Growth Strategies for a Digital World
Growth Strategies for a Digital World

By any measure, the world is increasingly digital. So the most fundamental questions for business leaders are these: how will digital technology deliver growth? And what must we do to ensure that we become a truly digital business? To properly answer those questions, executives must confront the challenges that connect digital technologies to business growth.

If being digital were as simple as having a mobile app, then every business could easily be a digital success.

Being a digital business is more than equipping the field sales force with iPads or striving for “Likes” on Facebook or even putting more of the organization’s data in the cloud. Although those kinds of moves can be crucial steps on the road to becoming digital, the challenge is that they may make business leaders feel that their organizations are digital, when they are not. Such basic initiatives can be part of a project to improve discrete business processes, but they will not, by themselves, propel growth and they will certainly not confer lasting strategic advantage. (See sidebar: “Five myths about digital business.”)

It’s easy to conceive of digital technology as just another technology and a force for efficiency and cost reduction. It is not easy to envision what is needed to be a digital business. Customers are at the center of digital business, requiring leaders to adopt an “outside-in” perspective on their business. Adopting this perspective requires adapting current approaches to business strategies to new growth-oriented digital business strategies. These issues are among the key challenges to and context for success in a digital world.

The digital race is already underway

Digital business leaders seek new sources of growth and results from using technology to extend the potential of products and services, resulting in higher performance through new combinations that can benefit the organization’s customers, its workforce and its trading partners. For proof of that, look at the steps being taken by Tesco, the global supermarket chain. In just the last two years, Tesco created interactive grocery stores in airports and subway stations. At the same time, it expanded into new industries, offering movie streaming, e-books, and even its own 7-inch tablet priced as low as $91. Why? Because Tesco wants to establish its presence everywhere its customers go—and more and more of its customers are digital. More than 20 percent of Tesco’s online sales now come through smartphones, and more than 10 percent of all orders on Tesco Direct come through its mobile website.

Digital is also entirely relevant to business-to-business (B2B) industries. For instance, General Electric is betting on the industrial Internet, connecting machines via remote sensors, mobile communications and analytics. The digital information flow feeds advanced products and services that lead to higher performance in major industries such as energy and aviation.

Tesco and GE are leaders in this wave of big companies using technology as a driving force for growth and innovation. Leaders see the disruption generated by digital-first companies such as Twitter, Zipcar, Uber, GoPro and Airbnb and they are thinking ahead to envision what will happen in their industries, to their customers and their revenues. But rather than preparing to fight disruption when it happens, those leading organizations are better positioning themselves as disruptors in their own right by becoming digital businesses. One recent example: General Motors raising anxiety in the car rental business by partnering with RelayRides, a start-up whose use of mobile phones makes ride-sharing easy.
## Five myths about digital business

<table>
<thead>
<tr>
<th>Myth</th>
<th>Reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital applies only to B2C companies. It matters less for B2B companies.</td>
<td>Digital is fundamentally personal. This makes it easier to see digital’s B2C opportunities. However, digital changes how organizations use information and communications to create value. This is how B2B companies such as GE and Caterpillar among others are executing digital strategies to create value.</td>
</tr>
<tr>
<td>Digital business is just for online companies. We sell physical products and services.</td>
<td>Digital is transforming traditional sectors like banking, energy, mining and manufacturing by changing customer experiences, products, services and processes. Digital opportunity comes from how you use digital to create new combinations of digital and physical resources to help drive growth and results.</td>
</tr>
<tr>
<td>The more digital we become, the less our customers are willing to pay for our products and services.</td>
<td>This may be true when digital applies exclusively to marketing and sales channels. A digital business strategy finds new connections between customer value and company revenue that create pricing power and avoid commoditization. Digital customer experiences, digital supply chain performance and digital innovation will create a premium that combats the tendency for commoditization.</td>
</tr>
<tr>
<td>My customer demographic is more established. It’s only Generation X and Millennials who care about digital experience.</td>
<td>Baby boomers and older consumers are among the most avid digital users. They regularly use financial and health services online and on their phones, and they shop extensively online, including comparison shopping. Digital opportunities exist across customer demographics.</td>
</tr>
<tr>
<td>Digital is relevant only in developed markets.</td>
<td>Many emerging markets are digitally sophisticated; some are creating mobile banking and advertising business models and platforms that are now being implemented in advanced economies. IDC predicts that by 2020, 62 percent of the digital universe (a measure of all the digital data created, replicated and consumed in a single year) will be attributable to emerging markets.</td>
</tr>
</tbody>
</table>
Customers drive the digital world

