

LEARNING FROM ECOSYSTEM PIONEERS

Pivotal Lessons from the Best Digital Renovators

The Digital Metamorphosis of Three Industries

*A Digital Rebirth for Life Insurance,
Annuities, and Pension Companies*

The Rise of the Next-Generation Telco

*The Digital Revolution of Life
Sciences Companies*

Pivotal Lessons from the Best Digital Renovators

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Facebook, Google, Uber, and Airbnb: These born-digital companies were collectively worth more than \$1.4 trillion this August,⁸⁰ an astonishing sign of how digital innovators have created enormous wealth by upending business models and taking market share from many traditional enterprises that once dominated the global economy.

Yet it would be a mistake to believe that every digital dominator was born digital, funded by the Silicon Valley cabal of venture capitalists who themselves have become extraordinarily rich. On the contrary, some traditional companies have used digital technology to renovate their existing businesses. In doing so, they have become powerful competitors in the new economy.

In contrast to the born-digital innovators, we refer to these companies as 'digital renovators.' They include Best Buy, Walmart, Adobe, Intuit, Apple, KLM, and Delta Airlines.

⁸⁰ Google was worth \$787 billion, Facebook \$554 billion, and Uber \$71 billion on Aug. 1, based on their stock prices. Airbnb was worth \$35 billion based on its acquisition of another company in March 2019, according to a Recode article, March 19, 2019. Accessed Aug. 1, 2019. <https://www.vox.com/2019/3/19/18272274/airbnb-valuation-common-stock-hoteltonight>

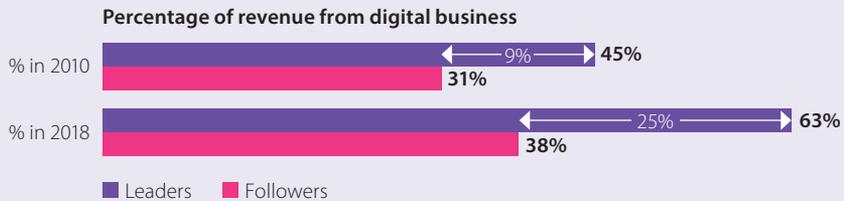
Some of them (like Best Buy and Walmart) have merged their ‘bricks’ and ‘clicks’ to give shoppers the best of a physical and virtual customer experience. Others (such as Adobe and Intuit) have brought to the cloud the software they once shipped on disks, and in doing so have become more embedded in their customers’ businesses. And airlines like KLM and Delta have used digital technology to reduce airplane maintenance problems and make booking and navigating through airports a simpler experience. Meanwhile, companies like Apple have used their expertise in designing computers to create small digital devices and digital online services that many of us can’t do without.

Their success raises the question: Why have they thrived in the new era of digital innovation while many other long-established companies have been humbled or even destroyed? A new TCS study on digital ecosystems and digital business (surveying 1,010 chief information officers in North America and Europe) sheds new light on this important question.

These insights came after we identified ‘digital leaders’ and ‘digital followers’ among the companies surveyed. In 2018, the leaders generate a higher portion of revenue (63%) from their digital businesses and digital offerings than did followers (38%). (See Figure 15.) This 25-percentage-point gap is not

Gap is Widening—Leader Organizations Continue to Generate Higher Revenue From Digital Businesses

In 2018, leader organizations had 63% of their revenue attributed to digital businesses while the followers indicate 38% of their revenue is attributed to digital business.



Approximately what % of total company revenue did these digital businesses, products and/or services represent back in 2010, and what percentage did they represent last year?

Figure 15: Revenue from Digital Business

only substantial—it represents a dramatic increase from 2010, when we found only a 14-percentage-point gap between the leaders and followers.

The digital leaders—most of them the digital renovators that we talk about—are quite different than the rest of the pack in other ways. One is how prepared they are to compete against digital competitors from outside their sector. About four out of five (82%) digital leaders believe they are mostly or fully prepared for the attackers from outside their sectors—more than twice the percentage of followers (38%) who feel the same way. Only 20% of all CIOs surveyed felt their companies are fully prepared. (See Figure 16.) Media, consumer packaged goods, and travel companies were the least likely to feel fully prepared to meet the digital onslaught.

