Understanding Digital Expectations

Aligning customers and culture around a winning digital strategy

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Executive Summary

Aligning management perceptions and customer expectations

With its proven potential to disrupt, "digital" has long been an agenda item for management in practically all industries. But how far have Swiss companies really progressed on their digital journey? To find out, this quantitative and qualitative study was conducted across the insurance, banking, retail and consumer goods industries. We analysed the perceptions and expectations of digital amongst top management, middle management and customers to see how aligned they are in five key dimensions.

Organisational culture and structure are the backbone of digital transformation and often pose the largest barrier to effectively implementing change. Yet, our study reveals this to be the biggest shortcoming of Swiss companies. Only with an agile and flexible culture and structure will Swiss companies be able to successfully transform and capitalise on the vast emerging digital opportunities.

We draw four key managerial implications from our study:

1. Alignment

A shared awareness of the accelerating rate of digital change across all levels of managements is lacking. To turn this around, organisations must align top management who are setting the strategic agenda, middle management who are carrying it out, and ultimately customers whose needs are being served.

2. User centricity

The evolving digital needs of customers are frequently not being fulfilled by new product and service offerings. In order to offer added value to customers, companies must put user centricity at the core of any actions taken to capitalise on digital potential.

3. External perspectives

Innovating with existing capabilities and perspectives is one of the main limitations of companies today. Bringing in fresh perspectives and new talent that can offer differentiated approaches to satisfying customer needs is a must.

4. Self-disruption

Companies should be willing to adopt a "fail fast, succeed sooner" attitude. Pursuing new business models internally and competing with yourself is one way not only to test but also to accelerate the digital process.

Transitioning digital from the agenda and putting it into action

Incorporating these factors into a digital strategy has never been more relevant. Only once management expectations and customer perceptions are aligned can companies truly add value with digital. As organisations continue to invest heavily in digital technology, and expectations are rising, management teams are under pressure to translate digital into a winning strategy. We therefore offer insights into how this can be successfully managed and achieved.

About this study

This study investigates the expectations for digital in large Swiss companies. Conducted in cooperation with CEMS and the "PwC's Experience Center", it compares and contrasts four key industries: banking, insurance, retail and consumer goods. We surveyed over 100 top and middle management executives and over 500 customers to determine their alignment with the five key dimensions of digital business. Our model puts user centricity at the centre of all company activities in the digital age. The model considers how companies interact with customers (external dimensions) as well as what influences the way in which companies do this (internal dimensions). Together, these dimensions paint a holistic picture of how companies incorporate digital into their businesses and represent the foundation for comparison across industries.
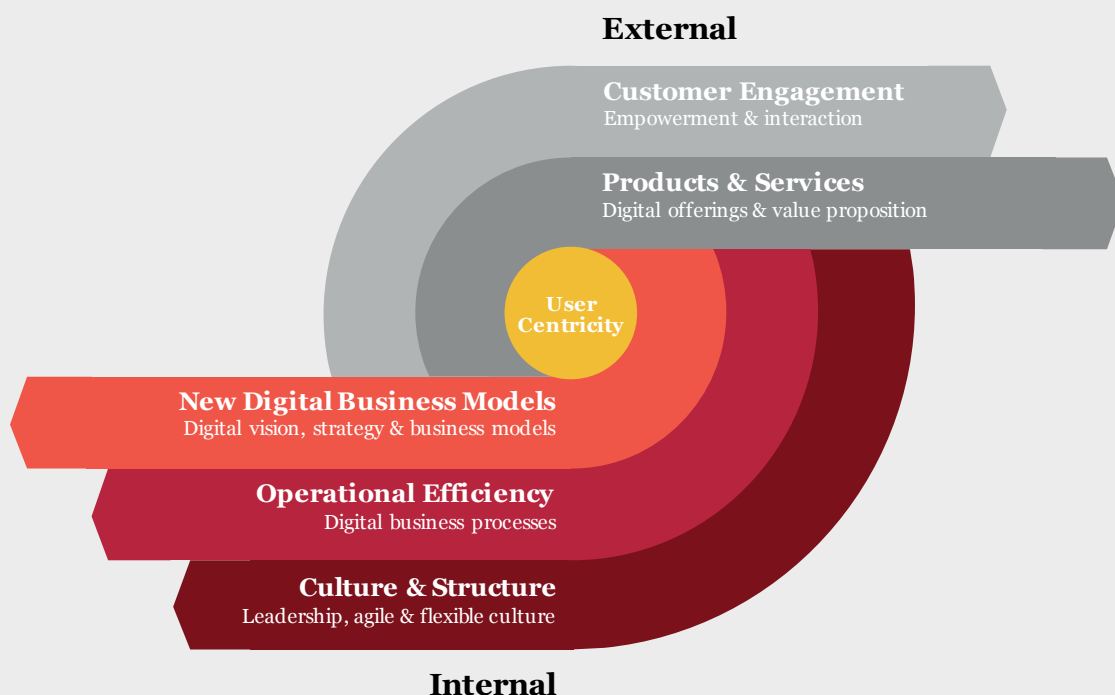
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Introduction

