Achieving Digital Performance: Time to Rotate to the New
Most companies are capable of using digital technologies to create business efficiencies, but few are currently using them to substantially improve their performance for the long run.

Companies must instead apply digital technologies to unlock new sources of value, and to achieve their business's required rotation to the new.
Most CEOs are making large-scale commitments to the digital technologies that are transforming their industries; the cloud, mobile, big data, robotics, and the industrial Internet to name a few.

But new Accenture research reveals that the vast majority of the world’s leading companies are not currently translating their digital investments into better financial performance, especially new business growth. (See: About the Research: The Digital Performance Index (DPI))

Eighteen percent of 343 companies assessed by the Accenture Digital Performance Index have made sufficient investment in digital across their company to be categorized as Digital Leaders. Yet 60 percent of companies have not achieved leadership in either digital or business performance. Only six percent of the companies we studied were able to couple broad levels of digital investment with a broad level of business success, the companies we call the Digital High Performers. (See Figure 1, Companies Segment into Four Types of Performers)

While the Digital Leaders have managed to outperform the majority of companies in profitability, by an average of 10 percent, they have not achieved the overall level of performance displayed by Digital High Performers. (See: How Digital High Performers Stand Out From the Crowd.)

The problem is often due to the way they focus digital investments on preserving their core business, rather than on expanding into new digitally contestable markets. The Digital Leaders lag the Digital High Performers in revenue growth by 44%.

Despite ongoing digital investments, few companies have a clear and disciplined focus on the transformation of the core business and growth in the new. Without redefining their business model or breaking into new markets using digital innovation, incumbents are surrendering future growth potential for short-term gains.
To date, the typical response to digitally driven market disruption has been cautious: digitizing core operations only to improve short-term competitiveness, typically through lower cost structures and leaner operating models. This reaction is not entirely surprising, given the intense price and cost pressures in today’s hypercompetitive markets and industries.

But our research points to companies achieving high performance only after they have gone beyond cost cutting to release what we call “trapped value.” There are three sources of trapped value, areas where trapped value resides: in the business, in the value chain, and in the emerging value chain models within and across industries. It is released by:

**Improving the Business** - In the business, value is trapped in the way companies manage their core operations, day to day. Incumbents often can see additional value but they ‘can’t reach it’, because it may be artificially constrained (e.g., due to cultural barriers). Digital creates opportunities for dramatic improvements in efficiency (e.g., through process enhancement), but also for value creation (e.g., through faster introduction of innovative products and services). Examples include Netflix, Amazon, and Apple.

**Improving the Value Chain** - In the existing industry value chain, transaction costs and complexity of the networked business may contribute to existence of trapped value. Digital creates opportunities for value chain improvements through the enablement of new platforms and extended ecosystems of value chain participants. It creates near frictionless markets of goods and information, allowing industries new ways of operating at dramatically lower cost. Examples include Airbnb and Uber.

**Redefining the Value Chain** - Incumbents are often not agile enough to catch value which is directionally uncertain and shifting between competitors within and across industries. Disruptive competitors are setting the rules with value chain alternatives that are better on all strategy and performance dimensions versus the incumbents’ offerings. For instance, Tesla is the high-end disruptor in the electric car market; at the same time, Tesla is now disrupting energy storage with the Tesla Powerwall, using the technology developed for their cars. Other examples include partnerships between selected technology firms and car manufacturers.
The Need to Rotate to the New

Few Digital High Performers are digital natives (companies born digital in a digital industry). Yet they still manage to create and execute business strategies that use digital technology both as an enabler and a driver of change in the legacy organization. They master the ability to renew and transform their current core business while growing into new businesses and industries.

In short, they master rotation to the new. This is different than the traditional view of business, expressed as organizational ambidexterity that suggests managers must exploit their core businesses while separately exploring new opportunities. Remaining committed to "exploiting the current" is becoming an even riskier approach due to a profound shortening of product and business lifecycles, an increased speed of market collapse and more non-traditional competitors.

“Exploring the new” is no longer enough either. The new is appearing, maturing and being monetized faster than ever before, thanks to new collaborative approaches to innovation, faster scaling thanks to platforms, third party supply, and contracting-for-everything models.

How is rotation to the new different?

Rather than simply maintaining the core business, or milking it as a cash cow for investment or profit taking, rotation to the new involves actively growing that business. Digital is applied to remove unnecessary costs as quickly as possible, but it is also applied to reinvent the customer experience and create a better fit with customer needs. In this way, Digital High Performers actually manage to grow revenues as well as profits from current businesses.

