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Digital Double-Down: How Far Will Leaders Leap Ahead?

Strategy | Digital | Technology | Operations

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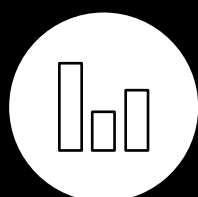
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New Accenture research about digital transformation confirms what anecdotal evidence has pointed to thus far: some companies are doubling down to drive digital transformation and accelerate ahead of their peers.

Their evolutionary advantage? Their top managers deeply understand what digital technologies can do for their businesses, far beyond basic efficiency gains, and they are actively investing to create digital disruption in ways that require everyone to respond.

It is easy to assume there is time to become a digital business—to see the world as it was in 1999, when e-commerce became a reality, or even 2009, when mobile phones became more walking computers than tools for talking. The intentions, investments and actions of those doubling down on digital have reached a point where it is no longer prudent to wait.

In just the last few years, “digital” has become more consequential than new rounds of IT efficiency and enablement. The latest research from Accenture reveals a sharp divide between those who continue to view digital technology as a tool for steadily improving existing business activities—digital followers—and those who clearly see something much more profound—the digital transformers.¹

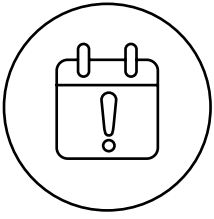
Digital transformers see significant growth potential with digital where the followers don't.¹ 52 percent of executives expect digital to “completely” or “significantly” transform their industries, with the remainder expecting moderate or no transformation—this according to the Accenture survey of more than 1,000 executives across 20 countries and 12 industries (*see About the research, page 15*).

The digital transformers understand all too clearly how the nature of entire markets has changed—how Wealthfront Inc., Airbnb Inc., Alibaba.com Hong Kong Limited and others are up-ending whole industry segments—and they know that similar dynamics are at work in many unexpected ways in their industries too.

This is anything but the isolated approach of a few start-up companies. Digital transformers exist in every industry, geography and size; collectively, they constitute a powerful, broad-based trend that demands effective responses from companies everywhere. Their aspirations and investment plans set the pace, and the actions of these organizations should become a core assumption of any future business strategy.

¹ For the purposes of this point-of-view paper, “digital transformers” are defined as those organizations which expect complete or significant transformation of their industries. “Digital followers” are defined as those organizations which expect moderate or no transformation of their industries.





Action this day


But what's most meaningful is that these digital transformers intend to be the agents of their own opportunity.

They are acting on their insights at pace and with determination, effectively doubling down on technology aimed at driving growth, deepening digital leadership, and opening up space for future investments in transformative technologies. Collectively, their efforts are enabling them to widen the gap with their peers.²

At a minimum, executives will need a keen understanding of the new language of digital—terms that are steadily becoming part of the business discussion. *(See Dictionary of digital.)*

Overall, as we'll discuss later in this report, the digital transformers are well aware of the effects of what Accenture calls "Big Bang Disruption"³ in today's globally synchronous markets.

Dictionary of digital

<p>Digital</p>	<p>Increasing <i>information intensity</i> and <i>connectedness</i> of customer and business resources. Any resource can become digital through the application of technology.</p>	<p>Digitize</p>	<p>Applying technology to customer and business resources. The resulting digital resources give new abilities to people, devices, physical objects, etc. These new abilities form the basis for disruption and digital business.</p>
<p>Digital disruption</p>	<p>Capabilities and strategies that change the terms of competition and value via new technology-enabled solutions.</p>	<p>Digital transformation</p>	<p>The innovative re-assembly of customer and company resources, products and services to grow value, revenue and efficiency via digital technologies.</p>
<p>Digital business</p>	<p>An evolution of business that uses new combinations of information and connectivity to create new sources of customer value, company revenue and operational performance.</p>		

² M. McDonald, and R. McManus, "Growth Strategies for a Digital World," March 2014. <http://www.accenture.com/digitalstrategy>

³ L. Downes and P. Nunes, "Big Bang Disruption." <http://www.accenture.com/bigbangdisruption>

Here are four ways in which they are pressing ahead with verve and intent:

