



BEYOND CHANNEL MODERNISATION

# Digital Channels Are Not a Digital Strategy

Why established service businesses must redesign value, economics and decisions—not merely add mobile access

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# Digital Channels Are Not a Digital Strategy

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## 1. The green dashboard and the unchanged business

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The programme board is looking at a reassuring slide. The new web account is live. A smartphone application has passed its first hundred thousand downloads. Online quotations have doubled in twelve months. The channel director reports that the organisation is now “digital”.

Yet three floors below, a customer who changes an address online still triggers a printed instruction for an operations clerk. The call centre rekeys information already entered on the website. Prices are refreshed monthly because the core system cannot accept more frequent changes. The same products, the same approval thresholds and the same economics are being presented through brighter windows.

This is not a technology failure. The technology has done almost exactly what was asked of it. It is a failure of ambition: the organisation has confused digital access with business transformation.

The distinction matters now because smartphones, social networks, broadband and inexpensive computing are changing customer expectations faster than most established businesses can alter their operating models. Adding channels is necessary. It is also the easiest part to imitate. If the underlying proposition and economics remain unchanged, a digital programme may simply expose the old business more efficiently.

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## 2. Why channel programmes are so seductive

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Channel change offers the board three comforts. It is visible, measurable and apparently containable. A new site can be launched on a date. Downloads and visits can be counted. Responsibility can be assigned to marketing and technology while the rest of the enterprise continues to operate.

Business-model change offers none of those comforts. It asks awkward questions about revenue, cost, ownership and institutional habits:

- Which customer need are we solving better, rather than merely serving through another route?
- Which activities disappear when the new model works?
- Which decisions move closer to the customer, and which controls must move with them?
- What becomes possible when information is available immediately rather than at the end of a reporting cycle?
- Which existing income streams or organisational boundaries are we prepared to weaken?

Those questions cross functions. They threaten budgets and status. They reveal that a “digital programme” cannot be delegated to a digital department.

The strongest defence of channel-led change is serious. Customers are already moving online and onto mobile devices; an established organisation cannot wait for a perfect operating model before responding. A faster website, electronic statements and a useful application reduce friction today. They also create behavioural data and organisational confidence that can support deeper change tomorrow.

All of that is true. The error is not to begin with channels. The error is to let the first release define the destination. A channel initiative becomes strategic only when its learning forces decisions about the business behind it. Without that mechanism, each release adds another interface, another support queue and another layer of reconciliation.

*The test is not whether a service has become digital. The test is whether the business has become different because the service is digital.*

### 3. The business-model test

In practice, three tests separate genuine transformation from electronic presentation.

#### 3.1 Has the proposition changed?

A digitised proposition offers the same value with less paper. A transformed proposition uses connectivity, data or participation to offer value that was previously impractical.

Consider a composite household insurer in early 2014. Its mobile quotation service reduces a fifteen-minute web form to six minutes. Conversion rises from 11 per cent to 16 per cent, and the project is declared successful. But the quote still uses eleven broad risk bands, the annual policy is unchanged, and every exception goes to the same underwriting queue.

The mobile service has improved acquisition. It has not changed insurance.

A different question would be: what can be offered when customers can provide information at the point of need, when contact is continuous rather than annual, and when usage patterns can be analysed more frequently? The answer may still be an annual policy; not every possibility deserves adoption. But the organisation must at least test whether its old product boundaries remain sensible.

### 3.2 Have the economics changed?

Channel programmes often carry a cost-reduction case built on “migration”. The assumption is that an online transaction replaces a call or a branch visit. The figures rarely survive contact with behaviour.

In the composite insurer, online quotations rise by 80,000 a month, but call volumes fall by only 4,000. Customers telephone when the digital route cannot explain an exception, when prices differ from expectations, or when they distrust what will happen next. The new channel has generated demand as well as substituted for old demand. Meanwhile, a twelve-person team reconciles failed applications between the website and the policy system.

The relevant unit is not the cost of a click. It is the end-to-end cost of a completed customer outcome, including exceptions, hand-offs, duplicate contact and remediation. Unless that figure changes, the business case is counting activity rather than economics.

