

The Path to Digital Leadership in Asia

Foreword

Special notice: Confronting COVID-19

The research study presented here was conducted before the outbreak of the COVID-19 pandemic, which is affecting billions of people and disrupting businesses worldwide. Given the ongoing emergency, it is crucial to balance efficiency and resilience to enable businesses to quickly regain sustainable operations moving forward. To keep people healthy and keep the businesses running, we believe in three tools: information, preparedness and compassion.

With the right information that comes from advanced forms of data management and analytics in hand with AI, we have a deeper understanding and better treatment of infectious diseases. Machine learning, deep learning neural networks and advanced AI applications are helping infectious disease researchers to more effectively forecast and foretell the contours of pandemics like COVID-19 before they strike.

Preparedness comes with infrastructure, a swift strategy and agile processes. COVID-19 is a global pandemic; it knows no boundaries. Swift data collection and algorithm sharing are vital elements of a collaborative – and compassionate – human effort that will result in an Rx that will defeat this deadly disease before it seriously impacts more people, globally.



With respect to global benchmarks, APAC is showing the way in many areas, ahead of Europe and just behind North America in digital transformation, for example.

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Introduction

Companies' desire to continually engage today's hyper-digitalized customers has driven a digital transition in business which has rapidly advanced from creating new customer engagement channels via the web and e-commerce to a full-scale, inside-out modernization of companies' processes, applications, data platforms and infrastructure. We call this multifaceted approach "engineering the modern business," an opportunity for established companies to gain the kind of digital advantages that newer start-ups employ.

Such changes are proceeding at different paces internationally. To gauge progress in the Asia Pacific (APAC) region, we interviewed a cross-section of executives from more than 20 companies across industries and countries/zones; these respondents were a subsection of a larger survey of roughly 2,500 executives. This ebook presents some of the key findings from this research.

Interestingly, with respect to global benchmarks, APAC is showing the way in many areas, ahead of Europe and just behind North America in digital transformation, for example. And within the region, China, not surprisingly, is building its digital capabilities quicker and with more integration than other older, more developed markets.

All our data points to the same conclusion – that investing in digital is the wise course, with the strongest payback and best growth prospects.



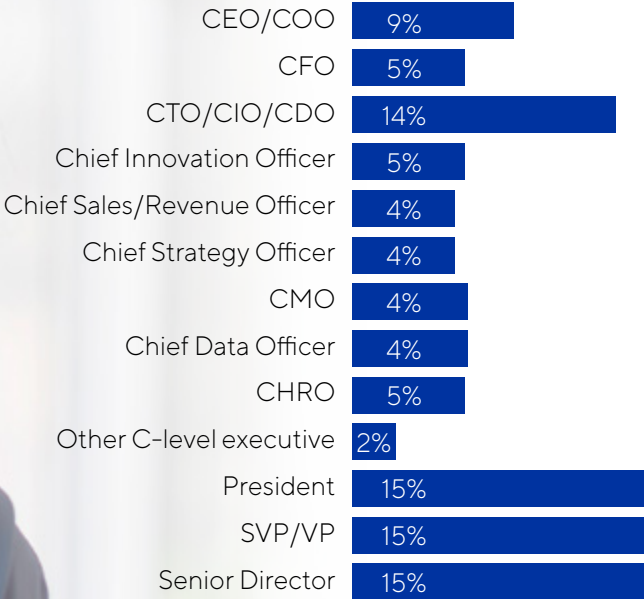


Research background

Respondents: Titles and functions

We surveyed a cross-section of C-level executives, totaling 2,491. Respondents came from a mix of functions across the enterprise.

Our respondents' executive functions:



Functional areas in which our respondents work:



Figure 1

*Total survey size: 2,491.

