



# Destination (un)known

Key steps to guide your  
digital transformation journey





Digital disruption is changing the world in which we live and work. New technologies have created new markets that, in turn, create new customers and new competitors. And those customers and competitors are driving new expectations. The pace of change is unlikely to slow any time soon.

To succeed in the digital world, businesses must not only provide superior experiences for consumers, customers, employees and citizens, but deliver on their promises in a faster, more nimble way. The opportunities are immense, but only for organizations that understand how far and fast they need to transform.

A recent survey by KPMG<sup>i</sup> reveals that a key strategic priority for CEOs is digitizing their businesses, but that 57 percent are concerned that their organizations do not have the sensory capabilities and innovative processes to respond to rapid disruption. There is a mismatch between aspirations to 'go digital' and capability to do it in a strategically coherent way.

Digital transformation is enabled by technology, but its success is about much more. It means taking on enterprise-wide change to evolve an organization's business and operating models, as well as the way its people work – across the front, middle and back offices. And it means integrating high volumes of data to predict, influence and respond to customer behavior. All with the objective of assuring clear business outcomes.

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According to KPMG's US CEO Outlook 2017, business leaders now see significant opportunity in digital disruption. 72 percent say rather than waiting to be disrupted by competitors, their organizations are actively disrupting their own sectors. At the same time, many are aware they are not yet utilizing digital to its full potential. Over a third say the depth of their customer insight is hindered by a lack of quality customer data and 45 percent say they are not leveraging digital as a means to connect to their customers effectively.

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# Digital transformation is business transformation

Digital transformation is a natural progression from traditional business transformation, one more suited to the modern world. The critical difference is the opportunities for innovation, scalability and agility that are possible in any transformation process, now that digital is part of the mix. Rather than setting long-term goals and moving steadily towards them, sometimes over a number of years, digital transformation has the ability to deal with uncertainty and respond quickly to change. What's more, digital transformation is not a one-off program. Once it has begun, it opens up an organization to continuous and much more effective evolution.



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Our view is 'transform or wither,' 'transform or lose pace'. We take the perspective that the concept and the execution of transformation are never complete, because the marketplace changes, and so do the needs of our clients and customers — and the digital era just accelerates all of that.



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**Catherine Bessant**  
Global Technology & Operations Executive, Bank of America

# Dealing with uncertainty

The challenges ahead can seem overwhelming but now that digital is part of the mix, the transformation process can be far more innovative, fast, scalable and agile. And we believe it should be approached incrementally to ensure a continuous and effective evolution.

KPMG has identified four steps to guide its clients' digital transformation journeys. Each has the potential to deliver true value.



Understand industry-specific opportunities for digital disruption



Create a business strategy that starts from the outside-in



Articulate an enterprise-wide operational strategy that connects the front, middle and back office



