



Putting digital at the heart of strategy

When everyone is digital, strategy is the differentiator

Strategy

Your organization's strategies for pressing issues, such as like growth and innovation, talent and technology, regulations, and risk, are shaping its future. How well are they working?

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Contents

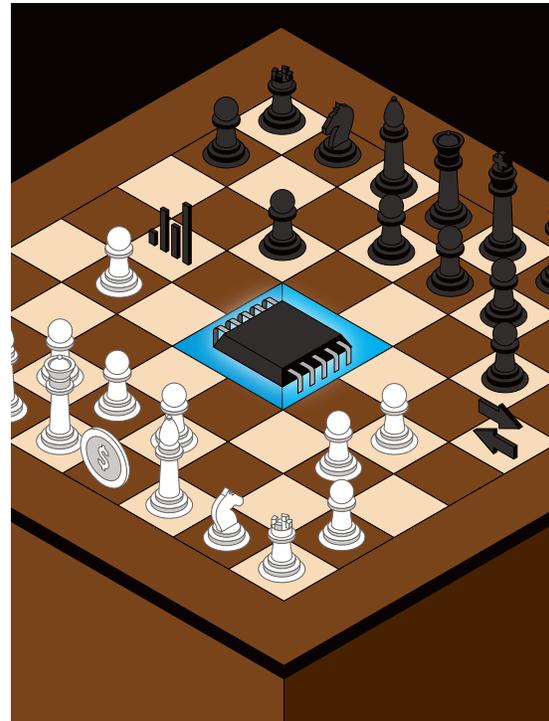
Digital possibilities must shape strategy	2
Digital helps organizations thrive amid uncertainty and change	4
Digital enables new ways to differentiate	10
All strategy must be digital strategy	12
Digital transformation is a journey that never ends	14
Appendix A: Methodology	15
Endnotes	17

Digital possibilities must shape strategy

FOR MOST ORGANIZATIONS, the shock and disruption of the COVID-19 pandemic revealed vulnerabilities that leaders had never identified before. Yet many of these organizations rose to the challenge, with digital capabilities playing a critical role in their resilience. Etsy saw its traffic double as brick-and-mortar stores shuttered and shoppers rushed online; cloud computing helped the online retailer handle the surge.¹ As call centers experienced overwhelming volumes, organizations like Bank of America and Comcast answered customer queries with the help of digital assistants.²

COVID-19 was only the latest in a series of episodes that have illustrated just how much uncertainty our society, our leaders, and our organizations must contend with. But while leaders may not be able to control the pace of change dictated by external events, they can develop their organizations' capacity to navigate that change effectively, to defend against threats and take advantage of new opportunities.

In thriving amid disruption, digital enterprises have an edge over less digitally mature competitors. Our 2021 Deloitte Digital Transformation Executive Survey provides fresh evidence that more digitally mature companies are more resilient and better able to navigate rapid change, and they do significantly better financially as a result.³ In this year's survey, higher-maturity companies were about twice as likely as lower-maturity ones to report net profit margins and annual revenue growth significantly above their industry average.



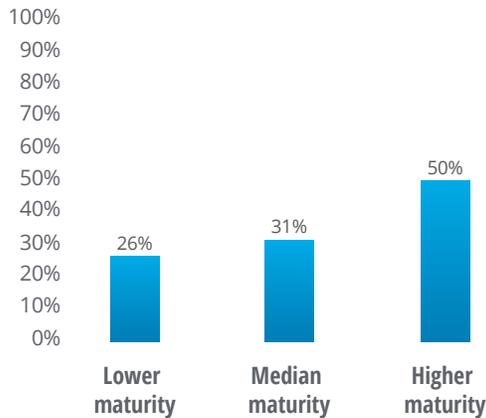
Digital possibilities must shape strategy. And strategy must shape digital priorities.

Digitally mature organizations are also much more likely to approach digital transformation strategically and place digital transformation at the center of their strategy. In fact, the more digitally mature companies in our study were nearly twice as likely to say that digital transformation was the central pillar of their strategy than companies of lower digital maturity (figure 1).

FIGURE 1

Higher-maturity respondents more closely align digital transformation with strategy

The percentage of respondents who called their digital transformation the central pillar of their business strategy.



Source: Deloitte Digital Transformation Executive Survey 2021.

