

# Embracing the Digital Era

## What We Need Is a Vision, a Structured Approach and Experimentation

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Many business sectors are being reshaped at an astounding pace, fuelled predominantly by new digital innovations. In times of radical innovation, companies are always faced with a mixture of risks and opportunities. Traditionally, the ones with the best ability to adapt to continuously changing environments today have always been tomorrow's winners. There's no reason why this should be different this time. Business leaders need a profound understanding of what's happening in order to develop a structured approach, and should simultaneously be creating a stimulating environment for experimentation and collaboration. This article elaborates on the impact of digitization upon companies, and sketches a way to approach the challenges involved.



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### Introduction

*"If you keep doing what you always did, you'll get what you always got."* This mantra should be repeated by all business leaders every morning. Their challenge is to adapt their business model and strategy continuously in order to anticipate new developments in times of accelerated change.

Historically, this has always been the case, of course. This time, however, the digital transformation is very powerful and omnipresent. In fact, it has already changed our behavior as human beings. Amazon has long since changed the way we buy things. Netflix has transformed the way in which we consume entertainment on a variety of devices. And companies like Airbnb and Uber are now in the midst of shaking up the hotel and transportation industry. Many other industries will follow suit.

Change may come from within an industry, but may also originate in other domains. We've seen challengers leapfrogging industry borders and introducing disruptive new business models. New digital services are entering markets that have been physical for many years. The rise of the smartphone provides a powerful example of these blurring borders in industry. It has not only affected the

markets of camera and stand-alone GPS producers but is now also starting to enter the markets of credit card organizations. Another typical aspect of the current digital transformation is that, with today's technology, one doesn't need a large and powerful organization to bring fundamental changes to a sector. A bunch of smart people can do what once required an entire enterprise infrastructure – including IT departments.

The laws of digital Darwinism imply that not the strongest companies – the market leaders – will be tomorrow's winners, but rather those companies that are able to adopt change better and faster. The consequence is that many established enterprises have to change quickly to stay ahead and thereby safeguard a viable business model for the future. The ones that don't are at risk: they will probably be out-innovated by peers and new challengers.

While digital disruption may threaten current businesses, it also creates opportunities for those organizations that are willing to embrace change. Organizations that do not seize the opportunity stand to lose, and will find it ever more difficult to catch up as technology advances. The million-dollar question is: How can business leaders deal successfully with this challenge?

## It's All About the NextGen Customer Expectations

Of course, there is no standard recipe, and every organization should follow a tailor-made approach. However, some principles stand out. One of them is that business leaders need to be convinced that their organization needs to focus on the customer and his or her expectations. That is more than ever the case in this digital age of transparency.

With the arrival of more disruptive technologies and the digital transformation, it's not enough to simply copy the analogue world and digitize it. Today's customers increasingly demand a superior experience as part of their daily interaction with the market. Rapid adoption of digital technology, mobile devices and social networking is empowering customers to an even greater extent, moving digital into a company's daily business and revolutionizing value chains. User experience is the key to success.

We could use the banking sector as an example here. It is paramount that digital remains top of the bill in this domain. Online and mobile banking dominate as preferred channels. The millennials (born after 1982,

also called "generation Y") have learned to expect highly sophisticated digital capabilities, and show little interest in anything less than seamless. For this reason, it is essential that banks continue to invest in innovative digital solutions. Another clear trend is that consumer behavior is drifting. Young professionals are slowly shifting towards financial products from more than one bank. This is both an opportunity and a risk. Banks need to consider which incentives they can put in place to lure customers, while minimizing the exploitation of rewards. In this respect, it is important to note that the majority of young professionals primarily use channels to research and choose financial products that are not directly controlled by banks. Social media simply cannot be ignored in this respect, offering opportunities in many domains, such as customer insight, product development, servicing, marketing and sales and, of course, communication.

This above-mentioned challenge is not only paramount in the banking sector but also in other business domains. The rapid adoption of digital technologies, such as mobile devices, social networking, cloud, analytics, and internet of things for example, is profoundly transforming the relationship between businesses and their customers. In this digital economy, consumers are becoming more powerful and technologies are more mature. Senior executives must redefine the way they interact with their customers and also redefine the impact on their current and future business and operating model. Changes can be triggered in different ways. On the one hand, client expectations and the combination of client/product will prompt changes. On the other, technological innovation in itself may change business models.