1. Emphasizing growth as the catalyst for transformation

The digital transformers are not waiting to react to events; they are focusing on growth as the context for digital transformation. Specifically, they are twice as likely as followers to focus their digital investments on growth. Theirs is a balanced approach: they are certainly investing in digital technologies to drive efficiencies, but unlike the followers, that is not their overwhelming focus. Digital followers are placing roughly three dollars toward efficiency for every dollar invested in growth opportunities. *(See Figure 1.)*

2. Investing to shape the terms of digital competition

Digital transformers realize that growth strategies demand new approaches for attracting and retaining customers with new and better product and service offerings.⁴ So they are playing out the new digital competitive dynamics chiefly on the customer-facing side of their businesses—in sales, products, channels, and customer experiences. *(See Figure 2.)*

3. Leveraging a wide range of digital technologies

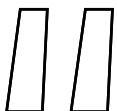
The digital transformers plan for significantly higher levels of total capital and intangible investments in the next few years. They consider the full range of digital technologies to be very important—certainly far more so than do the digital followers. *(See Figure 3.)*

4. Investing in focused transformational spaces

The digital transformers have already figured out where digital can make the biggest difference. They already plan to invest more than their peers in the areas seen as important for digital success. For instance, they are more concerned about shortages of digital skills and about how they can attract and retain top digital talent. *(See Figure 4.)*

Equally important: They recognize the change management challenges involved in digital transformation, including the significance of whole-hearted, enduring executive support and the need for new operating models. At the same time, they remain concerned about funding levels, especially since earning a return on growth initiatives is more challenging than taking cost out of existing processes and operations.

Digital transformers in their own words



Digital's potential is enormous. It is changing how we conduct our business, tell our stories and engage consumers. It's a rapidly changing landscape and a big part of our future."

Mark Parker, President and Chief Executive Officer of NIKE, Inc⁵

⁴ M. McDonald and R. McManus, "Growth Strategies for a Digital World," March 2014. <http://www.accenture.com/digitalstrategy>

⁵ Mark Parker, President and Chief Executive Officer of NIKE, Inc, "Nike Inc. Letter to Shareholders", July 25th, 2014, http://investors.nikeinc.com/files/doc_financials/AnnualReports/2014/index.html#mark_parker_letter

Figure 1: Digital transformers focus far more on growth, while the digital followers concentrate on efficiency



Figure 2: Digital transformers expect to excel in sales, channels, new products and services, and customer experiences



Figure 3: Digital transformers place greater importance on digital technologies across the board

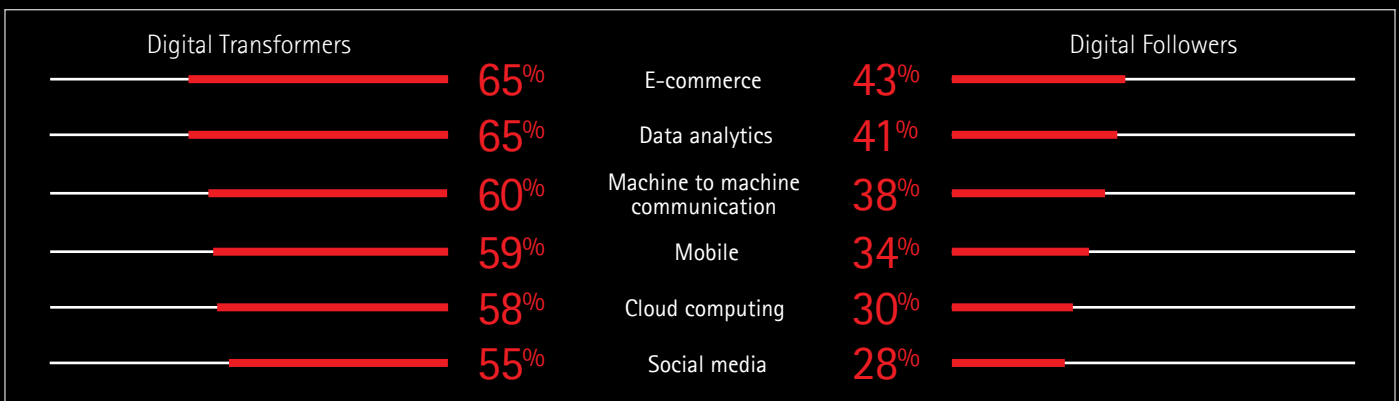
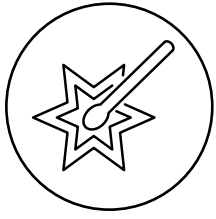


Figure 4: Challenges with digital investments





The catalysts of transformation

So what is spurring the digital transformers onward with such urgency? And what should the digital followers be most concerned about?