For every organization, therefore, a strategic approach to digital transformation is crucial. **Digital possibilities must shape strategy. And strategy must shape digital priorities.**

The shift from digital as an enabler of strategy to digital as the lynchpin of competitive strategy comes at a time when the mere possession of advanced digital technology is becoming table stakes. Before long, most organizations will have extensive digital capabilities. Nearly two-thirds of

commercial respondents to our survey believed that organizations that don't digitize in the next five years will be "doomed." Companies will need to be digital to play—but they will need the right strategy to win.

Consider the early days of the commercial internet. In the late 1990s, companies scrambled to launch websites, believing that having an online presence would differentiate them and hoping to achieve a first-mover advantage. But eventually, every company had a website. And companies competed, as they always do, on the strength of their broader strategies. We will see the same as companies embrace the digital pivots that support digital enterprises.⁴ Cloud computing, automation, and artificial intelligence will not provide meaningful differentiation in themselves. Instead, they will be the new platform on which companies will compete.

Companies will need to be digital to play—but they will need the right strategy to win.

We see two major ways that digitally driven strategies offer organizations the opportunity to succeed in the long term. The first is by enabling resilience: the ability to thrive amid uncertainty and change. The second is by driving differentiation: the ability to deliver value that cannot be found anywhere else. We explore each of these aspects below.

Digital helps organizations thrive amid uncertainty and change

TO SURVIVE AND thrive in an uncertain and rapidly changing world, organizations will need to innovate at speed, keep pace with technological and industry change, and cultivate

greater resilience. These are among the leading reasons, particularly in the private sector, that leaders are investing in digital transformation (figure 2).

FIGURE 2

Innovation, keeping up with change, and resilience were among organizations' top reasons for investing in digital transformation

Top rationale for digital transformation	Corporate	Government
 To enable us to innovate faster	#1	#2
 We need to modernize/keep up with the times	#2	#1
 Changes in our industry require it	#3	n/a
 To become more resilient	#4	#5
 Competitor moves require it	#5	n/a
 To comply with regulations	#6	#4
 Delivering on agency's mission	n/a	#6
 Meeting citizen demands/expectations	n/a	#3

Note: Rankings based on percentage of respondents identifying each factor as the main rationale for digital transformation investment.

Source: Deloitte Digital Transformation Executive Survey 2021.

Innovation. Digitally mature organizations often exhibit a greater capacity for innovation than their less mature counterparts. A 2019 Deloitte study found that 81% of higher-maturity companies cited innovation as a strength, versus only 10% of lower-maturity companies.⁵ As an example of the link between digital and innovation, the CIO of a major consumer goods company told us that implementing a data-driven approach to assessing development projects reduced average time to market by 15%–20%: The analytics allowed the company to identify and shift resources more quickly to the most promising ideas.

This greater capacity for innovation is likely due in part to how digital ways of working support experimentation and rapid iteration. Higher-maturity organizations tend to exhibit a “digital mindset”—a tendency to look at old problems with new eyes and to ask how data and technology can be applied to reinvent products and processes.⁶ And they tend to place greater emphasis on innovation: They are significantly more likely to focus digital investments on product development, R&D, and innovation than less mature companies.

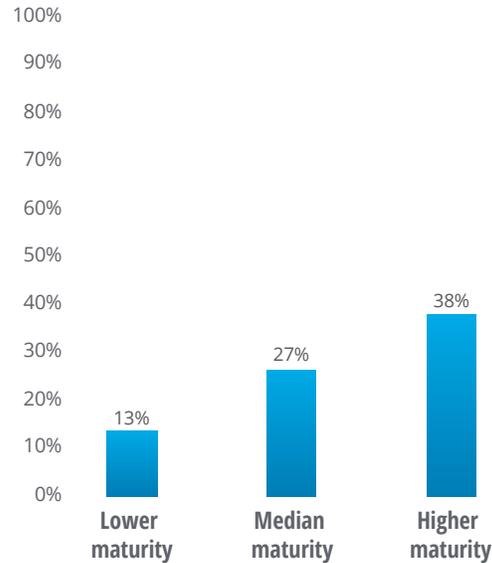
Our current study shows that innovating faster was critical to more digitally mature organizations during the pandemic (figure 3). They were more than three times likelier than lower-maturity organizations to say that new digital initiatives spun up during the pandemic were already having a positive impact by the time we fielded our survey (November 2020 in the United States and February 2021 for global respondents). New Jersey–based community bank Cross River Bank, for instance, issued more Paycheck Protection Program loans early in the pandemic than many of the United States’ largest banks. The bank built a platform that automated the lending process in just 10 days, and its extensive ecosystem of fintech partners then funneled small business customers in need of loans to Cross River’s platform.⁷

