



The Deloitte On Cloud Podcast

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Title: These three factors can significantly impact enterprise cloud ROI

Description: Return on investment (ROI) is a core measurement of cloud success. In this episode, David Linthicum talks with Deloitte's Diana Kearns-Manolatos, senior manager and digital research lead for the Center for Integrated Research about how technology dynamics can affect cloud ROI. According to Diana, three factors stand out: technological maturity, how well companies integrate technologies, and how individual technologies such as cloud, AI/ML, IoT, etc., can drive or detract from value.

Duration: 00:26:26

David Linthicum:

Welcome back to the On Cloud podcast. Today on the show I'm joined by Diana Kearns-Manolatos, senior manager and digital research lead for the Center for Integrated Research. Welcome to the show again, Diana. How're you doing?

Diana Kearns-Manolatos:

Thank you. I'm glad to be here, and I'm doing really well. Thanks for having me.

David Linthicum:

I'm glad to have you on the show. I was really excited about doing the recording this morning because I get to learn something every time I do a podcast with you, so in many instances, I'm talking to other architects and people who are discussing technology, things that I already get. A lot of the stuff you do is net new research and really an innovative take on where the market's moving to, and you get core pieces of information that I don't think you can get anywhere else. Last time it was amazing the fact that we uncovered with the survey that basically organizations were spending about the same amount of money, plus or minus 10, 15 percent, but coming up with very different results in using technology, in this case, cloud computing. It was the future of cloud, the future of cloud computing we did last year.

Diana Kearns-Manolatos:

Yeah, that's right. and it was an interesting study. I think there are a lot of connection points to what we saw in that study on cloud to what we're seeing more broadly in some of the new research on digital transformation.

David Linthicum:

Yeah, it's amazing. And she did some great research on digital transformation and covering—won't be too much of a spoiler here because we'll get into it—the fact that when you go through this process and leveraging modernizing existing systems and getting to more modern platforms. That comes back many-fold in terms of value that it brings back to the business. So, you can increase the value of the business, and that's the way businesses should be existing. Back in the business classes when I took them in college many years ago, I was taught that the role of a business or role of a corporation is to enhance your shareholder value, in essence create value within the company, and this is a way to do that by leveraging technology as a force multiplier to do that. Is that a good summary of it?

Diana Kearns-Manolatos:

Yeah, that's exactly right. I think the key here is really about aligning business objectives and your technology strategies, and that's going to help you stay ahead.

David Linthicum:

Before we get into that, we've got new listeners here, want to know about you, Diana, so could you give us a summary of what you do at Deloitte and what you focus on?

Diana Kearns-Manolatos:

Absolutely. So, I'm part of a group at Deloitte called the Center for Integrated Research, and what we do in our research center is we look at market technology and cultural trends that are impacting organizations in the US and globally. So, within our research team, I lead our research on digital transformation. That covers strategy and all of the buzzword technologies that we hear about every day, cloud being one of them, and all of those other technology services and integrated technologies like AI, generative AI, the metaverse, cloud cyber, so a whole range of technologies related to digital transformation.

David Linthicum:

Yeah, and you're able to tell us what's working and what's not and what's impactful to organizations and what's not as impactful to organizations. So, the report came up with three tech strategies which were driving enterprise value ROI. So, summarize the report and let's dig into what those strategies are.

Diana Kearns-Manolatos:

Absolutely. So, in terms of what the report is, this is not your average survey. What we actually did is an analysis looking at real-world data from over 4,500 organizations. We looked at their business filings around what they say they're doing related to digital transformation, and we looked at their actual financial returns and their market cap over a ten-year period. And what this report does is it really looks at, as you said, three aspects of a three-dimensional tech strategy.

The first is around technology maturity, so what is the impact of looking at established technologies like mainframe, ERP, data analytics, and others versus more modern and innovative technologies—cloud, AI, cyber, blockchain, and others. How do those two compare in terms of the market value that they drive. In addition to digital technology maturity, we also looked at classes, or thematic categories of technology, to understand the value across a set of technologies on a paradigm. So, if we're looking at something like AI, deep learning, generative AI, chat bots, automation, all of these technologies are in a similar class to each other.

So, we wanted to understand how groups of technologies that work together to achieve the same type of goal drive market value. And then the third thing we wanted to understand with this research was really down to the individual technology level AI or cloud or cyber, how individual technologies either drive or detract value from organizations. So, that's it in a nutshell from a real-world data sampling analysis at scale for over 4,500 companies, what does the value equation look like for them across those three dimensions?

