

Digital Transformations: Rethinking the Corporate Model

May 2019

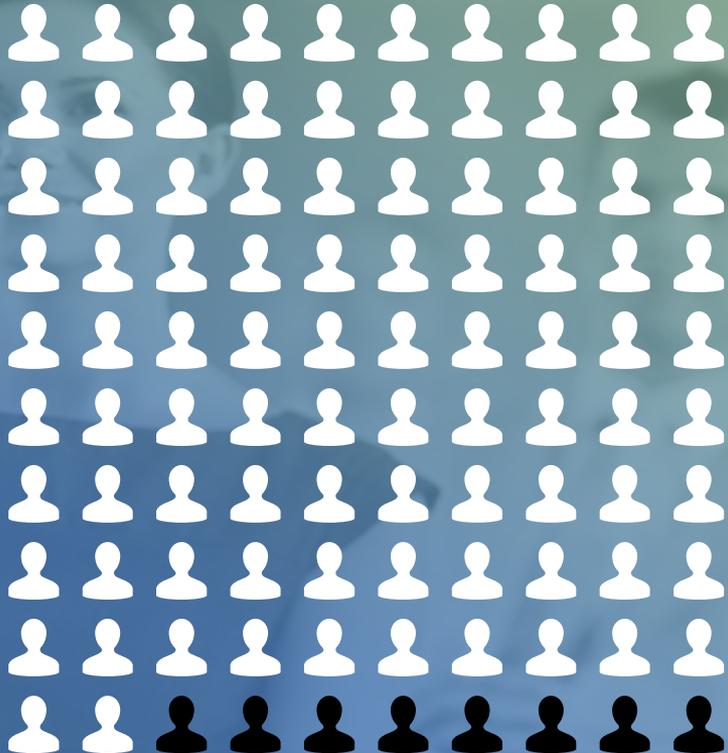
In past disruptions...

~80%
of incumbents don't
survive

Penicillin
PC manufacturers
Automobiles
Televisions
Tires



Even more starkly, 92% of companies we surveyed believe their current business model will not survive



92%

of companies surveyed believe their business model will not remain economically viable through digitization

Why is this so hard to get right?

