

Digital Predator Or Digital Prey?

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The Journey To Digital Business

[Report Excerpt](#)

By 2020, every business will become either a digital predator or digital prey. The predators will be the companies able to achieve digital mastery, harnessing digital to create new sources of value for customers. The prey will remain Digital Dinosaurs, unable to evolve their proven business model until it's too late.

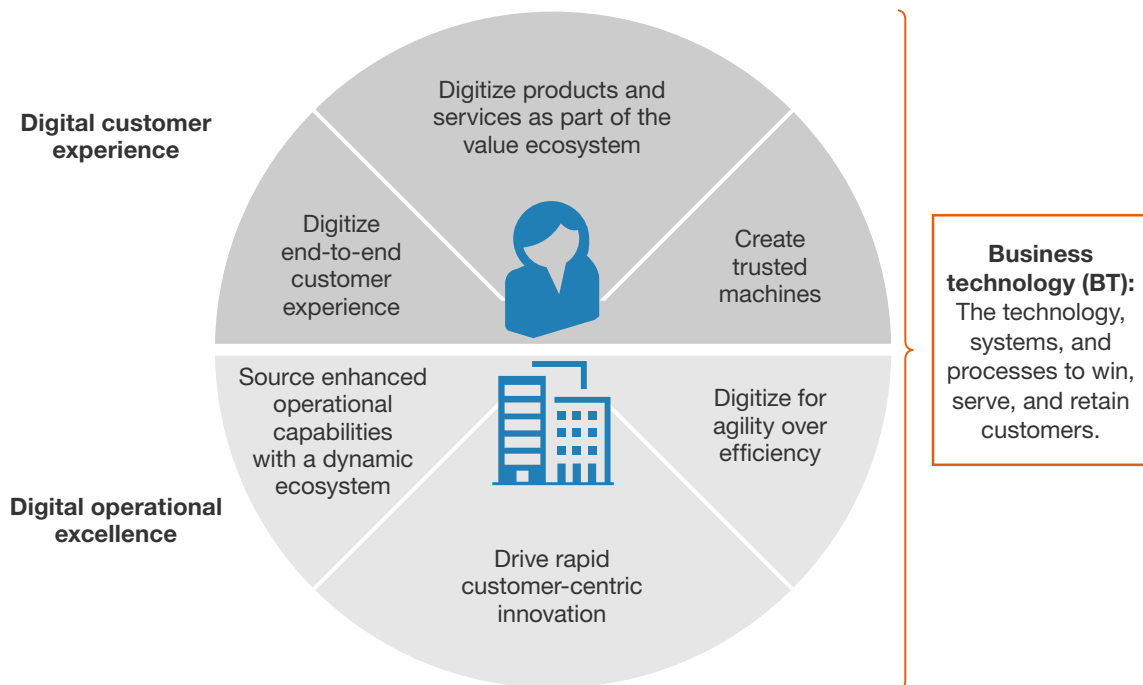
In “The Future Of Business Is Digital,” we described the need for every business to become a digital business.¹ That's not to say every company must stop selling products and instead sell bits and bytes — but it means every company must invest in building digital assets that create value for customers and increase the operational agility in service of customers.

Digital businesses continuously exploit digital technologies to both create new sources of value for customers and increase operational agility in service of customers.

At the heart of digital business is the need to rethink how to create value for customers. And to do that across the business, your company needs a compelling digital vision — one that inspires your employees to make the hard changes and tough choices on the journey to digital business. Your digital vision must be centered in customer value.²

But once you have your vision, what’s next? How do you know which levers to pull to create value? The answers to these questions lie in six broad digital business strategies that will accelerate your journey toward digital mastery. Each of these strategies focuses on creating digital assets around business technology (BT) — technology, systems, and processes to win, serve, and retain customers — to create value for the customer (see Figure 1).

FIGURE 1 Six BT Transformation Strategies That Will Accelerate Your Digital Business



Create World-Class Digital Customer Experiences

Digital touchpoints can drive revenue, lower costs, build brands, and engender customer loyalty. But to achieve these potential benefits, companies must deliver digital experiences that customers want to use — they have to have some value to customers that’s worth their investment of time.

