TCS
TATA CONSULTANCY SERVICES

Building on belief

TCS 2021 Global Leadership Study

Where, How and What Leaders Will Compete With in the New Decade

Contents

About the Study

In early 2021, Tata Consultancy Services launched a major research study to understand how large global companies had recalibrated their strategies through 2025 for a period that is expected to be even more digital than the previous five years. Specifically, we wanted to know how they were planning four aspects of their businesses:

- *Their digital strategies* – the markets and businesses they will play in
- *Their digital offerings* – the products and services they plan to offer, and the degree to which they will be digital products and services
- *Their digital ways of conducting business* – how they see making their processes for creating demand and supply more digital
- *Their leadership approaches* – how to manage people who are doing their work in increasingly digital ways

INNOVATION	VS	OPTIMIZATION
New sectors, regions, business models	**1. WHERE TO COMPETE** *Digital strategies*- deciding which businesses and market to be in	Exiting sectors, regions, business models
New products and services	**2. WHAT TO COMPETE WITH** *Digital offerings*- defining the products and services we offer	Improving existing products and services
New business processes to create demand supply	**3. HOW TO COMPETE** Digital ways to conducting business	Improving existing ways of creating demand and supply
New approach to managing talent and creating a new culture	**4. HOW TO LEAD** Leadership approaches to managing people who are working in increasing digital ways	Improving existing talent management approaches and current culture

Over the first three months of 2021, the survey was fielded. More than 1,200 senior executives completed it, from a broad range of industries and from four regions of the world: North America, UK and Europe, Asia-Pacific, and Latin America. Their average revenue was nearly $14 billion, and they include 26 companies with sales of at least $100 billion.

In addition to breaking this topic into those four arenas, we wanted to probe each of them through the same construct: the age-old conundrum of innovation vs. optimization. To what degree are company executives rethinking everything – what markets and businesses they should be in, what products and services they should offer, how they should create demand and supply for their offerings, and how they should manage people.

It comes down to this: Will winning – and in some cases, surviving – require large doses of innovation in strategy, offerings, business processes, and managerial approaches? Or are they instead looking more toward optimizing the strategy, offerings, processes and leadership styles they already have in place? Are they making incremental or perhaps more improvements to their tried-and-true markets, businesses, offerings, processes and management approaches?

Our overarching finding is this: Even with the massive digital opportunities that CEOs and other senior leaders anticipate through 2025, most are significantly underestimating the amount of innovation they will need to compete this decade. This report walks you through the data behind this and the other essential findings.

Our Big Takeaway?

Even with the massive growth in digital opportunities that senior leaders anticipate through 2025, most are significantly underestimating the amount of innovation they will need to compete this decade.

Essential Takeaways

We organized the report around the four biggest takeaways from our research:

1. Senior leaders see growth over the next four years to come from new digital offerings, entry into new markets organized along cross-industry "digital ecosystems" and more collaboration with new competitors in those ecosystems.

2. To succeed in a far more digital world, senior leaders believe they must drive their companies to be more customer-centric and innovative than by focusing on shareholder value.

3. In an increasingly digital business environment, senior leaders believe many new areas of their organization to be vulnerable to cyberattacks beyond the IT function.

4. Despite predicting far greater digitization of their businesses and the marketplaces in which they will compete by 2025, most senior leaders believe that optimizing what they're doing today will be more important than embarking on far-reaching innovation in strategies, offerings, business processes and leadership approaches.

Essential takeaways at a glance

?

Question:

*In a more digital decade, what is more important: innovation or optimization?**

1

Senior leaders recognize that continued growth and profitability will likely come from ***new collaborators (even competitors), new digital offerings, and new industries and ecosystems***

2

Senior leaders predict ***innovation and a customer & employee centricity*** need to drive their culture more than shareholder value

3

Senior leaders predict ***many areas of the organization will become newly vulnerable to cyberattacks***

4

Senior leaders predict that ***optimization will be more important than innovation*** for organizational growth and profitability between now and 2025

* Essential takeaways from leading companies as defined by the study

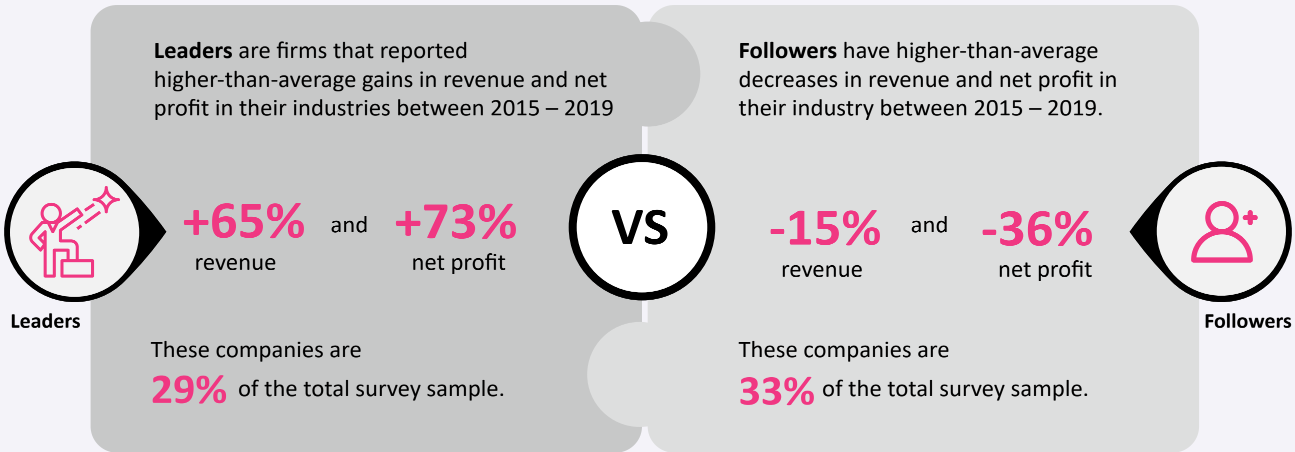
In each section, we also compare the results of two groups of survey respondents – “Leaders” and “Followers” -- based on their financial performance in the second half of the 2010s. (See the following section for more details on how we determined these two groups.

Comparing Leaders and Followers

Learning what the best companies at dealing with a digital challenge do differently than the rest has been a feature of TCS studies for more than a decade. This report continues those comparisons. Throughout this report, we will use the terms “Leader” and “Follower” to refer to two subsets of our 1,206-survey population.

Comparing Leaders and Followers is our way of understanding how the best-performing companies of the second half of the last decade answered our questionnaire differently than the worst-performing firms. Our thinking is that the 2010s were a highly digital decade, and that looking at firms that achieved higher than their industry average in revenue and net income growth between 2015 and 2019 would provide insights on how they see the first half of this decade differently than below-average performers in revenue and profit growth.

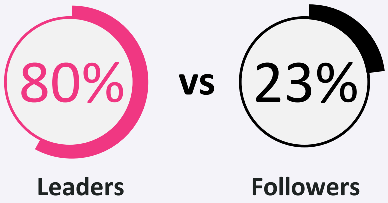
Defining "Leaders" and "Followers"



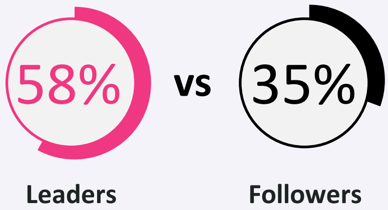
In this study, we compared the best-performing companies ("Leaders") in the last half of the 2010s to the worst-performing firms ("Followers"). "Leaders" see their digital opportunities between now and 2025 much differently than do "Followers."

Essential Takeaway 1

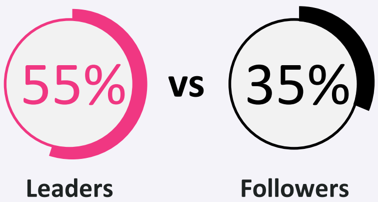
Leaders recognize that continued growth and profitability will come from new collaborators (even competitors), new digital offerings and new industries & ecosystems



80% of "Leaders" are more willing to collaborate with competitors



58% of "Leaders" include ecosystems when building their future strategy



55% of "Leaders" plan to expand these kinds of collaborative relationships

56% of revenue (on avg) will come from purely digital offerings according to all "Leaders"

Clearly, most "Leaders" realize they must collaborate extensively with competitors to be key players in digital ecosystems. Lower performers still regard competitors as enemies to avoid. "Leaders" also anticipate that more of their revenue will come from purely digital offerings compared to "Followers."

WHY THIS MATTERS

Companies project a big increase in revenue from digital products and services; greater digital marketing, sales and service processes; and entry into digital ecosystems that cross industries. The ability to participate with competitors and partners in cross-industry digital ecosystems with new, more highly digital products and services will be essential to seize new, revenue-driving opportunities in the mid-2020s.

Deeper Dive

Senior executives see growth over the next four years to come from new digital offerings, entry into new markets organized along cross-industry “digital ecosystems,” and more collaboration with competitors in those ecosystems.

It is not an understatement to proclaim that the era of the digital product and service has fully arrived, and that competing in the marketplace will mean navigating in digital ecosystems that cross previously impassable industry boundaries.

To see how, let’s start with one of the most striking digital transformation stories of the last two decades. Back in the late 1990s and early 2000s when streaming movie leader Netflix Inc. sent its products (digital videodisks) through the mail, it would be fair to say that those products were physical products. Yes, those movies were digitized onto floppy disks. But the disks themselves were plastic. Since 1998, the company has sent 5 billion of those plastic disks through the mail.[1] (It still does, but the number has been dwindling.)

Fast forwarding to today, some 99% of Netflix’ $25 billion in annual revenue comes from a purely digital product: streaming.[2] [3]After entering that business in 2007, the Los Gatos, Calif.-based global company has become the king of streaming. And while Netflix is an extreme example of physical products and services turning purely digital, we believe it is a harbinger of things to come in many sectors.

The more than 1,200 senior executives across 16 sectors that we surveyed estimated that, on average, 39% of their companies’ revenue last year came from purely digital products or services. When asked what that percentage would be by 2025, they projected an average of 46% of revenue – nearly half! It was even higher for “Leaders”, who predicted an average of 56% of revenue will come from purely digital offerings.

56% of revenue (on avg) will come from purely digital offerings according to all "Leaders"

Keep in mind that we didn’t just survey media, banking, telecommunications and other companies whose fundamental offerings have largely become digital. We didn’t just poll executives at newspaper companies whose digital editions you subscribe to, or banks whose checking and savings accounts you tap via your smartphone and whose payments you make digitally, or the wireless communications or Internet providers that you use. In fact, we surveyed manufacturers of industrial equipment, consumer packaged goods companies, energy and resource companies, and other sectors that sell both products and services. (Exhibit 1)

[1]Netflix web page. https://dvd.netflix.com/HowItWorks

[2]Netflix revenue from its 2020 annual report, p. 20. https://s22.q4cdn.com/959853165/files/doc_financials/2020/ar/8f311d9b-787d-45db-a6ea-38335ede9d47.pdf

[3]MediaPlayNews.com, Oct. 20, 2020. Estimate. For the first nine months of 2020, Netflix disk rental revenue was $185 million. Total revenue in that period was $18.35 billion. https://www.mediaplaynews.com/netflix-generated-59-million-in-q3-legacy-disc-rental-revenue/

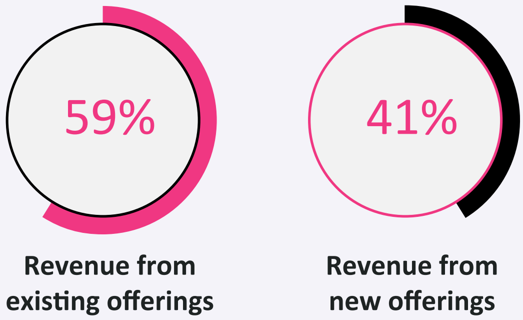
Exhibit 1: Percentage of revenue today and projected by 2025 from digital products and services

Industry	% revenue from digital products/services today	Predicted % revenue from digital products/services in 2025
Telecommunications	56%	57%
Technology	50%	57%
Accommodation and food services	50%	57%
Retail	47%	52%
Media and entertainment	47%	51%
Securities and investment firms	45%	54%
Health insurance	45%	53%
Insurance	43%	53%
Banking and credit institutions	43%	49%
Life sciences	38%	50%
Health care services	38%	45%
Consumer packaged goods	37%	46%
Transportation and logistics	36%	44%
Manufacturing	34%	39%
Utilities	30%	36%
Mining	26%	28%
Oil and gas	15%	15%

To get a taste for what digital revenue looks like in a sector that makes products, just consider the global automotive sector. Digital revenue here is no longer trivial. The market for vehicle infotainment systems is predicted to reach $52 billion next year.[4] What's more, over-the-air updates of software in cars was a $2.4 billion business last year that is predicted to increase nearly sixfold by 2030.[5] These updates can upgrade your mapping systems, give you more horsepower and deliver other software-driven features.

[4]**Statista.** https://www.statista.com/statistics/784954/in-car-infotainment-systems-market-revenue-worldwide/
[5]**PS Market Research.** https://www.psmarketresearch.com/market-analysis/automotive-over-the-air-ota-updates-market

In addition to asking senior executives about their mix of digital and non-digital revenue, we asked them to estimate how much revenue would come from the products and services they sell today vs. the revenue from completely new offerings by 2025. Overall, they expect significantly more of their revenue (59%) to come from existing offerings than from new offerings (41%).



Subtle differences emerge in the responses from “Leaders” and “Followers”, with “Leaders” deriving more revenue from new offerings. “Leaders” project their 2025 revenue mix to be 56% from existing offerings and 44% from new offerings, while “Followers” project that 60% of their revenue will come from existing offerings and 40% from new offerings.

Where To Compete

The Decade of Competing in Digital Ecosystems

A generation ago, industry boundaries were neatly defined. But as C-suite occupants recognize today, that is no longer the case. Competition arises from unexpected places, and so can new sources of revenue. Successful companies are protean, versatile and opportunistic, matching their capabilities with marketplace needs regardless of the sectors that may traditionally serve those needs.

That's the concept that led Amazon, a retailer, to become a cloud services powerhouse, and enter a score of other businesses, including digital advertising.[6] It's the principle that transformed Apple from just a computer company into a leading phone maker, the largest U.S. music retailer, a payments company, a healthcare innovator and so on.[78]

In another boundary-busting example, Walmart now has a rapidly growing business selling advertising space to other companies. The retailing giant's 10,500 stores[9] around the world and website reach 160 million consumers every week.[10] The company wants to increase revenue in the digital ad business 10-fold in the next five years,[11] from an estimated $500 million in 2020.[12]

To better recognize their opportunities and threats, companies are increasingly thinking in terms of digital ecosystems rather than in terms of industry sectors. Digital ecosystems are complex networks of stakeholders that connect online and interact digitally in ways that create value for all. Companies that plan in terms of ecosystems think within and beyond the boundaries of their industry. They look at ecosystems such as mobility (getting from point A to point B), wellness (in sickness and in health), finding a place to live and moving in (which includes sectors from real estate to mortgages to moving and furniture companies and much more) as a way to understand their customer opportunities – and their competitive threats. Failing to appreciate the nature of a company's ecosystem leads to a host of difficulties, including lost opportunities, unexpected challenges from novel competitors, and even bankruptcy as markets and business models vanish.

Our survey found that in strategic planning exercises, when top management teams evaluate their organization's future business opportunities, more than half (55%) still think along traditional industry boundaries. (See Exhibit 2.) Fewer (45%) plan through cross-industry ecosystems, a number that includes 31% which plan only through the lens of digital ecosystems and 14% which balance their strategic planning between ecosystems and traditional industry boundaries.