Understanding the dimensions of *digital business*

User centricity is at the core of digital business

In the new digital age, it is more important than ever not only to know what customers need but also to align the whole business around serving those needs. Understanding how companies in different industries are approaching digital opportunities was a key goal for our study. We were able to see not only how digital strategies are being implemented in Switzerland, but also how customers perceive it and what their expectations are.

We were able to pinpoint where gaps and contradictions exist, and in speaking with industry representatives we were able to further understand the causes of these. Seeking to close these gaps, we present an analysis of each industry, followed by the resulting implications, and then provide good practical examples of how to harness digital potential.

Figure 1   Dimensions of the Digital Business Framework

External

Customer Engagement
Empowerment & interaction

Products & Services
Digital offerings & value proposition

User Centricity

New Digital Business Models
Digital vision, strategy & business models

Operational Efficiency
Digital business processes

Culture & Structure
Leadership, agile & flexible culture

Internal

Digital Switzerland Study

Four industries transforming in the digital age: insurance, banking, retail and consumer goods

Insurance industry least aligned to digital

From our study, the insurance industry was found to be the least aligned both internally (top and middle management) and externally (companies and customers) when it comes to assessing how digitised their own industry is. This is especially true of top management, who greatly overestimate how digital their culture and structure is. When specifically asked how agile and flexible in responding to new changes their companies are, middle managers were 25% less convinced than top management. As a result of their industry's rigid structure, middle management is lagging when it comes to adopting an overall digital culture.

## Polarised organisational structure

With insurance agencies and branches at the forefront of the business, interviews have revealed that there is a clear distinction and polarisation between management, where the strategic agenda is set, and the agencies, where customers are being dealt with face-to-face. Our interviews suggest that the agencies' preoccupation with daily operations and managing existing revenue streams has restricted their ability to adapt their offerings to emerging customer needs.

