



Ready for Digital Disruptors





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Foreword

Context

The world is being transformed by new technologies, which are redefining customer expectations, enabling businesses to meet these new expectations, and changing the way people live and work. This transformation has immense potential to change lives, create value for business and unlock broader societal benefits.

But how prepared are UK organisations to lead this charge? In a data-driven world, we are witnessing a variety of disruptors to every industry sector that are not following the traditional routes of entry – from both start-ups and established businesses looking to break into new territory.

Market context

According to the World Economic Forum, there is a \$100 trillion prize at stake over the next decade to businesses that can unlock digital services and meet these changing customer requirements. While this forecasts the global opportunity, the UK is expected to take a significant stake if businesses are able to establish a framework in which digitalization has an impact across every industry and society.

As a result, there are significant funds going into businesses that are aimed at solving the problems customers feel established businesses are turning a blind eye to. Instead of reacting immediately, there is an air of trepidation when it comes to disrupting the business models that have served UK businesses so well to date. But times are changing; it is a matter of when, not if the next industry will be 'uberised'.

A number of VC's, hedge funds and institutional investors are willing to make substantial bets that it will be soon. In 2016, investment into London tech firms climbed from £1.36 billion in 2015 to £1.43 billion. The race is on.

UK companies have to grapple with the implications and opportunities from emerging technologies like Artificial Intelligence, Internet of Things, and robotics. At the same time, battling against macroeconomic issues beyond their control, like a hard vs soft Brexit, and up-coming GDPR regulation.

This environment will undoubtedly claim victims, but who is most at risk? As well as newer, digitally native businesses coming in to take market share, there are also those larger enterprises that are starting to change their mentality and move into adjacent horizontal markets. See Google and Nest, Amazon and groceries, and Uber into food delivery.



What does the research findings tell us?

We still meet far too many businesses who believe digital still means putting an 'i' or 'e' in front of their services. They aren't aggressively developing a strategy to capitalise on the now well-established practice of harnessing how data analytics, combined with incredibly powerful computing and broad data sets, opens a whole new world of opportunities for service and operational innovation.

As highlighted by our new survey conducted by Vanson Bourne, half of business decision makers in the UK and Ireland (those at Director level or above with a global annual revenue of £75m or more, and a 1000+ employees in both the private and public sector), not seeing start-ups as a priority challenge, and almost one in ten believing they don't have any challengers at all there is a sense that not enough businesses are aligning to the threat and disruption their industry faces.

Of course, there are a number of routes to tackle digital innovation. Only a few involve the IT function itself – acquisition, partnering, running incubators, investment arms, or even seeing other functions like marketing and product development that take charge of an innovation programme.

Despite technology being the conduit for which we lead our lives, there is an overwhelming feeling technology-led innovation should come from the CIO and IT department – in fact 50% of our respondents said exactly this.

It's unfair but it's also a huge opportunity for CIOs to be accountable for driving digital innovation. If IT's role is to be focussed on making incremental changes to the 'IT' within the business – gains in performance, productivity, and service delivery - then that's fine, as long as there is a board that focuses on what happens a few steps further on; a chief digital officer, or marketing or product or innovation specialist.

The opportunity for the CIO could be to ensure they have a role where efficiency has a focus on both IT service delivery and innovation; helping incumbent businesses address disruption in the market. IT will be in the driving seat, and it is in these organisations where you'll see IT leading strategic investment in digital innovation.

Businesses that seize the opportunity to transform and own the disruptions happening around them will be the ones to succeed. For financial services see TransferWise, for retailers see notonthehighstreet, and for alcohol and beverages see BrewDog. The UK has a number of disruptive innovators that are challenging the status quo, uprooting traditional enterprises in their wake.

We commissioned this research to better understand and drive awareness of the challenges facing UK businesses; whichever industry you are in, there is a wave of disruption coming.

I hope you enjoy reading the report as much as we did developing it.

Claire & Dayne



**Claire Vyvyan, Senior Vice President,
UK&I Commercial at Dell EMC**



**Dayne Turbitt, Senior Vice President,
UK&I Enterprise at Dell EMC**

Chapter 1: Understanding the landscape

Years ago, business leaders talked about the concept of digital transformation, whereby companies would disrupt their current market by using technology to change the way they do things. Digital transformation is no longer a new concept. It is happening all around us, across multiple sectors, enabling smaller scale businesses to disrupt the status quo, and almost overnight take market share.

