How creative thinking, disruptive and (un) friendly innovation impact on CxOs agendas

Peter J Korsten

Global Leader Thought Leadership and Eminence
Institute for Business Value IBM – The Netherlands

IBM's Global C-suite Study series draw on more than a decade of research with over 40,000 interviews

This report is IBM's third cross C-suite Study
19th in the series, covering 6 roles and 20 industries

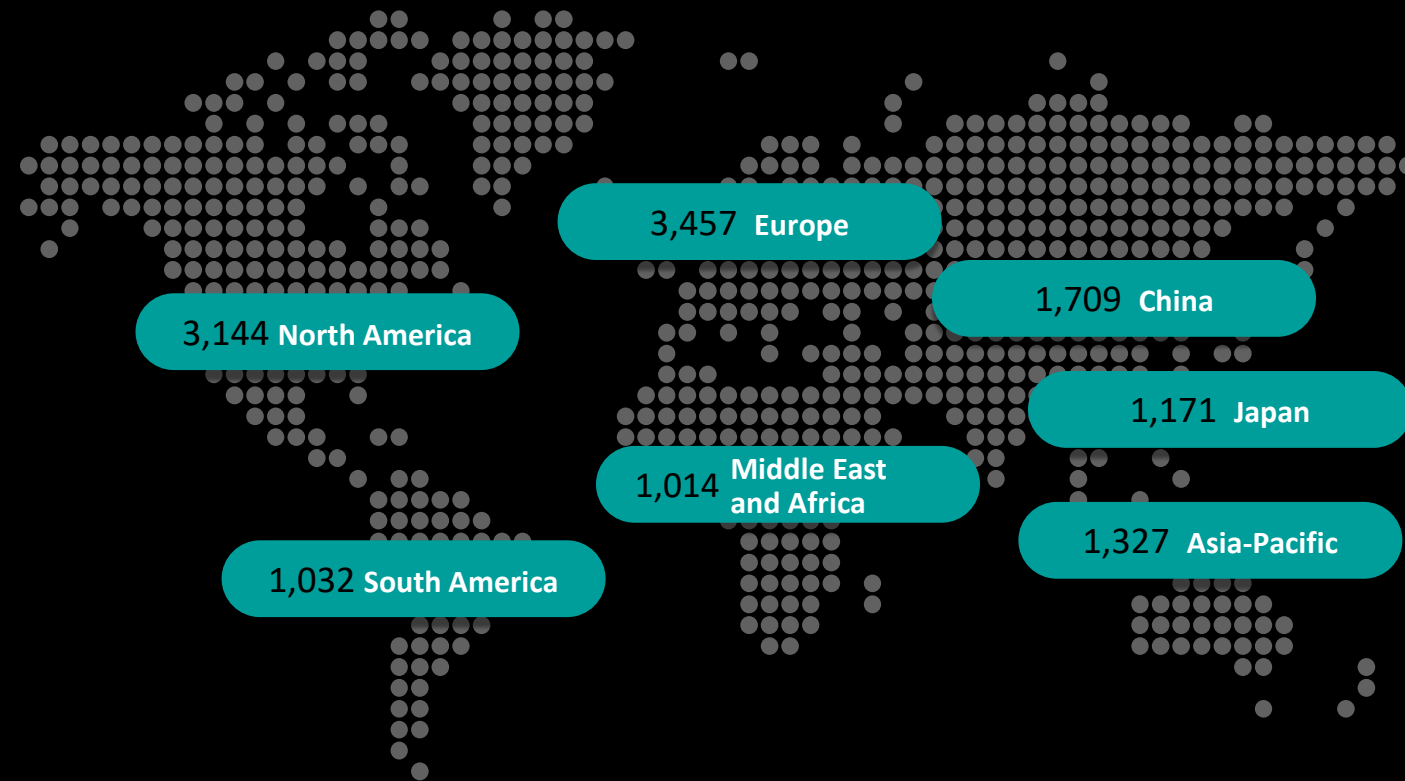2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2015 2018
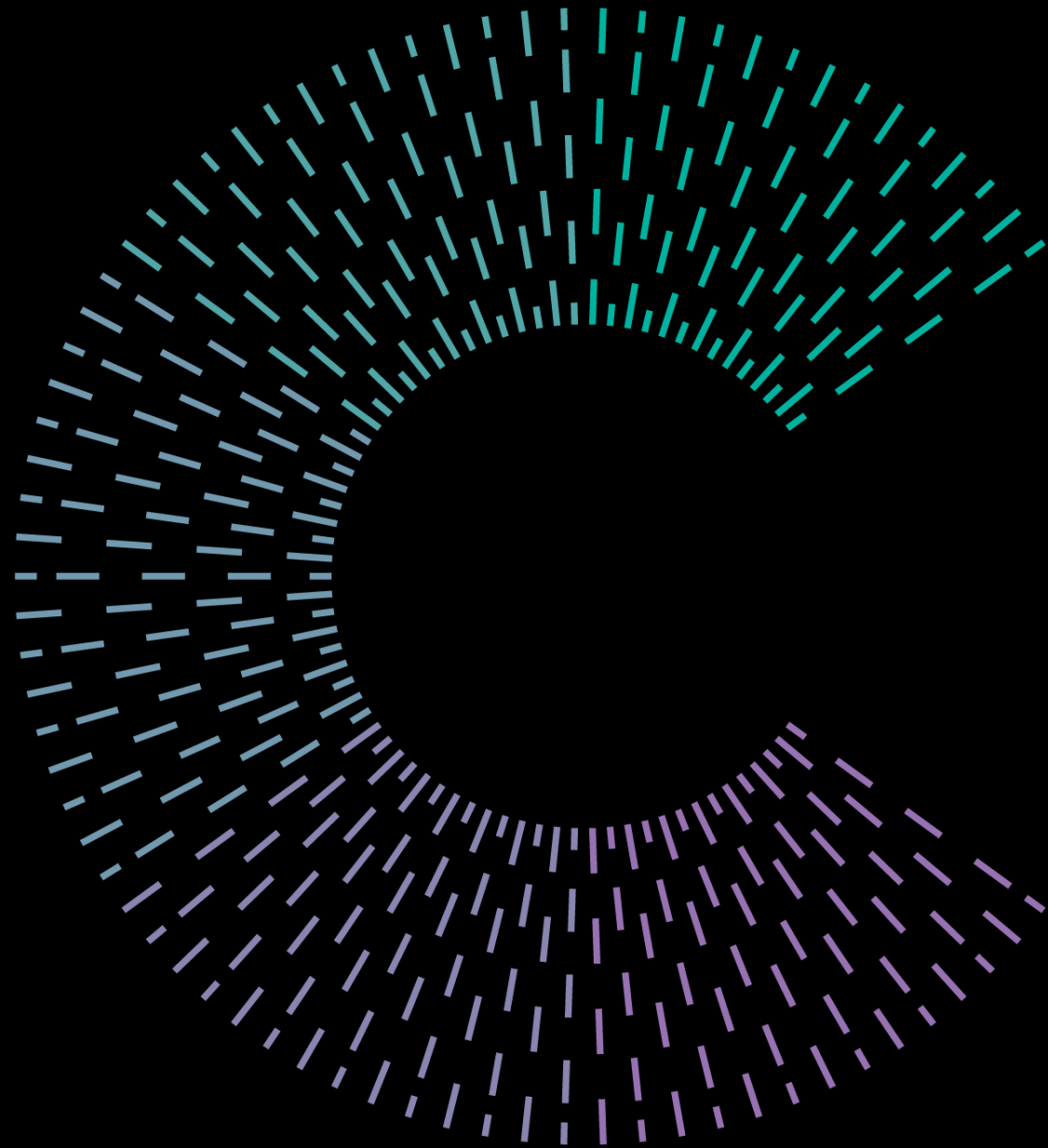
Incumbents Strike Back

Insights from the
Global C-suite Study

12,854

2017 Global C-suite Study respondents

3,457 **Europe**

1,709 **China**

3,144 **North America**

1,171 **Japan**

1,014 **Middle East and Africa**

1,327 **Asia-Pacific**

1,032 **South America**

2,148 Chief Executive Officers

2,102 Chief Financial Officers

2,139 Chief Human Resources Officers

2,258 Chief Information Officers

2,091 Chief Marketing Officers

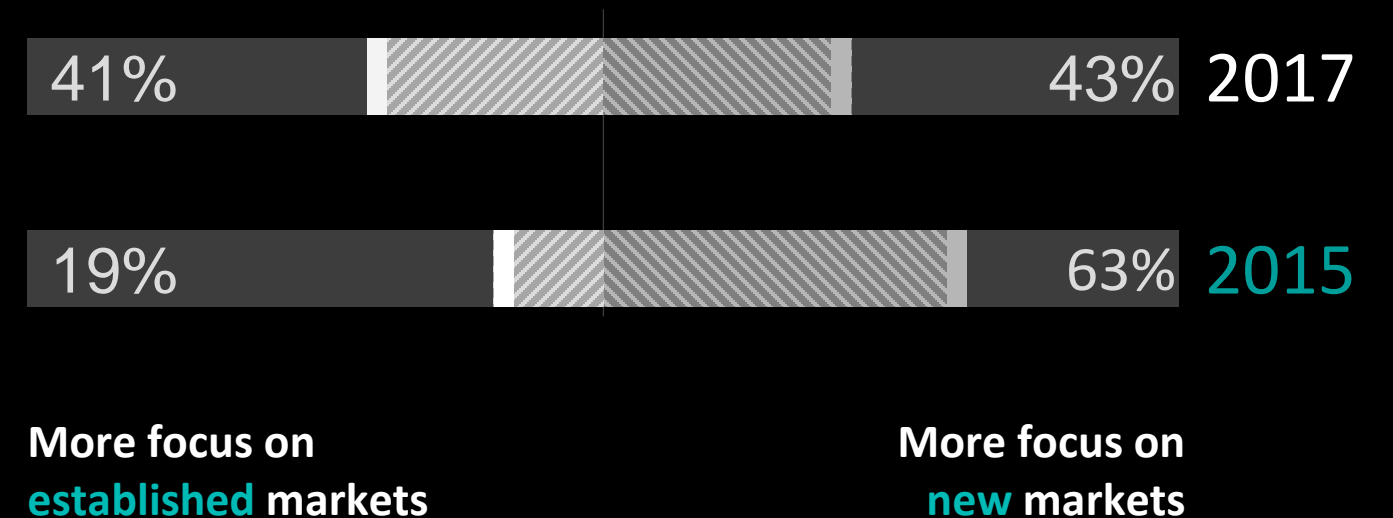**2,116** Chief Operations Officers

2,047 Face-to-face meetings

10,807 Live phone interviews

IBM

Introduction.

Which way
to the future?

IBM

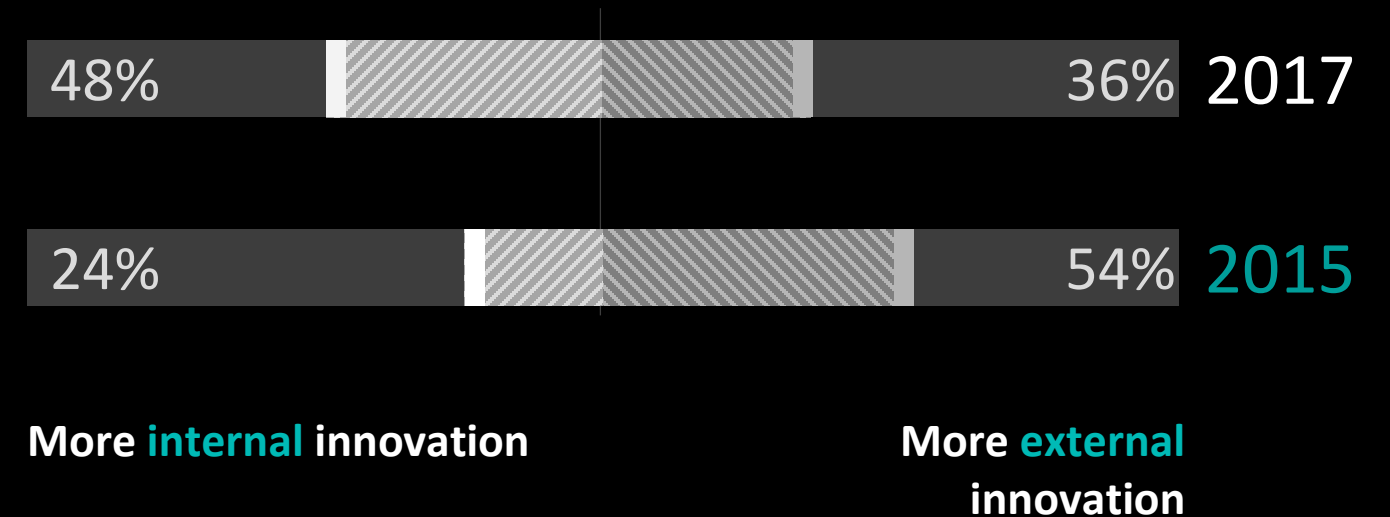# C-suite finds a balance between existing and new markets focus

Direction of business landscape change in the next 2 to 3 years

41%   43% 2017

19%   63% 2015

**More focus on
established markets**

**More focus on
new markets**

Sampling: Global
All participants

Percentages represent the number of respondents who selected 1 or 2 on a scale from -2 to +2. Source: Q3.4.d In which direction do you think the business landscape will change in 2 – 3 years?; 2015 Q1.2.g

IBM

C-suite executives see more innovation developing internally

Direction of business landscape change in the next 2 to 3 years

48%		36%	2017

24%		54%	2015

More internal innovation   **More external innovation**

Sampling: Global
All participants

Percentages represent the number of respondents who selected 1 or 2 on a scale from -2 to +2. Source: Q3.4.c In which direction do you think the business landscape will change in 2 – 3 years?; 2015 Q1.2.e