User centricity: a missed opportunity

This hypothesis is supported by the industry's very low user-centricity score: the efforts being made by companies are not perceived as value-adding in the eyes of customers. The 18% gap between management and customer perception of user centricity reflects this failure to address customers' needs and pain points. It also indicates a missed opportunity by the insurance industry to capitalise on value-adding digital products and services.
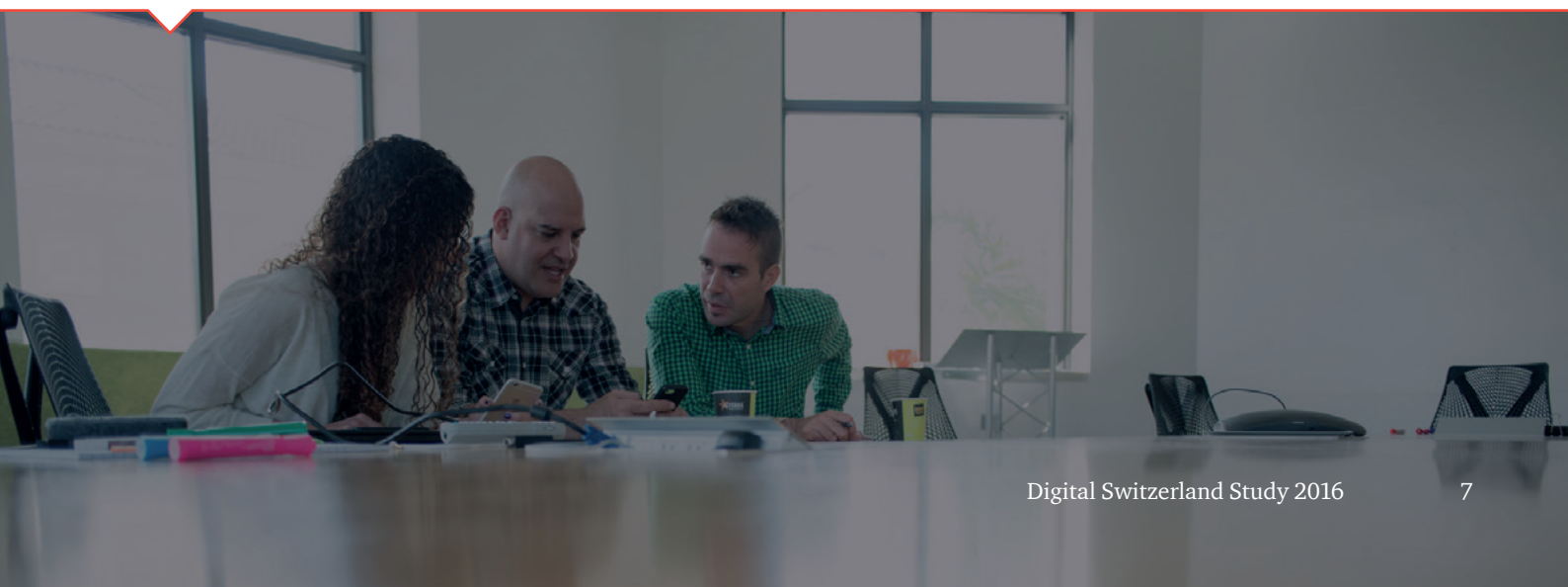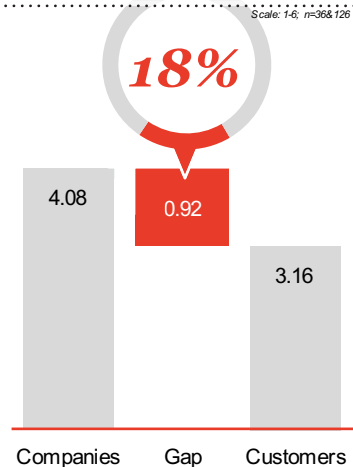
Figure 2 Culture and structure gap within management at insurance companies

Scale: 1-6; n=36

4.49   **16%**   0.80   3.69

Top M.   Gap   Middle M.
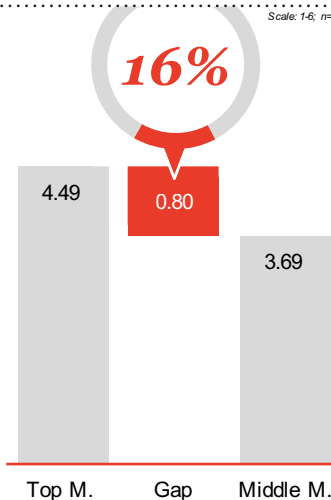
Figure 3 User centricity gap between other companies and companies in insurance

Scale: 1-6; n=36&126

4.08   **18%**   0.92   3.16

Companies   Gap   Customers

Implications for the Insurance Industry

Break rigid structure to improve customer centricity

It will be essential for the industry to start putting customer needs at the centre of their operations, offerings and engagement strategy. This is a matter of mindset, and it needs to be incorporated into organisations in order to overcome the industry's rigid structure. Our interviews indicate that, for agencies' disconnect with the wider strategy to be resolved, they must either be better integrated into the bigger picture or bypassed completely. This will enable companies to have more direct contact with customers and a far better basis for listening to their needs, understanding their pain points and then creating truly value-added services for them.

> *The agencies are the only customer touch point, and they lag far behind in digitising their product portfolio and customer interaction*

Manager at a large Swiss insurance provider

> *Many products and services are very outdated and not designed on the basis of customer needs. The mindset towards digital is shifting; however, output is lagging*

Manager at a large Swiss insurance provider

Value-adding, data-driven services

One example of value-added offerings can be seen in the individually tailored services that integrate personal data from tracking devices into policy making. This type of user data is, in most cases, already being generated and it is only a matter of time until companies tap into that potential with innovative customer-centric offerings. Our interviews revealed that the ability to actually offer such value-adding services is linked to the adoption of digital by those directly involved in managing customers, which today are predominantly the agencies. Therefore, real change will only come once a digital culture is accepted and lived out by the whole organisation.