Modernization. A desire to modernize and “keep up with the times” is another leading motivator of

FIGURE 3

Higher-maturity respondents quickly saw a positive impact from new digital initiatives launched during the pandemic

The percentage of respondents who strongly agreed that “The digital transformation initiatives we have pushed since the start of the COVID-19 pandemic are already having a large positive impact on our business.”



Source: Deloitte Digital Transformation Executive Survey 2021.

digital transformation investment. This is a fundamentally strategic imperative, as it can enable companies to compete more effectively and efficiently. Legacy IT systems, which tend to be inflexible and costly to maintain, can impede innovation, while the lower operating costs of modern systems can free up resources for innovative projects. For instance, chemical manufacturer Albemarle modernized its ERP platform and invested the cost savings from reduced technical debt into automating front- and back-office operations.⁸ Modern cloud-based infrastructure and associated modern practices like DevOps and ecosystem engagement enable greater agility and faster time to market as well⁹—one reason why we believe that nearly every meaningful innovation going forward will be born in the cloud.

Industry competitive dynamics. Digital technologies are driving change across industries in distinct ways, leading many organizations to conclude they have no choice but to digitize. In the energy, resources, and industrials industries, for example, digital technologies are helping drive a massive shift toward decarbonization: Digital technologies were named the top priority in meeting fossil fuel reduction targets by executives in both oil and gas and industrial products and construction.¹⁰ In consumer-oriented industries, digital transformation is helping companies capitalize on new direct-to-consumer (DTC) opportunities, enabling new growth opportunities and entirely new customer relationships. AB InBev, for instance, has grown revenue from its DTC businesses to more than US\$1 billion annually thanks to a growing network of online delivery sites and apps in China, Brazil, Mexico, and other markets.¹¹ Such moves illustrate digital’s potential to help organizations capitalize on changing market dynamics and customer behavior.

Resilience. Digital transformation helps organizations develop a capability that is foundational to resilience—the ability to quickly recover from unexpected shocks. More than three-quarters of the leaders we surveyed said their organizations’ digital capabilities significantly helped them cope with the challenges triggered by the pandemic. What’s more, higher-maturity respondents were much more likely to agree with that notion than lower-maturity ones (figure 4).

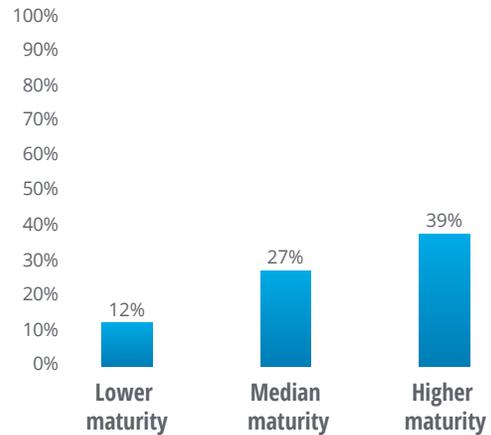
Digital capabilities can enhance resilience by improving several organizational attributes:¹²

- *Nimbleness:* the ability to quickly pivot in response to new threats and opportunities (by, for instance, using machine learning to identify changing customer behaviors)
- *Scalability:* the ability to meet sudden increases or decreases in demand amid disruptions (a key benefit of on-demand cloud computing)

FIGURE 4

More digitally mature organizations were more likely to say digital helped them cope with COVID-19

The percentage of respondents who strongly agreed that “My organization’s digital capabilities significantly helped it cope with the challenges of the COVID-19 pandemic.”



Source: Deloitte Digital Transformation Executive Survey 2021.

