Digital Services – Annual Report 2018: Future Operating Model to Scale Digital

Digital Services
Annual Report – July 2018: Complimentary Abstract / Table of Contents

Our research offerings for global services

Market Vista™
Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

▶ Application Services	▶ Human Resources
▶ BPS | Banking & Financial Services	▶ ITS | Banking & Financial Services
▶ BPS | Healthcare & Life Sciences	▶ ITS | Healthcare & Life Sciences
▶ BPS | Insurance	▶ ITS | Insurance
▶ Catalyst™	▶ IT Services Forecaster™
▶ Cloud & Infrastructure	▶ Locations Insider™
▶ Customer Experience Management Services	▶ PricePoint™
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▶ Finance & Accounting	▶ Service Optimization Technologies

Membership information

- This report is included in the following research program(s)
  - **Digital Services**
- **If you want to learn whether your organization has a membership agreement or request information on pricing and membership options, please contact us at info@everestgrp.com, unitedkingdom@everestgrp.com, or india@everestgrp.com**

More about membership

In addition to a suite of published research, a membership may include

- Price book
- Pinnacle Accelerators
- Data cuts
- Analyst access
- Virtual Roundtables
- Workshops

Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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Background of the research

Digital is no longer an aspiration but a necessity to survive in the rapidly evolving market where boundaries between industries and industry players are blurring. In the recent years; enterprises have been undertaking digital transformation initiatives to leverage digital tools to improve revenue, reduce costs and enhance customer experience.

However, most of the enterprises tends to take approach of half measures by just focusing on digital strategy. If the enterprise operating model is not aligned with the digital strategy and business model, the desired returns from a transformation initiative cannot be achieved. Everest Group has assessed the digital transformation success and failure cases of enterprises to arrive at the best practices that enterprises need to adopt for transforming their operating model into a digital operating model.

The operating model transformation journey will not be same for all enterprises; it is a function of their business model and the digital maturity. The operating model transformation section in the report aims at providing a road map for enterprises to modify their operating model.

Sources leveraged:
- Everest Group's survey of 328 enterprises with US$1 billion or more in global revenue
- Survey was taken by Director, VP, and CXO level executives
- Expert analyst inputs
- Previous Everest Group research

Digital adoption trends

Operating model for digital transformation

Recommendations for operating model transformation

Scope of this report

MARKET SEGMENT
Digital services

GEOGRAPHY
Global

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Everest Group's definition of digital services

Interaction layer

Multi-channel | Chat | Social | Mobility | Touch screens | Next-generation UI/UX | Visualization | Voice recognition | Virtual Reality (VR)

Integration challenge

Standards | Systems integration | Agile/DevOps | Automation

Enabling layer

Cognitive / Artificial Intelligence (AI) | Analytics | Software-as-a-Service | Big data | Sensors | Internet-of-Things (IoT) | 3-D printing | Digital cybersecurity

Source: Everest Group (2018)

Our research methodology is based on four pillars of strength to produce actionable and insightful research for the industry

- Market thought leadership
- Actionable and insightful research
- Syndicated and custom research deliverables

1 Robust definitions and frameworks
(F&A pyramid, multi-process FAO definition, Total Value Equation (TVE), PEAK Matrix™, and market maturity)
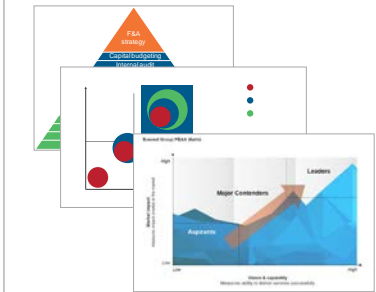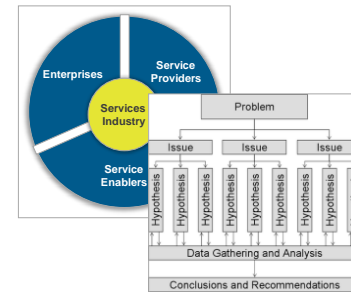
2 Primary sources of information
(Annual contractual and operational RFIs, service provider briefings and buyer interviews, and web-based surveys)

3 Diverse set of market touchpoints
(Ongoing interactions across key stakeholders, input from a mix of perspectives and interests, supports both data analysis and thought leadership)

4 Fact-based research
(Data-driven analysis with expert perspectives, trend analysis across market adoption, contracting, and service providers)
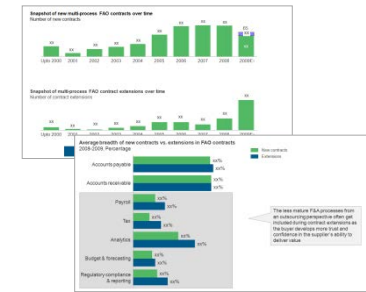
- Annual RFI process and interaction with leading digital service providers
- Dedicated team for digital services adoption trends
- Over 20 years of experience in advising clients on global services decisions
- Executive-level relationships with buyers, service providers, technology providers, and industry associations

The success of sustained digital transformation lies in the operating model of an enterprise

To drive sustained digital benefits enterprises need to evolve their operating model elements in sync with their digital strategy

78% *of the enterprises fail to implement their digital transformation initiatives as envisioned*

Enterprises need to systemize and assimilate their efforts in experimentation into their organizational culture and improve their communication channels

69% *of enterprises consider organization structure as a barrier while scaling up their digital initiatives*

Digitization of the workplace and focusing on Stakeholder Experience (SX) is critical to lay a strong foundation for sustained digital transformation effort

82% *do not have a culture of collaboration and innovation*

The operating model of the future would not only support the existing business model but also pave way for enterprises to reinvent it

87% *fail to implement their change management plan for digital transformation*

A robust transformation strategy should involve all the stakeholders and should be able to answer the question, "who should do what?"

