

IDC PERSPECTIVE

Buyer Case Study: Grundfos Is Pumped Up for Digital Transformation with Help from Cognizant

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Grundfos Knows Digital Will Either Kill the Organization or Take It to the Future

Grundfos demonstrates how a 75-year-old pump manufacturer digitally transformed itself with some IoT help from Cognizant. Implications are both technical and nontechnical in nature and apply to organizations outside of the manufacturing industry as well. Similar themes about the need for executive leadership and vision are echoed in an earlier case study about Saxo Bank (see *Future of Digital Innovation: Professional Services Implications for IT Buyers*, IDC #US45797120, May 2020).

Key Takeaways

- CEO leadership and vision are key to taking the hype out of technology and grounding the transformation in business terms understood by everyone.
- IoT sensors to monitor pump conditions help increase a pump's longevity, but that means fewer new pumps will be sold over time, so value-added services must be created and consumed to drive revenue growth.
- Focus on scaling your transformation, even when you are at the proof-of-concept stage, to increase chances of success, and likewise, don't be afraid to take on implementation partners early in the process.
- Grundfos is focusing on water solutions to address the world's water and climate challenges.

Recommended Actions

- Insist on a CEO-led initiative to define what digital transformation means to your organization — push beyond the basics of faster, cheaper, or better and crystalize what lighthouse projects you will implement.
- Share the risk, and rewards, with your partners; seek implementation service partners with the maturity to understand cost and activity drivers; and then contract based on business outcomes rather than inputs.
- Create a neutral collaboration space where both traditional technology and implementation services partners can work with new players and your organization; this can help build an ecosystem for mutual benefit.

Source: IDC, 2020

SITUATION OVERVIEW

Grundfos, a 75-year old Danish manufacturer of industrial pumps, might not be an obvious place to find a leading example of digital transformation, but it is because of a humble, business-led approach initiated by the CEO and implemented by the chief digital officer (CDO) and business owners. Mads Nipper, Grundfos' CEO, said, "Digital is what either will kill us or strongly take us to the future," and given the central role of water in our lives, Nipper also acts as chief sustainability officer, linking the company's products and services to the UN Sustainable Development Goals 6 (clean water and sanitation) and 13 (climate action). Fredrik Östbye was brought in by Nipper to be the chief digital officer to implement the transformation based on a series of four lighthouse projects. Östbye has the blend of technical and nontechnical skills needed to succeed and, when reflecting on the CDO role, said, "You are here temporarily. After the transformation, either you continue with the company doing something else or you leave. So be humble and help the company instead of driving your own career and personal ambition."

Defining the four lighthouse projects was the outcome of a nine-month process where 10 key people at Grundfos tried to answer the question, "What does digital transformation mean for us?" Crucially, the CEO took leadership of this digital agenda. The group did an environmental scan across many industries and regions of the world (Grundfos operates globally) looking for clues. Interestingly, while the group created a logical set of four lighthouse projects for the business, the organization had no idea how to implement them, and thus a CDO was brought onboard. Östbye indicated the transformation has taken three years, including the help of many partners like Cognizant, and summarized the four lighthouse projects as described in the sections that follow (in the order they were discussed).

Lighthouse Number 1 (Direct, Real-Time, and Relevant Relations)

Historically, 80% of Grundfos' clients had been distributors, but now the company decided it needed to interact more with end users to understand their expectations, all without alienating its distributors. Not surprising, Grundfos found customers of industrial pumps wanted to be able to find and order these products as easily as they do products and services in their personal lives. Östbye looked at how Grundfos was doing with ecommerce and admitted, "It was not a brilliant journey for our customers to find a product or get installation help." But with CEO sponsorship, he had the respect and access to the rest of Grundfos' executive team that could create a better customer experience and ecommerce site. He also had budget to contribute. Grundfos' goal was to increase sales through ecommerce, and the company quickly saw a change in customer behavior. The new ecommerce site has seen a 2.5x increase in the percentage of sales going through this channel since its implementation almost three years ago; granted that result was connected to achievements made by the other lighthouse projects. Östbye acknowledged that he did not have to spend much time on lighthouse number 1, given that sales and marketing took the lead and that ecommerce is relatively easy to do, or at least it represents known challenges, such as improving master data management so that ecommerce partners can collaborate better.