- *Stability:* the ability to maintain operational excellence while rapidly pivoting and scaling (such as by securing newly launched applications with cyber capabilities)
- *Optionality:* the ability to leverage other organizations’ strengths (through using digital technologies to participate in ecosystems to boost nimbleness, scalability, and stability)

COVID-19 brought the need for these attributes to the fore. Many companies accelerated their digital transformations to deal with the disruptions brought on by COVID-19, in some cases making years of progress in a matter of months. Mayo Clinic, for one, sped up its digital transformation by 10 years, according to John Halamka, MD, leader of Mayo’s digital transformation efforts. “What we are seeing now is that 2030 is going to arrive in 2021 because COVID-19 has reshaped the culture and the policy around the use of technology,” Halamka said.¹³

DESPITE THE PANDEMIC, DIGITAL SPENDING IS STILL ON THE RISE

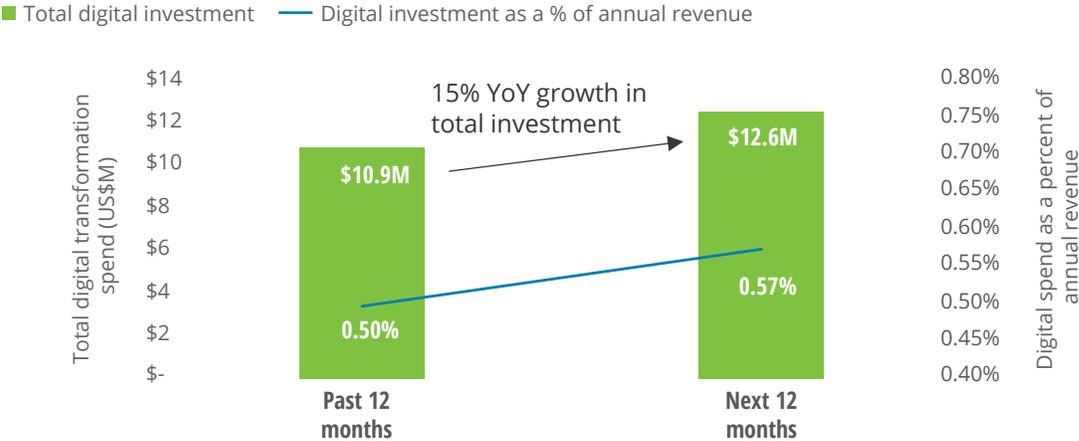
Given the importance of digital capabilities during the pandemic, it's no surprise that multiple research reports predict a near-term surge in enterprise digital transformation spending. Gartner's 2020 CEO Survey found that more than 80% of organizations planned to boost their investments in digital transformation, more than in any other area. Enterprise digital transformation investment is expected to grow at a 15.5% compound annual growth rate from 2020 through 2023, with total investment over that period reaching US\$6.8 trillion.¹⁴

Our own survey reinforces this expectation of growth. Sixty-nine percent of surveyed leaders globally planned to increase their financial commitments to digital transformation in response to the pandemic (figure 5). On average, respondents planned to spend US\$12.6 million (0.57% of their annual revenue) on digital transformation over the next 12 months. That's a 15% increase from the US\$10.9 million that they spent over the prior 12 months. US respondents also reported spending a higher percentage of annual revenue on digital transformation over the prior 12 months (0.66%) and next 12 months (0.76%) than last year's respondents (0.58% and 0.66%, respectively).

FIGURE 5

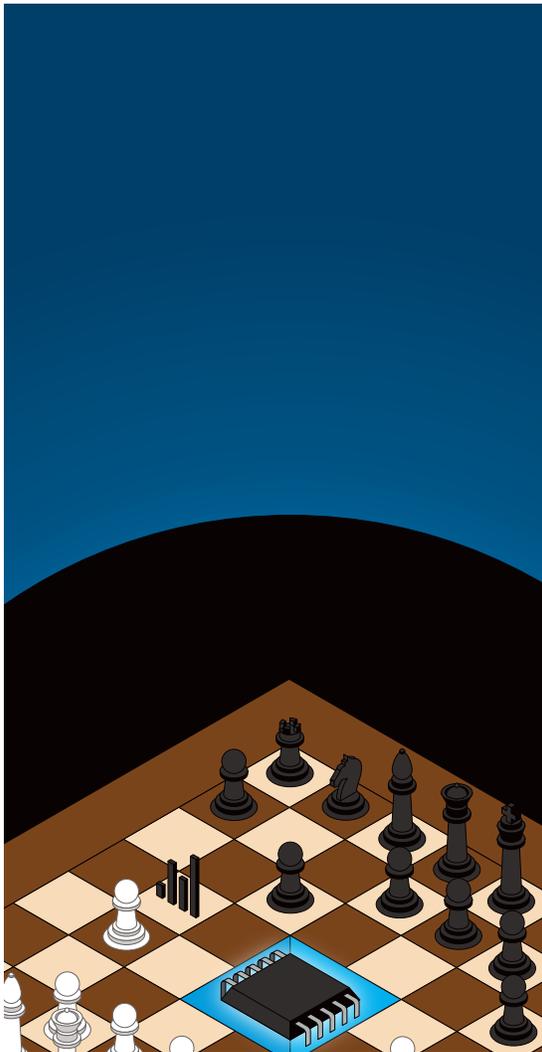
Digital transformation budgets continue to grow vigorously

