Powering your business through relentless change

Four strategies to win in
a digitally disrupted world

Foreword

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The evolution of digital technology is causing entire industries to change at a rapid pace. Information is power, and the power that once sat squarely with organisations has shifted to those consuming goods and services. Digital technologies are enabling people to gain greater access to not only vast quantities of data, but the right data to make better decisions.

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Traditional businesses may experience disruption when their business model is fundamentally changed by a digital model; one that is usually less expensive to maintain, faster to deploy and usually provides a better customer experience.

As a result, digital evolution can be misinterpreted as bringing with it problems and issues that require fixing or need to be solved. If organisations think of this new state of being as a damaging situation rather than a positive opportunity, it immediately places them on the back foot.

In addition, where previously major innovation occurred intermittently (a new product feature or manufacturing method came along once every few years at most), today it is constant. Now that evolution is upstream and downstream, in services and products, processes and people – what creates value and what enables success? When positively embraced, digitisation is the trigger to start the conversation – with staff, suppliers, distributors and customers – and so disrupt creatively with an eye to preserving relationships and value for the long term.

Digital transformation is thus about all businesses taking advantage of what is now possible. By understanding what they have and realigning with longer-term outcomes in mind, businesses can keep one eye on tomorrow, while the other is still firmly focused on outcomes for today. The transformation process is about balance – knowing that disruption is here but, crucially, learning as you go and pacing the redeployment of your business's core strengths appropriately.

So, when you strip away the hype, and the extremes of "it won't happen to us" through to "replace everything", many successful and long-term focused firms are quietly disrupting themselves.

To better understand what is really happening, Telstra Wholesale commissioned this study to help our customers and their own end-users understand how their businesses compare to others and what they can do to achieve better business outcomes. The survey was based on a sample of 200 Australian business leaders, 100 of them from technology and ICT companies, and is highly relevant to Telstra Wholesale's customers and their end-users.

Our research provides you with insights to truly understand how you can digitally transform and redeploy your business model to achieve better outcomes.

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Executive Summary

Digital transformation is at the centre of Australian boardroom discussions.

Many businesses acknowledge that the challenge exists. Our own study found precisely that – 87 per cent of leaders agreed that 'businesses that don't embrace flexible, agile business models would cease to be competitive in the future'.

While most studies end by identifying an issue, it's just the beginning for the Telstra Wholesale study. This paper provides benchmarks and key actions that will enable a more successful strategy for transition to a digitally empowered business for both you and your customers.

The study questioned 200 Australian C-level Executives and senior business leaders, with 100 of those from technology and ICT companies, to more deeply understand three core questions:

1 What is the current dynamic of the business model in Australia? Are they traditional in approach? Have they transformed? Or are they somewhere between the two, in transition?

2 How effective are those businesses in achieving specific outcomes around revenue, loyalty and satisfaction through the lens of four pillars that make up the business model?

3 How do the four different pillars of the business model influence the delivery of effective business outcomes? And which business models are most effective?

The study delivered three major insights:

1 Three-quarters of businesses in the study are regarded as 'traditional', yet 87 per cent of leaders agreed it was vital to **embrace flexible, agile business models** to remain competitive.

2 Through a unique business effectiveness scoring system (BESS), Telstra Wholesale has found that Australian organisations are currently **not effective in achieving positive business outcomes**.

3 Finally, the eight per cent of businesses in the study with **highly flexible and agile business models** are considerably **more effective at achieving positive business outcomes**.

Agility and flexibility are vital for businesses taking the first steps to transforming and remaining competitive in the future. Yet the study also enables us to draw a number of practical conclusions for businesses seeking to become transformational.

Australian businesses need to understand exactly how their technology investment is going to add value to the business to realise its true potential. They also need to put customers and partners at the centre of their business.

For transformational businesses, all four pillars of the business model contribute to achieving better customer experiences, customer loyalty and partner satisfaction. Traditional business models do not have the same success.

Finally, organisations have to understand how the different pillars of the business model can map back to revenue growth. This enables leaders to prioritise areas for change, and speed up the process of moving from a traditional to a transformational business.

Digital transformation is not about surviving a set period or trying to weather a storm. It's about businesses thriving while tackling their digital transformation journey.

Customers, partners and employees all demand more from the organisations within which they work. The balance of power has shifted and organisations need to transform to keep pace. It's no longer just enough to 'survive', truly effective organisations 'thrive'.

