

1. Digital is the new normal

Digital is everywhere: Industry 4.0, AI, cloud computing, the Internet of Everything, 3D printing, social networking, ubiquitous connectivity and big data are, among others, the most discussed topics in the digital world. Each of them has already transformed the way we communicate, interact, work and live. And this is only the beginning. For those who still believe that digitization is about creating social media sites or developing a responsive website, here is the truth: Digital technologies will disrupt value chains, organizational structures, operational processes and revenue models, in short, entire businesses. And they will change every industry and every company. It is as serious as it could be: Managing digital transformation will decide which businesses will survive and which not.

This phenomenon can be observed for example with 3D printing, one of the digital technologies that has the potential to revolutionize manufacturing and medical science as soon as it is ready for mass consumption. Whether automotive, healthcare, aerospace, defense or consumer goods, the power of innovation and manufacturing is transferred to individuals, business units and small companies who can develop, design and print a product right on the

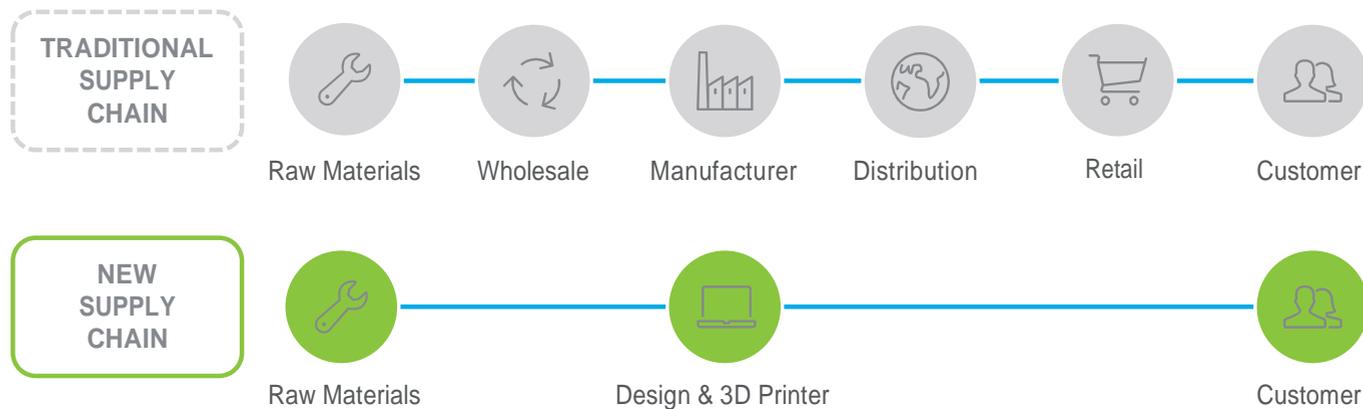
spot. This is a completely new reality, and it raises the essential question of how, where and by whom things will be produced in the future, and especially how manufacturers can reimagine their role to not become an obsolete part in the supply chain of the customer.

