

How digital transformation—and a challenging environment—are building agility and resilience

The pandemic has shown CEOs the need to future-proof the business

Digital Transformation

Deloitte Consulting LLP's Digital Transformation practice has advised clients in the technology sector as well as those in the industrial sector enter and compete in new markets. Our work includes defining customer-first strategies, building new business and operating models, and launching the critical capabilities required to swiftly drive scale—all to achieve optimal results from limited resource pools. To learn more, visit [Deloitte.com](https://www.deloitte.com).

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Introduction

Adapting to disruption

WHEN I SPEAK with CEOs, they leave no doubt that they have been thrown into the crucible of change. Disruption exists around every corner, and leaders want to make sure that they are moving quickly enough. The COVID-19 pandemic has amplified the urgency to transform their businesses to be more agile and resilient. Indeed, cloud spending has accelerated significantly since the crisis¹ as companies found themselves forced to reassess not only their operations but their mindsets.

In early 2021, Deloitte and *Fortune* surveyed CEOs about their leadership through the pandemic.² Fully 85% indicated that their organizations had significantly accelerated digital transformation during the crisis, with three-quarters seeing the pandemic as fostering the formation of new partnerships and alliances. And yet another recent Deloitte survey found that 70% of CXOs lack total confidence in their organizations' ability to pivot and adapt to disruptive events.³

So things are changing rapidly, illustrating how moments of *acute* disruption can force consideration of how to better adapt to more *chronic* disruptions.⁴ And for many of Deloitte's clients, digital strategies are being guided by lessons from 2020:

Transform. The sudden need to accelerate digital customer solutions, workforce productivity and collaboration tools, and global supply chain transformation has *reframed* what's possible, *reset* expectations around what's needed, and *revealed* the choke points in an environment where businesses need to continue to adapt to change.

Focus. The pandemic highlighted the most important parts of the business, where leaders should focus strategies, and how to execute transformation more effectively. At the same time, it has showed the value of innovation and cocreating more strategic opportunities for companies, their partners, and their ecosystems.

Execute. The crisis has shown the need for more resilient operations and infrastructure to future-proof the business, enhance security, and enable financial performance, not only for resiliency but as a pathway to higher performance. Deloitte's 2020 digital transformation survey has uncovered a link between digital maturity and financial performance.⁵

The key: Focus and execution

The pandemic has pushed CEOs to move more quickly in transforming their businesses to meet a dynamic and uncertain operating environment. Increasingly, competitors, investors, and boards are also applying pressure to evolve.

While the imperative to transform may be clear, the path is challenging. CEOs are pressed to prioritize digital solutions that meet the needs of the present while building a platform for innovation and competitive advantage. This can require changes in processes and infrastructure, such as shifting workloads to the cloud, deploying artificial intelligence (AI) across the enterprise, and reevaluating how, where, and by whom work is done. For some, it may include transforming network capabilities and deploying edge computing

infrastructure.⁶ Such change may demand new, continuously evolving workforce skills in an environment where diversity, equity, and inclusion are highly valued.

In the 2021 Deloitte Global Human Capital Trends survey, 72% of respondents identified the ability of “people to adapt, reskill, and assume new roles” as one of the most important factors to navigate future disruptions.⁷ In essence, business leaders have an opportunity to use digital transformation to thrive in a fast-moving, hyperconnected world, not just for themselves but in collaboration with their partners and customers.

Over the past year, I’ve seen a subset of clients and alliance partners successfully transform their businesses, and the key is that they have been able to *focus* their efforts and *execute* effectively. This means deciding which parts of the business stay and which should go, as well as looking beyond organizational walls and seeing how to help accelerate customers’ transformation.

Enabling agile business transformation

Digital technologies can help virtualize and better manage infrastructure and processes, empower sales to get closer to customers, integrate remote and in-person networks, and enhance competitive advantage. The challenge for business leaders is how best to plan—and accelerate—digital transformation.

Businesses should cease floating “safe” proofs of concept while keeping outdated legacy systems on life support—doing so can lead to innovation stagnating, flanks becoming more exposed, and brand reputation decaying. Deloitte’s

forward-looking clients are pursuing two main approaches to agile business transformation:

- *Brownfield transformation.* This approach modernizes the business portfolio to drive efficiencies, enhance customer experience, and grow market share. This can include shifting operating models, leveraging third parties to modernize technology capabilities, and building new capabilities for product management that make it easier to enter new markets.
- *Greenfield transformation.* The digital capabilities that underlie brownfield optimization also enable the business to bring an innovative or disruptive idea, product, or operating model to market quickly. If brownfield enhances the present, greenfield builds the future of the business.

