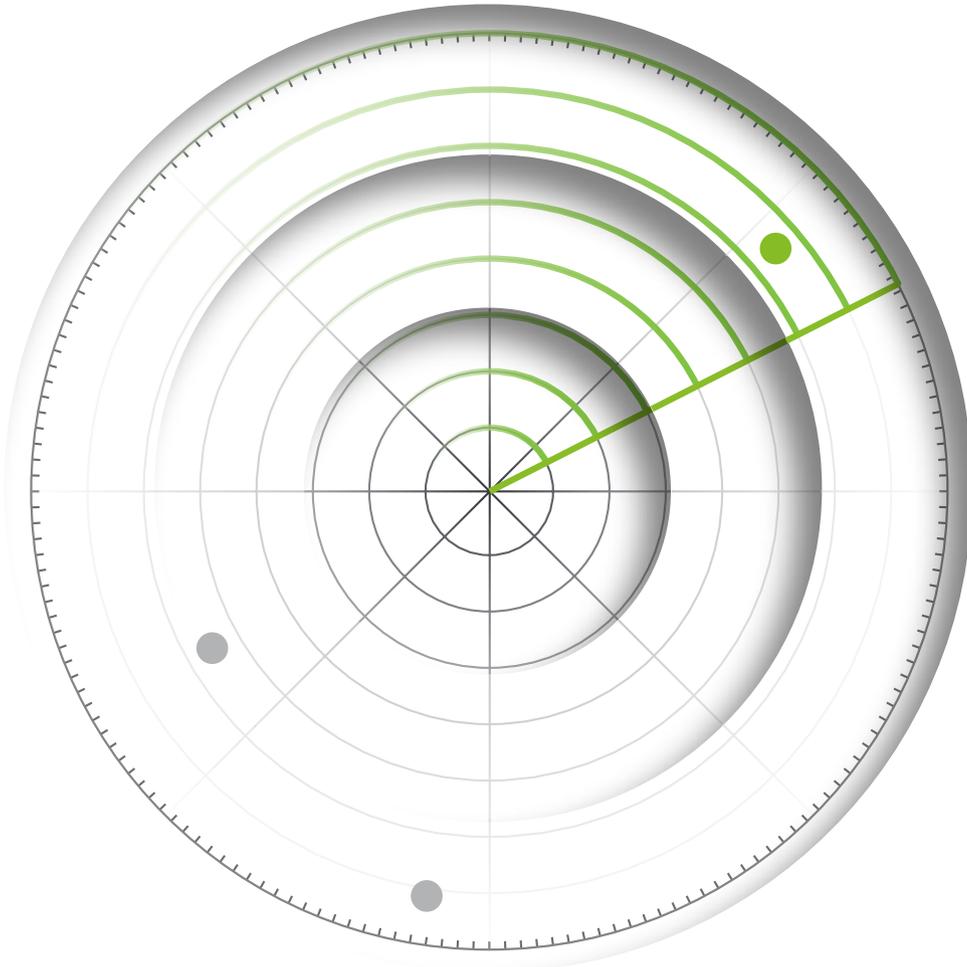


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Digital Operating Model

A structured approach to choosing and implementing new technologies

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Strategy should drive technology decisions to transform an operating model

Technology keeps evolving at breakneck speed, often with the power to disrupt entire industries. This puts executives in a constant struggle to decide in which technologies to invest to remain competitive and relevant. In the media, there is no shortage of artificial intelligence, blockchain, cognitive automation and other technology success stories that compound the pressure on executives to invest, but which also often lead to a paradox of choice with too many applications and solutions to choose from.

The way many companies approach digitalisation of their operations – meaning the use of technology to improve performance – is through individual initiatives of functional heads, as opposed to having a structured

plan and a clear understanding of where the need for digital innovation is greatest within the organisation. Without a big-picture view and a comprehensive plan, the result is often a suboptimal allocation of resources, driving costs with little impact. Executives should instead take a structured approach to choosing and implementing new technologies, and set clear strategic priorities given their organisation's limited resources and capabilities. Monitor Deloitte's Digital Operating Model helps enterprises effectively address these decisive choices.

