Make Digital Your Core Strength!
Connect experiences to process for exceptional business impact

Many big companies are on their way to being Amazoned or Googled or Ubered. We all know that the business impact of new digital technologies is massive, and we’re all warming up to it, right…? Early winners are acting boldly, while the laggards are stuck in the mud. Senior leaders who think it’s hype, or who say “I’m sure we’re doing just fine…” well, they’re in for a rough ride. If you’re not a digital leader today, quit stalling. It’s time to strengthen your digital core.

HfS researched nearly 400 $1Bn+ enterprises¹ to understand the impact of a digital business model on their operations and learn the best practices – and the worst – for tomorrow. This study, designed and conducted with Cognizant digital thought leaders, highlights the key attributes of a digital-savvy organization, identifies the economic impact of digital leaders versus laggards, and shows the path to near-term value.

“It’s unclear exactly when, how and what disruption will occur. So, it’s a weird place to be in because you see these massive disrupters out there that are going to fundamentally change your business and yet we still run a successful, profitable business today. This leads to very interesting dialogues because you can’t be blind to what’s happening”

– Chief Digital Officer, Banking

¹: Please see the Research Methodology section for more details on survey demographics.
Key Findings:

» **Digital is the business (not just IT).** Switched-on leaders recognize that digital has left the Corporate IT department. 65% of respondents noted that digital is about far more than simply throwing investment at the latest technology (for example: Blockchain; AI; 3-D printing), it’s about lower costs, higher productivity, and outstanding customer experiences.

» **Early adopters are already gathering exceptional returns.** Enterprises that demonstrate high digital maturity (the top quartile, in our assessment) are experiencing, on average, a ~35% higher revenue growth than respondents from the bottom quartile.

» **Winners have a sense of urgency and vigilance for digital.** Digital disruption is not only in the headlines. Nearly 30% of companies have already seen their top two competitors change in just the past three years. That number will rise.

» **Renaissance IT and a data-driven mindset deliver premium growth.** IT organizations that show they can help business to adapt to digital disruptors are driving revenue growth, 46% higher than average. Conversely, organizations turning away from data driven insights have 75% lower than average growth. Even for legacy enterprises, the digital economy is “winner takes most.”

» **Culture eats digital strategy for breakfast (and lunch).** 51% of the highest performing enterprises see their cultures as holding them back in the digital transformation journey. Laggards, on the other hand, are missing the warning signs - only 36% of the lowest performing enterprises identify culture as a problem to progress.

» **Your back-office just became your customer experience.** 66% of senior decision-maker respondents noted the criticality for CX of changing business processes to align better with human wants and needs.

» **But… are service providers bringing jalopies to a Formula 1 race?** Two-thirds of leaders noted that they’re looking for a partner to drive innovation, contribute investment, apply automation and new ideas, and focus on delivering business outcomes.

The findings of this study should be a wake-up call to “deer-in-the-headlights” enterprises that seem to be just waiting to get flattened by their digital-savvy competitors.
What you’ll read

Digital is the business (it’s not just IT) 5
Early adopters are already gathering exceptional returns 6
Corporate narcissism is epidemic 8
Culture eats digital strategy for breakfast (and lunch) 10
Your back office just became your customer experience 12
Are service providers bringing jalopies to a Formula 1 race? 13
10 Things to do on Monday (+1) 14
Research Methodology 18
About the authors 19

What you’ll see

Exhibit 1: Correlation between financial performance and digital maturity 6
Exhibit 2: The majority of the enterprises are “deer-in-the-headlights” waiting to get flattened by their digitally-savvy competitors 8
Exhibit 3: Organizational culture holds back progress with digital transformation 11
Exhibit 4: Collapsing back-, middle-, and front-office silos 12
Exhibit 5: Leading digital performers have more strategic relationships with their service partners 13
Exhibit 6: The Digital OneOffice Conceptual Framework 17
Exhibit 7: Study demographics 18
Digital is the business (it’s not just IT)

In the distant past – say, 12 months ago – it was still common to hear hopeful murmurs and excited whispers from groups of people gathered round enterprise water coolers, trying to wish away the challenges arising from the shift to digital. “I know we need to be digital, but isn’t that IT’s problem? Certainly, we don’t need to do anything, yet… right?”

Those days of wishful thinking are long gone. IT is still important – in fact it’s never been more critical to driving growth in the digital economy – but now it must be driving customer experiences and middle- and back-office business processes to re-energize revenue growth.

A remarkable 65% of respondents noted that digital is about far more than simply investing in new technologies: it’s about driving new revenue and customer experiences.

