Built For Change Perspectives

How Smarter Businesses Transform in an Uncertain World

This is a report by Bloomberg Media Studios and IBM about how businesses are transforming themselves in light of the disruptions of 2020.
The global disruptions that have ushered in the 2020s are accelerating transformation and creating a mandate to be agile and resilient. Bloomberg Media Studios and IBM spoke to business leaders, analysts and technology experts to better understand how organizations can manage transformation. We learned that the pandemic and the mandate for accelerated modernization are bound together. [Figure 1]

**What does transformation really mean?**

A *business transformation* makes fundamental changes to operations and models to realize significant gains in value. It aligns decision-making, operations and data to anticipate and respond to disruptions, changing customer needs and new market opportunities. Business transformation tools include a clear strategy, hybrid cloud architecture, deep analytics, artificial intelligence (AI), blockchain, automation, edge computing and the Internet of Things (IoT).

A core component is *digital transformation*, which digitizes all viable operations. Amid the overwhelming corporate focus on the pandemic in 2020 and 2021, digital transformations have become even more of a C-suite priority. [Figure 2]

**Navigating a patchwork world**

“For the foreseeable future, we are going to be navigating a patchwork world of dynamic and changing signals,” says Mark Foster, Senior Vice President of IBM Services, which has partnered with Anheuser-Busch, Carrefour, Frito-Lay, Lufthansa, T-Mobile, NatWest, Volkswagen and other global organizations to drive their transformations.

“The core response that an organization should have to this world is to make their workflows as intelligent as possible. By applying technology strategically to solve for the most important opportunities and challenges, you also make workflows more resilient and ready to face this patchwork world,” Foster says.

The ultimate goal of transformation is to gain the ability to quickly adapt to evolving conditions and opportunities. Smarter businesses align technology and workflows to create agility, resilience, efficiency and transparency. They operate at the speed of insight, using data and...
AI to inform real-time decisions. Fueling this new enterprise model, analysts expect to see significant growth around AI-infused decision-making in the coming years. That is largely because the business value realized from AI will outpace the value derived from other analytics techniques, no matter the industry. [Figure 3]

Two principles to guide transformation

Business leaders say two principles help guide transformation: work backwards from the ideal customer experience, and take a holistic view of your entire operation.

For example, Frito-Lay’s recent transformation included a direct-to-consumer digital initiative that offers home delivery and customer personalization. “We started our transformation by asking: Who is the end consumer, and how do we develop as close a relationship with them as possible?” says Michael Lindsey, Chief Transformation & Strategy Officer for Frito-Lay North America and Quaker North America. Among other capabilities, he notes that transformation increased Frito-Lay’s ability to address small market segments by anticipating consumer behavior down to the ZIP code level.

“It’s absolutely key to any transformation to have your data fabric, intelligence and processes connected truly end-to-end. Unless you have a fully integrated team working in an agile way, you just don’t get the type of insights, data and process flow you need to truly delight your end consumer,” says Lindsey.

Digital Transformation Remains Top-of-Mind

Earnings calls of U.S. public companies on which “digital transformation” was mentioned.

Source: Bloomberg. Data through 8/15 of each year.

Business Value of AI

No matter the industry, companies will realize more business value from AI than from other analytics techniques. Here’s how much more:

Source: Notes from the AI Frontier, McKinsey Global Institute, April 2018.
By reimagining work as a fluid experience across the enterprise, intelligent workflows enable employees to work at the optimal intersection of skills, data, technology and opportunity. They replace static processes that are siloed, inefficient and opaque with dynamic workflows that are automated, agile and transparent.

"Intelligent workflows can be a driver for growth," says Dominique Dubois, Partner, Strategy & Offerings, IBM Services. "If a business is not running on intelligent workflows, the ability to be flexible is hugely limited, as is the ability to generate cash flow from real-time opportunities.”

Advances in technology are driving workflow innovation at an increasing pace. “Today, by combining the technology and infrastructure we have at our fingertips with process and workflow, we can do things that we couldn’t do even three years ago,” she says, noting that organizations often decrease operating costs by up to 70% within six months of implementing intelligent workflows and can increase revenue up to 20% within one year.

**The backbone of intelligent workflows: Comprehensive data flow**

The end-to-end approaches in intelligent workflows depend on data flowing freely across a company’s entire ecosystem. Smarter businesses create a repository of data from varied inputs and integrate it with their core applications to make it accessible.

This allows people and systems to operate with improved visibility and to use data and AI-driven solutions to make better real-time decisions. In turn, this leads to improved trust and confidence, and a bolder investment and execution plan for transformation.

Only 9% of enterprises surveyed globally claim they strategically align their information to decision-making.

Such abilities are still rare, however. Only 9% of enterprises surveyed globally claim they strategically align their information to decision-making.

**Embracing a hybrid cloud architecture is vital**

Using a hybrid cloud (with public and private clouds) creates the agility, efficiency, scalability and resilience needed to operate at the speed of insight. This is becoming standard; today, 85% of organizations manage their workloads on multiple clouds.

