

# FIVE ELEMENTS TO SUCCEED AS A DIGITAL BUSINESS

Authors:

Giulia Carosella  
Gabriele Roberti

October 2021

Sponsored by



IDC #EUR148264021



# Five Elements to Succeed as a Digital Business

## Digital Capabilities Are a Strategic Differentiator

Business leaders are increasingly challenged to move their enterprises through a digital business transformation, employing digital technologies coupled with organizational, operational, and digital business model innovation to grow their businesses. According to IDC's *European Digital Reignition Survey*, 91% of organizations in EMEA feel the pressure to transform has increased.

More than ever digital technologies are proving to be a critical requirement for organizations to survive and grow in turbulent times, helping to set up secure remote working, enable digital channels to do business with customers, and ensure that supply chains and operations are kept afloat. As a result, 42% of organizations in EMEA are now in the most advanced stages of digital maturity, compared with 32% in 2019.

Organizations that are well ahead in their digital journey are not only more resilient and better able to navigate volatile conditions, but can also outperform their peers across metrics, from revenue and profit growth, to cost optimization, to customer satisfaction, to talent attraction and retention. Being able to operate as a digital business is no longer a nice-to-have — it is now a strategic differentiator.

### AT A GLANCE

Operating as a digital business is a source of competitive advantage, but there are still some challenges that companies need to tackle to succeed in a digital-first world.

#### KEY STATS

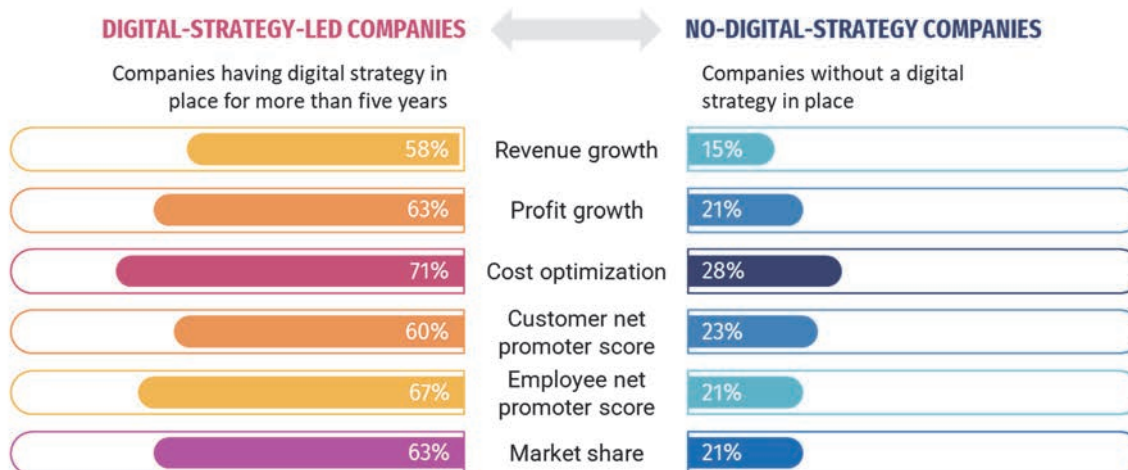
- » Digital transformation road maps in EMEA accelerated by 32% in 2020.
- » 91% of organizations in EMEA said the pressure to transform has increased.

#### WHAT'S IMPORTANT

Business leaders face greater pressure to digitally transform, as operating as a digital business not only strengthens resilience but also brings greater profitability. To generate ROI from digital investments, digital and business strategies need to seamlessly integrate into the fabric of the organization. Companies need to focus on five elements to set up their digital business fabric: leadership, products, culture, technology architecture, and operations.