4 reasons why traditional strategies fail in a digital age

1 FUZZY DEFINITIONS

Digital isn't just IT or marketing. It's your entire business model

2 MISUNDERSTANDING THE ECONOMICS OF DIGITAL

Digital is shrinking the overall economic pie, and dividing it less equally

3 OVERLOOKING ECOSYSTEMS

Platforms are changing who makes money in and industry value chain

4 OVERINDEXING ON THE 'USUAL SUSPECTS'

Disruption can come from digital natives or incumbents, and from any sector

Economic

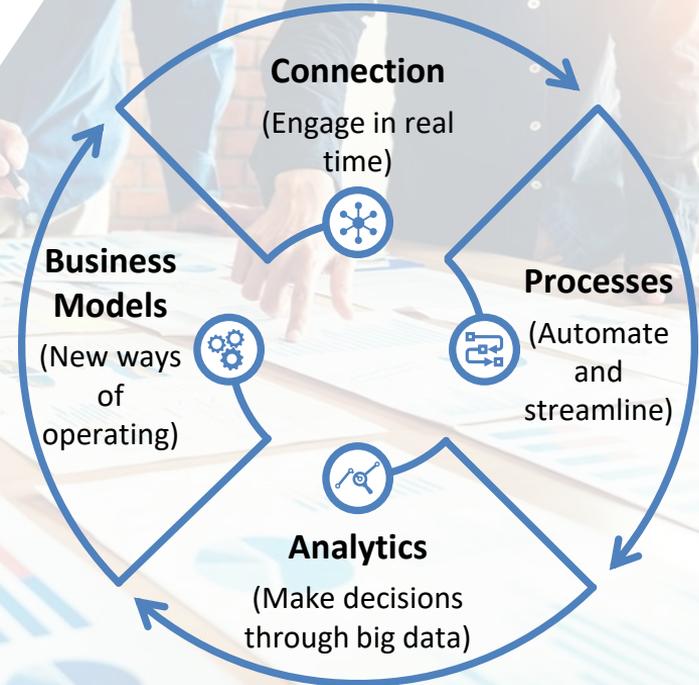
 Instant,

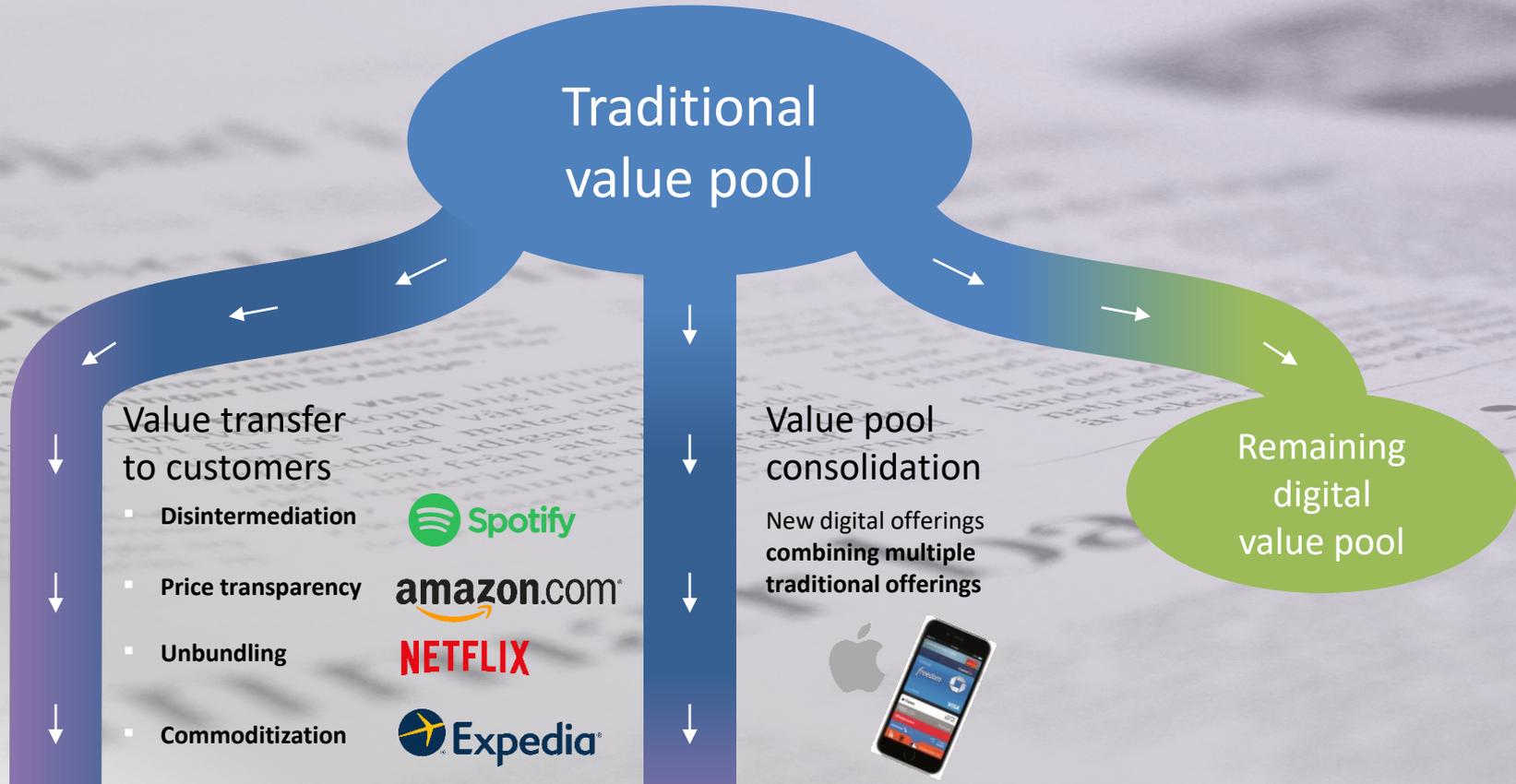
 perfect and

 free replication
of digital assets

changes the economics

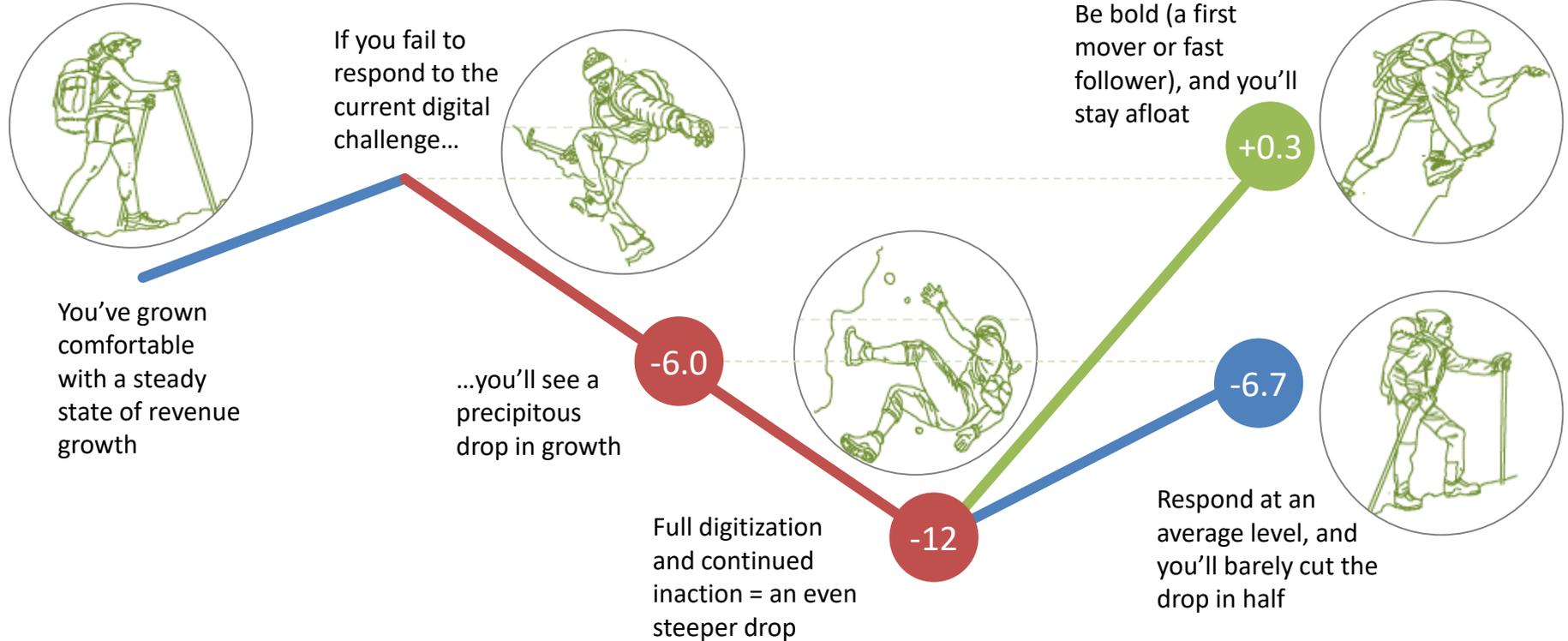
Operational





2 First movers will have the best chance of winning

Percentage-point change in 3-year revenue growth