Customers and their expectations make the digital realm different. The fact is that markets are already digital. According to Oxford Economics, online sales are projected to reach $20.4 trillion in 2013, representing 14 percent of the global economy and growing faster than sales in traditional channels. Of the world’s 7 billion people there are more than 6 billion mobile subscriptions and 3 billion active users of the Internet. Consumerization and digital technology have transformed the travel, advertising, publishing, automobile insurance and music industries, and companies across communications, media, financial services, health and retail—to name a few—are actively seeking to understand how digital will impact their customers.

For business leaders everywhere, then, the next few years will be about determining their organizations’ pace in this digital race—and their place in the new world of digital. To succeed with this, they will have to confront the challenges—customer, business and strategic challenges—that influence the link between digital technologies and business growth. Let’s look at each of those challenges in turn:

Digital technologies drive change from the outside in. Technologies such as mobility, analytics, social media and cloud are intrinsically customer-focused, giving customers the information and connections to change the meaning at every moment of truth. (See sidebar: "Moments of truth in the digital world.") Growth is no longer a matter of creating new products and marketing playbooks that move customers through linear purchasing processes.

Creating smarter, seamless and secure experiences at every moment of truth defines expectations in the digital world. Customers in turn expect their experiences to be constant, continuous, customized and cross-channel. Growth no longer depends solely on pushing customers through the funnel; increasingly, it is tied to delivery of continuous customer experiences. (see Figure 1.)

Figure 1: New dynamics of today’s customers

The Traditional Funnel

- Discover
- Consider
- Evaluate
- Purchase
- Use

The Accenture Nonstop-Customer Experience Model

- Discover
- Promise
- Evaluate
- Delivery
- Consider
- Use

Open content/channels
Brand-controlled content/channels

Source: Digital Customer: It’s time to play to win and stop playing not to lose. 2013 Global Consumer Pulse Research, Accenture.
Digital business defined

Definition: A digital business delivers growth and results by creating unique customer experiences through new combinations of information, business resources and digital technologies that produce innovative outcomes designed to meet the new expectations of the digital world. It executes a unique digital strategy that looks beyond what technology makes possible to what digital business models can make profitable.

Moments of truth in the digital world

1: Generate demand – building awareness and brand interest
2: Search and selection – being where customers can easily find you
3: Purchase – creating clear, seamless and secure ways to purchase or acquire
4: Experience – realizing customers’ expectations through their ongoing engagement with you, your products and services
Disney, for example, is introducing a wireless-tracking wristband to create an entirely new personalized and enriched experience for visitors to its amusement parks. With visitors wearing the MagicBand, Disney can offer a better guest experience with much less waiting, such as giving preferential places in queues. But the technology goes beyond just that: For example, it allows Disney to transform its supply chain such that parkgoers can buy products with a swipe and have them delivered to their hotel room rather than carrying them through the park. The technology has also transformed dining, enabling patrons to preorder food, which is then prepared and served as they walk into a restaurant. And of course, Disney captures a comprehensive digital record (or storybook) of its customers’ activities.

Customers set the pace in the digital world. Their expectations and actions are nonstop, requiring executives to develop new answers to such fundamental questions as: Who are my real customers? Or, more importantly, who will be my customers in the future? What do they really value? And what will they value in the future?

These questions are more urgent than ever because the global economy is increasingly a “switching” economy. Accenture estimates that up to $5.9 trillion in revenue is in play globally as customers switch out their product and service providers. Growth in a digital world can require that executives continually think from the customer’s perspective—that is, outside-in rather than from the company outward. Every growth plan may require this shift because the reign of consumers has colored markets in fundamental ways. Accenture’s latest customer study reveals several stark specifics about markets today. They are:

• Dynamic in the sense that 80 percent of consumers who responded find it frustrating when promises that companies make are not fulfilled, and are more likely to switch providers.