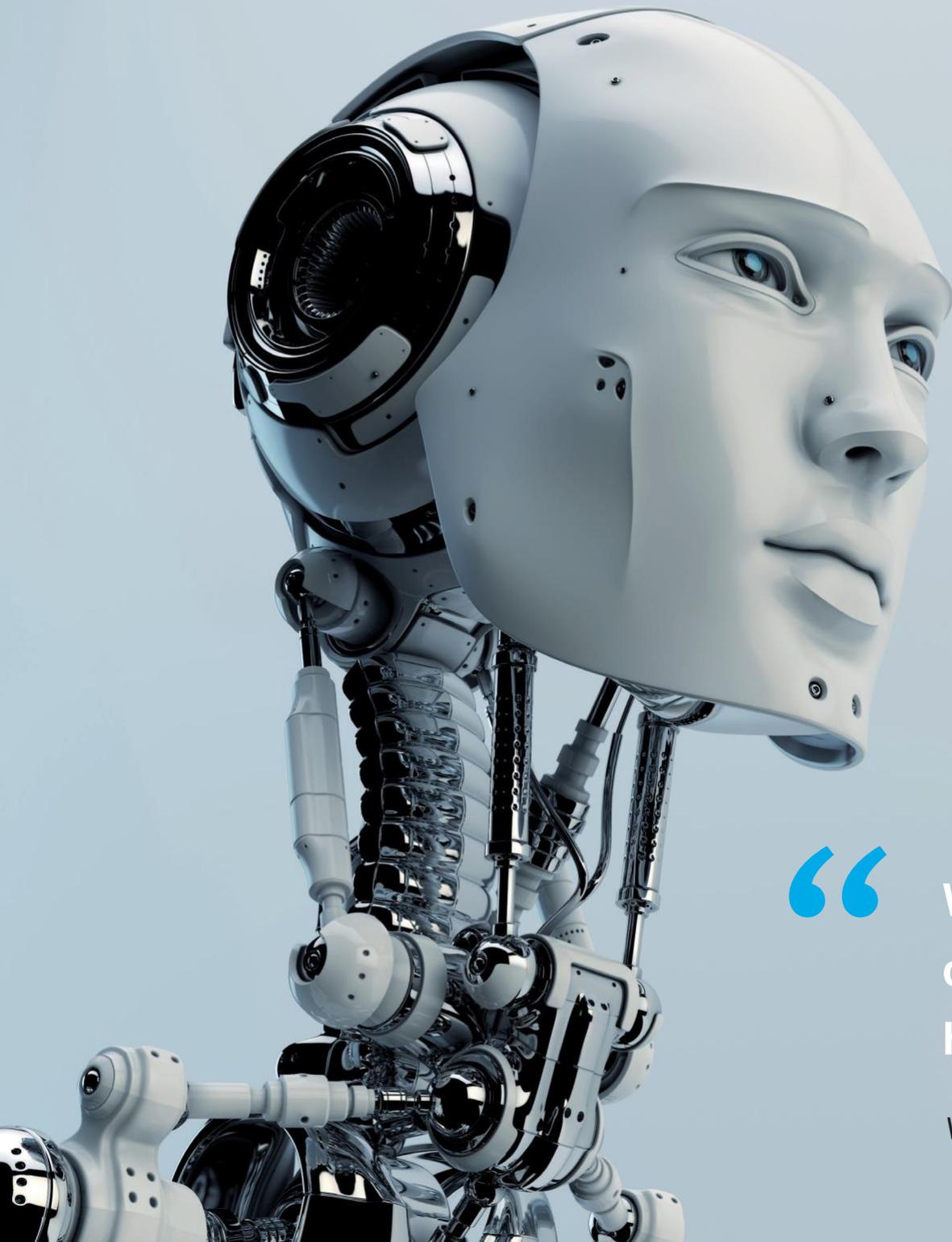
Figure 1 shows that with 3D printing, traditional participants in the value chain such as suppliers for raw materials, wholesalers, manufacturers, logistics companies and retailers have either become obsolete or their role has significantly changed.

However, 3D printing is only one of many examples that shows how deeply industries are and will be disrupted by digital technologies. Now is the time for business leaders to answer three fundamental questions in order to secure their company's future existence:

- How will digital disruption precisely affect my industry and business?
- How fast will it happen?
- What are the essential next actions needed to redefine my company's role in the digital world of tomorrow?

Fig. 1 – Traditional and new supply chain with 3D printing





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We are on the edge of change
comparable to the rise of
human life on Earth

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Vernor Vinge

2. Digital disruption's impact across industries

To start the transformation journey, it is fundamental to analyze the status quo and find answers to the questions raised above. The extent of digital disruption is influenced by two dimensions:

1. Degree of impact (expressed as a percentage of changes in business)
2. Timing

In the disruption map (Figure 2), these influencing factors are represented by the terminology of 'fuse' (timing) and 'bang' (impact).

Our global disruption map provides an overview of 17 clustered industries and their individual fuse/bang scenarios. Those industries facing a big bang, either with a short or long fuse, should consider digital transformation as their most vital upcoming challenge. Companies who find themselves in the category of "long fuse, big bang" will face their disruption in three to five years and therefore have more time to transform. Yet those industries with a

"short fuse, big bang" have the strongest need for immediate action. For some of them, like media, telecommunications and retail, the disruption started many years ago and is still happening. Further industries within this cluster are banking, insurance, professional services, education and real estate.