Digital Operating Model as a response to a changing environment

Using technology to improve operations can be extremely impactful. We recently worked with a global consumer goods company and helped cut its yearly media monitoring agency fees by 90 Percent thanks to the use of web scraping and image recognition engines. Similarly, our teams helped a large German grocery chain to improve the accuracy of its weekly sales forecast using neuroscience, achieving 80 Percent accuracy for its promotional leaflets. Given the measurable and tangible success of these technologically-driven performance enhancements, it is no wonder that executives feel an urge to act.

However, implementing new technologies should not be seen as a tick-box activity of isolated performance improvements, but rather as a vital next step in the continuous quest to better address customers' needs to ensure one's long-term competitiveness. The key is to rethink holistically ones' operating model to better address evolving customer needs and expectations.

Better meeting customer needs with technology

Customer expectations are continuously increasing. In today's digital world, fast, reliable, flexible and personalised offerings at competitive prices are starting to become the default value equation across industries. How companies calibrate and execute each of these elements will often define the overall customer experience, a new proxy for value propositions, differentiation and competitiveness.

Professor Erik Gordon from the University of Michigan recently questioned whether brand loyalty ever existed, and if consumers stick with brands more out of laziness than loyalty.¹ Given the pace of change and increased ease of opting in and out of offerings, companies are finding it harder to sustain earned loyalty without a deep and more intimate understanding of customer habits and preferences. Transparency and accountability are equally important in the eyes of customers, strengthening the case for blockchain-based customer loyalty programs. We also see the network effects of platforms and strategic alliances becoming all the more important for the same rea-

sons. As an example, the fact that Huawei may no longer be able to offer the Android operating system could hinder its ability to compete meaningfully in Western markets despite the fact that its technology and flagship products have garnered international acclaim.

According to a recent study conducted for another global leading consumer electronics brand in France, 57 Percent of consumers believe that in-store sales staff provide better recommendations when they use digital tools, and 57 Percent of consumers aged 18 to 34 state they would visit stores more regularly if they were digitally equipped². Both of these data points suggest that digital operating models may have even greater benefits than the cost savings or throughput improvements you would expect.

That said, enterprises do not necessarily need to implement every available technology to better address customer needs and expectations. Carefully selecting the right technological tools can give companies a decisive competitive edge in the market.

Companies exist to serve customers, and those that meet their customers' expectations most effectively ultimately win. Operating models represent the set of activities companies undertake to render their services. Successful companies know that in order to keep winning they must continuously look for ways to improve their operating models. The effective use of technology helps companies to carve out new competitive advantages. The technology itself is however not the main driver – meeting customers' expectations is. Hence, before adopting a new technology, companies need to assess the areas where they may not be meeting customers' expectations (both at present and in the future), and then look for the root cause by assessing their internal capabilities. Jeff Bezos, Amazon's founder and Chief Executive Officer calls this process "working backwards".

¹ Americus Reed, Erik Gordon, Marketing to Digital Natives: How Brand Loyalty Is Changing, Knowledge@Wharton, September 19, 2018.

² La digitalisation, vecteur de fidélisation pour les jeunes, LSA.fr, September 25, 2019.

Gaps in customer expectations do not exist in silos, which is why it is so crucial to understand the competition and potential for substitution. Similarly, capability gaps are not merely an internal issue. It is as important to assess suppliers based on the capabilities they offer or the constraints they impose. Companies need to better understand how their value chain and ecosystem work and start making an impact there before they try to optimise their operating model.

“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.”