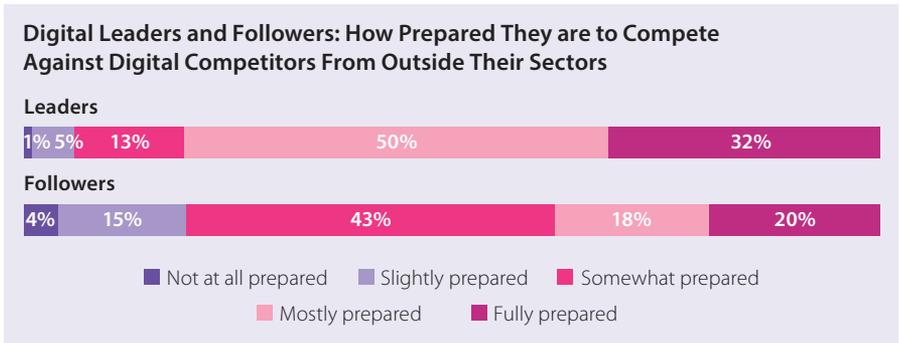


Figure 16: Preparedness to Compete Against Digital Competitors From Outside Their Sector

This article identifies six key success factors of companies established before the Web that have succeeded in digital transformation.

Six Ways That Digital Renovators Have Remained Relevant

What sets digital renovators apart from their rivals that have struggled in the last two decades? Why have they been able to adapt so well to this world of digital ecosystems and digital business?

From studying the successes of the digital renovators, we see six factors that have underpinned their revival and, in some cases, survival. Strikingly, these factors are more closely related to classic matters of leadership and management than to digital technology itself.

1. They put the customer at the heart of their digital transformation program.



Digital renovators concentrate their investments and their most effective people on customer-focused capabilities. Beyond these core employees, they dedicate significant energy to upgrading and upskilling talent to improve, directly and indirectly, the quality of the customer experience.

After all, large legacy companies tend to have more seasoned employees than digital startups, so why not transform that into a competitive advantage? Renovators also upgrade their business models with the goal of using digital capabilities to improve the customer experience.

Best Buy serves as a prime example. CEO Hubert Joly arrived at the company in 2012, when it was en route to a \$1.2 billion loss in its fiscal year 2012.⁸¹ In his first months, he visited stores and even worked in one for a week. Based on what he learned, he led executives to improve the customer experience, including investing heavily in employee training and overhauling an inventory system that provided incorrect information on whether a product was in stock.

Software upgrades improved logistics, enabling a massive expansion of same-day delivery. To better serve customers and ensure that they purchased at Best Buy rather than Amazon, he implemented a successful price-matching program, initially viewed as a

risky move by Wall Street. Recognizing that its stores and knowledgeable employees gave Best Buy a better chance to connect with customers than Amazon could, he launched an in-home advisory program to help them identify electronics appropriate for their lifestyle, and encouraged its advisers to build relationships rather than try to quickly close sales.

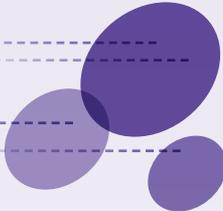
The result: Best Buy's financial results have been remarkable, with the company netting more than \$5.7 billion in cumulative profits since its fiscal 2015 year.⁸² Its online sales have grown significantly, to about 16% of revenue. By the latest fiscal year, it had hit its financial targets two years early, and its share price grew more than four-fold since Joly took over in 2012.⁸³ (He stepped down as CEO this June.)

⁸¹ Fiscal year ended March 3, 2012. From Best Buy's 10K filing for 2012, p. 61. Accessed Aug. 1, 2019. <https://www.sec.gov/Archives/edgar/data/764478/000076447813000014/bby-2013x10kt.htm#sA97A074035424C4938E47AAECA5AC4F5>

⁸² MarketWatch data on Best Buy. Accessed Aug. 1, 2019, <https://www.marketwatch.com/investing/stock/bby/financials>

⁸³ CNBC, June 19, 2019. Accessed Aug. 1, 2019. <https://www.cnbc.com/2019/06/19/former-best-buy-ceo-hubert-joly-defied-expectations-at-best-buy.html>

2. They are faster to identify key assets to compete in a digital world.



Innovation, of course, is frequently faster and more successful at smaller, nimbler companies than at large legacy businesses. The digital renovators that we studied made acquisitions of these innovative startups a key part of their strategy.

Consider Walmart, a company that has built its enormous success on mastering supply chain processes. It has unparalleled brick-and-mortar retailing expertise and purchasing scale. It is a keen negotiator and excels at logistics. E-commerce, however, was not in its DNA, and it was struggling to gain traction against rival retailing behemoth Amazon. In 2016, Walmart's online revenue (\$14 billion) was about one-seventh Amazon's (\$99 billion).⁸⁴ So that year, Walmart spent \$3.3 billion to buy Jet.com, at the time a 2-year-old online retailing upstart.

Jet.com had been launched by Marc Lore, the serially successful digital entrepreneur behind such sites as Diapers.com, Wag.com, and Soap.com, all of which Amazon had purchased in 2011. Jet.com and Lore's leadership have helped provide the talent and technology Walmart needed for its e-commerce business to reach lift-off. Walmart added millions of products to its website, and increased e-commerce sales 40% in 2018.