To help our customers and their end-users grapple with transformation and understand their digital redeployment pathway, Telstra Wholesale has created the Business Effectiveness Scoring System (BESS).

BESS is a wholly owned platform from Telstra Wholesale that helps Australian organisations, our customers and their end-users understand their effectiveness at achieving established business outcomes, based upon their current business model.

Through identifying where they perform both well and, not so well, business leaders can understand areas for improvement based upon their desired business outcomes. In short, they can begin the transformation process and plan changes targeted to ensure their business thrives.

The Conflict

Despite recognising the need to embrace flexible, agile models to be competitive in the future, the majority of businesses in the study currently have what's regarded as a 'traditional' business model.

Our study[2] found that 74 per cent of businesses sit under what would be regarded as a 'traditional' business model, whereas just eight per cent would be viewed as 'transformational'. The remaining 18 per cent are regarded as 'transitional'.
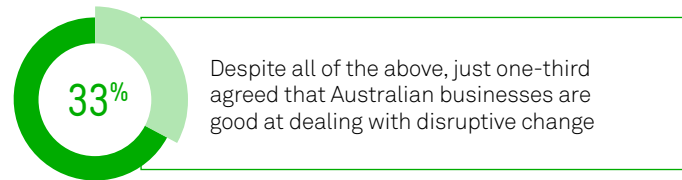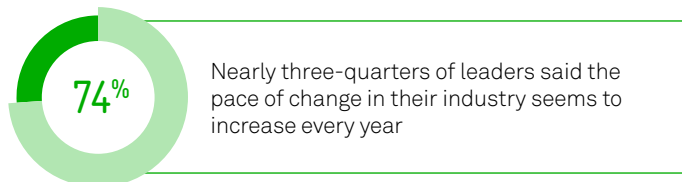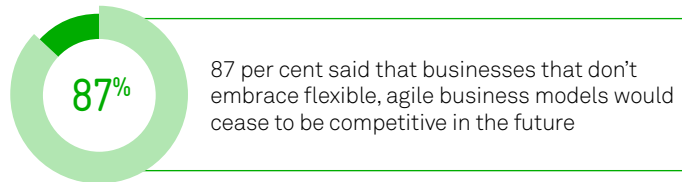

2. Refer to the detailed methodology for explanations as to how the categories of business were decided.

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To understand the current dynamic of business model, leaders were asked to align their business against a series of statements across four different pillars, namely mindset (people), structure (process), ecosystem (partners) and platform (technology).

Mindset	Structure	Ecosystem	Platform
How people think and act within the business based upon the following themes:	How a business is organised and the processes it uses, based upon the following themes:	The partner network organisations utilise based upon the following themes:	The technology used to run a business based upon the following themes:
DECISION-MAKING	CONNECTEDNESS	REVENUE OPPORTUNITY	VALUE CREATION
RISK-TAKING	PLATFORM	PARTNER INVESTMENT	CONNECTEDNESS
UNCERTAINTY	INFORMATION	PREDICTABLE DISRUPTION	TOOLS
APPROACH	PROCESS	PLATFORM STRATEGY	TRUST
EMPOWERMENT	STRUCTURE	DIGITAL ADOPTION	GROWTH

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Expanding further, the study found:

48% Nearly half (48 per cent) of leaders said that non-traditional players are a growing threat to market leaders in their industry

87% 87 per cent said that businesses that don't embrace flexible, agile business models would cease to be competitive in the future

80% 80 per cent of business leaders agreed they must have one eye on traditional revenue models and another on disruptive ideas that lead to future growth

74% Nearly three-quarters of leaders said the pace of change in their industry seems to increase every year

33% Despite all of the above, just one-third agreed that Australian businesses are good at dealing with disruptive change

The three-quarters of businesses in the study with traditional business models are grappling with the transition they need to make to become more agile and flexible in order to thrive.

But while a conflict exists between what leaders say and how their business currently operates, it's only when viewed in light of the impact of achieving business outcomes that problems become heavily underlined.