Furthermore:

» 35% of respondents associate digital transformation with “investing in new IT,” such as a cloud platform, or SaaS.

» 32% of respondents associate digital transformation with “creating new customer experiences” by implementing the “coolest” use of innovative new technologies, such as social, mobile, interactive, etc.

» 20% of respondents associate digital transformation with “aligning/harmonizing business operations” to customers’ needs. This means that all organizational touchpoints, processes, systems and technologies are driven by the customer experience strategy, from front office to back office.

» 13% of respondents associate digital transformation with “creating new revenue streams” through commercial leverage of digital channels.

Organizations are on a journey where people, intelligence, processes and infrastructure will all come together as a single, integrated unit, with a common set of business objectives, all focused on achieving the same outcome: exceeding customer expectations.

“Where is the art; the beauty? Where is the poetry; the design? In our approach we have tried to integrate left- and right-brain thinking - not everything is a purely technology solution. We need to think more broadly about how we leverage the power of technology and surround it with humanity in interesting ways.”

- Chief Digital Officer, Banking
Early adopters are already gathering exceptional returns

Early winners are already seeing the benefits of quickly starting to play by the digital economy rules. The application of the affective agents of digital – algorithms, big data, AI, or machine learning – to business operations models, is already generating returns for early adopters that are exceeding their expectations.

We categorized the respondents into four quartiles based on their financial performance. To assess the impact of digital, we correlated their financial performance with their stated digital maturity. Our analysis suggests enterprises that demonstrate the highest digital maturity achieve a 15% higher than average revenue growth, while enterprises with lowest digital maturity achieve a 19% lower than average revenue growth (See Exhibit 1).

Exhibit 1: Correlation between financial performance and digital maturity

“Technology, obviously, is at the heart of the data and information challenge, which is becoming increasingly important to us as an organization. Technology absolutely has a role to play, but I think it’s a challenge for IT to get the balance right between support and giving the business the freedom to operate and not trying to control every decision around technology very directly”.

- SVP, Finance Ops, Manufacturing Organization
It is also evident that financial leadership, vis-à-vis digital maturity, is highly correlated to a sense of urgency, a vigilance against complacency, a data-driven mindset, and a “Renaissance” IT operation (that is, an IT function that is flexible and vital, growing into the challenges presented by the impact of the new digital technologies).

» **A sense of urgency.** High-performing enterprises exhibit an existential angst typically characterised by a drive to create value through investment in digital technologies. “Long term” for these firms means “less than a year.” They are significantly outperforming enterprises that are applying less pressure. Without a sense of urgency to act now, enterprises will face average revenue growth… at best. Leaders simply need to get used to moving more quickly, and it won’t end well for those who don’t. Complacent enterprises are already “leaving money on the table,” and soon that risk will grow to become an existential threat. You don’t believe it? Ask the leadership teams of former tech darlings like Nokia or Yahoo!, or almost any major retailer.

» **Vigilant enterprises** crush complacent enterprises on revenue growth. Enterprises that show an almost paranoid optimism about how they stack up against their competitors perform much better than those that feel more comfortable with themselves. Enterprises that expect their competitors to move well ahead of them in the next 2-3 years have a higher revenue growth, of 30% compared to average growth, displaying a sense of urgency.

» **A data-driven mindset.** Mastering an organization’s data to create better insights and data-driven decision-making processes that are aligned with customer needs has tremendous value in terms of financial performance. Enterprises that have world-class systems and processes to collect, store and access customer data achieve 22% higher growth than average, while organizations that fail to support data-driven insights effectively have a negative impact, leading to 75% lower than average growth.

» **IT’s ability to help solve business challenges.** IT organizations that are excellent at helping business to change and deal with digital disruptors have a highly positive effect on revenue growth; 46% higher than average. IT functions that help their businesses succeed in modifying their work cultures to stay ahead of changing industry dynamics lead to 35% higher growth than average. Enterprises with such “Renaissance IT” functions within their organizations now really are in a strong position.

> “We have to work in a regulatory compliance landscape, which requires us to share data; this will also probably lift the digital agenda a bit further to the fore”.

- SVP, Finance Ops, Manufacturing Organization
Corporate narcissism is epidemic

Pick your pop-psychology word or phrase of choice. Whether you call it narcissism, delusions of grandeur, or a superiority complex, it all means the same thing: not everyone can be above-average. When it comes to accessing digital value and setting up for future success, corporate decision-makers clearly believe that they’re performing better than they really are.

Our findings show that today, low performers and high performers both think they are ahead of their competitors. In fact, amazingly, roughly 80% of all senior decision-maker respondents think they’re better than everybody else right now, while only about 20% think they are behind (See Exhibit 2). Surprisingly, 60% of the lowest performers think they are well ahead of their competitors.