COMMON QUESTIONS ABOUT TRANSFORMATION

- What does it mean to go “digital”?
- Who should own the organization’s digital agenda?
- Where should I start? What parts of my value chain should I transform, and in what sequence?
- How can we get our workforce and culture to move effectively toward our transformation goals? How do we change our culture to be digital and think digital?
- What does success look like? Is there an end point, or is digital modernization becoming a continuous practice to stay competitive?
- How can we support the transformation of our partners and our ecosystem?

Five focus areas for digital transformation

DIGITAL TRANSFORMATION INVITES questions of scope, costs, procurements, integration, training, ROI, and more. It's critical for leaders to understand where to focus and how to execute effectively, both for their organization's transformation and that of their customers. Working with our clients, I see five lenses to help them focus on transformation efforts:

1. Take a “virtual first” perspective

The business leaders with whom I speak are grappling with challenging workforce questions: How can they lead effectively in remote environments? How to manage the needs of a workforce that is increasingly diverse, with shifting expectations around well-being, diversity, sustainability, and social impact? And how must organizational culture evolve to support these needs and stay cohesive?

Smart digital transformation can also enable the future of virtual business infrastructure.⁸ By adopting a virtual-first footing, leaders can determine where “physical can become optional” and which technologies and cyber strategies are necessary to support a primarily digital workplace and workforce. Conversely, they should look at which work uniquely requires a physical presence and how to use technology to enable a more human-centered workforce. In a postpandemic world, both can have implications for how organizations look to access, curate, and engage talent as well as how management practices that

align with their business strategies can reinforce a virtual-first culture.⁹

Rethinking assumptions can create real opportunities on both sides of transactions. In the insurance business, traditionally the broker has physically interacted with customers to sell and issue life insurance policies and, often, to process claims. When COVID-19 made this impossible, insurers were forced to go virtual,¹⁰ and both customers and insurers are now more open to new ways of doing business. Similar shifts can be seen in telehealth, a solution that had been long discussed but downplayed due to patients and caregivers expecting an in-person experience. During the pandemic, video and audio visits with providers have greatly accelerated to wide apparent benefit.¹¹ Sometimes it takes a shock to shake loose the foundations so that something new can emerge.

2. Find agility and extensibility with the cloud

In today's tumultuous and highly disruptive environment, cloud capabilities enable businesses to move at the speed of their markets. Migrating to cloud can enable greater standardization, automation, and scalability while enabling operations to gain much greater agility. However, it's critical to grasp that cloud is not an outsourced data center but, rather, an extensible business platform. Digital transformation not only brings an enterprise up to speed with today's technologies—it makes it much easier for an organization to adopt new capabilities on top of its tech stack.

The boom in AI and machine learning, for example, has been greatly accelerated by the major cloud providers that quickly moved these frameworks onto their massive data centers.¹² The full value of the cloud is not only efficiency—it's about amplifying innovation and flexibility as well. With a security-by-design approach, security itself can become a competitive differentiator. Indeed, security is one of cloud's strongest selling points, one reason why more businesses are moving systems online.¹³

3. Automate decision-making where you can—and where it counts

Many businesses include operations that are high volume with significant costs but that require little in the way of actual human oversight. With AI/ML technologies, organizations can put thresholds in place to flag when an input requires a person, while the rest can be automated. In Deloitte's global automation survey 2020, 73% of executives said they are pursuing intelligent automation for their business, up from 58% in 2019.¹⁴

As leaders—and workforces—become comfortable with a level of automated efficiency, businesses can access more AI capabilities in the cloud and leverage them to drive customer management and product innovation. For example, top customer relationship management tools now include customer modeling that can predict and flag those most likely to leave.

We're seeing ever more examples of AI and ML broadening horizons. Physicians using technology for augmentation and collaboration can free up capacity for value-added activities such as connecting with patients, showing compassion, and asking questions led by intuition and experience.¹⁵ In another example, some of Deloitte's manufacturing clients are undergoing

AI-based overhauls of their factories to respond more quickly, build and deliver faster, and more readily leverage innovative technologies;¹⁶ the goal is to enable them to be more responsive, dynamic, and predictive while creating a foundation for future digital innovations to enter the business.

4. Amplifying product/service innovation

Whether employing a leader or fast-follower strategy, organizations have an opportunity to use digital transformation to amplify their product and service innovation strategy. Cloud capabilities can offer power and flexibility that can be scaled up quickly to support R&D.¹⁷ With data analytics and AI, teams can reinforce discovery, modeling, and prediction that enable faster prototyping and testing while lowering risk.

