Future Ready: Four Pathways to Digital Business Transformation

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- DentaQuest
- El Corte Inglés
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- ExxonMobil Global Services Company
- Fairfax Media
- Ferrovial Corporacion, S.A.
- Fidelity Investments
- FrieslandCampina
- General Electric
- Genworth Financial
- GlaxoSmithKline
- Hitachi, Ltd.
- Howden Joinery Group plc
- Huawei Technologies Co., Ltd.
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- LKK Health Products Group Ltd.
- LPL Financial
- McGraw-Hill Education
- National Australia Bank Ltd.
- National Disability Insurance Scheme
- New Zealand Government — GCIO Office
- Nielsen
- Nomura Holdings, Inc.
- Nomura Research Institute, Ltd.
- Nordea Bank
- Northwestern Mutual
- Orange S.A.
- Org. for Economic Co-operation and Development (OECD)
- Origin Energy
- Owens Corning
- PepsiCo Inc.
- Pioneer Natural Resources USA Inc.
- Principal Financial Group
- Procter & Gamble
- QBE
  - Raytheon Company
- Reserve Bank of Australia
- Royal Bank of Canada
- Royal Philips
- Sabadell Bank
- Scentre Group
- Schindler Digital Business AG
- Schneider Electric Industries SAS
- Standard Bank Group
- State Street Corp.
- Suncorp Group
- Swinburne University of Technology
- Sydney Water
- TD Bank, N.A.
- Teck Resources Limited
- Tenet Health
- Tetra Pak
- Trinity Health
- USAA
- Westpac Banking Corporation
- World Bank
Financial services – transformation – because ...

- Financial services functionality will become more embedded into third-party apps and experiences like retailers and search firms.

- Rate of adoption of mobile technology surpassing all expectations plus robo, AI, IoT, big data ....

- Regulations are increasing in number and complexity.

- Automated investment platforms will manage approximately 10% ($US8trillion) of all global assets under management in US (AUM) by 2020\(^1\).

- Workforce changes – freelancers underinvesting for retirement\(^2\).

- 77% of financial execs expect blockchain for post-trade use within 5 years\(^3\).

- Business models changing: from value chains to ecosystems to become GoTo destination for life events for best customers\(^4\).

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Sources:

2. 2016, Freelancing in America Report;
3. 77-of-financial-execs-expect-blockchain-for-post-trade-use-within-5-years;
Agenda

1. What is digital business transformation?
2. What percentage of firms have transformed and how do they perform?
3. What are the pathways to transformation?
4. Examples: Danske Bank, ING Direct, BBVA, mBank
5. Discussion: Which path are you on?
Stories of digital transformation—Multiple pathways

- Make customers’ mobile the remote control for the bank
- Respectful, Easy, Dependable—campaign to reduce customers hours spent
- Reorganize by customers’ life events
- Created a new company and now merging ...
- Pick target segment—financial coach for millennials
- Acquired 6 companies in 5 years reducing operating cost by 20%
- Social banking: Bypass financial services firms
- GoTo Destination for Investment for individuals and companies
- Open, secure, and technology agnostic financial services
- 3 stages to be great digital bank: customer experience, platform, bank in a box
What is digital business transformation?

**Integrated Experience**
- Customer gets an (simulated) integrated experience despite complex operations
- Strong design and UX
- Rich mobile experience including purchasing products

**Future Ready**
- Both innovative and low cost
- Great customer experience
- Modular and agile
- Data is a strategic asset
- Ecosystems ready

**Silos and Spaghetti**
- Product driven
- Complex landscape of processes, systems and data
- Perform via heroics

**Industrialized**
- Plug and play products/services
- Service enabled ‘crown jewels’
- One best way to do each key task
- Single source of truth

**Operational Efficiency**
Improving cost to income ratio

Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413 and 2016 interviews) and 2016 company interviews. Customer Experience=effectiveness on customer knowledge+omnichannel capability+customer experience projects+crown capabilities+customer experience performance. Operational Efficiency=effectiveness on automation and employee productivity projects+% of core capabilities with APIs+cost of operations performance. Quadrants are splits at 2/3 along each axis.
Future-ready firms have the best margins compared to competitors

<table>
<thead>
<tr>
<th></th>
<th>Integrated Experience</th>
<th>Future Ready</th>
</tr>
</thead>
<tbody>
<tr>
<td>% firms</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>Percentage points</td>
<td>-3.6</td>
<td>16.0</td>
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<tr>
<td>above or below</td>
<td></td>
<td></td>
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<tr>
<td>industry average net</td>
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<td>margin</td>
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<table>
<thead>
<tr>
<th></th>
<th>Silos and Spaghetti</th>
<th>Industrialized</th>
</tr>
</thead>
<tbody>
<tr>
<td>% firms</td>
<td>51%</td>
<td>11%</td>
</tr>
<tr>
<td>Percentage points</td>
<td>-5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>above or below</td>
<td></td>
<td></td>
</tr>
<tr>
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Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews. Customer Experience=effectiveness on customer knowledge+ omnichannel capability+customer experience projects+customer experience performance. Operational Efficiency=effectiveness on automation and employee productivity projects+% of core capabilities with APIs+cost of operations performance. Quadrants are splits at 2/3 along each axis. Net Margin is relative to industry average.
The four pathways to Future Ready

Customer Experience

Integrated Experience
- Customer gets an (simulated) integrated experience despite complex operations
- Strong design and UX
- Rich mobile experience including purchasing products