While only 31% of all firms surveyed plan entirely through the lens of digital ecosystems, we must add that this number is up substantially from percentage we found (19%) in a TCS study two years ago.[13]

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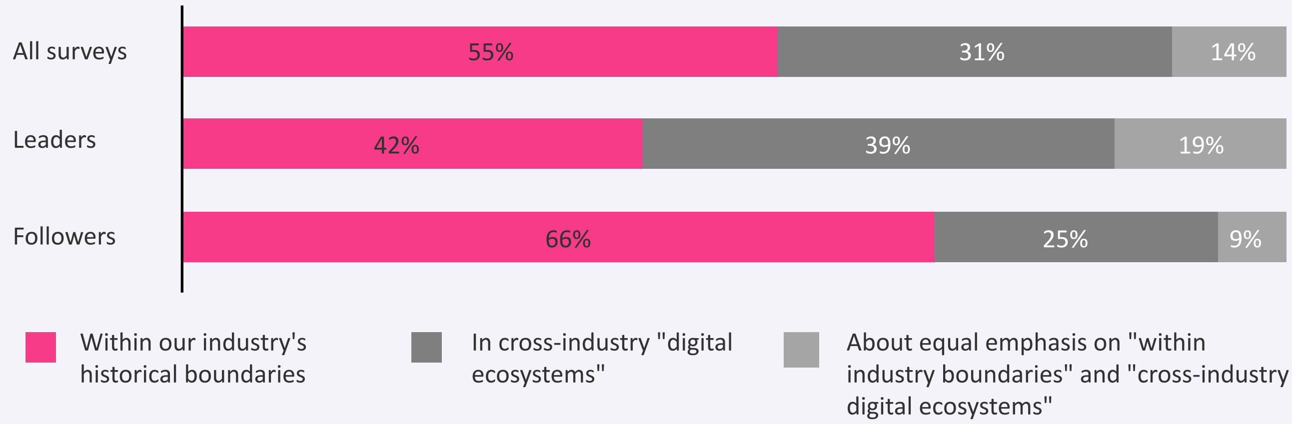
[6]BuzzFeed, July 11, 2019, accessed April 18, 2021.
https://www.buzzfeednews.com/article/leticiamiranda/these-are-all-the-businesses-you-never-knew-were-owned-by
[7]Apple press release, April 3, 2008. https://www.apple.com/newsroom/2008/04/03iTunes-Store-Top-Music-Retailer-in-the-US/
[8]Outside magazine, Dec. 9, 2020. https://www.outsideonline.com/2419508/tim-cook-health-fitness-podcast
[9]Walmart web page, accessed April 19, 2021. https://corporate.walmart.com/our-story/our-business#:~:text=Walmart%20operates%20approximately%2010%2C500%20stores,million%20in%20the%20U.S.%20alone.
[10]CNBC, Jan. 28, 2021. https://www.cnbc.com/2021/01/28/walmart-partners-with-the-trade-desk-for-ads-business-.html
[11]CNBC, Feb. 18, 2021. https://www.cnbc.com/2021/02/18/why-an-emboldened-walmart-is-looking-to-beyond-retail-for-future-growth.html
[12]Morgan Stanley estimate, as cited in Forbes, Feb. 5, 2021.
https://www.forbes.com/sites/andriacheng/2021/02/05/why-walmart-wants-a-bigger-slice-of-the-digital-ad-market/?sh=79cfd6802e97
[13]TCS 2020 CIO Study report "Opportunities & Threats: Ecosystem vs. Industry," p. 6.
https://www.tcs.com/content/dam/tcs/pdf/perspectives/cio/TCS-2020-CIO-Study-Ecosystem-vs-Industry.pdf

Exhibit 2: How companies view opportunities in strategic planning exercises



Which industries are more likely to plot their strategies through a digital ecosystems lens? Our research found it is most common in the following sectors:

- Securities and investment companies (48%)
- Retail (42%)
- Banking and credit institutions (42%)
- Technology (37%)
- Insurance (35%)
- Telecom (35%)

In contrast, traditional industry planning dominates in these industries:

- Accommodation and food service (78%)
- Consumer packaged goods (69%)
- Utilities (63%)
- Oil & gas (62%)
- Transport and logistics (61%)
- Manufacturing (59%)
- Life sciences (58%)
- Media & entertainment (52%)

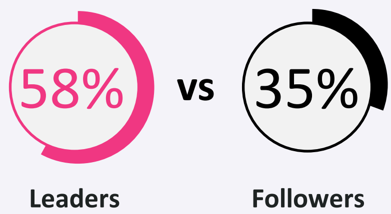
Levels of ecosystem-based strategic planning are relatively consistent across the globe. Digital ecosystem-only planning is most common in Latin America (35%), followed by the UK and Europe (33%), APAC (31%) and North America (29%).

Levels of ecosystem-based strategic planning are relatively consistent across the globe. Digital ecosystem-only planning is most common in:

- **Latin America (35%)**
- **The UK and Europe (33%)**
- **APAC (31%)**
- **North America (29%)**

These results, however, may be skewed somewhat by the industries represented in each region. We believe that the global presence of digital ecosystem strategic planning, where no single region dominates or lags significantly, simply underscores its importance for all companies. It demonstrates that, like industry boundaries, national boundaries are of declining relevance in a global market. Increasingly, opportunities and disruptions are prone to emerge from anywhere, from companies that are thinking hard about how to add value across their digital ecosystem.

We also found a meaningful difference between “Leaders” and “Followers” in terms of ecosystem strategizing. Overall, 58% of “Leaders” use ecosystem planning, either by using only an ecosystem lens (39%) or by balancing ecosystem thinking with traditional industry analysis (20%). Only about two-in-five “Leaders” (42%) plan strictly within traditional industry borders, compared to two-thirds (65%) of “Followers”. About a quarter of Followers (25%) strategize through a pure ecosystem lens, and 9% of use a balance of ecosystem and traditional industry analyses.



58% of "Leaders" include ecosystems when building their future strategy

Companies like Amazon, Google, Facebook, Uber, and Netflix don’t respect industry boundaries. They see them as permeable – sectors they can reach if they possess the right customer data, unique insights on their needs, and ways to efficiently deliver services and products.

Consider Rakuten, a Japanese e-commerce company that got its start in 1997. It has grown into a $13 billion firm[14] that has moved into banking, travel and telecommunications as well.[15] “We built an ecosystem that connects our members to daily services such as shopping, travel, banking, insurance, credit cards, and of course, digital goods,” said company CEO Mickey Mikitani in 2015.

And, of course, thinking outside the box of one’s industry borders has led to the astronomical growth of a number of digitally sophisticated companies. Everyone knows about Amazon, whose latest annual revenue ($386 billion) is now 70% of Walmart’s ($559 billion).[16] Walmart had a 33-year and $89 billion head start on Amazon in 1995, when Jeff Bezos founded his company in Seattle.[17] (Of course, Walmart’s revenue growth, both at its stores and online, has been substantial as well.)

[14] Macrotrends. https://www.macrotrends.net/stocks/charts/RKUNY/rakuten/revenue

[15] Fortune, Dec. 2, 2020. https://fortune.com/2020/12/02/rakuten-ecommerce-telecom-industry-outlook/

[16] Forbes, Feb. 18, 2021. https://www.forbes.com/sites/shelleykohan/2021/02/18/walmart-revenue-hits-559-billion-for-fiscal-year-2020/?sh=1efcae8f3358

[17] Walmart was founded in 1962, and its 1995 revenue was $89 billion. Walmart’s founding year: https://corporate.walmart.com/our-story/our-history Walmart’s 1995 revenue: https://revenuesandprofits.com/amazon-vs-walmart-revenues-and-profits-1995-2014/

How To Compete

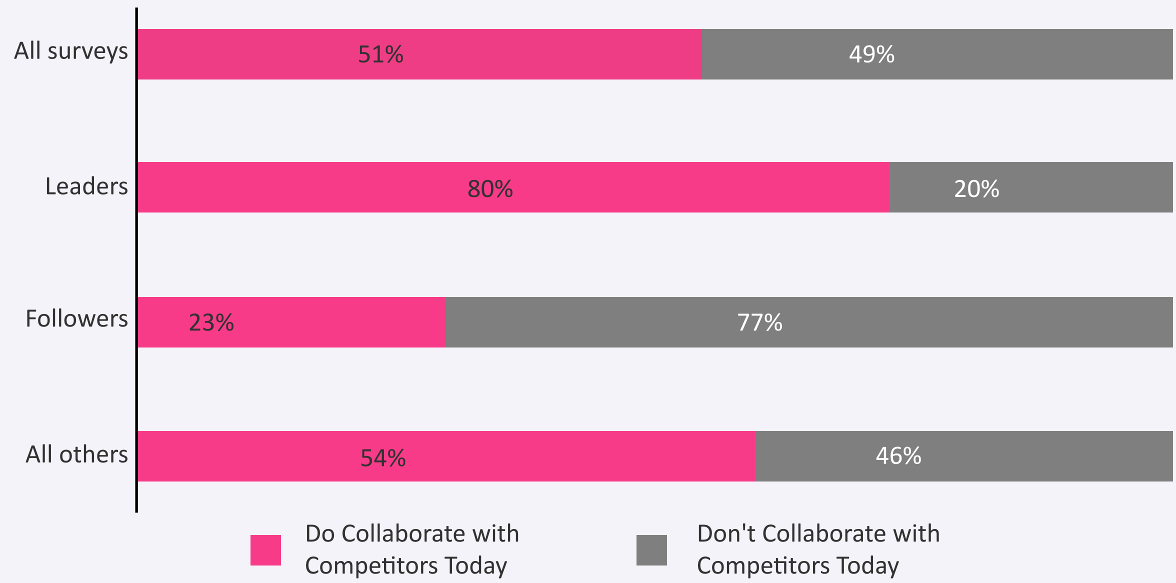
Winning in Digital Ecosystems Requires Collaborating with Competitors

In digital marketplaces, it's hard to avoid the digital platforms and other digital assets that other firms have built. Companies such as Netflix and HBO stream their digital movies through Amazon's cloud business, Amazon Web Services. Amazon is a competitor in the streaming business. Companies such as Apple (the iPhone app store) and Google (Android app store) are vital distribution systems for many companies that want customers to download their smartphone apps.

In digital ecosystems, companies that compete against each other often benefit from collaborating. Consider the example of streaming pioneer Netflix. Not long after launching on-demand video in 2007, Netflix began relying on Amazon Web Services (AWS) to host and deliver its offerings. Amazon had already introduced streaming video in 2006, so it was a firmly established as a competitor. Still, Netflix saw value in working with AWS, and it seized that value. "For a service like Netflix, elasticity and scalability are extremely important," explained a Netflix manager. (See Exhibit 3.)

We asked senior executives whether they collaborate with competitors in ways such as those previously mentioned. We found that only about half (51%) do so today.

Exhibit 3: The percent of companies that currently collaborate with competitors



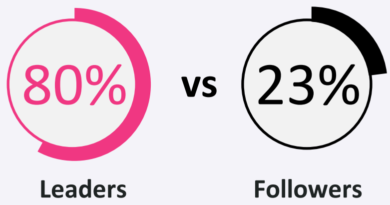
[18]The Netflix Tech Blog, Dec. 14, 2010, "Four Reasons We Choose Amazon's Cloud as Our Computing Platform" https://netflixtechblog.com/four-reasons-we-choose-amazons-cloud-as-our-computing-platform-4aceb692afec

[19]Pattern, "Amazon Prime: A Timeline from 2005 to 2020" https://pattern.com/blog/amazon-prime-a-timeline-from-2005-to-2020/

[20]N. Venkat Venkatraman, Boston University professor, in an April 16, 2017 article on Medium.com. https://medium.com/@nvenkatraman/netflix-a-case-of-transformation-for-the-digital-future-4ef612c8d8b

[21]AWS video quoting Eva Tse, Netflix director, big data services. https://www.youtube.com/watch?v=-mL3zT1iIKw&feature=emb_rel_pause

But this was not the case with the “Leaders” in our survey. Four-fifths of them collaborate with their competitors vs. only about one in five Followers. Leaders’ openness to collaboration shows a higher degree of engagement within their digital ecosystems. That may explain at least some of their superior revenue and profit performance over the past five years: They realize they must work with competitors to gain traction in marketplaces in which those competitors have critical resources to get into the game.



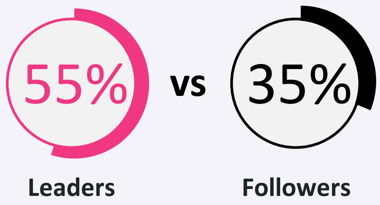
80% of "Leaders" are more willing to collaborate with competitors

Microsoft knows the value of these types of relationships well. “Partnerships … can exist, at times uneasily, with competitors in specific product or service categories,” wrote CEO Satya Nadella in his 2017 book, “Hit Refresh.” “We compete vigorously with Amazon in the cloud market … But why can’t Microsoft and Amazon partner in other areas? … We have to face reality. When we have a great product like Bing, Office, or Cortana but someone else has created a strong market position with their service or device, we can’t just sit on the sidelines. We have to find smart ways to partner so that our products can become available on each other’s popular platforms. In today’s era of digital transformation, every organization and every industry are potential partners.”[22]

As Netflix, Apple, Microsoft and many others have discovered, we believe every company this decade will need to think in terms of digital ecosystems -- and be open to collaborating with current and future competitors.

Looking to the future, respondents expect collaboration to rise or at least remain steady by 2025, across all industries and regions. Overall, 42% of companies said they expect to work more with competitors between now and 2025, while 46% said they don’t plan much change, and 12% said they will decrease collaboration. Leaders appear poised to maintain or boost their current, elevated levels of collaboration.

Far more “Leaders” (55%) than “Followers” (35%) plan to expand such relationships. Slightly more than a third (37%) of “Leaders” will maintain current collaboration levels, compared to 53% of “Followers”.

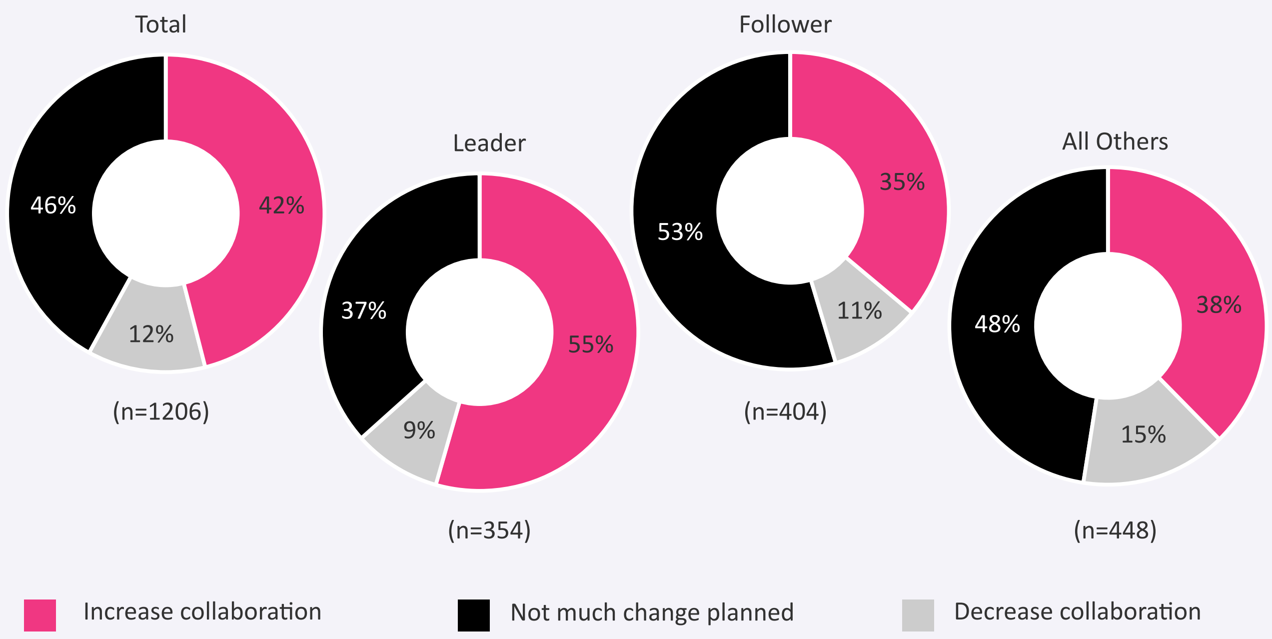


55% of "Leaders" plan to expand these kinds of collaborative relationships

[22]Satya Nadella, CEO of Microsoft, in his book “Hit Refresh” (HarperCollins 2017), pp. 126-127.

