

# IT and Professional Services Incumbents Strike Back

Global C-suite Study  
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IBM Institute for  
Business Value



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## Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

IT and Professional Services CxOs are no exception. In 2015, they favored open innovation and were largely convinced that new markets held more promise than established markets. Now, they anticipate that proprietary research will prove more fertile and, though they remain positive about the prospects beyond the near horizon, they're much less enthusiastic than before. That said, there are two points on which they feel sure: 74 percent expect more emphasis on customer experiences than standalone products over the next few years, and 70 percent envisage that most enterprises will partner more widely.

IT and Professional Services CxOs also report that the external environment continues to be very challenging. They're particularly nervous about the impact of technological advances, but market pressures and people skills rank second and third, respectively, on their list of concerns. Like their peers in other sectors, IT and Professional Services CxOs fret about finding the right talent as digital technologies transform the way we live and work. Demand for tech-savvy employees is soaring, and IT and professional services firms are among those most in need of such people.

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 518 CxOs from the IT and Professional Services industry. These conversations included both quantitative and qualitative responses. The analytical basis for this IT and Professional Services industry report uses 499 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

## Reinventors race ahead

In the course of our research, we identified three distinct organizational “archetypes,” each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they’re superb at managing change – all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven’t yet acquired the capabilities required to realize their ambitions. They’re neither as focused nor as agile as Reinventors.

Aspirationals have even further to go. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

## Reading the road signs

So what’s actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption

The path to personalization

The pull of platforms

Innovation in motion.

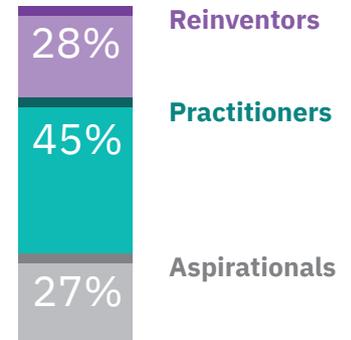
“Our business still exists because we’ve changed it numerous times in the past 20 years. Continuous reinvention is the only way to survive.”

Chief Executive Officer, IT and Professional Services, Japan

Figure 1

## IT and Professional Services split

IT and Professional Services Reinventors have distinct characteristics that result in differing vantage points



## Dancing with disruption

Two years ago, CxOs were deeply worried about digital giants and ankle-biters from other industries invading their territory. IT and Professional Services CxOs remain very anxious on this score: 41 percent say their sector is experiencing huge upheavals. And though 68 percent of respondents concur with their counterparts in other sectors that the real disruption is coming from innovative industry incumbents, 42 percent claim that online titans are still a major threat. Yet many IT and Professional Services CxOs seem a bit nonplussed by the situation: only 28 percent see an urgent need to transform their enterprises in response to the disruption they face.

The Reinventors in our sample enjoy a head start: 84 percent of them have C-suites with a strong grasp of how their industry is evolving, compared with just 58 percent of Practitioners and 41 percent of Aspirationalists. Moreover, 75 percent of these companies already have clearly defined formal strategies for dealing with disruption (versus 51 percent of Practitioners and 21 percent of Aspirationalists). Most also have business processes that are optimized to support their strategic goals.

But IT and Professional Services Reinventors are not only better prepared for sudden upsets, they're more agile about altering course when it proves necessary: 83 percent use rapid prototyping to test and refine their strategies (versus 39 percent of Practitioners and 16 percent of Aspirationalists). Reinventors, likewise, have a much better track record of managing change.

## The path to personalization

Connecting with the customer on a personal level is vital these days, but designing compelling personalized experiences is very difficult; it takes a profound understanding of what makes different people tick. Again, IT and Professional Services Reinventors are ahead of the curve. They're particularly skilled at using data to identify unmet customer needs (see Figure 2).

However, IT and Professional Services Reinventors don't just trawl through yottabytes of data. They approach problems like design thinkers – by engaging directly with customers, consulting their partners to get a clearer picture of the customer experience and creating detailed customer journey maps. The result? A full 82 percent of the Reinventors represented by the IT and Professional CxOs in our study are very effective at creating personalized customer experiences, compared with 55 percent of Practitioners and only 29 percent of Aspirationalists.

“We want to create an outstanding customer experience – an experience everybody thinks has been designed purely for them.”

Chief Executive Officer, IT and Professional Services, Australia

## The pull of platforms

One of the most exciting recent trends is the emergence of the platform business model, which links producers directly with consumers, enabling organizations to grow faster and generate greater profits. IT and Professional CxOs have been quick to spot its potential: 7 percent already operate platforms, while 55 percent are experimenting with the concept or planning to reallocate capital for this purpose. Moreover, the percentage of capital they're setting aside for platforms is greater than in any other industry except Banking and Financial Markets, where CxOs are equally enthusiastic.