Respondents: Geographic location

By design, our sample was spread across 34% each for North America and Europe, 24% for Asia Pacific and 8% for the Middle East. The sample included 19 countries.*

Geographical distribution of responding companies:

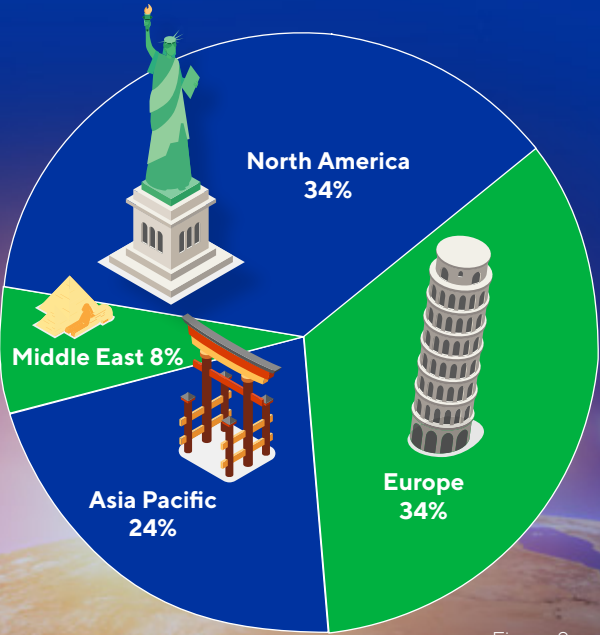


Figure 2

North America	U.S.	699	28%
	Canada	145	6%
Europe	Nordics	245	10%
	UK/Ireland	147	6%
	Germany	136	5%
	France	133	5%
	Switzerland	107	4%
	Netherlands	79	3%
Asia Pacific	China	216	9%
	Japan	110	4%
	India	106	4%
	Singapore	85	3%
	Australia	83	3%
	Middle East	UAE	115
Saudi Arabia		60	2%
Oman		25	1%

*Nordics included Sweden, Denmark, Finland and Norway.

Respondents: Industry profile

By design, respondents were spread evenly by industry. Each industry constituted roughly 8% of the sample, averaging just over 200 respondents per industry.



Consumer products

Food, clothing, household goods, other.



Financial services

Banking, capital markets, asset management, other.



Healthcare payers

Health insurance firms, health plan sponsors, other.



Healthcare providers

Hospitals, nursing homes, healthcare services, other.



Industrial

Automotive, heavy equipment, chemicals, other.



Insurance

Life, retirement, property, casualty, other.



Life sciences

Pharma, biotech, medical devices, other.



Media

Publishing, television, film, entertainment, music, other.



Retail/hospitality

Stores, restaurants, hotels.



Technology

Hardware and software companies.



Telecom

Telecom services and equipment, wireless and cable.



Utilities

Electricity, oil and gas providers, other.

Figure 3

Respondents: Revenue and profit

The graph to the right shows responding firms' annual revenue for the last fiscal year (in \$U.S. billions), and the mean score for net profit margin over the past fiscal year (as a percent).

We surveyed companies of various sizes over \$500 million. Insurance, telecom and retail were the largest, while industrial, healthcare providers and media were the smallest. Profit margins varied by industry, with financial and life sciences among the most profitable, and retail and healthcare providers among the least.

Breakout by company revenue:

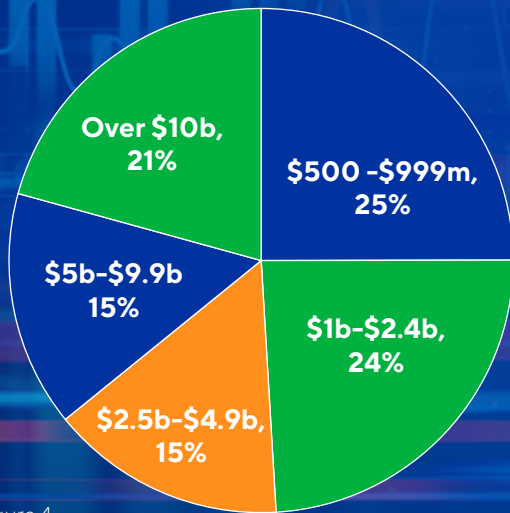


Figure 4

Revenue and profit by industry



Average company revenue: \$8.7bn North America \$11.6bn Asia Pacific \$8.9bn Europe \$6.8bn Mideast \$3.8bn

Defining digital maturity



We calculated a score for each dimension, and then combined those scores into an aggregate digital maturity score. We then assigned each respondent into one of the maturity stages based on the distribution of scores.

Our digital maturity score is derived from these three questions:

- What stage of development is your company currently at for digital transformation?
- What percentage of revenue comes through traditional channels and was *influenced* by digital?
- Which benefits is your company receiving from digital transformation?