Put simply, transformers are responding to customer redefinition of markets. A response requires rethinking markets as long-time industry boundaries mean less and less. Banks face challenges from payment services. Wealth management incumbents compete with solutions based on analytics and algorithms. Healthcare providers face competition from retailers. Car makers' digital moves are reverberating throughout the insurance sector.

In a report shared at the 2014 World Economic Forum meeting in Davos, Switzerland⁶, Accenture described and analyzed the potential of digital technology to create new industry boundaries via strategies that call for generating growth from markets populated by players from different industries. The results are new market structures—digitally contested markets—where digital technology enables reshaping of traditional industries via new entrants and new partner ecosystem configurations.

The report points out that adopting a customer or outside-in view of these markets provides growth opportunities that exceed their traditional industry definitions. The emergence of new industry configurations represents digital transformation at its deepest level.

In earlier times—before the pervasive reach of the Web—transformation initiatives were largely driven from the inside out. Business process re-engineering, Lean Six Sigma, zero-based budgeting, and other programs started deep inside corporations until their successes were obvious to all and copied by competitors.

But digital dynamics catapult transformation into a different dimension. Transparency, connectivity, and sharing drastically shrink market cycles, threatening to commoditize cherished and long-held market positions. Digital businesses, by their nature, can serve every market simultaneously and individually. New digital capabilities create transformation that is out in the open for all to see. Digital channels and social and marketing solutions make decisions and actions visible to everyone.

Gone are the days when companies could more easily follow traditional industry cycles, benefiting from the lag time inherent in customer feedback and competitors' responses. Technology has destroyed latency; decisions are being made immediately and all at once. Customer feedback is torrential and non-stop.⁷ Competitors can react in lightning time: the actions of so-called "over the top" companies in transportation, retail, media, banking, and payments set competitive terms and response requirements on a regular basis.

Digital disruptors are making moves that establish new terms of competition and customer expectations that then require rapid responses from the majority. The whole cycle spins faster, creating far greater potential for what Accenture terms "big bang" disruption, where rapid test-and-learn cycles are just one possible defense.⁸

⁶ M. Spelman, T. Cooper and M. Robinson, "Remaking Customer Markets. Unlocking Growth with Digital," January 2014. <http://www.accenture.com/us-en/landing-pages/customermarkets/Pages/home.aspx>

⁷ R. Wollan, D. Palmer and N. Jain, "Digital Customer: It's time to play to win and stop playing not to lose." www.accenture.com/gcpr13

⁸ L. Downes and P. Nunes, "Big Bang Disruption." <http://www.accenture.com/bigbangdisruption>

⁹ BBVA Press Room, "Changes to BBVA's Management Committee. BBVA changes its organization to accelerate the Group's digital transformation," March 21, 2014.

http://press.bbva.com/latest-contents/press-releases/bbva-changes-its-organization-to-accelerate-the-group-8217-s-digital-transformation__9882-22-c-107570__html

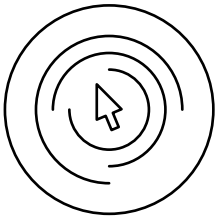
Digital transformers in their own words



The new structure will be an important factor in converting an efficient and profitable analogue bank into a digital knowledge-services business. After setting up the platforms, which are the foundations of our digital project, we can now accelerate the creation of new products and services for 21st Century customers."

Francisco Gonzalez, Chairman and CEO, BBVA⁹





Digital as a linchpin of strategy

Accenture argues that executives must embed digital in their organization's strategy.

Indeed, there may soon come a point where the terms "digital" and "strategy" are all but synonymous, as digital becomes the way in which competition is redefined and go-to-market models are reshaped.

The digital transformers are already moving rapidly in this direction. Their broader focus on growth investments, digital technology and executive leadership reflects their expectations for change.

Together, the actions of these forward-facing organizations and the accelerated pace of digital market competition make digital transformation a core assumption of any future business strategy.