Amazon Leadership Principles – Customer Obsession³

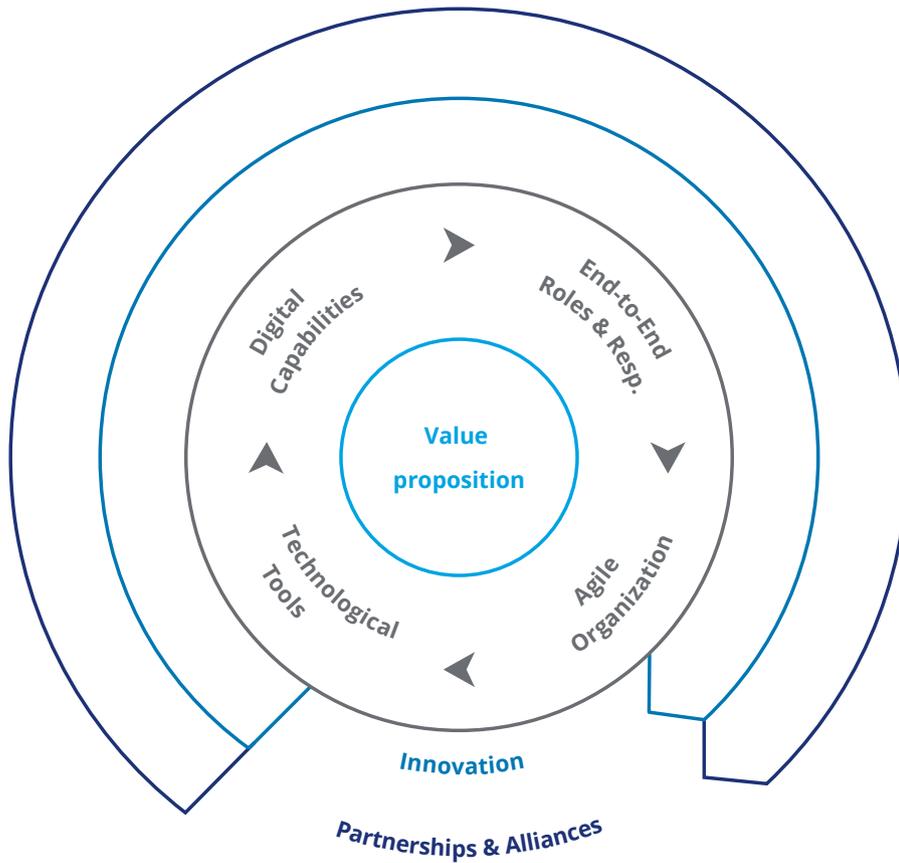
³ www.amazon.jobs/en/principles [Issue: 18.02.2020].



Envision the operating model as an agile framework centered around the customer experience

Traditional operating models have been defined as the combination of technologies, processes, roles and organisation. While this definition holds true, it hardly reflects the heightened complexity of our digital era. Today's companies operate under the constant threat of disruption, bringing with it a need for speed and hyper-customisation without sacrificing scalability. At Monitor Deloitte, we recommend envisioning your Digital Operating Model as a wheel in motion. At the center is the customer experience or value proposition with all of the operating model elements extending out from there, adding the two incremental layers of innovation and partnerships & alliances, both critically important in a world which is driven by constant change and subject to limited resources.

Fig. 1 – Digital Operating Model Principles



The core ideas behind the Digital Operating Model are, first, to be obsessively focused on the customer and, second, to structure your operations in a way that is fluid enough to be adaptable, responsive and silo-free. Technology in this scenario should only be seen as an enabler.

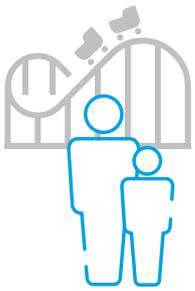
When one of the leading global media companies decided to modernize its attraction parks' customer experience, it started by identifying specific short comings in the current visitor experience, pain points and associated inefficiencies given customers' new expectations in a digitally enabled environment. The exercise resulted in an entirely new digital operating model developed along the highlighted framework, which significantly improved the overall visitors' satisfaction. Figures 3 and 4 overleaf provide an overview of how this was achieved.

Tab. 1 – Digital Operating Model framework dimensions

Dimension	Explanation
Value Proposition	<ul style="list-style-type: none"> • Focus on addressing customer pain points. • Improve performance on preferred elements of the value proposition.
End-to-End Roles & Resp.	<ul style="list-style-type: none"> • Break functional silos to ensure end-to-end ownership of outcomes. • Distribute local decision rights to speed up service to the client.
Technological Tools	<ul style="list-style-type: none"> • Use technologies to automate repetitive, low value adding tasks. • Build infrastructure and tools to drive data-driven decisions and processes.
Agile Organisation	<ul style="list-style-type: none"> • Work in agile mode to foster continuous improvement across functions.
Digital capabilities	<ul style="list-style-type: none"> • Recruit & train your organisation to be digitally savvy. • Think digitally when building offerings, go-to-market campaigns, and UI/UX.
Innovation	<ul style="list-style-type: none"> • Search for ways to continuously improve the customer experience. • Experiment with new solutions to address identified issues.
Partnerships & Alliances	<ul style="list-style-type: none"> • Choose your role and position in ecosystem. • Scan for competencies to access or partners with whom to grow.