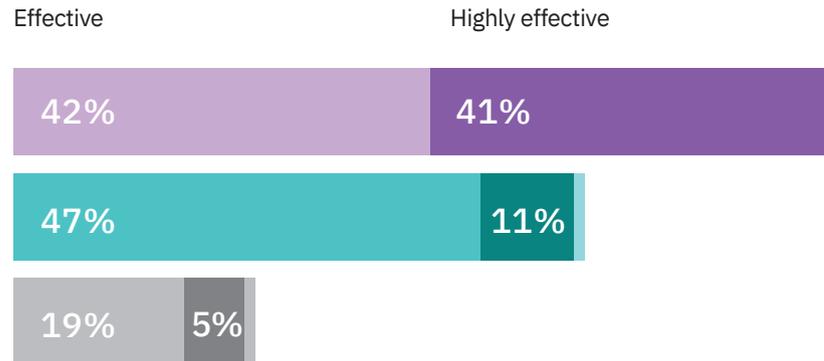
So what makes a platform work? We identified three “rules” for success: creating value from reciprocity, capitalizing on data and committing to innovation. IT and Professional Services Reinventors fit this profile. They collaborate more extensively than their industry counterparts. They're better at using data to innovate (85 percent versus 49 percent of Practitioners and 16 percent of Aspirationals). And they're more adept at acting on analytic insights to fulfill customers' expectations (83 percent versus 56 percent and 29 percent, respectively). Lastly, they're investing more heavily in cloud computing, the Internet of Things (IoT) and artificial intelligence (AI) – all technologies needed to bridge the digital-physical divide.

Figure 2

### Know now

IT and Professional Services Reinventors excel at using data to unearth new customer opportunities

**Reinventors**  
**Practitioners**  
**Aspirationals**



Q: How effective is your enterprise at using data to identify undefined and unmet customer needs?

## Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate and ecosystems replace go-it-alone entities. The majority of IT and Professional Services Reinventors are gearing up for the future by creating teams that learn on the fly. They have C-suites that actively solicit new ideas from the workforce and promote the sharing of knowledge. But some Reinventors have gone further: 65 percent have established fluid, cross-functional teams to stimulate continuous learning (versus 45 percent of Practitioners and 33 percent of Aspirationalists). In many cases, those teams are also empowered to decide on the best course of action (see Figure 3).

“As a CEO, you need to learn constantly and get comfortable with failing fast. If you’re not failing enough, you won’t grow your business to its full potential.”

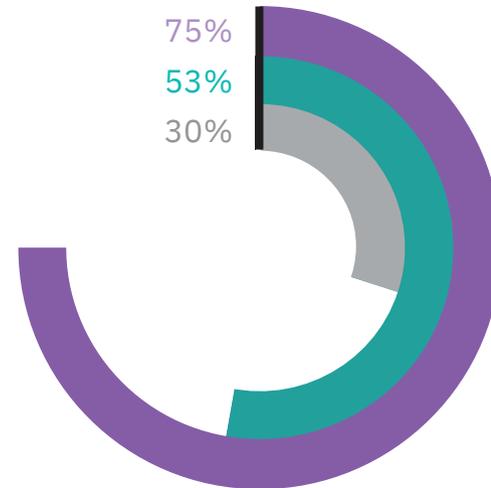
Chief Executive Officer, IT and Professional Services,  
United States

Figure 3

**Reinventors**  
**Practitioners**  
**Aspirationalists**

## Autonomous teams

IT and Professional Services Reinventors empower their teams to decide on the best course of action



Q: To what extent does your enterprise empower teams to decide on the best course of action? (Percentage of respondents choosing “to a large extent.”)

That's not all. IT and Professional Services Reinventors are more proficient at promoting experimentation: 73 percent reward fast failure as well as successful innovation, compared with just 38 percent of Practitioners and 29 percent of Aspirationals. Reinventors are also consistently better at creating the right networks of partners, suppliers and distributors, and deploying the right resources, including people with the right skills. In short, they combine a dynamic vision with an open culture and agile operations – and these, as our research shows, are the three stepping stones to organizational dexterity.

## Strengthening advantage: Actions to take now

*Interrogate your environment – objectively.* Scan the business landscape for early signs of technology or business model innovation, either by industry incumbents or potential disruptors in other sectors. Test the boundaries of your organization's capabilities. Partner with friends as well as foes to plug the missing gaps.

*Get flat, not fat.* Leverage the power of platforms to drive growth at scale. Use your platform to “rent” technical and other expertise, allowing you to focus on the core competencies where your enterprise adds greatest value. Encourage peer-to-peer networking to address tasks that fall outside your firm's scope.

*Build a smarter infrastructure.* Invest in cognitive capabilities that provide the intelligent backbone to optimize emerging technologies like IoT. Exploit cloud and mobile solutions that enable a more flexible working environment, empower employees and enhance creativity.

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To read the full report, “Incumbents Strike Back,” please go to [ibm.com/globalcsuitestudy](http://ibm.com/globalcsuitestudy). You can also find copies of our monthly insights and three related C-suite executive reports on IoT, AI and blockchain at the same location.

### **For more information**

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