Respondents' spending on digital transformation



Note: Government responses excluded from the analysis.
Source: Deloitte Digital Transformation Executive Survey 2021.

This vigorous growth in digital transformation investment makes it even more critical for enterprises to make digital transformation a foundation of their strategy. Organizations should assume that their competitors are just as committed to developing their digital capabilities right now. The winners will be those that successfully merge digital and strategy to maximize impact.



Digital’s ability to help organizations navigate change and uncertainty will become even more important as the world becomes more turbulent. Data mastery, analytics, and AI can help surface anomalies and opportunities. Cloud platforms, cloud-native development methods, and low-code/no-code application platforms can enable organizations to develop software solutions relatively quickly compared to traditional development methods. Process mining and robotic process automation can speed up efforts to understand and automate processes to cope with surging transaction volumes. Chatbots can cope with spikes in customer inquiries. And a vigilant cybersecurity posture, supported by automated

threat detection and response, can help protect organizations from ever-evolving threats.

Environmental crises such as climate change, political events such as Brexit, technological shifts such as proliferating cyberthreats, and market shocks such as the 2008 housing crash are part and parcel of the world we live and work in. And these types of events are becoming not only more frequent, but less predictable: According to research by the International Monetary Fund and Stanford University, uncertainty has been increasing for more than 30 years, particularly over the past 10.¹⁵

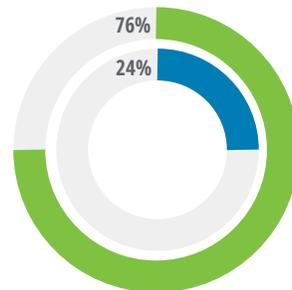
Most leaders don’t expect this trend to let up. Conversations with CEOs reveal a broad belief that the postpandemic world will entail an ever-faster pace of change.¹⁶ Among our survey’s respondents, more than three-quarters expected their organizations will change more over the next five years than they did over the past five (figure 6).

FIGURE 6

Respondents expect more change over the next five years than the prior five

Do you agree with the statement, “Our business will change significantly more over the next five years than it did during the five years before the pandemic”?

- Agree or strongly agree
- Neutral or disagree



Note: “Neutral or disagree” includes “strongly disagree” responses as well, which makes it 24%.

Source: Deloitte Digital Transformation Executive Survey 2021.

The rapid pace of change is not universally viewed in a positive light, even with respect to technological advancement. In fact, more than half of our respondents believed that the fast pace of change in technology is “not good” for their organizations or their customers (figure 7). Government respondents were significantly more likely to agree with this sentiment than commercial ones (63% vs. 51%). This is understandable. Change can be difficult. And new technology can be disruptive—even to careers. Three-quarters of our respondents said their organization’s digital transformation has led to major changes to their senior leadership team or board over the prior two years.

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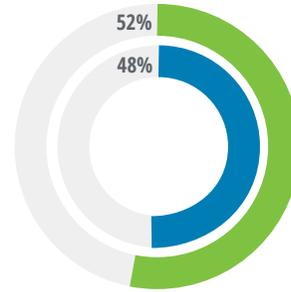
But executives also recognize that change can create opportunities as well as difficulties. Three-quarters of the CEOs responding to a recent Deloitte and *Fortune* survey said the pandemic created significant new opportunities for their companies.¹⁷ Digitally sophisticated companies proved well positioned to seize these opportunities. For example, digitally native ride-hailing companies pivoted quickly to online delivery amid

FIGURE 7

Leaders feel the pace of technological change doesn’t bode well

Do you agree with the statement, “The fast pace of technology change is not good for our company or our customers”?

