Succeeding in disruptive times

Three critical factors for business transformation success
Less than half of executives say they can realize sustainable value from business transformation.
Major organizations across the globe are attuned to the urgent need to transform their business and operating models, in light of evolving customer behaviors, disruptive technologies, regulatory policies, and globalization. Yet many senior executives feel their organizations are not capable of driving the transformational changes necessary to create higher-performing organizations.

Senior executives are alert to the rapidly unfolding risks and opportunities, but many lack key capabilities to respond effectively. These are among the top conclusions of KPMG’s 2016 research on business transformation, based on survey responses and interviews with more than 1,600 senior executives across industries in 16 countries.

In fact, KPMG’s Global Transformation Study found that 96 percent of organizations are in some phase of transformation, and nearly half have completed at least one transformation initiative in the past 24 months. While this flurry of activity suggests that most organizations are on the right path—by rethinking the fundamentals of their business models and introducing major changes to the way they operate—the KPMG study also reveals widespread doubts among many senior executives that their intensive efforts will bear the necessary results and ultimate value.

“Business leaders not only acknowledge the urgency, but they also appreciate that transformation cannot be a single ‘one and done’ effort to resolve a specific or narrow business challenge. Top executives realize that their organizations must create mechanisms to continually evolve and respond to their external environment,” says Stephen G. Hasty, Jr., KPMG’s Global Transformation Leader.

“Unfortunately, business leaders are up against serious barriers to reaching these goals, as well as massive disruptions in technology, and customer preferences and demand.”

Study findings show that less than half of executives (47 percent) believe they can extract and maintain the planned value from a future transformation initiative. In addition, only half of executives (51 percent) believe they can create short-term transformation wins.

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What enables transformations to succeed?

What characteristics illustrate the difference between transformations that realize optimum value, and those that come up short? KPMG’s research shows that transformation success requires fundamentally changing how the organization operates.

“We’ve been on a transformative journey over a number of years,” says Simon Jose, SVP and Head of Global Franchises and Platforms at GlaxoSmithKline. “There are two big things in the external environment driving this. The first is around customer transparency and trust. The second dynamic is that the world is changing digitally. It is becoming more global, new channels are opening, and people are communicating in different ways. The model where everything is done through representatives or face-to-face clearly has to change, because our customers expect to access high-quality information when, where, and how they like it, and not necessarily in a face-to-face interaction.”

“The dynamics of the market and the speed at which existing practices are becoming obsolete—and innovative alternatives are entering—have caused an unprecedented need and opportunity for business and operating model innovation, in order to maintain and grow profitably,” says Robert T. Vanderwerf, KPMG’s Global Transformation Strategy Leader.

“To succeed in today’s environment, organizations need to improve their ability to capture and analyze an immense amount of data to develop timely customer, competitive, and operational insights. They need to embed innovation within their core business to continually develop new ways of creating and delivering value to customers in the most cost effective way. And finally, they must use the latest technologies as business innovation enablers and create an agile culture, organization, and asset base to thrive in an environment of change.”

KPMG’s global research points to three critical factors for business transformation success:

1. Focus on the customer
2. Embed continual innovation into the business
3. Learn to thrive on change

What causes transformations to fail?

One in three CEOs (34 percent) say their organizations have failed to achieve the value they anticipated from previous transformation initiatives. Here is why:

**Failure to understand the complexity of the operating model:** The most commonly identified barrier to success (37 percent of executives) is underestimating the significance of operating model changes necessary to affect transformation across the organization.

**Inability to innovate:** Nearly a third (31 percent) of executives say their organizations are incapable of implementing formal innovation processes, management, and budgets.

**Missing the cultural connection:** Twenty-eight percent of executives say their existing organizational culture is a barrier to execution.

**Failure to take a “business value first” approach to technology:** Thirty percent of executives say their organizations’ legacy technology/systems are a barrier to success. Transformations that begin with a specific technology (rather than with strategic objectives) are twice as likely to fail.