Digitize The End-To-End Customer Experience

The divide between physical and digital products and services is already disappearing. Today's customers are increasingly acquainted with digital extensions to their physical world through app-enabled products like Nest thermostats, Disney MagicBands, and Starbucks rewards. Companies use these digital extensions of their products and services to create a more valuable customer experience by saving customers time, reducing friction, and personalizing the entire experience. By digitizing the end-to-end experience, you begin to track data from across the customer life cycle and gain deeper insights into how customers derive value. You know you are making progress in this dimension when you (see Figure 2):

- › **Orient the business toward creating best-in-class digital experiences.** By putting digital experience front and center in the business strategy, the CEO communicates clearly that the firm is not putting technology ahead of the customer; instead technology must be in service of the customer.
- › **Default to an outside-in perspective.** Customer experience (CX) is a mature discipline. Beyond paying lip service to customer service, firms that lead in customer experience have well-established customer experience teams and mature customer experience practices.³ By listening to customer feedback, inviting customers to share their experiences, and paying attention to customer complaints, leading firms become expert at seeing their business from their customers' perspective. Taking an outside-in perspective also means constantly asking how each investment in technology helps create value for the customer and prioritizing those that create the most value for the customer and the company.
- › **Use digital to enhance every touchpoint in the customer life cycle.** Digital leaders use customer experience tools like journey maps and touchpoint analysis to examine the entire customer experience, identifying opportunities to use digital to reduce friction and create value for the customer.⁴ Digital extends from product design, marketing, and sales all the way through the customer life cycle to customer support, service, and community engagement.

FIGURE 2 Digitize The End-To-End Customer Experience

- 0 - Nonexistent: We don't do this at all.
- 1 - Ad hoc: We do this occasionally but not in a well-defined way.
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- 4 - Optimized: We optimize this through continuous measurement and feedback across the business.

Digitize the end-to-end customer experience		Score
Orient the business toward creating best-in-class CX.	Our business strategy focuses on creating world-class experiences for our customers.	
Default to an outside-in perspective.	We use digital technologies to create value for customers from the customer experience ecosystem. We view the company from the outside in.	
Use digital to enhance every touchpoint in the customer life cycle.	We use CX tools like journey maps and touchpoint analysis to examine the entire customer experience, identifying opportunities to use digital to reduce friction and create value for the customer. Digital extends from product design, marketing, and sales all the way through the customer life cycle to customer support, service, and community engagement.	

Digitize Products And Services As Part Of The Customer's Ecosystem Of Value

Companies that are making the transition to digital business shift from designing purely physical products and services to designing experiences using a combination of physical and digital together that creates value for the customer. Disney, for example, is extending value by adding digital bracelets to the customer's theme park experience. But before you digitize products, you must first understand the ecosystems of value your customers are creating. Your customer's value ecosystem comprises more than just your own products (see Figure 3).

- › **Redesign products and services as digital experiences.** Rather than simply bolting a digital experience onto existing products and services, digital businesses redesign products and services from the ground up as a digital-enabled experience. Traditional hotel chains like Starwood and Hilton are going beyond a mobile app for reservations by enhancing the guest experience using digital locks that remove a significant friction point for hotel guests — check-in and checkout. And Hilton is already rolling out the ability for guests to select their own room using floor plans that work much the same as seating plans on airlines.

- › **Partner with other ecosystem players to create customer value.** Customers derive value from other products and services in service of their desires, not just your own products. Such partnerships are already happening — Uber is extending its services by partnering with Google to suggest an Uber ride when a customer searches for a nearby location using Google Maps.
- › **Conceive the entire customer journey as a single digital experience.** Instead of seeing digital projects as a series of initiatives, each to be funded and implemented separately, consider the entire customer journey as a single digital experience, beginning with the conception of a customer’s desire and ending in the fulfillment of that desire. Examine how customers use your products and services today, and shape their experience using digital as your starting point.