Stage of digital transformation now

Beginner
30th percentile
and below

Implementing
30th percentile
to 55th
percentile

Advancing
55th percentile
to 80th
percentile

Leader
80th percentile
and above

Figure 5



The digital race is on

The shift to Industry 4.0

The digital evolution of business is at a critical inflection point. Firms that act decisively will win their place in the 4th industrial revolution. Others may fall by the wayside.

Digital transformation has gone through the Gartner hype cycle: irrational exuberance, then a “tech-lash” and now an enlightened upswing. We are at the cusp of the 4th industrial revolution where high-velocity digitization will rewrite the rules of doing business. Both digital leaders and laggards are asking what they should do next.

- ❑ **Laggards are in denial**, while many firms consider themselves leaders but have been making operational, not transformative shifts. They accept that all companies are digital companies but haven’t really put this into practice.
- ❑ **Early leaders have both made mistakes and had success**, but leaders and laggards are doing things differently and have made different investments. The question is: How are companies going to manage this crossroads event, now that the reality of digital is here – it’s no longer theoretical.
- ❑ **Going digital is no longer optional**. You need to “eat your Wheaties,” make the investments and do the work – or your company may not survive the next industrial phase. This is the common view of both technology and general management executives, who are increasingly in agreement about the importance of digital transformation and how to go about it.

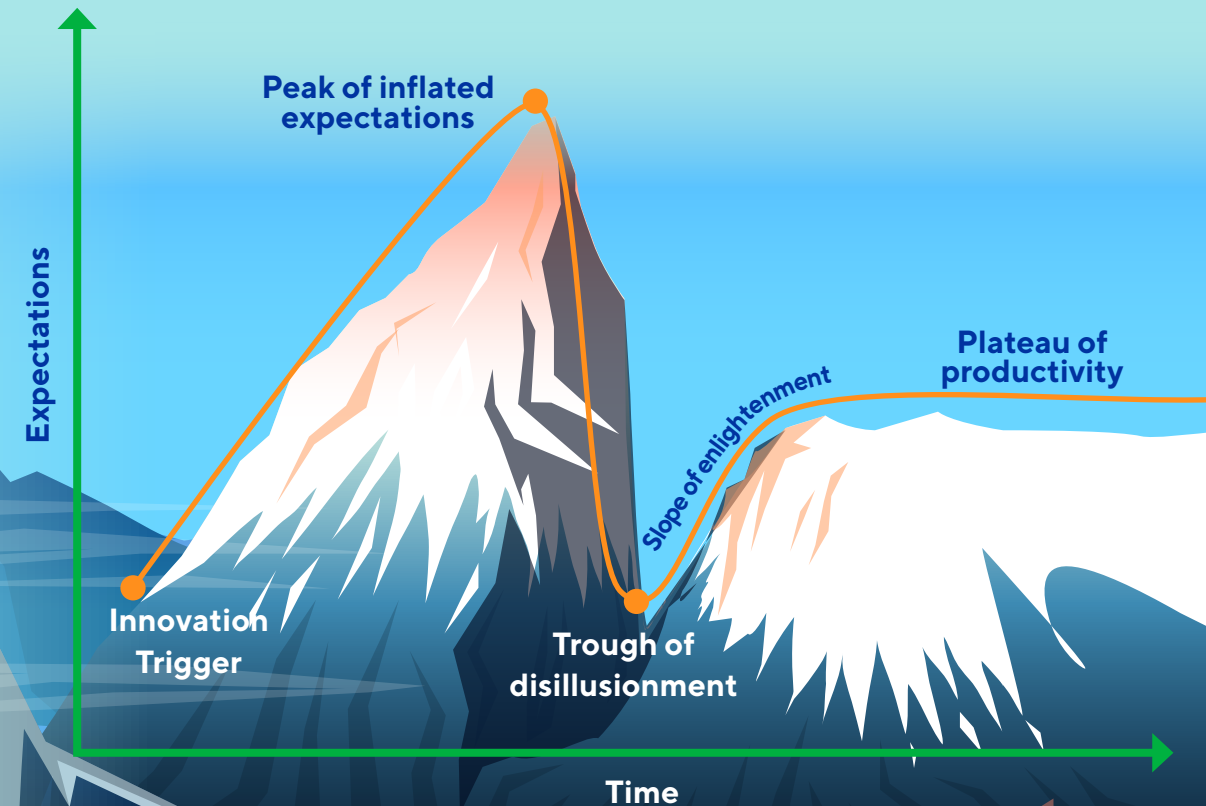


Figure 7

Asian firms are advancing in digital transformation

APAC leads Europe and only trails North America slightly in maturity.