Just as the first factory owners to adopt electrical power saw it simply as an improvement on their steam engines and water wheels, so many contemporary business leaders have viewed digital as just another iteration of IT.

And just as those Victorian-era manufacturers would soon come to see how many more possibilities would come with transmission

of electricity—allowing them to rethink where they could locate demand for power—so today's executives will one day see the full scope of what digital technology can bring.

Only the far-sighted few are in that number today. The truly visionary among them have a firm grasp on the "force multiplier" effect of digital, and they are working hard to ensure that their organizations are squarely on the road to digital transformation. Many others—the fast followers—have a strong sense of the possibilities, and are working diligently to experiment, and in the process, to uncover what they know they don't know.¹⁰

This report is directed to all business leaders—particularly to those in companies whose sheer numbers may create a false sense of security by mitigating the pressure for digital transformation. (See *Appendix, Figure 6.*) Our research clearly signals that many companies in many industries are thinking that they have time to respond while others are winding up the pace of change.

Companies caught in the middle, between transformation and improvement, seem unclear what to do or how to do it. Some may be paralyzed by indecision, or drowning in data. Although they are

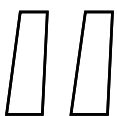
no strangers to the abundant stories about once-mighty companies that have fallen from grace—felled by disintermediation or by nimbler upstarts that ran far and fast with new technology—too many business leaders are still locked into legacy thinking about digital and its consequences.

To help jump-start the thinking of those executives, we offer a short set of urgent discussion questions. (*Next page: Questions to test your digital savvy.*) Whether the questions are asked in a formal, facilitated forum or not, they must be addressed seriously. The answers must become the seedbed for digital projects and overarching digital initiatives. Ultimately, every company's strategy will need to incorporate some form of digital transformation, even if transformation is not its explicit strategic goal.

Digital change is coming fast, and it will not be stopped. It will come from the outside in—in the form of customer choices, new products, services and experiences. It will be entirely agnostic in its impact, affecting every company and every industry.¹⁰

How quickly will your leadership team be ready to run with it?

Digital transformers in their own words



We are early in our ambitious plan to transform Argos into a digital retail leader. We are seeking to reposition our stores to support a digital future, in which digital channels are the primary interface for customers, but stores continue to be critically important as a national network for product collection and a local presence for local colleagues to provide customer service."

John Walden, Chief Executive Officer, Home Retail Group PLC¹¹

¹⁰ M. McDonald and R. McManus, "Growth Strategies for a Digital World." March 2014. <http://www.accenture.com/us-en/Pages/insight-growth-strategies-digital-world.aspx>

¹¹ Home Retail Group, News and media Argos, Argos Press Release, "Argos opens doors on first digital concept store", November 26, 2013. <https://www.homeretailgroup.com/news-and-media/news.aspx?smlbus=1519&article=5225>

Questions to test your digital savvy

Executives responsible for digital strategy should ask themselves the following questions to see how closely their organization's views on digital are aligned with those of the digital transformers:

Competition

- ✓ How do others view digital transformation?
- ✓ What threats does digital pose to our business? How could competitors use it against us?
- ✓ How could digital capabilities pull us ahead of our competitors?
- ✓ Which new competitors are using digital to go after our customers? Which of them are succeeding at this? How are they doing it?
- ✓ What new products and services should we create with digital technologies?

Organization

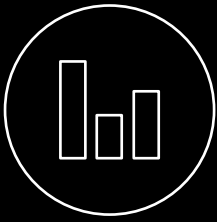
- ✓ What are the new business models, new trends and new digital technologies that we most need to watch out for –and exploit?
- ✓ What new commercial arrangements could accelerate our digital investments?
- ✓ How do we organize for success, allocate resources, and assign responsibilities?
- ✓ With whom should we now partner in a digital world?

Customers

- ✓ Do we explicitly focus our digital strategy on new growth opportunities or is digital just another marketing or efficiency program?
- ✓ How do we identify new markets and value migration in our industry?

Leadership

- ✓ Which of our senior leaders should be responsible for our digital efforts? To what extent must it be a shared responsibility?
- ✓ How do we communicate our digital intent to the board of directors, customers, suppliers, employees and other partners?
- ✓ How should we organize, measure, recruit, and reward in a digital world?