IBM

CxOs see customer experience growing in importance versus product

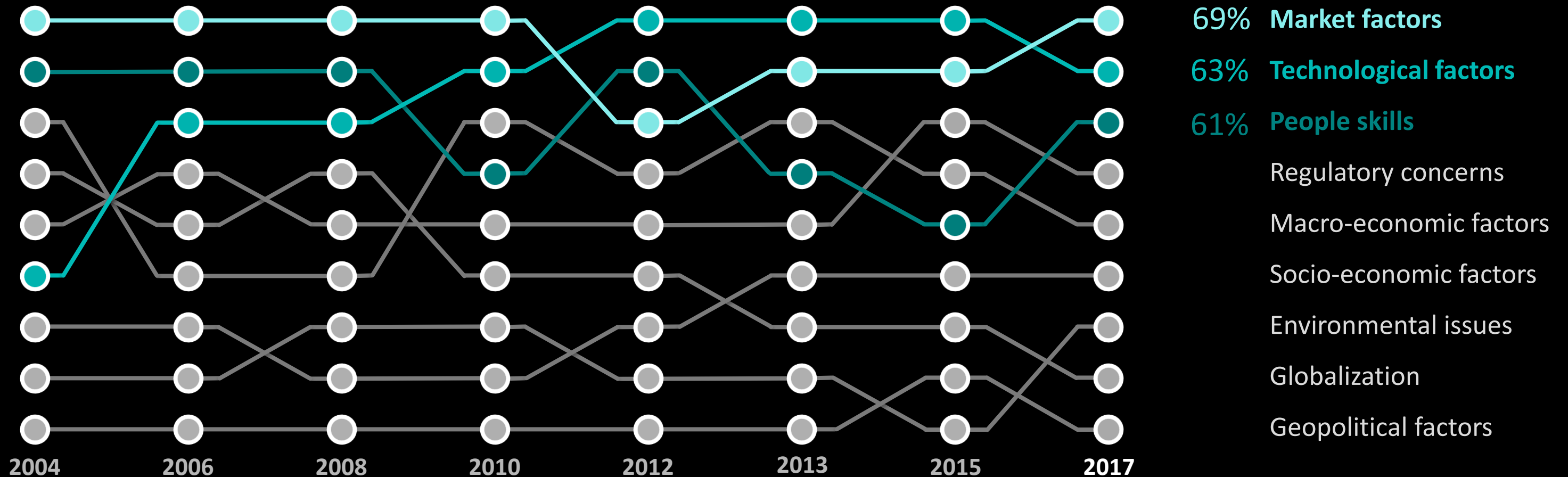## Direction of business landscape change in the next 2 to 3 years

| 19% | | 68% | 2017 |

More emphasis on product

More emphasis on customer experience

Sampling: Global
All participants

Percentages represent the number of respondents who selected 1 or 2 on a scale from -2 to +2. Source: Q3.4.f In which direction do you think the business landscape will change in 2–3 years?

IBM

While market factors dominate, importance of people skills is rising as global skills gap widens

Most important external forces that will impact my enterprise in 2 – 3 years

|		
69%	**Market factors**	
63%	**Technological factors**	
61%	**People skills**	
	Regulatory concerns	
	Macro-economic factors	
	Socio-economic factors	
	Environmental issues	
	Globalization	
	Geopolitical factors	

2004   2006   2008   2010   2012   2013   2015   2017

Percentages represent the number of respondents who selected each external force. Source: Q1.1 What are the most important external forces that will impact your enterprise in 2-3 years? [Select up to five]

While market factors dominate, importance of people skills is rising as global skills gap widens

Most important external forces that will impact my enterprise in 2 – 3 years

69% **Market factors**

63% **Technological factors**

61% **People skills**

Regulatory concerns

Macro-economic factors

Socio-economic factors

Environmental issues

Globalization

Geopolitical factors

2004   2006   2008   2010   2012   2013   2015   2017

Percentages represent the number of respondents who selected each external force. Source: Q1.1 What are the most important external forces that will impact your enterprise in 2-3 years? [Select up to five]

IBM
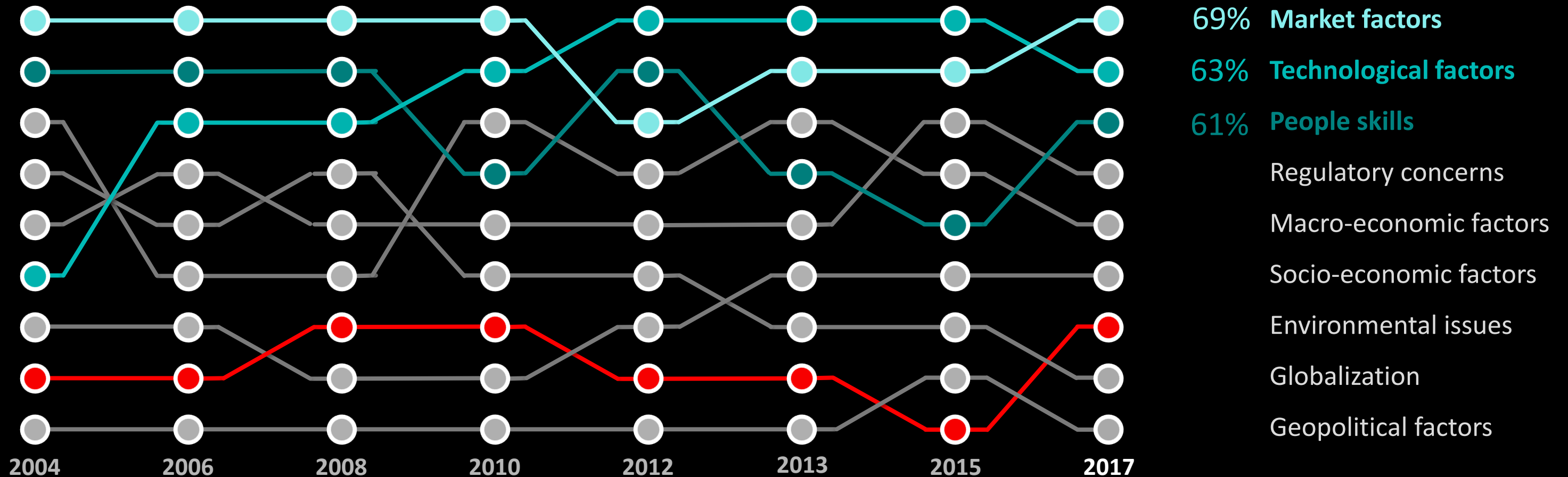
Cluster analysis revealed three archetypes

Organizations view opportunities based on the vantage point of their own cluster

Sampling: Global
All participants

Reinventors

27%

Practitioners

37%

Aspirationals

36%
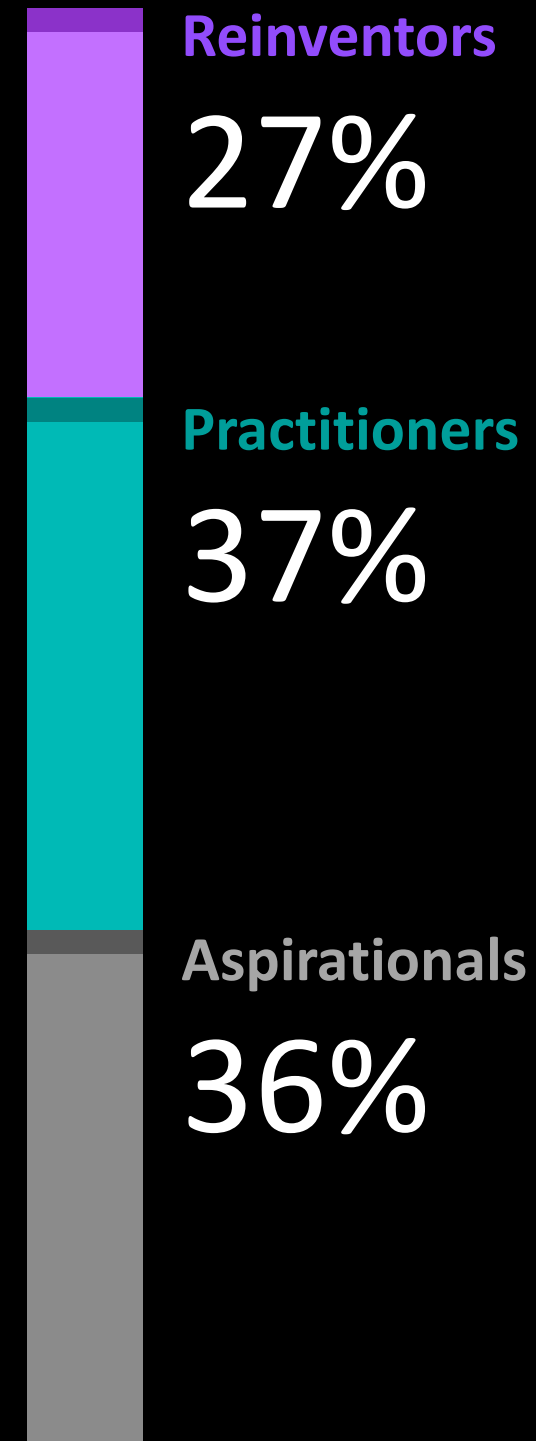
Seven variables

Customer experience focus
- Data and insights to innovate products and services

Deploying digital technologies
- Latest technologies to transform interaction and transactions

Competitive strategy
- Disrupt by changing the rules of the game
- Data and analytics to inform business strategy

Organization agility
- Rapid prototyping to test and refine strategy
- Aligned IT and business strategy
- Short feedback and adaptation cycles

     26 November 2018   IBM Institute for Business Value

IBM

Financial performance – revenue growth, profitability and innovation

Reinventors outperform on revenue growth and profitability while leading in innovation

High revenue growth — Aspirationals 30%, Practitioners 49%, Reinventors 74%

High profitability — Aspirationals 30%, Practitioners 43%, Reinventors 64%

Leading innovator — Aspirationals 28%, Practitioners 43%, Reinventors 66%

Reinventors

Practitioners

Aspirationals

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: P.1 How does the revenue growth (or budget growth) of your enterprise compare to that of your industry peers over the past 3 years? [Significantly outperform industry]; P.2 How does your enterprise's profitability (or efficiency) compare to that of your peers over the past 3 years? [Significantly outperform industry]; P.3 What is the market perception of your enterprise's innovation capability, relative to that of your industry peers? [Leading innovator]

IBM

Dancing with disruption

Incumbents hit their stride

Rita Gunther McGrath | Professor, Strategy, Innovation and Growth, Columbia Business School
Philip Dalzell-Payne | Partner, IBM Digital Strategy, IBM Services

CxOs expect competition in their industry to heat up

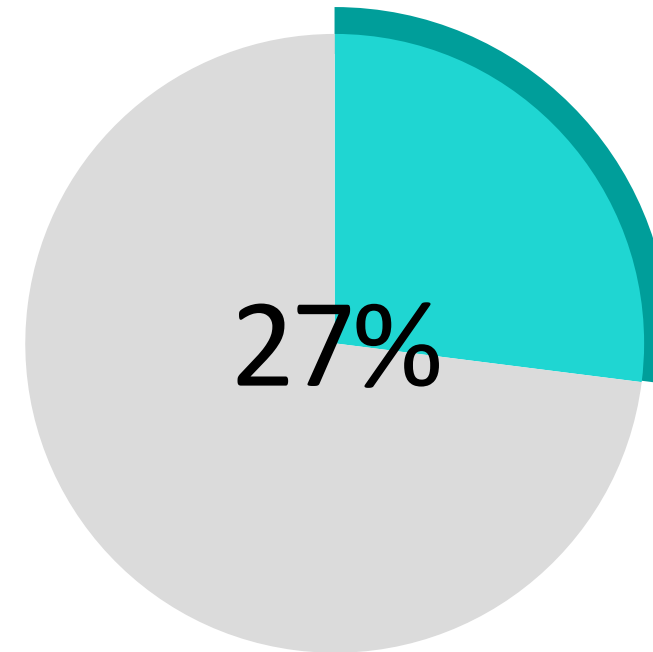## Direction of business landscape change in the next 2 to 3 years

| 58% | | 26% | **2017** |

| 29% | | 54% | **2015** |

More competition from within industry

More competition from other industries

Sampling: Global
All participants

Percentages represent the number of respondents who selected 1 or 2 on a scale from -2 to +2. Source: Q3.4.a In which direction do you think the business landscape will change in 2 – 3 years?; 2015 Q1.2.c

IBM

My industry is experiencing high disruption

My enterprise has a high urgency to transform in response to disruption

Few executives say their industry is being disrupted and even less feel a high urgency to transform

27%

22%

Sampling: Global
All participants

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q1.3 To what extent is your industry being disrupted? [Very high level of disruption]; Q1.5 What is the degree of urgency with which your enterprise needs to transform itself, considering the level of industry disruption you are experiencing? [Very urgent]

     26 November 2018   IBM Institute for Business Value

IBM

Types of enterprises leading the disruption within their industry

Innovative incumbents lead disruption within their industry

72%

Innovative industry incumbents

34%

Digital giants (i.e. Apple, Google, Alibaba)