In 2016, investors backed UK tech companies with £6.7bn, according to data from London & Partners, with investment into London tech firms climbing from £1.36 billion in 2015 to £1.43 billion. Meanwhile at the end of 2016, it was announced that up to £1bn of funds could be available specifically for start-up businesses

From home-based entrepreneurs, to pop-up shops and tech hubs, business formation reached a record high in 2016 with more than 650,000 new businesses starting up in the UK¹. Whilst this is positive news for the UK economy, it does pose some interesting challenges for UK plc.

In a data-led software-driven world, we are witnessing a variety of disruptors that are not following the traditional routes of entry. Netflix, Air BnB and Alibaba are arguably the textbook companies for digital disruption, but it's also happening inside established businesses that realise the need to focus on what's next. Siemens and GE are great examples of this. Almost a decade ago, GE set out on a path of transformation, determined to participate in the digital revolution in industrial production – with full awareness that the world was changing around them.

Half of UK enterprises don't recognise start-ups as a threat in their industry

Whilst GE is a great example of a business that is disrupting itself, because it needs to, there are other large enterprises in other industries that are struggling to adapt. If we look at the financial services industry, there are numerous examples of how businesses are turning traditional banks on their heads. Monzo for example, calls itself the 'bank of the future' and offers users new online features and real-time updates, all through an app on your phone. This has forced more traditional banks to rethink the way they interact with customers and come up with new ideas of how to create a more personalised and bespoke experience. This is fast becoming one of the top three core components of any transformation project, with the same level of priority as operation efficiency or cost cutting. The cleaning company Hassle is another example of a disruptor in the services industry. Gone are the days where you spend time going through various agencies to pick your spring cleaner. Hassle eliminates the 'hassle' and organises all cleaners on to one, single platform for you to choose and organise payment.

The onslaught of these changes will undoubtedly claim victims but who are most at risk? As well as newer, cloud native businesses coming in to take market share, there are also those larger enterprises that are starting to change their mentality and move into horizontal markets. UK enterprises need to be aware of the threat new market entrants have, and the technology they bring with them to deliver new services and products into the UK's traditional markets. Part of this threat is the ability to digitise operations across the business.

Digital transformation is now indistinguishable from business transformation. Those businesses that seize the opportunity to transform and own the disruptions happening around them, will be the ones to succeed. Bold ambition, more than incremental changes are needed – but this is easier said than done. Not enough businesses are aligning to the threat of digital disruptors in today's turbulent and competitive economic climate. There are a number of reasons and barriers as to why businesses struggle to transform and part of the problem is the mindset.

Almost one in ten believe they don't have any challengers at all

¹ <https://www.ukbusinessangelsassociation.org.uk/news/uk-sees-record-numbers-new-startups-2016/>





Chapter 2: Measurement and mindset

Businesses are at a crossroad. Do they focus on doing what they have been doing, looking at short-term goals in order to bear off immediate competition. Or do they look at the longer term gain available. While most businesses may choose the latter, they may find moving away from the former increasingly difficult to achieve. This is largely down to two factors:

External pressure

Success for most large enterprises in the UK is defined by the ability to deliver shareholder value. For larger organisations, results are often measured in a quarterly, or at most yearly summary of company performance. Yet in doing so, are businesses creating an environment in which innovation and creativity can flourish? With the C-suite focused on delivering metrics, the business becomes hampered from looking at the more visionary, longer-term goals.

A business leader, wanting to invest profits into new innovations may conflict with shareholders simply wanting to take value out of the company in the form of dividends. Shareholder vision, or lack of, is holding back businesses, forcing them to simply focus on the day to day operations and delivering positive results back to the shareholders.

Internal Expectations

While external factors play their part, it's also the role of the senior team to establish a culture of long termism, rather than short term gains. Against this backdrop they face a challenging environment: market-level tenure. In the US, a recent study found that CIO's have the second shortest tenure amongst the C-suite – just 4.3 years, with CMO's the only group with a shorter one. It asks the question: What incentive is there for the CIO to focus on bigger picture items if they are expected to be at several organisations within a decade? It's no wonder then that CIO's are being hamstrung by top down pressures to 'make things faster' or 'make things cheaper', rather than 'make us competitive', and innovate with technology.