For both groups, the proportion decreasing collaboration is about 10%. (See Exhibit 4.)

Exhibit 4: Companies' plans for collaborating with competitors through 2025

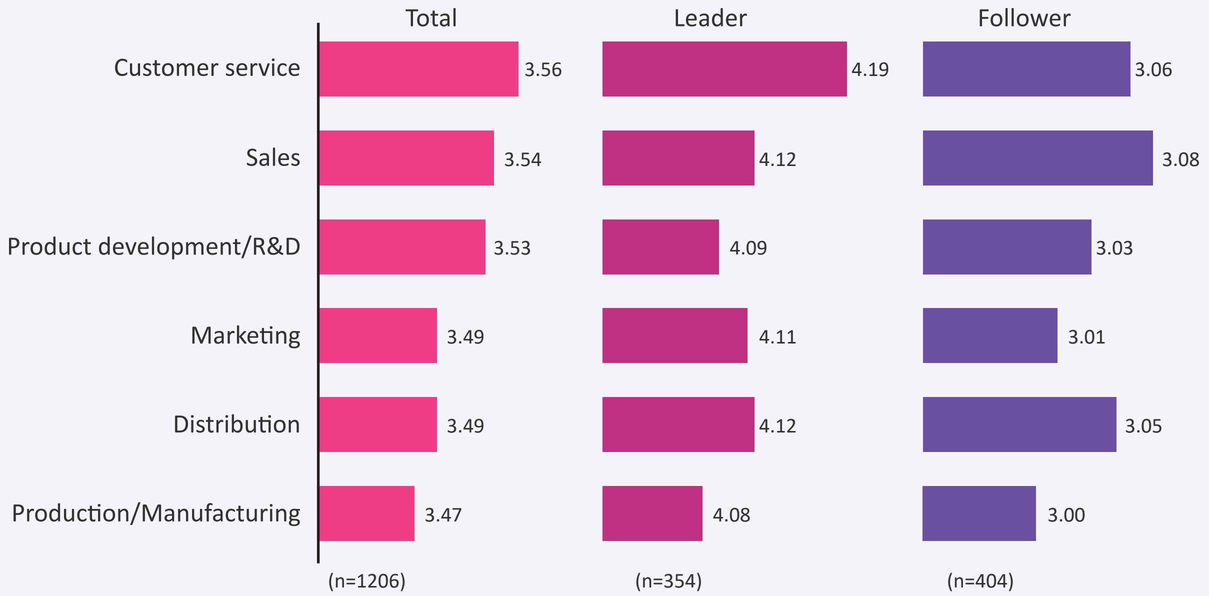


Where They Will Collaborate

We then asked executives how important it would be to collaborate with their competitors in six domains: customer service, sales, marketing, R&D, distribution and production. On a scale of 1-5 (1 = not at all important to 5 = highly important), they indicated that there is some importance to collaborating with competitors in all six areas (with scores from 3.47 to 3.56). Customer service ranked highest, followed closely by sales and product development/R&D. (Exhibit 5)

“Leaders” placed greater importance on collaborating with competitors than “Followers”, although they agreed that it was important. “Leaders” rated at least 4 (on a 1-5 scale) collaborating in sales, marketing, R&D, production, distribution and customer service. Followers’ ratings were between 3.00 and 3.08 – substantially lower. “Leaders” placed the highest importance on collaborating with competitors in customer service; “Followers” placed greatest important on collaborating with competitors in sales.

Exhibit 5: Importance of collaboration in six areas



Ranking scale of 1-5 (1 = not at all important to 5 = highly important); mean averages shown

Reducing the Risk of Collaborating with Competitors

Of course, collaborating with competitors carries risks. Talent, data and intellectual property, among other assets, may be vulnerable. Of five methods for managing these risks that we asked about, on average none stood out as being highly effective (4 or 5 on a scale of 1 to 5). What's more, only a handful out of the respondents said they use other approaches. As shown in Exhibit 6, the most effective option is to strike win-win contracts in which the partnering offers benefits to both parties. By a wide margin, the least effective stipulation is to impose strict non-solicitation of employees.

Exhibit 6: Effectiveness of five strategies for reducing the risk of collaborating with competitors

By striking win/win contracts that are more beneficial for both parties by partnering with each other	3.59
Creating and enforcing strict legal agreements	3.54
Establishing joint ventures with competitors	3.48
Withholding certain customer data	3.46
Strict non-solicitation of employees	3.34

Scale of 1-5, with 5 being most effective

"Leaders" and "Followers" manage collaboration risks differently. "Leaders" rated "win/win contracts" as most effective, followed by "establishing joint ventures with competitors". "Leaders" said the least effective method was to impose strict non-solicitation of employees.

In contrast, "Followers" appear to put more faith in precautionary measures that depend less on trust and enlightened self-interest. As the top method, they point to strict legal agreements, followed by withholding certain customer data. "Leaders" also assigned a higher overall importance to all of the risk management methods. (Exhibit 7)

Exhibit 7: Approaches to reducing risk in collaborating with competitors (in ranking order)	Leaders	Followers
Striking win/win contracts that are more beneficial for both parties by partnering with each other	1	2 (tied)
Establishing joint ventures with competitors	2	4
Creating and enforcing strict legal agreements	3	1
Withholding certain customer data	4	2 (tied)
Strict non-solicitation of employees	5	5

Which Sectors Worry the Most about Digital and New Competition

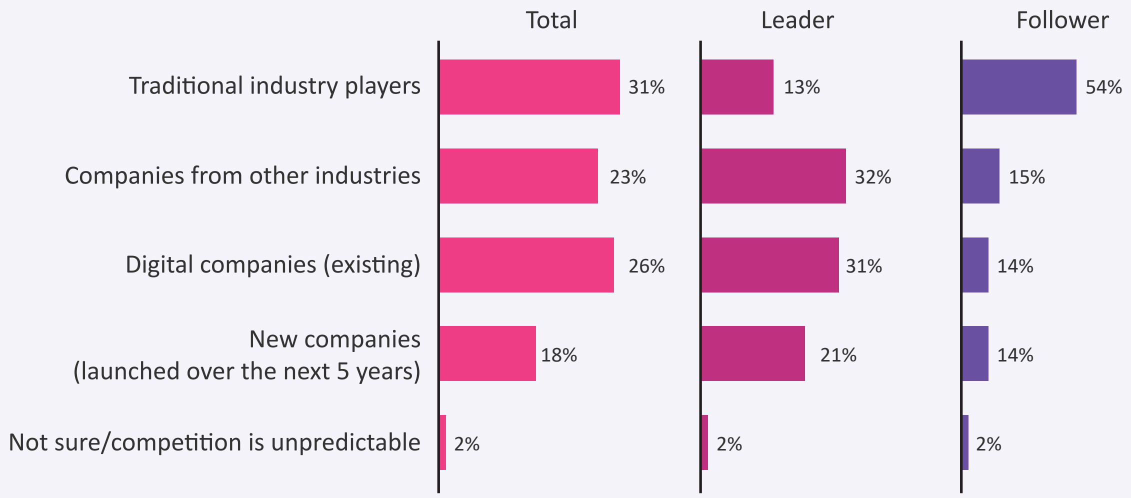
From another question we asked, it's apparent that established companies no longer dismiss new digital startups out of hand. The disruptive innovation lessons of the late Harvard Business School Professor Clayton Christensen apparently have sunk in everywhere. We asked executives where they expect their company's single most formidable competitor to come from by 2025.

The answers are revealing (Exhibit 8):

- Less than a third believe it will come from their current industry
- About a quarter say it will be a digital company that's here today
- Nearly a fifth believe it will be a new company that's not even around now

What about "Leaders" and "Followers"? Only about one in eight "Leaders" sees their most formidable rival in 2025 to come from their current industry. In contrast, most "Followers" believe their single toughest competitor by 2025 to come from their industry.

Exhibit 8: Most formidable competition between now and 2025



Which sectors worry the most about digital companies here now and those emerging in the near future? Technology and media & entertainment companies topped the list of sectors most concerned by digital and startup competition, cited by 52% of respondents in both industries. This is to be expected: innovation and disruption are inherent in technology, and the media industry has experienced extensive disruption since the advent of the internet and social media. (Exhibit 9)

Exhibit 9: Industries in which companies believe their biggest competitor by 2025 will be existing digital firms or new firms not here today*

Tech	52%
Media & entertainment	52%
Consumer packaged goods	50%
Insurance	50%
Oil & gas	50%
Banking and credit institutions	49%
Retail	47%
Life sciences	47%
Accommodation and food service	45%
Utilities	42%
Transportation and logistics	41%
Healthcare services	37%
Health insurance	37%
Manufacturing	35% (including 38% of automakers)
Telecom	35%
Securities and investment firms	34%
Mining	30%

*Percentage of companies in each sector

Essential Takeaway 2

Senior leaders predict that innovation, customers and an employee-centric approach will be a higher priority to organizational culture than shareholder value

Innovation ranked **#1** across all 1200+ respondents

Overall senior leaders ranked innovation, customer centricity and employee experience higher as cultural priorities than shareholder value.

WHY THIS MATTERS

These findings underscore the Amazon effect: customer-centricity and innovation reign supreme in an increasingly digital economy. These two traits—along with employee experience, diversity, quality and sustainability—are expected to influence company culture more than shareholder value.

Deeper Dive

To succeed in a far more digital world, senior leaders believe they must drive their companies more by being customer-centric and innovative and less by focusing on shareholder value.

What will drive companies to be more "digital" by 2025 in business model, products and services, and the way they generate demand and supply of their offerings? What do their leadership teams think are the most important cultural traits to getting their companies there?

We asked our survey respondents to rank 11 cultural traits in order of importance, including innovation, diversity, customer centricity, employee centricity and shareholder value. The No. 1 trait they see is innovation. Shareholder returns finished way down the list, at No. 8. (Exhibit 10.)

Exhibit 10: Between now and 2025, what do you anticipate will be the top three most important aspects of your organization's culture?

Overall respondents RANKING	
1	Innovation
2	Diversity, inclusion and equal opportunity
3	Quality driven
4	Customer centricity
5	Environmental sustainability
6	Learning, upskilling and reskilling
7	Employee experience
8	Shareholder value and financial performance
9	Transparency
10	Purpose driven
11	Risk tolerant

How To Lead

Creating Thriving Digital Cultures

Successful firms tend to have strong ideas concerning which elements they need to cultivate to attract and retain top talent. They place greater emphasis on creating a great digital culture—enhanced by digital communications and support—with a flexible and empowering work environment.

Tech companies are widely seen as be leaders in this area. Apple's phenomenal success stems from a culture of putting people with diverse skills, backgrounds, and passions together, allowing them to do their lives' best work, according to CEO Tim Cook. "We have a culture of creativity and a culture of collaboration. And these two things together, when they intersect, create enormous innovation," Cook told an interviewer this year.[23]

Culture, however, is not a one-size-fits all proposition, as Pfizer CEO Albert Bourla said in a recent article. He made a cultural statement when he took the reins by ditching the formal CEO boardroom table in favor of a round seating configuration and replacing fancy art with photos of patients—the company's customers. "The right culture for one company may be completely wrong for another. So, you need to find out what works best for your company, your industry, your colleagues, and build the best culture for you." Pfizer defines its culture by four values: courage, excellence, equity and joy.[24]

Our survey respondents appear to concur with Bourla's observation. From 11 cultural attributes we had them select from, they chose three as most important to creating a healthy corporate culture by 2025: innovation; diversity, inclusion and equal opportunity; and a quality orientation. (Exhibit 11)

[23]MacRumors.com, Feb 19, 2021, "Tim Cook: 2020 Was Apple's 'Top Year of Innovation Ever"
https://forums.macrumors.com/threads/tim-cook-2020-was-apples-top-year-of-innovation-ever.2285332/
[24]Bloomberg Advertorial (sponsored content), Moving at the Speed of Science,
https://sponsored.bloomberg.com/news/sponsors/features/pfizer/moving-at-the-speed-of-science/?twclid=11361476587879862273&adv=33805&prx_t=c3oGAPEhKAXikPA

Exhibit 11: Between now and 2025, what do you anticipate will be the three most important aspects of your organization's culture (in ranking order)?

	All Surveys	Leaders	Followers
1	Innovation	2	1
2	Diversity, inclusion and equal opportunity	3	2
3	Quality driven	4	3
4	Customer centricity	1	6
5	Environmental sustainability	5	4
6	Learning/Upskilling/Reskilling	6	8
7	Employee experience	7	5
8	Shareholder value | Financial performance	9	9
9	Transparency	8	7
10	Purpose driven	10	10
11	Risk tolerant	11	11

"Leaders" put customer centricity at the top. "Followers", in contrast, ranked it sixth, which may help explain their inferior financial performance between 2015 and 2019. Leading companies like Amazon attribute much of their success to their customer obsession, which is the top item in the tech giant's leadership principles. The item reads, "Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers."[25]

[25]Amazon.com, accessed 04/17/2021, Leadership Principles,
https://www.amazon.jobs/en/principles

Essential Takeaway 2 (cont'd)

Innovation, customers and an employee-centric approach will be a higher priority to organizational culture than shareholder value

"Leaders" rank customer-centricity **#1** as their most important cultural trait

Overall, "Leaders" ranked customer-centricity #1 as a cultural priority, above shareholder value, while Followers ranked it #6. This finding suggests that higher-performing companies embed a "customer first" mindset across the organization.

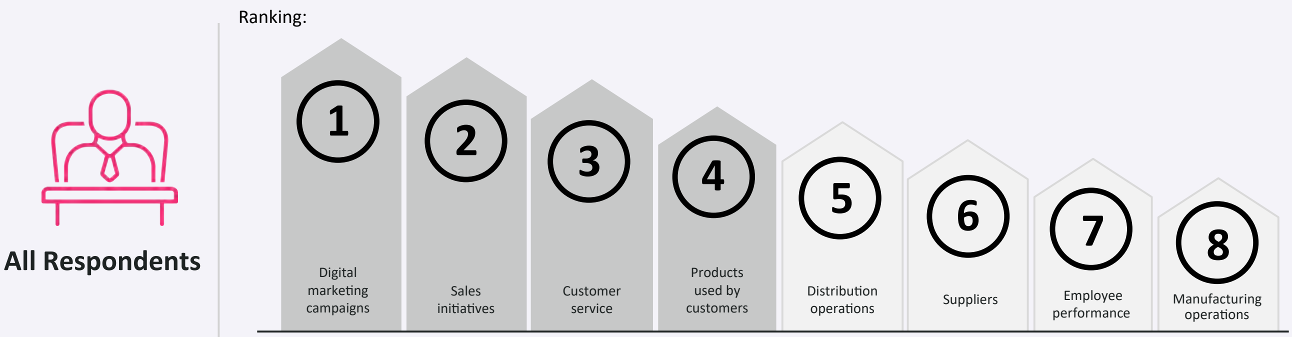
[25]Amazon.com, accessed 04/17/2021, Leadership Principles, https://www.amazon.jobs/en/principles

What To Compete With

Leveraging Customer Data

To be customer centric, companies must collect huge volumes of data on customers. Gaining insights from their customers – about their experiences, their preferences, their openness to new offerings, their position in relation to a company’s marketing messages – is essential for companies strengthening existing revenue streams and determining how to build new ones. Customer data is the essential fuel of modern businesses; the best ones collect more data, analyze it better, and are quicker and better at acting on it.

