Digitizing Your Business Strategy:

Creating Value For Customers In The

Digital Age

FORRESTER®

Table Of Contents

ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

FORRESTER®

Executive Summary

It is no secret that digital technology changes the way that companies do business. Companies use digital assets to drive new sources of revenue, and many businesses drive revenue through digital sales channels. Indeed, online sales in Europe are expected to grow 12% year over year to almost €234 billion by 2018.[1] And as buyers research and complete purchases using digital touchpoints, they generate even more data that tech-savvy companies leverage to deliver more personalized (and ultimately more valuable) customer experiences. In the face of this opportunity, businesses across Europe — as in much of the rest of the world — are investing heavily in digital.

This widespread investment in digital, however, creates a flood of new experiences for customers that reset expectations. As a result, businesses must work harder to create new digital experiences for their customers if they want to continue to deliver customer value. This requires a different kind of business, one that is agile and constantly evolving alongside its customers.

Building a business that is capable of this type of innovation usually requires changes: changes in people, process, and technology well beyond the typical bolt-on digital tactics most traditional companies are currently implementing. Organizations that add an eCommerce channel or new mobile app without making substantive changes to how it uses digital to create customer value will succumb to digital predators; companies that harness digital assets in new ways to help customers achieve the outcomes they value most.

In October 2015, Microsoft commissioned Forrester Consulting to evaluate European organizations' digital strategies and priorities. To explore these trends, Forrester developed a hypothesis that most European enterprises consider digital capabilities to be a key component of their business and customer strategies, but most have not yet reached the ability to create new sources of customer value from digital assets. Furthermore, Forrester tested the assertion that business leaders — including technology leaders — lack alignment about what digital means and what is required to transform into a digital business.

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

In conducting in-depth surveys of 150 European business leaders, including technology leaders, Forrester found these leaders to be optimistic about the potential benefits of digital; indeed, most have digital strategies in place. However, companies hampered by traditional business models create digital strategies that paint a veneer of digitalization onto the existing business without truly creating new sources of value for customers.

KEY FINDINGS

Forrester's study yielded four key findings:

› **Today's business isn't designed for a digital world.** Ninety-four percent of European respondents have some sort of digital strategy in place, but decision-makers are overly optimistic about the completeness of these strategies. To truly succeed in digital is to reshape the customer experience toward the customer's desired outcome — not just improve the existing journey. Many companies miss the mark.

› **To succeed, enterprises must reshape their businesses.** In order to keep up with changing expectations, companies must create an agile business capable of rapidly evolving new customer experiences that satisfy customer expectations and desires. Investments in technology frequently fail to consider the impact on organizational agility and customer experience.

› **Transformation strategy must address a demand for new skills.** Leaders need access to greater expertise across every component of their digital business. Data security and analytics are high priorities for driving a superior customer experience and are areas in which companies will invest.

› **Building a digital business transformation strategy is a team sport.** Transforming toward a more digital business requires top-down leadership from the CEO, and empowered teams working with customers to execute real change. Digital business requires a customer-obsessed culture supporting relentless innovation to deliver customer outcomes.

FORRESTER®

Today's Business Is Not Designed For A Digital World

Your customers now use digital services every minute of their waking lives — some even continue to use digital services in their sleep. Increasingly, our digital experiences shape our expectations of what's possible, and expectations shape perceptions of value. Fail to deliver against a customer's expectations and you fail to deliver maximum value. Over time, consistently delivering experiences below expectations leads to customers moving to competing products and services. And because your customers are digital, the product experiences you deliver must also have a digital element — they must exist inside your customers' personal digital value ecosystem, helping each customer get to the outcomes they most desire. But the constant evolution of their digital experiences causes customer expectations to grow quickly, placing on the business a mandate to evolve at the speed of the customer. Today's business is not designed for this rapidly changing digital world. Our study reveals critical holes in how leaders think of digital in the context of today's business:

› **Digital drives revenue growth.** When it comes to identifying the levers of growth, executives understand how important digital will be — more leaders selected digital innovation as a driver of future revenue growth over any other strategy (see Figure 1). So it's not surprising that 94% of organizations have some sort of digital business strategy in place, but there is confusion on what "digital" is. Is it a website, eCommerce, social media, online marketing, or collaboration? There are so many interpretations of digital that leaders find it hard to compare their own progress against their peers.