• Accessible, in that customers want you to reach everyone, every time and everywhere. For example, 80 percent of the customers who responded say it is important to be able to obtain customer service and support at any time, using preferred interaction channels.

• Continuous, because about 70 percent of consumer respondents reevaluate their purchasing decisions more frequently than two years ago.

Experience is everything in a digital world. Already, about 7 out of 10 customers switch because of a poor customer service experience in at least one industry. Experience equates to growth, which demands that business models change from inside-out to outside-in. That shift is the essence of adopting a digital business model.
Digital business is the goal

Every business must consider becoming a digital business. But each business will become digital in its own way and by following its own unique strategy. Its growth prospects in the digital world will be shaped by the reasons why its executives adopt digital technology and how adoption changes the organization’s business model. Growth requires becoming an innovative digital business, which is different from digitizing the business by substituting new technology for old without changing the way the business works.

As noted earlier, it is easy for some leadership teams to feel that their organizations are digital without them actually being digital. When processes are simply digitized, all that happens is that technologies are applied without changing the business model or its growth potential. For instance, mobilizing the sales force by replicating existing processes on new technology may improve efficiency but does not necessarily change growth prospects. Deploying customer mobile apps that increase transaction activity without growing revenues is another indicator of an inadequate digitization approach. In this case, customers continue old behaviors using the new channel, but the company has not given them a good reason to expand the relationship.
A digital business can create revenue and results by using innovative strategies, products, processes and experiences. Being digital involves “living” the following principles:

- Growth tends to come through customer experiences and relationships that adapt to their dynamics and demands.

- Operational results can be delivered via new combinations of information, processes, channels and workforce abilities that leverage new high-performance business and operating models.

- Information is at the center of the business model. It is usually the basis for differentiating customer experiences and the fuel for more efficient operations that deliver these experiences.

- IT infrastructures become digital platforms. Companies may not be able to realize digital ambitions if they continue to be shackled by the cost, complexity and limited capacity of their legacy infrastructures. A digital business platform supports a diverse set of customer and operational requirements with a single set of resources.

A digital business, as defined here, provides a way to find new answers to the question of how digital technology can drive growth and cultivates a broader set of value opportunities (see Figure 2).

Digital business is a “both-and” proposition: It is about both growth and efficiency, and combining existing products and services with digital technologies. It is also about going beyond the confines of traditional industry, product and customer segments to find new customer value opportunities. Consequently, different industries will require different digital business approaches (see Figure 3).

Executives setting their organizations’ digital agendas now recognize that it calls for more than a “be digital!” imperative and more than augmented investments in new technology. Growth in a digital world is a strategic choice, with implications throughout the value chain. How the leadership team navigates those choices to set a digital direction depends on a new type of strategy—a digital business strategy.
### Figure 3: Digital examples by industry

<table>
<thead>
<tr>
<th>Industries</th>
<th>Digital Revenue Growth</th>
<th>Cost-Efficiency Through Digitization</th>
<th>Digital Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources</strong></td>
<td>Chemical company provides online portal for partners to manage orders for a fee</td>
<td>Energy companies apply analytical methods to improve asset maintenance, resulting in reduced number of unplanned downtimes</td>
<td>Chemicals extend their portfolio with solutions combining classical products with value-adding services</td>
</tr>
<tr>
<td><strong>Communications and Media</strong></td>
<td>Telco partners with retailers (for a fee) to push offers to shoppers who opt in</td>
<td>Media companies digitize their operational value chain, resulting in time improvement and reduced costs</td>
<td>Telcos extend their business model by integrating mobile payment solutions</td>
</tr>
<tr>
<td><strong>Banking</strong></td>
<td>Retail banks offer additional services like mobile payment or advanced wealth management for normal customers</td>
<td>Retail banks optimize their process and leverage customer self-service opportunities</td>
<td>Crowd-funding-based loan options, allowing retail banks to reduce their risk exposure</td>
</tr>
<tr>
<td><strong>Retail and Consumer Goods</strong></td>
<td>Office supply company sells its products through its e-commerce platform</td>
<td>Inventory optimization due to analytical-driven demand forecast and supplier integration in value chain</td>
<td>Individually customized products instead of mass production</td>
</tr>
<tr>
<td><strong>Pharmaceuticals, Life Sciences and Public Services</strong></td>
<td>Pharmaceutical company uses analytics to customize products</td>
<td>Public services reduces process costs by digitization of administrative processes and customer self-service options</td>
<td>Life sciences extends business into lifestyle nutrition supplies based on individual analytical results</td>
</tr>
</tbody>
</table>