⁸⁴ Business Insider, accessed Aug. 1, 2019. <http://www.businessinsider.fr/us/walmart-is-buying-jetcom-2016-8>

3. Top managers have the necessary digital expertise, engagement, and incentives to succeed.

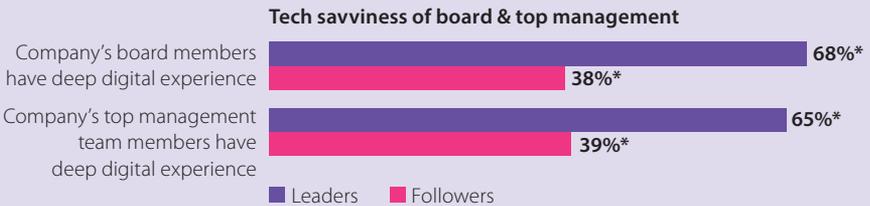


The TCS CIO study found that the most successful digital renovators over the past decade are far more likely to feature strong tech expertise on their board and top management team than the less successful follower companies. In the digital leaders, an average 68% of board directors and 65% of top management team members have deep digital experience. In contrast, only an average 38% of board members and 39% of top management team executives have extensive digital backgrounds at the digital followers. (See Figure 17.)

Digital renovators make sure that their boards and top executives have deep digital experience. Best Buy's Joly saved the company from suffering the fate of Circuit City (which failed to adapt to competition from Amazon and Walmart, and filed for bankruptcy in 2008).⁸⁵ Microsoft CEO Satya Nadella's turnaround of Microsoft since 2014 provides a similar story. He has been transforming the firm from a desktop

Board and Top Management at leader organizations have deep digital experience

Leaders are almost 1.5x-2x likely to have tech savvy board and top management than followers.



*Summary of Mean

Roughly what percentage of your company's board members have deep digital experience—"deep" defined as having been an executive and/or a board member of a company with digital products, services, e-commerce or other digital processes?

Roughly what percentage of your company's top management team members have deep digital experience—"deep" defined as having been an executive at a company with digital products, services, e-commerce or other digital processes?

Figure 17: Digital Experience at Leader Organizations

⁸⁵ Time magazine, Nov. 11, 2008, accessed Aug. 1, 2019. <http://content.time.com/time/business/article/0,8599,1858079,00.html>

computer software and gaming device company to a business software, gaming, and cloud services firm. Nadella had run Microsoft’s cloud and enterprise software business before becoming CEO.

But deep digital experience at the top is not enough. A company’s board and top executives must be in sync on the same digital strategy. The TCS CIO study found that top management at digital-leader companies were more likely to be aligned around the new direction. Strikingly, at leader companies, CIOs were 21 percentage points more likely to be on the same page as their

CEOs around digital innovation than followers, according to our survey. We found a similar trend with the board, lines of business heads, and functional leaders. (See Figure 18.)

Getting such tight alignment requires top executives to ‘walk the talk’ and show continuing interest in the digital transformation program. The CEO must kick off the program, lead the steering committee, actively engage in all critical decisions, and ensure follow through. This proactivity is crucial to countering the drift that takes place when senior leaders switch their attention to other things.

Digital innovation requires consensus across the board and drive from top. Leader CIOs are highly effective in driving consensus

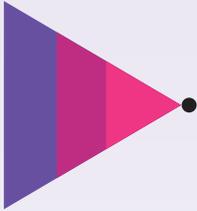
CIOs in follower organizations are not as effective in driving across the board consensus, especially with CEOs.

Do you believe other key stakeholders within your organization agree with your vision of future digital-related growth opportunities?

Stakeholders	Leaders	Followers
Board	86%	75%
CEO	86%	65%
Heads of lines of business	92%	73%
Functional heads	86%	68%

Figure 18: Leadership Drives Digital Innovation

4. With their digital transformations, they narrow their focus.



By narrowing their focus, companies invest resources in activities that differentiate themselves and can solve more of their core customers' needs. This typically involves improving customer-focused capabilities and practicing 'differential management,' where the best and brightest are switched to the most critical tasks. It also entails finding new revenue streams in adjoining sectors and targeting breakthrough products and services, rather than simply attempting to get more juice out of the current ones. Ultimately, this narrowing of focus leads to business expansion. (See Figure 19.)

A great example of this is Intuit, which has reinvented itself numerous times since launching Quicken in the early 1980s. In recent years, faced with competition

Future growth will come from creating breakthrough products and services through innovation—follower CIOs don't see it that way

Glaring differences in how CIOs of leader organizations sees innovation and new product & services to be the driver of future growth whereas CIOs of follower organization still believes growth will continue to come from incremental gains through existing customers.

However, both leader and follower CIOs agree that focusing on current customer will be crucial.