- Agree or strongly agree
- Neutral or disagree



Note: “Neutral or disagree” includes “strongly disagree” responses as well, which makes it 48%.

Source: Deloitte Digital Transformation Executive Survey 2021.

plummeting demand for their core transportation services. Lyft made its first foray into on-demand delivery, distributing meals and essentials on behalf of governments, nonprofits, and other organizations.¹⁸ China-based Didi Chuxing launched grocery delivery services in 21 cities.¹⁹ Uber, meanwhile, saw revenue from its existing delivery services outpace its ride-hailing business, prompting it to double down on delivery with its US\$1.1 billion acquisition of alcohol delivery platform Drizly.²⁰ All of these examples show how important digital can be in addressing change in ways that create value, not just preserve it.

Digital enables new ways to differentiate

DIGITAL TRANSFORMATION ALSO changes how organizations compete by creating new opportunities for differentiation. More than three-quarters of our commercial respondents said that digital is a key differentiator in their industry today. Fitness company Peloton’s rise offers one example: Digital streaming allowed it to offer at-home exercise classes with greater convenience and at lower cost than brick-and-mortar gyms and studios.²¹ But as with websites in the 1990s, digital doesn’t differentiate by itself. Rather, it creates new choices for strategists and new ways to differentiate.

More than three-quarters of our commercial respondents said that digital is a key differentiator in their industry today.

What makes digital technologies even more important in pursuing differentiation is that digitization is itself reshaping the competitive landscape, giving an edge to digitally native organizations. Most commercial respondents to our survey believed their main competition in five years will come from an emerging startup or

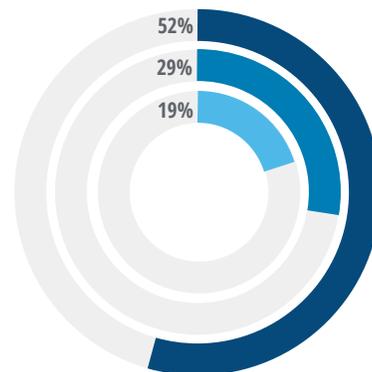
existing digitally native company; fewer than one-third believed they will be facing down a current competitor (figure 8). Though mostly smaller, digitally native competitors can leverage their nimbleness and scalability to break into new markets and deftly seize opportunities from less agile incumbents. However, incumbents are also using digital to fight back. Several financial services giants, for instance, have launched digital-only banking services to counter new digitally native fintech competitors.²²

FIGURE 8

Companies expect to face new digitally mature competitors (commercial respondents only)

In the next five years, who do you expect will be your company’s main competitor?

- An emerging startup or existing “digital native” company
- A current competitor
- An existing nondigital company



Source: Deloitte Digital Transformation Executive Survey 2021.

Digital capabilities can enable differentiation in several ways: by helping organizations offer new and better customer experiences, create new products and services, and adapt their business models. Examples abound of successful organizations that have pursued these strategies:

Customer experiences. Capital One has steadily shrunk its branch network in recent years to invest more in digital channels for customer service and engagement.²³ The organization is investing in cloud and machine learning to enhance customer experiences with data-driven insights and alerts.²⁴ For instance, its Eno virtual assistant provides real-time fraud notifications and tokenization for secure online checkout. The company has also used digital to enhance e-commerce experiences. Capital One Shopping is a browser extension that automatically compares prices and searches available coupons while customers shop online.²⁵ In part due to the strength of its digital offerings, Capital One topped J. D. Power's 2020 rankings for customer satisfaction among large retail banks.²⁶

Products and services. John Deere was an early digital mover in the agricultural vehicles industry, infusing AI and computer vision into its products to offer new service bundles for precision agriculture. Its Combine Advisor system uses cameras and sensors on harvesters to monitor operations and adjust machinery in real time. This can improve yields by reducing the amount of

grains lost to damage during harvesting or mistakenly ejected with detritus like leaves and stalks.²⁷ Company executives credited Deere's digital strategy with helping grow net revenue 19% year over year in its fiscal Q1 2021.²⁸ That said, Deere will need to continue to innovate to maintain its competitive differentiation: Other major agricultural equipment providers are following in its footsteps, using sensors and AI to create precision agriculture services.²⁹