Source: Accenture 2013
An effective digital business strategy goes beyond a marketing plan or increasing technology spend. Executives need the capacity and capability to formulate, evaluate, learn from, and scale their digital business decisions. That type of strategic ability comes from creating a strategy that helps guide growth decisions based on customers, outcomes, internal resources and ecosystem capabilities.

Many companies will find that they cannot realize their digital ambitions on top of their existing infrastructures. Some companies find that it is more economical to rent dynamic combinations of digital platforms rather than buy and operate their own, further improving capital performance. Netflix has emerged as a formidable media competitor while running on Amazon Web Services, and Amazon, in turn, does not build new infrastructure for each of its markets or clients.

Organizations without a digital platform may quickly find that the complexity, cost and fragility of their infrastructure limits their options, growth and operations. Furthermore, digital business requires new digital capabilities and skills as the customer experience is deeply connected to a company’s workforce. Leaders must also define a digital capability strategy that describes these new capabilities, potentially refocusing existing resources on high-priority digital outcome delivery, and incorporating digital responsibilities throughout their executive team. (See sidebar: “Business and technology leaders must collaborate on the digital agenda.”)

Figure 4: Digital strategy process

Figure 5: Business and technology

Outcomes provide the unifying theme that brings together combinations of business, technology and operations. Creating new business combinations is a complex process and one facilitated by a progression of business model builds, ranging from opportunity simulations to a minimal viable solution as part of the strategy process. (see Figure 4.)

In effect, the outcomes and iterations are the pistons in the agility engine. Strategy teams use both during testing and when learning from experience rather than just through simulation. The result is an approach that adapts based on facts rather than one that accommodates opinions and corporate compromise, which can lead to watered-down value propositions or strategies that cannot be executed.

The strategy for a digital business is a strategy for a changing business model. Business model considerations in digital strategy reflect a different relationship between business and technology. Until recently, the business and technology relationship has been linear, with the business side providing requirements for technology implementation and business enablement. That one-way relationship reflected the nature of enterprise-centric IT technologies. But the dialogue is different in a digital business: It is iterative, with technology presenting both opportunities and implementation solutions for new business models. (See Figure 5).

Digital business strategies lead to enhanced or new business models that require executives to make decisions in response to trade-off questions such as:

- What is possible versus what could be profitable? This is a foundational question, given the wide range of possibilities created by mobility, social media, analytics, and cloud. The range of what is possible is significantly broader and deeper than what will be profitable for the digital business. The road to the digital future is paved with world-class demos that failed as business initiatives.

- How will digital change transaction volumes and the average value of those transactions? Each business model implies a relationship between those two factors, with many models based on a mix of high-value and low-volume transactions. Digital technology moves businesses toward a high volume of relatively low-value transactions. This disrupts the operational economics of the organization, particularly when digital marketing consumerizes product margins and channels without raising the efficiency of back-office operations.

- What are the sources of customer value and how will that value translate into revenues? Digital businesses models can go beyond directly charging customers for the value they receive. Digital business models may use information and connections to create new connections between value and revenue that are less susceptible to comparison and commoditization.

An effective digital business strategy goes beyond a marketing plan or increasing technology spend. Executives need the capacity and capability to formulate, evaluate, learn from, and scale their digital business decisions. That type of strategic ability comes from creating a strategy that helps guide growth decisions based on customers, outcomes, internal resources and ecosystem capabilities.