Some companies may not be providing the right environment for innovation...

54% of LOB decision makers feel the IT department controls too much of the technology estate to enable them to innovate as much as they'd like

Using quarterly metrics as a direct comparison against immediate competitors runs the risk of portraying a false reality of your position in the market. For example, the mandate for the CIO of video rental organisation Blockbusters may have been faster delivery of IT services and reduction in costs. On the face of it, seen as solid objectives for which to build the departments successes. Yet this focus on delivering short term wins ultimately failed to capture the publics enthusiasm to adopt online streaming, ultimately putting the organisation out of business.

A change in culture

The current short-term mindset is reflective of those businesses that are most concerned about the threat of existing competition. While this continues, we will continue to see in parallel the rise in those companies being born in the cloud, disrupting the market and putting larger, prevailing players out of the game.

44% believe the IT department holds them back from being able to innovate

We used to be told "if it ain't broke don't fix it". But businesses taking this mentality will be caught, surpassed and eventually whither in today's uber-competitive business environment.

One step to combat this is creating the right environment and culture where innovation can flourish, with employees feeling empowered to come up with ideas that can lead to new services, lines of revenue and ideas for making the company more efficient.

More than four in ten IT and Line of Business decision makers agree that they don't have an established culture of innovation within their business

Fundamentally this is a shift in mindset from wanting to do things cheaper, to how we can do it better. It might mean you need to sacrifice short term success, but it can equate to longer term gains.



Chapter 3: Who's responsible for driving innovation?

Arthur C Clarke's third law states that 'any sufficiently advanced technology is indistinguishable from magic'. Whilst we're not encouraging business leaders to start pulling rabbits out of a hat, innovation in business does require an element of surprise and wonder for it to truly make the company stand out from its competitors. But who is responsible for making the magic happen?

Historically, technological innovation would have been driven by the CIO – but is this still the case? The board has to take increasing responsibility to understand the company's digital agenda and employ a CIO that can act as the catalyst for innovation. But it should not just be down to the CIO to have a vision for change. The *raison d'être* from the senior leadership team to the CIO can no longer be to reduce costs. Creating efficiencies and better ways of working can still be a critical role, but should be coupled with asking them how the business can use technology to defend the business on the digital disruptor front, and ultimately impact bottom line.

Defending your business from the inside is one way to innovate – but not an exhaustive option. As you look to the board, there will be a wealth of expertise that can advise on partnerships and acquisitions with the right business or digital disruptor that can drive the business forward.

The predicament

Who rules the technology estate, and historically IT's grip on it has always been a careful balancing act. So long seen as the "department of no", IT can now play an integral role to the success of the business.

There is huge disparity when it comes to organisational responsibility for digital transformation with many pointing the finger at others to take the lead. Successful digital transformation requires finding the balance between giving the rest of the business access the technology to come up with new ideas, whilst still giving the IT department an element of control to drive the changes.

Responsibility for innovation in a business should not lie solely on one functional group. It should be a collaborative effort across the different departments as each can provide a unique perspective on the problems customers are facing, which can be critical for driving successful innovation for the business as a whole.

Referring back to internal driving factors, it is likely that there is pressure from the CIO to find those quick wins, hit the targets and not think about the bigger picture. Therefore, there is a need for the C-Suite to filter down a more visionary approach across all teams and departments to ensure they feel supported in coming up with new ideas

Only half believe the CIO and IT department should be responsible for driving technology innovation within their organisation

Almost six in ten (59%) respondents say that their organisation is more focused on the day to day running than the longer term impact/innovation

Half believe that the culture in their organisation hinders their ability to develop new innovative product lines, services and processes



Chapter 4: Sector analysis

Transformation is perhaps the most overused term in business. Applied loosely – to any form of change, be it minor or routine transformation, through to organisational, strategic, digital and even business. Hyperbole it may have become, however, it has alerted most organisations that the way they have been doing things in the past, focused on growth and prices, shaping the company's processes and culture and defining its outlook may soon be coming to an end.

