Key Words for Digital Transformation

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SHANTANU NARAYEN, INTERVIEWED BY PAUL MICHELMAN

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The forces of the digital revolution have shaken company after company. Industries have been transformed. Entire media and product forms have vanished. Pity the enterprise whose fortunes are tied exclusively to the analog world, be it producing film, renting videos, retailing books, or selling packaged software.

By many rights, one might have expected to find Adobe on the register of companies disrupted by digital. And yet the 35-year-old software developer has persevered. Really, it's done more than that. Adobe has excelled, and it has done so by embracing the very technological forces — think cloud, mobile, platforms, IoT — that could very well have been the harbingers of demise for a legacy producer of packaged software designed for the desktop.

Adobe exceeded $100 billion in market cap and joined the Fortune 400 for the first time in 2018, while ranking No. 13 on Forbes’ Most Innovative Companies list. Adobe Chairman and CEO Shantanu Narayen found himself similarly positioned on Glassdoor’s list of top CEOs of large U.S. companies.

In conversations via videoconference and email, MIT Sloan Management Review editor in chief Paul Michelman asked Narayen to share his thoughts on nine key words related to Adobe’s journey.
Creativity.

Narayen: Adobe’s mission is to change the world through digital experiences and, in that context, we have two strategic initiatives: empowering people to create and helping businesses transform.

The world without creativity would be a really boring place. We think everybody has a story to tell. We enable people to tell their stories by connecting them with the right technology at the right time with the right intuitive interface.

Look at an area like education, where there’s a lot of talk about the importance of STEM. That’s true. But we like to talk about STEAM. In addition to science, technology, engineering, and mathematics, the arts are an important part of what makes not just education but the entire world such a special place.

I also think you attract the best and retain the best when people connect with the mission and respect the values that you have as a company. Our mission enables us to attract and retain a very talented work base that looks at the role of creativity in enabling people to tell their stories with a lot of pride.

Artificial Intelligence.

Narayen: Every decade or so, there seem to be big, tectonic shifts in technology. The technology companies that have grown, matured, and thrived recognize these shifts and figure out how to harness them toward whatever mission that they are following.

The cloud and mobile led such a shift in recent years. With the cloud, we saw we could enable two crucial advantages for our customers: location independence and collaboration. Put yourself in the shoes of a creative professional and consider the tools they use every day to do their job. Why shouldn’t all of their assets—their project files, fonts, brushes, and presets—be at their fingertips at all times? It’s possible with the cloud.

Mobile similarly pushed us to ask, Why should people need to be tethered to a desk in order to create? At Adobe, we immediately began exploring ways that our flagship products like Photoshop and Acrobat/PDF could work better on mobile devices. We introduced several new mobile-first apps as well. We firmly believe that mobile devices can be used for creation and not just consumption.

I think we do a good job looking at shifts in technology and asking ourselves, “What is the power for Adobe?”

That’s the question we’re asking about AI right now. We look at AI through the lens of community—the millions of creative professionals, technology developers, young creatives, and enterprises we work with. If we can harness
the power of the community through AI and bring that power back to every individual, there would be something deeply empowering in that.

We are also thinking about the domains that we participate in and how can AI help our technology be more accessible, help us to do things faster, or help automate inefficient processes. For example, we look at imaging and AI and ask, What if we could automatically tag images or search for images based on colors or likeness? Or with digital documents, AI can be used to derive meaning and sentiment from pages and pages of material. It can help spot commonalities and differences across documents. The potential for how AI can improve the way we work and the way we create is huge.

Platforms.

Narayen: We think about platforms in a couple of ways. First, how are we investing in deep technology innovation that will stand the test of time? We want to solve hard problems; investing in a platform is justified if it enables you to solve a hard problem and builds something that will serve customers for many years.

Next, how are we harnessing the power of the community so users can extend and customize what we create? Are we gleaning the intelligence of an entire community?

If you’re Adobe, and you get the platform right, you are serving the entire workflow of a customer. The byproduct of that could be that you’re gaining more market share or you’re considered more mission critical. For instance, we think about how we can be more essential to a magazine? not just focusing on content creation but on content delivery and monetization.

Experiences.

Narayen: Thinking holistically about the entire customer experience has become far more important than it was five years ago or even three years ago. Traditional product companies used to think just in terms of functionality and features. Now, you have to consider everything in the ecosystem.

Questions we ask look like: How do you transact business? How do you renew? How do you provide training or access to experts? How do you get feedback? How do you engage with the community? All of these go to either enhancing the customer experience or limiting it. And customer expectations have changed dramatically.

Traditional companies talk a lot about the selling motion but not enough about usage. We have built a data-driven operating model for the creative cloud. It focuses on addressing these key questions about the customer experience.

I think the challenge for a subscription-based business is to recognize that customer acquisition is only the first step. Managing customer satisfaction through the whole process that ultimately leads to renewals is far more important. Every customer is either an evangelist for your
product or they’re a detractor, because it’s not just about that one-time purchase any longer, but rather about the ongoing journey and experience. We like to say as a company, retention is the new growth.