FIGURE 1  
Where Digital-Strategy-Led Companies Outperform Their Peers

### SHARE OF COMPANIES PERFORMING EXCELLENTLY OR VERY WELL ON THE FOLLOWING KPIS

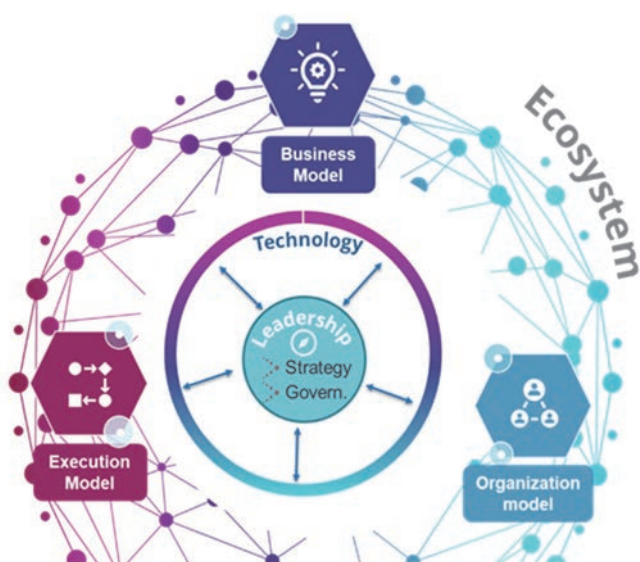


Source: IDC European Digital Future Reignition Survey, December 2020 (n = 412)

## How to Execute as a Digital Business

Investments in digital technologies have continued to grow in recent years, reaching \$390 billion in EMEA in 2021. Turning those investments into tangible outcomes for the business is another matter, with two in three organizations in EMEA having seen less than a 10% improvement in financial results or not being able to quantify the financial impact of those investments. While technology is not to blame for this, most of the challenges in deriving ROI from digital investments are related to leadership and organization, including the lack of an enterprisewide strategy, lack of proper KPIs, internal silos, and inconsistent leadership support. What's crucial to turn investments into positive business outcomes is that the digital and business strategies must go hand in hand and this needs to be tackled and sponsored at the board level. Digital and business need to become part of the same fabric, permeating how companies generate value for customers, how they are structurally organized, and how they operate.

FIGURE 2  
The Digital Business Fabric



Source: IDC European DX Practice, 2021

Leadership and technology are central components of the digital business fabric:

- **Leadership:** with the C-suite providing guidance and direction on technology involvement and being increasingly tech-savvy
- **Technology:** connecting the threads of the fabric and expanding this to the external ecosystem

They need to connect the three threads of an organization:

- **Execution model:** the internal engine of technology and processes that keeps an organization running, including financial, operations, supply chain, real estate, assets, and customer support
- **Business model:** the processes through which revenue is generated, products and services are brought to customer, value is added to users, and ecosystems are created

- **Organization model:** how an organization is structured, how it organizes work, finds and manages talent and skills, how it allocates resources, measures employee productivity, and keeps employees engaged and healthy

Embedding digital change and technologies into these three models is key to delivering on the CEO's current and future priorities, which includes optimizing core processes and productivity, attracting and retaining talent, and fostering a culture of consistent innovation.

---

*"Digitalization must be an integral part of the business strategy. Our employees are key to realizing this."*

Ola Källenius, Chairman of the Board of Management of Daimler AG and Head of Mercedes-Benz Cars

## Five Elements to Set Up Your Digital Business Fabric

---

There are five elements — and related action items — that companies need to focus on to set up their digital business fabric and be ready to operate in a digital-first world:

- Encourage leadership
- Focus on products
- Innovate culture and organization
- Build a flexible, open, and speed-oriented architecture
- Achieve operational excellence

These elements are a starting point to thinking holistically about digital transformation (DX), understanding that DX means business transformation and taking into account the interdependencies between the different elements of transformation. Focusing on only one or a few elements is not enough — it's the ability to orchestrate all five elements that will separate the thrivers from the laggards.