23%

Companies from other industries

22%

Smaller companies or startups
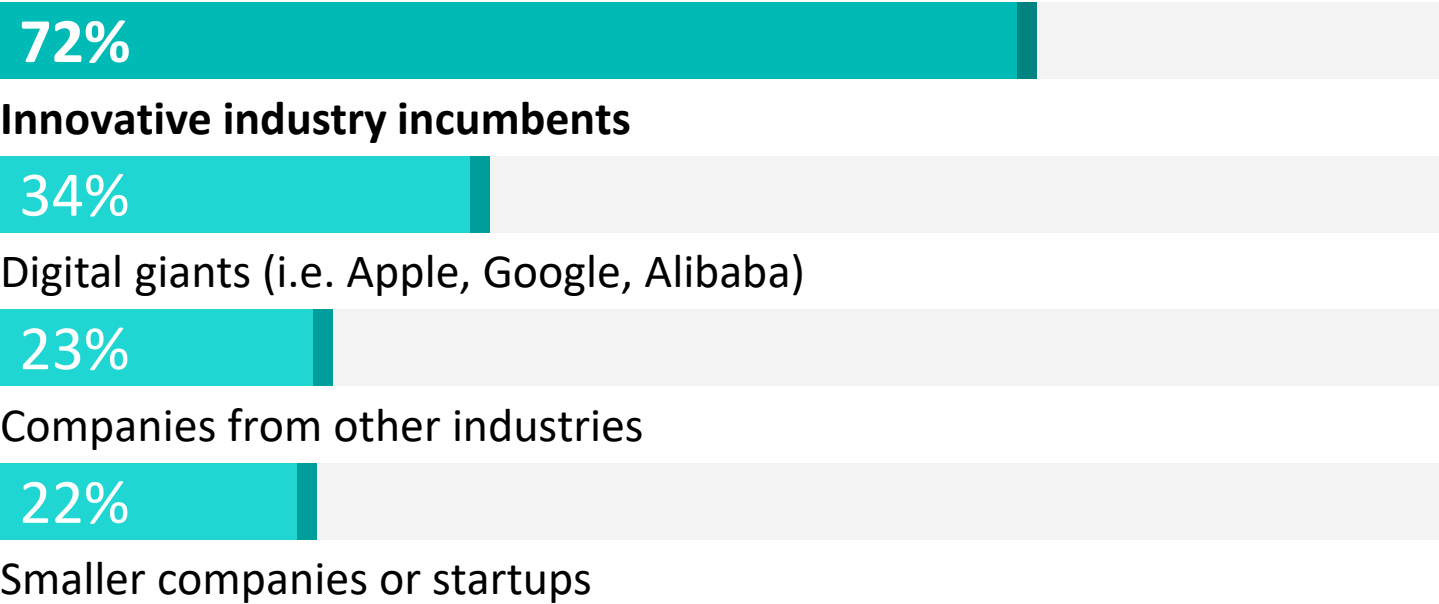
Sampling: Global
All participants

"The most important initiative our organization will undertake in the near future is creating new business models in partnership with other companies, and then replicating and scaling them."

Chief Financial Officer
Electronics, Brazil

     26 November 2018   IBM Institute for Business Value

Dancing with disruption

VC investors have become more risk averse

Venture capital (VC) activity in first-time and early-stage rounds is declining amidst record levels of available capital

Global first-time venture financings of companies | 2010 – 2017*

Year	Deal count	Capital invested ($B)
2010	3,814	$9
2011	5,123	$12
2012	6,032	$13
2013	6,821	$12
2014	7,382	$14
2015	6,613	$20
2016	5,142	$17
2017*	2,736	$10

● Capital invested ($B)   ● Deal count
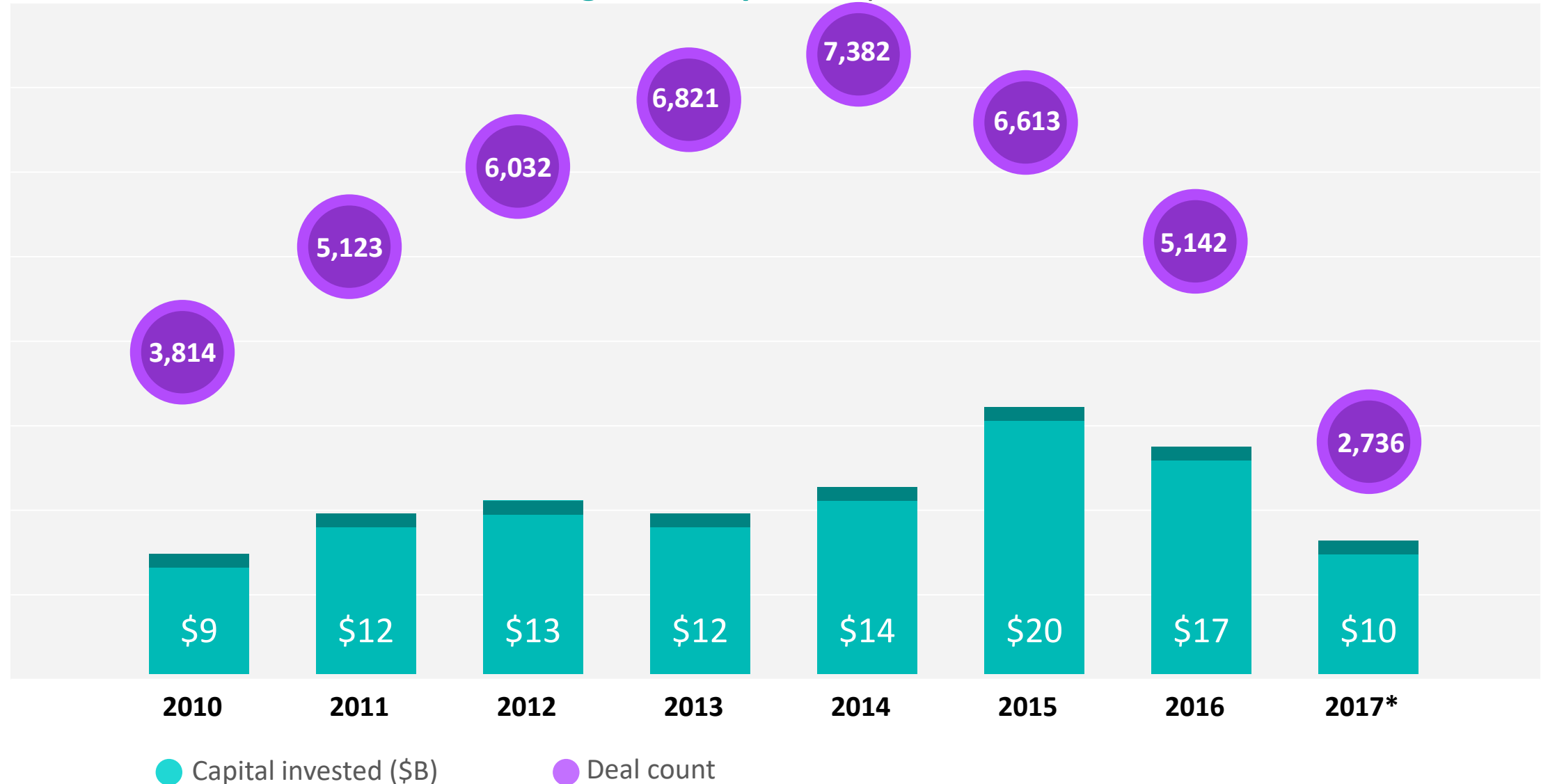
Even in relatively stable markets, circumstances can change suddenly

The Dollar Shave Club is a subscription service company that delivers razors and other personal grooming products to customers
by mail

Subscription services startups like Dollar Shave grew quickly, creating volatility in many categories.

Now many incumbent retailers and consumer packaged goods companies offer subscription services.

Dollar Shave was later acquired by Unilever.

Examples:

Incumbents are embracing nascent disruptors

acquired

acquired

invested in

IBM

Innovative incumbents can turn ownership and expertise into disruptive advantage

The BMW group is a manufacturer of automobiles and motorcycles and a provider of premium services for individual mobility

BMW intends to "out-Uber" Uber by owning a fleet of cars that can be optimized for different services, based on daily demand.

It can dispatch a car in its fleet, with a professional driver, for ride hailing or make it available for short-term, by-the-hour rental.

Source: McFarland, Matt. "BMW plans for a future where nobody buys cars." CNN Technology. May 24,2017.
http://money.cnn.com/2017/05/24/technology/bmw-seattle-reachnow/index.html

Reinventors demonstrate that innovation is not only the province of hungry upstarts

We have a culture that rewards both
fast failure and successful innovation

73%

45%

33%

Reinventors

Practitioners

Aspirationals

IBM
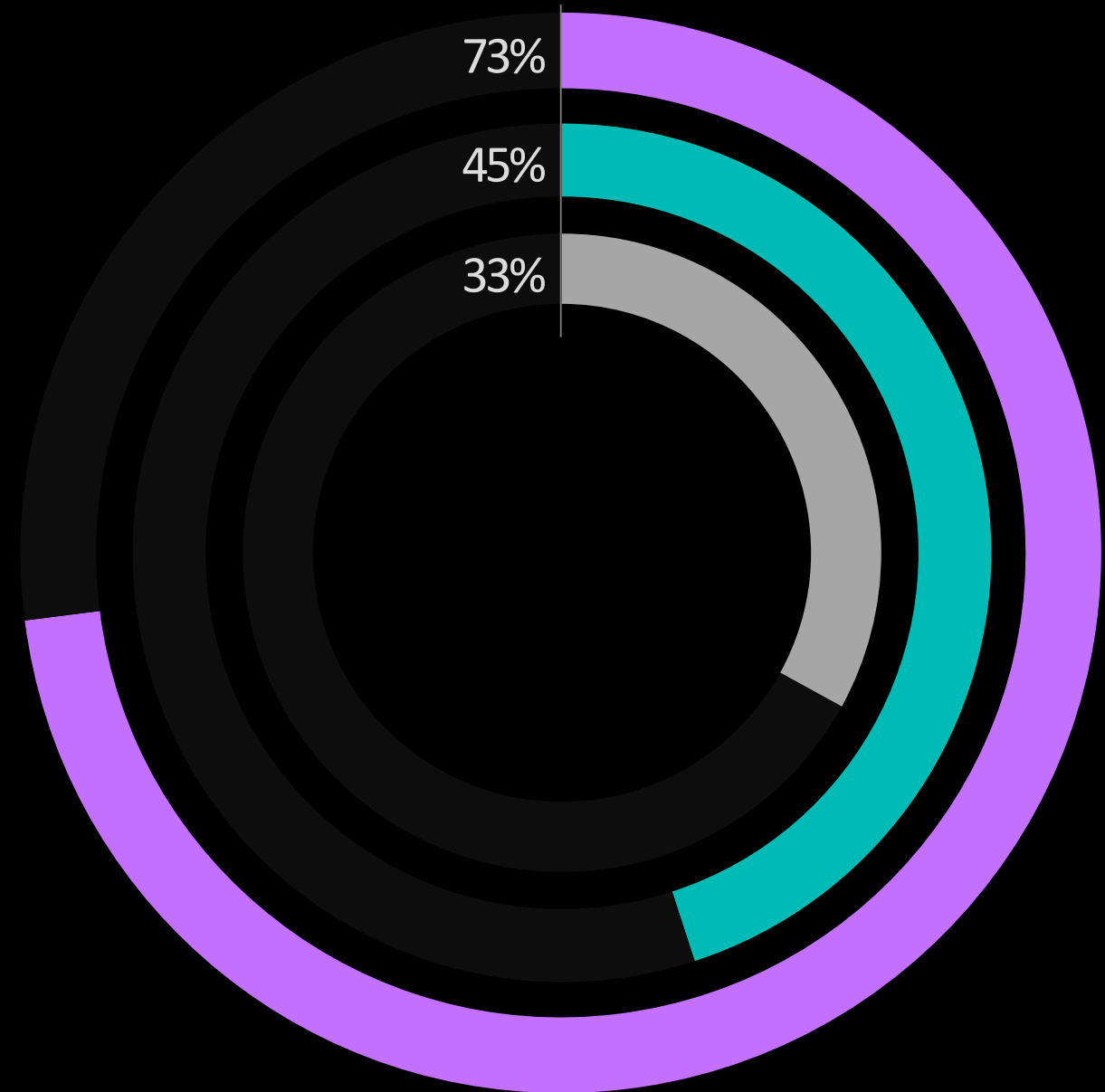
Trust in the journey
The path to personalization

Joerg Niessing | Affiliate Professor of Marketing, INSEAD
Robert Schwartz | Global Leader, Agency Services, IBM iX

IBM

Too many organizations believe they are effective creating personalized customer experiences

Are they moving too fast?