Leaders	Followers
Creating breakthrough products and services through game changing innovations	Focusing on current customers, continually gaining more knowledge on them to keep improving our products and services
Focusing on current customers, continually gaining more knowledge on them to keep improving our products and services	Improving the customer experience to help customers purchase, use and buy more of our products and services
Identifying new revenue streams in adjoining sectors	Being superior at creating demand for our products and services—i.e., being the best at marketing and sales

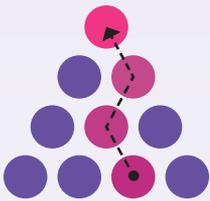
What do you think will drive your company's future growth over the next decade? Please use a scale of 1-5, 1 is not at all and 5 is to a large extent.

Figure 19: Top 3 Future Growth Driver

from behemoth-backed entrants like Microsoft Money and free startup alternatives like ZohoBooks, Intuit has largely abandoned shrink-wrapped accounting applications that long drove its success in favor of cloud-based software as a service.⁸⁶

Most recently, Intuit launched an open online platform for small businesses. The result: Intuit remains on *Fortune* magazine's 'Future 50' list of businesses with the best prospects for long-term growth, decades after many of its original competitors have failed.⁸⁷

5. They drive early successes to reduce organizational resistance.



Digital transformations are hard, disruptive, and lengthy, typically involving multi-year transitions. As such, digital renovators target early successes to build momentum and keep employees motivated.

North Carolina public utility Duke Energy decided it needed to harness artificial intelligence, data analytics, and automated digital processes to contend with utility deregulation and new competition. A source of digital innovation has been its finance function. A key goal was to free employees from menial tasks and enable them to do more meaningful, forward-looking work, according to CFO Steve Young.⁸⁸

He recognized that getting managers to embrace change would be difficult. So he began with a 'lighthouse' project to demonstrate the efforts were worthwhile. "We started in finance, with a few software robotics that now perform bank reconciliations, account reconciliations and financial-statement compilations," he told *The Wall Street Journal*. "A lot of those tasks were done quickly. So, I could say: 'Hey, we're doing it here in finance. You need to start doing it in your department.'"

⁸⁶ Gigabit magazine, Mar. 25, 2019. Accessed Aug. 12, 2019. <https://www.gigabitmagazine.com/cloud-computing/what-intuit-gets-right-about-digital-transformation>

⁸⁷ *Fortune* magazine, accessed Aug. 1, 2019. <https://fortune.com/future-50/intuit/>

⁸⁸ Wall Street Journal interview in May 2019 with Duke Energy CFO Steve Young, accessed Aug. 1, 2019. <https://www.wsj.com/articles/how-automation-is-changing-the-workplace-at-duke-energy-11557799260>

6. They are obsessive about understanding the competitive landscape.



Many companies going through a digital transformation make the mistake of turning inward. They become so focused on their projects that they lose track of what competitors are doing.

The most successful digital renovators realize the pace of change is so fast that they cannot take their eye off what's going in the digital ecosystem. They're ready to adjust their strategy, or even pivot when needed.

The digital leaders are especially focused on digital companies than they are on the established firms with which they've competed against for years. (See Figure 20.) When we asked the leaders who their most formidable competition would be between today and 2025, 37% pointed to digital companies already in business and 39% said digital companies that haven't yet been born but will be here over the next six years. Less than a quarter (24%) said they are most worried about the competitors they've dealt with for years.

Digital Leaders vs. Followers: Between Now and 2025, Who Top Management Believes Will Be Their Most Formidable Competition

Leaders



Followers



- Established companies we've competed with for years
- Companies established as digital companies
- New digital companies that aren't yet here but will be by 2025
- Other

Figure 20: Digital Leaders vs. Followers

That is in stark contrast to the digital followers. Nearly half (49%) have their eyes trained on established companies. Less than a fifth are focused on established digital companies, and about a third are most concerned about new digital competitors that will crop up by 2025.

The competitive focus of a global chemical company illustrates this well. In comparing their digital strategy to those of other companies, top management was far more interested in learning from Silicon Valley startups than from other chemical firms.

Following in the Steps of the Best Renovators

Companies that want to emulate the successes of firms like Best Buy, Intuit, Duke Energy, and Walmart should start by examining the customer experiences they are delivering and ways that digital technology could transform them.

As our study showed, the digital revenue gap between traditional organizations that have become digital leaders and those that are digital followers has grown substantially in less than a decade. We expect this trend to continue, or even accelerate as leading businesses increasingly capitalize on technologies such as the Internet of things, artificial intelligence, and blockchain.

The stories of these and other digital renovators should give every longstanding company strong hope that they can compete in this new era of rapidly shifting, digitally savvy competition. Digital success is not the exclusive preserve of born-digital companies—at least, it isn't for firms that can reinvent themselves smartly but quickly for a world of digital ecosystems.