Business models. China-based insurance giant PingAn transformed itself from a traditional insurance provider into a platform provider connecting more than half a billion users to financial, health care, real estate, auto, and other services. Its businesses include One Connect, a fintech software-as-a-service offering that provides digital lending, small business financing, and interbank trading solutions to more than 450 financial institutions; health care affiliate Good Doctor, which provides online patient consultations and pharmacy delivery; and Autohome, China's largest online car-shopping platform. These adjacent services help feed users into PingAn's core financial services offerings. As users search for and compare cars on Autohome, for instance, PingAn gives them financing and insurance quotes.³⁰ The platform strategy has paid off: PingAn is now the world's second-largest insurer by market capitalization.³¹

All strategy must be digital strategy

WHEN ALL ORGANIZATIONS are digital, all strategy must be digital strategy. This has three implications for leaders.

A digital strategy reveals new options.

A digitally savvy strategy considers a digitally inspired array of where-to-play and how-to-win choices that may be invisible to leaders who fail to appreciate the range of possibilities that digital makes possible.

Leaders who consider only traditional where-to-play and how-to-win options risk being blind to significant threats and opportunities.

Cargill is developing new data analytics products and services built on the cloud, showcasing how digital can enable new where-to-play prospects for the legacy agriculture company. One example: its iQuatic service, which crunches sensor data from shrimp farms using cloud and machine learning to generate alerts and recommendations that help farmers improve efficiency and yield. The service also provides Cargill with more insight into customer needs to inform potential new products and where-to-play opportunities.

Technology leaders should be change instigators that bring creativity to the planning process and inspire new art-of-the-possible thinking for where to play and how to win.³² Integrating competitive strategy with digital strategy to form one cohesive enterprise strategy is a shared task that should manifest itself in clear, aligned, and mutually reinforcing choices that are well understood across C-suite business and technology leaders.

Strategy guides technology investment.

Strategic intent—the capabilities and management systems needed to compete—must inform an organization’s technology choices, architecture, and spend. As organizations digitally mature, their technology efforts typically shift from the back office to become a central component of strategic efforts such as product and service innovation and customer relationships. This is why, in more digitally mature organizations, IT and product development work closely together. Capital One, for instance, integrated cross-functional teams of product developers, IT professionals, and design experts to rapidly deliver new product innovations using agile methodologies and design thinking.³³

Additionally, digitally mature organizations combine technology budgeting and planning with strategic planning into a process that occurs more frequently and in a less centralized fashion. This fosters agility and scalability while sharing accountability for results between business and technology. The CIO of one health insurance provider, for instance, told us that digital budgets

were planned in six-month horizons and reviewed and revised quarterly to support greater agility in revamping the company's customer experience. Measuring returns on digital investments is critical in this process. When the results are positive, these metrics can boost confidence that technology creates desired outcomes and ROI.

Digital technologies can improve the strategy process itself. Digital can improve the strategy-setting process as well as strategy-setting outcomes. The always-on strategic thinking needed in an uncertain environment can benefit greatly from using digital capabilities for developing, testing, and monitoring strategy. Digital platforms and artificial intelligence can help C-suites think more expansively and confidently about future possibilities. Data and analytics technologies can continually track internal and external outcomes to inform ongoing leadership discussions and decisions regarding performance against strategic choices. Trend-sensing technologies can be deployed to continuously scan the environment, collecting, analyzing, and clustering leading indicators that challenge or confirm strategic assumptions. For instance, the US Department of Homeland Security uses automated tools that scan

news articles, patent filings, and more to identify emerging technologies that might disrupt or improve the process of securing the United States.³⁴

Dynamic scenario tools and simulators are another set of technologies that can help leaders identify threats and opportunities, quickly test potential outcomes of strategic choices, and prioritize critical uncertainties. For example, Airservices Australia is developing digital twin modeling of its air traffic network to test new methods of optimizing flights and air traffic controllers' workloads in real time to boost safety and on-time arrivals. The technology can also help the organization test the impact of emerging technologies, such as drones, on air traffic.³⁵

In all this, leaders must remember that strategy goes nowhere without execution. To build the foundation for superb execution, organizations should establish an executive-level transformation "nerve center" and a supporting digital function to drive funding, accountability, strategy, and execution for digital initiatives.³⁶ They should also design and implement an operating model that properly supports the strategy with the right capabilities.³⁷

Digital transformation is a journey that never ends

U NCERTAINTY AND CHANGE are unavoidable, and so is the intensifying need to set oneself apart from the competition. Under these circumstances, in the words of Amit Zavery, VP/GM and head of platform at Google Cloud, organizations must “think of digital transformation less as a technology project to be finished than as a state of perpetual agility, always ready to evolve for whatever customers want next.”³⁸ Future winners will continuously evolve in

how they seek growth and profitability by approaching digital transformation as though there is no finish line. Yet the true power of digital transformation goes beyond continuously building digital capabilities. Committing to a strategy that places digital at its core—set with a deep understanding of what digital makes possible, and that aligns digital priorities with strategic goals—is what will empower organizations to shape and secure their future in an uncertain world.