Embed culture change programs throughout digital transformation

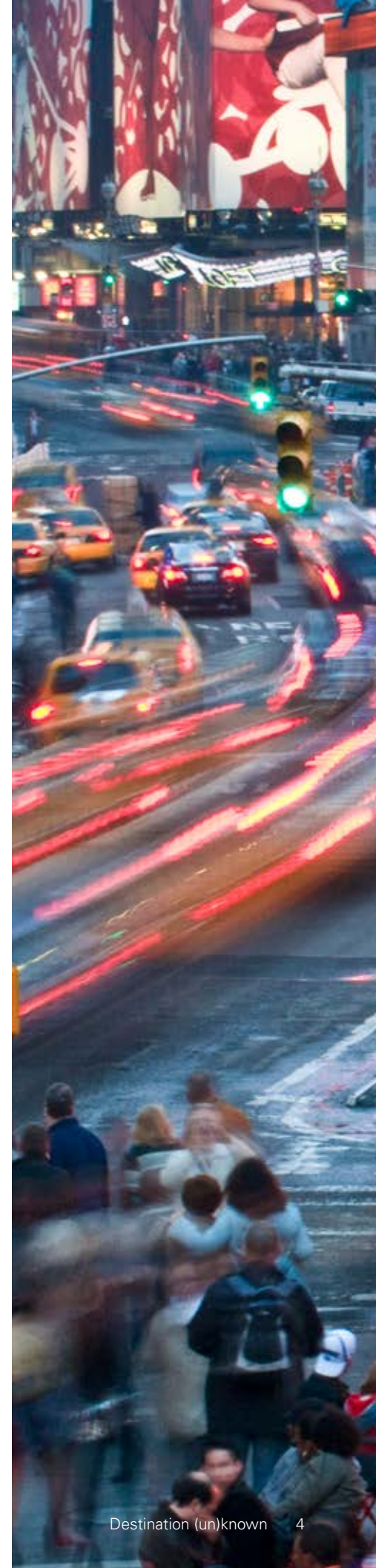


## Data and innovation

The common feature of many disruptive technologies – and industries – is big data. Abundant personal and professional data can be harvested from ‘always on’ mobile devices, and used to drive anything from real-time service adaptations to high-level decision-making and new product design.

By 2019, 40 percent of information technology projects will create new digital services and revenue streams that monetize data, according to IDC.<sup>ii</sup> In the customer experience realm, transformative projects will include analytics-based customer segmentation, predictive marketing, personalization and enhancement of touch-points to align with customer journeys. On the operational side, there will be a greater focus on the workforce with data-driven decision making and, ultimately, data-informed cognitive analytics.

Finally, while only 30 percent of consumer and retail brand executives said they are using data and analytics to strategic ends today, according to KPMG’s 2016 Global Consumer Executive Top of Mind Survey, that number is expected to double to 59 percent over the next two years. And predictive analytics is projected to double from 24 percent to 49 percent in the same time period.





## Understand industry-specific opportunities for digital disruption

Digital disruption impacts different industries in a variety of ways. It creates unprecedented opportunities to adopt alternative business models but every industry is unique in the approach it requires.

All businesses can now leverage digital innovations such as mobility, digital labor, internet of things and data and analytics. What matters is how they apply them to business challenges. Competitive advantage comes not just from identifying the innovations and implementing them in isolation, but from using them in new combinations to address industry-specific challenges and drive transformation.

Harnessing the power of multiple disruptors gives business the opportunity to transform and thrive by creating new pathways to value. These might be new business models, new markets, new products or new services.

### An Industry View

In these industry-specific examples, companies are leveraging disruptive technologies such as cloud, data and analytics and the Internet of Things to create value.



**Industry:** Healthcare  
**Driver:** Insufficient access

Today's patients want choice and flexibility in how and where they access care. Telemedicine (utilizing video conferencing over mobile device or web portal) allows them to access a primary care physician or specialist from home. Advances in electronic health records and cybersecurity measures mean that patient information can be securely stored, accessed and shared.

Telemedicine improves the customer experience while allowing provider organizations to cut their own operating costs, improve patient outcomes, minimize hospital visits, and meet federal mandates to lower total cost of care per patient – all critical elements in the industry-wide transition to value-based care.

## An Industry View

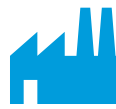
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**Industry:** Banking  
**Driver:** Blurring of boundaries

Budgeting, accessing discounts and deals, entertainment, bill paying, saving and investing are all interrelated in the minds of today's consumers. Banks that can transform into financial management partners, rather than holders of accounts, will find new life in this environment.

UK start-up Monzo<sup>iii</sup> is disrupting the banking industry with a completely new business model – an account service that provides a newsfeed of financial activities, all updated in real time and geo-tagged. Users can sort their spending by location, category and cost. Aiming to be the 'best current account on the planet', Monzo uses advanced data and analytics, views customer engagement as a differentiator and aims to scale to a billion users worldwide.



**Industry:** Equipment manufacturing  
**Driver:** Yield versus labor costs

Tractor manufacturer John Deere has long been trusted by farmers to provide high-quality machinery that helps maximize productivity. However, as farms consolidate and regulations become more stringent, farmers are challenged by tight timelines, higher yield demand and difficulty attracting skilled labor.