David Linthicum:

So, let's talk about tech maturity. So, what am I looking for there in terms of where I want to take my company? Is this about managing by magazine where I'm always doing the most hyped thing and to apply stuff to the business, but taking a more pragmatic approach to looking at technology is something that has the potential for adding value to my business but has to be done in a methodical way, has to be done in a proper way?

Diana Kearns-Manolatos:

So, maybe start with a definition to make it clear what are we talking about. Tech maturity, we're really talking about the extent to which the organization has modernized away from legacy technology and embraced innovation. In order to define that in our analysis, we were really looking at the difference between those types of technology that I mentioned earlier—data analytics, mainframe—and the extent to which they've moved away from that. And I think that what was really interesting about this analysis is we found that maturity really matters in terms of your ability to drive market value.

Those organizations that were embracing more innovation in their adoption of technologies, so they were using technologies like AI, cloud, cyber, and blockchain instead of just signaling through their business filings that they were moving away and modernizing, that they specifically were talking about how they were innovating. They saw triple the market cap value than those that were just those baseline companies talking about modernization. So, maturity really matters.

David Linthicum:

Yeah, it does really matter, and ultimately, you just hit the nail on the head, you have to have a destination for where you're going if you're going to modernize technology and leverage next-generation technology. It's one thing to say we're going to cloud-enable things and modernize systems versus, versus we're going to leverage AI, provide analytics to enhance our fraud analysis capabilities to reduce fraud by 20 percent over the next three years. We're going to leverage IOT-based systems to monitor farm equipment. Say they're a food-production facility, to increase productivity by at least 40 percent over the next five years.

There should be definite goals in how we're leveraging this technology. We're able to apply these to goals and objectives we're looking to do the business. This is not just about—you state it well—not just we're going to modernize. What are you specifically going to do? How are you going to leverage this technology? What plan in place do you have to make it work? Am I getting close?

Diana Kearns-Manolatos:

Yeah, you hit the nail on the head, and some of our other research that we published earlier this year, really just to double down on that, emphasizes that organizations that do a good job of aligning their tech strategy with their enterprise strategy in the way that you're describing see double the market cap potential versus those that only have a digital strategy in place. But only about 34 percent of organizations have that tech strategy alignment based on our analysis, so said differently, that's 66 percent of organizations that are not aligning their technology strategy with their enterprise business goals. And what does that look like? I think the examples that you gave are spot on.

To give another one, if you're a global consumer products company, you can and should be thinking about how you use a combination of new and innovative technologies like AI, cloud, cyber, and IOT, for example, to look at your global supply chain and address business concerns like asset provenance. If you're trying to market as organic, where did those products come from, from every step across the supply chain? Where did the ingredients come from? How are you tracking that your products are getting to consumers on time? The use of technology can enable those strategies, so it's not just about technology modernization. Again, tech maturity that drives value is really about going beyond that baseline and thinking about how you can use innovative technologies to innovate around strategy.

David Linthicum:

So, how about organizations? Are they making the connections between innovation and value out there? Because I've been in the business a long time, and an officer for companies over the years, and CEO a couple of times. And it's really it's difficult to get people to understand that the value drivers are, in many instances, going to be just as important or more important in the quarter-on-quarter growth. Your ability to increase the value of the company, to have something that's going to be much more valuable to the people when it's sold, when it's a publicly traded company, whatever, is the ultimate objective. And I think that's something that organizations probably don't understand as much. So, they look at technology to leverage quarter-on-quarter growth and really get focused on that more so than the overall growth of value, which is going to be many quarters and many years of growth maturity that leads to a higher valuation. Are they making the links, or do you think they're missing it?

Diana Kearns-Manolatos:

So, there's definitely room for improvement here if we look at organizations' innovation success and where they are in achieving their strategic priorities. The cloud research that we did, our *US Cloud Survey Report*, found that, on average, across nine different value measures, that there's a 14.5 percentage point gap in innovating successfully against stated strategic priorities. So, for some measures, it was more than a 20-percentage point gap. For others, it's less than that 14 percent, but on average, 14.5 percentage point innovation gap. So, there's a lot of room for improvement to think about how you go beyond the baseline of technology modernization and get much more mature in thinking about how you can use innovative technologies, innovative strategies to drive greater strategic value against your stated business goals.

David Linthicum:

Yeah, I think that's what the report does that I haven't seen anywhere else, the ability to make those links. And I think that boards of directors and officers of companies should look at this as a key indicator, a key lesson in the fact that we can't just think about this stuff on a tactical quarter-on-quarter growth basis. It's the ability to get to your next quarter as quick as you can and meet the numbers, the ability to have an overall vision as to where the business is looking to go, and how you're going to leverage technology to make that happen, and what specific technologies you're going to leverage in what ways, and what objectives, or ROI, you're going to get from that specific technology that you're leveraging.