So, what about the future? Everyone is hopeful! Low performers think they will improve their advantage over the next 2 to 3 years. High performers are more muted - but probably realistic - in predicting that their competitive advantage will improve modestly.

Exhibit 2: The majority of the enterprises are “deer-in-the-headlights” waiting to get flattened by their digitally-savvy competitors

*1% of the respondents did not respond to this question

Source: HfS Research, in conjunction with Cognizant, 2018, n= 395 Enterprise Customers
It is yet another case of being unable to see what is directly ahead. Business leaders know that they are in the midst of dramatic change in their competitive spaces. Nearly 30% have already seen their top two competitors change in just the past three years. In spite of this, most respondents still seem to be “basking in a false sense of security.”

It gets better (or worse, depending on your viewpoint). When asked about the impact of digital-native competitors on traditional enterprise businesses, only 22% of respondents are concerned about material damage over the next 2 to 3 years. With apologies to R.E.M., it’s as if these respondents know “it’s the end of the world as they know it,” and – inexplicably – the majority seem to feel fine about it.

In other words, if you’re waiting for digital change to blow over… think again.

Not everyone has a realistic view about their position vis-à-vis their competitors today and their ability to advance against the competitive set over the next 2 to 3 years. Many strategy officers across the Fortune 2000 are either asleep at the wheel or hoping to coast across the retirement finish-line before the digital economy shift hits them in their wallets. Unrealistic expectations are going to lead to a lot of disappointing bonus checks over the next three years!

“Consumers certainly have high expectations - they’re dealing with the Amazons and the Apples of the world daily. They have come to expect a seamless customer experience. The organization’s digital strategy focused on the consumer segment for this reason.”

– Chief Digital Officer, Banking
Culture eats digital strategy for breakfast (and lunch)

To build on the sage and enduring insight of Peter Drucker: culture eats digital strategy for breakfast (and lunch). Success with digital transformation is less about technology and more about people and culture – surprise!

When it comes to culture, paranoid optimism strikes again. "An optimistic vision can make all the difference in leading a business through a period of genuinely disruptive change. A checklist for displaying such optimism may sound like a self-help book, but if you want to help yourself, cultivate that hope for the future, but balance it with a clear-eyed view of the risks, financial implications and effort required."2

51% of the highest performing enterprises see their cultures as holding them back from making real investments in digital business models. They are performing better than their peers who are more complacent and content with their digital culture. The lowest performing 20% are missing the flashing warning lights, believing their work culture is actually promoting and fostering digital performance. The highest performers are much more skeptical.

Low performers are in need of a culture shock! Without it, they risk falling in the battle against digital disruptions in their markets; they risk losing the competitive race. Recognizing organizational challenges for what they truly are, is the best way to start conquering those challenges (see Exhibit 3).

“It’s just politics. When you touch their processes, people start getting territorial.”

– Senior Director, Healthcare

2: See “The Work AHEAD: Mastering the Digital Economy” by Paul Roehrig & Benjamin Pring
Exhibit 3: Organizational culture holds back progress with digital transformation

Q: How significantly is your firm’s culture holding back progress when it comes to making real investments in digital business models?

![Bar chart showing responses to the question](chart.png)

Source: HfS Research, in conjunction with Cognizant, 2018, n= 395 Enterprise Customers

Enterprises that are constantly in fear that their culture is holding back their transformation and investments in digital business models achieve a 36% higher-than-average revenue growth, compared to the organizations that feel their culture has less negative impact on progress or feel the culture promotes and fosters digital.

“Within my own organization, I have some global process owners. We’re attempting, through a series of what we’re calling ‘process councils,’ to try and bind together front-, middle- and back-offices much more systematically and with greater underlying strength. The interesting question is around data and data-flows; how that ties everything together.”

- SVP, Finance Ops, Manufacturing Organization
Your back office just became your customer experience

Back-office processes have traditionally been viewed with some derision - a necessary evil, expensive, a cost to be cut, and so on - but in the journey to become digital there is no back office: everything touches the customer. There is only one office that matters anymore (more on the OneOffice later.)

Switched-on decision-makers are clearly recognizing that to change customer experience (CX), the guts of the business need to be modernized. In fact, 66% of senior decision-maker respondents noted that changing business processes to align better with human wants and needs is a strategic imperative (see Exhibit 4).

