sonnet partway through its development. What challenges did you face?*** "I missed the initial 'norming and storming", said Alice. "However, I was very impressed with the discipline I found, at both the executive and the working levels." She noted that taking a green field approach to this project was critical to its success. "We did not have too much technology baggage to deal with," she said. "Although there was some back end systems integration to contend with, and knowledgeable people had to be moved over to the Sonnet offices."

***Where did the sponsorship for this project come from?*** "The then CEO was present at every team and steering committee meeting," Alice said. "Clear executive sponsorship was very important." Alice also worked closely with the Chief Marketing Officer and the Chief Underwriter. Together, the three formed a transformation leadership team that combined what needed to be done on customer experience, business intelligence needs, and technology. "These three pieces were each really important," she said.

***How do you plan to integrate Sonnet with the rest of the business?*** Sonnet is a separate channel, and uses Economical's shared services such as IT, Marketing, HR.

***How many customers get can a quote through Sonnet?*** All users are able to get a quote in just a few clicks.. "Since each quote is based on the unique needs and profile of the user, we cannot predict what the prices would be. We have management analytics to help us to understand the site traffic, including those customers who would buy at first visit and those who decide to save their quotes on the site and buy later, or those who abandon midway," said Alice. These analytics help us to be more responsive and improve ourselves.

***What were your biggest concerns or surprises when you joined the team?*** "I had no preconceived ideas when I joined but I did have some personal biases," she said. "I was skeptical about agile development and how it would work with a legacy group, but the critical relationships were all there. There were some surprises but we worked them through. The main challenge I'm dealing with right now is from other IT staff who want to know why the Sonnet team is having so much fun!"

***How has your broker community responded?*** Relationships with Economical's brokers have been carefully managed from the beginning. The company shared its research with them to show that it is trying to reach a different market segment with Sonnet and not trying to undermine the brokers' client group. "It's really a different model," said Alice. "There are plenty of customers who do require the advice of an experienced broker".

***What are your challenges or high-risk areas?*** DevOps is currently a mix of internal employees and external providers, in our ecosystem of vendors. "We relied on a third party to get people to work together. This took a great deal of work. We are now working to bring this work in-house as it could give us more flexibility," she stated. Integration of third party data can sometimes be problematic. "We rely on vendor data which can be scary as it is never consistent," she added.

***How are you planning to sustain your advantage?*** "We can't share our business strategy. On the product front, We are looking at trends like micro-coverage for vacations. We know we now have a robust platform and can spin up new products quickly."

***How was Sonnet funded?*** Sonnet is a strategic investment by Economical to change how Canadians feel about insurance. We believe that we must respond to changing customer expectations. .

***How did your senior leadership have the courage to make a decision like this?*** "Our leadership recognized that customers expectations are changing and business as usual is just not good enough.. The decision-making was very, very deliberative, and led by the CEO. Economical understood the whole industry was changing and felt that Economical could only compete with the bigger players if we did some things differently. We then did a lot of research into what people wanted and didn't want and found that no one liked the call centre model. Today, with Sonnet, you can purchase a policy in less than four minutes." In spite of the differences of this model, success metrics are still the same – cost, loss ratios and number of premiums written. "Sonnet is part of a broader transformation process that will leverage our experience for the rest of the organization," she said.



## Concept

CIO Brief 2.0 is a group of CIOs from leading edge organizations who meet to exchange best practices concerning IT management strategy. The CIO Brief 2.0 is organized by James McKeen and Heather Smith, Queen's School of Business, in partnership with Deloitte Canada. See [www.ciobrief.ca](http://www.ciobrief.ca).

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