FIGURE 3 Digitize Products And Services As Part Of The Value Ecosystem

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Digitize products and services as part of the customer’s ecosystem of value		Score
Redesign products and services as digital experiences.	We begin our product/service design from the customer perspective — understanding the value customers perceive using existing products and services in service of their own desires. We design digital extensions to products and services in order to create new sources of value for customers.	
Partner with other ecosystem players to create customer value.	We partner with companies to develop products and services that extend our share of the customer’s ecosystem of value.	
Conceive the entire customer journey as a single digital experience.	The digital experience is conceived as a whole from the customer perspective and not as a series of bolt-on projects. We put the experience in the context of the customer’s dynamic ecosystem of value.	

Create Trusted Machines

Digital businesses design systems to automatically deliver unique customer experiences. This allows them to scale a personalized experience to hundreds of thousands or even millions of customers. Mercedes-Benz uses digital sensors to improve driving and potentially save its customers' lives by automatically braking when the car detects an emergency.⁵ Netflix uses sophisticated algorithms to deliver automated movie recommendations tailored to the individual. Amazon will further reduce shipping times by using predictive algorithms to pre-ship products to local warehouses in anticipation of a customer's order. Building these trusted machines allows digital businesses to scale high-value digital experiences (see Figure 4).

- › **Use analytics to optimize experiences in real time.** While marketers already use data and analytics to improve the effectiveness of marketing campaigns, few companies are using the power of real-time analytics to optimize the customer's experience in real time.
- › **Use context to make it personal.** Customization to the individual level requires massive analytic capabilities as well as a digital customer experience that can deliver a unique experience. While trusted machines make it possible for massively scaled operations to deliver the kind of personal service that makes the customer feel valued, recognizing the context of a customer's touchpoint allows firms to tailor the experience even more closely to the customer.
- › **Predict the next best action.** Predicting your customer's next action can result in time savings for your customer that translates into perceived value. Predicting the next action also requires being aware of the customer's context (what he is doing right now and where he is doing it) and his history.

FIGURE 4 Create Trusted Machines

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Create trusted machines		Score
Use analytics to optimize experiences in real time.	We leverage digital data sources and analytics to optimize our customer experiences. Our customers' digital experiences are tuned for each customer persona using analytics to optimize the experience in their moment of need.	
Use context to make it personal.	We use analytics combined with context awareness to customize the experience to the individual. Our unique experience is highly scalable. Our systems help our customers feel more valued.	
Predict the next best action.	We save our customers time by predicting what they would like to do next. Our systems are context aware. Our customers trust our systems to recommend or take their next action for them.	

Seek Digital Operational Excellence In Service Of Customers

Adapting your business to operate inside your customer's ecosystem of value will only take your organization halfway toward becoming a digital business. To complete your company's transformation, you must digitize business operations in service of customers. Applying digital assets to business operations makes sense because it's possible to improve efficiency and effectiveness and create value for customers at the same time.

Until now, business operations were most commonly designed to deliver products and services to markets at scale while maximizing efficiency, with little regard to the customer impact. But today's agile digital businesses are reshaping business operations — taking what they see happening in the consumer world and applying the lessons of agility, simplification, and time savings to business operations — and they are focusing these changes on the customer. Large established companies with highly scaled operations are finding it increasingly difficult to compete with smaller, more nimble startups — more nimble airlines like JetBlue and Virgin, flying direct routes instead of using hub airports, are challenging once dominant established carriers.

Even as “digital native” companies like Netflix and Google grow, they work hard to maintain their operational agility in service of their customers. These companies consciously digitize operations in order to improve the outcome for the customer where possible, even at the expense of some operational efficiency. Revenue growth is paramount, with long-term profitability still critical, but there is a strong belief that long-term profitability will flow only through the delivery of great customer experiences.

Source Enhanced Operational Capabilities Within A Dynamic Ecosystem Of Value

As your firm extends its services into the customer’s dynamic ecosystem of value, you will uncover opportunities to create enhanced value through partnerships with other firms. Some of these firms may deliver operational capabilities needed to execute on the customer experience. When BMW partnered with car rental firm Sixt to create its car-sharing service DriveNow, Sixt brought operational capabilities in car rental to the new venture (see Figure 5).