Future Ready
- Both innovative and low cost
- Great customer experience
- Modular and agile
- Data is a strategic asset
- Ecosystems ready

Industrialized
- Plug and play products/services
- Service enabled ‘crown jewels’
- Only the way to do each key task
- Single source of truth

Operational Efficiency
Improving cost to income ratio

The lines are the transformation pathways. Explosions are major changes in decision rights and organizational surgery.
Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews. Customer Experience = effectiveness on customer knowledge + omnichannel capability + customer experience projects + customer experience performance. Operational Efficiency = effectiveness on automation and employee productivity projects + % of core capabilities with APIs + cost of operations performance. Quadrants are splits at splits at 2/3 along each axis.
The four pathways to Future Ready

Choose a Pathway

1. Where are you today?

2. Move right on Path 1 if your customer experience is ok (e.g., NPS around industry average).

3. Can’t wait to improve your customer experience (e.g., NPS is below industry average or new scary competitors)? Move up on Path 2.

4. Can’t wait to improve customer experience but a few initiatives will make a big difference (e.g., a great app)? Start with those and then focus on operations—and repeat in small steps, say 120 days each—on Path 3.

5. Can’t see a way to change the culture, customer experience and operations fast enough to survive? Build a new company using Path 4.
Which pathways are companies pursuing?

The lines are the transformation pathways.

Sources: Quadrants are derived from data from MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews.

How far along are companies on their transformation?

Average % completion = 34%

Sources: Quadrants are derived from data from MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews. %s on pathways are from MIT CISR 2017 International European Forum (N=59), MIT CISR 2017 CIO Summit (N=26) and MIT CISR 2017 Summer Session (N=53). Total N=138.
Discussion questions

Which pathway(s) are you on and what percent of the transformation is complete?

What is the key lesson you have learnt?

Please prepare a one-sentence summary to share.
iGaranti – financial coach for millennials

Estimated overspending amount

Notification

Source: http://www.fjordnet.com/workdetail/igaranti/
And start investing and benchmarking

### Operational Excellence
Improving cost to income ratio

<table>
<thead>
<tr>
<th>Spending</th>
<th>Where spent</th>
<th>Capabilities created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure investment = % of annual digital spending on infrastructure</td>
<td>% New projects = % of digital spending allocated to new projects</td>
<td>APIs (internal) = % of core capabilities that are API-enabled for internal use</td>
</tr>
<tr>
<td>Digital spend % of revenue = total digital spending as a % of revenue</td>
<td>Digital spend in IT budget = Total % of digitization spending in the IT budget</td>
<td>IP-addressable assets = % of enterprise physical assets that are IP addressable</td>
</tr>
</tbody>
</table>

### Customer Experience

**Increased NPS**

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Transformed</th>
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</thead>
<tbody>
<tr>
<td>- Infrastructure investment</td>
<td>36%</td>
</tr>
<tr>
<td>- Digital spend % of revenue (+/- industry avg)</td>
<td>-9%</td>
</tr>
<tr>
<td>- % New projects</td>
<td>36%</td>
</tr>
<tr>
<td>- Digital spend in IT budget</td>
<td>37%</td>
</tr>
<tr>
<td>- APIs (internal)</td>
<td>25%</td>
</tr>
<tr>
<td>- IP addressable assets</td>
<td>29%</td>
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</tbody>
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**Future Ready**

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<tr>
<td>- Infrastructure investment</td>
<td>46%</td>
</tr>
<tr>
<td>- Digital spend % of revenue (+/- industry avg)</td>
<td>+5%</td>
</tr>
<tr>
<td>- % New projects</td>
<td>36%</td>
</tr>
<tr>
<td>- Digital spend in IT budget</td>
<td>43%</td>
</tr>
<tr>
<td>- APIs (internal)</td>
<td>50%</td>
</tr>
<tr>
<td>- IP addressable assets</td>
<td>48%</td>
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</tbody>
</table>

**Industrialized**

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<thead>
<tr>
<th>Traditional</th>
<th>Transformed</th>
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</thead>
<tbody>
<tr>
<td>- Infrastructure investment</td>
<td>44%</td>
</tr>
<tr>
<td>- Digital spend % of revenue (+/- industry avg)</td>
<td>+9%</td>
</tr>
<tr>
<td>- % New projects</td>
<td>43%</td>
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<td>- Digital spend in IT budget</td>
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**Silos and Spaghetti**

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Source: Source: MIT CISR 2015 CIO Digital Disruption Survey (N=413) and 2016 company interviews.
Francisco González
Group Executive Chairman
Three ways to make money with data

Sell
• New Offerings

Improve
• Optimized Processes

Wrap
• Differentiated Products, Customer Experiences

BUSINESS VALUE

Wixom, B.H. and J.W. Ross, "Profiting from the Data Deluge."
Common foundations are the “secret sauce”

Improving

Data-driven organization

1. Secured, compliant platform
2. Process management
3. Governed, high-quality data
4. Single version of the truth (customer, product, performance)
5. Analytics
6. Pervasive data-savvy talent

Wrapping

Data productization

Selling

“Information business” business model

Cognitive computing is a multi-step process...

Inefficiency & Inconsistency

Wasted Resources

Clarity of Business Rules

Highly Specified

Unknown/Vague

Division of Labor

Human

Machine

Repetitive Manual Process

Automated Process

Predictive Analytics

Cognitive Computing

Descriptive Analytics

 Macedonian