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Keeping Pace with Digital

*Digital transformation isn't confined to customer-facing channels, such as websites and smartphone apps. **Laurence Buchanan**, Partner & Head of Digital EMEA Advisory at EY, talks to Criticleye about why senior leaders need to take a deeper, strategic approach*

How have companies been responding to digital?

Typically they've looked first at the front-end. They've built apps and digitised customer interactions but in most cases they haven't reshaped the underlying strategy, business model, operations, organisational structure or the culture of the company.

For most companies, when they really start thinking through the end-to-end impact of digitisation, it becomes an enormous and actually quite a daunting challenge. The real difficulty is: How do you do you transform your legacy and keep up with a digital world that's changing at an extraordinary pace?

Leaders have approached this challenge in different ways. Some have made a success of digital by transforming their company from top to bottom, while others have achieved it by starting a separate business, from a clean sheet of paper, without the legacy and taking on the start-ups, with the leverage and muscle of a big corporate.

Can you define what digital transformation means?

There's nothing new about digital, the mega trend has been building for around 30 years, but really we're just starting – Cisco says we've only reached one per cent of the potential connectivity that we will see in the next decade.

Digital has already disrupted some sectors, for example media and retail, and many companies in those sectors have already had to transform their businesses from top to bottom. However, it hasn't fully impacted every industry yet,

“Banking has always been one of the early adopters and pioneers of technology”

and that's the challenge on the horizon that many companies are facing.

For instance, what does the explosion of connectivity mean to the life sciences, automotive or insurance industries? If every car is connected to traffic conditions, insurance and media services, it could fundamentally disrupt the industry value chain and its business models. Digital transformation is the end-to-end response of how companies deal with that challenge.

What are the main barriers when it comes to digital transformation?

It may be crude to separate companies into three categories of start-ups, corporate and mega vendors, but each group has its own advantages and challenges.

The start-ups are doing everything from scratch. They don't necessarily have traditional IT systems so they can consume everything from the cloud. They don't have traditional marketing, sales or service functions, which means they can get peer-to-peer armies of consumers to provide feedback and overall they're able to move at a greater pace. But equally, they don't have a long-standing brand or customer relationships, and they have to raise capital.

Then there's the mega vendors, the technology giants that have exploded in the last decade and have enormous muscle and reach, not to mention terabytes of data. Most of them have designed their companies for the digital age with organisational structures that promote speed. They have built-up cash reserves so that they can invest in R&D and innovation. And they're able to enter industry after industry.

However, they also have challenges. They're facing, in some cases, a consumer and regulatory backlash because they can be seen as too powerful.

In the middle are the established corporates. Many Fortune 500 companies, for example, were not designed for a digital world. They were designed anything from ten to 100 years ago, with legacy IT systems and a different culture.

But they do have a customer base which gives them real insight into specific markets. They have existing distribution models and partnerships in place. They have a challenge but they also have assets they can leverage.

Are there any sectors at a disadvantage?

The media and the retail sectors were forced to think about digital five years ago for obvious reasons, as the first had its core products digitised and the latter was disrupted by e-commerce.

Banking has always been one of the early adopters and pioneers of technology. We talk about big data analytics being new but banking has done it for a long time. They pioneered ATMs, online banking and there were the start-ups like EGG and First Direct that went directly online a while ago. ▶

However, have financial service providers digitised their enterprises in the sense of this being end to end, top to bottom? No, they haven't. That said, I would question whether any large companies have made that full transition.

Can regulation hold back change?

Certainly, it can add an additional complication if a sector is highly regulated, and create real constraints. In some cases the regulation was not designed for today's world.

A lot of regulators have a real challenge. How do they catch up with a world that has not only changed so much, but continues to do so? Today a new technology can reach a critical mass of 50 million users in under 35 days. Given a brand new piece of hardware, software or a social network can grow that large in such a short period of time, it's incredibly challenging for our regulatory and tax system to move at that pace.

It's equally challenging for companies to adapt and comply with new regulation like changing data privacy rules as it comes into force, particularly as regulation often looks slightly different in each country or region.

How important is the role of the Chief Digital Officer?

There's this trend at the moment of creating a Chief Digital Officer (CDO) and I have no problem with it. There are some amazing people in this role leading transformations of their companies.

But, personally I believe digital needs to be part of everyone's job; you can't just allocate it to one part of the organisation. It's as much a responsibility of the CEO, from a strategy and business model

perspective, to the CFO, from a business model, financial waste, risk and regulatory compliance perspective. One person may be a fantastic change agent, but ultimately you have to infuse digital into everything that the organisation does.

If you do go down the route of having a CDO the most important thing to ensure is that the role is empowered, has the right reporting line – which could well be to the CEO – it has budget, resources, the political mandate to work across the company and then crucially the ability to infuse digital into everyone's role.

I think the worst thing that could happen is that role becomes compartmentalised and retreats into just looking at digital technology such as websites and apps, with a very narrow focus that does not transform the organisation.

Should the CEO be the one leading digital?

If you look at some of the most successful digital transformations, the company has had pockets of bottom-up enthusiasm, but there's also been a strong, powerful leader that's led the change.

The CEO has the opportunity to set the purpose of the company, the vision, strategy and direction. Without that, and if the CEO has really not bought into digital, it's difficult for that bottom-up enthusiasm to achieve anything. A CEO has huge power to unlock the potential of teams and people.

Is data and analytics a key part of digital transformation?

Yes, the value of digitisation and connectivity comes from data and insight.

Data is a crucial part of understanding customers. If you can understand their needs, wants, pain points and the journeys they go through, that's a fantastic first step in being able to design and innovate a new product or proposition. Customers won't necessarily always tell you the answer, but they will tell you what they're trying to do, and then it's down to the company to shape the response.

Companies shouldn't make assumptions about customers and simply blast stuff at them. You may improve your click and open rates this way, but you're not measuring the build-up of apathy and mistrust. You need to reshape your digital offerings with the customer in mind.

The benefits of data stretch way beyond customer-facing functions. Having greater visibility of operations can bring enormous efficiency benefits and help monitor risks, develop new offerings and control spend. Data and insight need to be embedded through the entire organisation and its value chain. ■

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Laurence is a Partner within EY's Advisory business and leads the Digital business across Europe, Middle East, India & Africa. He works with clients to help them understand and respond to the opportunities and threats posed by technology. Prior to consulting, Laurence had a decade of experience at software multinational SAP, where he was EMEA VP for CRM.

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