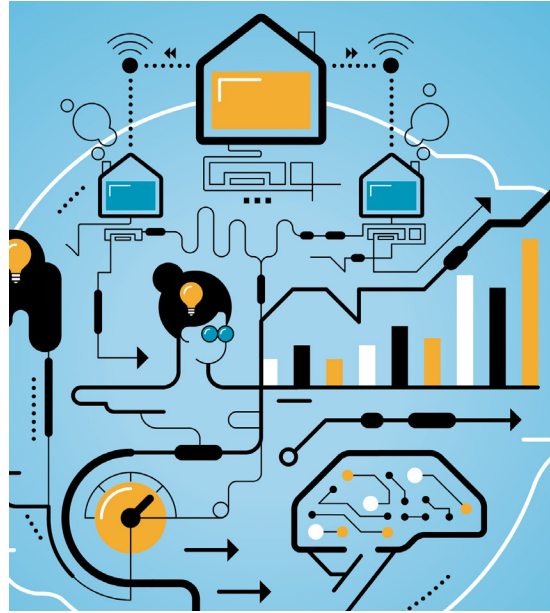
We're increasingly seeing R&D, product innovation, and experimentation across supply chains, networks and ecosystems. Leveraging common platforms, data, and markets can enable leaders to build on top of brownfield optimization with innovation while extending R&D efforts to partners and customers. And a company can extend this across the entire value chain in a business ecosystem, leveraging shared knowledge and data insights to drive performance and innovation.¹⁸

5. Become an accelerator

A business may become agile, resilient, and innovative, but in an era of ecosystem dependencies, partners may still bring drag and fragility. And it goes both ways—your business may be adding friction to partners. Businesses that are maturing in their digital transformation have an opportunity to be accelerators across their ecosystems: They can move to standardized architectures and cloud solutions that encourage

common services, APIs, reusability, and extensibility that enable greater cocreation of performance and innovation.

We've seen large providers of operations and business support that have been decomposing their technology stacks so that clients can enjoy the benefits of continuous integration and delivery of new capabilities. Similarly, large retailers are encouraging their suppliers to move to digital platforms that enable more efficient supply chains, invoice processing, and payments. This can also support greenfield transformation by making it easier to share data and knowledge across the ecosystem, enabling insights and innovations along the entire value chain.



How to execute

FOCUSING ON THESE areas can help a business define a strong digital transformation strategy, but it's challenging to build it all and make it work. Effective execution requires leadership, talent, and partnerships—and cultivating an agile and adaptive mindset.

- *Leadership.* Determine dedicated leadership for the program—a chief digital officer, for example, who can work across internal teams and providers to guide and drive execution.¹⁹ This leader should have clear ownership of decisions and outcomes while still cultivating shared input and accountability across the executive team. Leaders should understand the *why* and the *how* of digital transformation, and what it will take to bring the vision to life.
- *Mindset.* In times of great change, rigid structures can become fragile and unable to adapt or capitalize on opportunities. Challenging the orthodoxies embedded in your business may be critical to accelerating performance,²⁰ so get comfortable with an agile mindset. Cloud capabilities can enable product teams to rapidly innovate, test, and learn, then scale or pivot. Minimum viable products can act as market and customer probes to see what works.
- *Talent.* Establish clear targets for how the workforce, and work itself, will need to evolve to facilitate transformation and support new technologies and operating models. What mix of skills, experiences, and diversity do you want to achieve? Talent may be hindered without enabling resources and incentives that reinforce business goals.
- *Business partners.* Think of ERP providers, cloud providers, and integrators as business partners rather than technology vendors. Seek those accustomed to playing that role, and then hold them accountable. At the same time, look for ways to cocreate opportunities and innovations with your partners and customers that can enhance the entire value chain.
- *Innovation.* Develop the bridge from efficiency to innovation. Look to cloud, data, AI, and ML as a flexible and scalable R&D foundation supporting rapid experimentation, insights, and iterations. Innovate as a cohort—look for “co-investors” to fund the creation and distribution of innovative products and solutions that create differentiation.

The pandemic has tested our ability to respond quickly, innovate, and adapt in the face of fast-moving change. Although it's been challenging for organizations—as well as for people at every level—it has created great opportunities, removing obstacles and expanding horizons for what is possible. There is no going back to the old normal, but there are clear pathways to define a more flexible, adaptive, and beneficial environment for businesses, partners, and customers. CEOs should seize this moment to release the burdens of the past and create a better future.

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About the author

Janet Foutty | JanetFouttyUSBoardChair@Deloitte.com

Janet Foutty is executive chair of the board of Deloitte US, a member of Deloitte's global board of directors, and chair of the Deloitte Foundation. She previously served as chair and CEO of Deloitte Consulting LLP, where she led a US\$10 billion business helping Fortune 500 companies and government agencies translate complex issues into opportunity. Foutty's prior leadership roles include leading Deloitte's Federal practice and Deloitte Consulting's Technology practice, achieving exponential growth through acquisitions and the launch of businesses such as Deloitte Digital.

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Practice leadership

Janet Foutty

Executive chair of the board | Deloitte US

JanetFouttyUSBoardChair@Deloitte.com

Ranjit Bawa

US Cloud leader | Principal | Deloitte Consulting LLP

+ 1 212 618 4260 | rbawa@deloitte.com

Deloitte.

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