### 3.3 Has the operating model changed?

Digital demand arrives continuously. Many established organisations still make decisions in weekly meetings, transfer data overnight and allocate work by departmental queue. A polished front end connected to that cadence creates a promise the organisation cannot keep.

| Question       | Channel digitisation                     | Business transformation                                      |
|----------------|------------------------------------------|--------------------------------------------------------------|
| Customer value | Existing service through a new route     | A materially better or newly possible outcome                |
| Economics      | Lower cost per visible transaction       | Different end-to-end cost, revenue or capital logic          |
| Operations     | Digital front end around existing queues | Work, authority and information redesigned together          |
| Measures       | Visits, downloads, online share          | Retention, completion, margin, cycle time and failure demand |
| Ownership      | Marketing and technology programme       | Executive choices across the whole business                  |

This is why “integration with legacy systems” is too often treated as the main problem. Integration is certainly difficult. But connecting a new interface perfectly to an old operating model can make the strategic problem worse: it increases the speed at which yesterday’s assumptions are reproduced.

## 4. Follow the decision, not the device

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The pattern that recurs is a fascination with devices and an avoidance of decisions. Boards debate whether the next priority is mobile, social media, analytics or cloud computing. Those are important capabilities, but none is a strategy. The more useful line of inquiry follows a customer outcome through the enterprise and asks where value is lost.

Take the address change from the opening scene. Its path is revealing:

1. The customer enters the new address on a smartphone.
2. The channel checks the format but cannot amend the policy record.
3. A message enters a shared operations queue.
4. A clerk rekeys the address the next morning.
5. A risk rule creates an exception.
6. An underwriter reviews the change two days later.
7. A letter is produced because the correspondence process remains the formal record.

The visible transaction took ninety seconds. The business outcome took four days and seven touches.

There are several possible responses. The cautious one is to automate the rekeying while retaining underwriting review. The bolder one is to let predefined address changes update immediately, with rules sending only material exceptions to an underwriter. The most radical is to reconsider why the organisation prices and records the risk in this way at all.

The right choice depends on risk appetite, regulation, system capability and the quality of data. Transformation does not mean choosing the most radical option. It means making the choice explicitly, with a clear view of the proposition and economics, rather than allowing inherited process to choose by default.

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*“The legacy that matters most is often not the system. It is the decision that nobody has reopened since the system was installed.”*

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This approach also changes governance. A channel programme can report releases and traffic. A transformation portfolio must report whether assumptions about customer behaviour, cost and value are being proved or disproved. The board should ask fewer questions about percentage completion and more about which business decision the latest release has enabled.

## 5. A harder mandate for leadership

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Genuine digital transformation redistributes authority. It may move product design closer to customer evidence, combine operations and technology around outcomes, or require finance to measure lifetime economics rather than the cost of isolated transactions. These are leadership choices, not implementation details.

Three disciplines help prevent the channel trap:

- Name the business hypothesis. Every digital investment should state what will change in customer value, revenue, end-to-end cost or risk. “Increase online adoption” is a channel objective; “halve the cost and time of completing a policy change without increasing loss” is a business hypothesis.
- Fund the whole outcome. If the website is funded but the policy system, operating procedure and control framework are out of scope, the programme has been designed to stop at the organisational boundary.
- Retire what the new model replaces. Benefits do not arise because a digital route exists. They arise when work, systems or propositions are actually changed or removed. The retirement decision should be part of the original mandate, not a hope attached to the final business case.

There is prudence in incremental delivery. Large, all-encompassing transformation programmes can spend heavily before customers receive anything useful. The answer is not a grand design held back for years. It is a sequence of small releases tied to large business questions. Each release should improve the customer experience now and test an assumption about the future model.

That is a more demanding standard than launching an application. It may also produce fewer ceremonial launches. But it creates something competitors cannot copy merely by commissioning a new interface: a business whose decisions, economics and operating rhythm have been remade for a connected market.

Digital channels are becoming part of ordinary commerce. Their novelty will fade. When it does, organisations will not be judged by how many channels they opened, but by whether they used this moment to change the business behind them.