Teneo
The Global CEO Advisory Firm

Digital Portfolio Value Orchestration

Teneo Insights
September 2021

Digital's role in transforming businesses

Digital had already been reshaping industries, value chains, business models, customer experience and service operations for a number of years when the pandemic hit. In the last 18 months or so however, the COVID-19 crisis has driven several years' worth of change to organisations in the way they conduct business and increased the spotlight on digital as a key enabler of an organisation's business strategy.

Leadership teams have realised the strategic importance of digital as a critical component of their capability, and not just as a technology set or a means to realising cost efficiencies. Organisations that have been successful in executing digitalisation have not only been able to experience favourable market outcomes (protect / increase revenue and margins, improve customer / employee experience) but the most successful have been able to build a deeper 'moat' around their core products and services and realise new business models and revenue streams. Those organisations that have been slow to change have become especially vulnerable to disruption by digital innovators.

Delivering value from digital

In our experience, there are four value realisation related key questions and challenges for the CEO and the Executive team when it comes to digital transformation.

a. How to prioritise digital investment between foundational digital capability, modernising the core and new (digital) business models?

b. How to get line-of-sight visibility / traceability between digital investment and customer / market-related tangible business outcomes?

c. How to ensure effective orchestration between parallel-running inter-dependent digital programmes to deliver the overall customer/business outcome?

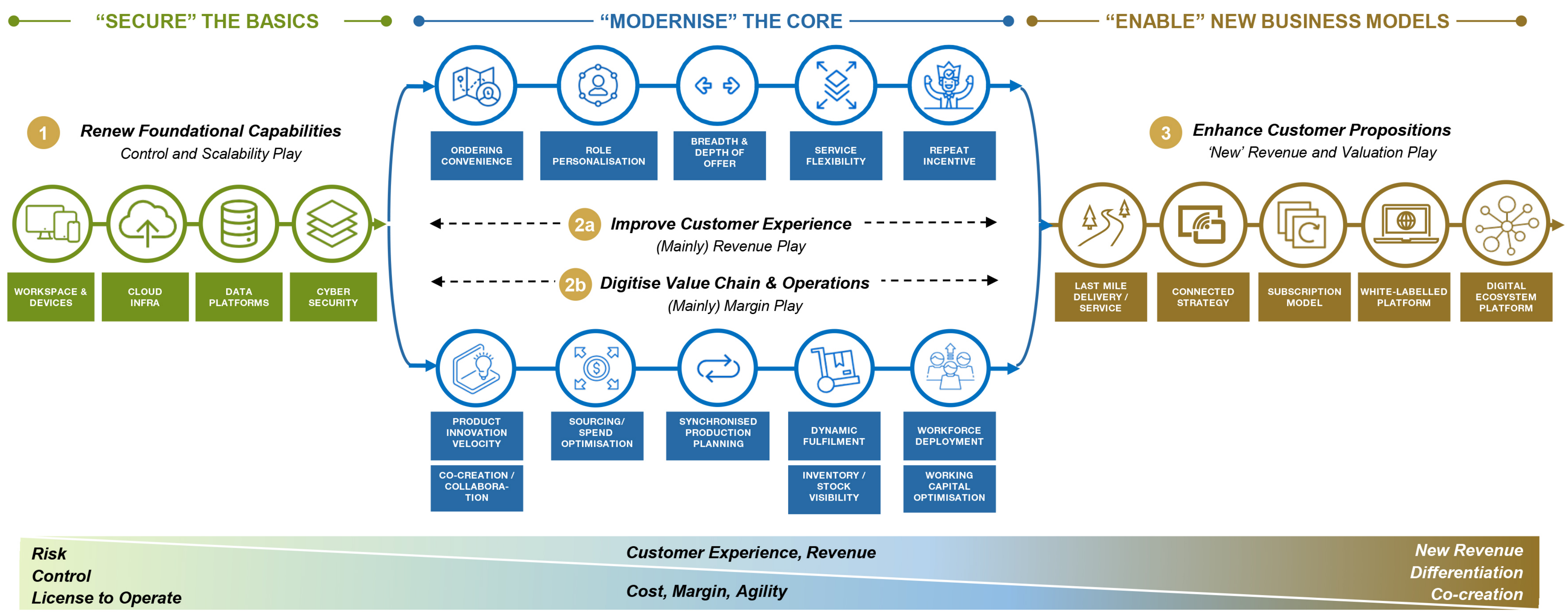
d. How to structure and govern digital transformation programmes such that the link between business strategy and digital strategy is never broken at any stage in the life of the programmes?