FIGURE 3  
The Five Elements of the Digital Business Fabric



Source: IDC European Digital Transformation Practice, 2021

### *Encourage Leadership to Become Digital Stewards*

The main stumbling block to ROI generation from digital investments relates to the leadership approach. This points to the crucial role of leadership in actively supporting change and driving corporatewide DX that delivers business outcomes.

The entire C-suite should be at the forefront of change, and the CEO needs to take direct responsibility — making DX an integral part of corporate strategy and setting a common vision, clear targets, and KPIs. Over the past two years the CEO's role in driving DX strategy has increased, along with the involvement of other C-suite personas, particularly finance, operations, marketing, and customer experience roles — highlighting how technology is no longer seen to be owned by one department. It is crucial for all the functions to operate collaboratively and push in the same direction.

When the C-suite operates as a digital dream team:

- A clear vision and strategy define roles, targets, and KPIs to measure progress toward the set goals
- The strong sense of purpose and culture of continuous innovation empower employees to innovate and experiment
- Interdependencies between functions are clear and there are no organizational silos blocking innovation
- Technology is embedded everywhere in the organization and is instrumental in achieving the business objectives of each function

#### Did you know?

Digital transformation is increasingly on the CEO agenda.

**CEOs signed off new DX initiatives for 42% of organizations in EMEA** in 2020, compared with 35% in 2019.

Source: *IDC COVID-19 Waves Survey*, December 2020; *IDC Digital Transformation Executive Sentiment Survey*, August 2019

To get there, there are some key prerequisites for organizations:

- **Each function in the C-suite needs to be tech savvy.** Digital literacy is no longer a nice-to-have now that influence and buying power in technology investments are increasingly moving to the lines of business.
- **Technology leaders need a seat at the executive table (CTO, CIO, or CDO).** With technology investments crucial for companies to survive and build resilience in times of crisis, technology leaders need a seat at the table to drive organizations forward in a digital-first world.
- **The CEO is part of the equation.** CEOs need to become tech CEOs and take direct responsibility for sponsoring digital initiatives and making technology investments part of the strategic planning.

## The H&M Example

H&M Group, the fashion retailer, has made some bold C-suite moves that highlight the strong digital direction the company is taking. Alan Boehme was named new chief technology officer (CTO) and together with Chief Product Officer Daniel Claesson co-leads the new Business Tech organization. This is aimed at strengthening the ability to innovate and develop the business, with a focus on improving customer experience. The company's commitment to speeding up digital innovation was highlighted by Group CEO Helena Helmersson when she commented on the announcement: "Alan's long experience from previous technology-driven transformations at global consumer-oriented companies will contribute to the entire H&M group as we continue to digitalize and transform our business. We look forward to a strong addition to the H&M Group and our new Business Tech function." The previous CTO, Joel Ankarberg, is now Head of Group Strategy and Transformation — further highlighting the strategic importance of digital investments for the retailer.

### Shift to a Product-Centric View to Drive Innovation

The shift from project-based management to product-based management continues to accelerate. By adopting a product mentality, the focus shifts — every step of the way — to delivering value to the customer.

With a product-focused mentality:

- The product/service is treated as an experiment, thanks to an iterative **"fail fast, fail often, and learn always"** approach.
- The focus is **on speed and time to impact**, leveraging compressed innovation tactics.
- While projects stop when the plan is completed, **products evolve continuously** as needs change.
- The emphasis is on what people are trying to do rather than on technology, along with a **user-centered approach to design**.
- **Autonomous, multiskilled product teams** need to be set up, taking a DevOps approach to evolving products as needs and technologies change.
- **The customer is a partner.** This is from co-creation to feedback for continuous product development.

#### Did you know?

**86% of European organizations** have already **changed their organizational structure** to take advantage of digital opportunities and new business models.