Many companies will find that they cannot realize their digital ambitions on top of their existing infrastructures. Some companies find that it is more economical to rent dynamic combinations of digital platforms rather than buy and operate their own, further improving capital performance. Netflix has emerged as a formidable media competitor while running on Amazon Web Services, and Amazon, in turn, does not build new infrastructure for each of its markets or clients. Organizations without a digital platform may quickly find that the complexity, cost and fragility of their infrastructure limits their options, growth and operations.

Furthermore, digital business requires new digital capabilities and skills as the customer experience is deeply connected to a company’s workforce. Leaders must also define a digital capability strategy that describes these new capabilities, potentially refocusing existing resources on high-priority digital outcome delivery, and incorporating digital responsibilities throughout their executive team. (See sidebar: “Business and technology leaders must collaborate on the digital agenda.”)
### Business and technology leaders must collaborate on the digital agenda

<table>
<thead>
<tr>
<th>Role</th>
<th>Questions</th>
</tr>
</thead>
</table>
| **Chief Executive Officer (CEO)** | • What should we do about digital disruptions in my industry?  
  • How does digital help us grow the business, enter new markets or strengthen our position?  
  • How does it threaten our value chain of customers, suppliers and business partners? |
| **Chief Financial Officer (CFO)** | • How can digital help us to improve financial performance?  
  • Where is the profitability of our products/services threatened by digital—for example, by new market entrants with much lower cost structures?  
  • How can we better control the business using real-time information? |
| **Chief Operating Officer (COO)** | • How do we use digital to align the organization for increased speed to market and more flexibility?  
  • How can we deploy digital solutions to improve business process efficiency?  
  • Does digital change the level of vertical and horizontal integration in our business—and across our industry? |
| **Chief Marketing Officer (CMO)** | • Does our marketing strategy exploit the opportunities of new technologies to improve our digital consumer value proposition?  
  • Do we have sufficient insights into how customers use digital technologies?  
  • How does digital facilitate customer retention? |
| **Chief Digital Officer (CDO)** | • What are the most important roles and responsibilities of the CDO in the new era?  
  • How does digital strategy integrate with business and IT strategies?  
  • How can digital opportunities be used to innovate the business model and increase market share? |
| **Chief Information Officer (CIO)** | • In what ways does IT help to create new business models and opportunities?  
  • Does the IT organization have the capabilities needed to facilitate innovation and enable the business strategy?  
  • Where do we need to invest in order to be ahead of the technology curve? |
| **Chief Human Resources Officer (CHRO)** | • What new capabilities and organizational structures are required to design and deliver new digital outcomes?  
  • How does digital help us to attract and retain the best talent?  
  • What will the future of work look like in our organization? |
What has to happen now?

So what are the next steps? Action is needed now: Executives should start building a digital business as soon as they see the potential beyond simply digitizing current operations, products and processes. The challenge is in knowing where to start the digital journey.

Accenture’s analysis has determined that there are three paths to a single digital business destination (See Figure 6). Business leaders can digitize marketing and customer channels, taking an external focus on revenue. Alternatively, they can look to grow margins and earnings by digitizing operations and processes. The third path is to digitalize the business model through combinations of both revenue and margin enhancement.

Each path is perfectly viable to start with. But being a digital business calls for a sharp focus on both internal and external dimensions. As a company progresses, it should begin incorporating more and more of the elements needed to traverse the other paths.

Putting it another way: Continued digitizing of either marketing or operations in isolation eventually can create real difficulties. For instance, digital marketing without digital operations can cause companies to rely on old or duplicate operations to support new revenues. Consider a bank’s mobile app that is supported by a branch network, call center and customer service personnel. The bank’s revenues grow, but so too does its operational complexity.

Likewise, digitizing operations without doing the same with marketing can create the potential for higher margins through increased efficiency, but companies need the top-line revenue expansion marketing can deliver to turn that capacity into cash. Without new customers, an emphasis on digital operational efficiency alone will eventually shrink the company when it should be using its efficiency to grow market share.