Lighthouse Number 4 (Digital Value Chain)

A lot of what the original 10-person working group grappled with was trying to define what Grundfos' factory of the future would look like. As a European manufacturer, the company understood that the fourth industrial revolution (Industry 4.0) was well underway in other sectors, so it looked to areas like automotive manufacturing to learn how to improve the information flow to end customers about products and also how to instrument factories and equip factory workers with information to make them

more effective. But lighthouse number 4 did not run smoothly at first, especially related to automation. "People were literally putting up physical barriers on the factory floor to impede the motion of newly installed robots," Östbye explained. "So we took a more human approach to get the buy-in from people on the factory floor." The CDO had them focus on process analysis: "What is boring or time consuming?" and "What can we improve easily?" A top candidate was digitizing aspects of the daily Kanban meetings to boost organizational efficiency. Digitizing the Kanban meetings was a turning point, as it made work easier for the people on the factory floor. One improvement included linking IoT sensor data from factory-line machines to the smartwatches of certain employees so they could quickly react to alarms. "The factory workers loved this," Östbye noted. "So now, Grundfos has scaled this to its 20+ factories." An added benefit to the focus on process was to increase the efficiency of training new hires. Traditionally, to learn how to build a pump took new hires six weeks of learning at the side of a master pump maker, and to many in the newer generation joining Grundfos, that felt long and boring. The CDO supported the building of a prototype training cell, including the use of a virtual reality headset, where new employees could "practice" how to build a pump. Östbye reflected on the success of the training and why employees loved it, "We saw a reduction of training time from six weeks down to one week and quickly realized we could scale this globally as well." IDC believes this more human, nontechnical approach was key to the success of lighthouse number 4. For example, that the smartwatch alarm system worked was in large part due to the fact that employees initiated it to make their jobs easier rather than it being suggested by an outside entity, thus raising the fear that the ultimate goal was tracking employee movement rather than production efficiency. While all the improvements are too many to summarize for this case study, suffice to say Grundfos believes it has implemented its factory of the future and has formalized a permanent working group to seek further improvements.

Lighthouse Number 2 (Connectivity and Optimization)

Central to the success of connecting products and optimization at Grundfos was the CDO's insistence at the beginning of this three-year journey that it focus on how to scale up dramatically, not only IT infrastructure but also the entire new digital business. "Most CDOs take an experimental approach, and yes, while you have to do that, if you only experiment you risk nothing tangible or commercial comes out. But if you start with a commercial focus that we will be scaling digital offers in three years, you realize you have to prepare and figure out how to scale right now," Östbye explained while also acknowledging the inherent risks. So, to enable the as-a-service business model transformation (described in the section that follows), for lighthouse number 2, Grundfos used a twin-track approach focusing not only on the infrastructure transformation but also on the go-to-market changes. On the infrastructure track, the journey was divided into thirds: year one was about experimentation, year two was a full focus on implementing the industrial IoT platform, and year three was about scaling. Naturally, a big part of the CDO's budget was spent in year two, and this building phase is where much of the third-party help came in: Cognizant for IoT solutions, Microsoft Azure IoT for the digital platform, Telenor for communications, and Zuora for implementing a subscription management system. While subscription management may sound pedestrian, IDC believes it's pretty hard to implement an as-a-service business without one, and subscription management also shows that customers were the linking pin to the second track. On the go-to-market track, Östbye invested in a three-phased approach to match the infrastructure evolution. Year one was about generating customer awareness of Grundfos' ambition and experimentation, followed in year two by sales and marketing letting customers "inside the process" of what Grundfos was up to and culminating in year three with serious customer discussions about how to build new use cases for what would soon be available commercially. Beyond the first-order benefit of having the infrastructure and business operations ready to scale as a service, and the sales force having well-prepared customers for the impending change, the CDO indicated most clients appreciated the changes at Grundfos because they were an enabler of their own digital transformations.

Lighthouse Number 3 (New Business Models)