Now software and data-collecting sensors have been integrated into the company's farming machinery, and a networking platform allows interaction and sharing of data between devices such as tractors, combines, sprinkler systems, soil measuring systems, and weather meters. Farmers are able to use this system to optimize crop yields, predict equipment failure, monitor inventory, reduce water waste and more. John Deere is using digital technologies to transform its business model from an equipment manufacturer to an agricultural services and data company.

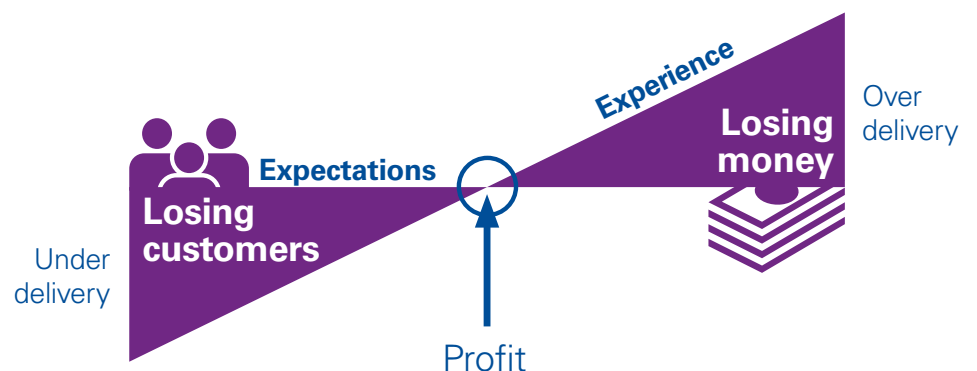
## Create a business strategy that starts from the outside-in

True digital transformation starts with the customer and works inwards, connecting capabilities to ensure that every part of the organization is built around delivering great customer experiences.

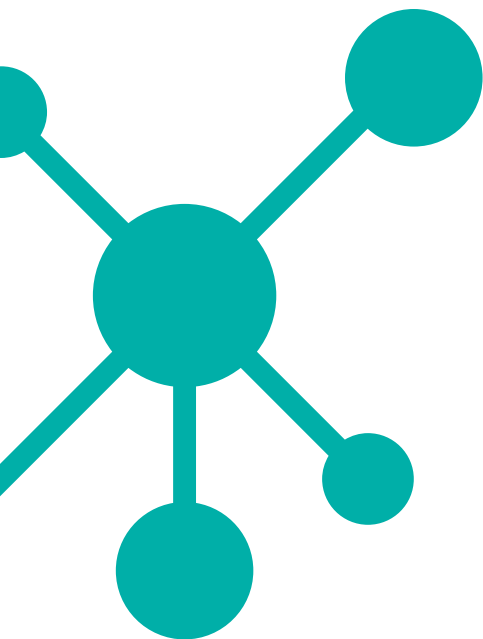
This is about far more than 'putting the customer first'. Empowered by digital technology and a wealth of information, modern consumers can compare, share and shop 24/7. What's more, they take expectations created during their best online experiences into all areas of their lives.

In order to meet and set expectations, companies must avail themselves of the same technologies their customers are using, while also capturing, analyzing and acting quickly upon the insights derived from customer data.

However, the outside-in approach doesn't mean significantly overdelivering against these expectations or delivering excellent customer service at any cost. When a business truly understands its customers and the speed at which their desires now change, the costs of over-delivering are reduced. Value is created by meeting their customers' expectations – no more, no less.







## Articulate an enterprise-wide operational strategy that connects the front, middle and back office

A holistic, enterprise-wide approach to transformation connects the capabilities of the front, middle and back offices.

