



IS YOUR COMPANY A DIGITAL LEADER OR A DIGITAL LAGGARD?

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We have a confession to make. We love large companies, their value creation, and their challenges. A large enterprise can no longer win by being profitable; good profits make you a target in a digital economy. That's why large companies have to change. In this briefing we identify the management practices of digital leaders, illustrated with the digital transformation of a large bank: BBVA Group.

BEING A DIGITAL LEADER

Digitization typically both makes businesses more transparent (via interactive solutions such as websites and apps) and lowers switching costs for customers, permitting competitors to target them with better digitally enabled offers. A leader in the digital economy must hit the trifecta: be profitable, and innovative, and deliver great customer experience. Accomplishing the three together creates a source of competitive advantage.

In our survey, digital leaders were 7 times more innovative, 3 times more profitable, and provided 38% better customer experience than digital laggards.

We define *digital leaders* as companies in the top quartile (relative to competitors) on a combination of profitability, innovation, and customer experience measures. In our survey of 413 companies globally, digital leaders exhibited seven times more innovation, three times greater profitability, and 38% better customer experience than the bottom quartile *digital laggards*.¹

1 MIT CISR 2015 CIO Digital Disruption Survey, N=413. Profitability=% net margin, industry adjusted; Innovation=% of revenues from new products and services introduced in the last three years; Customer Experience=% customer experience effectiveness compared to competitors. Digital Leaders (Laggards) were top (bottom) quartile on the three measures. The "Key Differentiators" in figure 1 were significant in regression analysis against Digital Leaders ($R^2=0.42$).

WHAT DIFFERENTIATES DIGITAL LEADERS FROM LAGGARDS

Digital leaders were statistically significantly different from digital laggards in three key ways that contribute to better performance (see figure 1):

- 1. Digital first focus:** People at companies that are digital leaders think digital first—in all respects. They think every day about how digitization can improve their company's customer experience, employee experience, and operations. It's not just the CIO, CDO, or CMO focusing on digital, but everybody in the organization. And the contrast is stark: CIOs of digital leaders spend 52% of their time on innovation, while CIOs of digital laggards spend only 16% of their time. The result is that digital leaders are ambidextrous: they can innovate while cutting complexity, cost, and time to market.
- 2. Connected platform of services:** Everything is connected in a digital world. Digital leaders build a digital platform, then identify their crown jewels—the specific capabilities that make their enterprise great—and service-enable them. For example, digital leaders API-enable 44% of their core capabilities so that external partners can connect to them. Digital laggards API-enable only 19% of core capabilities. Most of the digital leaders began by making their capabilities available via APIs internally. Digital leaders are now extending their platforms to include physical assets as part of the Internet of Things.
- 3. Digital coordination:** Digital leaders coordinate all their digital efforts to meet a larger business goal—such as providing a multiproduct integrated customer experience—then iterate and learn from these efforts. In contrast, digital laggards—slow to invest or with a "let a thousand flowers bloom" mindset—struggle to monetize and coordinate their efforts.

In this fast-changing world, one important way to focus digital efforts is to amplify the customer voice inside the company. That's everybody's job. In digital leaders, the CIO/CDO spends 24% of their time engaging with and learning

from external customers, while in laggards such spend is around 15%. Collaboration across silos within digital leaders allows them to offer customers a multiproduct, multichannel experience. And in digital leaders, the CIO/CDO coordinates with internal partners via budgets that locate 52% of enterprise digital spend in the IT budget (with its typically strong security and architecture requirements); laggards place only 35% of enterprise digital spend in the IT budget, and risk creating additional technical debt in the future.

BBVA²

BBVA, a large Spanish bank with 2016 revenues of \$26 billion, 70 million customers, and 135,000 employees, operates in more than thirty countries. In 2016, BBVA received nine Euronext Awards for Excellence, including banker of the year, awarded to Executive Chairman Francisco González; best bank in Spain; best digital bank in North America; and best digital bank in Latin America.