The heart of the business transformation at Grundfos involves moving from selling pumps to distributors to selling end customers value-added services based on IoT-connected pumps and all the data they create as a byproduct of operations. These value-added services would be vital, because one customer pointed out an irony of instrumenting pumps – it improved their longevity, which meant Grundfos would sell fewer pumps. Without CEO sponsorship, having the CDO risk changes to what produced 80% of any firm's revenue would likely have been met by resistance, for example in the form of passive-aggressive behavior by business-savvy and politically savvy executives and their distributor customers; in large part this is why so many transformations fail and why so many CDOs have such a short tenure. On the technical side, Östbye worked with Cognizant to get the products connected and the data captures functional as a source of new value. On the nontechnical side, Östbye leaned into the hardest part of the job – translating the CEO mandate into real executive buy-in for change – using the skills he had developed as an entrepreneur before Grundfos. After talking with customers, 87 potential digital projects were slimmed down to a critical few (one for each of Grundfos' business groups: buildings, industrial processes/utilities, and water utilities/solutions/technologies). Östbye used his remaining budget to propose a 50:50 investment split with each of the three business groups as the way to get digital offers into each portfolio. This fostered real collaboration and allowed the CDO to function with each business owner as if they were on the board of a start-up; this simplified governance structure also allowed projects to run faster and be more agile in making changes compared with a more traditional structure. Östbye kept his staffing lean and explained, "It's not me building up a team of hundreds of developers. I borrow people from the development organization, but also from business development, and complement with people from outside, like Cognizant for software developers. We need best practices from other projects outside Grundfos to kick-start, but we will also continue to hire." The ecosystem partnership strategy took time, but when Grundfos was done it worked out in the form of a scalable as-a-service offering. "We had a good mix of external expertise while hiring our own people," Östbye remarked, and then added, "It was easier to 'borrow' people from within the organization, as the business owners knew they would get their people back, instead of me empire building." Östbye told his colleagues, "I'm one of you, not a consultant, but I do only have a three-year timeline."

On Ecosystem Partners and Creating a "Neutral Collaboration Space"

Talk about ecosystems has increased over the past few years, with the realization that very few entities can pull off a business transformation single-handedly. This leaves many organizations overwhelmed because they still have not solved their internal IT versus line-of-business dichotomy. When Östbye came in, he saw this dichotomy but emphasized, "We all have 'grundfos.com' on our email addresses, and the CEO wants us to transform, so why not come together?" As part of the bridge between year one and year two, he created a neutral collaboration space inside the firm where internal folks working on the cross-functional transformation could go to get out of their organizational silos. It also allows for physical comingling of the ecosystem technology partners like Cognizant, Microsoft, Telenor, and Zuora. This space has grown from 50 sq m over time to 3,000 sq m as it has proven its worth.

Selecting like-minded technology partners is key when introducing them into an organization's neutral collaboration space. For example, when asked why Grundfos had selected Cognizant, Östbye explained that Cognizant did not behave like a traditional SI, even though it had great IoT software development and integration skills. He said he wanted, " ... someone who would see the future is ecosystems. Each has to contribute their own stuff, like building APIs to tap into other partners like Siemens, Alibaba, or Microsoft, but also to understand the business model may change over time."

Östbye found the dialogue with Cognizant more interesting because it showed up with senior people who saw a similar future and did not talk about the traditional SI model, "They were curious to discuss, that if we did something together, how it could create impact together – be attractive to each other."

ADVICE FOR THE TECHNOLOGY BUYER

Both business and technology services buyers should collaborate on the following four actions:

- Insist on a CEO-led initiative to define what digital transformation means to your organization – push beyond the basics of faster, cheaper, or better and crystalize what lighthouse projects you will implement.
- Share the risk, and rewards, with your partners; seek implementation service partners with the maturity to understand cost and activity drivers; and then contract based on business outcomes rather than inputs.
- Create a neutral collaboration space where both traditional technology and implementation services partners can work with new players and your organization; this can help build an ecosystem for mutual benefit.
- If possible, elaborate the link between your transformation and environmental, social, and governance standards (like sustainability) to demonstrate that your organization is about more than profit.

Finally, Östbye crystalized his advice for fellow executives, "In the end it comes down to your own behavior and approach. Leaders understand it's super important not to drive personal ambition. Stop behaving like the hero, be humble, and get behind all the people. Remember, you are temporary, but if you fail the whole transformation fails."

LEARN MORE

Related Research

- *Cognizant Goes into 2021 with a Vision for Digital Leadership* (IDC #US46996620, November 2020)
- *Worldwide Professional Services for Digital Transformation: End-User Spending Survey, 2020* (IDC #US45797020, August 2020)
- *Understanding the Shifts in Buying Centers: Moving Beyond IT Versus LOB Dichotomy* (IDC #US45797420, July 2020)

Synopsis

This IDC Perspective analyzes a recent digital transformation to illustrate key factors of success. Using Denmark-based Grundfos as a case study, both the technical and nontechnical aspects of the implementation are described.

"Grundfos is a great example of a company that has embraced full-on digital transformation," said Gard Little, vice president, Global Services, Markets, and Trends at IDC. "Even if you're not in the manufacturing industry, this case study illustrates the need to balance the technical and nontechnical aspects of implementation; the need to use an ecosystemic approach to working with your organization, suppliers, and customers; and, as always, the absolute necessity of CEO sponsorship and leadership to move from proof of concept to implementation of a transformed business model."

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