Fig. 2 – Amusement Park illustration

Customer expectations in digital era



- Fast**
- Reliable**
- Flexible**
- Personalized**

Amusement Park Users' Pain Points

- Queueing**
- Lack of information**
- Undifferentiated experiences leading to unnecessary bottle necks**
- Lack of preparation lead to missed opportunities & disappointments**

Possible Root Causes

- Ride traffic fluidity
- Slow payments
- Information overload
- Wrong canal
- Wrong tone for audience
- Lack of customer data
- Missed information
- Missing services
- ...

New Target Value Proposition

Maximize enjoyment time
 (Cf., ride, eating, shopping time) before, during and after your visit to build lasting memories

Initiatives Derived from New Target Value Proposition

From pain points to initiatives

Shorten lines

- Gather live data about users
- Gather live data about rides
- Run live data analytics
- Push notifications to direct & optimize traffic

Create end to end narrative

- Personalize pre-arrival information to ease journey & create anticipation
- Notify visitors of program & up coming activities
- Share live ride wait time and distance

Use devices familiar to visitors

- Gather data through app & branded wearable
- Allow payment through app & wearable

Incorporate new services based on new consumption habits

- Take professional photos and distribute QR code to access them instantly
- Provide park employees with tools to access all live park information to address guests' issues or questions

Given the numerous overlaps or codependences between individual initiatives, it is easy to understand that Digital Operating Models cannot be addressed by single initiatives but need to be considered as a whole

Fig. 3 – From initiatives to Operating Model

From initiative to Operating Model

The park transformation was successful because executives started by first fully redefining the desired customer experience from end to end and only as a second steps identified and structured all of the required initiatives, having them work in an integrated, cohesive manner from the outset.

Digital Capabilities

Before visit:

Streamlined booking process

During visit:

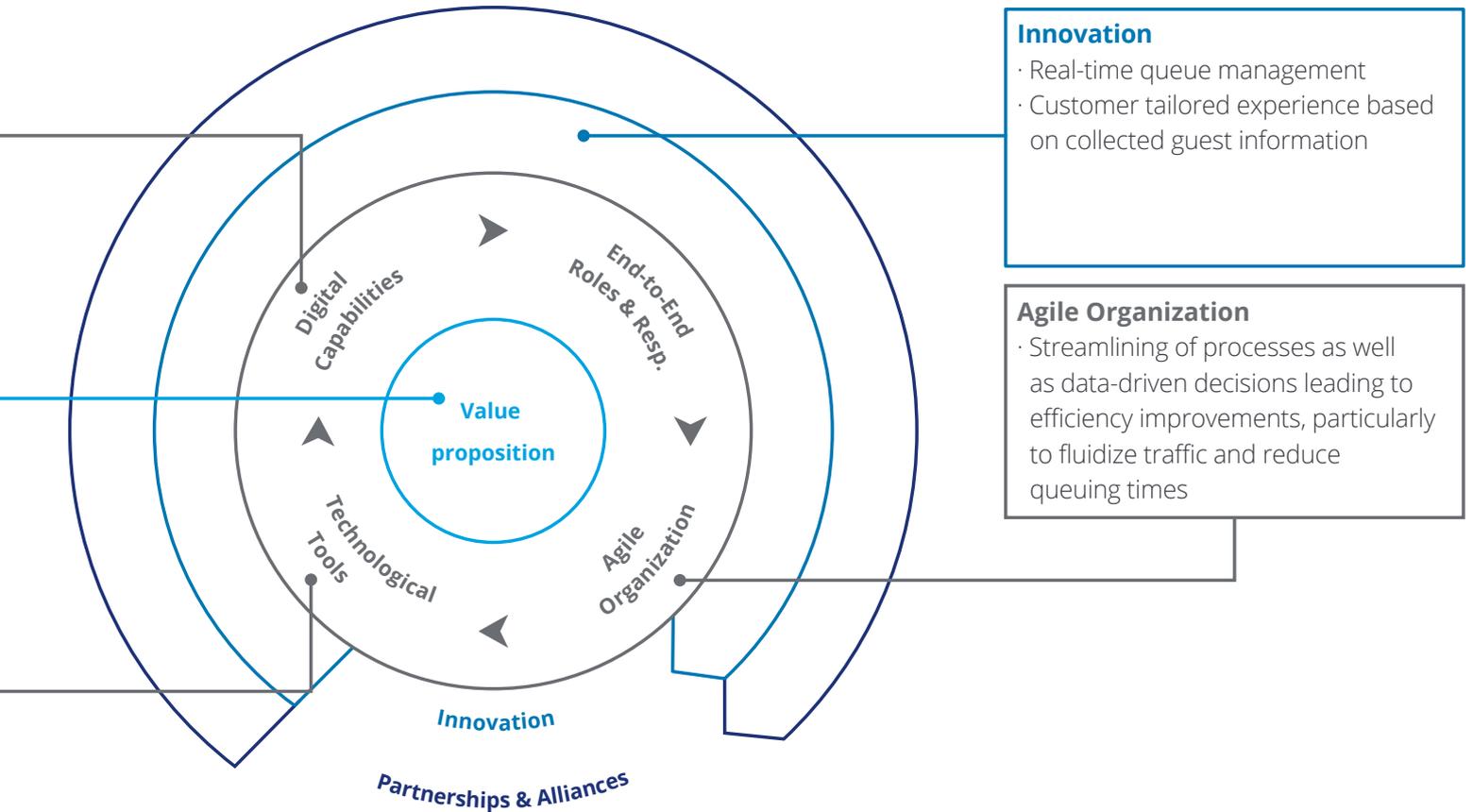
Back-end and front-end processes digitally adjusted to an electronic wearable or the app