#1 in the areas where senior leaders say their companies need to more effectively use data



When asked where they need to more effectively use data, senior leaders ranked 4 customer-related processes the highest of 8 areas. Overall, they believe they must get much better at using data about customers to create demand, provide better support, improve the customer experience and products and services.

Deeper Dive

Companies see using customer data to improve service as their most important priority: 55% believe this is the greatest area in which they need to use customer data by 2025. Harvesting customer views on a company's existing and future products and services is also vital. More than half say improving current products and services and creating new offerings were the second-highest priority for improving their use of customer data (see Exhibit 12).

Much lower on the list of priorities were efforts to leverage customer data to upsell or cross-sell products and services to current customers and selling insights on customer data to other companies.

Exhibit 12: Top areas where companies need the most improvements in using customer data by 2025	Overall	Leaders	Followers
Providing better customer service	55%	62%	49%
Making improvements to existing products and services	53%	57%	44%
Creating new products and services	53%	63%	43%
Improving marketing and sales	50%	57%	41%
Selling additional products and services to current customers	34%	42%	30%
Selling insights from our customer data to other companies	31%	33%	28%

This view into companies' priorities shifts when using the lens of Leader and Follower firms. "Leaders" place more emphasis on improving all their potential uses of customer data compared to "Followers". This is particularly the case in improving the use of customer data to create new products and services. Sixty-three percent of "Leader" companies say they must improve their use of customer data in this fashion, signaling that "Leaders" identify innovation as a key goal in the next several years.

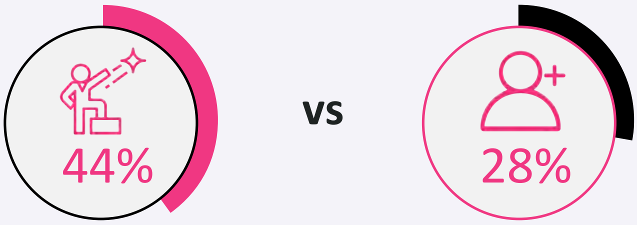
Digital Innovation Sources

The previous decade saw a dramatic acceleration in the pace of digital innovation. But where were companies getting their most successful ideas from? Respondents said they came from a variety of sources, but the greatest credit overall goes to company "leaders and the executive team."

[25]Amazon.com, accessed 04/17/2021, Leadership Principles,
https://www.amazon.jobs/en/principles

44% of "Leaders" will look to their leadership teams to drive innovation compared to "Followers"

Leaders



Leaders **Followers**

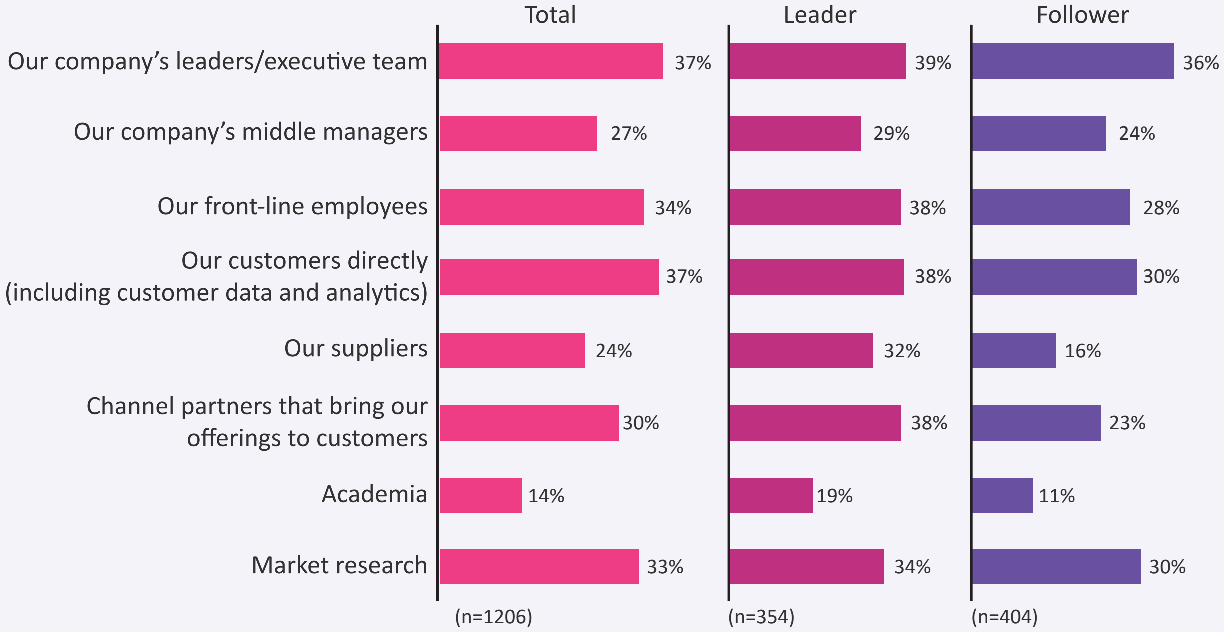
"Leaders" will more heavily rely on their executive teams to help drive innovation, up from 39% over the last decade. This finding suggests that company executives must more fully embrace an innovation mindset.

If they are truly earning their premium compensation, company leaders and executives should possess the vision, insights and implementation skills needed to imagine the future and bring it to life before the market defines a need. The idea for Amazon Web Services, for instance, was initially developed in 2003, during a brainstorming session in CEO Jeff Bezos's living room. The small group of leaders decided to capitalize on Amazon's already-massive data center infrastructure to offer "any individual in his or her own garage or dorm room … access to the same cost structure and scalability and infrastructure as the largest companies in the world." AWS now accounts for more than half of Amazon's operating income.[26]

Across the entire sample, the executive team and customers were roughly equivalent in importance for innovation, cited by 37% of respondents. In contrast, "Leaders" gave comparable ratings to front-line employees and channel partners. "Followers", however, more frequently mentioned market research, and less frequently front-line employees, or channel partners. (Exhibit 13)

[26]Wall Street Journal, By Aaron Tilley, Feb. 2, 2021, Who Is Andy Jassy? Jeff Bezos Acolyte Moves From Cloud to Amazon CEO, https://www.wsj.com/articles/who-is-andy-jassy-jeff-bezos-acolyte-moves-from-cloud-to-amazon-ceo-11612309443

Exhibit 13: Best sources of digital innovations over the last decade

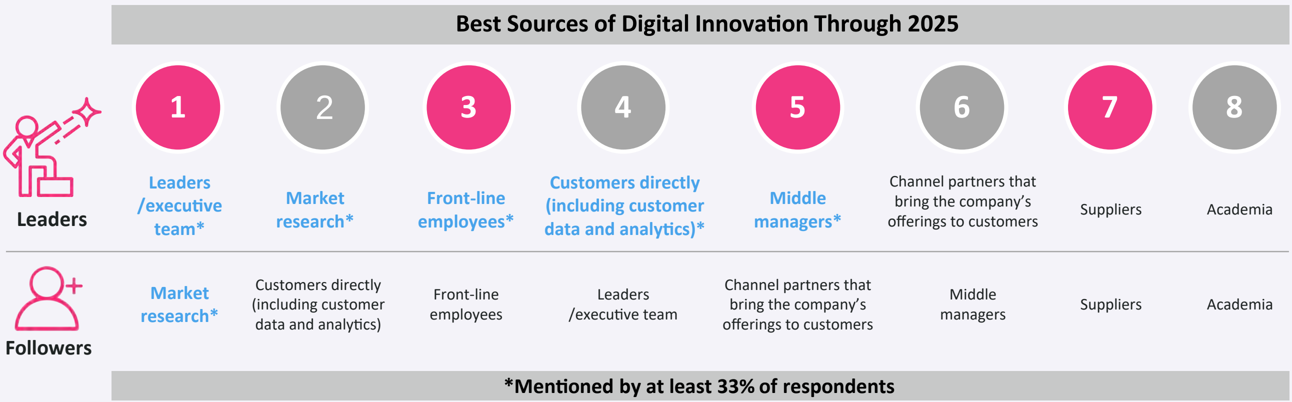


Top Future Sources of Digital Innovation

In addition to asking respondents which three sources were most responsible for digital innovation over the past 10 years, we asked where they thought the best three sources would be for innovation to emerge from between now and 2025. There were significant differences between expected sources for "Leaders" and "Followers". (Exhibit 14)

Exhibit 14: Differences between Leaders and Followers for expected future sources of innovation

33% of "Leaders" will mine innovation from more sources than "Followers"



More "Leaders" value innovation and look for it in more diverse places than "Followers", such as customers, front-line employees, middle managers and market research. The findings also suggest that "Followers" need to look at new sources of innovation to be more competitive in the mid-2020s.

[26] Wall Street Journal, By Aaron Tilley, Feb. 2, 2021, Who Is Andy Jassy? Jeff Bezos Acolyte Moves From Cloud to Amazon CEO, https://www.wsj.com/articles/who-is-andy-jassy-jeff-bezos-acolyte-moves-from-cloud-to-amazon-ceo-11612309443

At least a third of “Leaders” mentioned five of the eight sources to be in their top three: company executives, market research, frontline employees, customers, and middle managers. The only source mentioned by at least a third of the “Followers” was market research.

In short, “Leaders” look for digital innovations in many more places than do “Followers” . One for “Leaders” is middle management. This has helped digital pioneers such as Amazon and Netflix move quickly on digital businesses. Consider Netflix. At the $25 billion[27] (revenue) pioneer of streaming movie entertainment, it’s considered bad form for anyone to hold back earnest, strongly felt criticism, even when that requires a subordinate to disagree publicly with her boss. A key example where this yielded an important innovation arose when a middle manager felt strongly that the video service should enable customers to download videos, in addition to being able to stream them. Co-CEO Reed Hastings and Chief Product Officer Neil Hunt believed downloading was a distraction unworthy of company resources. Two subordinates who disagreed conducted research in India and Germany and found that a large number of people in those countries used YouTube’s download function. They argued that for Netflix to succeed overseas, the functionality was key. Their research made its way up the chain of command, and Hastings changed his view. “It’s fine to disagree with your manager and implement an idea she dislikes,” Hastings said. “We don’t want people putting aside a great idea because the manager doesn’t see how great it is.”[28]

Like “Leaders”, “Followers” anticipate relying far more on market research for new digital ideas this decade. However, “Leaders” aren’t putting as many eggs in that basket.

[27]MarketWatch, Jan. 25, 2021. https://www.marketwatch.com/press-release/netflix-did-it-again-2021-01-25?siteid=bigcharts&dist=bigcharts&tesla=y

[28]Built-In.com, September 15, 2020, by Hail Kos, "7 Leadership Lessons From Netflix CEO Reed Hastings’ New Book" https://builtin.com/company-culture/netflix-book

What To Compete With

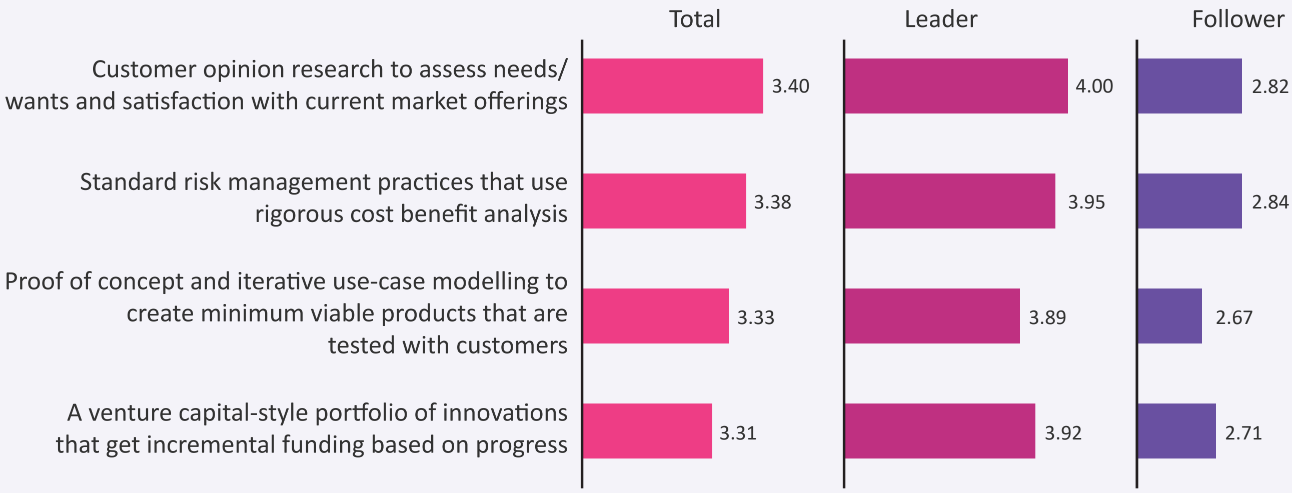
How Organizations Choose Digital Innovations

To paraphrase the two-time Nobel Prize winning chemist and peace activist Linus Pauling, the best way to have good ideas is to have lots of them and throw away the bad ones. Eliminating unworthy ideas is essential to digital innovation, given the large numbers of ideas that smart employees dream up and the limited resources available for pursuing them. But what are the best ways to choose which digital innovations should move into the developmental stage?

Our survey found that the preferred method is to conduct customer research, assess needs and wants and gauge satisfaction with current market offerings. That was followed by standard risk management practices that use rigorous cost-benefit analysis.

“Leaders” and “Followers” concurred with the overall survey on these first two methods but reversed the order of the third and fourth. Specifically, “Leaders” and “Followers” prefer to develop a venture-capital style portfolio of innovations that get incremental funding based on progress, rather than using proof of concept and iterative use-case modeling to create minimum viable products that are tested with customers. As with other responses, “Followers” don’t value any of the approaches nearly as much as “Leaders” do, on the scale of 1-5. (Exhibit 15)

Exhibit 15: How digital innovations move to development stage



How to Compete

The Most Impactful Digital Innovations Predicted to Hit by 2025

The last decade saw phenomenal leaps in computing technology, and thus what companies could do with it. For example, cloud services providers ramped up their capabilities, which had made a host of compute-intensive tasks available to companies, large and small. Artificial intelligence and machine learning (combined with the enormous processing power of cloud vendors) has opened the door wide for big companies to automate tasks seen in the past as requiring manual labor, both blue collar and white collar. Virtual reality systems have become so advanced that they can help consumers “try on” clothes from their home computers or see how furniture displayed online might look in their living rooms.

Many senior executives are quite aware of these technology advances. In our experience, many are already envisioning how others could be used in their organizations. For this reason, we asked a question to gauge what executives thought would be among the greatest new tech-enabled capabilities by 2025. These capabilities covered a range of areas: marketing, sales, product development, finance, service, distribution, production and human resource management. We asked them to choose their top three out of 10 such capabilities, and then rank order those three as the ones they saw as having the most organizational impact.

The results were eye-opening. Personalized sales and marketing campaigns, and automated and customized customer experiences, topped the list. Why were we surprised? Keep in mind that the executives who took the survey were not in marketing, sales or customer experience areas. They were largely in strategy and operational roles. And yet they said technology’s fast-evolving impact would have the biggest impact on the way the company marketed, sold and served customers.

What was also surprising was that using fast-evolving technology to improve employee and team productivity and happiness was also high on the prediction list. It ranked third across all surveys, and second among the “Leaders”.

Essential Takeaway 2 (cont'd)

Innovation, customers and an employee-centric approach will be a higher priority to organizational culture than shareholder value

"Leaders" ranked digital capabilities that improve employee satisfaction, productivity and the ability to collaborate

#2

Leaders

1. Highly personalized sales and marketing campaigns
2. **Improving employee satisfaction, productivity and team collaboration**
3. Personalized, automated and higher value customer experiences
4. Mass customization of products and services
5. R&D simulations that prove the feasibility of product concepts and engineering designs
6. Sophisticated, automated post-sales support and troubleshooting
7. Real-time automated analysis of the company's financial condition
8. Highly trackable and traceable distribution
9. Production/manufacturing operations that can switch rapidly from global to local supply
10. Manufacturing that can be shifted to customers' premises (like 3D printing)

"Leaders" believe that digitally empowering employees will be more impactful to the organization, including over automation of real-time analysis of the company's financial condition

Still emerging in terms of its importance: manufacturing shifted to customers' premises through 3D printing. Respondents ranked this capability least likely to make the greatest impact by 2025 (see Exhibit 16).