**Inability to execute:** Only 17 percent of executives say their organizations are highly capable of executing on an implementation plan to build and operationalize a new target operating model.
Focus on the customer

“It is unquestionable that the customer has become more powerful and informed,” says Julio J. Hernandez, KPMG’s Global Customer Advisory Leader. “Organizations are attempting to bring the customer’s perspective and value to the table, however, few are properly understanding the customers’ evolving expectations and aligning it to the value drivers of the organization.”

KPMG’s research found that 41 percent of organizations identify changing customer demographics, behaviors, and expectations as the most influential source of insights and trends for their business transformation strategy. While this number reflects a large segment of organizations that are now paying closer attention to their customers, research also revealed that only 16 percent of executives predict that customer behavior changes driven by the generation shift (e.g. Millennials) might disrupt their current business model within the next three years.

“Customers are always changing and so are their needs,” says Vivek Gambhir, Managing Director, Godrej Consumer Products. “We believe that we have to create a model that is adaptive enough. This involves building muscle internally so that we can react and respond faster to these changing customers and their needs.”

“This research finding about the near-term impact of changing customer behaviors is cause for concern,” says Margaret Cowle, KPMG’s Asia Pacific Transformation Leader. “To remain relevant to their customers as market change accelerates, organizations need to understand the value customers attach to particular products, services, and delivery models. From there, the key is to understand and quantify the competitive value that transforming the customer experience will bring to the organization, and then align the necessary changes to the business and operating models around that value.”

Essentially, the task is to continually evaluate and adjust your customer experience, based on the needs of today and tempered with a clear understanding that tomorrow’s customers will have different expectations than today’s. That means continuously listening and analyzing what customers want and value, evaluating the leading comparative practices, and then deciding how the organization can evolve its customer value propositions to meet these needs both profitably and competitively.

Consequently, segmenting customers strategically is critical. For that, the correct data and a strong analytics capability are vital. Forty-four percent of executives point to data & analytics as both the top driver and enabler of new business and/or operating models in their organizations.

Christian A. Rast, KPMG’s Global Data & Analytics Leader, says, “by employing sophisticated data & analytics, companies can mine customer data more easily to gain insights into their behaviors, and use those insights to make informed business decisions. Leveraging this kind of technology fueled capability can help organizations derive real, meaningful value from transformation initiatives, especially as the next-generation of ‘always on’ customers provide real-time insights of their preferences through connected devices.”

“Furthermore,” he continues, “as described in ‘Going Beyond the Data: Turning Data from Insights Into Value,’ data about the customer is often fragmented across almost every function in the organization—from finance and risk through to sales and customer service—and this data needs to be brought together to achieve a richer understanding of the customer. But organizations can’t just see this as a data or technology issue – driving real value from customer data requires multiple stakeholders to come together to agree on what they want to achieve together and, therefore, what questions to ask the data.”

Only 16% of executives predict that customer behavior changes driven by the generation shift (e.g. Millennials) might disrupt their current business model within the next three years.

“ ‘We’ve got a huge amount of information about our customers, and it’s easy to act on that data if what we’re trying to do is uncover insights that inform longer-term initiatives, like product development,” says Jon Wardman, Vice President, CRM at Hilton Worldwide. “But it’s harder to activate that data when it needs to be in real time. And that’s where we’re focused on investing resources.”

The challenge is for organizations to gain value from these “outside-in” perspectives. Almost half (48 percent) of executives state that they are incapable of capturing signals of change in the marketplace to develop unique insights and hypotheses on customers’ preferences and demands.

This organizational intelligence must be rooted in a strong data & analytics capability, founded on four anchors of trust: quality, accuracy, integrity, and accepted use. Christian Rast explains, “with so much now riding on the output of data & analytics, a new, heightened focus on trust is emerging. And as algorithms begin to make more decisions about, or on behalf of, people, trust will quickly become a defining factor of data & analytics.”