Value Proposition

- Shorten lines
- Deliver end to end narrative via app & digitally enhanced infrastructure
- Link park services to allow instant gratifications

Technological Tools

- Supply visitor with branded digital wearable to enable the experience
- Develop & use mobile app for personalized communication
- Build digitally enhanced infrastructure in parks (e.g., reactive screens connected to park wearable)



Map digital transformation based on impact to avoid wasting resources

Despite adopting increasingly customer-centric operations, companies still struggle to identify where best to focus their improvement efforts and how best to succeed given the ongoing digital transformation within their sectors. Digital transformation often begins with a functional head exploring and pursuing an individual initiative which may help meet her or his KPIs more effectively. Without a proper process in place to prioritise the digital tools needed for the overall operating model, many may

welcome these individual initiatives as preliminary tests and celebrate their success stories. From our point of view, however, these initiatives can also be costly to an organisation, not only because they often fail due to lack of commitment or resources, but also because they may be siphoning valuable resources away from functions that could deliver a better return on investment for the organisation. Cost savings are not only about spending less, but also about spending purposefully and strategically.

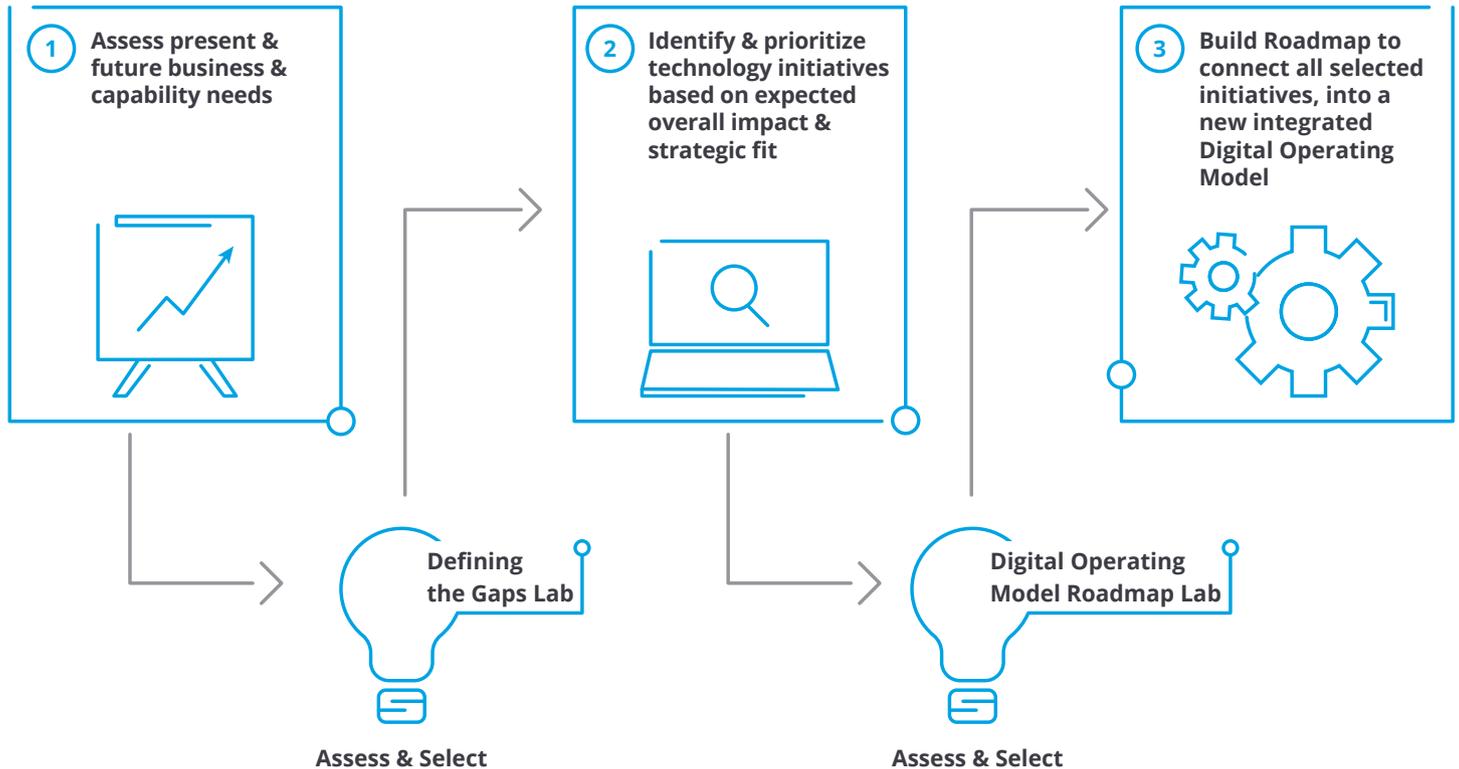


Break down process into three steps to build a digital operating model

To ensure your organisation doesn't end up with uncoordinated, discrete improvement initiatives spread across various functions, you need to approach the investment decision process in manageable steps. We usually recommend a three-stage process.



Fig. 4 – Process to design your organization’s Digital Operating Model



First, assess your business needs relative to customer expectations, ecosystem constraints and technological development, while also identifying critical digital capability gaps. By mapping the gaps between desired offering and current capabilities, you can start prioritising improvement areas.

With a clear understanding of the improvement areas to focus on, the second step is then to identify digital initiatives that will