86%

of organizations understand the need to focus on customer experiences

Percentages represent the number of respondents who selected 3, 4 or 5 on a 5-point scale. Source: Q1.2.d How effective is your enterprise at creating compelling customer experiences through the following actions? [Somewhat to highly effective]

    26 November 2018   IBM Institute for Business Value

IBM

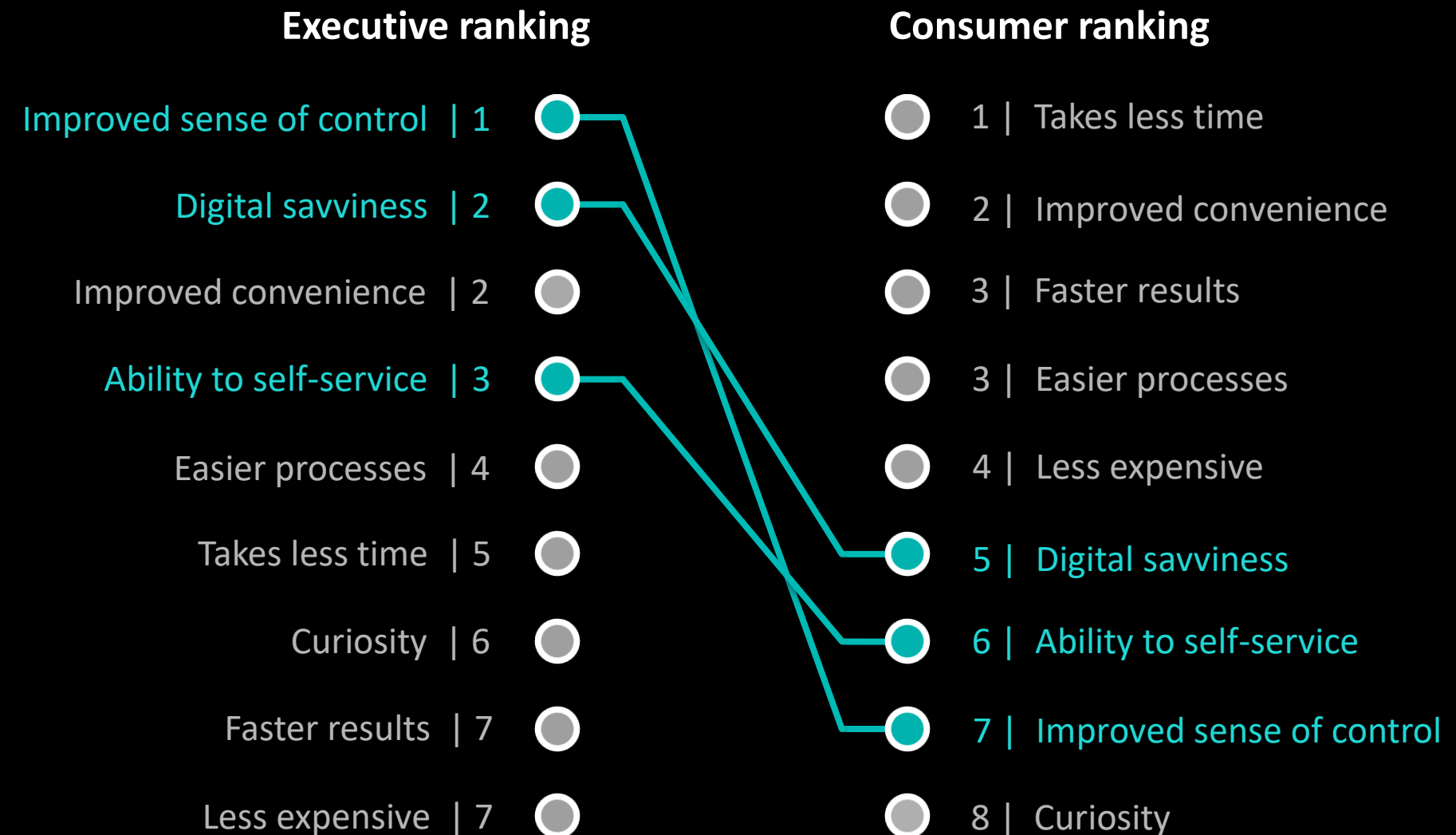Previous IBV study: factors driving customer willingness to try a company's digital experience initiatives

Many executives are disconnected from customers desired digital experiences

Executive ranking   **Consumer ranking**

Improved sense of control | 1 ●

Digital savviness | 2 ●

Improved convenience | 2 ●

Ability to self-service | 3 ●

Easier processes | 4 ●

Takes less time | 5 ●

Curiosity | 6 ●

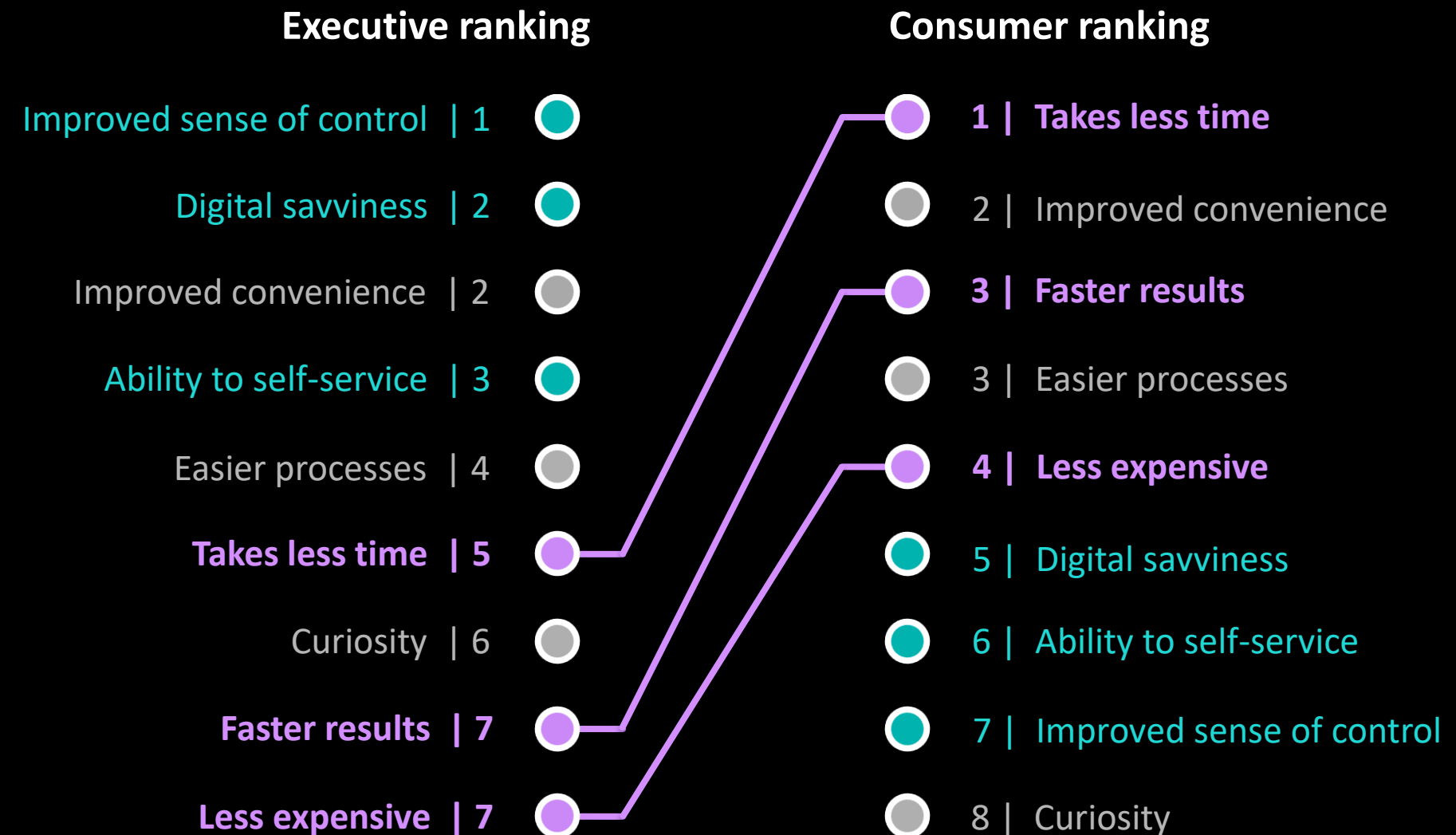**Faster results | 7** ●

Less expensive | 7 ●

Source: Berman PhD, Saul, Josh Goff and Carolyn Heller Baird. "The experience revolution: Digital disappointment - why some customers aren't fans." IBM Institute for Business Value. March 2017. https://www-935.ibm.com/services/us/gbs/thoughtleadership/custexperience/cx-disappointment/

IBM

Previous IBV study: factors driving customer willingness to try a company's digital experience initiatives

Many executives are disconnected from customers desired digital experiences

Executive ranking

Consumer ranking

Executive ranking		Consumer ranking
Improved sense of control | 1		1 | Takes less time
Digital savviness | 2		2 | Improved convenience
Improved convenience | 2		3 | Faster results
Ability to self-service | 3		3 | Easier processes
Easier processes | 4		4 | Less expensive
Takes less time | 5		5 | Digital savviness
Curiosity | 6		6 | Ability to self-service
Faster results | 7		7 | Improved sense of control
Less expensive | 7		8 | Curiosity

Previous IBV study: factors driving customer willingness to try a company's digital experience initiatives

Many executives are disconnected from customers desired digital experiences

Executive ranking

Improved sense of control | 1 🔵

Digital savviness | 2 🔵

Improved convenience | 2 ⚪

Ability to self-service | 3 🔵

Easier processes | 4 ⚪

Takes less time | 5 🟣

Curiosity | 6 ⚪

Faster results | 7 🟣

Less expensive | 7 🟣

Consumer ranking

⚪ 1 | Takes less time

⚪ 2 | Improved convenience

⚪ 3 | Faster results

⚪ 3 | Easier processes

⚪ 4 | Less expensive

🔵 5 | Digital savviness

🔵 6 | Ability to self-service

🔵 7 | Improved sense of control

⚪ 8 | Curiosity

Source: Berman PhD, Saul, Josh Goff and Carolyn Heller Baird. "The experience revolution: Digital disappointment - why some customers aren't fans." IBM Institute for Business Value. March 2017. https://www-935.ibm.com/services/us/gbs/thoughtleadership/custexperience/cx-disappointment/

      26 November 2018   IBM Institute for Business Value

Previous IBV study: factors driving customer willingness to try a company's digital experience initiatives

Many executives are disconnected from customers desired digital experiences

Executive ranking

Consumer ranking

Executive ranking	Consumer ranking
Improved sense of control	1	1	Takes less time
Digital savviness	2	2	Improved convenience
Improved convenience	2	3	Faster results
Ability to self-service	3	3	Easier processes
Easier processes	4	4	Less expensive
Takes less time	5	5	Digital savviness
Curiosity	6	6	Ability to self-service
Faster results	7	7	Improved sense of control
Less expensive	7	8	Curiosity

     26 November 2018   IBM Institute for Business Value

Previous IBV study: factors driving customer willingness to try a company's digital experience initiatives

Many executives are disconnected from customers desired digital experiences

Executive ranking

Improved sense of control | 1
Digital savviness | 2
Improved convenience | 2
Ability to self-service | 3
Easier processes | 4
Takes less time | 5
Curiosity | 6
Faster results | 7
Less expensive | 7

Consumer ranking

1 | Takes less time
2 | Improved convenience
3 | Faster results
3 | Easier processes
4 | Less expensive
5 | Digital savviness
6 | Ability to self-service
7 | Improved sense of control
8 | Curiosity

IBM

Reinventors are far more effective at using data and insights to discover customer opportunities

We use data to identify undefined and unmet customer needs

Reinventors are **3x** more highly effective than Practitioners and Aspirationals
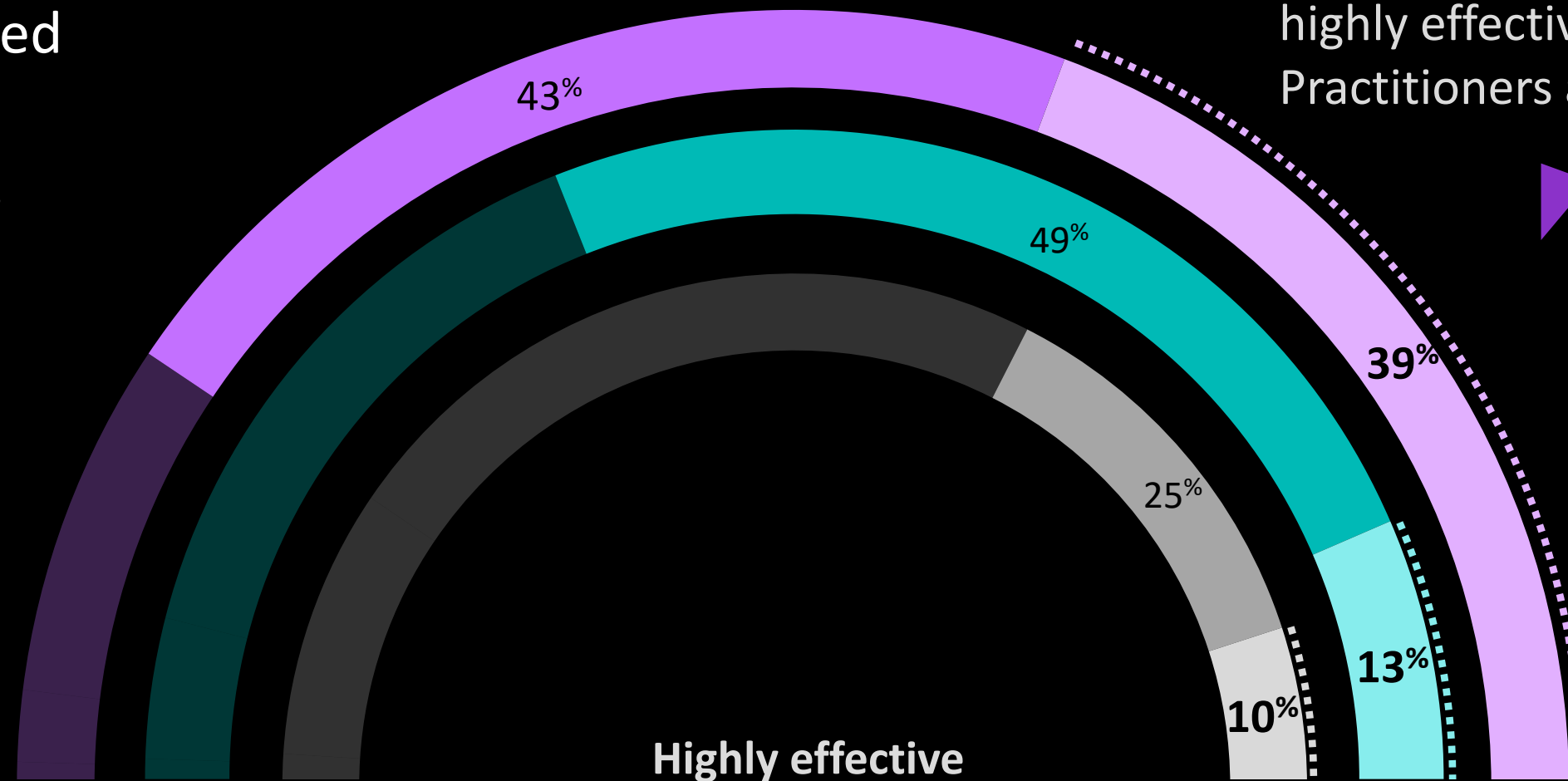
43%