These industries experience a deep impact from new technologies and digital savvy competitors who enter the market and revolutionize traditional businesses. Startups like Kreditech in banking, edX in education and sharecare in insurance demonstrate that rising stars have the power, knowhow and technology to question the existence of traditional businesses.

We at HIEC and Deloitte Digital, both professional service firms, are right in the middle of the first quadrant facing a "short fuse, big bang" scenario, thus we know what we are talking about. In fact, we eat our own dog food. Crowdsourcing and Artificial Intelligence are just two examples that could make our business model obsolete. But as we realized that we are truly affected as well, we have reacted by creating new solutions, models, collaborations and also acquired knowledge and skills to keep pace with the digital revolution. We can testify that digital transformation and constant innovation are definitively not "nice to have", but rather "essential to survive".

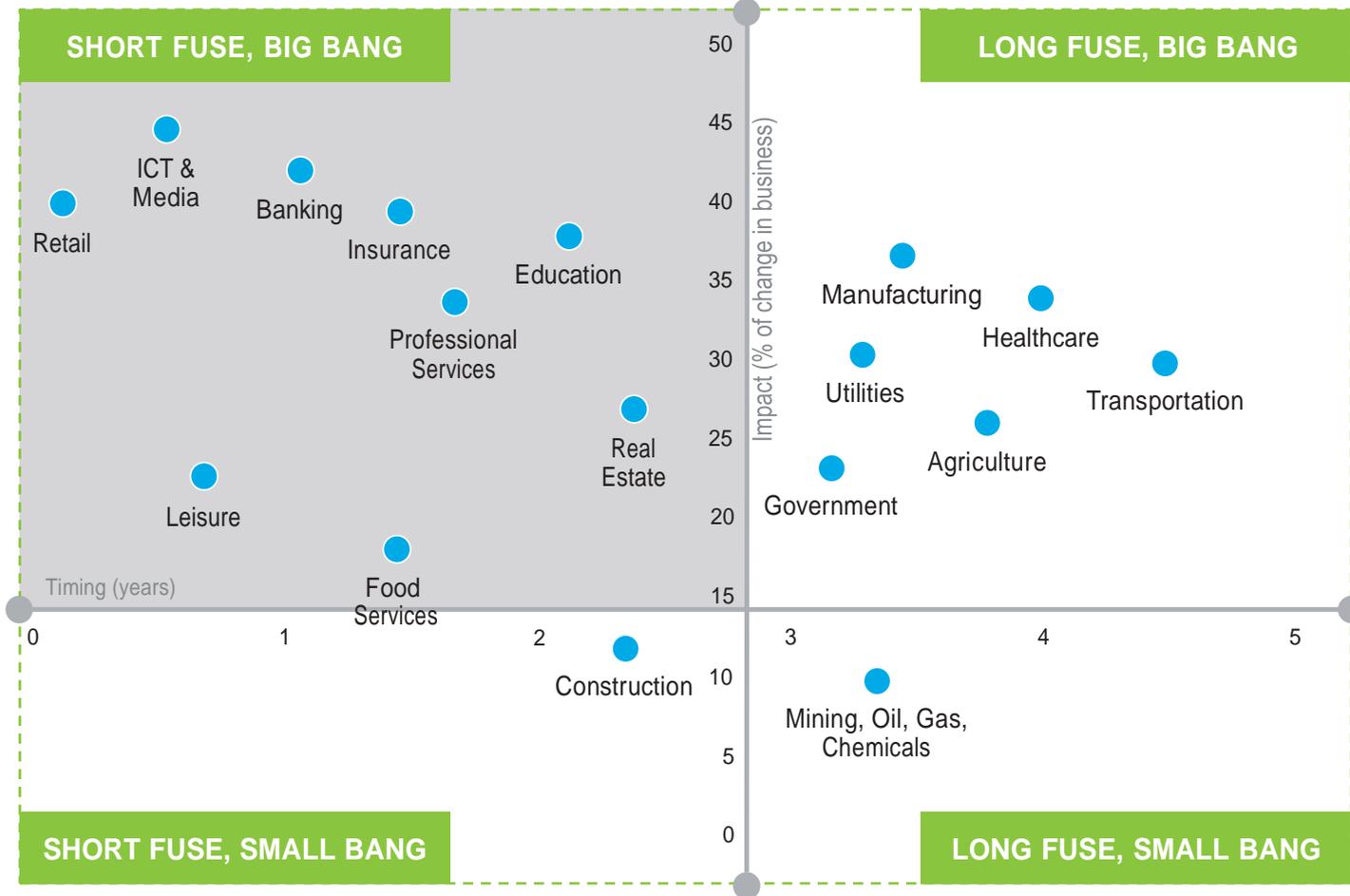


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The best way to predict the future