APAC has a combined 48% of firms in the advancing or leader stages of maturity, only a bit behind North America (49%). It is well ahead of Europe (which has only 41% in these stages).

China is not just the furthest ahead in digital transformation in APAC, but also around the world. At 56%, it has the largest percentage of advancing/leader firms and the smallest percentage of beginners. Japanese and Australian firms are also stellar performers in APAC and beyond. Both countries are tied for the highest number of digital leaders (27% each). APAC's other massive economy, India, is trailing far behind, with just 16% leaders and the largest percentage of beginners. Singapore does better, but is still well behind.

Digital maturity by region and Asian market

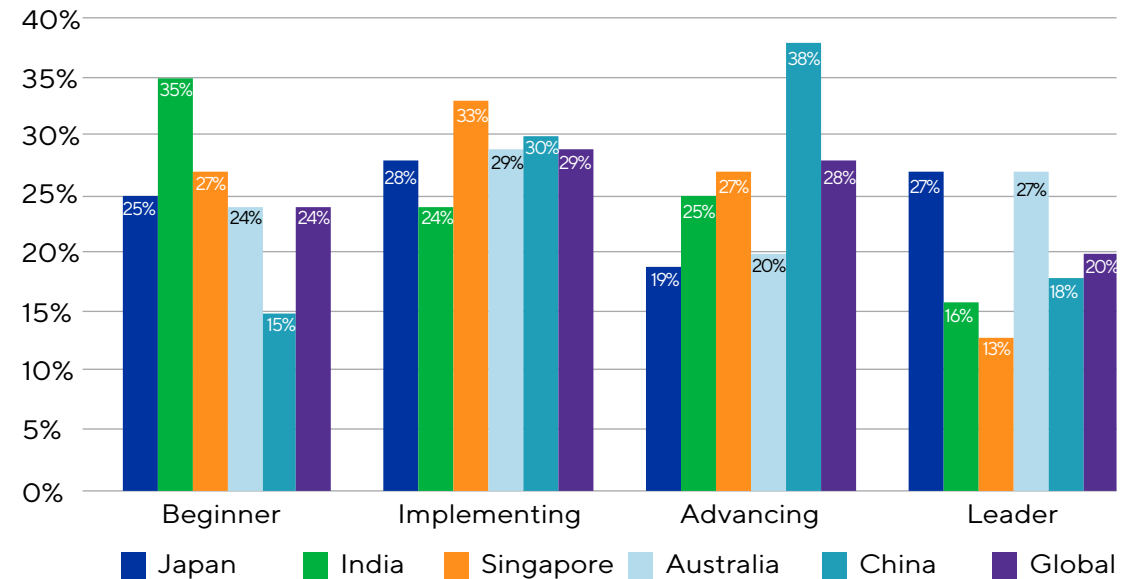
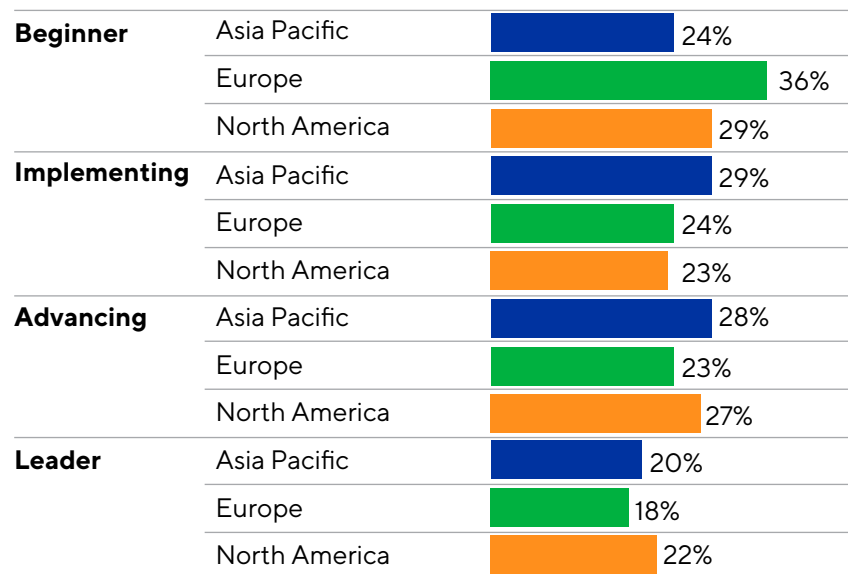


Figure 8

Asian companies have built a solid digital foundation

Companies in APAC perform better than the global average on nearly all fronts.