Traditional businesses risk disruption by missing the window of opportunity to create new and differentiated digital sources of value for their customers

---

› **Digital is most commonly a bolt-on strategy.** To get clarity on what leaders think of when planning a digital business, we asked them to identify what was included in their digital strategy. Digital marketing is the most

"Which of the following strategic pillars do you consider to be the biggest drivers of your company's revenue growth?"
(Select all that apply)

Drive innovation to add digital elements to existing products/operations	56%
Create new digital assets/products/services that customers value	54%
Improve security of customer information	43%
Deliver world-class customer experience	38%
Improve corporate environmental sustainability	28%
Create new/differentiated non-digital products or services	27%

Base: 153 business and technology decision-makers in France, Germany, Italy, Spain, and the UK

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, October 2015

"Which of the following do you consider to be elements of your organization's digital business strategy?"
(Select all that apply)

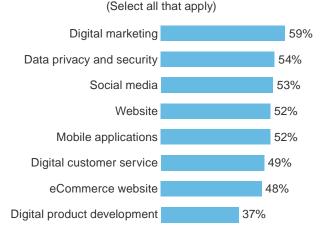|	
Digital marketing	59%
Data privacy and security	54%
Social media	53%
Website	52%
Mobile applications	52%
Digital customer service	49%
eCommerce website	48%
Digital product development	37%

Base: 153 business and technology decision makers in France, Germany, Italy, Spain and UK. Partial list shown.
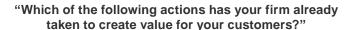
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, October, 2015
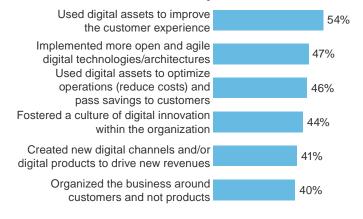
FORRESTER®

common element of digital strategy (included in 59% of digital strategies), followed by data privacy and security (54%), social media (53%), and websites (52%) (see Figure 2). Most strategies aim to use digital as a marketing enhancement to the existing business; they don't yet try to drive new revenue by changing the basic revenue model of the firm. Digital product development is present in only 37% of all digital strategies. Most companies still don't see the potential for digital to create new revenue streams for the business. When asked about drivers of digital investments, leaders highlighted reducing costs and improving existing processes well above creating new revenue streams, transforming business operations, and transforming the business model. Traditional businesses risk disruption by missing the window of opportunity to create new and differentiated digital sources of value for their customers.

› **Companies mainly use digital to improve the customer experience.** Half of all companies already use digital to improve the customer experience, and almost half use digital to improve operational efficiency in support of customers (see Figure 3). These tactical digital initiatives are absolutely necessary and potentially valuable. However, they fail to harness the full potential for digital change the way the company's products and services get the customer to the outcome they most desire, and in doing so drive new sources of revenue. Whether your company is business-to-business (B2B) or business-to-consumer (B2C) or a mixture of both, your customers expect your business to deliver them a digital experience — that's just table stakes. Forrester asserts that the future will belong to those businesses able to create new sources of customer value through digital experiences while simultaneously delivering operational agility in support of customers.[2] Only these companies will have the agility to flex and adapt to rapidly evolving customer expectations.

› **Only 33% of IT leaders plan to create digital assets to drive revenue in the next two years.** When we asked respondents what actions they plan to take in the next two years to create value for customers, not a single strategy in our list was selected by more than half of respondents. A strong minority of organizations plan to implement more open and agile technologies (42%), focus those technologies on improving the customer experience (42%), and foster a culture of digital innovation within the organization (41%). Technical leaders will increasingly be asked to shift their focus and resources from traditional

information technology (IT) to business technology (BT) — the technology, process, and systems that help win, serve, and retain customers by creating high-value experiences that deliver the outcomes to satisfy customer desires. Unfortunately, too often IT priorities are not focused on using digital experiences to drive revenue. IT respondents more frequently reported that the company is engaging in operational initiatives (such as using digital assets to reduce costs, selected by 43% of IT respondents and only 31% of business respondents), whereas business leaders were more likely to prioritize customer-facing initiatives such as creating new digital products/channels to drive revenues (selected by 40% of business respondents versus 33% of IT respondents).