I understand it's a tough question to ask, and you need lots of very talented people to make those calls, but that's the way modern business is going to work. If you're going to grow your business in the future, it's all going to be value creation around innovation and creating net new products and opportunities, a better customer experience, a better product or service, and I think technology's going to have a core theme to make that happen. So, what about the next thing, tech theme categories? How did you categorize the tech themes of these industries that you looked at?

Diana Kearns-Manolatos:

So, I think what you were just describing now about the challenges that organizations are facing of figuring out which technology to use is where we started thinking about what are the right categories to be looking at for value. We had done a previous piece of research that was really looking about how you create those linkages and get out of that mindset of developing a technology-of-the-day-driven strategy. So, what should our generative AI strategy is what everybody's asking now, and perhaps rightly so, because it's a technology that has a lot of interesting use cases.

But that is not what creates those linkages to the enterprise and the business strategy. So, we put out a piece of research called, *A New Language for Digital Transformation*, that defined five thematic categories that organizations can be thinking about to help them get away from leading with a single technology as part of their strategy. And, so, those five categories are experiences, and these would be business goals and the technologies that support them related to optimizing interactions with users, customers, the workforce, any stakeholder. So, experiences is one of those thematic categories, and any technology, whether it's augmented or virtual reality or the metaverse that enables experiences might fall into that experiences bucket.

So, like experiences as the first one, we looked at four other categories. Insights would be where you're looking to assess data and how data can be used to either enable or automate aspects of your operations or generate real-time insights. So, any technologies like AI, machine learning, data analytics, generative AI, and others would fall into this insights imperative. The third one we have is platforms, so that's focusing on really the flow of information across the organization or its network. We have integrity, so this can include organizational resilience, security, ethical tech goals, digital trust, and this is where we see anything and everything having to do with cybersecurity and risk management falling under the integrity business goal.

And then the last one we looked at is connectivity, and connectivity is really that full flow of information across your platforms, experiences, insights, and how you're using the future of the internet, and networking technologies like broadband, 4G, 5G, or APIs to bring all of those other aspects together. And, so, those are the five categories that we looked at, and the goal of this research was really to understand how do those five categories that are part of any digital transformation tech stack, business goal, and technology architecture together, how does that relate to market cap?

David Linthicum:

Companies are going to have probably aspects of all of these categories, but do some better than others? Is that what your report found we're probably going to run into if we're doing digital transformation? Maybe they're firing on all cylinders in terms of insights and platforms, but they're not doing connectivity as well. Is this something as a learning process they can do to make sure that they're balanced in all these various categories to make their digital transformation most effective as it comes to returning value?

Diana Kearns-Manolatos:

So, there were two really exciting insights that came out of the analysis. I think the first was that four out of five of these categories are clear drivers of market value, so I think it's very encouraging to see that when you're thinking about digital transformation, this integrated approach to your technology architecture and your strategy is a winner. It helps drive market value. It signals to the market that you've really thought from a 360-degree vantage point about how you are impacting customers or stakeholders with experiences, what insights you need, how the platform is connected, and that you're making sure that there is integrity.

The only one of the five where we didn't see a positive or negative impact was around connectivity, though that could be because we're looking at business filings and there's not a great number of keywords talking about your 4G and your 5G investments in that particular data set to really tell us what type of impact connectivity technologies are having. But for the other four, we saw all of them had a positive relationship to driving market cap.

The second thing that was perhaps even more exciting was our finding around the importance of the platform imperative. So, again, the platform imperative is looking at the horizontal class of platform technologies and strategies, so IOT, edge computing, cloud, quantum, and really having a strong platform foundation for the business of how you're going to have information flow. And we found that for the platform imperative that there was three times the market cap increase than for something that was also positive around generating insights for the business. So, I think that that was super interesting that having that platform focus can help to supercharge value versus something that we already know is so important like insights.

David Linthicum:

Yeah, I think it's an intelligent way of looking at how enterprises are behaving today and using technology. I love the categories, and I think it's very apt to what I'm seeing within enterprises as well. So, let's talk about individual technologies—speaking at conferences, people come up to me and start talking about tools and technology that really becomes something you should discuss after understanding the larger strategy and the tactics and the approaches, but it's important to have individual technologies and understanding of individual technologies can operate to provide a multiplier to get to value. What'd you find there?

