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HOW TO GET DIGITAL INTO YOUR DNA

At a time when many established companies are struggling to remain competitive, it’s clear that fundamental change is in order. Some established companies have found a path that works — they are surviving, thriving and going head to head with an onslaught of fast-moving startups that seem to multiply overnight. What lessons have these companies learned that others need to embrace?

THIS TIME, IT REALLY IS DIFFERENT

Dealing with today’s digital disruption begins by understanding how it differs from past industry changes. After all, stories of the-end-of-our-industry-as-we-know-it have been a trade press staple for decades. A few key elements distinguish this era of change from the past.

Disruption has accelerated dramatically, and the numbers prove it. A 2014 study from Constellation Research quantified the accelerating rate of change in the enterprise by examining a simple benchmark — the entry and exit of U.S. corporations in the S&P 500 index.

In 1958, corporations listed in the S&P 500 had an average stay of 61 years. By 1980, numbers from research firm Innosight reveal, the average stay had declined sharply to 25 years. In 2011, the average tenure dropped to 18 years. At the present rate of churn, Innosight’s research estimates that three-quarters of today’s S&P 500 will be replaced by 2027.

Digital disruption is the primary catalyst of change. While the Constellation study is careful to say that companies rise and fall for many reasons, digital disruption is clearly responsible for a large share. Research shows that since 2000, 52 percent of companies in the Fortune 500 have either gone bankrupt, been acquired, or ceased to exist as a result of digital disruption. The collision of the physical and digital worlds has affected every dimension of society, commerce, enterprises and individuals.

Digital transformation transcends technology. Digital transformation is often viewed through a narrow technology lens, as just another mobile project or e-commerce initiative. Fundamentally, though, digital transformation is the result of enterprises seeking to adapt to the storm of new technology affecting markets and customers. Effective internal systems, processes and value chains will always be essential, but enterprises will increasingly need to harness the skills, capabilities and passions of the external market. Digital transformation forces wholesale change to the foundations of an enterprise — from its operating model to its infrastructure, what it sells, to whom and how.

No industry is immune. Industries dominated by information-rich assets (think: publishing and music) were swept up in the early wave of Internet innovation. The subsequent mobile revolution created challenges for retailers who found customers flocking to online alternatives. Today, disruptive technology shifts such as cloud, big data and the Internet of Things will not only upend these industries (again), but they will also introduce revolutionary change to even the most staid industries. Specific industries with regulatory barriers or large infrastructure costs will feel greater effects of shifts created by the next generation of IT breakthroughs.

SIGNIFICANT OPPORTUNITY

The value of the digital economy continues to grow in size and importance to every company in every industry. Nearly 3 billion consumers, businesses, government agencies and institutions of every nature interact every day using computers, laptops, tablets, smartphones and a growing range of mobile devices. The relentless speed of change of customers, markets and technology has given rise to enormous opportunity.
The digital economy is making significant contributions to global gross domestic product (GDP), outpacing global growth by 400 percent. A 2015 report by Boston Consulting Group (BCG) estimated the digital economy would contribute $4 trillion to the GDP of countries in the G-20 during 2016 and would continue to grow at a rate of 10 percent per year. Growth outside the G-20 is even higher, measured at rates of 15 to 25 percent. These figures compare to a rate of 2.5 percent global economic growth, according to recent estimates by the Conference Board. BCG’s study also credits the digital economy as an increasingly important source of new jobs, as well as an important catalyst for social and political change.

KEYS TO DIGITAL SUCCESS

Successful companies have learned that digital disruption is more than a catalyst of unrelenting change. It is also the foundation on which new business strategies can be built that are able to move and evolve at the pace of consumers and markets. These are companies that have embraced transformation as a way of life and are using digital technologies to accelerate their growth.

Digital Transformation Requires a New Approach to Strategy

A key tenet of digital transformation is the understanding that digital strategy no longer plays a supporting role to business strategy. It is given first consideration, which determines other elements of the broader business plan. Without building on the basis of a digital operating model, there is no way to ensure alignment among a company’s digital initiatives. This is why so many digital transformation initiatives don’t live up to expectations, or they fail altogether. Pursuing a mobile app here or a big data program there is not establishing the core digital strategy on which to build the future business. It’s time to think of business strategies for a digital world — rather than thinking of a standalone “digital” strategy.