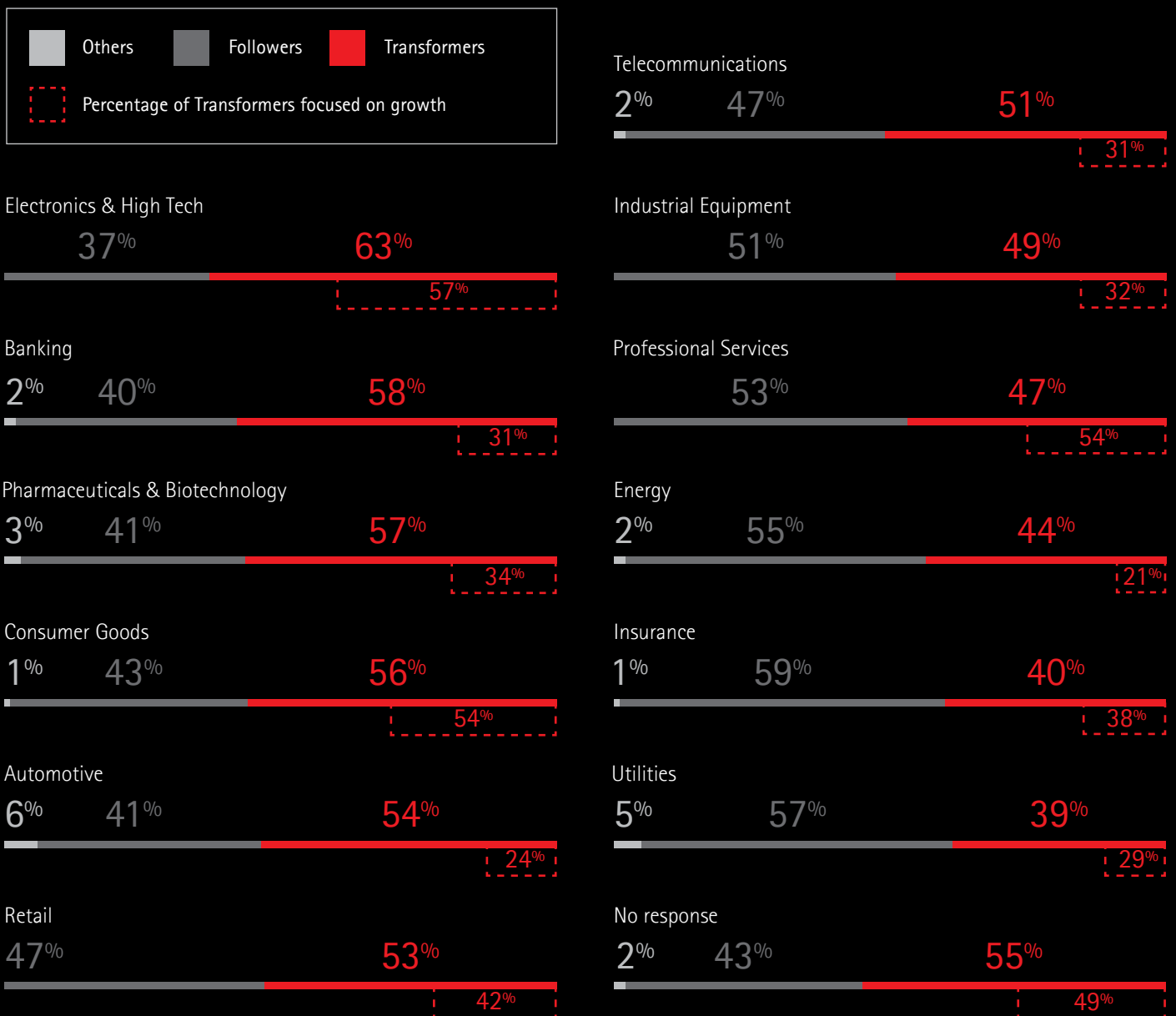


Appendices

Some industry sectors have far to go in terms of digital transformation

It is plain to see that the high-tech sector, predictably, has no shortage of digital transformers in its ranks. But some companies in industries such as insurance and utilities clearly need to accelerate their efforts if they are not to be blindsided by competitors who leverage digital far better than they can. (See Figure 5.)