Banking perceived as the most digital and is also the most aligned industry

Across all industries, our study finds the banking industry to be perceived as the most digital. It is also the most aligned in terms of management perception and customer expectations. Supposedly, the key factor behind this shared perspective is the industry's digital product offerings and services, which customers perceive as very advanced. However, our follow-up interviews revealed this to be misleading: the alignment rather seems to represent the distinct underlying values, such as the security and trust that have long been personified throughout the Swiss banking industry.
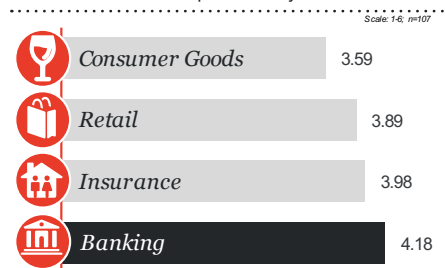
Culture and structure represent a sticking point

While on their own these values are distinct and significant, our findings with regard to digital reveal culture and structure to be the weakest dimensions within the industry as perceived by its own management. Industry representatives acknowledge that the Swiss banking industry's reliance on its traditional values is the reason why it has only been capable of facilitating calculated and incremental change.
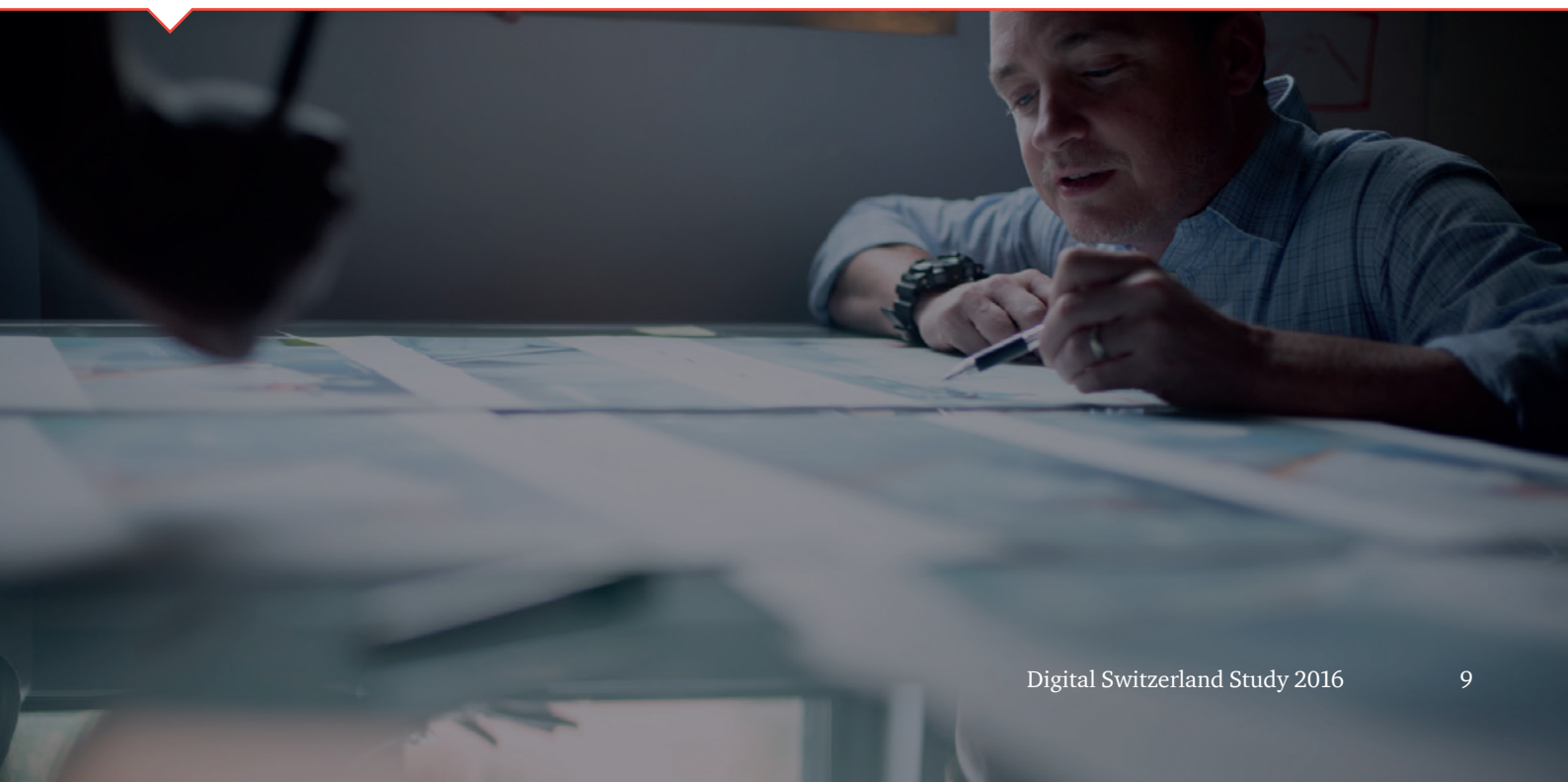
Traditional models are being challenged