49%

39%

25%

13%

10%

Highly effective

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale.
Source: Q1.2a How effective is your enterprise at creating compelling customer experiences through the following actions? – Using data to identify undefined and unmet customer needs [Highly effective]

IBM

Reinventors leverage partnerships to understand customers better

Very effective collaborating with partners to enhance customer experiences
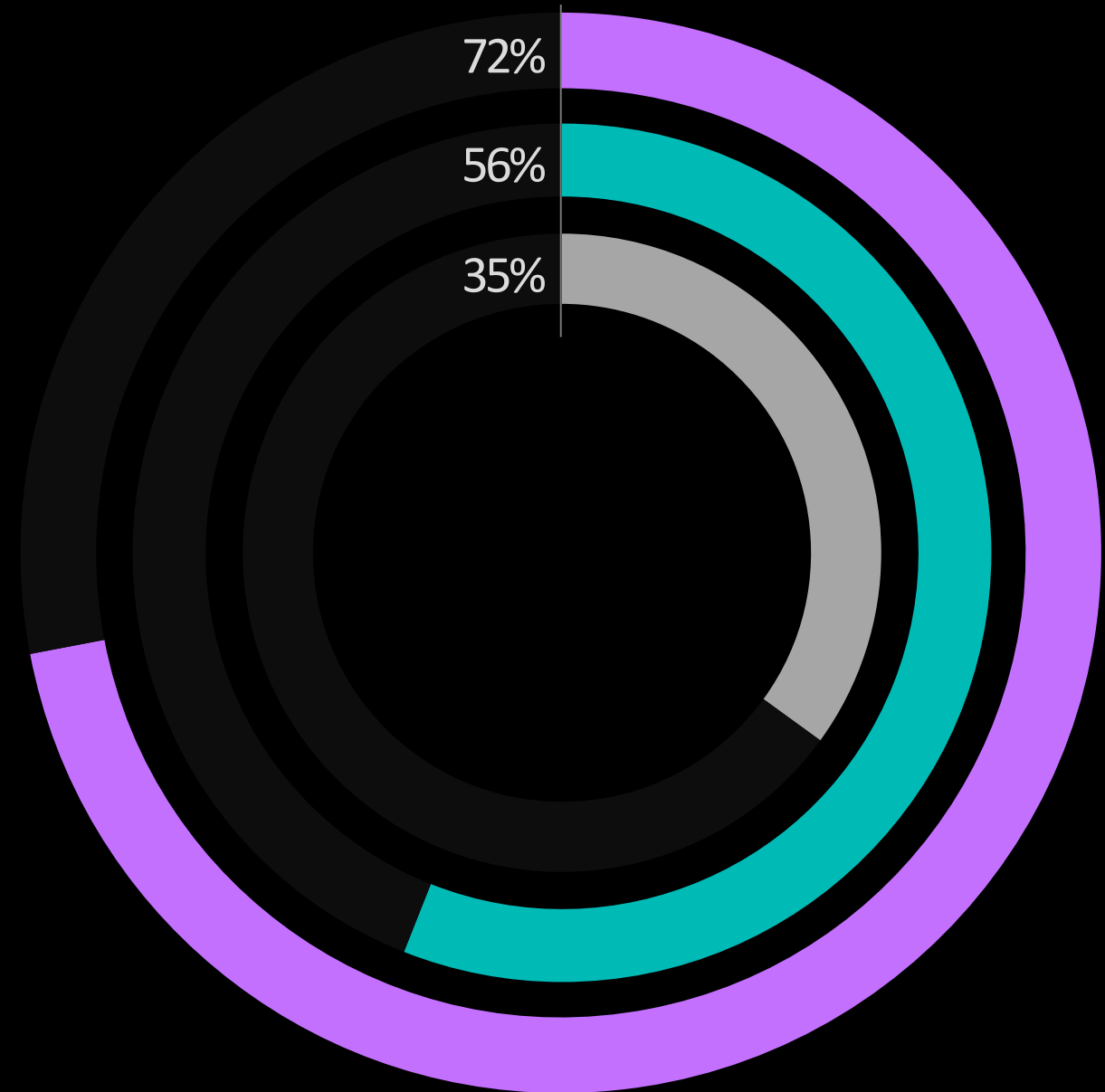
72%

56%

35%

Reinventors

Practitioners

Aspirationals

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q1.2.f How effective is your enterprise at creating compelling customer experiences through the following actions? – Leveraging partnerships to understand and enhance customer experiences [Highly effective]

IBM

Reinventors use AI to improve customer experience

Impact of AI/cognitive on customer experience

Today

In 2–3 years
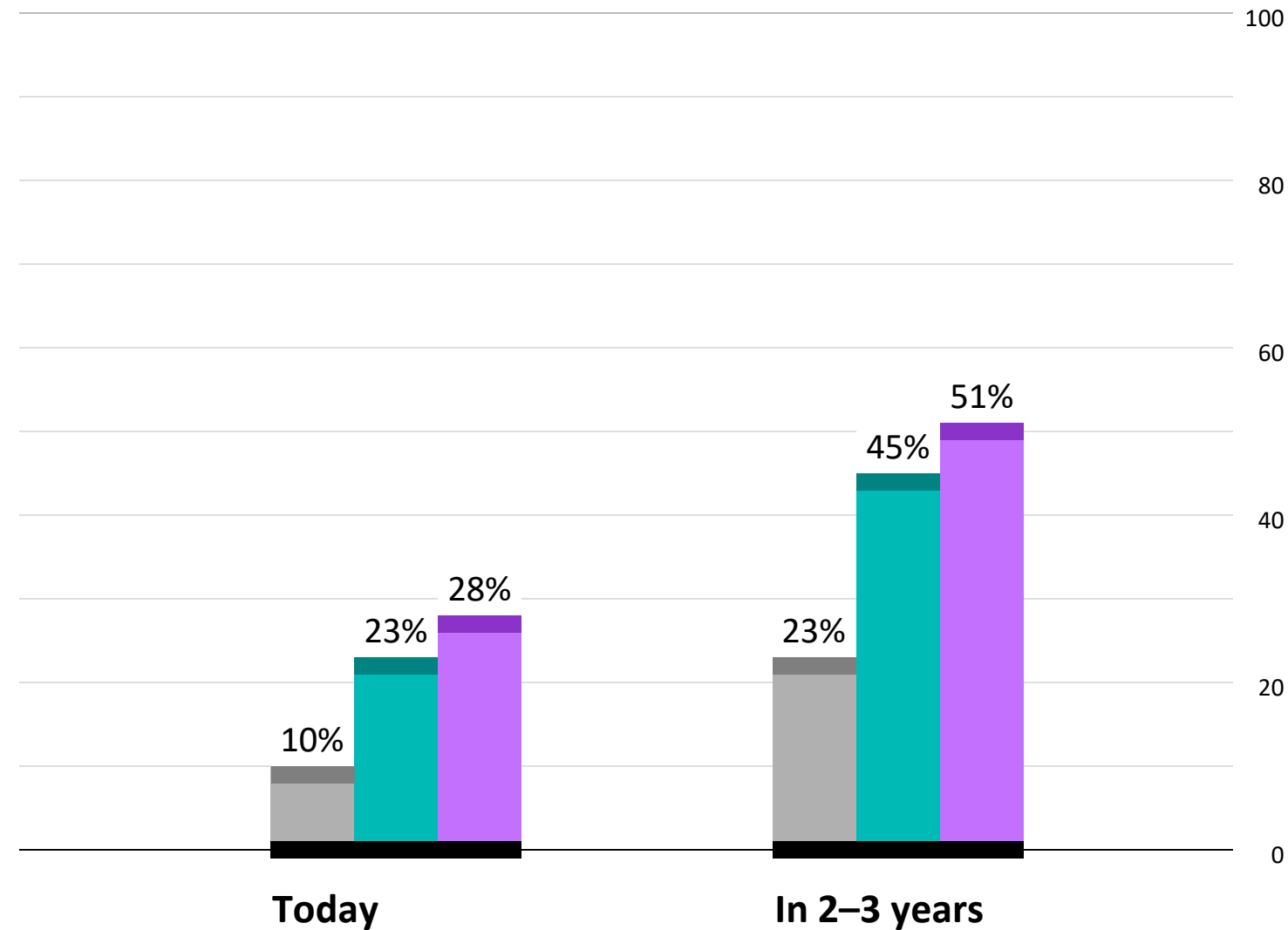
- **Reinventors**
- **Practitioners**
- **Aspirationals**

"To better understand customer needs, insurers would benefit from continuous customer feedback loops to quickly create new services. That doesn't yet exist in our industry today."

Chief Marketing Officer
Insurance
United States

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: C4a.a and C4b.a Please indicate the impact of AI/Cognitive technologies on the following organizational business processes to date and in the next 2–3 years – Customer experience [Significant impact]

© 2018 IBM Corporation   26 November 2018   IBM Institute for Business Value

Customer co-creation is becoming pervasive

DHL, the global market leader in logistics, has conducted more than 6,000 co-creation engagements to date, including:

- Parcelcopter, a drone delivery service created through an R&D partnership that is tested in Germany

- Delivering packages to the trunks of Volvo owners' parked cars, in collaboration with Volvo.

Japanese retailer MUJI is known for the minimalist design of the products it sells.

MUJI project teams solicit and develop ideas for new products with it's vast online community of customers. User-generated products enjoyed first-year sales revenues three times higher, on average, than its designer-generated products.

Source: Crandell, Christine. "Customer Co-Creation Is the Secret Sauce to Success." Forbes. June 10, 2016. https://www.forbes.com/sites/christinecrandell/2016/06/10/customer_cocreation_secret_sauce/#bfe8f445b6dc; "DHL partners Volvo for remote deliveries via parked cars." The Paypers. November 20, 2014. https://www.thepaypers.com/ecommerce/dhl-partners-volvo-for-remote-deliveries-via-parked-cars/757431-25; Nishikawa, Hidehiko and Martin Schreier and Susumu Ogawa. "User-generated versus designer-generated products: A performance assessment at Muji."International Journal of Research in Marketing. http://portal.idc.ac.il/en/main/research/ijrm/documents/nishikawaschreierogawa.pdf; Seybold, Patricia. "Muji: Engaging Customers to Help with Product Design." Patricia Seybold Group. http://www.customers.com/articles/muji/

Very effective at creating thorough, detailed customer experience journey maps

Reinventors gain customer empathy through journey mapping

65%

45%

26%

Reinventors

Practitioners

Aspirationals
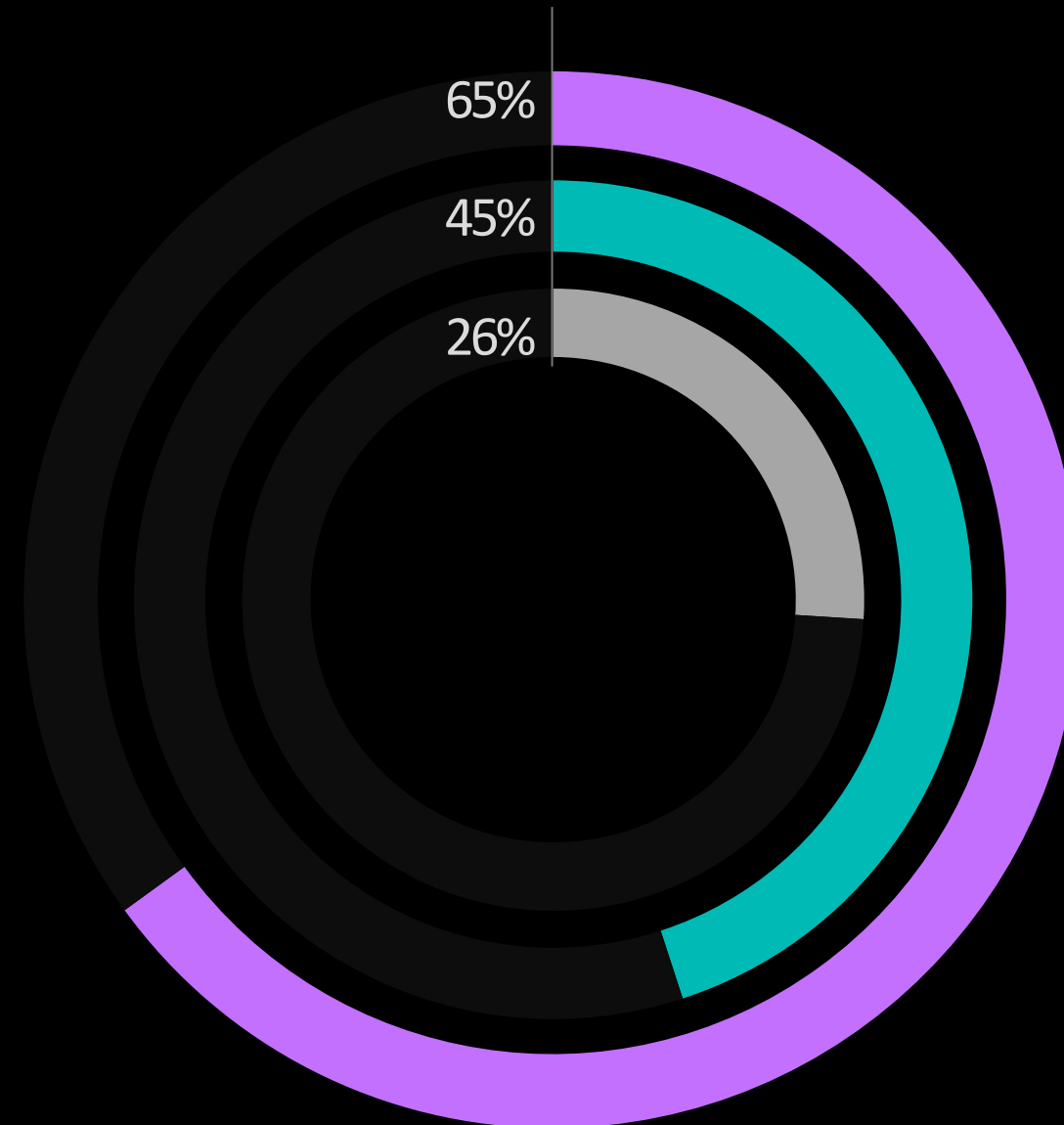
"We orchestrate customer journeys that embrace the shift to digital, but recognize the importance of interaction with humans in critical moments of truth."