Expectations.

_Narayen_: We had core hypotheses that led us through the transition from a product-oriented business to a subscription model: that we could deliver a better experience long term.

Our hypothesis stated that understanding how people are using our products online would enable us to tailor our offerings quicker than the traditional 12- or 18-month product development cycles allowed us to do.

We knew that innovating at a faster pace was necessary for long-term success. Yet everything that we had in place at the company at that point was oriented around these artificial boundaries of legacy product cycles.

When you have such strong convictions about how you can innovate faster and serve customers better, it gives you a better foundation to speak to the benefits to the market, in terms of both customers and investors. We needed to help the market understand how our business looked in a subscription model and to provide data that supported our hypothesis that subscriptions would provide true unit growth over perpetual sales.

The second thing we did was to give three-year targets. This wasn’t a case of, “Hey, believe us.” We were transparent with the numbers, both short term and long term. We publicly shared the financial indicators and the timeline for transitioning the business.

You have to do flag planting, and you have to do road building. We planted the flag internally to the company and externally, so our employees and customers could see how this transition would work. Our flag was, “Here is what we’re seeking to achieve by moving to subscriptions, and here is why it’s going to be a great thing for our customers and our business.” And then we showed everyone how we were building the road. That road was our timeline of what to expect on the journey: the specific product, financial, and customer experience milestones. If we did just one without the other, we could not have had the kind of success that we’ve had.

And we exceeded all of the targets. In our most recent earnings report, approximately 90% of our revenue came from recurring sources, up from approximately 5% prior to moving to a subscription model.

Uncertainty.

_Narayen_: The process of transforming to digital and new business models was certainly uncomfortable for us in ways. When you’re trying to innovate and tackle a major transition, it can feel impossible to connect all the dots from where you are to where you want to go, which is why you have to reinforce the positives. You have to learn
to adapt to the things that you may not have gotten right. You have to create a culture that enables you to look at things with transparency, acknowledge failures, and course-correct.

We had already established a culture of experimentation in Australia, so we did a lot of experiments for the new model there. We offered similar products under both a subscription model and our traditional model in that market, and then monitored the uptake. We found that we were bringing in a lot of new users under the subscription model, which addressed one goal we set for the business: growing our base. In addition, many existing customers told us they would not have upgraded without the subscription offering. The trial in Australia backed our hypotheses and gave us even more confidence that the new model would be the right move for our business and our customers.

The leaders who thrived in the transition were the ones who got comfortable with ambiguity and uncertainty. Then our job as managers is to protect employees from a lot of the negative effects that uncertainty and ambiguity can bring and also help them understand how they can adapt in an uncertain environment.

In management, you have to get far more comfortable with the unknowns. Rarely will somebody come to a senior manager and say, We're all unbelievably aligned, and this is what we should do. Do you agree with us? They typically come when there's uncertainty or when there are differing opinions. Dealing with uncertainty forced different behaviors at Adobe. These included becoming more comfortable taking chances and being OK with small failures. It also fostered more communication.

The fun part about big transitions, if you create a learning culture and people are intellectually curious, is that they turn out to be the times when you grow the most in your career, because you’re not just shepherding an existing thing ? you’re creating a new path.

Risk.

Narayen: I prefer the word investments. Risk sometimes suggests irresponsible behavior.

I’m very comfortable with making investments. You have a core hypothesis. You have data to support that hypothesis and guide the process. Some of these investments succeed and some don’t. This goes hand in hand with creating a culture that can celebrate failures as well as successes. When you do this, people are more comfortable trying new ideas ? even when some of those ideas don’t pan out.

Voice.

Narayen: It’s insane to me that people think that drawing with a mouse is an intuitive way of interacting with a computer. We look at voice as a natural interface and a great enabler to help people do things. So, we’re looking at ways to unleash creative capabilities through new
modalities: voice, touch, stylus, and more. The mouse and keyboard still have their place. But creativity demands more flexibility.

**Communication.**

**Narayen:** One of my favorite expressions is “preserving the status quo is not a business strategy.” That’s something that I use to emphasize the need for constant reinvention.

I think we all have to focus on the storytelling aspects of what we are trying to accomplish and to bring color to what we want to do. I’ve worked at that aspect of my role, personalizing and creating narratives that people can engage with.

What’s been unbelievably rewarding and exciting about this journey is the focus on team and acknowledging our accomplishments as a team. When things go well, the CEO gets way too much credit, and when things go badly, the CEO gets too little blame.

I’ve been fortunate to have a senior leadership team that’s stayed in place for many years and a board that understands that taking the long-range view is the only way to build sustainable and resilient companies. People ask a lot about how we had the courage to make such a big transition. Our shared vision as a team about what we needed to accomplish and how we would go about doing it was so powerful that it often didn’t seem like we needed all that much courage.

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About the Author

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