The challenge, and opportunity, will therefore be to reshape the perceived values of security and trust into confidence in the digital competency of the traditional players before new entrants disrupt the industry. Until now, banks have been able to satisfy their customers' needs with basic digital products and services, such as mobile and e-banking. But customers' satisfaction with such non-disruptive change suggests that they may not be aware of the emerging trends and potential of the industry. This leaves traditional banks susceptible to innovators who are prioritising out-of-the-box thinking and introducing truly novel products and services. Through their ability to sub-segmentise the market and specifically address targeted needs, fintechs for example, are leveraging this approach in order to challenge traditional banking models.

Figure 4 Customers' average perception across all dimensions per industry

Scale: 1-6; n=107

Consumer Goods	3.59
Retail	3.89
Insurance	3.98
Banking	4.18

Figure 5 Management's perception per dimension in banking industry

Scale: 1-6; n=28

Products & Services	4.15
Business Model	4.12
Operational Efficiency	4.15
Culture & Structure	3.89
Customer Engagement	4.47

Implications for the Banking Industry

Raising awareness for the rate of change

Changing the mindset of the industry can only happen through heightened awareness of the accelerating rate of change in the banking industry. Particularly in Switzerland, this requires broadening the diversity of people and perspectives within organisations, as change is currently being driven without broad awareness of the full potential of digital. The absence of a digital culture within the industry makes it even more challenging for top management to push the industry forward. Once a broad awareness of new digital opportunities exists, the banking industry will be capable of making the tough decisions, such as cannibalising parts of their business in the short run in order to achieve sustainable long-term growth.

Leveraging values to capitalise on emerging opportunities

Opportunities evolving from the availability of open-source creditworthiness data, as well as the rise of social lending and crowdsourcing, are examples of where disruptive change has already begun. The emergence of new technologies, such as blockchain, and new regulatory changes, such as "light banking licences", are creating further space for new disruptive entrants. Simplified access, ease of use and faster decision making are some of the benefits from these opportunities that could completely change the dynamics of lending. With their traditional traits of security and trust, Swiss banks are well positioned to enter and compete in these areas before others do. Incorporating a long-term digital perspective into their value propositions is the key for the Swiss banking industry to capitalise on emerging opportunities.

> " *Our culture is not made for being too innovative; we focus on continuity and trust* "
>
> CEO of a large Swiss cantonal bank

> " *Fintechs do a sprint. We do a marathon in terms of digital. The culture is also different* "
>
> CEO of a large Swiss cantonal bank

Weak digital culture and structure is a major challenge for retail

The retailing industry in Switzerland, together with consumer goods, is perceived to have the weakest digital culture and structure. Our survey suggests that this is the result of retail's culture not being agile and flexible enough to embrace change and its lack of investment in employees' digital knowledge and expertise. This ultimately prevents companies from being able to pursue new digital opportunities in the retail realm.

Figure 6 Management's perception of culture and structure per industry

Scale: 1-6; n=107

Consumer Goods	3.52
Retail	3.52
Insurance	3.89
Banking	3.89
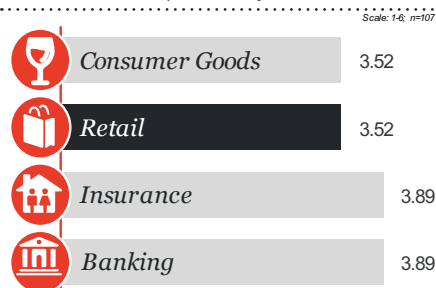
## Management expectations not aligned to digital

Retail in Switzerland is an interesting case as it is the only industry in our study where middle management perceives its industry to be more digital than top management does. By having spoken with industry representatives, we attribute this to middle management's not yet realising how the new digital era could change their business. This is because middle managers tend to be immersed in a cost-optimisation culture characterised by outdated performance incentives and low transparency. While top management is trying to adapt to the new digital era, our study shows that they do not believe they have the resources to undergo this digital transformation.