1 “Going Beyond the Data: Turning Data from Insights Into Value,” KPMG 2015.
Business leaders must embed continuous innovation into the culture and structure of their organizations in order to build enduring competitive advantages. To do so, they must have insights into what customers today and in the future truly value, and must follow a "business value first" approach to technology. Such an effort calls for enabling the organization to work smarter and faster so it can create return on investment even as it continues to innovate.

Executives must look at all corners of the marketplace to predict disruptive changes to stay ahead of their competitors. Successful companies will proactively disrupt themselves before a competitor or regulatory change forces disruption upon them, so they can remain competitive and continue to satisfy current and future customer needs. That means transforming the business and operating models with the technology tools, the time commitment, and the appropriate resources and decision-making authority so that innovations can be created and implemented. Innovation has to become a core capability and a top organizational priority.

Organizations must also design data & analytics strategies that take a full lifecycle view of analytics: from data through to insights and ultimately to generating value. Data & analytics strategies must be integrated into the business and operating models to enable innovation, monitor performance, and respond quickly to insights gleaned from customers, operations, and the marketplace. This intelligent feedback loop must be as near to real time as possible, and grounded in trusted approaches and controls, so that organizations can stay ahead of constantly evolving marketplace dynamics.

“Senior executives must accept that innovation cannot be an afterthought, or satisfied by ‘tacking-on’ occasional, periodic, innovative fixes to organizational challenges,” explains Ioannis Tsavlakidis, KPMG’s Germany Transformation Leader. “However, many business leaders realize that they have not formalized ways to embed innovative thinking or processes into day-to-day operations.”

Indeed, KPMG research found that nearly a third (31 percent) of executives admit that their organization is incapable of implementing formal innovation processes, management, and budgets.

“The impact now, compared to years ago, is the pace of innovation we’re demanding of ourselves in order to keep serving customers,” says Dan Leberman, Vice President, GM North America Small Business at Paypal. “We’ve invested more over the last three to five years than previous periods. As such, there are many examples of recent products and services we’ve built to make it easier for people to move and manage money.”

“Organizations that commit resources to foster a culture of innovation are best positioned to take advantage of the convergence of current and emerging technologies,” says Gary Matuszak, KPMG’s Global Technology, Media, and Telecommunications Sector Leader. “Organizations are dedicating specific budgets to innovation centers and research labs to pilot and deploy new disruptive technologies. Successful innovation strategies will ultimately depend on collaboration between technology and business leaders to translate new systems and processes into value drivers for the business.”

"Innovation is just as much about strategy and insight as it is about speed and execution," says Steven Hill, KPMG’s Global Head of Innovation & Investments. "It is critical to consider why you are innovating, and how your efforts will address customer needs in the most effective way as the market evolves. Customers are seeking differentiated experiences and value, which often require changes to value propositions, business model components, and underlying operating model enablers.”

Keeping a finger on the pulse of technologies spearheaded or matured in other sectors can also spark and enable innovation. In addition to evaluating and exploiting existing systems, innovative organizations are more likely to address the impacts of current technologies such as cloud, digital, and mobile and emerging technologies such as cognitive/artificial intelligence.

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How can organizations take a “business value first” approach to technology?

David J. Evans, KPMG’s Global Technology Advisory Leader, says “to achieve the optimum value from transformation, business leaders cannot afford to implement new technology for the sake of technology. Successful transformations follow a ‘business value first’ approach, where you use technologies such as digital, mobile, and cloud to drive innovation and enable business value through transformation. Technology enablers must deliver on your customers’ expectations, even as they evolve.”

For example, KPMG’s report, “The Clockspeed Dilemma,” describes how “the automotive ecosystem is undergoing significant transformation from the introduction of autonomous vehicles and from changes in connectivity and mobility-on-demand. The innovations in these technologies are driven by changes in customer behavior, which are bringing in competitors from fast-paced industries: tech giants, high-tech start-ups, and companies in telecom and consumer electronics.”