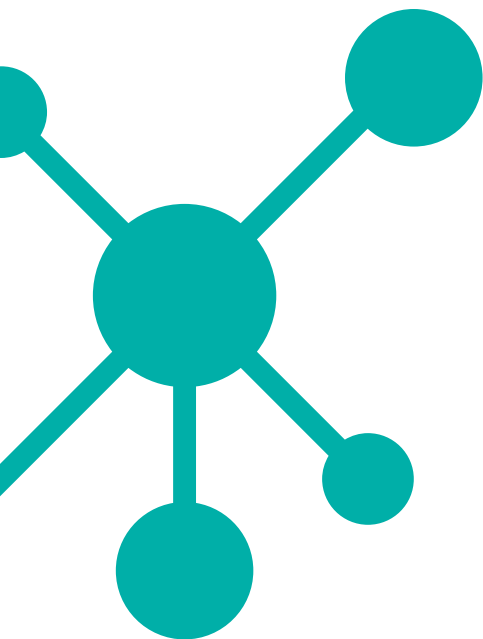
In our view, the fully realized digital enterprise will encompass not just customer-facing digital platforms, but distribution, billing, the supply chain, IT, operations and business services such as human resources and finance.

Taking an enterprise-wide approach facilitates what IDC describes as one of the foremost requirements of the digital age: customer intimacy at scale. Meeting the universal expectation of a customized, consumer-grade experience across all transactions requires overhauling both the digital front-office and the operational middle and back offices. Improving transparency and connectivity in the supply chain is integral to a seamless customer experience. Meanwhile, the effective and highly responsive use of individual data is absolutely critical to the delivery of the personalized service the modern customer demands.

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Concerned about driving profitable growth, CEOs have focused on execution – making organizational improvements to deliver on customer expectations. According to KPMG’s US CEO Outlook 2017, more than half (52 percent) have aligned middle and back office processes to reflect a more customer-centric approach to front-office operations.

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Articulate an enterprise-wide operational strategy that connects the front, middle and back office

## What digital transformation looks like

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### ...In the front-office

Understanding customers and their needs is central to successful digital transformation. According to a Harvard Business Review study, customers who had the best past interactions with transaction-based businesses spent 140 percent more than those who had negative experiences.<sup>iv</sup> By implication, there must be a willingness to relinquish products, services and business models that don't contribute to better customer experiences. Equally there will be new tools, built on advanced data capture and analytics, which can track and anticipate behavior in near-real-time, as well as smart technologies capable of delivering personalized products and experiences.



The desire for connectivity and responsiveness is as true in the work arena as it is in the personal realm. Consumers want a match for their best online retail experiences no matter where they are.



**Sam Ganga**  
Principal, Advisory  
KPMG Digital and Mobile Solutions

## What digital transformation looks like

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### ...In the middle-office

The meaning of middle-office varies depending on industry but it's always about following through on the brand promise and delivering a great experience for both customers and employees. Here, digital transformation is all about reducing friction, and improving connectivity, agility and transparency. In manufacturing, for example, middle-office might be the supply chain. Connecting the supply chain digitally end-to-end provides visibility into events that require a real-time response, such as factory closures, unexpected market disruption or front-office demand.

### ...In the back-office

Businesses are under ever-increasing pressure to drive down operating costs. In back-office, this translates to increasing automation, including the use of digital labor and intelligent systems, freeing the human workforce for expert tasks and high-level decision-making. Many businesses will need to abandon or realign legacy technology and develop a more scalable IT production environment, most likely built around cloud technology. Perhaps most importantly, will be a major enabler in providing real-time data that supports predictive decisions.

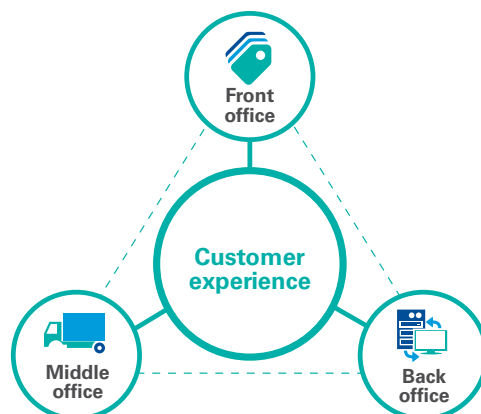
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**79 percent** of C-suite respondents view aligning middle and back office operations to support customer experiences as “mission critical” or “increasingly important.”