**22% of European organizations** have appointed a **product owner**.

Source: IDC EMEA's *EU Digital Future Reignition Survey*, December 2020

Shifting to a product-focus approach is not an overnight journey as it requires internal reorganization and a cultural shift. To get started:

- Prioritize delivering value to the customer with a **customer-centric approach**
- Define **product-central roles and ways of working** and set up multidisciplinary teams around product areas
- Define C-suite roles to **map out a common strategy** and coordinate product areas, ensuring touchpoints for team coordination

## The Zalando Example

German ecommerce company Zalando moved to a product-centric approach in three phases. In the first two phases it implemented radical agile methodologies in tech teams. The third phase expanded this approach to the entire company, with:

- **Product owners:** In charge of monitoring key trends in their pillars and delivering innovation, they are empowered with end-to-end ownership.
- **Tech everywhere:** Each product area and business unit has a dedicated tech architect.
- **Bottom-up innovation:** Each employee is encouraged to come up with new ideas in dedicated kickstarter weeks; the team that wins then works on the idea to bring it to market.
- **One key orchestrator:** The CFO acts as a key orchestrator, bringing together all the product owners in product review meetings to share progress, plans, and interdependencies.

### *Promote an Enterprisewide Open Culture*

Software development is increasingly becoming a key part of every company. The recent crisis has also pushed companies to rethink operating models and organizational settings to augment software innovation capabilities. But innovation can create hurdles when development doesn't reflect requirements, highlighting a gap in technical and communication skills needed to deliver software that hits the mark.

Many European organizations announced ambitions to build out internal software engineering capability, driven by the need to transform their core products or to explore digital provider opportunities with their customers. Volkswagen, for example, launched CARIAD, which bundles together Volkswagen Group's software competencies with Adidas' technology hubs, to increase its engineering footprint by 50%.

We also see a shift in how organizations view software. According to H&M, "Are we a software company? No! But we must master software at scale." This drives a new relationship between IT and the business, where H&M seeks to move away from a tech service department approach to a mentality where digital and technical competency is fused into the core of the business.

#### Did you know?

Co-creation and community-driven approaches deliver value and boost innovation capabilities.

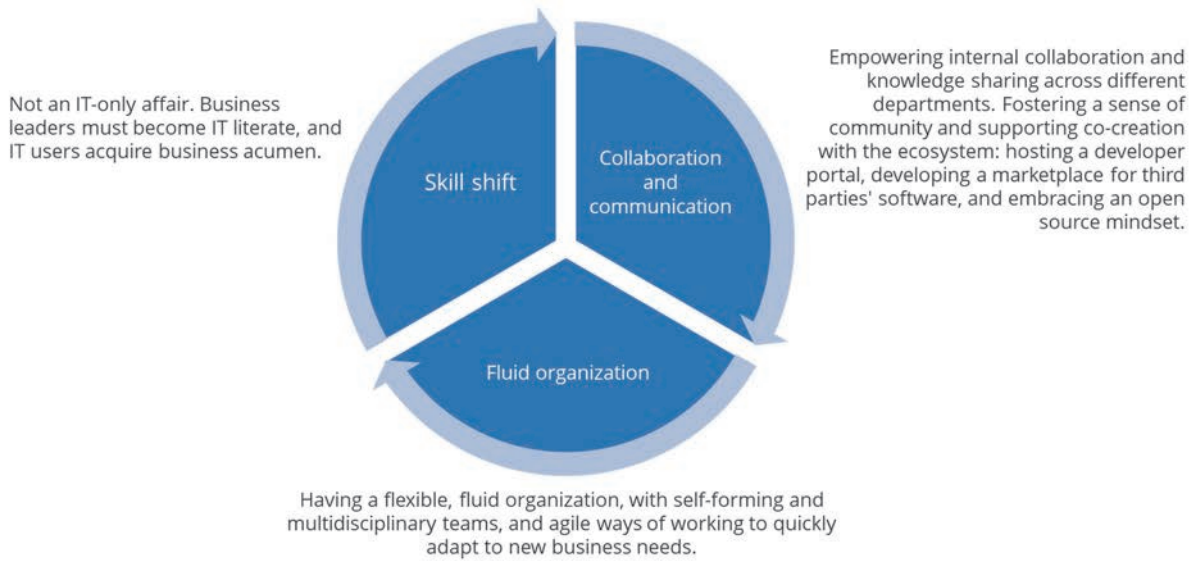
**56% of European organizations** plan to **expand** their **developer ecosystem** to support software innovation value streams.