Boundaries between core and new businesses are more fluid for those organizations that have mastered rotating to the new. In fact, for the Digital High Performers, the old company/new company distinction no longer exists. The level of cultural continuity across the businesses, core and new, is a priority. And the speed at which new businesses are envisioned, explored, experimented with, and discarded is faster than previous management science has imagined.

Does a commitment to being digital lead businesses to high performance? Only if a company can rotate to the new by transforming their core business while growing into the new.
Digital High Performers stand out from other types of companies in three important ways. First, they enjoy strong investor confidence - investors are more convinced of their ability to generate future earnings. Second, Digital High Performers are better at translating digital leadership into revenue growth. Their growth score has been 44 percent higher than the Digital Leaders—companies that are also highly digitally advanced. Third, Digital High Performers are more consistent in past performance, despite their commitment to large-scale digital initiatives. Consistency in track record and ability to enhance investor confidence have been the defining differences between Digital High Performers and the other financial high performers—the Business Leaders. (See: Figure 2 and Figure 3)
About the research: The Digital Performance Index (DPI)

Returns on digital investment are notoriously difficult to identify. To help companies better understand the interplay between digital and financial performance, Accenture has created the Digital Performance Index, based on the study of 343 leading global companies across eight industries.

The Digital Performance Index (DPI) was created to quantitatively assess the level of digital investment and progress across four business functions, each broken down to three key action points along the value chain. Forty-two further business activities and 117 detailed behaviour metrics are also evaluated to support the DPI framework. This multi-pillared structure enables a comprehensive view of companies’ digital integration across the full breadth of business activities.

High Performance Business (HPB)
DPI has four pillars in its structure. At the overall level, it looks into four dimensions, each with three components representing key action points along the value chain.

The overall structure is supported by a further 42 specific business activities (such as "Business enhances digital capabilities through collaboration"), for which specific metrics were assigned to gather evidence on companies' behaviour. All evidence for scoring was gathered from public sources, mimicking the perspectives of investors and customers.

Both the level of implementation of digital technology and the quality of its integration were assessed. Scores, on a scale of 1 to 4, reflect a company's relative position against its industry peer set. A score of 1 indicated that the company was significantly below its peer average, whereas a 4 indicated that it was significantly above peer average.

Digital High Performance corresponds with a DPI score which falls into the top quartile of a company's industry peer set.
Measuring financial performance: High Performance Business (HPB)

The HPB framework comprises five components, each measured with a further set of equally-weighted metrics. These are:

**Profitability:** measured by return on invested capital (ROIC), for one, three, and five year average spreads;

**Growth:** measured using one, three, and five year revenue CAGR;

**Positioning for the future:** measured by the level and change of future value (FV) over five years;

**Longevity:** measured using the CAGR of total return to shareholders (TRS), over one, three, and five years;

**Consistency:** a measure of consistency in the Growth, Profitability and Positioning for the Future dimensions, over five year periods.

For each metric, companies' scores and grades are based on their position within their industry peer set, along a normal distribution. This allows for a comprehensive view of companies' relative competitiveness. Financial high performance corresponds with an HPB grading of B and above (i.e., the HPB score is above 0.33 standard deviation from the industry peer set average).

Comparing Digital Performance and Financial Performance

Our results reveal four performance segments across 343 companies:

**Digital High Performers**, companies that have achieved both strong digital performance and financial performance

**Digital Leaders**, companies that have made significant progress in digital capabilities, but failed to translate that into financial strength

**Business Leaders**, companies that have achieved strong financial performance without prioritising digital

**The Rest**, companies that have survived in the past without building up digital capabilities

The results of this analysis are sobering. The majority of the companies surveyed—60 percent—have achieved neither strong digital performance nor financial high performance. Only 6 percent have managed to combine digital and financial success. We call these companies Digital High Performers. They set the bar for making digital investments deliver tangible results. They are already leaders in the digital economy, whether judged by digital prowess or by critical financial KPIs.

And Digital High Performers clearly distinguish themselves from the crowd. They are more digital than those that have prioritized digital at the cost of their current performance – the Digital Leaders. And they outperform companies that relied on legacy advantage to maintain financial strength—the Business Leaders. (See Figure 1.)
Inside Digital High Performers, this clear, disciplined focus on growth and transformation is apparent in each of the four pillars:

**Plan**

Strategy planning: Digital High Performers emphasize and execute on digital growth strategy. They leverage the collective intelligence of disruptors, third-party partners and even competitors to uncover and capture growth opportunities both in core and adjacent industries. And they do so at speed with a dedicated team and leadership.