- › **Optimize operations using APIs to source digital capabilities.** With India being the notable exception, the days of creating all your business capabilities within the same company are long gone.⁶ Today’s agile businesses need to expand operational capabilities quickly if they are to adapt to the customer’s rapidly evolving expectations. Many firms are using APIs to exchange data with operational business partners in order to drive new revenue opportunities. These APIs are among the newest digital assets to create enormous value for their companies.
- › **View technology resources as a strategic asset.** The technology management team is no longer consigned to the off-campus building. Technology is the new strategic asset to be optimized in service of customers. Digital businesses tightly integrate technology management into business operations, leveraging new technology assets to create customer value and drive additional sources of revenue. Plan BT and IT differently.⁷
- › **Empower employees with digital tools to build collaboration networks.** The ability to collaborate across the world has the potential to transform a global leviathan into a nimble powerhouse of knowledge. Companies like Deloitte and Ernst & Young rely on the expertise of their staff to create customer value; these firms use collaboration technologies to connect knowledge workers around the globe. In this way, the collaboration platform becomes a key digital asset of the firm. As capability delivery extends into connected organizations, CIOs will increasingly need to build collaboration networks that connect employees with external partners in service of customers.

FIGURE 5 Source Enhanced Operational Capabilities Within A Dynamic Ecosystem

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Source enhanced operational capabilities within a dynamic ecosystem of value		Score
Optimize operations using APIs to source digital capabilities.	We leverage business partners to add new customer-oriented capabilities using APIs to connect our businesses and create value for our customers.	
View technology resources as a strategic asset.	We view technology resources as a strategic asset to be optimized in service of customers. Our technology management team is tightly integrated into our business operations. We plan BT and IT differently.	
Empower employees with digital tools to build collaboration networks.	Our employees use digital tools to build their own collaboration networks, internally and with partners.	

Drive Rapid Customer-Centric Innovation

Digital businesses connect customers and employees, forming dynamic, cross-functional teams that aren't bound by traditional rules. Digital virtualization allows firms to test product packaging and shelf layouts with real customers in a virtual store before committing to costly manufacturing. German company Fidor Bank engages its customers in the social co-creation of products and services, allowing customers to help define new app functionality and new banking product features like interest rates or cash-back rewards (see Figure 6).⁸

- › **Engage customers and partners in product innovation.** Social innovation networks help drive faster, more effective innovation across the enterprise. CIOs must rise to the challenge of nurturing and developing these new digital assets across the enterprise while structuring their tech management teams to fully support them.⁹
- › **Encourage the development of partner products and services.** Digital businesses are masters of sharing data and encouraging others to create new sources of value for customers.

- › **Use Agile and iterative development techniques to innovate rapidly.** Digital leaders are highly adept at designing “minimum viable products” and getting them into the hands of customers quickly. They use a rapid deploy-and-refine cycle to learn from their customers and quickly move to the next iteration based on customer feedback. Because business operations need to be geared to this fast-paced cycle of customer innovation, digital leaders use a two-tier investment and governance process to ensure that the creation of digital assets in support of customers receives the highest priority and the resources needed to make these assets successful.¹⁰

FIGURE 6 Drive Rapid Customer-Centric Innovation

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Drive rapid customer-centric innovation		Score
Engage customers and partners in product innovation.	We leverage digital technology to engage customers and partners in innovation and product design. We source innovation outside the enterprise, running customer-focused innovation challenges.	
Encourage the development of partner products and services.	We encourage the development of partner products through the exchange of data to augment the value we bring to our customers.	
Use Agile and iterative development techniques to innovate rapidly.	We use Agile and iterative techniques to bring digital products and services to customers. We design minimum viable digital products in service of customers and rapidly enhance based on customer feedback. Our customers are heavily involved in helping develop innovative new products and services that add value for our customers.	

Digitize For Agility Over Efficiency

Digital mastery requires the enterprise to become highly agile, able to rapidly respond to changing customer needs by quickly spinning up new business capabilities. But such agility comes at a price. Too often technology resources are spread too thin trying to respond to myriad small and large requests for change arising in the ranks of middle management. Without the ability of the organization to prioritize what is truly important over the nice-to-have, large businesses will continue to struggle to master agility (see Figure 7).