Chief Marketing Officer
Banking and financial markets
New Zealand

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q1.2.b How effective is your enterprise at creating compelling customer experiences through the following actions? – Creating thorough, detailed customer experience journey maps [Highly effective]

IBM

Orchestrating the future

The pull of platform business models

Yoram (Jerry) Wind | The Lauder Professor Emeritus and Professor of Marketing and Academic Director of the Wharton Fellows, The Wharton School
Shanker Ramamurthy | General Manager, Strategy and Market Development, IBM Industry Platforms

     26 November 2018   IBM Institute for Business Value

IBM

Network and scaling effects create advantage

LOW MARGINAL COST

Network Orchestrators

deliver value through connectivity

Many make, many sell

Technology Creators

deliver value through ideas
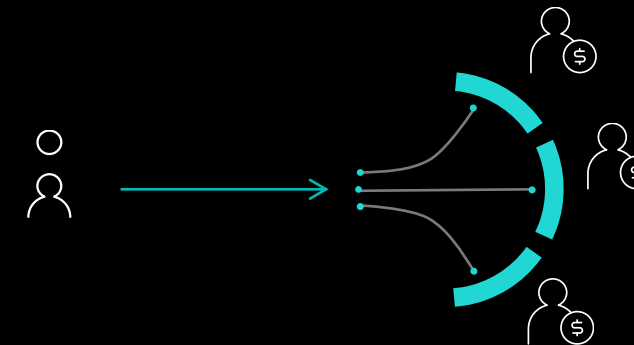
Make one, sell many

Service Providers

deliver value through skilled people
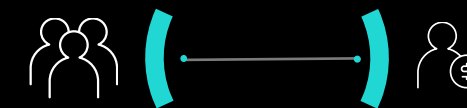
Hire one, sell one

Asset Builders

deliver value through physical goods
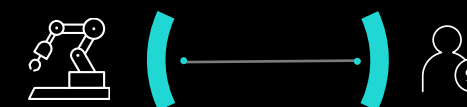
Make one, sell one

HIGH MARGINAL COST

   26 November 2018   IBM Institute for Business Value

IBM

Investors reward network orchestrators with higher valuations
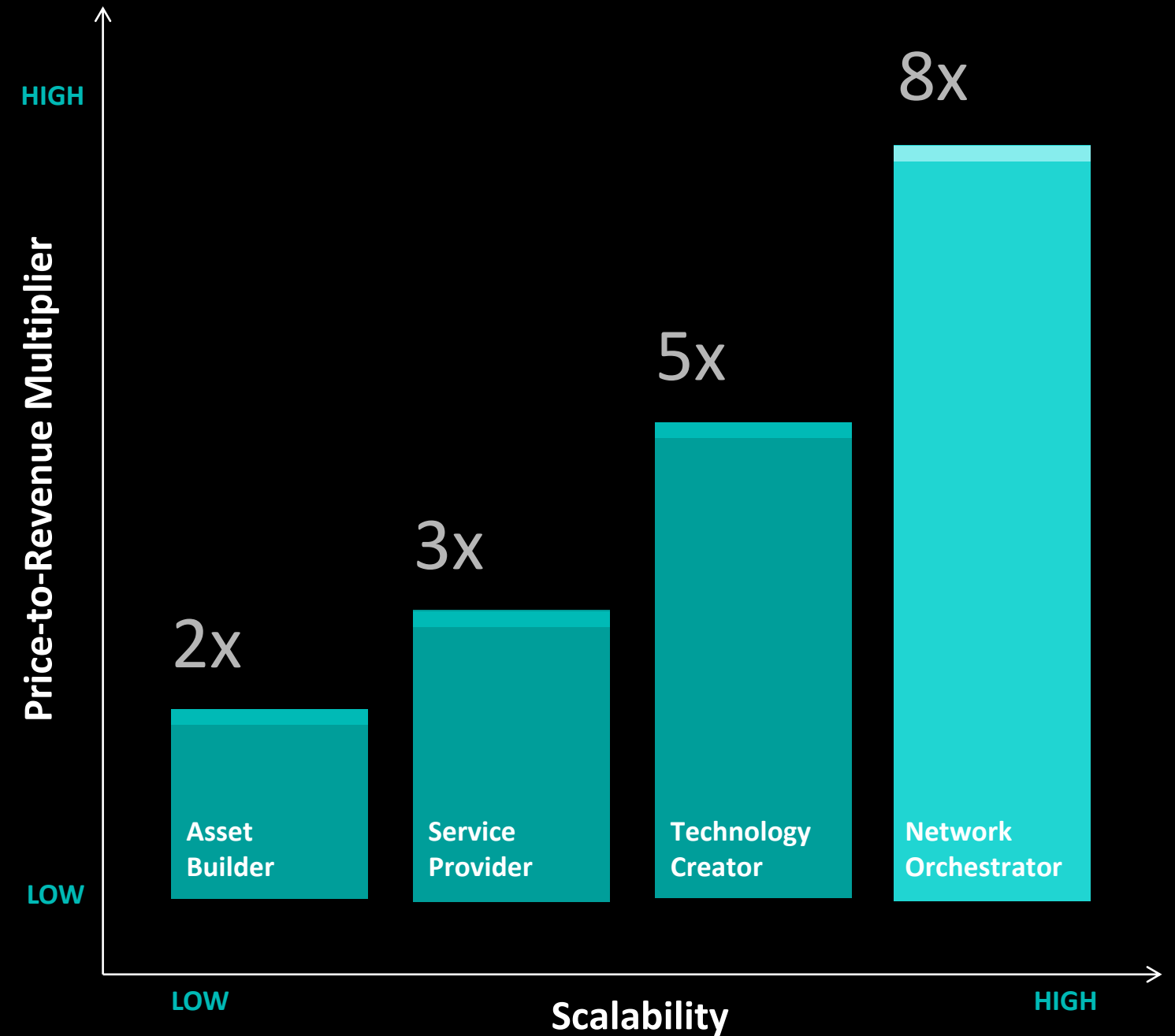
Price-to-Revenue Multiplier

HIGH

8x

5x

3x

2x

Asset Builder

Service Provider

Technology Creator

Network Orchestrator

LOW

LOW

HIGH

Scalability

Capital allocation to platform business models continues to accelerate

Up to

$1.2 trillion

in the next 2 – 3 years
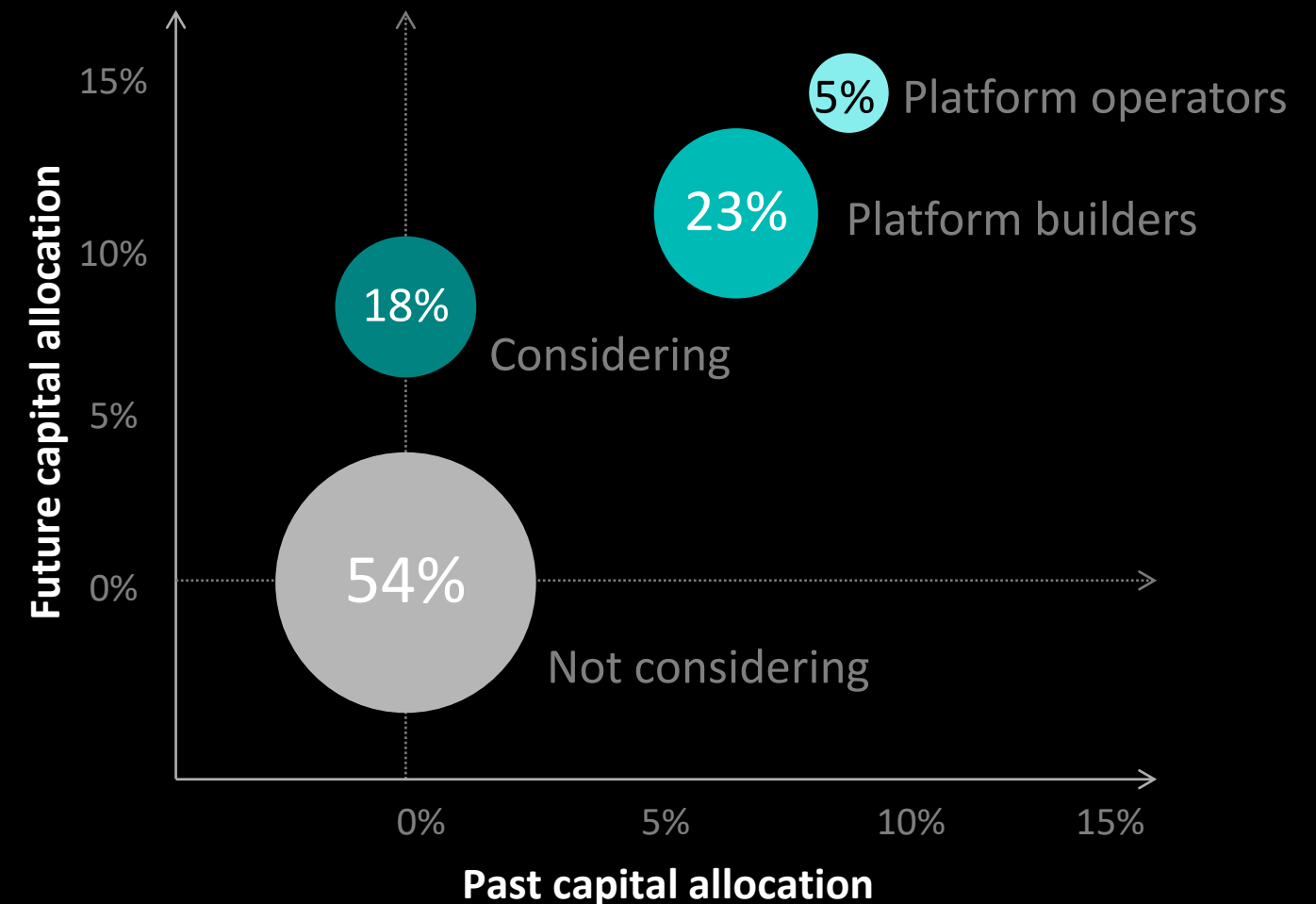
     26 November 2018   IBM Institute for Business Value

Asset heavy industries report plans to invest more than others in platform business models

Percentage of enterprise capital reallocation to digital platform business model

Technology Creators

past | in 2 – 3 years

11% | 16%

45% increase

Platform Business

Service Providers

9% | 18%
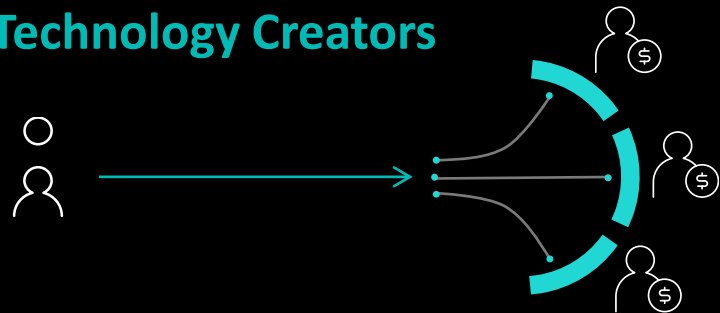
100% increase

Asset Builders
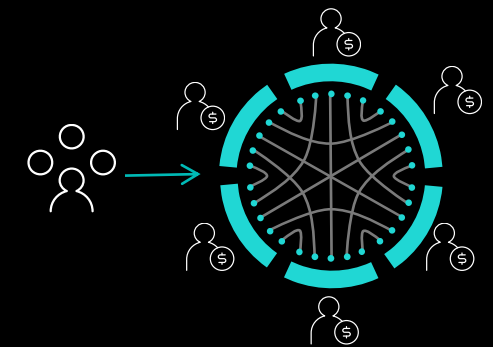
5% | 11%

120% increase

IBM

Creating a new generation bank

case study

- Unique offerings plus innovative customer relationship model

- New "phygital" and omnichannel model, integrated with banking, CRM, concierge and advisory services

- Interaction through Orange Bank Forum, Facebook and Twitter

- Continued innovation (e.g., predictive services)