## It All Starts With a Vision and a Structured Approach

Companies must develop a deep understanding of the impact that digital disruption will have on products, services and the business model. A structured approach is needed to effectively take charge of the digital challenge. Obviously, the first step is to develop a vision on the digital developments and the consequences for the company.

*User experience  
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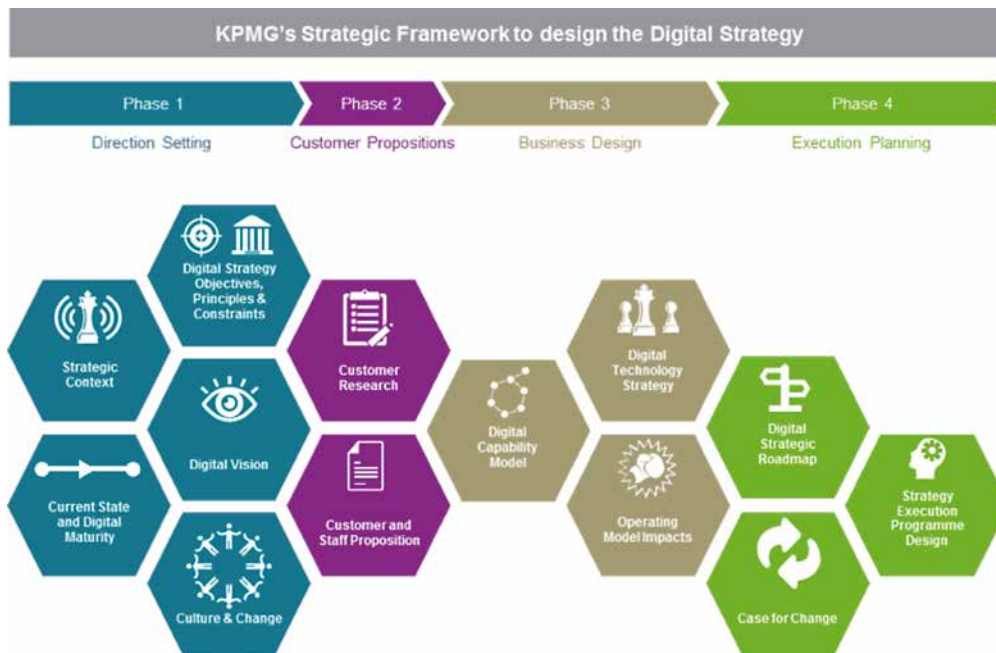


Figure 1. KPMG's Strategic Framework to design the Digital Strategy.

Based on this vision, the next steps would be to build new customer propositions on this vision and to design the business. The final step is to execute plans. KPMG guides clients along this route, based on the model in Figure 1.

Our experience shows that one of the key challenges for companies is to embed customer experience in such a way that becomes a differentiating factor. This also implies that companies have to deal with challenges in the IT domain, such as building new skills, strengthening the collaboration between business and IT, and the limitations of current (legacy) systems. KPMG research (see Figure 2) shows that lack of vision is the main issue here – cited by 35% of respondents – followed by lack of funding (30%), and lack of critical skills (30%). This all calls for a structured approach.



Figure 2. The biggest challenges in responding to digital disruption ([KPMG15]).

## But a Structured Approach Is Not Enough. Experiment!

Having said that companies need this structured approach, it is also obvious that, in the 21<sup>st</sup> century, we need more than “old school” linear thinking to adapt to radical change. Companies also need to experiment, collaborate, and learn on the fly.

One of the challenges is to make connections in an ecosystem of parties and collaborate with start-ups and other companies to develop innovations. Corporations that struggle to work with outside parties and systemically close the gates to start-ups and other parties will lose sync with the world around them. They must actively seek a connection with an ecosystem of players. That means looking for inspiration about where potential disruption could come from, in order to understand where the risks of disrupting the current business model lie, and also where opportunities can be found. To make a good connection to the ecosystem, companies need to develop a culture that is open to experimentation and collaboration. It might be the worst cliché in the world, but it's the truth: without commitment and support from the top of the organization, this culture will not flourish.