In this paper, we primarily discuss the challenge posed by the first question. We will address questions #2, #3 and #4 in subsequent article(s).

Prioritising Investments across the Three Dimensions of Digital Transformation

Most digital investment can be classified under one of three dimensions – 'Secure the Basics', 'Modernise the Core', and 'Enable New Business Models'. Each of these dimensions drives different outcomes for the business, ranging from risk, control, and license-to-operate objectives from foundational digital capabilities ('Secure the Basics'), to revenue/margin enhancement by improving customer experience and improving agility and time-to-market through value chain operational efficiencies ('Digitising the Core'), to driving growth through enhanced customer value propositions or new segments ('New Business Model').

Figure 1: The Three Dimensions of Digital Transformation



Prioritising Investments across the Three Dimensions

39%
of businesses reported having cyber security breaches or attacks in the last 12 months

14%
increase in revenue (S Group) by giving customers greater access to their own shopping data

70%
of the value created over the coming decade will be based on digitally enabled platform business models

30%
of global corporate revenue are expected to come from digital "ecosystems" by 2025

Leaders need to achieve a careful balance in prioritising and allocating digital investment capital between these 3 dimensions. In recent times, there was a belief that a business could improve its digital maturity and market competitiveness over time by going from 'left to right' - that you could 'complete' the investment in foundational capabilities and then move on to more strategic digital objectives. However, this 'linear' approach is no longer viable for two reasons.

Firstly, investment in any of these dimensions is never complete. Each of these comprise several ever-evolving capabilities that need to be continually invested in and refreshed. For example, as businesses increasingly transition from on-premise/desktop to cloud-based infrastructure to drive productivity, agility, efficiency and scalability, and the number of digital "access" points increases for customers, workforce, and suppliers, it drives a material increase in cyber security risk for businesses. Indeed, four in ten businesses in the UK (39%) reported having cyber security breaches or attacks in the last 12 months (source: www.gov.uk, March 2021). As consumers demanded more online 'touchless' experiences during the pandemic, organisations have significantly accelerated the digitisation of their customer journeys. Retailers have re-imagined customer journeys by making digital and physical channel switching more frictionless, enabling customers to search and shop online and ensure products can be delivered to a location of the customer's choice or through contact-free collection at a store. Increasingly, retailers are bringing together product, supply chain, customer, and context data to enable intelligent orchestration of the customer purchase and service journeys. The 'democratisation of data' trend has seen some retailers give customers greater access to their own shopping data, including purchase history, nutritional value of food and its impact on the environment. S Group in Finland has realised an increase in revenue of 14% by doing this. This data-driven orchestration of the customer purchase and service journey in a quest to continually enhance the consumer experience requires ongoing investment.

Secondly, COVID has accelerated the customer pivot to digital convenience and the emergence of digital ecosystem platforms. The emergence of such platforms that aggressively disrupt value chains and redefine customer engagement and loyalty relationships has resulted in a significant acceleration in the need for businesses to deliver revenue growth through 'new' digital platform-based business models' such as last mile services, 'as-a-service' / subscription models, 'connected'-X offerings, ecosystem platform offerings and white label strategies. The World Economic Forum estimates that 70% of the value created over the coming decade will be based on digitally enabled platform business models (e.g., Airbnb, Uber, Alibaba) due to the rapid digitalisation of economies around the world, and that digital "ecosystems" are expected to account for more than 30% of global corporate revenue by 2025. Subscription or "As-a-Service" business models are increasingly effective ways for companies to turn what might otherwise be one-off purchases into more predictable, longer-term revenue streams. While Subscription models (e.g., Netflix) and "As-a-Service" models (e.g., Amazon Web Services providing Infrastructure-as-a-Service) have been prevalent for a while, businesses within the same industry are partnering with white-labelled digital platform providers (e.g., E.ON and Good Energy partnering with Octopus Energy's Kraken platform) to improve their customer experience at significantly lower costs.

Enabling Digital Value Orchestration

Digital investment decisions made by senior business leaders are seen to help determine not only their own future success, but also the success and wellbeing of their employees, customers, partners, shareholders, and society at large, especially in the era of ESG and Sustainability. Given the competing considerations outlined above, executive teams need a framework and governance model to be able to evaluate on an ongoing, inherently agile basis the necessary complex digital investment prioritisation and decision-making.

Teneo works with CEOs and executive teams to address complex value realisation challenges such as the ones outlined in this paper utilising our “Digital Value Orchestration” framework. For more information on Teneo’s offering and services, please contact:

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