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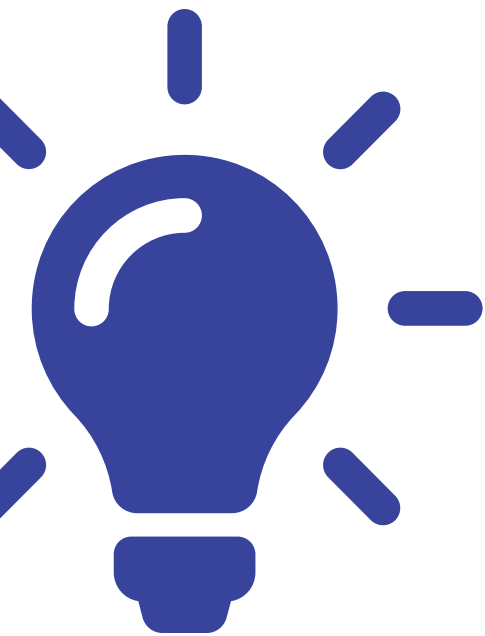
Source: KPMG State of Operations and Outsourcing 2017 survey

### How it all works together









## Embed culture change programs throughout digital transformation

By its nature, digital transformation requires operating model change and blurs boundaries between different teams and functions. That means the final critical component to a successful digital transformation is a robust and integrated culture change program.

Just as digital disruption is industry-specific, culture change is contextual, meaning a one-size-fits-all model is unlikely to bring the required results. And it cannot happen piecemeal, especially when there is an increasing need for agility and cross-boundary collaboration.

Successful culture change depends on sharing a unified vision, and engaging and inspiring employees. But companies should consider the impact on all stakeholders (internal and external) and prioritize efforts carefully to enable the “quick wins” that encourage buy-in and support.

Of all the interventions that move culture in the right direction, the most critical is change leadership.<sup>v</sup> More than 56 percent of initiatives fail due to lack of leadership. Many leaders will benefit from developmental support in building their capabilities. Other studies show that structured and specific communication is a key contributor to the success of change initiatives.<sup>vi</sup>

Encouraging innovative thinking at all levels of an organization empowers people to take risks, embrace experimentation and champion inventive ideas. In such an environment, digital disruption is not a threat but an opportunity to create smarter products and services.



# Putting it all together

Approaching the uncertainties around digital transformation with confidence means understanding that it's not a single change but a journey: a collection of decisive actions that jointly move an organization forward to achieve its vision.

Embracing digital must be driven by much more than a desire to appear cutting edge. Instead it should be about harnessing innovation and disruption to transform what a business is and how it remains relevant to customers. There is a strong and growing correlation between enhancing customer and employee experiences and improving top-line revenue.

Tackling digital transformation reactively, with a siloed view, or with a technology-first approach will not work. Instead of engaging in a series of digital experiments, companies need to redefine their business transformation to be a digital transformation. Taking account of wider industry issues, and the specific mix of disruptors that can impact them, companies must set forth a vision and strategy for the entire business. Culture change must be considered, as must the role of advanced data and analytics in informing all transformation decisions. From this position, it becomes possible to create a fully connected enterprise that delivers value profitably – all with an unwavering eye on the customer.

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<sup>i</sup> KPMG's U.S. CEO Outlook 2017