Figure 7 Resource gap within retail management

Q: Do we have enough resources to pursue digital innovations and projects alongside our usual business operations?

Scale: 1-6; n=20

16%

Top M.	Gap	Middle M.
2.70	0.80	3.50
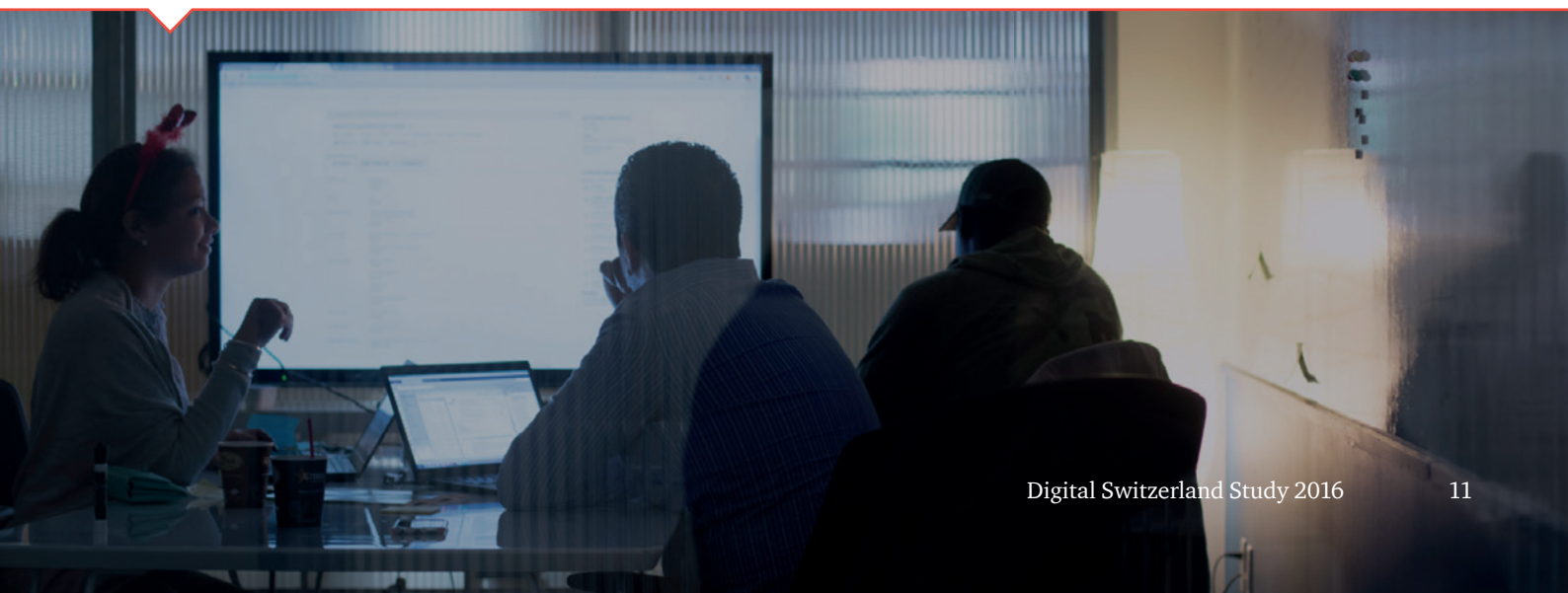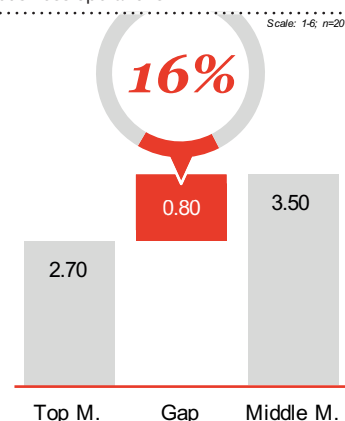
Implications for the Retail Industry

Adapting to the new digital world of retail

To successfully enable this change, out-of-the-box thinking, improved capabilities and an agile structure which allows disruption are needed to position the organisation for the new digital world of retail. Specifically, top management has to align the organisation to what it sees as the next steps for the industry. In doing so however, the industry must acknowledge that the new digitally enabled market place requires different skills and mindsets than those it possesses today.

Top management must therefore look outside the organisation and seek the support and assistance of external sets of eyes and new talents with differentiated skills sets. This will foster the development of an innovative culture and facilitate the rollout of a more agile structure.