Figure 5: Digital transformers exist in every industry, with a significant portion of them focused on transformation for growth.

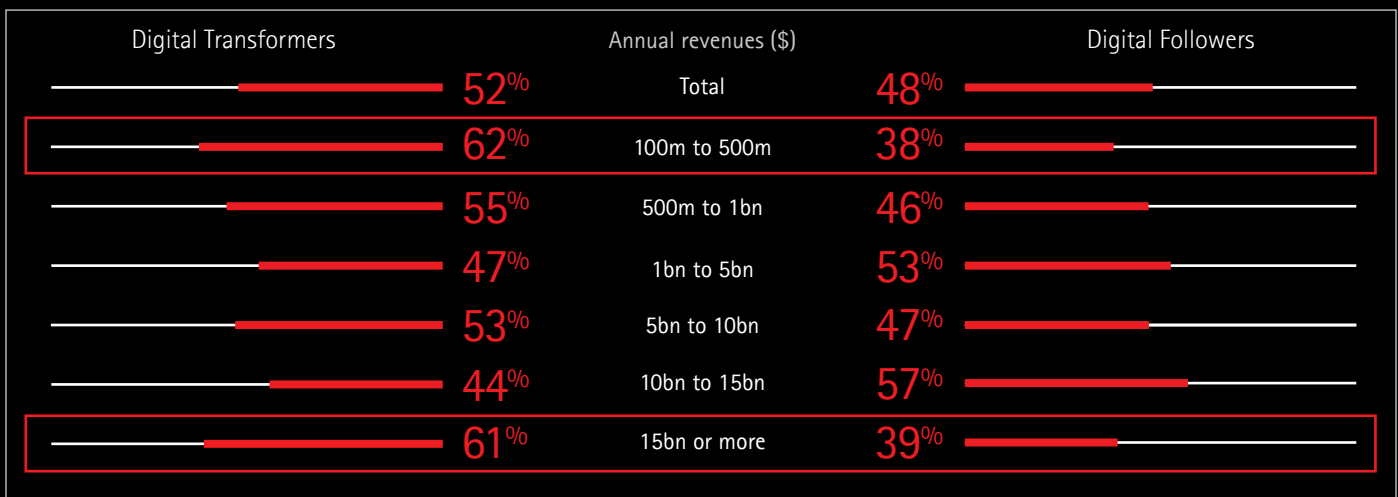


Large and small companies will create disruption for those in the middle

A regular objection from senior executives has been that digital transformation is entirely appropriate for small companies but not for large ones. This opinion appears to associate company size with a desire to maintain the status quo and to view such transformation as a form of media or consultant hype. But those objections are fading rapidly. Executives at both large and small organizations now anticipate greater digital transformation.

(See Figure 6.)

Figure 6: Digital transformers concentrate at the large and small ends of company size



Small companies (defined here as those with annual revenues less than \$500 million), are naturally strong advocates for transformation and growth. But "big" is the next big thing¹²: more and more large corporations now evidence similar ideas. An early majority of executives in companies with sales above \$15 billion believe in and expect to create digital transformation.