- Founded by telecom provider Orange and insurer Groupama

26 November 2018   IBM Services

Platforms bring competitors into closer collaboration

We collaborate selectively with competitors

Ecosystem collaboration
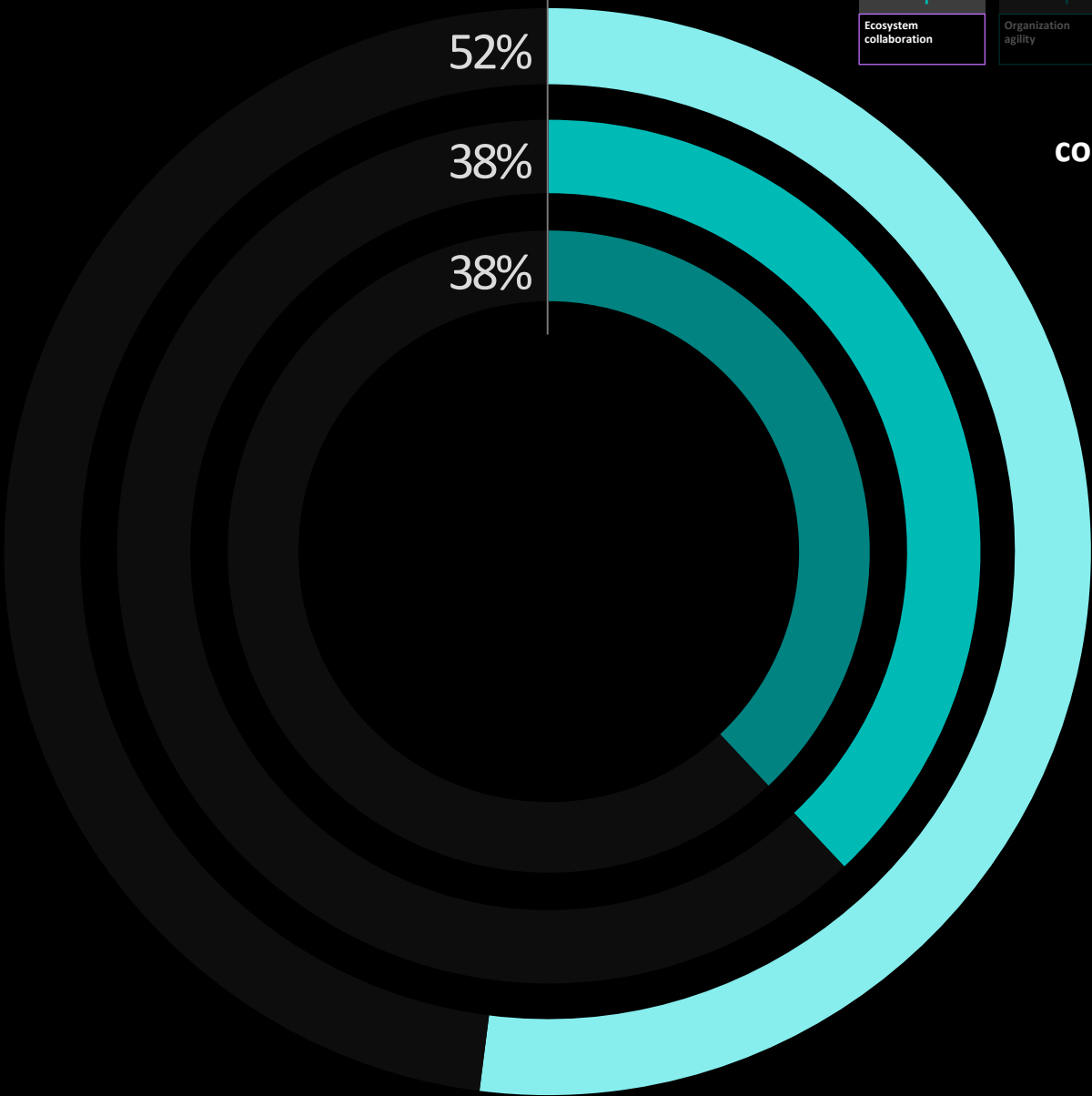
52%

38%

38%

Platform operators

Platform builders

Considering

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q3.3.h To what extent do you agree with the following statements related to how your enterprise collaborates with customers and partners? – We collaborate selectively with our competitors [To a large extent]

IBM

Reinventors excel at capitalizing on data

Organization agility

We use rapid prototyping to test and refine our strategy

74%
42%
22%

Reinventors

Practitioners

Aspirationals

Creating compelling customer experiences

Capitalize on data

Customer insights

82%
62%
35%

Use data to identify undefined and unmet customer needs

77%
58%
28%

Use insights to constantly innovate products and services*

76%
57%
33%

Acting upon insights to meet customer expectations
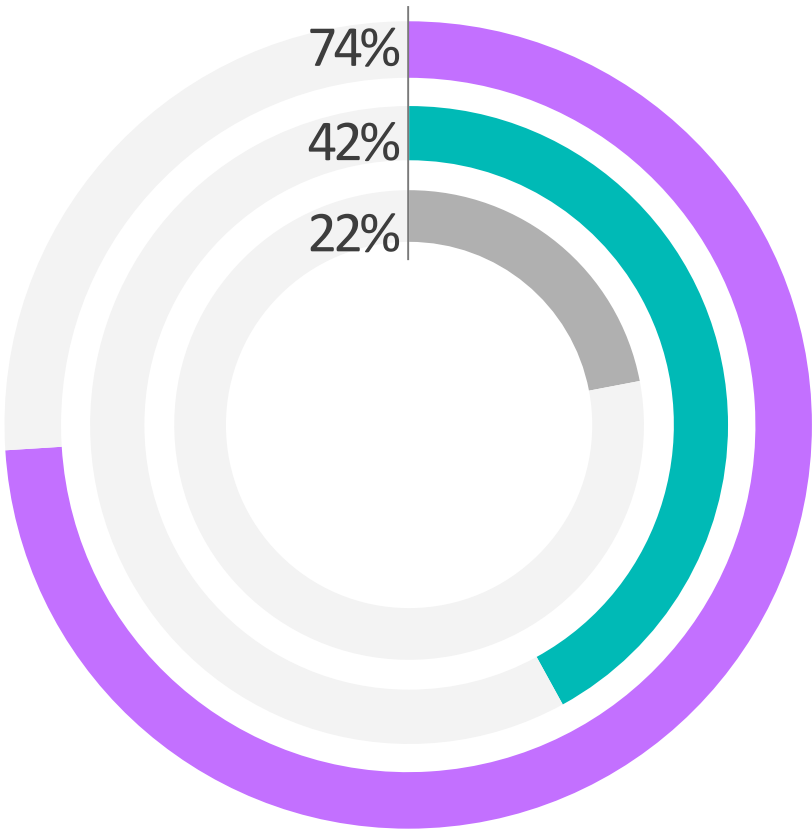
* One of seven variables that defines the cluster for Reinventors, Practitioners and Aspirationals. Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source [left]: Q2.2.c To what extent do you agree with the following statements concerning your business strategy? – We use a rapid prototyping, 'build as you design, modify as you go' approach to test and refine elements of our strategy. Source [right]: Q1.2 [a,h,c] How effective is your enterprise at creating compelling customer experiences through the following actions? – Using data to identify undefined and unmet customer needs; Using data and insights to constantly innovate our products and services; Acting upon insights to meet customer expectations.

Innovation in motion

Agility for the enterprise

Amy C. Edmondson | Novartis Professor of Leadership and Management, Harvard Business School
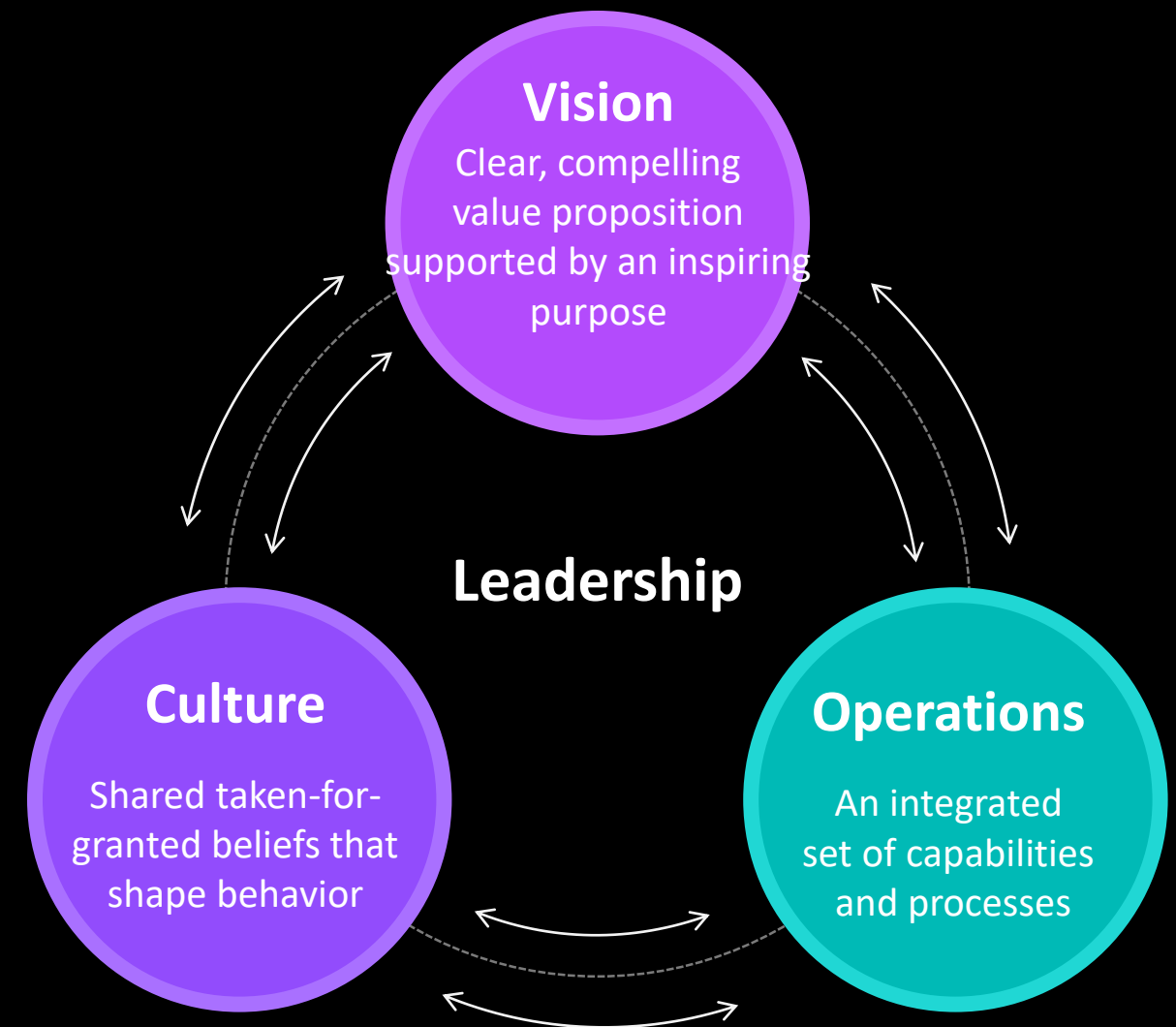**Christine Wyatt** | Global Leader, Cognitive Process Services, IBM Services

     26 November 2018   IBM Institute for Business Value

IBM

Leaders organize teams that learn as they execute

The Leader's Triangle

Amy C. Edmonson
"The Competitive Imperative of Learning."
Harvard Business Review. June–July 2008

Vision
Clear, compelling value proposition supported by an inspiring purpose

Leadership

Culture
Shared taken-for-granted beliefs that shape behavior

Operations
An integrated set of capabilities and processes

IBM

Innovation in motion

Leadership has a strong understanding of where our industry is heading

Leaders of Reinventor organizations have a superior understanding of their industry

81%

66%

43%

Reinventors

Practitioners

Aspirationals
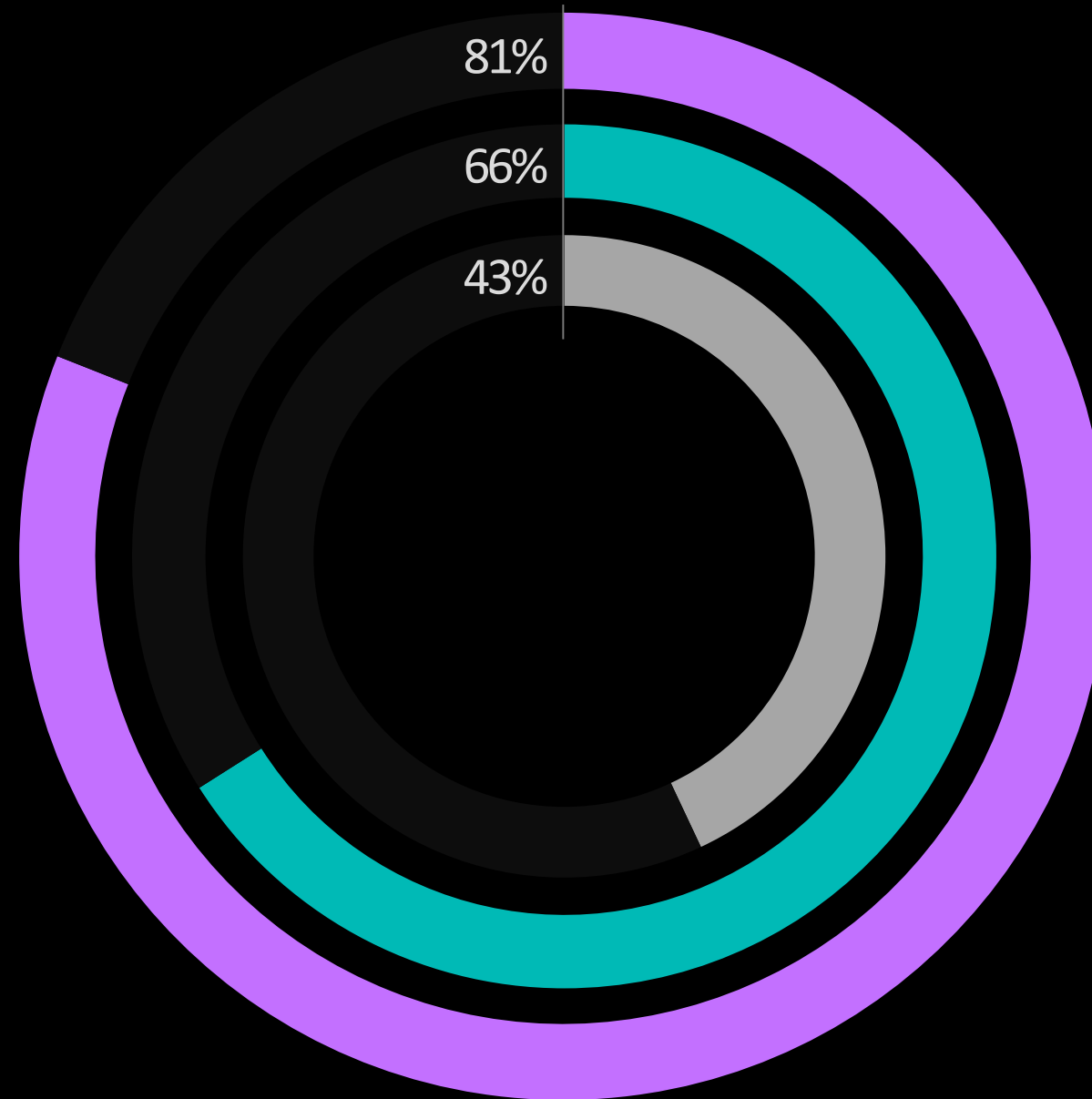
"As a CEO, you need to constantly learn – and learn about things you don't like – and also get comfortable with failing quickly. If you're not failing enough, it could be an impediment to growing your business to its full potential."