Source: IDC's 2020 Accelerated Application Delivery Survey

### *"We must master software at scale." (H&M)*

Translating the ability to develop software into new and sustainable business value continues to be challenging. There are three areas that companies should look at: skills, collaboration, and organization. When managed properly, the three areas drive a culture of successful development.

FIGURE 4  
Three Dimensions to Foster an Open Culture



Source: IDC European Digital Transformation Practice, 2021

### The Slovenská sporiteľňa Example

Slovenská sporiteľňa, the biggest retail bank in Slovakia and part of the Erste Group Bank AG, implemented a DevOps approach and microservices-based IT architecture. Externally, this was driven by the need to provide customers with modern features; internally, the bank needed to transform and simplify the management of app delivery, moving from an inflexible, costly, monolithic application infrastructure to more modern and rapidly deployable microservices.

The implementation followed three steps:

- **Open culture**, fostered by the creation of cross-functional teams to bring together engineers, business users, analysts, and developers.
- **Open process**, with the cross-functional teams working together to achieve process optimization in moving releases of patches and updates from four times a year to once a month.
- **Open architecture**, the last step of the journey, helped the bank to standardize and automate app development and deployment processes.



## Build a Flexible, Open, and Speed-Oriented Architecture

A solid and modern tech backbone is fundamental to implement digital transformation. Three main characteristics have emerged in 2021 as key requirements for a technology architecture:

- **Flexibility** to quickly adapt to changing requirements
- **Openness and interoperability** with other technologies and with external partners
- **Rapid development** of new features, as speed in delivering business outcomes is crucial to stay ahead of competitors

To deliver on these principles, there are some key foundational requirements for the technology architecture, including being **cloud-centric**, having **data and intelligence** at the core, being **event driven**, and enabling rapid scaling with **modular applications**.

How to set your technology architecture?

- **Make deliberate choices.** When it comes to technology architecture investment decisions there are some trade-offs that need to be considered. Every decision involves balancing cost, performance, failure characteristics, degree of openness, build versus buy, and innovation versus governance requirements.
- **Prioritize investments.** This should be based on the strategic alignment of your technology portfolio, identifying:
  - What to divest: non-core capabilities that are not essential to drive business value and not aligned with overall corporate strategy
  - What to optimize: key foundational requirements that are necessary but could be optimized to achieve cost savings
  - What to accelerate: key differentiating capabilities that drive customer value and create competitive advantage

### Did you know?

In EMEA, **the top 3 drivers of technology investments** in 2021 are **flexibility** (33%), **integration** with other technologies (28%), and **quick and easy development** of new features (25%).

Source: IDC EMEA's *EU Digital Future Reignition Survey*, December 2020

### Did you know?

Operations resilience requires real-time visibility of internal and external processes to enable quick problem solving.

**Only 13% of European organizations** use **near-real-time data to support decision making** in their operational processes.

Source: IDC's February 2021 *European Future Enterprise Resilience Survey (Wave 2)*

## The Total S.A. Example

Total S.A., the French oil, gas, and energy producer, recently initiated a core DX project to create a unified IT environment to support its global operations. This aims to deliver reliable services and improved performance to its customers and ensure internal flexibility to continuously adapt to and address the industry's changes.

Total's operations cover a vast number of activities in the oil, gas, and energy field, from crude oil exploration and production to refining and final delivery and gas station services. It therefore needs an IT environment that can support the 7,000+ applications run across the entire organization. The breadth of operations is not the only challenge, however. With the renovation, Total also aims to modernize its **siloed datacenter** to deliver a single platform for the entire company, for all the company's plants and production sites and locations.