> " *To really change the business model of a big retailer, new capabilities need to be acquired or built up externally. It is crucial that our business allows us to cannibalise the business of our parent company* "

Head of sales of a large Swiss e-commerce joint venture

> " *We, in the top management, see many things that we could do in digital* "

CFO at a large Swiss retailer

Pursuing multi-channel distribution

In extreme cases, this has already led some retailers to diversify and pursue multi-channel distribution through new organisations in an effort to overcome the fundamental bottlenecks within the existing company.

Some of Switzerland's retailers have been able to accomplish this through the establishment of an autonomously operated e-commerce platform. Starting over from scratch can be seen as a way to accelerate the shift to digital, given the opportunity cost of being a late mover. The key to success is not fearing a cannibalisation of one's own business, and instead embracing the potential for a wider reach and long-term profitability.

Consumer goods has difficulty addressing customers' digital needs

With the lowest self-perceived user-centricity score of all the surveyed industries, consumer goods companies are trailing when it comes to understanding their customers' digital needs. While the industry believes itself to be expanding with new digital products and services, customers do not see value being created with these new offerings. We consider the current strategy to be a "checklist approach" to digital transformation.

Interviews revealed this has led to the development of intangible strategy documents and unengaging applications that are failing to offer the right benefits to customers.

With its culture of complacent "business as usual" and without the disruptive pressure from new entrants, customer centricity is difficult to bring about.
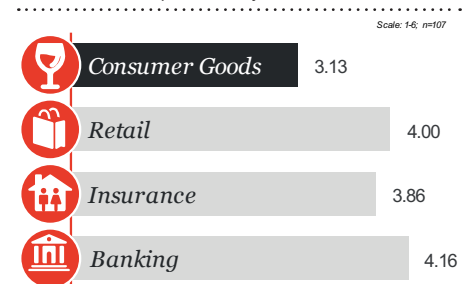
Decisions need to be made on digital opportunities

Due to its relative lack of digital maturity, especially in terms of business models, the consumer goods industry is in an interesting position: companies have a choice of which digital journey to follow. They can either pursue the digitisation of processes with a focus on enhanced efficiency and pricing competitiveness; or they can embark on a journey that explores the full potential of the new digital world. Tapping into this yet unexploited potential would broaden their current product portfolio with digital offerings that actually offer added value for customers.

Quick wins are not a long-term strategy

Interviews revealed, however, that top management are prioritising quick wins instead of making a firm commitment in either direction, and that has left the industry disoriented. This is particularly evident in the industry's middle management: those individuals do not perceive their companies as being guided by a clear strategic plan with measurable goals, and this by a gap of almost 25% compared with the view of top management, the widest in our entire survey.

Figure 8 Management's perception of user centricity per industry

Scale: 1-6; n=107

Consumer Goods	3.76
Retail	3.99
Insurance	4.08
Banking	4.11

Figure 9 Management's perception of business model per industry

Scale: 1-6; n=107

Consumer Goods	3.13
Retail	4.00
Insurance	3.86
Banking	4.16

Implications for the Consumer Goods Industry

Customer needs should guide decision making

Resolving the inherent tensions within the consumer goods industry requires companies to make a choice. Continuing on its current path may be the easier option, but it has limited upside potential. The "goods as a commodity" approach currently employed by the industry may be profitable today but it remains to be seen how this will evolve in the future. Alternatively, expanding one's business model is a casual opportunity game because in many instances, digital is not yet an immediate threat. In contrast to all other industries, consumer goods is lagging in its digital uptake, thus the potential to be a first mover still exists. However, this can only be achieved through the actual fulfilment of new customer needs and demands.

New perspectives necessary to support innovation

Due to the industry's culture and rigid organisational structures, this is a difficult task and Swiss companies should look to established benchmarks for guidance on how to do it properly. For example, global industry leaders have long been pushing "open innovation", with some going so far as setting themselves the ambitious target of having 50% of new innovation coming from outside the organisation.

These external perspectives are necessary in order to overcome the traditional barriers to digital, e.g. outdated business models and reluctance to change. While it is ultimately up to those who work with customers to turn the user centricity around, top management must enable this through resource availability and openness towards the digital potential of the industry.

