

strategy&

*What's your
digital ROI?*

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**Realizing the
value of digital
investments**



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About the authors

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Executive summary



Digitization is transforming how companies in every industry go to market, interact with customers, and carry out their operations. The digital transformation required, however, is complex, time consuming, and expensive, and it affects every aspect of the enterprise. So it's essential that companies actively plan and monitor their digital investments in order to get their money's worth out of the effort.

To that end, every company should put together a process and governance mechanisms by which they can manage and measure their digital return on investment and innovation — the progress they are making toward digitization and the value they are capturing. This process should be carried out across the enterprise, in six key strategic focus areas: customers, employees, operations, safety and soundness, infrastructure, and disruption and innovation. Metrics for measuring digital ROI, both quantitatively and qualitatively, need to be developed and linked clearly to the company's overall strategy and goals.

A strong process and proper governance, however, are not enough to guarantee success. Digitization has the potential to reinvent work entirely and change the way organizations function fundamentally. Key elements of digital transformation include focusing on the digital experiences of both customers and employees, quickly testing ideas early and rewarding the willingness to take risks, managing the disruptive effects of digitization on your operations and culture, and taking an all-encompassing view of how digitization will impact your business.

The only way companies can successfully manage the process and reach their strategic goals is by measuring their digital ROI every step of the way.

Returning value

The age of digital disruption is upon us, and no company is immune to its effects. Across every industry, customers and employees alike are demanding greater mobility; easier, more transparent access to information of all kinds; and flexible, pleasing user experiences. Internal operations, too, are being transformed as companies look to digitize and automate everything — the factory, the supply chain, even marketing and sales.

And if you think your company should be cautious in its approach to digitization, think again, because even if you're moving slowly and carefully, your competitors aren't. They aren't just paying more attention to social media or capturing more information about their customers' preferences. Rather, they're completely reimagining their business models to take advantage of the imminent wholesale shift from strategies based on selling physical products to strategies built around selling the data and services now becoming available through digitization. According to a recent Forrester study, a large percentage of executives think that almost half of their revenue will be influenced by digital by 2020.

Already, companies are dedicating huge resources to the effort to digitize. [PwC's 2015 Global Digital IQ survey](#) found that 31 percent of companies globally, and 44 percent of Canadian companies, are assigning more than 15 percent of their revenues to digital investments. By 2019, companies around the world are expected to have spent a total of US\$2.1 trillion on digital transformation, according to IDC.

This level of massive investment brings with it huge risks, especially for companies that neglect to take into account the full impact of digitization in every aspect of their business. IDC also predicts that by 2018, 70 percent of siloed digital transformation initiatives will ultimately fail.

But failure isn't an option when the very survival of your business is at stake. So how can your company make sure it is getting a positive return on investment from the money and resources it is dedicating to its digital transformation? That's where the concept of digital ROI comes in.

Integrated value

Companies moving forward on a digital transformation are well advised to take an enterprise-wide view during the planning and prioritizing process if they hope to fully align their investments to their overall digital strategy. To that end, the framework illustrated in *Exhibit 1, next page*, offers an integrated approach not just to the planning and implementation process but also to how companies can best measure the returns they are gaining from their investments in digitization.

The key to the digital ROI framework lies in balancing, and measuring, digital investments across six strategic focus areas, including customers, employees, operations, safety and soundness, infrastructure, and disruption and innovation. Each focus area is associated with specific metrics and related key performance indicators (KPIs) that allow companies to track and measure the impact of their digital initiatives more accurately, reset the implementation process when necessary, and make teams accountable for their roles in achieving the desired transformation goals.

Many of the metrics companies should develop will be quantitative in nature, but they should be balanced with softer, more qualitative judgments of progress. In either case, they must be designed to be appropriate to the company's industry or sector focus and geography, and aligned to its overall strategy. And they must be made a part of every employee's individual performance objectives in order to drive the change required.

Exhibit 1
The digital ROI framework and potential metrics

Focus areas					
Customers	Employees	Operations	Safety and soundness	Infrastructure	Disruption and innovation
Creating compelling experiences; meeting and exceeding customer expectations	Enabling and engaging employees	Digitizing business processes	Protecting digital assets and customer data	Implementing and running new systems and tools	Prototyping, testing, and learning; promoting digital culture
Examples of possible metrics or KPIs					
Net promoter scores or likelihood to recommend	Engagement scores	Manufacturing throughput	Number of threats detected and defended	Speed of new technology implementation	Percentage of budget allocated for disruptive technologies and services
Number of social media mentions; social media sentiment	Collaboration	Just-in-time inventory levels	Number of privacy breaches	Uptime	Proportion of new ideas that reach concept design
	Likelihood to recommend	Supply chain efficiency	Fraud losses	Response time to resolve issues/outages	
Customer reviews and feedback	Turnover	Response times of emails/chats/phone calls			Number of new customers/segments/sectors from new products and services
	Digital adoption	Number of interactions resolving issue on first contact			

Source: PwC Strategy& analysis

Creating digital value

Of course, making the transition to digital successfully isn't only a matter of measuring your progress. Becoming digital is a long and, for many companies, difficult journey, and it requires that they rethink and transform how they conduct business. How best to go about that can be summarized through 10 key practices that should serve as the foundation for the effort to capture and measure digital value.