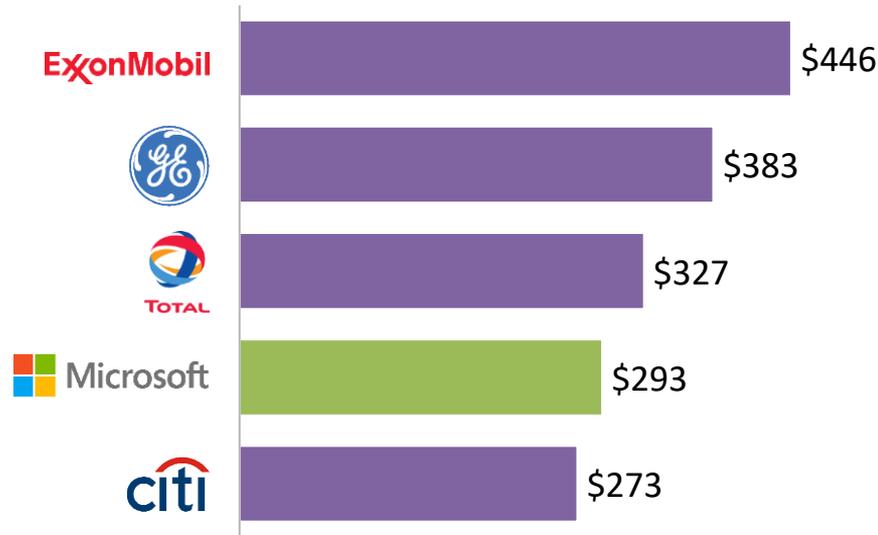


3 Unlike 10 years ago, all 5 of the largest companies by market cap today are “ecosystem” players

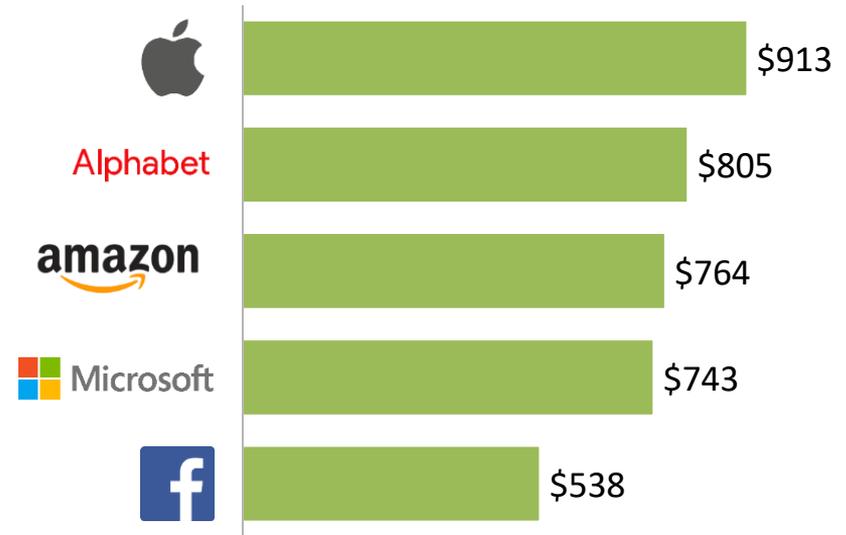
\$Billion, 2006 vs. 2018²

■ Ecosystem player

10 years ago, only 1 of the 5 largest companies was an “ecosystem” player



Today, the top 5 largest companies are all “ecosystem” players



1 As of closing 3/9/2018

B2B companies are cutting edge in several digital plays from machine learning, to robotics, to artificial intelligence

IoT is becoming a reality with B2B players enhancing their services based on predictive maintenance capabilities

Robotic process automation (RPA) is the latest flavor of 'artificial intelligence', and it's being employed by B2B companies to automate 50-80% of back-office operations