Digital Transformation Requires New Strengths

Operational excellence, customer intimacy or product leadership — successful companies excel in one dimension and perform well in the others. That may change as a company undergoes a digital transformation. Financial services and insurance offer good examples of this shift. While some banks and insurers were known for their service or products, most have long focused on operating as efficiently as possible. To succeed in the digital economy, companies in these industries are finding it necessary to make a shift.

In banking, institutions that remain focused on operational excellence face an eroding share of the market as new competitors and faster-moving rivals roll out innovative new products and services and find ways to give customers a more personalized experience. In insurance, the rise of telematics, big data and the Internet of Things is making possible new models such as usage-based pricing, or allowing insurers to price risk more accurately and to a finer degree. These innovations are attracting new competitors and changing consumer buying habits.

Digital Transformation Requires Digital Leaders

Digital disruption is rewriting job descriptions, too, especially for the CIO. Leadership teams, recognizing that technology’s supporting role has changed, have also reordered their thinking about digital leadership. Internal departments and employees were once seen as the CIO’s customers. Today, as they divest themselves of IT delivery, CIOs are now as focused on the external business customers as other members of the C-suite. IT delivery is becoming ever more commoditized and divested, giving CIOs the opportunity to try new things and to play a leading role in digital transformation.

In companies where this shift is not recognized, many of today’s digital initiatives fall short of their potential. They remain tactical in approach and lack a cohesive strategic focus. The digital world requires a CIO with the vision to see emerging changes and
opportunities, and the leadership to transition and transform organizations. The visionaries and winners have seen the opportunities, addressed the challenges and adapted to the expectations of the digital customer, while those with less flexible minds, cultures and business models are rapidly falling away.

Digital Transformation Requires Enterprise Alignment
Digital transformation presents immense commercial opportunities, but even when an enterprise recognizes the potential, it is not guaranteed. To realize the true potential of the digital transformation, enterprise strategy, culture, people and processes must be fully aligned.

The digital world is far more transparent and ruthlessly revealing of weaknesses and flaws in strategy and execution. Old-fashioned silos, defensive thinking and lack of organizational agility are incompatible with business models based on delivering better experiences to increasingly empowered and demanding customers. Without such alignment, many initiatives will fail to achieve their potential.

Digital Transformation Requires a New Breed of Technology Partner
Mastering big data. Divesting IT infrastructure and transferring workloads to the cloud. Developing an ecosystem of partners. Implementing a digital-first strategy. These are just a few of the challenges to be addressed in the process of digital transformation. Each of these business transformation areas is so completely intertwined with the others that organizations need a new type of agile technology partner.

The traditional reactive vendor relationship needs to become one of proactive partnership in which the technology partner has a complete understanding of the business and the technology challenges facing the client. Indeed, more than just understanding, the technology partner must have the ability to leverage a broad ecosystem of its own partners to facilitate the client’s digital journey — top to bottom, edge to edge, and beyond.

In this new world, technology agnosticism is imperative as options and technologies proliferate and develop. Similarly, both technology and the client partner must be open to the potential of new commercial models.

THE WAY AHEAD
Companies planning for a future beyond the next few years need to take stock of their transformational strengths and weaknesses. Wholesale transformation will be needed to streamline operations, to develop new businesses that serve new customer needs and to shed those businesses that no longer meet the company’s growth objectives — even businesses that were once considered core.

Transformation at this scale can be a long process. It will involve many challenges. But the opportunities it offers are unprecedented. The wins enjoyed will be significant. And no enterprise needs to take on all these challenges alone — in fact, it can’t.

Besides, the only alternative is to stick to business as usual. And if history is any guide, we all know how that story ends.
About CSC
CSC (NYSE: CSC) leads clients on their digital transformation journeys. The company provides innovative next-generation technology services and solutions that leverage deep industry expertise, global scale, technology independence and an extensive partner community. CSC serves leading commercial and international public sector organizations throughout the world. CSC is a Fortune 500 company and ranked among the best corporate citizens. For more information, visit the company’s website at csc.com.