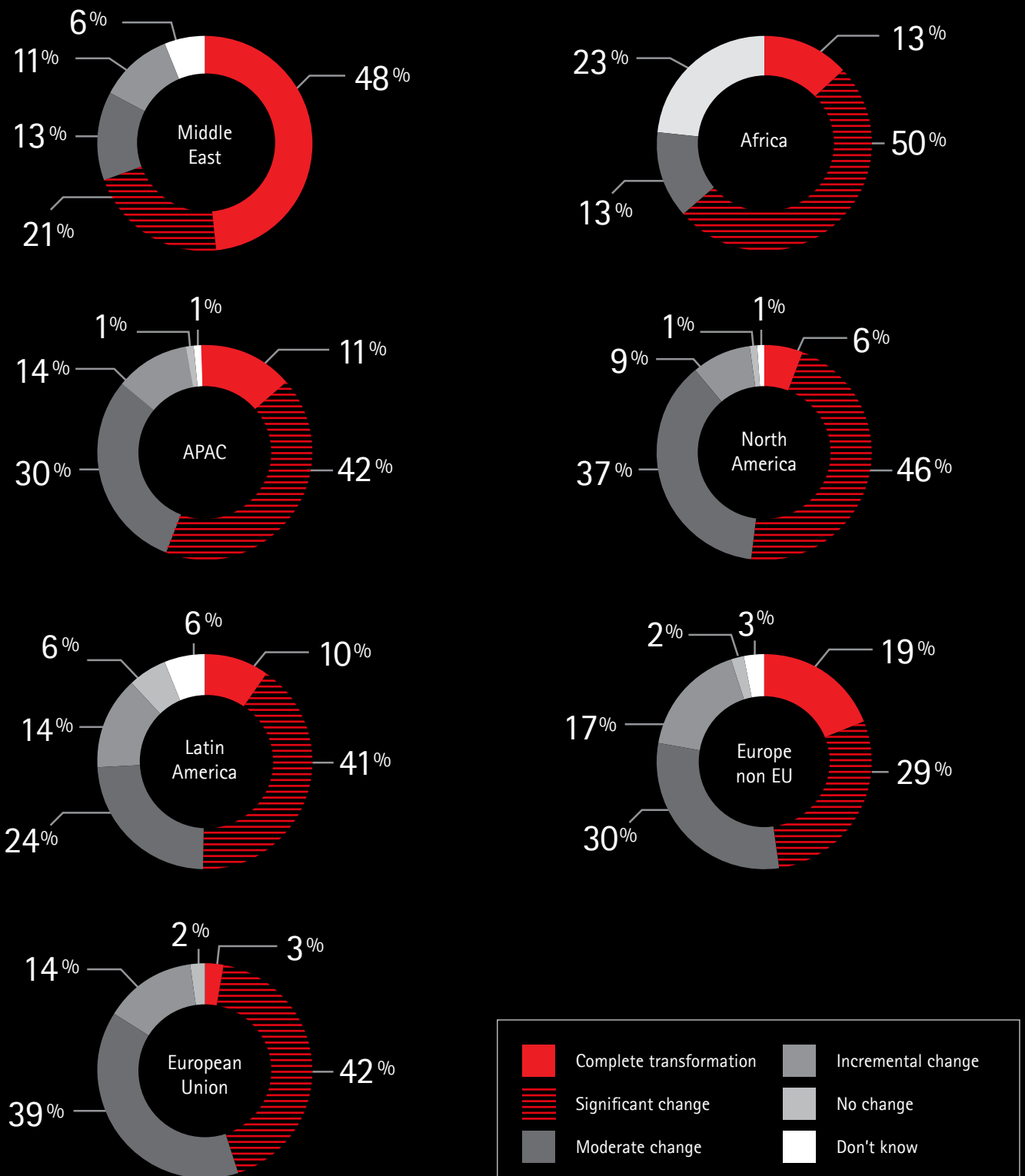
Players at both ends of the revenue spectrum are markedly more growth focused with their digital investments. It is the mid-sized companies that are those most likely to be disrupted by digital change.

¹² P. Daugherty, M. Biltz and P. Banerjee, "Accenture Technology Vision 2014." <http://www.accenture.com/Microsites/it-technology-trends-2014/Pages/digital-business.aspx>

Digital transformation is a global expectation

Digital markets are global markets because they are functions of the World Wide Web. The survey results show a real appetite for digital transformation across the major geographies. With the exception of Europe, a majority in all regions expect complete or significant transformation from digital technology. (See Figure 7.)

Figure 7: Digital transformers are found in every geography



About the research

In the fourth quarter of 2013, the Economist Intelligence Unit (EIU), an independent business within The Economist Group, conducted a CEO briefing survey for Accenture. The full survey explores views of senior corporate leaders on prospects for the global economy and on digital technologies within organizations. This research report presents major findings of this extensive survey which are focused on digital transformation. The survey contained responses from 1,041 C-suite executives or board members in 20 countries around the world representing 12 major industries. Eighty-five percent of the companies in the survey generate more than US\$500 million in annual revenue. Accenture, "CEO Briefing 2014, The Global Agenda: Competing in a Digital World." See: <http://www.accenture.com/ceobriefing>. Note: Data contained within this report relate to questions 14–20 (pages 38–43).

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