- › **Prioritize investments in digital assets that create business agility.** Technology complexity is often the enemy of business agility. CIOs must help focus technology investments in architecture changes that drive greater agility in response to market changes. Invest in an integrated service-oriented architecture (SOA) and API strategy to increase agility internally and with external partners.¹¹
- › **Create infrastructure plasticity.** Digital mastery requires companies to acquire, build, and deploy new technology services at speeds that used to be unthinkable. To cope with deploying technology across tens of thousands of mobile employees and consumers, digital businesses expand and contract infrastructure using cloud-based services. Infrastructure-as-a-service reduces the need for proactive capacity planning, instead enabling flexible service options that augment capacity and deliver new business functions quickly. Digital businesses not only know about these options, they embrace emerging cloud solutions as their de-facto infrastructure.¹²
- › **Measure and reward employees based on customer-centric metrics.** To get to digital mastery, firms need to challenge employees to behave differently and innovate in ways that benefit the customer. By changing some performance metrics to focus on customer outcomes and customer growth, CIOs can help technology employees realign their priorities. Tech employees focused on customer value or Net Promoter Score will become more creative in applying technology to improve the customer experience.¹³

FIGURE 7 Digitize For Agility Over Efficiency

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Digitize for agility over efficiency		Score
Prioritize investments in digital assets that create business agility.	Our agility allows the company to easily cope with rapid changes in market conditions. When faced with a choice between efficiency or agility, we would typically choose agility.	
Create infrastructure plasticity.	We have embraced emerging cloud solutions as a permanent change to our infrastructure. We can expand and contract infrastructure immediately based on need using cloud-based services.	
Measure and reward employees based on customer-centric metrics.	We constantly challenge our employees to innovate in ways that benefit the customer. All employees have some performance metrics that focus on customer outcomes.	

Recommendations

Assess Your Current Digital Business To Optimize Your Journey

Where you go next depends on your starting point. If your company has not already begun its digital journey, you're likely a Digital Dinosaur. If you're already using digital to connect with customers, you're a Digital Connector; if you're already applying digital to increase operational agility in service of customers, you're a Digital Operator. And if you're both a connector and an operator, you're likely a Digital Master. The dinosaurs of today will become digital prey by 2020 unless they can learn to master digital — in which case, there is every possibility they can become tomorrow's digital predators.

Supplemental Material

Survey Methodology

The Forrester/Russell Reynolds 2014 Digital Business Online Survey was fielded to 1,591 Russell Reynolds Associates contacts. However, only a portion of survey results are illustrated in this document. For quality assurance, we screened respondents to ensure they met certain standards in terms of job responsibilities and the size of their organizations.

Forrester fielded the survey from November 2013 to January 2014. Respondent incentives included a summary of the survey results. Exact sample sizes are provided in this report on a question-by-question basis. This survey used a self-selected group of respondents (executives who have interacted with Russell Reynolds Associates) and is therefore not random. The survey was fielded only in English. Among the respondents, 38% work in North America, 53% work in Europe, and 9% work in the rest of the world. This data is not guaranteed to be representative of the population, and, unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes. While nonrandom, the survey is still a valuable tool for understanding where business executives are today and where the market is headed.

To learn more about the technologies that are vital to winning customers' attention, affinity, and spend, please download our [2017 Predictions Guide](#).

