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# Redefiners Are Doing Digital Right

Companies that have the digital aspiration of fundamentally changing their operating model can face disruption head-on.

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**A decade ago**, being a digital company often meant simply adopting and using IT, or setting up a website, or tacking a “.com” to the end of the name.

Today, being digital is, like being online itself, an all-consuming experience. It means having a mind-set that embraces constant innovation, flat decision making, and the integration of the right types of technology into all phases of the business. It means developing a workforce and culture that hone the types of relationships, behaviors, and skills that speed innovation and bolster experience — and the bottom line.

Through the **Digital IQ (DIQ) survey**, PwC has been measuring the digital acumen of companies and executives and capturing the state of play. The series of evolving questions we pose delves into priorities, ideals, investments, behaviors, and outcomes.

As digital has become a way of doing business, it is clear that companies have become more focused on their own goals. The 2,200 respondents to the 2018 DIQ survey self-selected into one of four groups based on the aspirational path they say their companies are following: **Modernizers**, **Efficiency Seekers**, **Industry Explorers**, and **Redefiners**. Three of those groups primarily aim to use digital tools and ways of working to tweak and shape their business as it is. One wants to *modernize* to improve on what they already do. Another is squarely focused on *increasing speed and efficiency*. A third is keen to *break new ground* in their industry.

And then there's the fourth group: the Redefiners.

Redefiners, which constitute about 23 percent of our sample, are arguably

## PwC's 2018 Global Digital IQ survey

Across 60 countries, 2,280 executives in business, experience, and technology (BXT) offer insight into how their companies invest in and deliver on the promise of digital. The findings reveal what successful companies are getting right, and what their peers need to do to catch up.

<https://digital.pwc.com/en/perspectives/digital-iq.html>

the most ambitious of the groups, and have the most complex aspirations. These companies expect their digital efforts to redefine their core business model and change the way they operate. Continuing to do what is necessary to keep the existing business profitable while simultaneously investing to develop new revenue streams that might have little or nothing to do with how they operate now, is a herculean task. It's a bit like trying to change the engine on a bus...while it is hurtling down the highway at 60 miles per hour.

It can be done. Consider the *Washington Post*. Before Amazon CEO Jeff Bezos bought the newspaper in 2012, there seemed to be no path to success. The Post had suffered several years of losses. But with new owners came new people, substantial new resources, and, perhaps as important, a new mentality and a new digital-first approach. Under Bezos, the *Post* has invested in both people and technologies. The company had almost no IT department in 2012 — and few ways to attract the talent it needed to change. Now it has a tech and development staff of more than 250 people and is seen as a desirable employer for tech talent. Nearly every tool the newsroom and sales teams use has been created in-house, including an operating system so advanced it's being sold to other newspapers.

Having grown by double digits for three straight years, digital ad revenue at the company now exceeds US\$100 million. Paid digital subscribers, negligible a few years ago, have topped 1 million. The *Washington Post* still produces its primary product: journalism. But it's no longer “just” a news organization; it's a digital company that produces news. And it does so profitably: 2017 marked the

company's second straight year in the black. The *Post* pulled it off: It changed the engine on a bus full of passengers speeding down the interstate.

## The 8 Percent's Solution

So what separates a successful redefinition effort from those that fall short? Weaving digital strategy into corporate strategy. Facing disruption of all kinds head-on. Leading with new or fresh thinking. Achieving the change in mind-set and behavior that marks a truly digital enterprise. Elevating customer and employee experience to an imperative.

Most Redefiners have the right mind-set to achieve their aspiration: More than two-thirds say the company's CEO is a champion for digital. They're the most likely of all four groups to embrace the mind-set of constant innovation, flat decision making, and integration of tech across the business — which are the core of digital thinking and transformation. They've changed their recruiting and training processes to build a digitally savvy workforce, and it's beginning to pay off. They recognize that digital transformation requires both technological and cultural change.

But dig a little deeper, and there's a clear divide between financially successful Redefiners and the rest of the group. Just 8 percent of Redefiners in the Digital IQ survey fall into the category of top financial performers — that is, they've seen profits and revenues increase by 5 percent or more each of the last three years and expect more of the same over the next three years.

These top performers have managed to keep the engine of growth running smoothly while working toward — and beginning to achieve — their redefining aspirations for digital. Their journey and decisions offer a host of lessons in prioritizing, business practices, and strategic thinking that could serve as a framework for success for other companies that want to redefine their business.

## Embracing Constant Disruption

Disruption isn't always big, scary, and sudden. Yet many companies myopically view disruption as some sort of seismic activity — and for many industries, such change seems like a black swan event. As we've moved to a rapid-paced, always changing business environment, disruption is often **much more iterative**.

So it serves any company well to anticipate and prepare for disruption, even the incremental variety. Top-performing Redefiners take disruption more seriously than their peers: 61 percent say their company faces a serious threat from disruption, whereas just 27 percent of non-top-performers say the same.

PwC's newly launched [Industry Gini Index](#) makes clear that Redefiners are likely in the early stages of a meaningful disruptive cycle. The index, which measures the extent to which one industry winner, maybe two, occasionally three, are rising above the pack, examines how the growing forces of "winner-take-all" are spreading across industries. These winner-take-all trends reflect advances like digital platforms that let a business turn a small advantage into solid dominance. The results can upend how companies set strategy, compete, and operate. Or they can lead to demise. Either way, disruption strikes as digital drives industries toward winner-take-all stakes.

This appears to be the future for many Redefiners. Redefiners tend to be in industries that are not far along on the winner-take-all path. At the same time, Redefiners have attributes that fit with companies seeing digital disruption on the horizon. They include relatively weak financial performance as an overall group, executives less steeped in digital, and perhaps most important their own stated intentions of using digital to change core business models and redefine themselves.