Artificial intelligence, augmented reality, predictive maintenance, collaborative robots (that can work with humans) are driving a step-change in manufacturing yield, energy, time and quality (YETQ)

You think Amazon is good at 'fast delivery'? Würth - a German company that sells materials such as nails, screws, etc - is offering **3 hours delivery service** to construction sites, and has an app to streamline repeat purchasing, etc



Key shifts carriers need to make for digital transformation to succeed

From...

Gaining market share

Focus on regulators,
intermediaries, etc

Take the internal view

Plan annually

... to

Gaining Dominance

Focus on customer value

Take the external view
(hack your business)

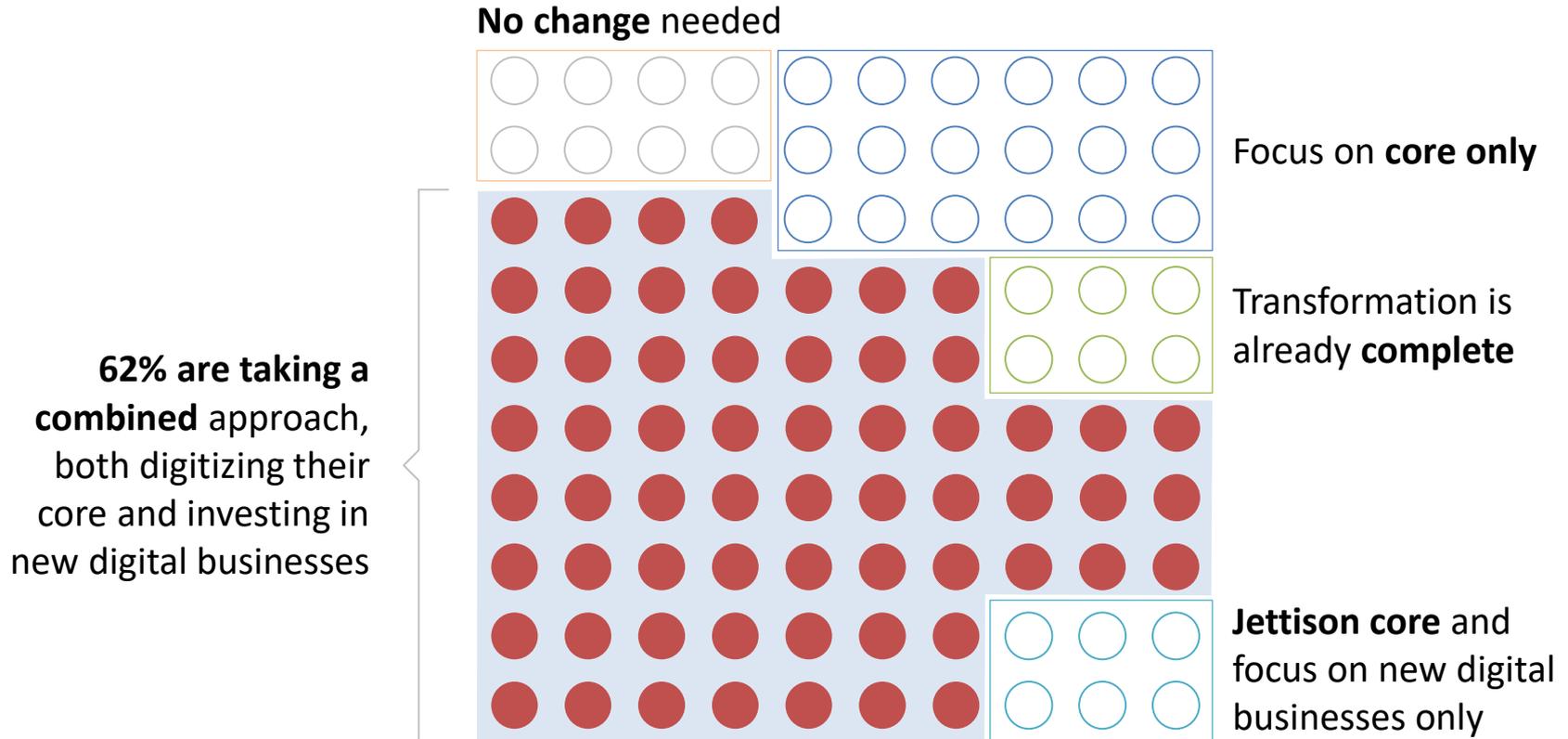
First mover, test and learn
in agile manner