Flexibility is an advantage. “A multi-cloud strategy doesn’t lock a company into using any single platform or technology,” says Keith Costello, Global VP and SAP Leader, IBM. Indeed, financial markets expect demand for cloud computing services to increase, as evidenced by cloud computing companies topping the list of the best-performing stocks in 2020. [Figure 4]
“The pandemic taught many organizations that they’ve underinvested in supply chain technology,” says Jonathan Wright, Global Leader and VP, Supply Chain Consulting, IBM.

“The future supply chain will be highly driven by technology and intelligent workflows,” Wright adds, noting that implementing intelligent workflows can shorten and de-risk the supply chain while cutting inventory costs up to 50%.

In the management of business assets such as equipment, buildings and other material resources, intelligent workflows can decrease maintenance costs up to 40% and building operating expenses up to 20% while optimizing overall performance and uptime, says Kareem Yusuf, General Manager of AI Applications, IBM. “Creating more resilient business operations is the only way companies will endure and thrive in the volatility we’ll face in the years ahead,” says Yusuf.

Intelligent workflows make supply chains and asset operations agile and resilient

While intelligent workflows are becoming essential in every area, the recent global disruption reveals just how vital they are to supply chains and asset operations.

“The pandemic has proven, beyond all doubt, that supply chains must be built for change by leveraging intelligent and automated use of data.

Across the world, disruptions of supply chains lasting a month or longer now occur every 3.7 years on average, according to data compiled by the McKinsey Global Institute. [Figure 5] At the start of the pandemic, the United States suddenly imported almost 50% less from some of its major trading partners, compared to a year before. [Figure 6]

Relative Exposure to Supply Chain Disruptions

Based on supply chain’s geographic footprint, factors of production and other characteristics.

1IBM internal data.
2IBM internal data.
3IBM internal data.
Modernize and integrate core business applications

This is essential to create intelligent workflows. With core business applications optimized and linked, the opportunity to connect exponential technologies such as blockchain, intelligent operations and more can be realized.

“Businesses cannot rely on technology alone to drive transformation. They must also create a culture of ongoing, human-centric innovation.”

Once you integrate the data into your core applications and make it accessible to the people who need it, they can make decisions quickly based on real-time information.

Creating a culture of creativity and ongoing innovation

Importantly, businesses cannot rely on technology alone to drive transformation. They must also create a culture of ongoing, human-centric innovation.

By making workflows and outcomes more manageable, meaningful and impactful for human beings, organizations can use deep analytics, AI, hybrid cloud, IoT, edge computing and other technologies to design and scale solutions that reflect the company’s unique purpose.
Disruption is increasing the urgency to offer superior customer experiences, especially virtually. Smarter businesses know this is critical; 72% of customers say they’ll leave a brand after one bad experience. As disruption encourages people to try new products, companies are even losing loyal customers.

Of course, such bad experiences can occur virtually or physically. While interactions with customers in brick-and-mortar sites decreased sharply during the pandemic—and remain lower than pre-lockdown levels—digital communication is driving even more customer engagement for many businesses.

In fact, many brands are now interacting with their customers to a greater degree than before the current disruption. Data from 10,000 companies shows that customer service inquiries from U.S. consumers have increased by 16% over pre-pandemic levels. [Figure 7]

To build loyalty, make it personal

True transformation creates personalized customer experiences by leveraging analytics and AI to better serve people and create brand loyalty.

“Technology has evolved in the last several years that has allowed us to take personalization to whole new levels,” says Paul Papas, IBM’s Global Leader of Digital Strategy and IBM iX. “What we’re seeing now is an acceleration of hyper-personalization to create markets of one.”

“We’re only now getting to the point where we have the technology to be truly empathetic with customers,” agrees Alan Webber, Program VP for Digital Strategy and Customer Experience at IDC. “The key piece for companies is, how do you use technology to build empathy at scale with your customers? If you can be empathetic with them today, with the current disruption, they will still be your customer tomorrow.”

Improving human experience should guide every transformation effort.

Make improving human experience your North Star

Smarter businesses strive for “intelligence in, friction out” in customer engagements, using AI, automation, and human-centric design to streamline and optimize all interactions. But their strategies must also benefit all humans that their enterprise touches, including employees and business partners, to create meaningful, lasting results.

“Improving human experience should guide every transformation effort,” says Papas. While being customer-centric seems noble, it still frames people as mere consumers, and relationships as transactional. “This means thinking about how you could add value to that person in their day-to-day life, at a specific moment in time, rather than just wanting to sell them a product,” he says.

People are the most important part of any business

Transformation must make the employee experience a top priority—improving their day-to-day experiences as well as career development. This is especially important considering that competition for skilled employees is growing fiercer.

Two trends: Hiring for skills, and promoting from within

While remote working is a highly visible trend, 2020’s disruption has also accelerated transitions in how businesses hire, promote and foster collaboration among their people.