Endnotes

- ¹ The nature of business is changing, and, in turn, the technology investment priorities of the past must change. To become a digital business, you must learn to think as your customers do. See the March 19, 2014, "[Unleash Your Digital Business](#)" report.
- ² Business leaders don't think of digital as central to their business because in the past, it hasn't been. But now your customers, your products, your business operations, and your competitors are fundamentally digital. While 74% of business executives say their company has a digital strategy, only 15% believe that their company has the skills and capabilities to execute on that strategy. A piecemeal strategy of bolting on digital channels or methods is no longer sufficient. As a CIO, you know change is needed. You must take the lead on driving digital business transformation. You must think of your company as part of your customers' dynamic ecosystems of value. Your company must learn to connect digital resources inside and outside the organization as needed to compete. Your digital vision must show how you will harness digital technologies to create new sources of value for customers. See the March 3, 2015, "[How To Craft A Better Digital Vision](#)" report.
- ³ Companies must adopt and consistently perform a set of sound, repeatable CX practices that ultimately lead to excellence. By doing this, they'll achieve customer experience maturity, which Forrester defines as "the extent to which an organization routinely performs the practices required to design, implement, and manage customer experience in a disciplined way." See the January 21, 2014, "[Customer Experience Maturity Defined](#)" report.
- ⁴ Faced with an expanding ecosystem of legacy websites, mobile sites, and apps, firms need a plan that will help them align their business technology (BT) investments with their customers' most pressing needs. They can accomplish this by taking a user-centered approach to understanding the needs and behaviors of their omnichannel customers and filling in the experience gaps in a disciplined and sustainable manner. See the December 1, 2014, "[Improve Your Digital Customer Experience](#)" report.
- ⁵ We could switch off the electronics in the car and drive it completely manually, but we don't because we trust the machine to take the optimum action for our needs.
- ⁶ While India's economy has benefited from first-world countries outsourcing business capabilities to India, Indian companies have themselves become some of the biggest conglomerates on the planet in order to overcome the challenges of running a business inside the Indian economy, such as massive corruption within the public sector.
- ⁷ By using the distinction between strategic and generic business capabilities as the basis of developing the focus of technology management, CIOs can successfully navigate the choices between information technology (IT) and business technology (BT). See the June 18, 2014, "[Emerging Business Technology Priorities](#)" report.
- ⁸ Improving customer experience (CX) is about to become the top priority for CIOs. CEOs are turning to CIOs and IT leaders to help transform customer experiences through digital technologies. And strategic CX transformations will require changes in IT and deep into the technology stack. But understanding how to change IT to support CX will be critical if CIOs want to ensure that IT is not a barrier to great customer experience. For more, see the August 5, 2013, "[IT's Role In Winning Customer Experience](#)" report.
- ⁹ Customers already use social technologies to wrest power away from large corporations. Now employees are also adapting social technologies in pursuit of innovations to support these empowered customers; Forrester calls these employees HEROes (highly empowered and resourceful operatives). By designing social technologies as part of their Innovation Networks, CIOs and their IT teams help establish new Social Innovation Networks — innovation ecosystems employing social technologies to enhance HEROes' innovation. These Social Innovation Networks help drive faster, more effective innovation across the enterprise. And CIOs must rise to the challenge of nurturing and developing these networks across the enterprise while structuring their IT teams to fully support them. Forrester recommends using the PACT framework (process, advocates, culture, and technology) to empower employees and support HEROes across the enterprise. See the November 22, 2010, "[CIOs: Support HEROes — Create Social Innovation Networks Using The PACT Framework](#)" report.

- ¹⁰Sometimes it's necessary to create a parallel IT organization with a customer focus that is distinct from the enterprise IT group. In some companies, such as Fidelity Investments, this IT team reports into a separate customer business unit. At TD, a direct-channels IT team focuses on all online and mobile systems, ATMs, and customer contact center systems. By implementing a matrix organization design, TD has a dedicated CIO responsible for customer-facing technologies across all lines of business. See the May 8, 2013, "[Winning The Customer Experience Game](#)" report.
- ¹¹A vision for APIs and SOA must get past technology-centric thinking about application integration. Integration is important, but the stronger value of services is that they provide business building blocks to enable a wide range of business agility and innovation. New processes, partners, and customers can all have access to the same service-based business queries and transactions, fostering rapid business change, consistent business operations, and reliable business monitoring. Strategic business services insulate your business from siloed applications, freeing it to transform and evolve. See the September 5, 2013, "[Drive Business Agility And Value By Increasing Your API And SOA Maturity](#)" report.
- ¹²Change is accelerating. Only the agile company can survive. But what constitutes agility in the modern era? An agile enterprise embraces change as a matter of routine, whether that change is driven by market trends or is internal and operational; it reacts more quickly to both threats and opportunities. See the September 9, 2013, "[The 10 Dimensions Of Business Agility](#)" report.
- ¹³Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.