Exhibit 4: Collapsing back-, middle-, and front-office silos

Q: How important are the following mechanisms to support a digital operating model that achieves effective real-time customer alignment?*

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Mission critical</th>
<th>Very important</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouraging teams to work autonomously across functions to develop seamless end-to-end process chains across the enterprise</td>
<td>23%</td>
<td>51%</td>
<td>16%</td>
</tr>
<tr>
<td>Enhancing processes with insights to mirror the behavior of customers</td>
<td>20%</td>
<td>46%</td>
<td>21%</td>
</tr>
</tbody>
</table>

*Showing mission critical, highly important and important only

Source: HfS Research, in conjunction with Cognizant, 2018, n=395 Enterprise Customers

This has implications for how companies organize huge components of their workforces. 74% of respondents noted that it’s business-critical for their teams to be able to work autonomously and without the rigidity of traditional organizational “silos” (which have become so intransigent that, in some businesses, they seem to be “the be-all and end-all”, in themselves).
There is no single company that can capture the full breadth of digital opportunity on its own.

When we asked business leaders what they wanted, the results were clear. Two-thirds of all leaders confirmed that they’re looking for a business partner to drive innovation, contribute investment, and deliver business outcomes (See exhibit 5). Only about a third are still seeking relationships where they want a provider to follow orders and trim costs. Gone are the days where “we can give it to you for 30% less” was a sufficient value proposition.

Exhibit 5: Leading digital performers have more strategic relationships with their service partners

We’ve shown that leaders are already getting an exceptional advantage by applying digital to both customer experiences and business processes. We’ve also shown that it’s an ecosystem world. In fact, companies that collaborate well with service providers have a whopping 26% higher than average revenue growth. And service provider clients want even more, indicating that many provider relationships have yet to catch up to digital economy demand. In fact, 64% of respondents say that they are NOT getting the partnership they want, and need, to enable them to win.
10 Things to do on Monday (+1)

We’ve covered a lot of ground, with insights from across the world, and now it’s time to get busy. To make sure you’re on the right side of the equation, you’ve just got to get moving… now! You can start by doing these 10 simple things (plus one):

1. **Do the math.** CFOs all over the world are waking up to the fact that they have to be involved in driving digital throughout their organizations. If you’re not making the right digital investments, growing revenue via digital versus traditional channels, and using new technology to improve productivity across the enterprise, then you may already be behind your competitors. All of these decisions are within the remit of the people holding the purse-strings.

2. **Find your bearings.** It’s hard to set out on a journey in the right direction if you don’t know where you’re starting from. As a corollary to the financial steps above: assess your performance against your competitive set – both today’s and (likely) tomorrow’s competitors. Ask: are you getting enough revenue via digital channels? Are you optimizing cost in your IT function? Are you tracking the economic impact of your clients’ experiences? Benchmarks are beginning to emerge. For example, companies in this study that have world-class customer data management enjoy 22% higher growth than average. It’s time to figure out whether you are on a trajectory towards becoming a leader or a laggard in the digital economy.

3. **Start small.** Over time, every process and customer experience will somehow be reshaped by new technologies. This is a daunting (and a potentially paralyzing) prospect, but it doesn’t have to be. The shift to digital will not happen overnight, so you have time to choose your targets – whether it’s back-office business processes, a painful customer experience, or an opaque supply chain. Begin to re-imagine how the new-wave techs can have a significant, and near-term, financial impact on your company.³

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“The ability to produce and manage data that's from a single source that can be trusted and regarded as high quality is a big enabler, for lots of organizations, in terms of being able to drive a lot more insight”.

- SVP, Finance Ops, Manufacturing Organization

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4. **Pan your business processes for gold.** You don’t always need an organization restructuring exercise to try to break down barriers within your company. Organizations have always been built around their functional silos. There are very few companies, if any, that have successfully moved to a structure where there is no longer a distinct Finance or HR function, without experiencing some pain. There are very few such functional bodies that are run solely for the benefit of an end-to-end process. There is an interesting opportunity to tying together data and work flows in conjunction with new technology to improve process productivity across the core work of the firm.

5. **Be a “paranoid optimist.”** Paranoid optimists that feel their culture is holding back digital progress tend to be in the higher growth organizations. We found that the more pessimistic and less complacent enterprises are able to turn their sense of urgency into a 33% higher-than-average revenue growth.

> “Most people in IT tend to be technologists, very excited about the nuts and bolts... but not as involved on the solution side, where you are truly going to innovate. I think there’s room for improvement there.”

- Senior Director, Healthcare

6. **Define the problem before trying to solve it.** Bringing in the right talent is a challenge for any industry. The role of IT is changing and the challenge here is to get people who can think “outside the box”. Cloud was the first disruptor for traditional IT and, today, RPA is “rocking the boat.” Traditionally, we have staffed with order-takers rather than thinkers. The requirement is for thinkers who can use the new-wave tech as an effective business enabler.