89% *have a narrow scope of technology investments, limited to particular products or functions*

Everest Group has assessed the digital transformation success and failure cases of enterprises to arrive at the future operating model to scale digital

Digital transformation challenges

Percentage of enterprises citing specific operating model dimensions as key hurdles to digital transformation

- 42% Technology
- 54% Organizational structure
- 33% Communication channels
- 47% Governance
- 44% Culture
- 78% of the enterprises fail to implement their digital transformation initiatives as envisioned
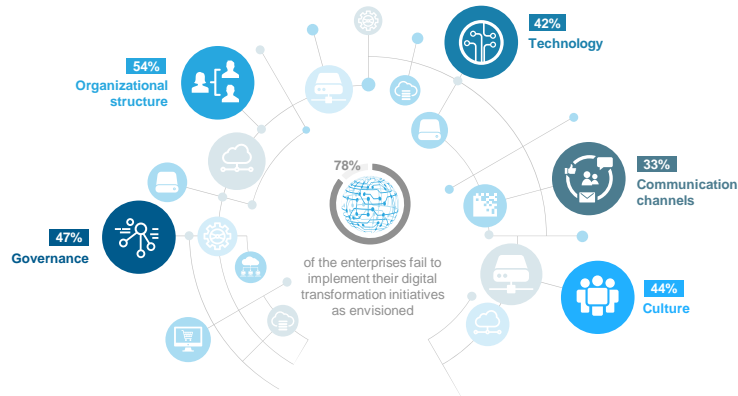
Impact of operating model on digital transformation

- Returns (y-axis) vs Time (x-axis)
- Launch of a digital initiative
- Manage change
- Overcome resistance
- Sustain
- Scale up
- Successful digital transformation aided by a transformed operating model
- Struggle to sustain
- Overcome resistance
- Manage change
- Fail
- Unsuccessful digital transformation through traditional operating model

— Traditional operating model   — Digital operating model

amazon
It has constantly strived to exceed customer expectations by creating an innovation ecosystem of customers, employees, and partners. It also focuses on creating an experimentation and entrepreneurial culture for its employees

Ford
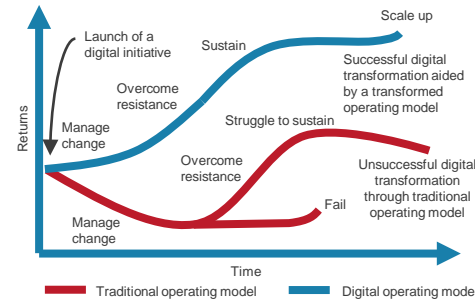Created new Lines of Business (LOB) by focusing on the experience of the ecosystem. Developed the Ford transportation mobility cloud, a platform to connect cities and transportation services together
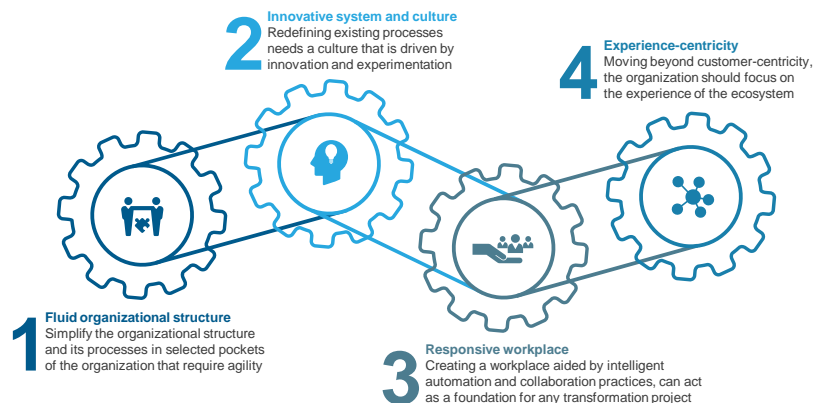
GE
A traditional company that transformed itself into a digital one through organization-wide adoption of next-generation technologies. In recent years, the company has been facing different operating challenges in sustaining this journey
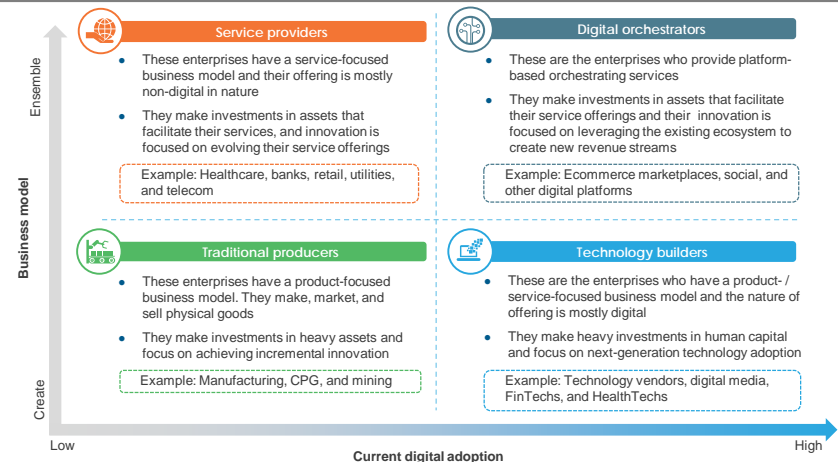
BBC
Organizational restrain and governance issues led to the failure of their digital media initiative in 2013. Over the years, BBC has significantly transformed by breaking down silos and inculcating an experimentation culture through BBC New labs