“Two prominent shifts are hiring for skills versus previous role, and upskilling employees rather than hiring new people,” says Amy Wright, Managing Partner, Talent & Transformation, IBM Services. Even before the pandemic, the World Economic Forum estimated that at least 54% of all employees will need reskilling and upskilling by 2022, with much of that driven by the automation of many functions. [Figure 8]

Businesses are placing increased importance on candidates’ skills and giving less weight to their prior position, says Wright. Companies are also finding it easier to reskill their employees for new roles rather than hiring new people. “There just aren’t enough people in the marketplace with the right digital skills,” Wright says.

Free people to use their empathy and creativity

Using intelligent workflows can free humans from mundane, reactive tasks that technology can now perform. In fact, IBM research has shown that 74% of companies that have invested in intelligent workflows for talent have seen increases in productivity. ²

“This lets your employees focus on work that requires empathy, creativity and ingenuity,” says Wright. And freeing humans to do higher-value work helps achieve the ultimate goal of transformation: unlocking value.

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² Benefits of Using Intelligent Workflows for Talent Management

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### Hours Worked by Humans and Machines, 2018 vs. 2022

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</thead>
<tbody>
<tr>
<td>Reasoning and decision-making</td>
<td>19%</td>
<td>28%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Coordinating, developing, managing and advising</td>
<td>19%</td>
<td>29%</td>
<td>28%</td>
<td>44%</td>
</tr>
<tr>
<td>Communicating and interacting</td>
<td>23%</td>
<td>31%</td>
<td>31%</td>
<td>46%</td>
</tr>
<tr>
<td>Administering</td>
<td>28%</td>
<td>44%</td>
<td>44%</td>
<td>55%</td>
</tr>
<tr>
<td>Performing physical and manual work activities</td>
<td>31%</td>
<td>46%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td>Identifying and evaluating job-relevant information</td>
<td>29%</td>
<td>46%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td>Performing complex and technical activities</td>
<td>34%</td>
<td>46%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td>Looking for and receiving job-related information</td>
<td>36%</td>
<td>55%</td>
<td>55%</td>
<td>62%</td>
</tr>
<tr>
<td>Information and data processing</td>
<td>47%</td>
<td>62%</td>
<td>62%</td>
<td>78%</td>
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**Figure 8**

Enterprises will look back at the start of the 2020s as a moment when they either seized opportunities or naively hoped old ways of doing business would survive. Smarter businesses realize that it’s a critical time to meet people’s evolving needs and give their customers exceptional experiences. Business transformation is the key to accomplishing these goals, studies show. [Figure 9]

As disruption and volatility may continue for the foreseeable future, the organizations that apply human-focused strategies and the new capabilities of emerging and advancing technologies will be positioned to lead in the “new normal” to come.

“Economic adversity has always led to innovation that transforms businesses and models,” says IBM’s Foster. “And, undoubtedly, this crisis has accelerated transformations. Every company should now realize that technology is fundamental in the way that the company interacts with its employees, its customers and its stakeholders.”

### How to Transform in a Recession

Companies that increase their operational efficiency during a recession, while simultaneously developing new markets and investing in new assets like equipment and R&D, perform best after the downturn ends, according to a 2010 study by two Harvard Business School professors. Three-year compound annual growth rates in EBITDA after the recession were:

<table>
<thead>
<tr>
<th>Defensive Moves</th>
<th>Offensive Moves</th>
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<tbody>
<tr>
<td></td>
<td>Market Development</td>
</tr>
<tr>
<td>Employee Reduction</td>
<td>6.6%</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>4.2%</td>
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<tr>
<td>Both</td>
<td>2.1%</td>
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Figure 9

Industry Showcase

IBM has partnered with organizations across industries to drive transformation. They include:

**AmerisourceBergen Drug Corporation**
AmerisourceBergen evolved its customer experience across multiple brands to drive productivity and scale.

**Bradesco**
The leading bank in Brazil improved service by implementing AI-infused assistants that answer 283,000 questions monthly with 95% accuracy.

**Carrefour**
Carrefour increased sales with blockchain technology, which enables customers to track items from factory to warehouse to store.

**Discovery Health**
The company’s Vitality Rewards program is now incentivizing more than 5 million people to engage in up to 34% more activity.

**Frito-Lay**
Frito-Lay scaled their digital commerce and field service solutions to more than 25,000 retailers within 12 months.

**L’Oréal**
The company leveraged IoT solutions to realize more frequent and agile product innovations that launch faster.

**Lufthansa**
The airline improved efficiency and lowered costs by speeding up passenger boarding and avoiding delays.

**State Farm Insurance**
The insurer’s Agile @ Scale program is delivering real-time customer targeting and advertising effectiveness.

**Woodside Energy**
By putting 30 years of engineering data at employees’ fingertips, the company achieved a 75% reduction in time spent on key research tasks.

**Yara**
One of the world’s largest fertilizer producers created the leading digital farming platform, which seeks to connect 620 million farm families to fight hunger.

To learn more about business transformation, visit [www.ibm.com/smarter-business](http://www.ibm.com/smarter-business)