The ability to use technology capabilities and business processes to build customer relationships is an emphasis at CVS Health, the pharmacy and retail chain that has become a health care provider with in-store medical clinics and vaccination services, among other services. The company continued to build on its HealthHUB concept, in which store locations provide clinical services, telehealth and access to health care services and information both in-store and at home. "By combining the data, services, and capabilities of our providers, health plans, community partners, health technology, and pharmacists, we unlock new avenues for proactive, preventive, and personalized care. In our model, new and meaningful channels for health care offer individualized, daily support," the company noted in late 2020.[29]

Exhibit 16: Digital capabilities predicted to have the most impact on the organization by 2025 (in ranking order)

	All Surveys	Leaders	Followers
1.	Highly personalized sales and marketing campaigns	Highly personalized sales and marketing campaigns	Personalized, automated and higher-value customer experiences
2.	Personalized, automated and higher-value customer experiences	Improving employee satisfaction, productivity and team collaboration	Real-time automated analysis of the company's financial condition
3.	Improving employee satisfaction, productivity and team collaboration	Personalized, automated and higher-value customer experiences	Highly personalized sales and marketing campaigns
4.	Mass customization of products and services	Mass customization of products and services	R&D simulations that prove the feasibility of product concepts and engineering designs
5.	R&D simulations that prove the feasibility of product concepts and engineering designs	R&D simulations that prove the feasibility of product concepts and engineering designs	Improving employee satisfaction, productivity and team collaboration
6.	Real-time automated analysis of the company's financial condition	Sophisticated, automated post-sales support and troubleshooting	Mass customization of products and services
7.	Sophisticated, automated post-sales support and troubleshooting	Real-time automated analysis of the company's financial condition	Sophisticated, automated post-sales support and troubleshooting
8.	Highly trackable and traceable distribution	Highly trackable and traceable distribution	Production/manufacturing operations that can switch rapidly from global to local supply
9.	Production/manufacturing operations that can switch rapidly from global to local supply	Production/manufacturing operations that can switch rapidly from global to local supply	Highly trackable and traceable distribution
10.	Manufacturing that can be shifted to customers' premises (i.e., 3D printing)	Manufacturing that can be shifted to customers' premises (i.e., 3D printing)	Manufacturing that can be shifted to customers' premises (i.e., 3D printing)

[29]"Building patient engagement by connecting local communities to a cohesive health care network," CVS Health, September 9, 2020, accessed April 15, 2021 at https://cvshealth.com/news-and-insights/articles/building-patient-engagement-by-connecting-local-communities-to-a.

Essential Takeaway 3

Senior leaders predict in an increasingly digital business environment, many areas of the organization will be newly vulnerable to cyberattacks

Finance was ranked **#1** by senior leaders as the area predicted to have the greatest number of cyberattacks between now and 2025

All Respondents

1. **Finance**
2. **Customer databases**
3. **Research & development**
4. Legal
5. Sales/e-commerce
6. Marketing
7. Distribution/supply chain
8. Human resources
9. Ecosystem partners
10. Manufacturing/production

All respondents

Senior leaders rated ranked finance, followed by customer databases and R&D, as the top areas predicted to have the highest number of cyberattacks between now and 2025.

WHY THIS MATTERS

Pursuing digital business opportunities comes with risk. As companies' products, services and processes for creating demand and supply become increasingly digital, their exposure to cyberattacks widens significantly. The findings suggest that organizations need to ensure their systems are secure across all business units and disciplines, especially their customer, finance and intellectual property data.

Deeper Dive

In an increasingly digital business environment, senior leaders now see many areas of their organizations to be vulnerable to cyberattacks beyond the IT function.

Of course, pursuing digital business opportunities comes with risk. The companies we surveyed are clear-eyed that cyberattacks are a factor in a digital ecosystem world. We asked about greatest number of attacks expected to be between now and 2025 -- outside the IT function, which in our previous years' surveys always has been the top target.

Asked where they expect to see the greatest number of cyberattacks in the business world in general between now and 2025, they said the finance department, followed by customer databases. Attempts to steal corporate secrets – via cyberattacks on R&D organizations – were third, followed by legal, sales functions and marketing (see Exhibit 17).

The cyber risk is, of course, even greater for companies that play major roles in the world's financial systems; they handle much more money than the average non-financial Fortune 500 company. JPMorgan Chase CEO Jamie Dimon mentioned cyber risk in the bank's most recent annual report. "We have pointed out to our shareholders before that having disciplined cyber hygiene is almost as important as the money you spend," he wrote in his letter to shareholders. JPMorgan spends more than $600 million a year on cybersecurity, he said.[30]

As products and processes become increasingly digital, many areas of the organization are viewed as vulnerable to cyberattacks. Our findings suggest that companies need to better secure their systems across business functions, and not just in the IT organization.

Exhibit 17: Senior leaders rated ranked finance as the #1 target, followed by customer databases and R&D as the top three areas most vulnerable to cyberattacks

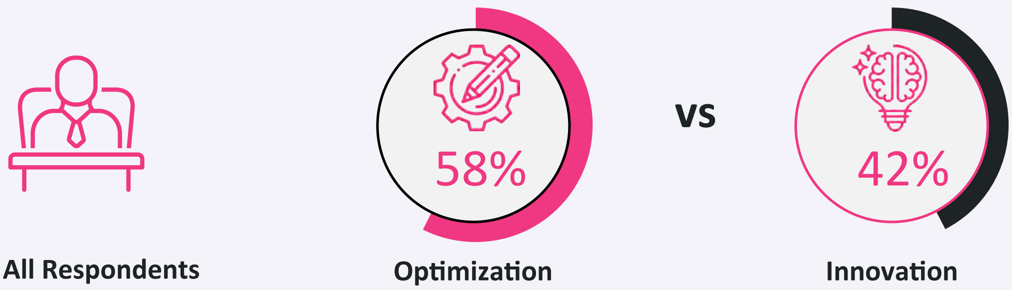
1	Finance
2	Customer databases
3	R&D
4	Legal
5	Sales/ecommerce
6	Marketing
7	Distribution/supply chain
8	Human resources
9	Ecosystem partners
10	Manufacturing plants/production/procurement

[30]JPMorgan Chase & Co. 2020 annual report, CEO Jamie Dimon letter to shareholders. Accessed April 18, 2021. https://reports.jpmorganchase.com/investor-relations/2020/ar-ceo-letters.htm

Essential Takeaway 4

Optimization ranks as more important than innovation for organizational growth and profitability between now and 2025

58% of senior leaders on average predict that optimization of their current business model and offerings will be more important for organizational success than innovation



When asked which will be more important between now and 2025 in their strategy, products and services, demand- and supply-generation processes, and culture and talent management approaches, most senior leaders chose "optimization" across each arena.

WHY THIS MATTERS

Senior leaders believe they will be focused on optimizing their current business, but overall study findings indicate that innovation will be a major factor in determining their organization's success in the mid-2020s. This suggests that despite predicting far greater digitization of their businesses and the marketplaces in which they will compete by 2025, most companies are significantly underestimating how much innovation they will need by then.

Deeper Dive

Despite predicting far greater digitization of their businesses and the marketplaces in which they will compete by 2025, most believe that optimizing what they're doing today will be more important than embarking on far-reaching innovation in strategies, offerings, business processes and leadership approaches.

A linchpin decision for senior leaders is whether to focus digital resources on innovating in new areas or optimizing that which already exists. In the four categories we asked about—strategy, products and services, demand and supply processes and leadership approaches—most respondents said it will be more important between now and 2025 to optimize what they already have, rather than seek more path-breaking *innovations*.

The biggest difference between "Leaders" and "Followers" is in strategy: 45% of "Leaders" prioritize innovation in strategy (defined as, "launching or acquiring new businesses to enter new markets") compared to only 38% of "Followers". On average, a greater percentage of "Leaders" appear to be willing to look more boldly at launching or buying new businesses to enter new markets. (Exhibit 18)

45% of "Leaders" prioritize innovation in strategy (defined as, "launching or acquiring new businesses to enter new markets") compared to only 38% of "Followers".

In contrast, "Leaders" are less aggressive about instituting new approaches to running their companies (39% vs 43% for "Followers"), and more intent on improving their culture and optimizing how they currently lead and manage their people (61% vs 57%). We interpret this as a sign that "Leaders" already have an edge in their management practices, and "Followers" are trying to catch up and institute new leadership practices.

To optimize leadership, "You have to have a very compelling goal for the company," said Elon Musk, CEO of electric car pioneer Tesla and SpaceX. "If you put yourself in the shoes of someone who's talented at a world level, they have to believe that there's potential for a great outcome and believe in the leader of the company, that you're the right guy to work with."

Musk achieves this through inspiration. "The thing that makes Elon Elon is his ability to make people believe in his vision," Dolly Singh, former HR head at SpaceX has said. "The guy is pure ambition. He's three or four steps ahead. … Most of us can't conceive these things working; he can't conceive it failing. Period," Jim Cantrell, SpaceX's first engineer, has said of Musk.[31]

Exhibit 18: How Leaders and Followers view areas for innovation and optimization

Dimension	Areas for Innovation or Optimization	Leaders	Followers
Strategy Businesses and markets to be in	Launching or acquiring new businesses to enter new markets *(innovation)*	45%	38%
	Improving our existing businesses in their current markets *(optimization)*	55%	62%
Products/services Determining which offerings to have for chosen businesses and markets	Launching new products and services *(innovation)*	42%	42%
	Improving the products and services we currently have *(optimization)*	58%	58%
Demand and supply processes How to generate demand and supply for product/service offerings	Creating new ways to generate demand for our offerings and provide supply *(innovation)*	47%	44%
	Improving how we currently generate demand for our offerings and provide supply *(optimization)*	53%	56%
Leadership approaches How to manage culture and talent	Instituting new approaches to leading and managing our people, and making major changes to our organization's culture *(innovation)*	39%	43%
	Improving the ways we currently lead and manage our people, and making improvements to our culture *(optimization)*	61%	57%

[31]One37PM.com, By Stephanie Maida, September 25, 2020, Elon Musk's Leadership Style: 10 Strategies That He Uses Daily https://www.one37pm.com/grind/entrepreneurs/elon-musk-leadership-style

How to Compete

How Leading Companies Size Up Their Growth Opportunities

Since the biggest difference between “Leaders” and “Followers” on the innovation vs. optimization scale was in strategy (a higher percentage of “Leaders” look for new opportunities in new businesses or new markets), we wanted to know how they assess such opportunities. What can be learned from the most financially successful companies of the last five years in how they look for new opportunities? How do their executive teams think differently than the companies with the worst financial performance?

We asked several questions to determine how “Leaders” differ from the “Followers” on this front. We did so by having them rank “internal” factors and “external” factors in deciding where they will play.

By **internal factors**, we mean elements over which a company has control in a market or business. They include:

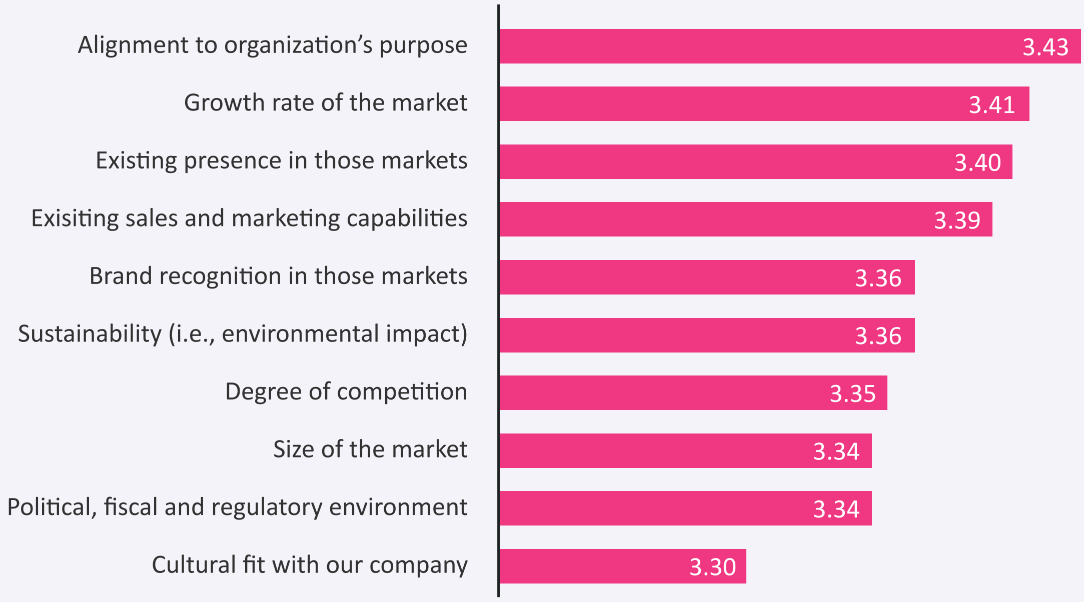
1. Having an existing presence in a market
2. Having sales and marketing capabilities to compete in that market
3. Whether a business or market is aligned to the organization’s core purpose
4. A company’s ability to have a beneficial environmental impact in a market
5. A market/business’s cultural fit with a company

By **external factors,** we mean elements that are largely or totally out of a company’s control. They ones we asked about were:

1. Degree of competition in a market
2. Political, fiscal and regulatory environment
3. A market’s growth rate
4. A market’s size
5. A company’s brand recognition in a market
   (such recognition is outside of a company’s control in markets it hasn’t been in before)