Blockbuster faced massive disruption to its movie rental business from the DVD-by-mail rental upstart Netflix, and crumpled in its wake. But Netflix proved able to transform as the environment changed. Redefining the business digitally meant pivoting from physical DVD rental to a streaming service. The disruption was enabled by a change in the service landscape, as telecoms upgraded to higher, more reliable bandwidths, and spurred by the growing consumer preference for on-demand entertainment viewed on portable electronic devices.

Today, companies face a more iterative disruption, one that involves data, apps, and the close monitoring of buyer behavior. Domino's Pizza has pivoted in the past few years from being a take-out-and-delivery pizza maker to an e-commerce business that specializes in pizza products. Domino's systematically changed its brand, implemented new digital features like a slick ordering app that tracks the progress of your pizza (or, you can order by text or tweet) and

detailed analytics that have capitalized on data to deliver pizza faster, and instilled a new mind-set throughout their company. The 68-year-old company has emerged as an agile analytic juggernaut, able to parse customer data and buyer behavior to craft the right products at the right times, with a slate of ordering options across every platform.

## **A Different Kind of Leadership**

Digital transformation is not about launching a single new tech product, or automating one simple process. It's about creating an entirely new way for teams to work, for companies to operate. Accordingly, senior leaders at top-performing Redefiners have forged a more cohesive digital strategy than their less-successful peers — and are more likely to be executing it with both action and a focus on shifting organizational behaviors.

Top performers are twice as likely as their peers to involve the executives in charge of digital in determining high-level strategy. For them, digital isn't just a side project with a discrete objective — it is the strategy (*see box below*).

## **Workforce Progress — and Cultural Shifts**

High-quality execution also means looking at a problem **through multiple lenses**, business priorities, experience and creative solutions (for both customers and employees), and technology. Exemplifying digital behavior by tackling business problems in this way makes it more likely that a company will look at tech tools as a way to leverage business insights and design compelling experiences.

Leaders at top-performing Redefiners are investing more heavily in digital than other Redefiners. Two-thirds spend 10.1 percent or more of revenues on digital investments including core IT and digital transformation efforts, compared with just 14 percent of the lower-performing Redefiners. Almost 20 percent of top-performing Redefiners spend between 20.1 percent and 25 percent of revenues on digital investments, compared with only 2 percent of the lower-performing Redefiners.

To do so, companies must invest in recruiting and training their workforce in more digital ways of working. Redefiners are actively investing in improving employee performance and engagement with digital training and education programs and exposing employees to new teams to increase their skills and knowledge of the business. One-third of top-performing Redefiners say they put the largest share of their digital budget toward building a more digital workforce, starting with updating management skills related to digital transformation. But they're not stopping there. Financially successful Redefiners are twice as likely as others to use technology to help them innovate with speed and to quickly determine when to reduce or end investment in something that's not working — a precipice where too many others admire the problem without acting. What's more, top-performing Redefiners are farther along in development of their organizations' skills and adoption of emerging technologies.

### **Doubling Down on Experience**

All of this would be moot without a culture that capitalizes on the value of experience — for customers and employees. The vast majority of top-performing Redefiners are experience-focused companies, realizing that engaged employees yield the customer experiences that generate revenue. They ultimately determine the viability of the business, and these companies have crafted operating models and ways of doing business that reflect it. Almost all (95 percent) of the top performers have an executive in charge of employee experience, compared with 66 percent of their less successful peers. And 87 percent say their employee experience strategies are effective or highly effective (the other 13 percent say they are adequate), and report nearly the same for customer experience.

More than 80 percent of financially successful Redefiners see customer experience as critical to digital transformation (compared with 58 percent of the rest of the Redefiners). There is a certain self-fulfilling logic to this. People say they will pay an average of 16 percent more for superior customer service, while one in three people say they would walk away from a brand they love after just one bad experience, according to PwC's consumer intelligence report, [Experience Is Everything](#).

Although customers generate revenue, it is employees who drive experience.

# Top performers have made peace with the idea of failure and iteration and make working across departments and functions the norm.

And engagement is the key to a successful employee experience. Top performers exemplify many of the reporting structures and ways of working that engage employees, allow them to do their jobs better, and help them to innovate around customer needs. They enact policies that are more likely than their peers' to deemphasize job titles, encourage curiosity, adopt leadership efforts that invite more creative thinking, and actively address skills deficiencies. What's more, these companies have made peace with the idea of failure and iteration and make working across departments and functions the norm. A culture that prizes contributions from all levels of the organization and has fewer bureaucratic layers encourages taking risk with far less fear of failure.

## **Room for Improvement**

Despite the clear advantages financially successful Redefiners have built for themselves, they still have significant work to do if they are to take full advantage of the promise of digital and fully achieve the goal of redefining a company.

For instance, only half of the top performers are involving the executives responsible for digital in overall corporate strategy and explicitly incorporate digital strategy across corporate strategy. That leaves some transformations in silos and hampers progress. What's more, senior leaders at top-performing Redefiners still have a ways to go in bubbling up innovation. Only 40 percent say they encourage innovation at the mid-management and employee level. There's also a say-and-do gap to fill around emerging technologies. For instance, despite citing AI as one of the top three technologies that will impact their business, only 5

percent of Redefiners are investing in it significantly.

Nonetheless, the small minority of Redefiners that have maintained financial success while taking on the most complex of transformational aspirations have plenty to teach their peers — and just about any other company that aims to become digital. It's not impossible to change the engine on a moving bus, but you can only do it if you have the **right elements in place**: a fearless driver and an unflappable mechanic, a full set of tools and parts, a reliable steering system, and passengers who are willing to go along for the ride. +

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