is to create it ”

Peter Drucker

Fig. 2 – Global disruption map by industry*



*Based on analysis by HIEC and Deloitte Digital

3. Effective transformation of traditional businesses

But how can you survive? Where do you start? The following framework will help business leaders across industries to assess their current status within the digital transformation process, ask the right questions and define concrete next steps.

The four phases each deal with essential questions that make digital transformation happen:

- Phase 1: Where does my own industry stand?
- Phase 2: Which threats does digitization cause for my business?
- Phase 3: Is the organization enabled to transform successfully?
- Phase 4: How can we ensure constant change and innovation?

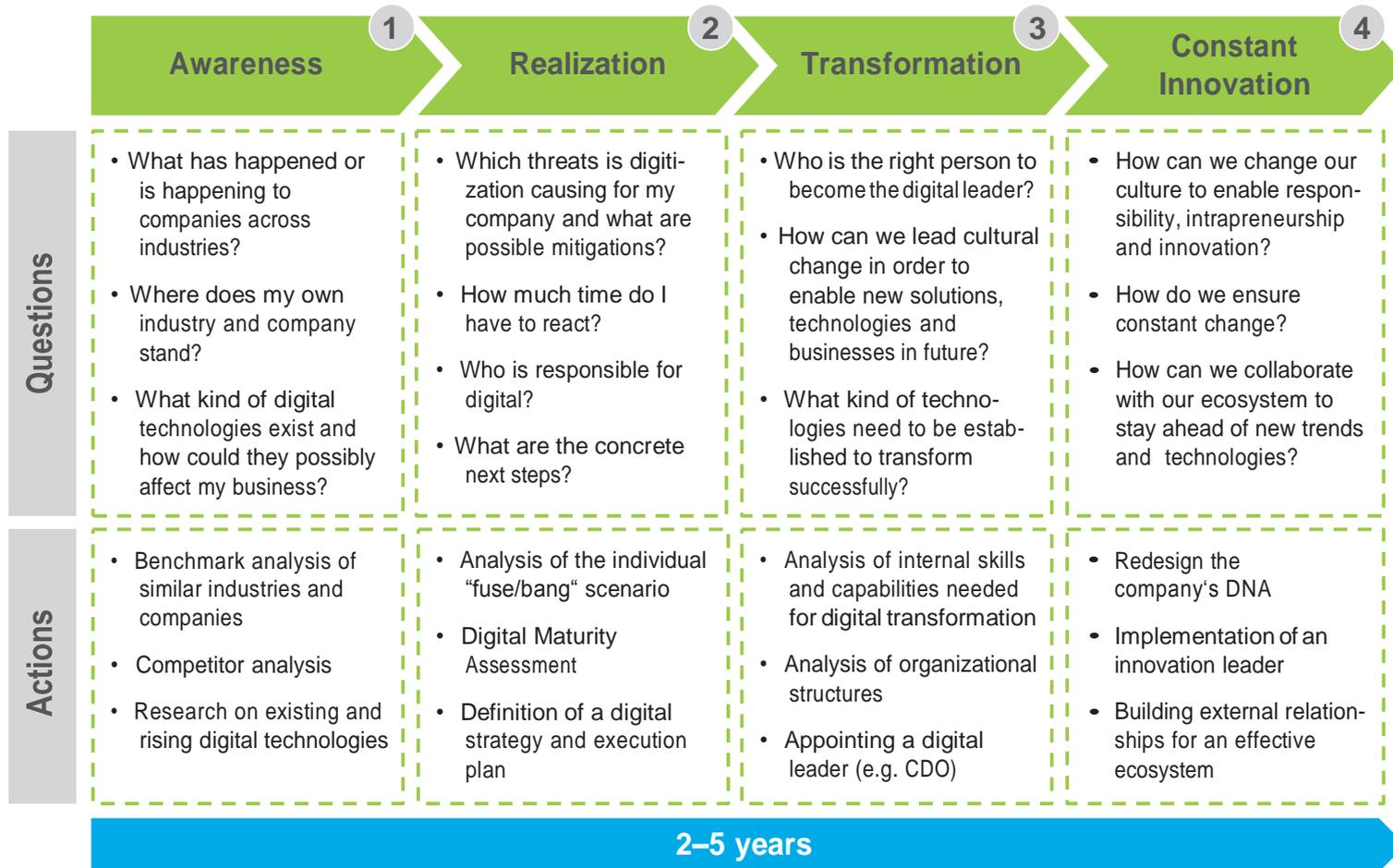
Company leaders must be aware of the changes digitization will cause, realize the specific impact on their business model, define immediate next steps to transform and finally enable constant change and innovation. While the first three steps secure survival, the fourth step is necessary to create sustainable future value.