FIGURE 3
Companies Use Digital In A Number Of Ways To Create Value For Customers

"Which of the following actions has your firm already taken to create value for your customers?"

Used digital assets to improve the customer experience	54%
Implemented more open and agile digital technologies/architectures	47%
Used digital assets to optimize operations (reduce costs) and pass savings to customers	46%
Fostered a culture of digital innovation within the organization	44%
Created new digital channels and/or digital products to drive new revenues	41%
Organized the business around customers and not products	40%

Base: 153 business and technology decision-makers in France, Germany, Italy, Spain, and the UK

(top six responses shown)

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, October 2015

FORRESTER®

Reshape Your Business Around Customer Desires

Companies must rethink how they create value for customers. Gone are the days where brands controlled the conversation with customers and could simply extol the values of their products and services. To get buyers' attention now and in the future, companies must tap into their customers' desired outcomes and use digital to shape experiences that are truly valuable. This requires more than just a philosophy — it "depends upon the firm's ability to simplify the complexity of the business, remove silos, and focus on customer outcomes."[3] Decision-makers should:
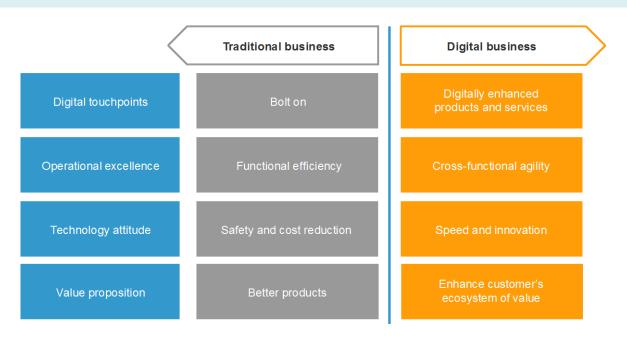
› **Recraft their digital vision.** While early digital efforts have historically stemmed from individual functional groups such as marketing, eBusiness, and tech management, truly becoming a digital business requires a much more holistic approach. Digital efforts that serve a single group or purpose, while sometimes effective, create silos and stifle agility. All but the most leading-edge businesses need to evaluate their approaches to digital in the context of creating a seamless customer journey and consider ways to unify the organization to be as reactive to customers' evolving needs as possible (see Figure 4).

Forrester's definition of a digital business is the following:

"*Digital businesses continuously exploit digital technologies to both create new sources of value for customers and increase operational agility in service of customers.*"[4]

This means that where a traditional business prioritizes safety and cost reduction, digital firms focus technology on driving speed and innovation in support of improved customer experiences. Where a traditional business looks for ways to bolt on digital touchpoints to help drive its existing business, digital businesses are looking for new and innovative ways to use technology to enhance their products and services, creating new sources of customer value. Digital businesses prioritize agility ahead of efficiency because only a highly flexible business can adapt quickly enough to rapidly evolving customer expectations.

FIGURE 4
Digital Businesses And Traditional Businesses Are Fundamentally Different

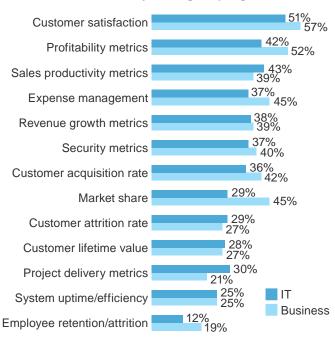|	Traditional business	Digital business
Digital touchpoints	Bolt on	Digitally enhanced products and services
Operational excellence	Functional efficiency	Cross-functional agility
Technology attitude	Safety and cost reduction	Speed and innovation
Value proposition	Better products	Enhance customer's ecosystem of value

Source: Forrester Research, Inc.