Meanwhile, according to KPMG’s report, “Real Solutions for Real-time Payment Systems,” “more and more, banks and financial institutions are embracing real-time payment (RTP) systems, because customers are demanding it. We operate in a world where its payment capabilities are increasingly being shaped by an audience that requires immediacy of their information and whose digital expectations are ever-growing; expectations defined by a payment’s speed, accuracy, and simplicity, and which are fundamentally changing the way consumers and commercials alike do business with and among each other.”

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Senior executives need to build agility into their organizations, so that as the business environments they operate in shift, their organizations are better able to transform and adapt to the innovations generated.

“One of the primary drivers of transformation is sector convergence,” explains KPMG’s Global Head of Clients & Markets, Isabelle Allen. “This is creating both opportunities and threats in the shape of new markets, channels, technologies, propositions, and behaviors. The lifespan of strategies is shrinking as a consequence, so organizations need to respond by increasing agility, innovation, and efficiency. The need to align financial, business, and operating models is becoming more critical. This alignment requires tone at the top leadership and an enabling culture.”

Pierre Louette, CEO Delegate at Orange SA says: “people say there are around 120 competitors in Europe. Each of the 28 countries in the European Union today have unique regulators and evolving competitive sets. We have huge pressure on prices, which makes it very obvious for us that we need to adapt the cost structure and create an agile operating model to respond to new market conditions.”

Disruption creates opportunities for those with the vision, will, and skill to move quickly. Karl-Heinz Streibich, Chairman and CEO at Software AG says, “the speed of adapting to change is of the essence. The faster the enterprise moves, the easier it is to turn a business challenge into a new business opportunity.”

Learning to thrive on change means more than merely quick reaction times to market demands. In order to drive value in this dynamic environment, organizations need to take a fresh perspective on transformation, organizational structure, and asset ownership. “Several of the drivers and conditions that made organizations successful are changing and are unlikely to be sufficient to sustain future growth,” says Nicholas Griffin, KPMG’s Global Strategy Leader.

“Disruptive business models tend to use technologies, knowledge, and channel strategies from more than one sector and then combine them to create new offers and attract new customers. A combination of the complexity, need for speed, and wide range of options means that organizations are starting to realize that they do not have the resources, capabilities, agility, and risk appetite to act alone. In this environment, the ability to collaborate with other organizations to access markets and channels, create compelling offers, and create more engaging relationships with customers will become a far more prevalent strategy.”

To thrive on innovation and collaboration will require the enablement and transformation of operating models including the refocusing and revitalization of cultures. Organizations need to be realistic about the changes necessary to realize desired outcomes. More than a third (37 percent) of executives say that the greatest execution barrier they face in transformation is underestimating the significance of changes to their organization’s operating model.

“Overcoming this execution barrier means taking a strategic approach to decision-making around how operating model components are sourced for maximum effectiveness and flexibility,” says Jon Slatkin, KPMG’s U.K. Transformation Leader. “You need to consider which capabilities make sense to organically build, acquire, or implement through your partner ecosystem—through a competitive value lens. Organizations today have a vast array of options when it comes to making build, buy, partner decisions. Marketplace advances such as cloud, cognitive/artificial intelligence, and 3D printing technologies provide the potential to gain new levels of customer value, cost effectiveness, and flexibility to allow for future pivots—all at the same time.”

Executives need to build a culture in which people expect and embrace change, and ensure that people at all levels of the organization have the right skillsets for tomorrow. Anticipating that customer demands and technologies will constantly change, executives need to put into place programs that train and retrain talent on an ongoing basis, and recruit the right talent as required skillsets evolve.
“Executives are continually challenged by their ability to change behaviors down and across the organization,” notes Mark Spears, KPMG’s Global People and Change Leader. “You need to build new behaviors into your strategy and operating model, starting with the CEO’s vision and communicating through to the talent, operating procedures, and measures and incentives that drive and demonstrate success. Embedding a new culture that embraces innovation requires the active, ongoing support of all leaders, managers, employees, contractors, and partners of the business.” And yet less than half (49 percent) of the executives KPMG surveyed consider their organizations capable of communicating regularly throughout the transformation journey.