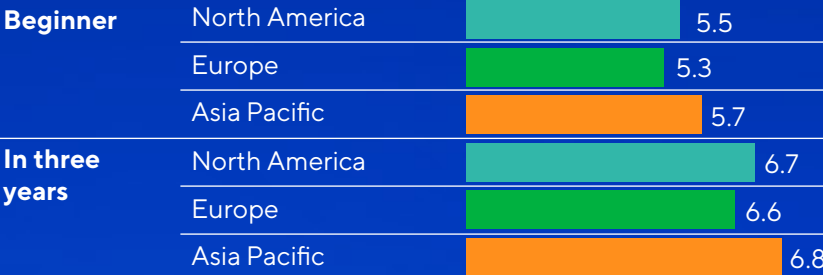
They are ahead by double digits in strategy and roadmap, automation, data management, innovation culture, and software deployment — all key areas for advancement in Industry 4.0. They lag the global average in only one dimension: aligning operations with customer needs. They are keeping pace in other areas related to consumers and employees.

Advanced or maturing	Total	Asia	% Ahead
Digital strategy and roadmap	46%	57%	11%
Automation	35%	46%	11%
Data management and analytics	35%	48%	13%
Workforce transformation	30%	30%	0%
Innovation culture	28%	38%	10%
Software deployment	28%	41%	13%
IoT and connected products	27%	36%	9%
Modernized core IT	26%	31%	5%
Aligning operations with customer demands	24%	22%	-2%
Artificial intelligence	19%	23%	4%
Improved consumer/employee experience	17%	19%	2%
Human-centricity	16%	18%	2%
Enhanced/augmented workers	14%	15%	1%

For Asian firms, speed is of the essence

APAC firms are beating the competition elsewhere in their speed to digitally transform.

Companies in Asia are ahead at present and will continue to move faster than their counterparts globally over the next three years. China (5.9), Japan (5.8) and Australia (5.8) are leading the pace for Asia, and the rest of the world. Over the next three years, it becomes a closer contest as companies around the world pick up the pace.



- 1. Stalled
- 2. Very slow
- 3. Slow
- 4. Slow to moderate
- 5. Moderate
- 6. Moderate to fast
- 7. Fast
- 8. Fast to very fast
- 9. Very fast
- 10. Maximum speed

Figure 10

A positive net effect for Asian firms

The chart on the left illustrates the cumulative impact at each point along the curve. For example, the cumulative total revenue impacts of becoming an advancer is equal to 12.4% (when each increase per stage are factored together). Similarly, the total cost impacts reach 11.3%.

Since the revenue growth from digital transformation exceeds the cost increases, the net impact on a company's performance is positive regardless of the stage. As companies go through phases of digital transformation, the net positive impacts accumulate and drive performance – like the compounding effect of interest on an investment.

As the chart on the right shows, as beginners mature into leaders, they first see a net impact of 2.1%, followed by a net impact of 2%, then 2.2%, and then finally a total net impact of 5.3% of revenue. While a clear upside, the ROI in APAC is considerably lower than in other parts of the world. That is because fast-moving companies in Australia and China are investing more for the long term and accepting tepid short-term returns.

Estimates of the percentage impact on revenue and costs from using digital technologies over the last financial year for respondents' organizations:

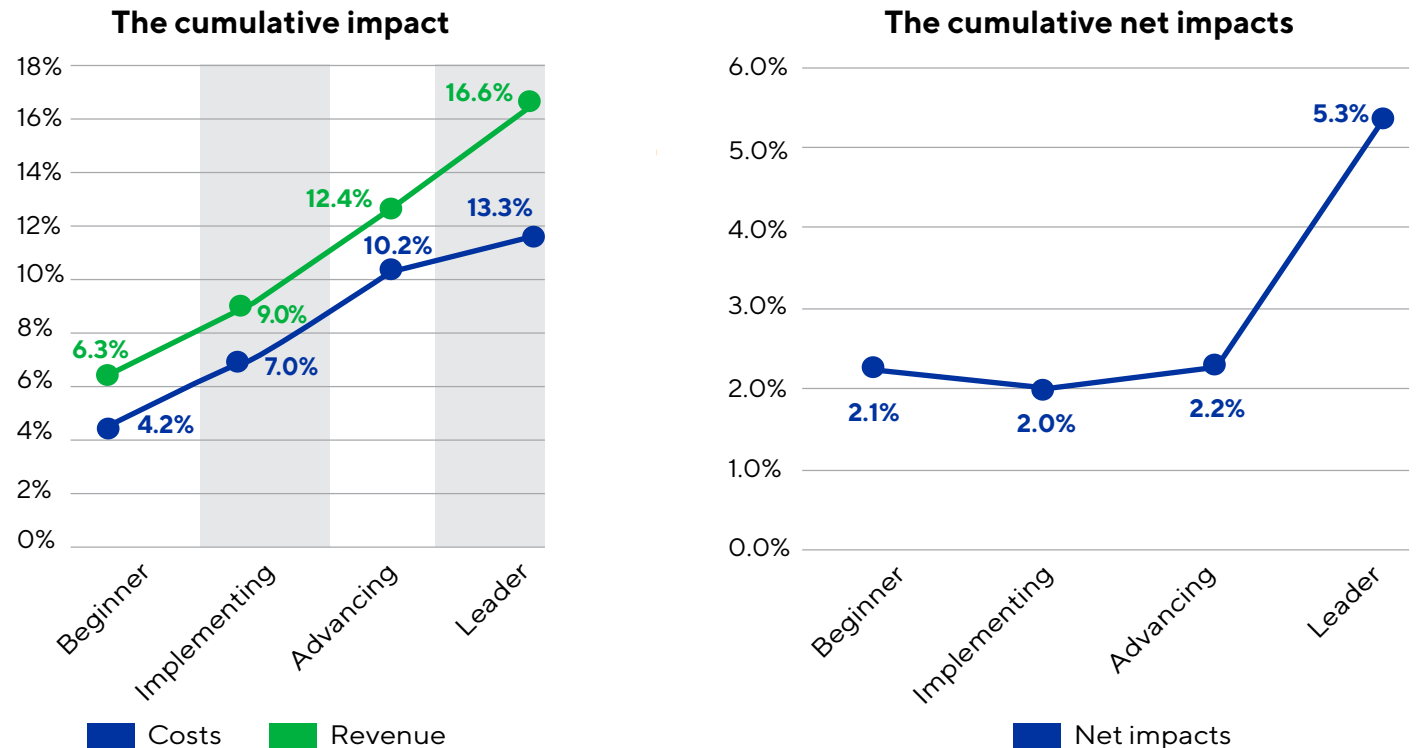


Figure 11

Conclusion

Engineering the Modern Business

Asian companies are outinvesting their global counterparts in digital strategy, automation, data analysis, software modernization and IOT. Respondents in the “leading” category are seeing more than twice the positive impact on revenue and costs than respondents in the less mature categories. While APAC companies’ ROIC has not been the highest among global businesses, their focus has been on investing for long-term returns rather than a short-term focus.

Our view is that companies in APAC need to continue to invest in implementing their digital strategies. Continue to interrogate their environment for opportunities to drive increased revenue through better customer experience and new market areas as well as building efficiency through automating operations and applying AI for decision-making.

The message here is not to wait. Review your company’s own digital maturity. See where you stand on the curve. And then build and execute your own strategic digital modernization plan to maximize the impact of your technology spend.





About the author

Newton Smith

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Newton Smith is Cognizant's Digital Business Leader for Asia Pacific, a role to which he brings more than 20 years of digital strategy and customer leadership, technology expertise and executive management experience. He has a strong international background with both regional and global companies, including the last 11 years working in Asia. Prior to joining Cognizant, Newton held roles in Asia Pacific Digital, IBM, PricewaterhouseCoopers and Optus Communications. Most recently before joining Cognizant, he was Managing Partner for IBM's digital strategy and interactive business in Asia, where he led a team of consulting and design professionals to develop and execute digital transformation strategies and programs for companies to grow into Asia markets. Newton holds a degree in economics from the University of New South Wales, Sydney, Australia. He also attended the Royal Australian Naval College where he graduated as a commissioned Naval Officer. Newton can be reached at Newton.Smith@cognizant.com | www.linkedin.com/in/newtonsmith/.

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