Many carriers aren't taking the necessary steps to capture the full opportunity of digital

	From	To
Strategy	Focus of strategy	Shiny objects (fintech)
	# of digital initiatives	
	Innovation approach	All internal
Execution	Ways of working	Functional
	Digitized processes	30%
	New digital innovation launches a year	
Investment	Prevalence of digital capabilities	
	Digital investment budget	10% of investments
	IT capabilities	One speed (slow)
Organization	Experimental culture	Test & you better succeed
	Digital KPIs	CEO incentives Scorecards
	Development approach	Traditional Straight line
		True pockets of value
		Focus on strength and externalize
		Cross-Functional Focused on customer journey
		85%
		50% of investments
		Two speeds (slow & fast)
		Test & learn
		Regular reviews Revenue outside core
		Agile Iterative

Many carriers face a false choice: reinvent the core or focus on new digital businesses? The best do both





We have identified 4 archetypes for insurers choosing to embrace digital transformation

		Digital Strategy	Digital Value Capture	Foundational Digital Capabilities	Digital culture, talent and organization	Digital integration roadmap	
A	Efficiency Leader	Example Focus on digitizing specific customer journeys / processes to accelerate specific impact					
B	Multichannel revenue driver	Digital enablement of sales force to improve field productivity / channel effectiveness					
C	Self-disruptor	Full-fledged digital business with business acquisition channel and digital capabilities					
D	Holistic transformer	Holistic end to end digital transformation: digitally enabled strategy, business model digitization, IT infrastructure transformation					

➤ Approaches A and B would provide short to mid-term returns, whereas C and D are more mid to long range; also risk and anticipated return profiles will vary in each case

In all cases, success requires unquestionable commitment to “digital by default” from the top – even when it is uncomfortable

	Pre-digital era	Digital era
Delegation	<ul style="list-style-type: none">Executives delegate projects to their teams after having made decisions	<ul style="list-style-type: none">Executives inspire a common vision of success after having aligned on KPIs and milestones
Decision making	<ul style="list-style-type: none">Executives make go/no-go decisions, approve pilots and new features	<ul style="list-style-type: none">Executives empower teams to make product decisions, manage through allocating financial resources and talent
Analysis	<ul style="list-style-type: none">Securing executive approval requires multiple stakeholders and high ROI burden of proof	<ul style="list-style-type: none">Executives shift the burden of proof to customer feedback and data-based insights
Problem solving mindset	<ul style="list-style-type: none">Digital is a product executives hope to build	<ul style="list-style-type: none">Digital is the process by which executives address unmet customer needs
Resource allocation	<ul style="list-style-type: none">Executives follow a well-structured budgeting process to resource allocation	<ul style="list-style-type: none">Executives continuously reallocate resources (talent, technology, \$) towards the areas of highest impact

dig in

7 Core beliefs on carriers' digital journey



1 Transform the core



2 Move agile



3 Build capabilities strategically



4 Start from the customer



5 Build an expansive ecosystem of partners



6 Move as a Multi disciplinary team



7 Test, fail fast, and learn extensively