### *Achieve Operational Excellence with a Proactive Approach*

The fifth element is often taken for granted: keeping operations up and running. It means enabling products to work, platforms to support developments, and architecture to run. Failure in operations often happens in moments of change, leading to incidents that spread from the technical systems to other levels, impacting the overall organization.

Operational excellence entails the development of a strategy to make operations digitally resilient, leveraging digital technologies not only to react to shocks, quickly adjusting operations and processes to changing market conditions, but also to anticipate potential threats and thrive in new contexts.

There are three key areas when it comes to achieving operational excellence:

- **Decision making:** a combination of local judgment, real-time enterprise data, and an ongoing learning process that derives insight from previous decisions
- **Analytics:** on a variety of data sources, from edge to core, coupled with digital twins to provide a digital copy of operations, enabling organizations to simulate the impact of a variety of scenarios and best responses
- **Automation of processes:** achieved through the development of fully automated activities that rarely require human intervention

To achieve operational excellence, companies need to establish metrics to continuously monitor the health status of operations, prevent incidents, and take decisions to anticipate failures. Metrics should also be enriched with context to better understand the situation and the possible repercussions of incidents.

How information is treated, visualized, and managed has an impact as well. Analytics should act as a filter to feed into the systems only relevant data to enable faster reaction and evaluation of early warnings to accelerate decision making. They should also be applied to the ecosystem of partners and suppliers to help identify potential threats in advance and to rapidly pivot based on what-if operational scenario analysis.

## The Post NL Example

Post NL, the Dutch postal operator, reported an "exceptional" FY20 thanks to its agile and flexible operations. This has led to unprecedented results, such as normalized EBIT of €245 million, 1.7 million parcels **delivered during peak times**, and a record 337 million total parcels delivered. "**Real time**" was the key term driving investments in 2020. In 2020, for instance, Post NL introduced a program to monitor the flow of roll containers across its network to enable the real-time **tracing of the roll container fleet** through the value chain. It also introduced a new digital platform to improve data quality, reliability, and speed of information processing and delivery. The platform can process over 1 billion parcels a year in an agile way, enabling operational changes to be implemented within hours rather than days or weeks under the previous system.

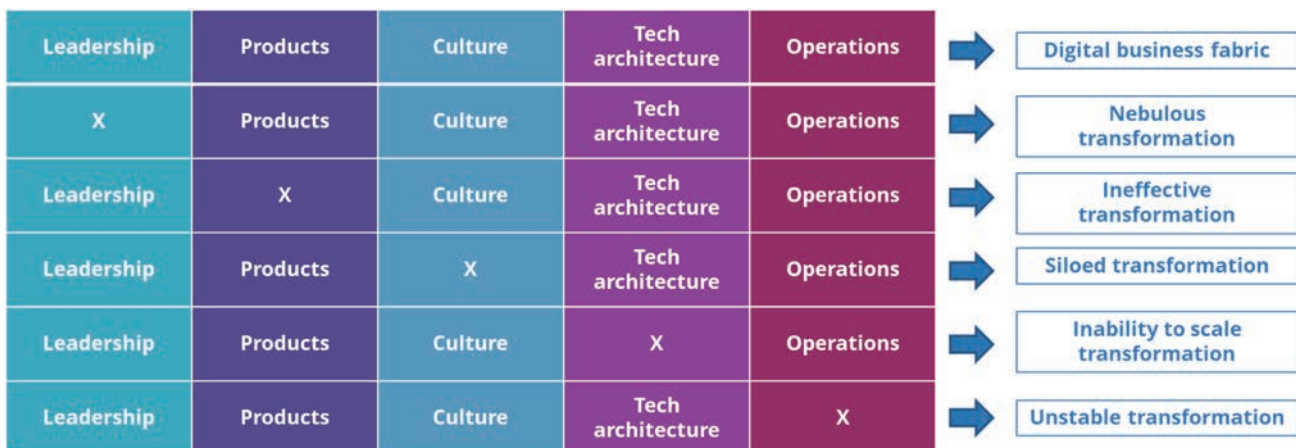
## All Elements Should Work Synchronously