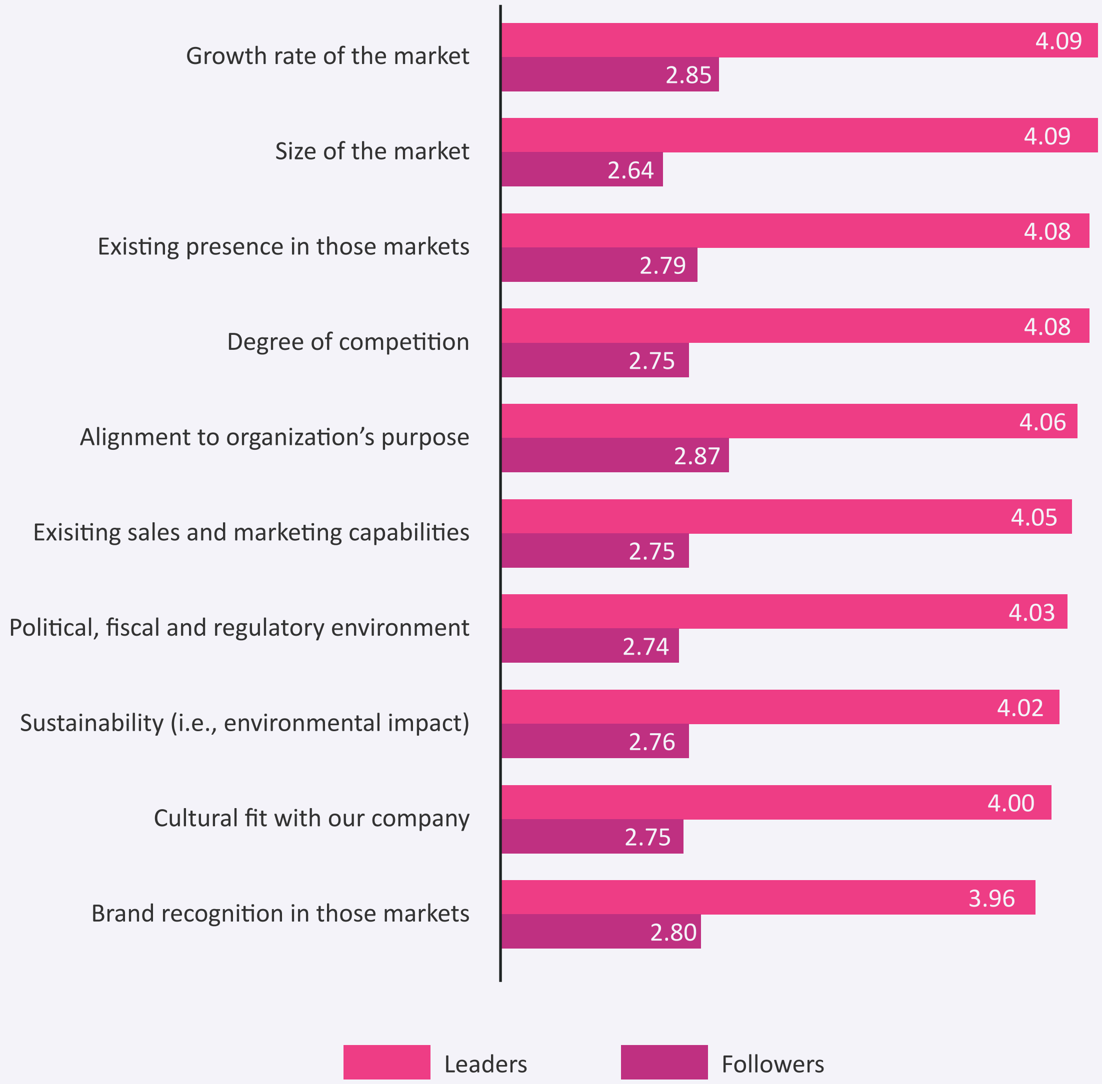
For all the surveys combined, of the four highest-rated factors, three are ones that companies have control over: “alignment to company purpose,” “existing presence in the market,” and “existing sales and marketing capabilities.” A market’s growth rate, an external factor, was ranked second—and with good reason as it rarely pays to invest in a shrinking or stagnant market. Nonetheless, across all surveys the 10 factors were rated on a scale of 1-5 fairly closely, from 3.30 at the lowest rating to 3.43 at the highest. (Exhibit 19)

Exhibit 19: Importance of 10 factors in deciding in which businesses and markets to compete through 2025 (scale of 1-5, with being of highest importance)



"Leaders", however, answered this question much differently than "Followers", in two significant ways. First, "Leaders" exhibit far greater conviction than "Followers" concerning the value of all 10 factors. On average, they ranked the factors from 3.96 to 4.09. "Followers" scores ranged between 2.64 and 2.87 – more than a whole point lower on our 1-5 scale in each instance. In our view, "Leaders" appear to be more comprehensive than "Followers" in analyzing the factors that determine whether they should enter markets and businesses they aren't already in. (Exhibit 20)

Exhibit 20: How Leaders and Followers determine which businesses and markets to compete in between now and 2025 (scale of 1-5, with 5 being of highest importance)



Second, "Leaders "ranked the factors differently. Most significantly, "Leaders" ranked "size of market" second, and "Followers" put it last. In contrast, for "Leaders" "brand recognition" was the lowest priority, while "Followers" placed it third. There was also a large discrepancy over the "degree of competition," which was the third highest factor for "Leaders", and seventh for "Followers". Taken together, these rankings suggest that leaders are more inclined to move boldly based on market size, even if they lack a recognized brand -- as long as the competition is not excessive. (Exhibit 21)

Microsoft's recent announcement that it would spend about $20 billion[32] (its second-largest acquisition ever) to purchase a company that develops speech recognition and artificial intelligence software (Nuance Communications) illustrates this notion of looking for large and fast-growing markets. In its public discussions, Microsoft explained Nuance's attractiveness as an acquisition because of its presence in the booming healthcare market. Buying Nuance would nearly double, to about $500 billion, the total addressable health care technology market in which Microsoft competes.[33]

[32]Microsoft press release, April 12, 2021.
https://news.microsoft.com/2021/04/12/microsoft-accelerates-industry-cloud-strategy-for-healthcare-with-the-acquisition-of-nuance/

[33]New York Times, April 12, 2021, accessed April 18, 2021.
https://www.nytimes.com/2021/04/12/business/microsoft-nuance-artificial-intelligence.html?searchResultPosition=1

Exhibit 21: How Leaders and Followers rank 10 factors that determine in which businesses and markets they play		
Factor	**Leader Rank**	**Follower Rank**
Growth rate of the market	1	2
Size of the market	2	10
Existing presence in those markets	3	4
Degree of competition	4	6
Alignment to organization's purpose	5	1
Existing sales and marketing capabilities	6	7
Political, fiscal and regulatory environment	7	9
Sustainability (i.e., environmental impact)	8	5
Cultural fit with our company	9	8
Brand recognition in those markets	10	3

Of course, when Microsoft, as a software and cloud services company, buys another software company, it is not entering a whole new sector or ecosystem. However, the digitization of other sectors is increasing the appetite for firms to seek profits in other pockets of its ecosystem. A great example is the $300 billion U.S. auto insurance market. It is now attracting auto manufacturers,[34] which can install digital sensors in their cars to track customer driving habits. Carmakers that have entered the insurance business can be lauded for seizing an opportunity that is within their digital ecosystem, but outside their traditional industry boundary.[35]

But beyond the ability to install sensors, however, one question is whether such companies possess the internal competencies needed to succeed in this business. Do they have the sophisticated digital capabilities that auto insurers have amassed over the years? Automakers may be able to collect precise data. But can they make robust use of it? Or are they better off partnering with existing insurers in their digital ecosystem? Of course, these factors are important, too, but at times they can entice companies that lack key capabilities to compete successfully. This is especially true when a market's size and/or growth rate overshadows internal factors that determine competitiveness—like an outmatched boxer lured by the payday in a prize fight.

Given the importance of rigorously evaluating internal factors when determining where to compete, we were surprised that "Leaders" assigned the highest ranking to three external factors. Maybe an exploding market can cover up many newcomers' missteps. Yet we note that even "Leaders" lowest-ranked factor (brand recognition) received a far higher average score than "Followers" highest-ranked factor. This suggests that "Leaders" assign greater weight to these factors overall, so their attention to internal factors is still strong.

[34] IBISWorld data, June 16, 2020. https://www.ibisworld.com/industry-statistics/market-size/automobile-insurance-united-states/

[35] Wall Street Journal, Nov. 18, 2020. https://www.wsj.com/articles/gm-wants-to-not-only-sell-cars-but-insure-them-too-11605708000

Summary: Our Recommendations

The study findings suggest that while senior executives and their leadership teams continue to be focused on overall business performance, they are evolving from tunnel vision around delivering shareholder value to a more customer- and employee-centric organization, and with good reason. Customers and employees drive the business. In fact, our "Leader" companies found their top sources of digital innovation came from employees and customers. Most significant perhaps from the study findings was that all of the senior executives in our survey identified an accelerated digital economy on the horizon, yet few are preparing to innovate accordingly and may end up lacking the capabilities to successfully compete.

The survey uncovers nine recommendations for organizations to consider that can enable them to successfully navigate their business the next few years including:

1. Participation in cross-industry digital ecosystems will be increasingly important

Senior executives and their leadership teams, especially in companies with highly digital products and services, need to quickly step out of their comfort zones and devise strategies with cross-industry digital ecosystems in mind. That's where they can expect to find lucrative opportunities – and serious new competitive threats.

2. Winning in a world of ecosystems requires embracing the competition

Operating successfully in digital ecosystem will require working with companies that are competitors today, or will be in the future, and which will own key pieces of the digital ecosystem infrastructure. No company can be a self-sufficient island anymore in a digitally interconnected world.

3. Make customer centricity the most important company cultural value

The way to find robust digital ecosystem opportunities is to start from the outside and work backwards – by looking at your customers today and major digital improvements you could make in their businesses. That requires a new level of customer centricity.

4. Leverage company data more effectively

Overall, companies believe they must get much better at using data to create demand for their offerings. Digital marketing campaigns was the top area where senior leaders believe they must use data more effectively, followed by sales and customer service. To be customer centric, you must continually capture enormous amounts of digital data on your interactions with them – and especially the new goldmine of data from their usage of your digitally enabled products and services.

5. Embed innovation at every level of the business

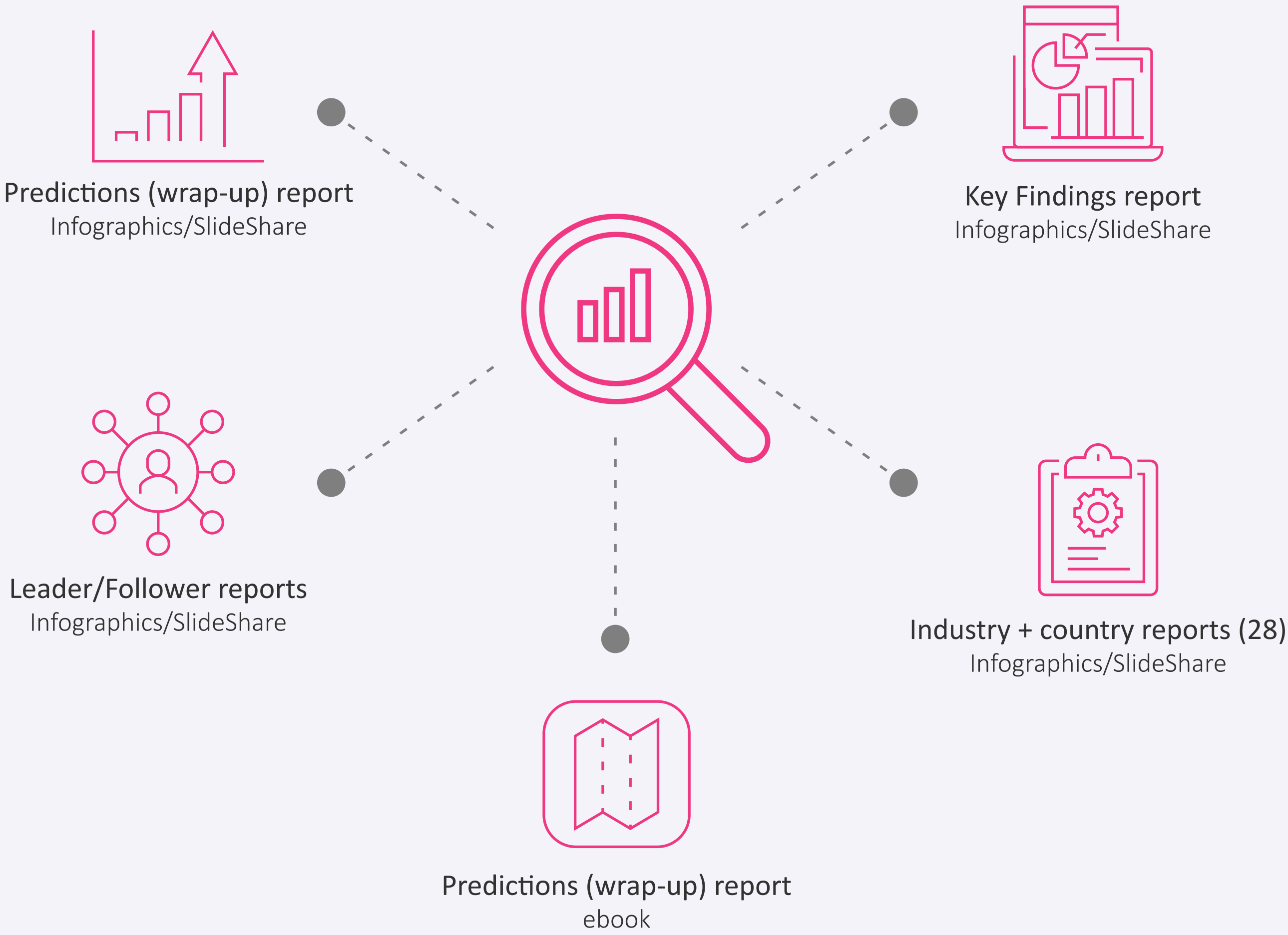
To invent winning digital offerings for customers, companies must seek ideas broadly – from (of course) customers themselves but also from employees at every level, suppliers, channel partners and others – not just from the leadership team.

6. A digital economy needs digitally empowered employees

To keep customers front and center, employees must have license to be innovative and the skills and technologies to collaborate effectively across time zones. In a competitive world for talent, customer loyalty is only sustainable in companies that have built tremendous employee loyalty and localized empowerment. In other words, the employee experience is as important as the customer experience to enable a high-performing enterprise.

More TCS 2021 Global Leadership Study reports

More TCS 2021 Global Leadership Study findings for key industries and countries will be released soon.



Research Process and Participant Demographics

How We Conducted the Study

The TCS Thought Leadership Institute scoped the research topic and issues to explore last summer with a number of leaders at Tata Consultancy Services. The survey consisted of 24 questions and was taken online.

Study Quality and Rigor

The survey instrument is coded such that the respondents are flagged or rejected altogether based on criteria such as:

Time Spent
Not enough time on the questions (less than 15 mins), and the respondent was disqualified.

Survey Attention
Records with "lazy" responses with a series of flat-line or straight-line responses on three or more questions were marked for further review.

Validation
Survey responses on questions around organizations' revenue and profitability CAGR were cross-checked from public sources and any records where survey responses didn't meet secondary verified data points were flagged for further review.

Geo Location Validity
To ensure the respondent was located at and participated from the target countries per the research scope, the geo IP was captured.

Digital Finger Printing
Digital fingerprint checks were built into the survey, blocking respondents from re-entering the survey once it was completed or terminated.

Demographics of Our Research Participants

About a third of the 1,206 executives surveyed were from North America, and another third were from the UK and Europe. Some 21% were from Asia-Pacific countries, and 12% were from Latin America-based firms.