7. **Don’t be satisfied with last year’s model.** At shift-points like this, the old rule-books no longer apply. In fact, some business processes should be completely removed by the smart application of the “new machines.” (Do you still have a process for faxing? Compiling COBOL programs? Switchboard maintenance? No, of course not.) That is why, regardless of how hard-coded traditional Request For Proposal (RFP) processes and commercial models have become, it really is time to get tactical. It’s time to implement new processes and commercial models that can take advantage of the digital opportunity. The first step towards getting this done is to recognize the need to do something different. The second step is to appreciate that some early adopters are already showing the way.
8. **Upgrade your ride.** This one is for the service providers. If you’re still primarily responding to RFPs alone, you’ve already lost. If you’re trying to compete on how many Java programmers you have, and focusing on cost-reduction via rate cards, then it’s going to be a tough decade. If, on the other hand, you are truly becoming an innovation partner – and that means investments and risk – you have an unprecedented opportunity to unlock value. Filling the vacuum of unmet demand for digital partnership will be the most exciting and fulfilling business opportunity for the next 100 years. The choice is yours.

9. **Quit stalling because complacency breeds bankruptcy.** This whole “digital thing” is someone else’s problem, right? Wrong. Enterprises that expect their competitors to move ahead of them in the next 2-3 years display a sense of urgency, and they also have a higher revenue growth: 30% greater, compared to average growth. By contrast, those enterprises that show a more complacent attitude, expecting to be ahead of the competition, achieve just 2% higher than average growth. What does this mean for you? It’s simple: if you’re not a digital leader today, quit stalling. It’s time to strengthen your digital core.

10. **Don’t forget the role of people.** For many organizations, including banks, there are interesting questions about the role of physical presence in an increasingly digital world. Banks still have big networks of branches, even though processes and interfaces are primarily digital now. In healthcare, cognitive technology can diagnose many diseases better than humans can. But that doesn’t mean that people should disappear from such organizations. We just need different skill-sets and competencies.

10 (+1). **Build a OneOffice Mindset.** The key findings add up to a new mindset for companies. “Becoming digital” requires linking consumer experiences to modernized business processes. We define this as the Digital OneOffice - the framework for the touchless digital customer experience and the creation of an intelligent, single office to enable it (See Exhibit 6).
Collapsing Barriers between Front, Middle and Back Offices: The Digital OneOffice

Exhibit 6: The Digital OneOffice Conceptual Framework

The Digital OneOffice is the framework for the touchless digital customer experience and the creation of an intelligent, single office to enable it.

“Digital” describes the design and usage of interactive channels that drive customer engagement with the enterprise, namely mobile, social, text and chat.

“OneOffice” describes the enabling technologies, such as unified analytics and cognitive automation, that drive real-time predictive capabilities and an engaging digital experience that unifies all the stakeholders across the organization: the customers, partners and employees.

The Digital OneOffice is where the organization’s people, intelligence, processes and infrastructure come together as one integrated unit, with one set of unified business outcomes tied to exceeding customer expectations.
Research Methodology

This study was designed by thought leaders from HfS and Cognizant. The findings are based on the responses of 395 senior executive decision-makers who are involved in buying technology and services.

The interviews were conducted by HfS in late-2017 with a combination of telephone and online surveys, and telephone interviews to follow up and ensure better responses to open more in-depth questions.

The respondents:

» were all director-level or above, working for organizations with more than $1 billion global annual revenue

» were from a diverse geographic spread and belong to a diverse group of industries (including retail & CPG, Banking & insurance, energy & utilities, hi-tech & software, healthcare and life-sciences, and telecoms)

» belong to a diverse group of functions (including IT, F&A, procurement, marketing, HR, sales, supply chain, customer care, and shared services/operations).

Exhibit 7: Study Demographics
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The HfS mission is to provide visionary insight into the major innovations impacting business operations: Automation, Artificial Intelligence, Blockchain, Internet of Things, Digital Business Models and Smart Analytics.

HfS defines and visualizes the future of business operations across key industries with its OneOffice™ Framework.

HfS influences the strategies of enterprise customers, to help them develop OneOffice backbones to be competitive and to partner with capable services providers, technology suppliers, and third-party advisors. The “As-a-Service Economy” and “OneOffice” are revolutionizing the industry.

Read more about HfS and our initiatives on www.hfsresearch.com or follow @HfSResearch.

About Cognizant

Cognizant (Nasdaq-100: CTSH) is one of the world’s leading professional services companies, transforming clients’ business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 205 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow @Cognizant.