One could relate to Google's mantra in this respect: “Always in beta”. The company has a *Big Hairy Audacious Goal (BHAG)* – making all the world's information available and searchable to everyone – but takes on many small improvements on the way to achieve this goal. This is precisely what we need to successfully embrace the digital transformation: a combination of a structured approach towards large goals on the one hand and continuous exper-

# CIOs need to shift from “big bang” IT projects to the use of agile development processes

imentation on the other. The IT function has a crucial role in this way of working: organizations must have clear visions on the IT landscape of the future but must also learn from the way in which start-up companies build new applications step by step, working towards minimum viable products. CIOs need to shift from “big bang” IT projects to the use of agile development processes, which see IT and the business working together on discrete digital initiatives in an incubator or lab-type environment. This allows the organization to move ideas from design to testing to reality much more quickly.

## To Become Digital Is a Journey

Anticipating the digital transformation is both challenging and rewarding. Companies need to develop new skills and capabilities as well as improve the maturity and performance of the existing capabilities required for digital transformation. Some of these improvements will come from developing existing staff and recruiting internally from other departments, but some will require acquiring capabilities from external sources whether through direct hiring or from outsourcing/contractor relationships. Either way this will be challenging, given that demand for these capabilities is very high while the supply is thin. We need powerful leadership in this time of change. The magnitude of the impact that digital disruption is likely to have and the significant organizational change effort required for transformation, combined with the absence of

strong executive leadership, are likely to present a greater risk to success. Earlier research shows that many CEOs and CIOs fail to become truly involved. The majority of CIOs (58 per cent) and almost half of the CEOs (43 per cent) are involved (see Figure 3) or very involved in their firm’s digital business strategy, but only a small number are actively leading the effort. This low rate of leadership is troubling, given the magnitude of the impact that digital disruption is likely to have and the significant organizational change effort required for transformation.

The CIO can (or should) play an important role in this leadership. CIOs need a clear view of what digital disruption is, when it will impact their business, and how to leverage disruptive technologies. The impact of digital disruption is strong and strong CIOs can guide the organization through the necessary organizational change. Merely supporting the effort is not enough, real involvement is paramount to success. If they fail to succeed in this challenging role, they run the risk of their role being marginalized. It’s not an easy challenge and it will amount to a delicate balancing act, as many research papers point out that lowering the cost of IT is still one of the key focal points. CIOs must invest in change *and* lower their cost. They must adopt a structured approach *and* leave room for experiments. But it surely is a rewarding challenge: the CIO who manages to succeed with this balancing act has undoubtedly demonstrated his added value for the business.

If your client has a digital business strategy, how involved is the CIO and CEO in formulating and/or executing it?



Figure 3. CEO and CIO involvement in digital business strategy ([KPMG14b]).



## Five Pitfalls in a Digital Transformation

### 1 Inadequate focus on the challenges of change

Successful transformation demands more than implementing new technology. It is a change program in itself and requires a vision, early assessment of readiness and issues, active and honest communication addressing specific stakeholder group concerns and needs, early human resources (HR) involvement, and assurance to key “A-team” employees that their interests and needs are a priority. “Transformation first and we will think about digital strategy along the way...” is far from the best approach.

### 2 Absent or unsophisticated governance

The governance model defines how decisions are made and enforced. Lack of strong governance can result in failure to drive the right accountabilities and pace of execution. Transformational governance must clearly articulate ownership for transformational results and decision-making to achieve and reinforce those results.

### 3 Inexperienced planning and execution teams

A major transformation is a once-in-a-career experience for most executives. This calls for professional teams. Too often, future designs end up looking quite similar to past designs, with some adaptations and updates. True transformation benefits from professional objectivity and experience leveraged from previous lessons learned.

### 4 Insufficient resourcing

The time and cost required to achieve a successful transformation is often underestimated, be it due to bravado, inexperience or ambitious third-party provider claims. Achieving success requires an honest assessment of the hard dollar costs and the people resources needed to execute, full consideration of the inherent challenges, and appropriate accommodations of contingences.

### 5 Inadequate risk management or monitoring

This can quickly lead to potentially irreversible and costly errors, loss of key stakeholders’ confidence, and substantial business disruption. Actions to mitigate these issues include building risk management into the process, actively monitoring risks, and agreeing appropriate fixes and accountabilities.

(Source: [KMPG14a])

## References

[KMPG14a] KPMG International, *Achieving successful IT transformations: 11 lessons from the field*, 2014.

[KMPG14b] KPMG Global CIO Advisory Pulse Survey 2014.

[KMPG15] KPMG Global CIO Advisory Pulse Survey 2015.

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