With digital capabilities no longer being just a nice-to-have but a source of competitive advantage, companies will have to make some bold pivots around the five elements of the digital business fabric to operate successfully as a digital factory. This includes shifting:

- From "tech is owned by one department" to a digital dream team
- From projects to customer-centric products
- From hierarchical to agile open culture
- From legacy to a modern tech architecture
- From reactive to proactive operational excellence

Working as a fabric means that the five elements are interconnected and impact each other. Therefore, all five elements need to be tackled and work synchronously for successful transformation. Organizations must look at them holistically, considering how they interact with each other and how one reinforces the other. A failure in one of the elements will make the whole effort crumble. For example, setting up a product-centric organization will fail to deliver continuous innovation if not supported by a new leadership vision and budgeting approach, a cultural shift toward employee empowerment, integrated processes, and a solid foundational technology backbone for product teams to develop and run other products on top of them.

FIGURE 5  
What Happens When an Element Is Missing?



Source: IDC European Digital Transformation Practice, 2021

## Conclusions

### *Recommendations for the C-Suite — Activating a Tug of Value*

Leadership is paramount to the success of a DX journey and in bringing together all the threads of the digital business fabric, together with the technology element. The C-suite is key to unlocking value in DX initiatives. To close the ROI gap, every team and every persona in the C-suite must pull in the same direction, with a vision that should be at the same time inspiring and executable, and develop some degree of digital literacy even for roles that typically have engaged very little with technology. Looking at the C-suite, it's possible to identify specific recommendations and calls to action for every persona and every team to help deliver a successful transformation.

FIGURE 6  
C-Suite Action Items



Source: IDC European Digital Transformation Practice, 2021

Beyond the specific persona, collaboration across the leadership team is central to delivering transformational outcomes, business value, and ROI. With over half of all IT budgets now in the hands of the business functions, individual objectives run the risk of "fighting" against the common good. Each agenda item must be viewed in the context of wider outcomes, considering the position of different stakeholders, and each function must understand the goals of all the others.

## About the Analysts

---



[Giulia Carosella](#), European Digital Transformation Practice Lead

Giulia Carosella leads IDC's European Digital Transformation Practice. She advises ICT players and European end-user C-suite leads on digital transformation strategies and road maps, looking at C-suite dynamics and priorities, business models and ecosystems, use cases, key metrics, and changing organizational structures.



[Gabriele Roberti](#), European Industry Solutions, Customer Insights and Analysis

Gabriele Roberti is a research manager for IDC's Customer Insights and Analysis team, focusing on developing insights on IT strategies for European vertical markets. He also co-leads the European Edge Computing Launchpad and is involved in the production of IDC Spending Guides.

## About IDC

---

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

### **IDC UK**

5th Floor, Ealing Cross,  
85 Uxbridge Road  
London  
W5 5TH, United Kingdom  
44.208.987.7100  
Twitter: @IDC  
idc-community.com  
[www.uk.idc.com](http://www.uk.idc.com)

### **Global Headquarters**

140 Kendrick Street,  
Building B  
Needham,  
MA 02494  
+1.508.872.8200  
[www.idc.com](http://www.idc.com)

## Copyright and Restrictions

---

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests contact the Custom Solutions information line at 508-988-7610 or [permissions@idc.com](mailto:permissions@idc.com). Translation and/or localization of this document require an additional license from IDC. For more information on IDC visit [www.idc.com](http://www.idc.com). For more information on IDC Custom Solutions, visit [http://www.idc.com/prodserve/custom\\_solutions/index.jsp](http://www.idc.com/prodserve/custom_solutions/index.jsp).

Copyright 2021 IDC. Reproduction is forbidden unless authorized. All rights reserved.