Due to the fact that technology cycles are becoming drastically shorter, companies today are given a time frame of two to five years to transform, whereas industries that were disrupted earlier, such as media and retail, had 5-10 years to perform the change.

Across all four steps, the organization and its people are the critical success factors for digital transformation. A cultural change within the organization is a prerequisite for change and innovation. This shift can only be executed top down and must be guided by a dedicated digital leader. He or she is the digital-savvy evangelist who understands and respects the traditional processes and structures, and has the power, knowledge and charisma to adapt them for the new digital future of the company.



Fig. 3 – The 4 phases of digital transformation





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74% of 1,254 global business executives state that they have a digital strategy, but only 15% believe to have the necessary capabilities and skills to execute on that strategy

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Forrester, 2014

4. Individual leadership models for digital transformation

The fact that digital transformation must be guided by a digital leader raises the important question: Who is the right person?

In an ideal world, the CEO would embody everything that is needed for digital transformation and constant innovation. He or she runs the company, knows every process and product, is aware of organizational structures and has the power to bring changes across the company. Yet this is rarely the case for traditional businesses. In most cases a dedicated digital leader must be employed to provide a digital vision, give guidance to the team and involve them actively in the transformation process.

The origin of the digital leader may differ from industry to industry. In a marketing- and product-driven industry such as retail, the CMO may take this task, whereas in system- and technology-driven industries such as ICT and media, the CIO or CTO may be best suited to the task. However, established C-level executives are often influenced by their vertical legacy, caught in their day-to-day focus and are therefore unable to provide an overall direction for the digital journey of the entire company.

In addition, the following organizational circumstances may invoke the employment of a new C-level executive, the Chief Digital Officer:

- Insufficient cross-operational and -functional collaboration to create digital resources and solutions
- Formal and strict functional lines, with clear and non-overlapping responsibilities
- Fragmented customer experience, products and channels
- Silo-thinking and a lack of an overall vision and mission for the company

The CDO is the connecting piece between all C-level executives, the silo wrecker, the independent evangelist and change manager who commits the whole organization to the digital transformation mission, clearly an all-round talent that is very hard to find. CEOs should thus consider the required capabilities and skills shown in figure 4 to find the right candidate.