› **Align organizational metrics.** A critical step in aligning an organization in service of the customer is making sure that different functional groups are actually working toward the same customer-focused goals. If each part of the business has its own disparate metrics for success, different teams will undoubtedly stray in different directions. Our study found that the IT and non-IT perspective on metrics to gauge success of digital programs are reasonably aligned – with customer satisfaction and profitability ranked in the top three for each group (see Figure 5). However, there are some key differences, as non-IT respondents are much more likely to be measured on market share (45% to 29%), and IT respondents are more likely to be measured on project delivery metrics (30% to 21%). In order to truly address customer value, business leaders, including CIOs, should consider looking more closely at customer attrition rate and customer lifetime value (CLV) — both of which are

metrics used by less than 30% of respondents. Attrition tracks a lack of sustained customer value, while CLV helps to prioritize high-lifetime-value customers so that firms can focus on delighting those customers first and foremost.

Transformation Strategy Must Address The Demand For New Skills

Radical business transformation necessarily requires new skills in order to execute new strategies. Businesses looking to create fresh sources of value for customers must nurture development in current employees, hire leading talent, and potentially work with vendors and third-party consultants in order to tap into their expertise and resources. Our study found that:

› **Decision-makers are not confident that they currently have the skills necessary to execute their digital strategies.** Despite the digital transformation that our respondents have already invested in to-date, they still perceive the need for additional skills to help build their digital businesses. The top areas in which companies still lack are in customer journey mapping/touchpoint analysis, culture change/change management, Agile/lean methods, and data analytics/machine learning (see Figure 6). IT respondents are more confident in their digital capabilities than their non-IT peers, particularly when it comes to mobile and digital architectures.

Maintaining data privacy and security is foundational to customer trust, which is essential in maintaining customer value.

› **Data privacy and analytics play a major role in customer experience.** These top the list of data-related activities in regards to their impact on customer experience (see Figure 7). Mastering data analytics — in terms of constantly evaluating both customer trends and program metrics — is a critical component of digital proficiency. Maintaining data privacy and security is foundational to customer trust, which is essential in maintaining customer value. The ability to maintain trust while capturing sensitive information about customers is made even more complex in the EU, where laws limit the

FIGURE 5
Organizations Must Be Aligned On Metrics

"What metrics do you currently use in order to gauge the success of your digital programs?"

Metric	IT	Business
Customer satisfaction	51%	57%
Profitability metrics	42%	52%
Sales productivity metrics	43%	39%
Expense management	37%	45%
Revenue growth metrics	38%	39%
Security metrics	37%	40%
Customer acquisition rate	36%	42%
Market share	29%	45%
Customer attrition rate	29%	27%
Customer lifetime value	28%	27%
Project delivery metrics	30%	21%
System uptime/efficiency	25%	25%
Employee retention/attrition	12%	19%

Base: 153 business and technology decision-makers in France, Germany, Italy, Spain, and the UK

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, October 2015

use of customer data by businesses. EU buyers have greater power to control how companies are allowed to interact with them.[5]

"What, if any, skill gaps do you face in executing the following components of building a digital business?"

■ We have some skills   ■ Skillset doesn't exist today

	We have some skills	Skillset doesn't exist today
Journey mapping/touchpoint analysis	37%	27%
Culture change/change management	38%	25%
Agile/lean methods	42%	20%
Data analytics/machine learning	38%	24%
Mobile app development/integration	40%	21%
User experience (UX) design	37%	24%
Cloud services	38%	22%
Organizational design	37%	22%
Digital technology architecture	36%	23%
Innovation management	34%	24%
Business process redesign	34%	24%
Program and/or project management	35%	22%
Digital vision and strategy	35%	22%

Base: 153 business and technology decision makers in France, Germany, Italy, Spain and UK. Scale from 0 ("We have all required skills") to 10 ("Skillset doesn't exist today").
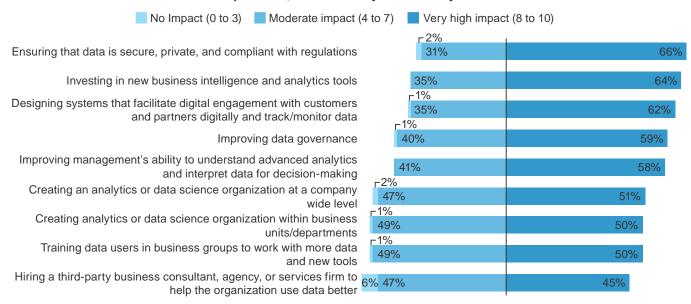
Digitizing Business Is A Team Sport

No one person can singlehandedly take a traditional enterprise and transform it into a digital business. To reimagine the fundamental relationship between customers, experiences, value, and revenue requires a visionary CEO leader to set the vision and pave the way, and teams of willing tacticians that can design and execute on the transformation strategy. Execution is less dependent upon implementing specific technologies, and much more dependent upon instilling a digital mindset and culture across the business.