Jessica Robinson
Chief Executive Officer
PurePoint International
United States

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q3.2.f To what extent do you agree with the following statements about the leadership across your enterprise? – Our leadership has a strong understanding of where our industry is heading [To a large extent]

IBM

Reinventors engage and empower employees

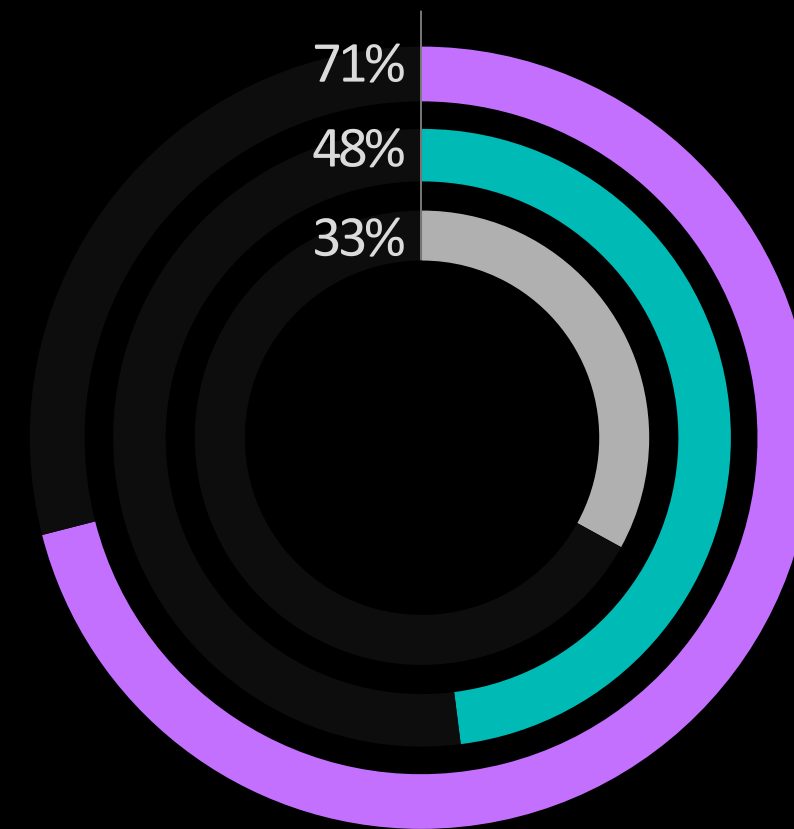## We actively solicit from employees to develop new ideas and approaches
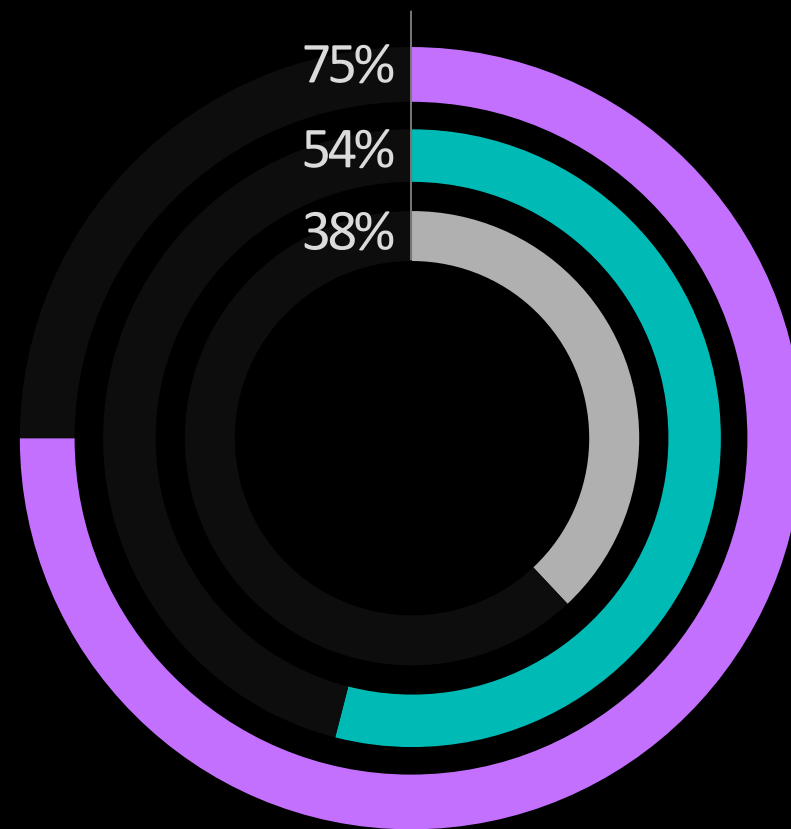
75%
54%
38%

Our teams are empowered to decide on the best course of action

71%
48%
33%

Reinventors

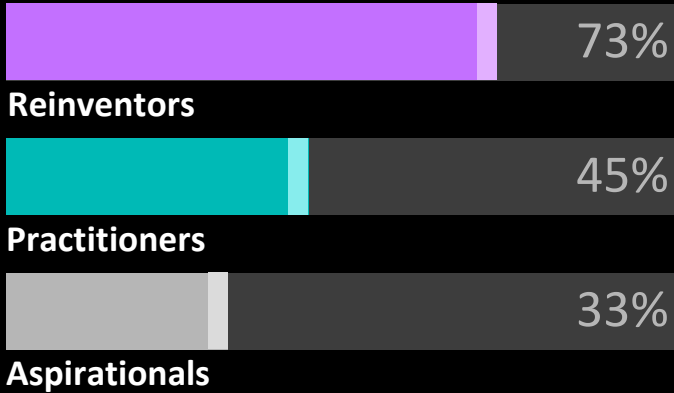**Practitioners**

Aspirationals

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source [left]: Q3.2.d To what extent do you agree with the following statements about the leadership across your enterprise? – Our leadership actively solicits input from employees to develop new ideas and approaches [To a large extent]. Source [right]: Q3.7.c To what extent do you agree with the following statements about your enterprise? – Our teams are empowered to decide on the best course of action [To a large extent]

    26 November 2018   IBM Institute for Business Value

IBM

Reinventors eliminate bureaucracy

Removing management layers and bureaucracy would improve enterprise performance
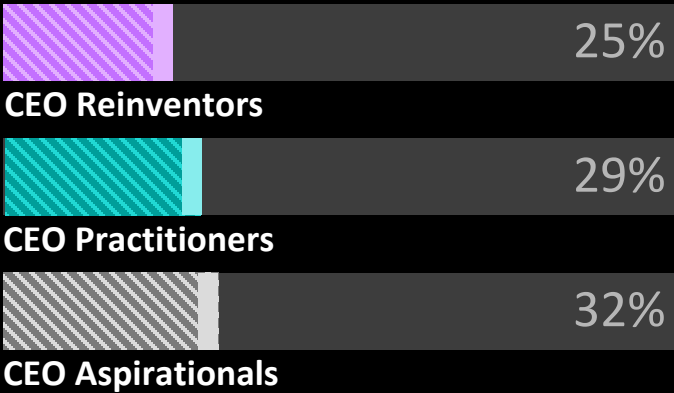
25% **CEO Reinventors**

29% **CEO Practitioners**

32% **CEO Aspirationals**

We have a culture that rewards both fast failure and successful innovation

73% **Reinventors**

45% **Practitioners**

33% **Aspirationals**

"Experiment. Fail three out of five times. If that's not your ratio, you're not experimenting, but waiting for enough information to act. You can't escape the mediocre that way."

Temel Güzeloğlu
Chief Executive Officer
QNB Finansbank, Turkey

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source [left]: CEO.3.g What business accelerators would improve the performance of your enterprise? – Removing management layers and bureaucracy. Source [right]: Q3.7.a To what extent do you agree with the following statements about your enterprise? – We have a culture that rewards both fast failure and successful innovation [To a large extent]
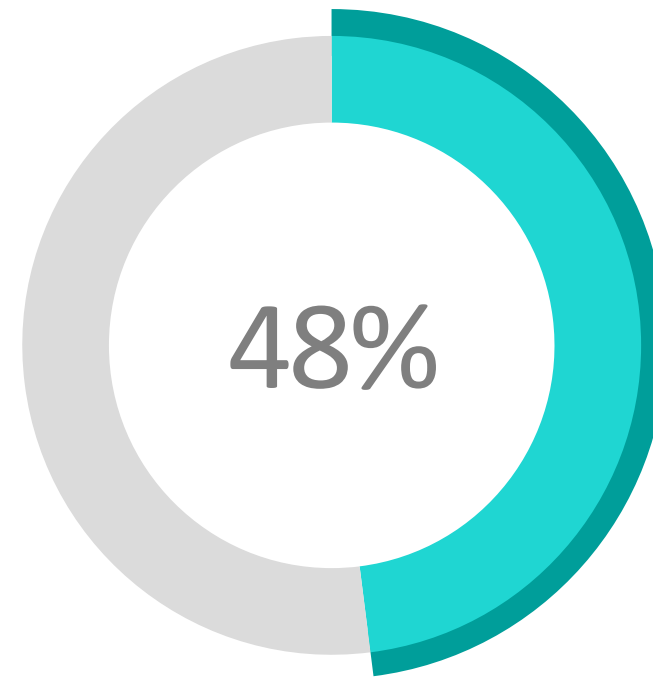
IBM

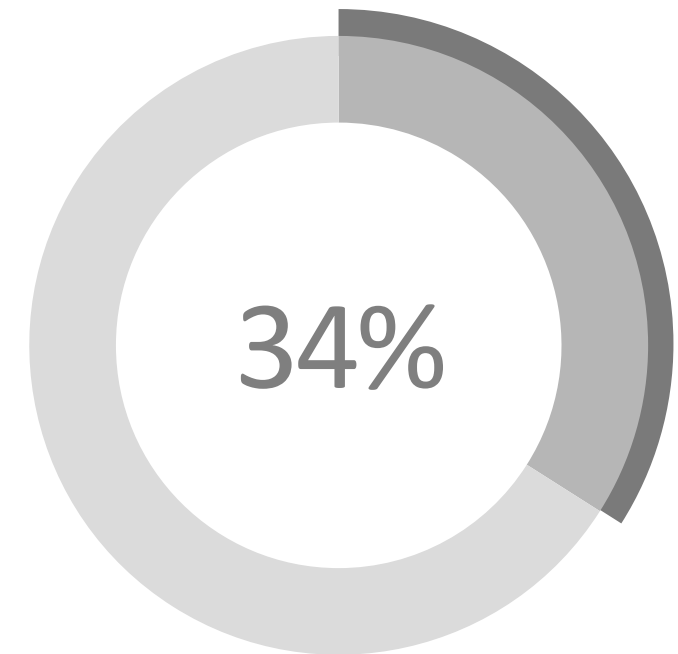# Reinventors promote cross-functional teams

We have a fluid work structure built around cross-functional teams
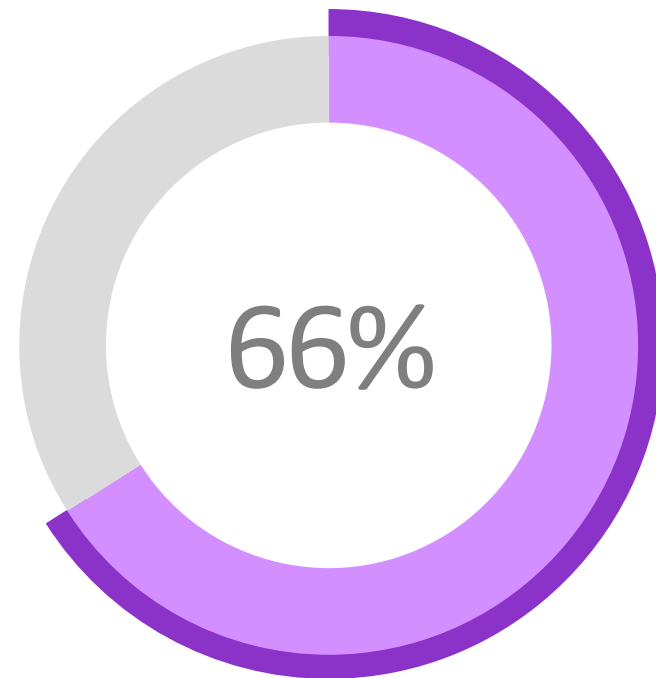
66%
Reinventors

48%
Practitioners

34%
Aspirationals

Percentages represent the number of respondents who selected 4 or 5 on a 5-point scale. Source: Q3.7.e To what extent do you agree with the following statements about your enterprise? – We have a fluid work structure built around cross-functional teams [To a large extent]