Fig. 4 – The capabilities and skills of the CDO



Our analysis of 102 companies from the US, Europe and Asia across industries including leisure, food services, financial services, retail, consumer goods, media and automotive showed that established CDOs across these industries have a diverse professional background. All of the analyzed candidates gained relevant experience through at least one or more leading positions at:

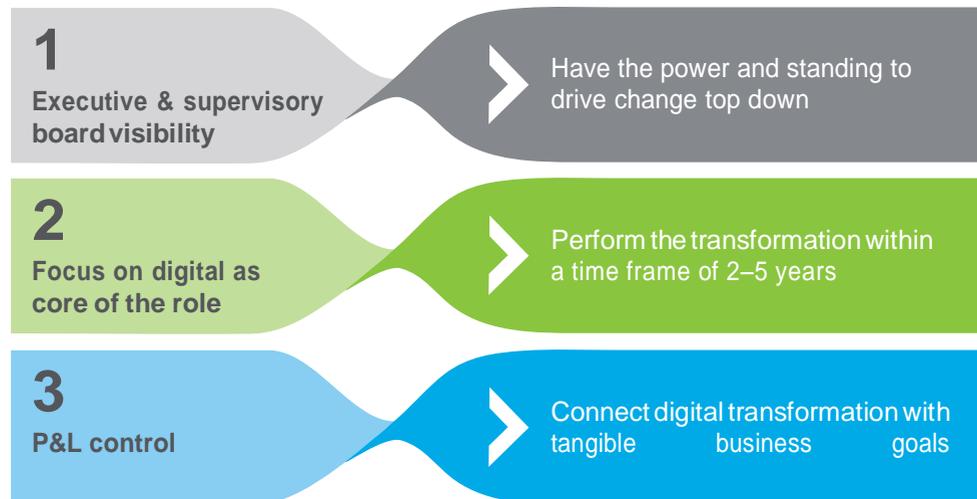
- a. Digital companies (e.g. eBay, Google, Apple, Amazon, Yahoo, Rocket Internet)
- b. Technology companies (e.g. Oracle, HP, SAP, Microsoft, Adobe, Salesforce)
- c. The same company but in a different role (e.g. from Head of Global e-commerce to CDO)

Besides, today's CDOs have often gained additional experience in a strategic and/or advisory consultancy. The diverse background of the CDO candidate is underlined by an average of 4.5 previous assumed roles in different companies before becoming a digital leader.

However, the position of the CDO may only be a temporary one. He or she is primarily in charge of transforming the company into the digital age. After completing this mission, the role of the CDO will change. If the CDO has managed to build additional businesses, the function can migrate into a separate business or unit which builds businesses and transfers them internally, or into a permanent function as business development/innovation management. Thus what often looks like a disappearance of the CDO, in fact is simply a title change. Nonetheless, even the most skilled and charismatic digital leader will not be able to transform the company successfully, if the CEO does not offer him or her the necessary power and support.

But what are the key success factors of transformation? To identify them, we analyzed those companies that (will) face a big bang according to our disruption map provided above, as they have the strongest need for action. Those companies who have been successful in transforming or are on their way to becoming so, provided their digital leader with the following key success enablers:

Fig. 5 – The 3 key success factors for digital leaders



Best practices across these industries are Toyota (Japan), Marriott (US), Starbucks (US), Nestle (Switzerland), HSBC (UK), Tesco (UK) and L'Oreal (France).

Surprisingly, only 30% of the analyzed companies fulfill these success factors for digital leadership, whereas all of them claim to have a digital mission and to execute on it. Furthermore we identified that 70% of those companies fulfilling these success factors have a CDO in place to drive the digital transformation.

In conclusion, those companies that transform successfully into the digital age empower their digital leader with the necessary control mechanisms. 70% of those have a CDO in charge to drive the change and have therefore realized that digital transformation is not a task that a CMO, CIO or anyone can do in addition to his or her daily duties. Of course the now called CDO might have been a former CMO, CTO, CIO or COO, depending on the industry and where digital activities were located before.

This shows that the majority of the companies we analyzed have not yet understood the urgency and importance of digital transformation, and it is very likely that this applies to many other industries and companies as well. Our strong advice is to become active, define your digital strategy, assign an aspiring and inspiring leader and take the steps needed to be part of the digital age.

Now is the time for CEOs to decide if their company will survive and flourish or become the next Kodak.



30% of the analyzed companies fulfill the success factors for digital leadership



70% of those companies that fulfill the success factors have a dedicated CDO

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