› **CEOs must lead, but accountability will spread to the executive team.** Because transformation requires the executive team to make tough choices on how to allocate and prioritize scarce resources, including IT, the CEO must be in the driving seat. Thus, digital transformation requires a top-down approach. Currently these efforts are led by either the CIO or CEO. However, the CEO must be involved, at the very least painting a clear vision of the company's future, inspiring employees to reach for that vision. Because digital has potential to have an impact on every aspect of business, accountability for digital budgets will be further distributed among C-level executives over the next two years. All functional groups must buy in to the vision and work together to deliver on the promise.

› **Costs and security are the biggest roadblocks to transformation.** Change is challenging and often expensive. And underwriting wholesale transformation is difficult to justify using traditional ROI because the benefits accrue to the business over a long period of time and across the entire business. CEOs who understand this allocate and prioritize funds where they can have the maximum impact on customer value. Even if successful in allocating sufficient funds, the CEO's team still has to address changes to organizational structures, business processes, and the underlying technologies across the enterprise (see Figure 8).

FORRESTER®

FIGURE 7
Privacy And Analytics Have A High Impact On Customer Experience

"On a scale of 0 to 10, what impact do you believe the following data-related activities have on customer experience, either directly or indirectly?"

■ No Impact (0 to 3) ■ Moderate impact (4 to 7) ■ Very high impact (8 to 10)

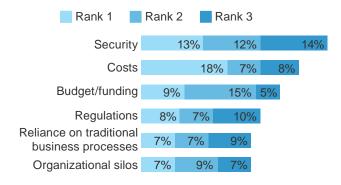| Activity	No Impact	Moderate	Very high
Ensuring that data is secure, private, and compliant with regulations	2%	31%	66%
Investing in new business intelligence and analytics tools		35%	64%
Designing systems that facilitate digital engagement with customers and partners digitally and track/monitor data	1%	35%	62%
Improving data governance	1%	40%	59%
Improving management's ability to understand advanced analytics and interpret data for decision-making		41%	58%
Creating an analytics or data science organization at a company wide level	2%	47%	51%
Creating analytics or data science organization within business units/departments	1%	49%	50%
Training data users in business groups to work with more data and new tools	1%	49%	50%
Hiring a third-party business consultant, agency, or services firm to help the organization use data better	6%	47%	45%

Base: 153 business and technology decision-makers in France, Germany, Italy, Spain, and the UK
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, October 2015

New digital assets and channels need to be coordinated between groups if the customer is to receive a seamless experience.

› **IT and functional groups must work together.** As a best practice, marketing and IT must work together to create powerful, high-value customer journeys. New digital assets and channels need to be coordinated between groups if the customer is to receive a seamless experience. IT and marketing can no longer function in silos — they must connect to drive new sources of customer value and future revenue growth.

FIGURE 8
Organizations Must Be Aligned On Metrics

"Which of the following are the biggest roadblocks to your organization achieving digital transformation?"

■ Rank 1 ■ Rank 2 ■ Rank 3

	Rank 1	Rank 2	Rank 3
Security	13%	12%	14%
Costs	18%	7%	8%
Budget/funding	9%	15%	5%
Regulations	8%	7%	10%
Reliance on traditional business processes	7%	7%	9%
Organizational silos	7%	9%	7%

Base: 153 business and technology decision-makers in France, Germany, Italy, Spain, and the UK
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft. October 2015

FORRESTER®

Key Recommendations

Digital business is not a destination. It's not something you do and can say, "OK, we're digital." It's a way of thinking, a mindset that sets your business on a new journey of discovery — a journey that has no ending. Successful digital businesses evolve; they are designed to support quick change to keep up with changing customer expectations. As customers adopt and adapt to new technology, your business must learn to adapt, too. To succeed, you must create a data-driven culture and an enterprisewide obsession with understanding your customers, discovering what their desires are and what new digital and/or physical experiences can better help them achieve these desires. To begin your transformation toward digital business requires changes in how the business approaches its technology investments:

› **Invest in a portfolio of customer outcomes, not projects.** By focusing on the customer outcomes, it's possible to use emerging technology to design incremental changes that help the customer get there faster and easier and with more pleasure. But your digital experiences must continuously evolve with your customers. To do this requires continuous investment where designers and developers learn from customer feedback and adapt to customer needs. An annual investment in customer outcomes allows you to budget the changes even though they are not known. By building a portfolio of outcome investments, you can fund the digital experiences all of your customer groups need to get to their unique outcomes.