Focus on digital experiences. It's essential to start with and always focus on the kinds of digital experiences your customers and employees expect. Human-centered design puts the individual at the center of the interaction and is critical to determining how your customers and employees will interact with each other and what experiences they need, want, and expect. Create profiles of your customers and employees as groups, including traditional segment information but also focusing more on the needs and desires of each group. Imagine and then map out the full customer journey, from initial interaction to ongoing contacts to customer support, and identify the key "moments of truth" that might lead to the decision to buy. This is as much art as science, so don't depend solely on quantitative data about your customers during the design process. Include more subjective inputs that might be gained by collaborating with top customers in co-creating the imagined journey.

Crowdsource digital ideas. The best ideas often come from your customers, employees, partners, and other stakeholders. By regularly interacting with them to identify new opportunities and ideas through surveys, innovation challenges, and vendor partnerships, companies can gain an essential outside-in innovation pipeline. All ideas are not created equal, however, so it is critical to put in place a formal vetting process to filter ideas and target the best opportunities.

Co-create. Creating the digital future is invariably a company-wide effort, so it needs to be carried out in collaboration with all affected parties. As you shape your digital strategy, include both leaders and employees. This way, leaders will better understand the reasoning behind the plan and gain a clearer view of the implementation process,

while employees will gain a stronger sense of joint ownership and will be more likely to buy in to the effort, accelerating its acceptance and implementation.

Test early, often, and fast. In today's fast-paced business environment, taking months to plan your strategy, making incremental improvements to each aspect, is no longer acceptable. Speed is a must. Companies need to get projects out in weeks, by releasing products and services and perfecting them later, testing them with customers early, and making changes as needed, quickly.

Balance disruption, innovation, and optimization. All too often, companies concentrate on optimizing their current processes in hopes of making them more effective, efficient, and engaging. That's important, of course, but by itself it won't lead to digital success. Instead, they need to balance the urge to perfect their current systems and processes with actively supporting innovative — even disruptive — ways to meet stakeholders' rapidly changing digital needs.

Put culture at the center. It may be a cliché, but the notion that “culture eats strategy for lunch” certainly applies to all digital transformations. In almost every survey we've conducted on digital, and in our experience helping companies reinvent their business, cultural change can be either the biggest accelerator of change, or the biggest hurdle.

Co-creation may be necessary in ensuring stakeholder buy-in, but it isn't sufficient. All stakeholders must fundamentally understand what it means to have a digital culture — a willingness to move quickly, to experiment, to fail. Tools that measure and assess digital culture, such as our [Digital Fitness Assessment](#) tool, can help companies understand their level of digital maturity and where to focus their training and communication efforts.

Transform the business, not the technology. Too often, digital investments get defined as technology projects, and the digitization discussion ends up focusing primarily on features and functionalities, and not on the goals of the overall digital transformation. That's why it's critical to focus on creating the right digital experiences — not just for customers but for employees as well, so that they fully understand and are aligned with the customers' experience and don't simply fall back on the technology when interacting with them. Create what we call “experience drops”: the capabilities and tools/information needed, at the right time, to have a real impact on customers' decision-making process.

Reward risk taking. The virtues of failure have been heavily hyped in the media, but they are true. Reward your most entrepreneurial

employees, those who are willing to take risks, drive the transformation, and champion change. Think about ways to turn failures into success, by integrating both your successes and your failures into your company's ongoing activities and new projects.

Link digital outcomes to overall strategic goals. It's important to clearly define the right metrics, and time lines for achieving the performance you're looking for, in each aspect of your digital transformation. In most cases, the metrics should be tangible and quantifiable, but in the more innovative, disruptive initiatives, they may be more qualitative, as when measuring customer perception. Whether progress is measured through soft or hard metrics, the goal of every initiative should be to support the company's overall strategic goals.

Take an enterprise view. Given the sheer size of the investments in digital that companies must make if they are to succeed in the digital world, and the often confusing wealth of options as to where to focus those investments, it is critical to maintain an enterprise-wide perspective on how each investment fits into the desired digital outcome. Doing so allows the company to balance its digital investments across business units and strategic initiatives, plan ahead for future investment needs, decide on the path forward, and then move in a unified way toward the goal.

Are we succeeding?

The rewards of completing a successful digital transformation will be great, but companies embarking on the process are well advised to expect a long, complex, and expensive process. Only by measuring every step of the way — in terms of what is working and what isn't, how much time it's taking, and whether it is boosting revenues and cutting costs — will companies have an accurate picture of their progress. The digital ROI framework can provide the holistic view companies need if they are to ensure a fast, efficient, and orderly transformation, while adhering to their strategic goals.

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