Diana Kearns-Manolatos:

Well, so this is a podcast for cloud leaders, so I'm going to say that the story is very good for cloud here. In the first two sections of our report, I think around innovation, cloud is an important driver of innovation beyond modernization. For platform strategies, cloud is right in there as one of the important platform enablers, and when we looked at the individual technologies, perhaps not surprising looking at cloud, AI, and cyber, we found that investments in cloud technologies signaled by the 10K filings showed that cloud was three times the value driver of market cap compared with cybersecurity investments, which were also positive.

So, there was a really promising short-term value to be seen from the business filings speaking about their cloud strategies. And then also in the long term, there was a positive long-term growth potential available there as well. So, when we looked at the data over a three-year period, and again this is ten years of data, so over a three-year period, we saw that there was still a 2X value in terms of market cap compared with the cyber investments in the longer term. So,—sorry, it was 3X versus cyber in the long-term three years, and then 2X versus cyber in the short-term immediate. So, those are some really, I think, compelling numbers to know that cloud adds both short-term and long-term value.

David Linthicum:

Cloud really is where the modern platforms are, so if you look at the investment in AI and you look at the investment in ERP cloud-based systems, SaaS-based systems, even some of the modern cyber stuff, all the innovation and the investment's occurring in the cloud. I looked a few years back and did a blog on it where it's force-marched in the cloud, so cloud's really an indicator in the fact that people are using state-of-the-art technology because that's where it exists and that's where it lives. It's just a factor of the market. So, do you think that organizations are relying too much on next-generation technology and following the hype, or they're not doing as much, or about right?

Diana Kearns-Manolatos:

Every organization is different. Our research shows that there are some leaders, and so maybe they're about—the leaders are about right where they should be. There are definitely laggards in terms of the adoption of technology as well as hype cycles around specific technologies. So, one of the things that we did in this research was we looked at news media trends and frequency of just some of the cycles around those technologies, how frequently organizations are speaking about them in the news, and then correlated that to over or underperformance in share price returns. And this is research we did with data from our partners MKT Media Stats.

And what this joint analysis found was that consistently over the last seven years, cloud has been showing a great intensity of frequency in media use, so this is a trend that has been above all other technologies and how much organizations are talking about it and that there has been a consistent quarter-over-quarter growth that organizations are seeing from their use of cloud. So, I think for each of these technologies it's not just that there's hype around them. The hype shows that there's real tangible value around them, even when there are hype cycles, and that in addition to cloud, there are a number of other important technologies.

If you were to look at media intensity right now, we see machine learning is really right up there almost next to cloud in some of the analysis that we've done. So, I think thinking about these technologies not just individually but how as they each mature individually, you can bring them together is one of the areas that people can be focusing to be a leader and to continue to push the innovation agenda forward.

David Linthicum:

I think that's great advice. I think ultimately it's about leveraging and weaponizing this technology in such a way that it has to be around the vision, it has to be around strategy, it has to be around use cases, and the ability to look at the metrics in terms of what technology is going to be able to be converted into value based on the resources we're able to put into this technology and make happen and all companies are going to be all over the place with the amount of investment that they can make in specific innovative technologies to take things to the next level. So, let's say we're five years, we hop in a time machine, we're asked to write this same report in five years. Where do you think we're going to be in terms of value creation around technology? Is it going to be better, about the same?

Diana Kearns-Manolatos:

So, I think technology will continue to add this type of value that we're seeing here, but while the first two categories we looked at I would expect would be largely consistent around the modernization of legacy versus innovation, I don't think that trend would shift very much. I think that the five digital imperatives we have are evergreen and intentionally designed to shift as technologies shift. But what I would expect to be quite different would be that third category because technology is changing at a very fast pace. So, even five years from now, the technologies that we're going to be talking about, I think it will still be cloud and it will still be AI, but there will probably be other technologies that mature over the next five years that will be areas where new value can be achieved, and where if we did an analysis like this one, we would be seeing from the investments that are being made now and over the next one or two years, we would start to see those shorter and longer-term value returns on something like market cap.

David Linthicum:

Absolutely. So, where can we find this report on the web and articles related to it, and where can we find you on the web as well?

Diana Kearns-Manolatos:

So, this article is on our Deloitte US Cloud Services page. You can check it out there. You can also find it and me and other things I've written on LinkedIn. Just search for my name, Diana Kearns-Manolatos, and you should be able to find me.

David Linthicum:

She's very active on LinkedIn, and Diana's probably one of the smartest people I know, so I enjoy working with her, and I'll tell you what, this report knocks it out of the park after the other report last year. That thing knocked it out of the park in determining insights that I think people are missing in evaluating how this technology can be leveraged for the true value that it is, and I would say that IT's job is to return maximum value from the business, and that's exactly what this is talking about.

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