› **Establish teams based on customer outcomes, not reporting lines.** The most effective teams draw upon skills found in marketing, customer experience design, and IT. Assembling teams from across the company and focusing them on delivering the customer outcome is more effective than each department doing its own thing and fighting over who should "own the project." Establish a data-driven culture that values the collection, analysis, and sharing of information, encouraging teams to intelligently engage and address customer desires and outcomes. Measure the teams using customer outcome metrics and empower them to deliver.

› **Develop skills and change metrics.** To bridge the skills gap, encourage your existing IT team to develop new skills through a combination of training and exposure to new digital initiatives, working alongside skilled vendor teams incented toward skills transfer. But it's not enough to just develop skills; your team's metrics must also change to focus efforts on maximizing the customer impact. Driving toward a customer-obsessed culture is made harder if all employees, including those in IT, are not measured and rewarded for delivering on the customer outcomes. Every employee should understand how their job has an impact on the customer's experience, and every employee should have one or more customer outcome metrics on which they are measured. Changing the metrics of IT toward customer outcomes changes the mindset.

› **Design technology architecture for secure agility.** Complaints of IT being too slow are common. To change and make IT as agile as the customer demands requires a technology architecture that is designed for agility over efficiency. But agility cannot come at the expense of security. A breach in security is a breach of your customer's trust, and quickly leads to a drop in customer value. The company's executive leadership must be willing to change how it views investments in technology if it is to achieve the kind of agility that today's customers expect. There is a price to be paid for secure agility.

› **Simplify the technology beneath generic business capabilities.** One of the strategic choices to be made is choosing what *not* to do. You have limited resources and must focus where they will have the maximum customer impact. This means not every "project" requested of IT is important from the customer's perspective. The CEO must be willing to say "no" to technology spend that only serves to make the company's technology architecture more complex, less agile, and more expensive to maintain. To help, CIOs must provide visibility into the true cost of ongoing technology tinkering by well-meaning middle managers.

And remember, digital technology is only valuable to the customer to the extent to which it either helps customers achieve their desires faster and easier or increases the operational agility of the business in service of customers.

FORRESTER®

Appendix A: Methodology

In this study, Forrester conducted an online survey of 150 organizations from across the UK, France, Germany, Italy, and Spain to evaluate companies' digital strategies, how these strategies are shifting, and whether organizations are aligned internally. Survey participants included 50% technical decision-makers (in IT) and 50% business decision-makers (in operations, finance, customer service, marketing, sales, HR, and product development). Respondents were offered a small incentive as a thank you for time spent on the survey. The study began and was completed in October 2015.

Project Director: Mark Brozek, Market Impact Consultant

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

"The Future Of The Retail Experience," Forrester Research, Inc., August 13, 2015

"How To Craft A Better Digital Vision," Forrester Research, Inc., March 3, 2015

"The State Of Digital Business, 2015 To 2020," Forrester Research, Inc., November 2, 2015

"The ROI Of Digital Business Transformation," Forrester Research, Inc., November 6, 2015

Appendix C: Endnotes

[1] Source: "European Online Retail Forecast: 2013 to 2018," Forrester Research, Inc., May 29, 2014.

[2] Source: "The Future Of The Retail Experience," Forrester Research, Inc., August 13, 2015.

[3] Source: "The State Of Digital Business, 2015 To 2020," Forrester Research, Inc., November 2, 2015.

[4] Source: "How To Craft A Better Digital Vision," Forrester Research, Inc., March 3, 2015.

[5] Source: "Customer Privacy Is A European CIO Priority," Forrester Research, Inc., August 18, 2014.

FORRESTER®