Appendix A: Methodology

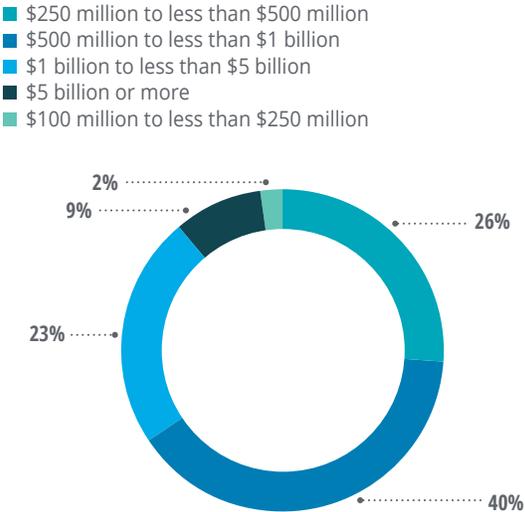
THIS REPORT IS based on a global survey involving 2,860 executives sampled across industries. Responses from US executives were collected in November 2020; responses from executives in Asia-Pacific and European countries (China, India, Japan, France, Spain, and the United Kingdom) were later collected from January to February 2021 (figure 11 has a breakdown of respondents by region).

Qualifying responses came from organizations with at least \$100 million in annual revenue and global headcount greater than 500 (figure 9). Respondents also had to indicate they were “very” or “highly” knowledgeable of their organizations’ digital transformations (figure 10 has a breakdown of the respondents by their executive title).

We analyzed these responses to understand the digital maturity of organizations sampled. Respondents were asked to rate the degree to which their organization experienced a positive business impact from each of the seven digital pivots.³⁹ Responses for each pivot were summed together to score their aggregate impact, with higher scores indicating greater maturity. Organizations were then partitioned into higher, medium, or lower maturity according to a normal distribution.

Additionally, data was weighted by country according to the relative size of their GDP in order to best represent the global economy. Further, the government sector was relatively over-sampled, so government industry contribution was weighted down to equivalence with other industries.

FIGURE 9
Respondents by annual revenue

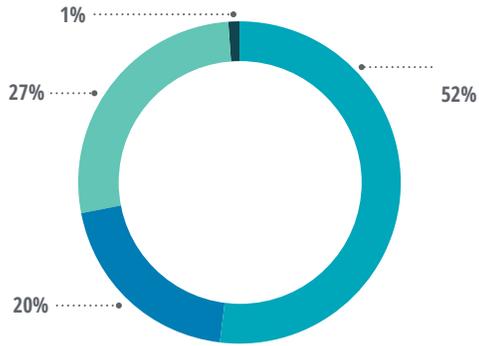


Note: All amounts are given in US dollars.
Source: Deloitte Digital Transformation Executive Survey 2021.

FIGURE 10

Respondents' role breakdown

- C-suite
- VP level
- Director level
- Senior manager equivalent



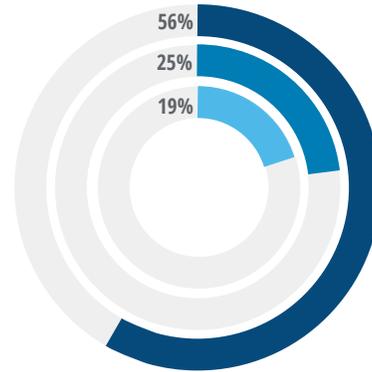
Source: Deloitte Digital Transformation Executive Survey 2021.

FIGURE 11

Respondents by region

Percentage of respondents

- United States
- Europe, Middle East, and Africa
- Asia-Pacific



Source: Deloitte Digital Transformation Executive Survey 2021.

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