FIRE framework to scale digital transformation

2 Innovative system and culture
Redefining existing processes needs a culture that is driven by innovation and experimentation

4 Experience-centricity
Moving beyond customer-centricity, the organization should focus on the experience of the ecosystem

1 Fluid organizational structure
Simplify the organizational structure and its processes in selected pockets of the organization that require agility

3 Responsive workplace
Creating a workplace aided by intelligent automation and collaboration practices, can act as a foundation for any transformation project

Operating model transformation roadmap

Business model (y-axis: Create to Ensemble), Current digital adoption (x-axis: Low to High)

Service providers
- These enterprises have a service-focused business model and their offering is mostly non-digital in nature
- They make investments in assets that facilitate their services, and innovation is focused on evolving their service offerings
- Example: Healthcare, banks, retail, utilities, and telecom

Digital orchestrators
- These are the enterprises who provide platform-based orchestrating services
- They make investments in assets that facilitate their service offerings and their innovation is focused on leveraging the existing ecosystem to create new revenue streams
- Example: Ecommerce marketplaces, social, and other digital platforms

Traditional producers
- These enterprises have a product-focused business model. They make, market, and sell physical goods
- They make investments in heavy assets and focus on achieving incremental innovation
- Example: Manufacturing, CPG, and mining

Technology builders
- These are the enterprises who have a product- / service-focused business model and the nature of offering is mostly digital
- They make heavy investments in human capital and focus on next-generation technology adoption
- Example: Technology vendors, digital media, FinTechs, and HealthTechs

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Research calendar – Digital Services

Flagship Digital Services reports	Release date
Digital Interactive Agencies – Market Report 2018: Digital Marketing in the Cognitive Era	December 2017
Enterprise Digital Adoption in Retail | Pinnacle Model™ Assessment 2018	March 2018
Enterprise Digital Adoption in Manufacturing | Pinnacle Model™ Assessment 2018	April 2018
Digital Services – Annual Report 2018: Future Operating Model to Scale Digital	**July 2018**
Digital Services PEAK Matrix™ Assessment and Market Trends 2018	Q3 2018
IoT Services PEAK Matrix™ Assessment and Market Trends 2018	Q3 2018
Digital Interactive Agencies PEAK Matrix™ Assessment and Market Trends 2018	Q3 2018
IoT Services Annual Report 2018	Q3 2018
Customer Experience | Pinnacle Model™ Assessment 2018	Q4 2018

Thematic Digital Services reports	
Design Thinking: Innovation Catalyst for Digital Transformation	July 2017
Enterprise Bots Adoption	July 2017
AI/Cognitive: Past, Present, and Future	Q3 2018
Big Tech Wars: IoT platforms	Q3 2018
CX Trailblazers	Q3 2018
Big Tech Wars: Digital marketing platforms	Q4 2018

Note: For a list of all Digital Services reports published by us, please refer to our website page

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Additional digital services research references

The following documents are recommended for additional insight on the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **Enterprise Digital Adoption | Pinnacle Model™ Assessment** (EGR-2017-4-R-2402); 2017. In this report, we present key findings from the digital enterprise survey. Everest Group conducted a survey for 328 organizations across North America, Europe, the United Kingdom, and Asia Pacific. We evaluated enterprises on five key capabilities: strategy, organization and talent, process transformation, technology adoption, and innovation. This report identified five key dimensions where Digital Pinnacle Enterprises™ differentiate and reap higher returns than the industry average

2. **Design Thinking: Innovation Catalyst for Digital Transformation** (EGR-2017-4-R-2242); 2017. Several organizations have adopted design thinking to innovate their products and services. Technology giants such as Apple, IBM, and SAP have adopted design into their daily operations and have seen high impact on their financial results. In this research, we delve deeper into design thinking and its implications on various industries. We also deep dive into how service providers can inculcate a design-driven culture across the organization so that it is reflected in their service delivery

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About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empower clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at www.everestgrp.com.

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