Digital First Focus

In 2015, in response to the challenges he saw for banking, Chairman González declared, “We are building the best digital bank of the 21st century.”³ As part of this digital-first focus, BBVA made the mobile device the customer’s remote control for the bank. It’s an appealing concept that puts the customer in charge and merges the bank’s full power—physical and digital—on the customer’s device.

BBVA’s philosophy is to allow customers to do everything from their mobile device, with help from their manager when they want it. The mobile app offers simple, fully digital new customer onboarding in less than five minutes. It functions as a digital wallet, and allows appointment scheduling and WhatsApp-like messaging with managers. The app also offers easy, automated purchase from a self-service suite of products—including consumer loans and investment funds—with each purchase in under a minute. BBVA’s mobile interaction with customers and their satisfaction is very telling: customers interact with the bank 150 times per year on their mobile device, compared to 4 branch visits per year. And the NPS for the bank’s mobile app is 63% in Spain, the highest among its peers.

BBVA leverages data to enhance service to customers. For example, using the BBVA Valora tool in Spain, anyone—cus-

tomers or not—can appraise real estate for purchase, analyzing property value and affordability, and linking evaluation to purchase with a mortgage tailored to their needs.

The impact so far from company-wide efforts to digitally transform is encouraging, with an average overall increase of 20 points in NPS and achieving around 20% of sales digitally.

A corporate development group looks for acquisition opportunities to extend BBVA’s digital capabilities. Besides making acquisitions of digital pioneers such as Simple, a US online banking startup; and Holvi, a Finnish online business banking service; the company is also investing in new players like Atom Bank, which though mobile-only has become UK’s most recommended bank.

Connected Platform of Services

An IT-savvy bank, BBVA has invested heavily in reusable global platforms since 2007. The company has worked hard at removing “digital spaghetti”—a tangled set of partially digitized business processes, constructed over time from many different systems and versions of data—and replacing it with efficient, scalable global digital platforms. These platforms combine optimized business processes, efficient technology, and easily accessible data, all at a low cost relative to industry competitors’ platforms, and meeting regulatory needs.

BBVA delivers digital experience and its unique set of services over a reliable core banking platform, enabling new developments that combine the bank’s open APIs and other capabilities. Its Platform as a Service (PaaS) model enables BBVA to develop end-to-end global products and services using all the key layers.

Partners like retailers, startups, and telcos can connect to these services, enriching their products with banking functionality. BBVA’s decade-long effort requires strong discipline to pick the one best way to provide a banking service in each geography or globally, and implement it on an industrialized low-cost, “easy-to-innovate-on-top-of” platform.

Digital Coordination

In 2014 Carlos Torres was appointed head of the new Digital Banking unit in BBVA. Good results followed with improvements in digital customer engagement, customer satisfaction, cross-selling, and cost to serve. The new digital bank had proved the digital concept to the Board and senior leaders.

In July 2015, BBVA announced a fairly radical organizational surgery. Carlos Torres became President and COO, then CEO a few months later to head a new organizational structure when Francisco González became Executive Chairman. A new strategy was also defined: “Bring the age of opportunity

² Based on discussions with BBVA’s Executive Chairman Francisco González, Chief Executive Officer Carlos Torres, Head of Customer Solutions Derek White, Chief of Staff Joaquin Gortari, and other BBVA executives, and drawing from <https://www.bbva.com>.

³ “Francisco González: “We are building the best digital bank of the 21st century,” BBVA, <https://www.bbva.com/en/news/economy/francisco-gonzalez-we-are-building-the-best-digital-bank-of-the-21st-century/>.

to everyone.” With the customer in the center, BBVA helps people make the best financial decisions for their lives and businesses with six strategic priorities: (1) a new standard in customer experience, (2) driving digital sales, (3) new digital business, (4) capital allocation, (5) unrivaled efficiency, and (6) a first-class workforce.