> " *Most often, new digital products are merely viewed as new costs. We need new, feasible business models to accommodate them.* "
>
> Head of marketing at a large Swiss consumer goods producer

> " *Digitisation is a key topic in our strategy paper. But we, in top management, realise that what we defined in this paper is still a long way off.* "
>
> Head of marketing at a large Swiss consumer goods producer

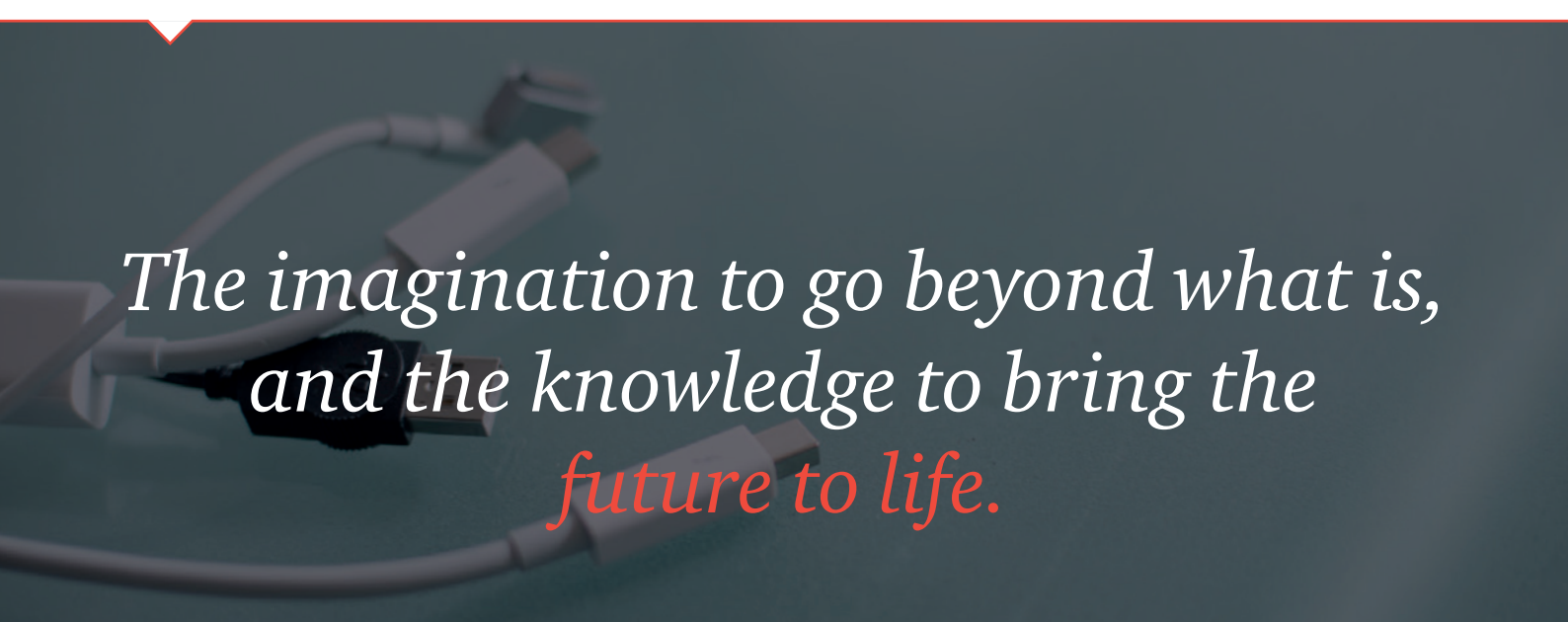# Digital culture is the key to customer centricity

Many industries have already been disrupted as a result of rapidly evolving digital opportunities. If companies want to survive the next wave of digital disruption, they must be able to challenge the pillars of their own success and truly become customer centric. In practice however, adding value for customers through the development of new digitally enabled offerings is a complex and challenging task. This is especially true with the limited existing capabilities of organisations and the lack of a broad understanding of the full potential of digital.

While many industries and companies are approaching this in different ways, their success depends first and foremost on the alignment between management perceptions and customers' expectations. This is only possible with a culture and structure that allows companies to be agile and flexible enough to capitalise on emerging opportunities, as well as encouraging scrutiny of existing business practices. Because if you do not disrupt yourself, someone else will eventually disrupt you.

"Digital isn't a fad and it won't pass so we need to act now to stay competitive in the future"

Digital manager at a large Swiss insurance provider

The imagination to go beyond what is, and the knowledge to bring the future to life.

The PwC's Experience Center

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