improve capabilities and/or performance using established or nascent technologies and recent cross-sector success stories. Executives should then consider each initiative and combinations thereof based on expected impact and feasibility in terms of resource requirements, projected financial returns, technical infrastructure and other qualitative factors. For example, it may seem extremely strategic to develop artificial intelligence tools, but the market for key talent

in that area may prove far too competitive and tight for many companies to develop successfully the competency internally.

The final step is to build an in-house action plan. Strategy, after all, is ultimately expressed by a company’s actions. Formalising a plan of action is the best way to galvanise energy internally and assign the roles, responsibilities and resources required to kick start implementation.



Plan holistically to future-proof your business and prioritise investments

Building a Digital Operating Model may not be easy, but it is critical at a time when so many industries are vulnerable to technological disruption. One sure way to make the journey manageable is to commit to a disciplined discovery process.

We believe companies, which build a digital operating model that is disciplined, holistic and dedicated to continuously improving the customer experience are in the best position to compete effectively and remain relevant. A focused approach will save executive teams wasted effort and opportunity cost by prioritising initiatives that add the most value. In our experience, companies often struggle with their digital transformation because they:

- Feel stuck and do not know where to start
- Operate in functional silos
- Are unclear about what their position in the value chain should be or are unsure how disruptive change in their sector might impact them
- Struggle to assess and determine tangible impact of digital initiatives

To address these challenges, Deloitte has developed multiple proprietary tools to:

- Sharpen industry future state analysis using artificial intelligence
- Accelerate the assessment of existing capabilities based on our long track record of digital transformation successes
- Frame and articulate clearly the choices executives need to make to ensure their business and strategy succeed

The lasting positive impact of a digital operating model is real and value accretive if you follow the approach presented in this Point of View.



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