Table 1: Surveys by region

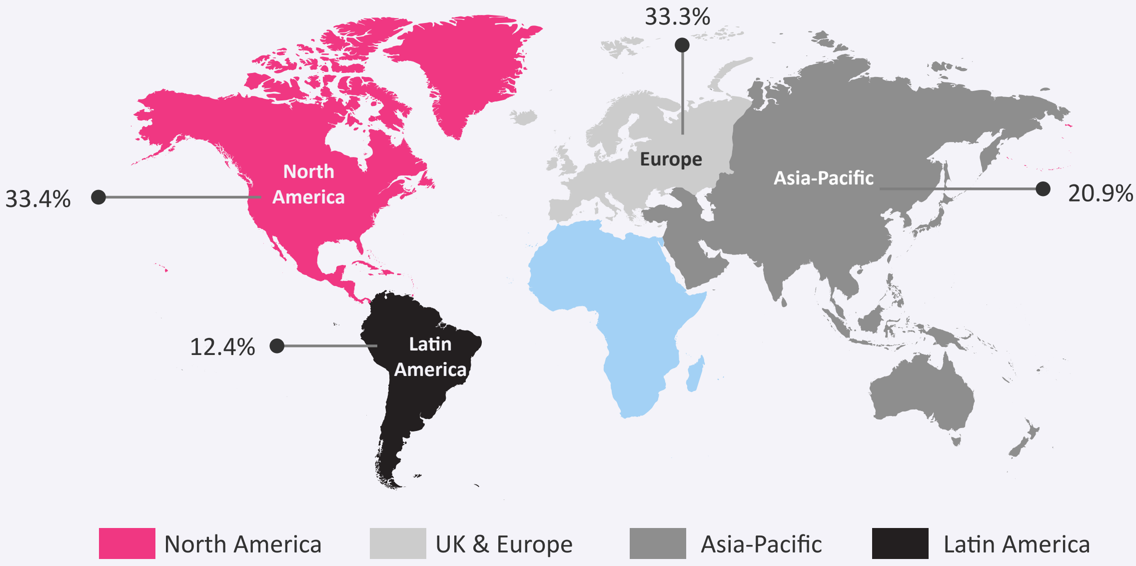
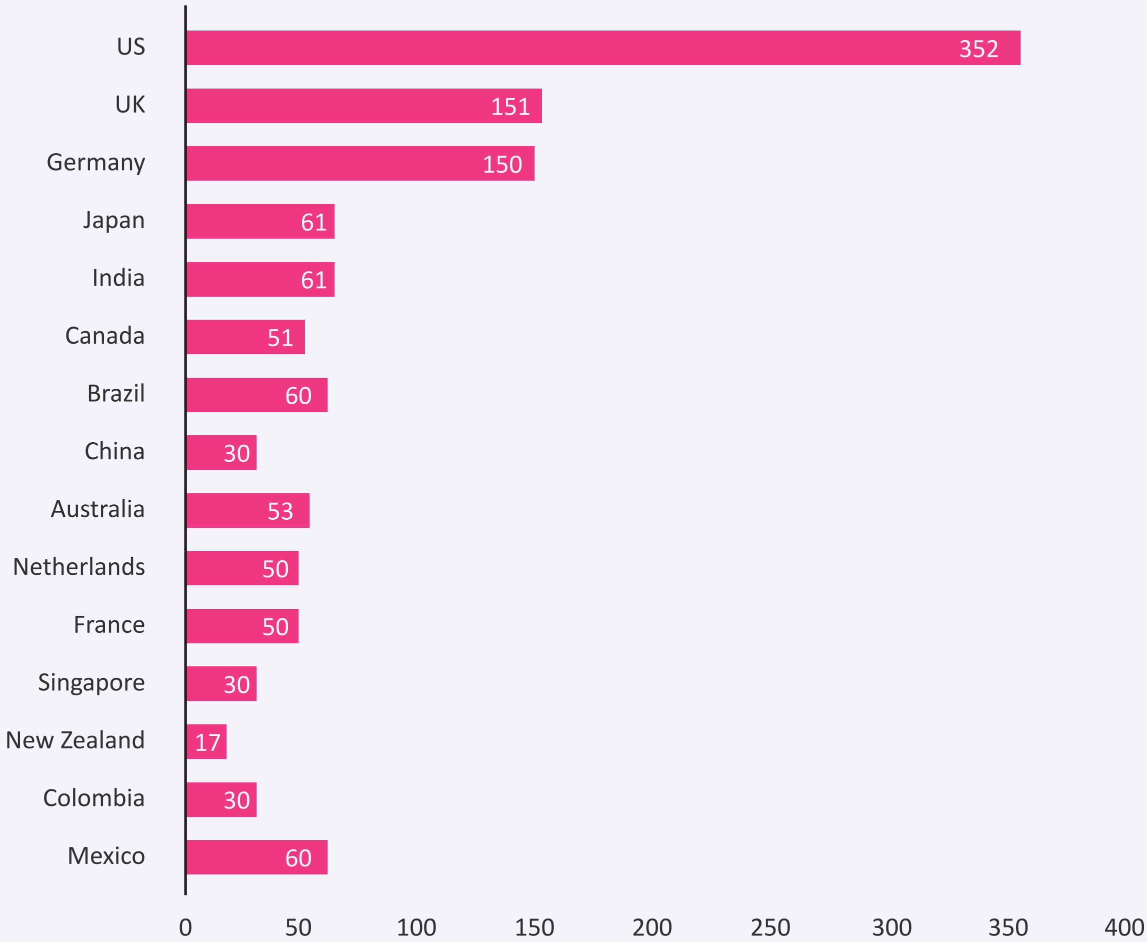


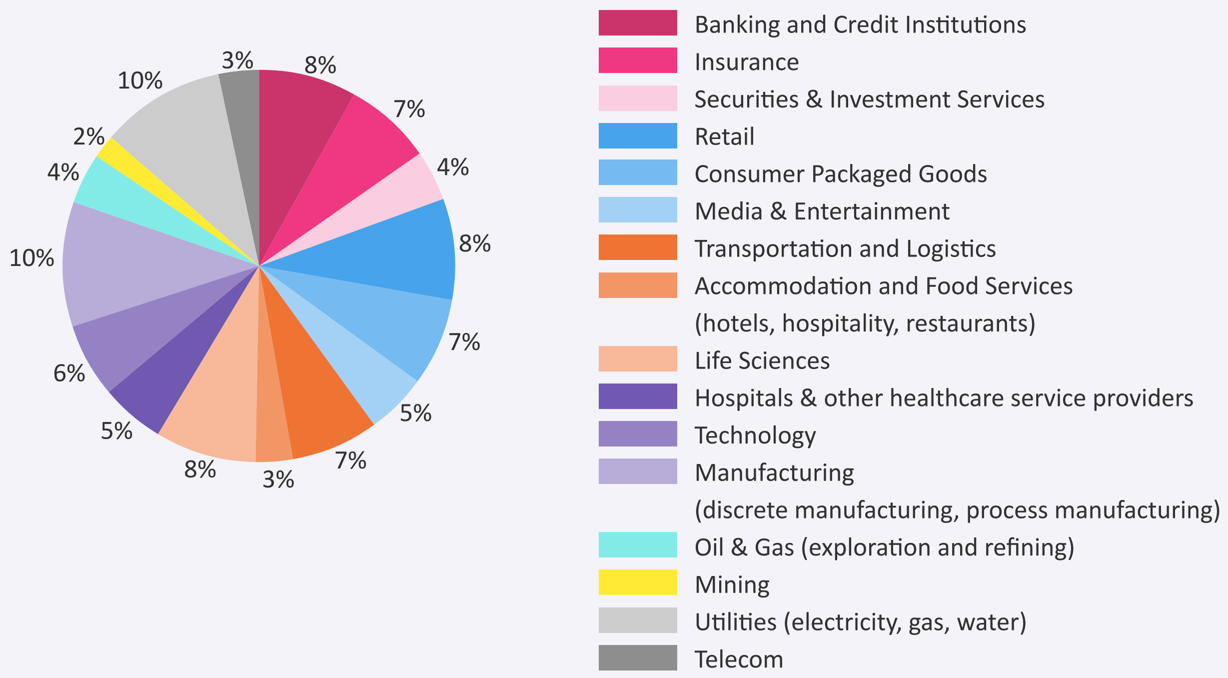
Table 2: Surveys by company headquarters country (1,206 total)



By Industry Sector

Research participants came from a wide variety of industries, both product and service. No one industry represented more than 10% of the total population.

Table 3: Surveys by global industry sectors

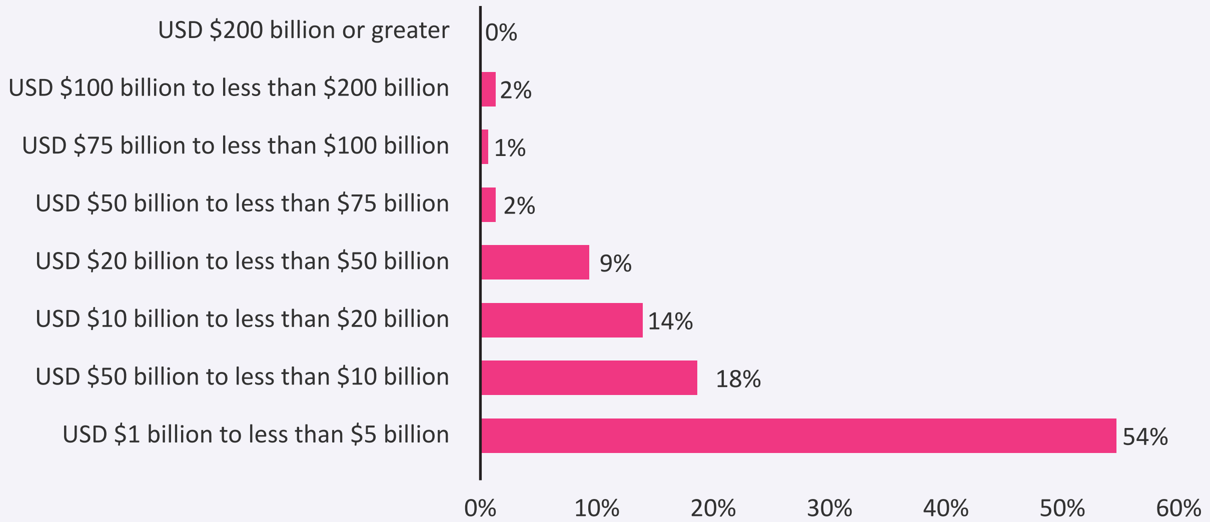


Company Size

All participants work in companies or divisions/businesses with at least $1 billion in annual revenue. The average revenue was $13.9 billion; the median was $4.7 billion. Some 26 surveys came from companies with at least $100 billion in revenue.

About 14% work in companies with at least $20 billion in revenue. About a third work in companies with revenue of between $5 billion and $20 billion. A slight majority were companies between $1 billion and $5 billion in revenue.

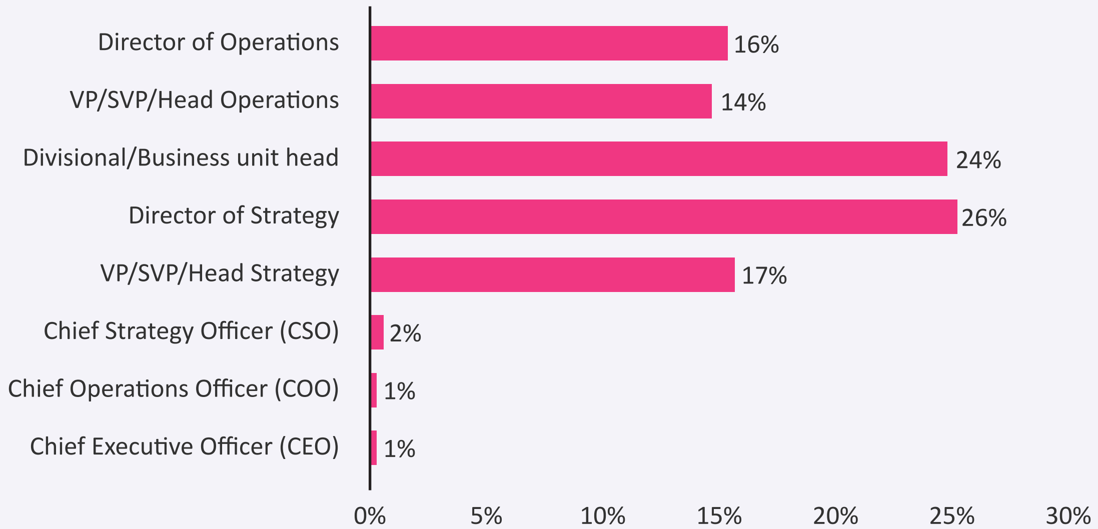
Table 4: Surveys by company size



By Participant Job Category

Nearly half (45%) the research participants are in strategy development roles. About a quarter were divisional heads, CEOs, and COOs. About 30% were operational leaders and directors.

Table 5: Surveys by job category



Success Stories: What Leaders Do Differently

Leadership Success Story 1: Inventing the Future of Digital Marketing

Contemporary global brands are demanding more digital services than ever from their marketing agencies. As always, they are looking for creative content that resonates with consumers and business audiences. But increasingly they expect these agencies to address complex challenges in markets where performance depends on competing against Amazonian behemoths and culling the favor of TikTok influencers. “The creative agency is becoming a full-scale tech-shop,” said the global chief operating officer of a multibillion-dollar marketing firm. “Digital has had a profound impact. The range of problems we solve and services we offer has multiplied.”

Consider the dilemma of retailers, whose margins are being constrained by the large online platforms through which their products are increasingly sold.[36] “Marketplaces like Amazon and Walmart are telling them, ‘Listen, I own the last mile, the distribution and the customer. I entice them to shop your products. So I’m not happy with the margin I’m getting. I want more.’ The two sides are becoming frenemies,” the marketing agency executive says.

E-commerce players also have a ringside seat on the popularity of their vendors’ products: the ability to monitor their success every day and everywhere. That can tempt e-commerce companies to sell their private label versions, the executive says. “These platforms can easily understand the supply chain and manufacturing, enabling them to launch competitive products,” he says. Meanwhile, privacy concerns are leading to the elimination of third-party website cookies, which drive targeted ads. This is impairing an important channel that companies use to market directly to customers, making them even more dependent on the online marketplaces.[37]

In a fast-developing online marketing landscape, that has called for the marketing agency to bring new offerings to the table – not just creative advertising and media buying. For example, for one of its clients (a coffee retailer), the agency helped embed a cellular network chip in its smart coffee machines. The chip lets consumers order new coffee supplies, either by voice requests through the machine, or by subscribing to a service that maintains the consumer’s coffee inventory. “The program knows what type and how many cups you are brewing. It can suggest new flavors based on your preferences, and unlike a subscription program with Amazon which sends fixed quantities at fixed intervals, it knows your actual inventory and restocks as needed.” The chip was necessary because, although modern appliances tend to be WiFi-enabled, only a small percentage of the population actually connect their appliances to their network. Using the chip, the machine can communicate over the 2G or 3G spectrum, which is virtually free to use, and the consumer doesn’t need to bother connecting the machine or paying for monthly access to the network.

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[36] The New York Times, Dec. 19, 2019, “Prime Power: How Amazon Squeezes the Businesses Behind Its Store.” Accessed May 25, 2021. https://www.nytimes.com/2019/12/19/technology/amazon-sellers.html

[37] Hubspot.com, 2021, “The Death of the Third-Party Cookie: What Marketers Need to Know About Google's Looming Privacy Pivots” Accessed May 25, 2021 https://blog.hubspot.com/marketing/third-party-cookie-phase-out

“We're starting to see more innovative technologies in the space of augmented reality, virtual reality, voice, and IoT, becoming quite prominent,” the executive says. As another example of how marketing agencies are using technology to solve critical business problems, a major automaker was frustrated that its big-city dealerships could only display a limited number of vehicles. So the marketing agency helped the car company develop augmented reality technology by which customers can visualize on their digital devices what it’s like to drive the car – a vehicle for which the customer has chosen the color and features she wants. “You can assemble the entire car in augmented reality and get inside the car, see what it looks like while you're driving it,” he explains. “The manufacturer can even do this by sending a pair of cheap cardboard glasses that you slip your phone into; you then configure the car by focusing your eyes on options on part of the screen.”

Large marketing agencies are tailoring content to specific social media channels. To reach consumers directly, social media has become a preferred option for many companies, particularly with third-party website cookies going away. Unlike online marketplaces, social channels are not involved in distributing products and services, so they are lower cost and less of a threat. “In the past, we were creating short-form or long-form videos, doing photo shoots and then delivering content through traditional channels, such as TV and print media. Now, you have to assemble the content differently, reformat it and recode it based on the channel.”

Given the breadth of requirements and the speed of change, this needs to happen dynamically, in real time. Rather than staging products for a live shoot, the agencies’ employees conceptualize it, and the tech staff assembles scenes using applications like CGI, VFX, Maya and Unity—all without a physical studio. Imagine, for instance, a promotion for an outdoor sofa: It may be shown on a patio or in front of a pool, but only the sofa image is real.

This requires specific technical skills, and the demands are becoming even more complex. Until recently, it was extremely expensive to put humans in computer-generated content, because of the enormous processing power required to render human attributes. That has changed. The processing space is now available for lease from public cloud vendors. Leading marketing agencies will need to adapt and augment people in their computer-generated content as well.

The marketing agency president concludes that the industry is contending with a new digital reality. “We have reached the point where technology and infrastructure aren’t our biggest hurdles anymore. That was the struggle over the past 10 years. Now, the biggest hurdle is people: How do I train my creative director to be more of a technician, to capitalize on everything the technology offers and the market demands? These people are demigods who build multibillion-dollar brands. It’s their job to imagine the future. How do I get them to do it through a new lens?”