In 2014, Salesforce launched its first dedicated venture capital fund, Salesforce 1 Fund, which is 100 percent committed to cloud-related activities. Salesforce set aside another $100m to invest in the European market to capitalize on the emergence of technology firms outside of the US and Asia. By mid-2015, nine investments of Salesforce1 Fund had turned into Unicorns (valued at more than US$1bn), making it the biggest “unicorn hunter” outside financial services.  

**Sell**

Customer experience management: Digital High Performers tailor services and customer engagement at scale, using data analytics, social media and customer service transformation. They do not merely digitize customer touch points; they use digital technologies to enhance and personalize customer experiences across both digital and physical channels.

Burberry’s Customer 1-2-1 tool aims at delivering personalization online and offline, and across its stores around the world. Rolled out in more than 400 stores, the tool enables sales assistants to greet customers by name, and make product suggestions informed by predictive analytics based on the individual’s purchase history, social media posts, and past store visits. RFID tags track items customers have tried on in store. Sales associates can also edit customers’ fit preferences and record products on the tool.

**Make**

Production and delivery: Digital High Performers use smart systems and rich data to create new revenue generating services that add customer value to existing product lines. This transforms the design and production of products as well as underpinning product–service hybrids.

Data analytics inform Nike’s research lab, while the company is experimenting with 3D printing to manufacture new products closer to the customer. And Nike is incorporating digital within its products, including sensors that help customers track fitness goals. Additionally, the company cut its supply base by 14 percent 2012–2014, and 2014 sales revenue rose by 10 percent.

**Manage**

Organizational management: Digital High Performers actively renew their organization to adapt to the digital agenda. This involves challenging the status quo, whether by optimizing digital infrastructure, upskilling employees or formalizing fast fail methods. Digital High Performers act decisively and swiftly in the face of digital trends, with a willingness to experiment. Most importantly, they reinvent, or at least renew their business, not merely pursuing incremental, steady improvements.

Having re-assessed the market landscape for phone hardware following its acquisition of Nokia in 2014, Microsoft sharply reduced its workforce dedicated to phone production. The company set up “Windows and Devices,” a unit dedicated to integrating software and hardware offerings and tasked with building an ecosystem for ‘Windows as a service’ across devices. Windows 10 was launched as a multi-device service in FY 2015. Microsoft expects to have 1bn active users on Windows 10 by FY 2018.
Digital High Performers distinguish themselves through a clear, disciplined focus on growth and transformation.

<table>
<thead>
<tr>
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<th>Digital High Performers premium</th>
<th>Everyone Else</th>
<th>Example business activities</th>
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<tbody>
<tr>
<td><strong>Plan</strong></td>
<td></td>
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<tr>
<td>Embed digital in growth strategy</td>
<td>51%</td>
<td>40%</td>
<td></td>
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<tr>
<td>Uncover &amp; act on new opportunities enabled by digital</td>
<td>41%</td>
<td>40%</td>
<td></td>
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<tr>
<td><strong>Make</strong></td>
<td></td>
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<tr>
<td>Use digital technology to unlock new revenue streams</td>
<td>43%</td>
<td>40%</td>
<td></td>
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<tr>
<td><strong>Sell</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Deploy digital tools to engage and anticipate customer needs &amp; wants</td>
<td>41%</td>
<td>40%</td>
<td></td>
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<tr>
<td><strong>Manage</strong></td>
<td></td>
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<tr>
<td>Foster culture fit with digital agenda and renew organization to adapt</td>
<td>41%</td>
<td>40%</td>
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Figure 4. Digital High Performers distinguish themselves through a clear, disciplined focus on growth and transformation.
About the Accenture Digital Performance Index

The Accenture Digital Performance Index is a cross-industry assessment framework developed by Accenture. It is based on a comprehensive review of publicly available information contained in investor materials (annual reports, financial filings, presentations, etc.), articles, interviews, and corporate websites, to check for evidence of digital enablement in specific activities and metrics within each of four business dimensions: Plan, make, sell, manage. Forty-two further business activities and 117 detailed behavior metrics are also evaluated to support the DPI framework. A scale of one to four was used to rate company performance on each activity. A score of four indicates very strong evidence was found, while a score of one indicates no evidence was found.

If you are seeking to master the digital journey toward new business models, the Accenture Digital Performance Index is a great place to start: it can be readily used to assess where your company is on its digital journey, which capabilities are lacking or need to be enhanced, and where to invest.

For a deeper discussion on how you can leverage Digital Performance insights to drive business performance, contact your industry research leads listed on www.accenture.com/us-en/insight-digital-performance

Join the conversation #digitalperformance


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