Increasing consumer demands, lower barriers to entry than ever before combined with more agile businesses offering new services and products means businesses are constantly competing for market share. No one industry is free from risk but the key differentiators differ depending on the sector you operate in.

Financial Services

Challenged to increase revenue, cut costs, and control risks amid uncertainty and an evolving regulatory backdrop, financial services firms are still figuring out the best way forward when it comes to transformation.

The FS industry hasn't always been the first to embrace technology but now is ripe for digital transformation.

Challenger banks and FinTech start-ups like Monzo and Revolut are bringing new products and services to the established markets that could topple even the largest of enterprises. While 2008 year coined the term "too big to fail", the same cannot be said in this customer led-data-driven world.

While the large banks grapple with cost-saving techniques, new entrants are providing a unique, customer centric experience, unencumbered by legacy technology. Reports have shown that FinTech may be at the forefront for driving new business models in the future². However, FS leaders see technology investments that focus on the back end of their business as less of a key differentiator for their business than mobile payments, insurance or retail banking. It would appear that following market trends like mobile payments may be more appealing to an industry that has struggled with technology innovation, than finding new ways to change existing practices - i.e. refining a process that has been around for years and simply making it relevant to the consumers today, or unlocking data sets that are siloed within the business.

In Financial Services, less than a third think Fintech is going to give them a competitive advantage, with 45% believing innovations in mobile payments will

Retail

Online shopping has been around for years so what can retailers do to take it to the next level. Voice activated personal assistants? 3D printing stations? Virtual fitting rooms at your home?

In a report launched earlier this year³, it was found that whilst 70% of high-end purchases are influenced by online interactions, stores will still play a critical role with 75% of sales still occurring in a physical location. This highlights the importance of having multi-channel operations in place to ensure they capture and give all who want to touch the brand, a unique customer experience.

Service and supply chain industries

Of all the sectors, Business & Professional Services believed data analysis, i.e identifying trends and analysing consumer behaviour would be their biggest key differentiator against competitors. In contrast, whilst respondents in the Media, Marketing & Entertainment sector did not place data analysis high up on the list, computer gaming and app development featured strongly.

Real time production and updates have become increasingly more prevalent in the service and manufacturing industries, aided by the improvement in data capture and feedback. Consumers demand information in the here and now and disruptors have the ability to customize and bundle services in a personalised manner to specifically meet customers' needs. We are starting to see FinTech firms team up with car manufacturers for example, where workers are able to see their supplier's capabilities and supply chain management in real time, in an interactive dynamic fashion. This will become part of everyday working life in the future, particularly as smaller businesses, who have the capacity to innovate at speed, start to make their mark in the industry.

² <https://www.pwc.com/gx/en/financial-services/assets/pdf/technology2020-and-beyond.pdf>

³ Bain & Company

In Retail, multi-channel operations looks to be a differentiator with almost two thirds in the sector (63%) believing it will give them a competitive advantage

62% of Business and Professional Services (BPS) workers believe that innovation in data analysis will make them more competitive, compared to just 22% of Media, Marketing & Entertainment (MME) workers who feel the same





Chapter 5: Staying competitive

UK enterprises that have enjoyed decades of steady growth need to rapidly change mindset. Whilst they may see themselves as one of the pillars of the industry, safe from disruption, the alarming rate at which many of the UK's most well-known brands are closing demonstrates the competitive outlook businesses are facing. Unfortunately, a lack of readiness and deep understanding of customers' needs, prevents businesses from being able to react in time.

The reality facing businesses today is that relying on USPs like brand loyalty and good pricing strategy, may not be sufficient to keep your head above the turbulent waters of an uncertain market. As Richard Branson, one of the world's foremost entrepreneurs commented on a new market entrant can take on the incumbent: "If you are proactive and quick to act, you'll often leave bigger and more cumbersome organizations in your wake."

A prime example of an organisation that has achieved this is Tesla. Now with market cap bigger than most of the automotive industry's most recognisable names that have operated for over a century in the market, despite not being in profit (and not expected to do so for at least another three years). What many investors believe make Tesla so appealing isn't just about what it's doing now, but what it will do next – and that disruptive visionary approach will put it well ahead of its competitors.