Regardless of the initial path—marketing or operational efficiency—the most important thing is to make a start because much of any organization’s digital advantage comes from testing and learning by engaging digital customers and building digital capabilities. This creates a simple approach for initiating a digital strategy:

- **Start with a defined “outside-in” outcome.** The outcome defines the tangible difference based on the customer’s perception of value; it describes the results you want to create with your customers. For instance, Tesco wanted to be everywhere that its customers needed its services—in airports as well as underground stations, etc. And GE is leveraging the industrial Internet to give its airline customers higher equipment up-time rather than just selling after-market services. A strong outcome orientation results in the shared focus and enterprise-wide collaboration required to build a digital business.
Digital businesses operate differently and run at a different pace. They emphasize speed and agility at all times, piloting new ideas, iterating, improving and delivering. They realize that their business and technology agendas are one and the same. They understand the linkage between digital opportunity and growth opportunity. Their digital strategies describe new business models and focus on profitable outcomes.

**Identify the challenges between “as is” and outcome.** What needs to be different in terms of serving the customer, in conceiving, developing and making the product, or when selecting the right mix of distribution channels? What new skills, abilities and capacities should exist in your workforce in order to deliver digital business performance? Who are the right partners in the ecosystem, given that you are only as strong as your weakest digital link? Such questions are not exclusive to digital solutions, of course, but they take on heightened importance in the digital realm.

**Define the combinations of digital and traditional technologies, operations, new capabilities and information required to resolve the challenges and realize the outcome.** Digital leaders know that strength comes from the appropriate combinations. Successful examples of this approach have enabled firms to achieve target outcomes that were previously impossible or uneconomical. For example, technology products distributor CDW has blended digital omni-channel management technologies with deeply skilled account executives in order to help deliver high-touch service despite operating in a highly commoditized business sector.

Together, a clear view of the required outcomes, a realistic appraisal of the challenges and the right combinations of technologies, operations, capabilities and data add up to a simple and practical formula for digital success. These combinations are the cornerstones of defining a digital strategy that embodies the idea of starting small, scaling fast and learning “as you go.” This is an accretive approach to building a digital business strategy—one that imbues the leadership team with the mindset of implementing digital initiatives rather than painstakingly studying enterprise issues with no execution. These days, nobody is a stranger to the term “digital.” But translating it into an effective, practical business strategy is not intuitive. Just as it was not enough, 15 years ago, to call your organization an “e-business” because it had a website, today a business is not truly digital just because it has a mobile app, uses analytical reports, or has a page on Facebook.
The digital highway is paved with technology experiments that couldn’t make the business case. And there is no shortage of stories about new digital competitors bringing some companies to their knees. It is encouraging that many large companies are striding back into the digital game. They have experimented extensively with digital technology—and continue to do so. There have been stumbles, of course. But there has also been a wealth of learning and results—giving leadership teams the confidence to commit to a firmly digital course.

In turn, the experiences of those trailblazers demonstrate that the digital journey is practical as well as possible. They show that there are ways to understand and harness the new principles of digital business, and new ways of thinking about the relationship between business and technology in order to grow with their customers and succeed in the digital world.
Sources:


About the authors:

Mark McDonald is a managing director and the Digital Business Strategy lead in Accenture Strategy. Mark is based in Chicago.

mark.p.mcdonald@accenture.com

Ryan McManus is a senior manager in Digital Business Strategy in Accenture Strategy. He is based in New York.

ryan.mcmanus@accenture.com

The authors would like to thank Daniel Benton, Bruno Berthon, Emrullah Beyazit, Frédéric Calcio Gaudino, Reza Firouzbakht, Wolfgang Halb, Benjamin Hargarten, Laurie Henneborn, Mervyn Maistry, Robin Murdoch, Christian Neumann, Aniruddha Ray, Christian J. Schäfer, Olivier Schunck, Francois Spies, and Robert Wollan.
About Accenture
Accenture is a global management consulting, technology services and outsourcing company, with approximately 293,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

Visit our site to learn more:
www.accenture.com/digitalbusiness

or join the conversation via:

@AccentureStrat
www.facebook.com/accenturestrategy
www.linkedin.com/company/accenture-strategy

For more information about Accenture Strategy visit:
www.accenture.com/strategy