To make this transformation, the firm is building a culture where everyone must innovate. “We can’t have the creative people performing creative tasks while the technology people are merely taking orders,” the executive says. Instead of having creative staff and developers, “we call everyone an artist,” he says. The firm is developing new career paths, providing training to meld technology and creativity, and developing collaborative projects with leading universities to cultivate “blended people.”

It is also hiring employees with a different profile. “We don’t just want to hire from MIT,” he says. “We want people with a humanities background, because it’s easier to teach technology than to teach human principles. We want people who can use both sides of their brain equally.”

With the greater bandwidth that 5G is bringing, and with computational capacity getting faster and cheaper, the evolution may be even quicker than in the past. “We are beyond the demand hype. We are beyond the infrastructure and data availability hype. We are beyond the consumer expectation hype. We are beyond even the devices needed to experience hype, because now you have a phone which is more powerful than any other PC that you had in the past,” he says. “This is a new age. It’s not happening 10 years from now, it is happening tomorrow, and in certain cases, today.”

Leadership Success Story 2: Updating the Legacy Media Culture to Confront Digital Disruption

In the hyper-competitive media market, retooling the culture of legacy companies is an urgent imperative. "The old culture was fine for the old market," says a European executive of a major media conglomerate. "But the stakes have changed. Technology, disruption and consumer behavior have all shifted. We're encountering a kind of competitive musical chairs. Going forward, getting the culture right is a question of, I dare say, survival."

Since the advent of the internet, perhaps no other sector has experienced as much disruption as media and entertainment. Few companies have been as forceful in fomenting creative destruction as Netflix, particularly in the past five years. During that time the streaming-video pioneer's revenues nearly tripled, to $25 billion. But the magnitude of the company's threat is better measured by other metrics. By offering popular content, on-demand convenience, and freedom from commercial interruptions—all at a fee that significantly undercuts other options—Netflix has been able to amass a global audience of 207 million subscribers, and its platform and strategy have proven to be globally scalable.[38]

Netflix's huge subscriber base, along with advanced data collecting and analytics, give the company an unprecedented understanding of viewer behavior and preferences—information that was previously closely guarded by cable companies. This, in turn, allows Netflix to create successful content far more consistently; its renewal rate for original series is more than 90%, compared to about a third for linear television.[39] That forces media and entertainment companies to develop viable streaming series as well, and to mine the consumer data that such services provide.

"Going forward, having access to that kind of intimate customer data is critical," says the executive.

Netflix's success "has forced legacy-incumbent businesses, both on the platform and content-creation sides, to rethink the future," he acknowledges. But Netflix is not the only threat. Media firms now compete for viewer attention and ad dollars in a digital ecosystem that includes a vast range of apps and channels, ranging from Twitter to podcasts to YouTube—whose revenues now rival Netflix's.[40] (YouTube's revenue in 2021 could reach $30 billion.)

The digital media and entertainment ecosystem also includes companies from outside the sector, such as Amazon and Walmart, that are seeking to exploit their website traffic to poach traditional media revenue streams.[41] "No one knows what the ecosystem will be in five and 10 years," says the media executive. Surprisingly, despite the uncertainty and the relentless disruption, a recent TCS survey found that about half of media companies surveyed still limit their strategic planning to traditional industry boundaries, rather than using a digital ecosystem lens.

Adding complexity to the competitive landscape, legacy companies tend to play by different financial rules that make it harder to innovate and adapt, the media executive points out. Investors expect consistent quarterly results, constraining long-term investment. To build its global audience, Netflix plans to spend more than $17 billion on content creation in 2021.[42] That's far more than a company such as Comcast intends to spend in aggregate ($2 billion) on its ad-supported Peacock streaming service in 2020-2021.[43]

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[38] Statista, "Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 1st quarter 2021" Accessed May 18, 2021
https://www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/

[39] Variety, July 17, 2017, "Netflix Execs Defend Cancellations, Saying 93% of Series Have Been Renewed " Accessed May 10, 2021
https://variety.com/2017/digital/news/netflix-cancellations-original-series-renewals-1202497938/

[40] CNBC, April 27, 2021, "YouTube is a media juggernaut that could soon equal Netflix in revenue" Accessed 05/10/2021
https://www.cnbc.com/2021/04/27/youtube-could-soon-equal-netflix-in-revenue.html

[41] CNBC, Jan. 28, 2021, "Walmart enlists The Trade Desk as it plots big growth for its ads business" Accessed May 12, 2021
https://www.cnbc.com/2021/01/28/walmart-partners-with-the-trade-desk-for-ads-business-.html

[42] Variety, April 20, 2021 "Netflix Reveals $17 Billion in Content Spending in Fiscal 2021" Accessed May 19, 2021
https://variety.com/2021/tv/news/netflix-2021-content-spend-17-billion-1234955953/

[43] Variety, Dec. 9 2019, "Comcast to Spend $2 Billion on NBCU's Peacock Streaming Service in First Two Years" Accessed May 17, 2021
https://variety.com/2019/digital/news/comcast-peacock-2-billion-streaming-service-1203429809/https://variety.com/2019/digital/news/comcast-peacock-2-billion-streaming-service-1203429809/

Previously, traditional media and entertainment companies feared that plans to pour billions into content creation would result in “a thumbs down from Wall Street,” the executive says. But over the past year, that reluctance has begun to subside, in part due to marketplace changes prompted by the pandemic. Legacy studios have been announcing large investments and have been lauded for doing so. Disney’s stock price rose more than 10% after announcing a $14-16 billion content budget for 2024, including $8-9 billion for its wildly successful Disney+ streaming service.[44] “Now, if you don’t announce a big-enough number, you may be marked down,” says the executive. “The bolder you are, the more you’re rewarded for having the right strategy. But of course, as the stakes go up, so does the need to start showing results at some point.”

Indeed, it’s one thing to spend billions, and another to produce engaging content, build an audience and reap real returns. In addition to harnessing data, that’s where crafting an effective digital culture comes in. Legacy companies need to nurture entirely new corporate norms and ways of collaborating, he believes.

“The old way is hierarchical. It lacks transparency. Everyone sits in their office with closed doors, and information isn’t widely shared,” says the executive. “If that’s how you operate, you damage the chance of success. You need more transparency, involvement and openness.” He says companies like his need to encourage risk taking, and employees need to learn from experience. Traditionally, “there has been a fear of making wrong decisions, whereas at Google, Amazon or Netflix you are almost encouraged to make mistakes. That leads to better results in the long term.”

Implementing such far-reaching change is challenging, however. “How many organizations have gone through profound culture change?” asks the executive. “You often see people who are not open to change.” He stresses that the organization needs to be open to it. Everyone needs to recognize the need for change. A critical catalyst for change is having vision and clarity from the top. “If there’s no clarity on where you’re headed as an organization, if your talent doesn’t understand ‘the what’ and ‘the why ‘of your vision, they won’t buy into it. Then you run the risk of not achieving what you’ve set out to do.”

[44] Deadline, Dec. 10, 2020, “Disney Will Spend $14B-$16B A Year On Streaming Content By 2024; Says Disney+ Could Hit 260M Subs That Year” Accessed May 18, 2021, https://deadline.com/2020/12/disney-will-be-spending-14-16-billion-on-all-streaming-content-by-2024-as-it-ramps-up-production-1234654652/

Leadership Success Story 3: How a Major Hotel Group is Using Digital Products to Outcompete Airbnb

How will hotel chains compete over the next five years? How can they recover from the deep revenue hit they have suffered during the pandemic, and defend against the threat from online platforms like AirBnB and VRBO that use consumers' homes as places for travelers to stay?

In large part, the solution lies in digital products and services, according to a C-suite executive of a large global hotel chain. To stay relevant with the target market and compete with the online platforms, he says, "We've got to be able to cater to [travelers'] desires and engage with them in a way that's digital, because that's how they conduct commerce."

When it comes to updating its technology, the hospitality industry has work to do. Like banks and airlines, much of the industry still runs on old computer systems (even MS-DOS). "Everyone is afraid to pull the plug on the reservation system, because what if the replacement doesn't work?" the executive says. "But with the old-school system, the hotel is unable to be agile."

The industry is changing, however. His company "embarked on a massive journey to undergo a complete digital transformation and cloud migration of all our tools," he says.

This is enabling the hotel company to accommodate guests' expectations for services like mobile check-ins and robot concierges. "Digital technology has updated how hotels and guests interact, and how the corporation interacts with the hotels. We've seen a large jump in the importance of apps that enable people to dream, book, check-in, consume in the hotel, check out and then review—all through the app. You can even use it to run the entertainment system, so you don't ever have to touch a remote." The next step is to improve the digital functionality of the loyalty program, a critical component of hotel marketing, particularly to retain high-value customers. New features would, for instance, adjust rewards based on dynamic pricing, and let guests buy less costly items, like a bottle of wine or a coke, using their points.

Already, the digital transformation has produced a wealth of data that the hotel company can use to boost efficiency and improve the guest experience. New tokenized systems work with hotel WiFi to anonymously track guest movements throughout the hotel. This lets management make micro-adjustments, such as modifying food and beverage offerings or altering housekeepers' hours based on how people interact with a given property. The ability to adjust staffing has helped contain costs during the pandemic. Longer term, leaner operations enabled by digitization mean that the company can manage properties in markets where, previously, profit margins were thin.

Across the hospitality industry, there is a meaningful trend toward offering a purely digital experience. In a global survey conducted by TCS in Q1 of 2021, hospitality industry respondents said, on average, that 50% of their revenue currently comes from purely digital services, and they expect that level to reach 57% in the coming five years.

How will the hotel company continue to digitize its offerings? There's much more that is still under development, the executive says. On the operations side, the goal is to achieve a high degree of data integration using technologies like robotic process automation (RPA). Currently, hotel managers have to interact with data manually and interpret it themselves. Based on a shifting guest satisfaction score and various comments, they may hypothesize that there is a problem with the property, or with a certain staff member. The hotel is now working toward a future when, once everything is in the cloud, the system will process data automatically.

The hotel company envisions a future where "general managers can wake up in the morning to a dashboard with little flashing red dots indicating. These are the three things you need to prioritize today, based on these data points."

The hotel group is also integrating business processes and data across its the digital ecosystem to make traveling far more convenient. Imagine a CEO taking a flight and renting a car: the apps would talk to one another to provide a purely digital experience run from the guest's smartphone. The moment the flight lands, the app would tell the CEO where her car is; a flight delay would be no problem because the rental agency would already know about it. The CEO would unlock the car using the app, and the navigation system would be automatically set up to guide her not just to the hotel, but to a parking spot near her room. She can then enter the hotel and open her room using her phone. If she needs extra towels or room service, she would simply tap those options on the app.

Offering this type of deep digital experience is how major legacy hotel groups can compete against the threat from digital platforms, says the executive. "Airbnb is somebody's house, and everybody's house is different. But a hotel offers you safety, consistency and convenience." He relates how, in discussions about Airbnb, he asks, "How many people in the room have stayed in an Airbnb?" Maybe half of the hands go up. And of the women, "How many have stayed in an Airbnb by yourselves?" Hands drop.

Says the executive: "It's not because they're fundamentally unsafe, it's just you don't know. It just doesn't provide the same level of trust and confidence that a hotel does. After all, what is a brand, but a promise, right?"

His company is banking on that brand certainty, along with a personalized loyalty program and a seamless and convenient digital experience.

Leadership Success Story 4: How Digital Innovation is Driving the Next Generation of Banking Products

The financial services industry is in a state of intense flux. Demographics are shifting, with younger generations – and even segments of older ones – preferring to use smart phones, video conferences and other digital communications to get their finances in order. Technology is evolving, presenting new opportunities and pressures. Fintechs are expanding their market share.

To compete, innovation is critical, says a senior banking executive of a global bank based in Europe. Over the past five years, the executive's bank has worked with leading technology companies to implement advanced digital capabilities such as AI, machine learning and robotic process automation (RPA). The goal: streamlining key business processes and delivering more sophisticated financial products to its clients.

On the product side, the bank's wealth management division has successfully used artificial intelligence and machine learning to expand its markets and serve clients more effectively. Previously, the division focused exclusively on ultra-high net worth individuals, an expensive and labor-intensive segment. To serve the next tier of wealthy clients, the bank needed to cut costs while still delivering quality service. It met this need using robo-advisor technology. "It took us a while to develop, but in the end the robo-advisor is providing a really good service," the executive says. "Our clients are able to receive more timely investment proposals that are better suited to their profile and preferences."

The executive foresees digitization accelerating over the coming five years. "We started with the first generation of millionaires in our primary region. They wanted a high-touch type of service, but now their children and grandchildren want something completely different. They don't want to talk to us. They want to do everything online."

More broadly, COVID-19 has forced the retail bank and its clients to adapt. "The number of customers that are now interacting with us on a fully digital basis has more than tripled during the pandemic," says the executive. Even elderly clients who were previously reluctant are now using the app, website and video conferencing. This digital transition is being driven not only by the clients but also by the bank, which is closing branches and expanding technology-based interactions with customers. Increasingly, the bank's ATMs are not just for simple transactions like deposits and withdrawals; they have the functionality of a workstation.

For the company, the transformation has demanded significant operational and cultural changes. In order to become paperless facing the client, the bank needed to make its internal processes paperless. "It was really a challenge to re-educate ourselves," the executive says. "All of the documents had to go. We had to have fewer in-person meetings and more using the tools we have. We had to implement single sign-on so users would be more comfortable."

The biggest obstacle to digitization has not been the expense or the development time or customer rejection of new technologies, he says, but rather "getting employees to believe in it." While young employees were arriving with fresh skills and ideas, many others had been working with the same processes for years. They were reluctant to change, and feared that the technology would render them obsolete. Overcoming internal roadblocks required education.

"We had to sell it to our people the same way we sell products to clients. We talked about trends in the industry and the need to empower ourselves. We had to convince them, 'You have a lot of talent, knowledge and experience that take time to accumulate and aren't easy to replace. The technology doesn't change the fundamentals.'" After certain employees grew comfortable with the concept, "We made them feel like champions for selling it to their colleagues."

Overcoming this obstacle, has been well worth the effort. Digital technology has generated numerous benefits at the wealth management unit. For one, relationship managers travel frequently, presenting security issues over sensitive information stored on laptop hard drives. To address this, the bank has moved the information to the cloud and provided the relationship managers with tablet computers to access it. Additionally, digitizing has cleared the path for robotic process automation. RPA is automating repetitive tasks and workflows that were previously manual, saving person-hours and reducing mistakes.

Most immediately, because the bank had invested heavily in technology, it has been able to let employees remain safely at home during the pandemic while continuing to conduct regular business. As for many companies, this experience is changing the bank's culture and operations. In the past, management resisted allowing employees to work from home, in part because of productivity concerns. Now, however, with the tools they've deployed, "you can know exactly what they're doing at every moment."

Further, the pandemic has demonstrated that some jobs can be done effectively from home. When it's safe to return to the office, most employees will be required to do so, although management is considering allowing people to work from home one or two days a week, to avoid losing talent.

But in general, the company believes it is important for its people to be in the office, to build team spirit and "a sense of being part of something bigger than yourself," the executive says. "Without that, you don't identify as much with the company and it's easier to switch jobs—to a flexible-work fintech for instance. This is probably the greatest management challenge we'll face in the coming years. As much as we like our products and clients, our main asset is our employees."

As for fintechs, the executive sees them as significant competitors. "They play by different rules," he says. "Traditional banks need to be very careful about offerings like fully digital banks and blockchain, which are vulnerable to anti-money laundering violations. Of course, our license enables us to do things that they can't. But where we compete, they have a slight advantage because they are not as strictly regulated."

To succeed in an increasingly digital world, the executive says, "We need to have a robust but agile system with a quick response time. People want things, and they want them now. In the end, you have to reinvent yourself every day and you have to embed that in your corporate culture."

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