Eight in ten (77%) agree that their industry is increasingly becoming exposed to new forms of transformation...only 6% of respondents believe their company's USP is the ability to enter markets quickly

The technologies underlying these competitive threats may not be new to the business – the incumbents may already be working on something similar, but what is new is how they are being used. Big data has been around for many years now and whilst businesses have learnt how to capture it, they haven't mastered what to do with it. Staggering amounts of information are accessible like never before – it is the market disruptors who are using this to full effect.

To stay ahead of the unfolding trends and disruptions, leaders across industries will need to challenge their assumptions and pressure-test their strategies. They will need to nurture and develop the level of flexibility and agility to adapt to changing situations around them. Be that new market opportunities, an overnight trend, a new market entrant, or a change in economic conditions. It is only going to become more important for businesses to have the skills in place to be able to grab the modern challenge of rationalising their application portfolio and creating something new in the market.

It's not always the case that businesses are being blind sided by these changes. Instead, organisations need to look at what their strengths are and how they can be used to grow the company in the future.

Despite the clear and present threat of the competition ahead of them, too many businesses are weighed down by the day to day processes and not recognising what they need to put in place that is going to differentiate them from their competitors. Whether that be moving paper-based processes online in the public sector, innovating operational processes in manufacturing or boosting multi-channel or online operations in retail, identifying the areas of innovation that will increase efficiencies will be more important than ever for large enterprises to stay ahead of smaller, agile start-ups in the market.

Less than a fifth of IT and Line of Business (LOB) decision makers feel that a focus on digital transformation is a top priority in their organisation

Even if businesses do recognise where innovations need to happen, it isn't always aligned with where the money is being spent. Whilst important, the majority of IT budgets are being spent on security and compliance, with spend on forward-thinking technologies such as data analytics relatively low in comparison. The trends are in front of us – machine learning and AI is here to stay but the reality is that whilst many of the industry sectors consume these new technologies, they lack the expertise and investment in the infrastructure to exploit their potential.

Conclusion

It's no longer a case of waiting to catch the business transformation wave, yet there's a very-real sense that this is the mindset occupying UK enterprises. We're on the cusp of transformation that is shifting the shape of entire industries, let alone individual businesses.

For financial services see TransferWise, for retailers see notonthehighstreet, and for alcohol and beverages see BrewDog. The UK has a number of disruptive innovators that are challenging the status quo, uprooting traditional enterprises in its wake.

What they all have in common is that they are all driven by their innovative thinking, investment in technology and finding new solutions to old problems. At the core of the disruptive forces in all these businesses are digital innovation and technology platforms. The success of these disruptors shows how digital has progressed in just one generation and is now the backbone of successful companies who are taking market share away from companies who are less digitally focussed.

As the research reveals, UK enterprises are in danger of turning a blind eye to this, focusing on the immediate in front of them rather than on the bigger dangers that exist in this digitally-driven world.

Acknowledging the threat these agile businesses, that can move market-to-market, pose is the first step. Reorganising the people, skills and processes to combat this threat is the next.

While technology provides the layer to transform, it needs to be met with a culture that is flexible enough to allow this transformation to happen. This isn't an overnight switch.

You can't trade one company's culture for another. For all its benefits and blemishes, it's a legacy that remains unique. Unfortunately, it can feel like a millstone when a company is trying to push through a significant change. Cultural inclinations are well entrenched, for good or bad. But it's possible to draw on the positive aspects of culture, turning them to your advantage, and offset some of the negative aspects as you go. This approach makes change far easier to implement.

This requires input and collaboration from across the entire business – every employee throughout an organisation needs to feel empowered and involved in the journey. If the right environment is there, creativity can flourish with new ideas being brought to the table by those who traditionally wouldn't have been given the opportunity to speak up.

From external stakeholder pressures to short-term internal targets, business leaders need to be encouraged to think long-term. We increasingly find that whilst businesses strive to achieve this, they find it difficult to put it into practice. Day to day tasks and pressures often swamp the mind and distract businesses from being more visionary with their approach to change. These behaviours need to change if large enterprises are going to give themselves a chance to remain market leaders amongst the competition.

There's no time like the present. There is no alternative to business transformation if you want to hold market share. Simply put, the acknowledgment, culture and mindset needs to be in place if you want to give your business the best chance to thrive in this modern world.