BBVA created new core competencies that include:

- **Talent & Culture:** Responsible for promoting new schemes for talent management and adapting the bank’s culture to the new strategic context
- **Customer Solutions:** Delivering the best banking experience to customers across all channels, leveraging data and design to better meet customer expectations. Responsible globally for products and digital sales, new capabilities (e.g., big data, user experience and design), new digital business, and open innovation
- **Engineering:** Responsible for running IT operations and developing software solutions for digital products using a global approach

This new structure has moved BBVA from a more traditional brick-and-mortar bank with good digital capability to a fully integrated bank with people-based and self-service engagement models. And it places talent where it can have most impact. Country-based networks concentrate on identifying regional differences to grow the local businesses. Core competency teams create the best banking services possible and make them available both internally and externally.

BBVA has also adopted a number of fresh approaches to getting work done with a new “creation model” for building customer solutions. For example, more than one hundred fifty multidisciplinary, dedicated agile scrum teams work

together across eleven countries to develop new features in two-week sprints, with quarterly planning to ensure systematic, accountable, and transparent project management.

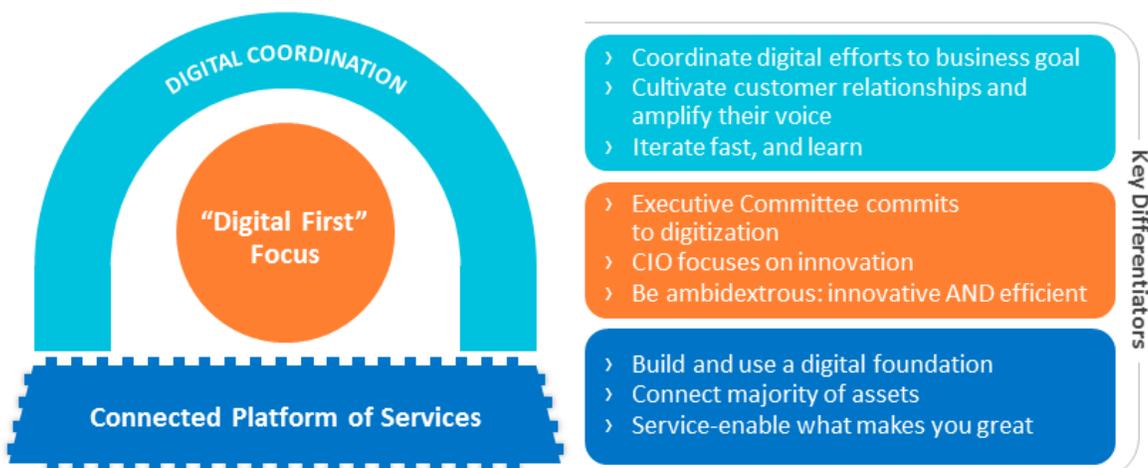
LESSONS LEARNED AT BBVA

BBVA learned that digital transformation requires a single team with a single plan. Now that previously separate groups from IT, business units, products, legal, and user experience work together on agile scrum teams, the company creates solutions more quickly. Being digital results in new roles that need the best talent from both inside and outside the company: a number of the heads of the new core competencies were new to the bank.

Going forward, senior leaders must find the right balance between pragmatic and visionary approaches. The bank must continue to operate, make money, and serve customers while transforming, requiring difficult decisions and trade-offs. Finally, BBVA leaders must get every person in the organization—including everyone in the branch network—on board. Branch staff play a key role in helping customers to move to digital channels, such as by encouraging use of the mobile app. Every employee plays a role in the change and must feel that their contributions matter.

This is a bold strategic initiative by BBVA. It’s too early to definitively measure success and what other kinds of changes will be needed going forward. The early indicators are positive as BBVA is now at the top in customer experience among peers in its main markets. To become a digital leader like BBVA, most large enterprises will need to create their own bold vision and build capabilities in the areas of digital-first focus, a connected platform of services, and digital coordination.

Figure 1: Three Practices Differentiate Digital Leaders



Source: MIT CISR 2015 CIO Digital Disruption Survey, N=413. “Digital Leader” is a combination of Profitability, Innovation, and Customer Experience (z-scores for each, totalled). The “Key Differentiators” were all significant in a regression analysis with Digital Leader as dependent variable. Adj. R² = 0.42.

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