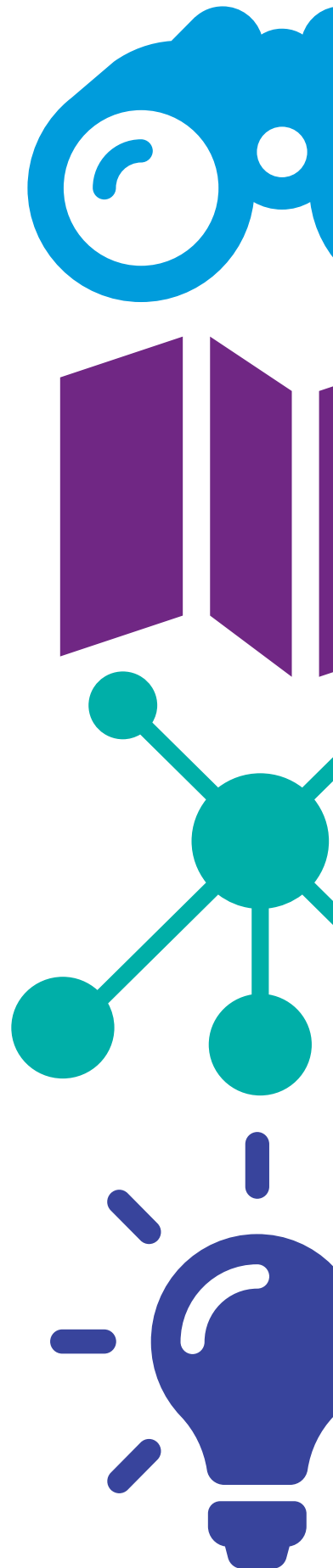
<sup>ii</sup> IDC

<sup>iii</sup> Hern, A. "Would you do your banking with a tech startup?" The Guardian, October 19, 2016.

<sup>iv</sup> Harvard Business Review

<sup>v</sup> Enabling Organizational Change Through Strategic Initiatives, PMI, March, 2014.

<sup>vi</sup> The High Cost of Low Performance: The Essential Role of Communications, PMI, May, 2013.



# How can KPMG help you transform?

New customers, new experiences, new markets and new business models: digital disruption is creating new opportunities for organizations to add value. But only for those who understand how far and how fast they need to transform.

KPMG can help companies meet the evolving expectations of consumers and employees. This means re-imagining more than just the front-office – middle and back office processes and platforms need to evolve too. Our multi-disciplinary teams help clients achieve transformation using traditional digital technologies, disruptive digital innovations and non-digital capabilities as well. Combining a commitment to innovation with industry expertise and agility, we accelerate our clients' competitive positions so they can thrive in the digital world.

To discuss how KPMG can enable your organization to achieve business-wide digital transformation, please contact:

## **Rick Wright**

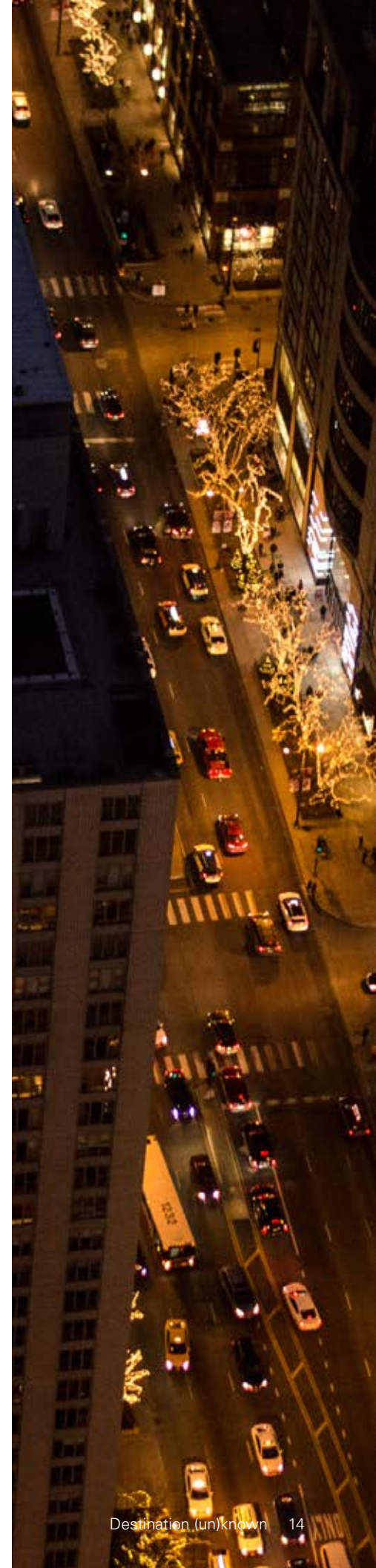
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