Looking beyond human talent, executives must determine which business and operating model components can benefit from digital labor. They must build digital labor into the talent strategy of their organizations, and determine where new technologies can augment human labor or, in some places, replace it. Executives must consider what skillsets people will need to maximize the benefit from the capabilities of these new technological enablers.

“Cognitive software mimics human activities such as perceiving, inferring, gathering evidence, hypothesizing, and reasoning. And when combined with advanced automation, these systems can be trained to execute judgment-intensive tasks,” according to KPMG’s 2016 report, “Embracing the Cognitive Era.” Executives need to consider which decision-making capabilities can be completed by algorithms throughout the transformation initiative. Regardless of the talent strategy they follow, executives need to think about how that strategy will flex and adapt to future disruptors.

Transformation success requires a similarly agile approach to technology decisions, which must deliver greater value to customers and allow the organization to thrive on change. Technology decisions should be made through a “business value first” lens. Thirty percent of executives say their organization’s legacy technology/systems are a barrier to success. Leaders need to consider the business value of legacy technologies, which they may not have to “rip and replace.”

Rather than incur costs from replacing legacy technologies, many transformation initiatives achieve more rapid returns by maintaining those legacy systems and integrating new technologies and platform providers for value creation. Recent advancements in technologies such as digital, cloud, robotics, cognitive/artificial intelligence, and other platform providers allow organizations to pivot faster, and provide more capability and flexibility to the business.

“Technologies like cognitive software are designed for change,” says Todd Lohr, KPMG’s Global Transformation Enablement Leader. “Machine learning allows you to change systems, platforms, and processes on a continual loop as your value propositions to customers change, leading to more agile operating models. Successful organizations will gain and maintain competitive positions because they are able to take advantage of new technology enablers, innovate faster, and create greater value for their customers and organization.”

“Executives need to extend capabilities to develop effective transformation strategies and manage the increasing complexity of build, buy, partner decisions in today’s environment.

Build. How will your organization and assets evolve to maintain relevance among the constantly changing market environment? How will you ensure your talent continuously has the right skills?

Buy. What capabilities are critical to acquire—and when—to create and sustain competitive position over time? How will your strategic acquisitions interconnect with existing capabilities?

Partner. What capabilities should be contracted into your market ecosystem? Can you sufficiently customize and/or integrate the assets your organization does not own, to create competitive advantages while maintaining flexibility?”

― Dr. Christoph Zinke, KPMG’s China Transformation Leader

“The speed of adapting to change is of the essence. The faster the enterprise moves, the easier it is to turn a business challenge into a new business opportunity.”

― Karl-Heinz Streibich, Chairman and CEO, Software AG
KPMG’s research points to three critical factors that make the difference between transformations that realize optimum value, and those that come up short—capabilities that enable customer focus, continual innovation, and agility.

“Our study clearly reveals an appetite for bold change among senior business leaders, but it also uncovers a level of uncertainty that they are taking all the necessary steps to achieve the most value,” observes KPMG’s Stephen Hasty. “Organizations need to better focus on the customer, and build businesses that are committed to innovation and can act with agility. These are critical factors for organizations to achieve a higher level of transformation that will create value, and sustain it in the future.”

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How KPMG can help your business transform

KPMG’s business transformation approach is customer-oriented, innovation-driven, and technology-enabled. We work shoulder to shoulder with clients to help develop their strategic and financial objectives. Our approach connects strategy with execution by aligning the required business and operating models, organizational culture, and change capabilities in order to achieve the optimal value from transformation.

Methodology

KPMG’s 2016 Global Transformation Study offers a groundbreaking analysis of perspectives among global senior executives on business transformation. The study targeted more than 1,600 senior executives from organizations with at least US$500 million in annual revenue in 16 key markets (Australia, Belgium, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Netherlands, Spain, Switzerland, United Kingdom, and United States). The study, conducted between December 2015 and February 2016, included 54 percent from the ranks of C-level executives, with the remainder being managing director or above. Executives were evenly split among all industries.

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