The study enables leaders to understand the current make-up of their business model. They can align their specific profile against how successful they are at achieving essential business outcomes, thus affording them the ability to map their own transformation pathway.
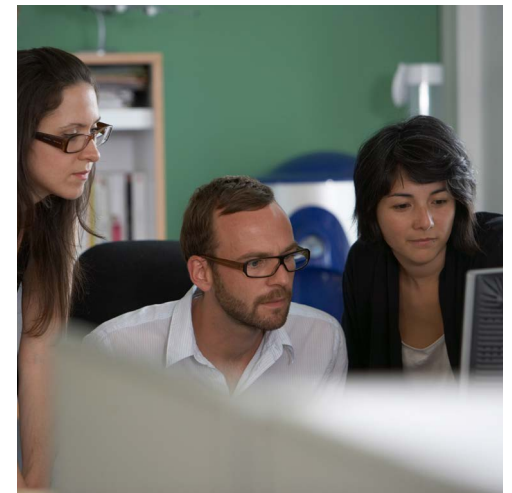
The Challenge

Current business models are not effective in achieving positive outcomes centred on revenue, loyalty, experience and satisfaction.

The Business Effectiveness Scoring System

To help businesses map their own pathway to redeployment, Telstra Wholesale has devised the Business Effectiveness Scoring System (BESS). The scoring system helps business leaders, our customers and their end-users understand how effective their current organisation is at achieving positive outcomes, while highlighting areas for improvement and focus.

To understand their BESS score, leaders in the study assessed the different 'pillars' of the business model (mindset, structure, platform and ecosystem), and rated them against specific outcomes to produce a score.
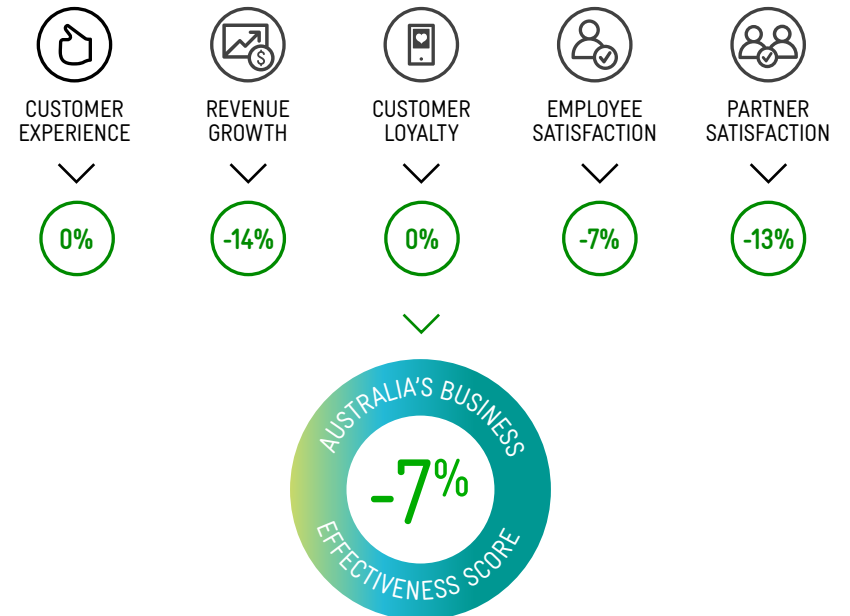
How BESS works

Business leaders rated their organisation's effectiveness at achieving positive outcomes based upon each of the four pillars of their business model. They rated each pillar's effectiveness at achieving a positive outcome across five distinct measures.

The scores were then combined to understand the overall business model's effectiveness in achieving those outcomes.

**Australia's Business Effectiveness Score**
The overall score for all Australian businesses surveyed is minus 7 per cent. A score of minus 7 per cent means little on its own. However, it provides a benchmark for year-on-year comparison and acts as a stake in the ground to compare other scores and to place them into greater context, particularly when analysing different business models.

CUSTOMER EXPERIENCE	REVENUE GROWTH	CUSTOMER LOYALTY	EMPLOYEE SATISFACTION	PARTNER SATISFACTION
0%	-14%	0%	-7%	-13%

AUSTRALIA'S BUSINESS EFFECTIVENESS SCORE

-7%

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Which business outcomes underperform?

For outcomes centred on Customer Loyalty and Customer Experience, businesses achieve a neutral score (zero) in both areas.

However, it is in the areas of Employee Satisfaction, Partner Satisfaction and Revenue Growth that business models in the study struggle to deliver positive outcomes, delivering scores of minus 7 per cent, minus 13 per cent and minus 14 per cent respectively.
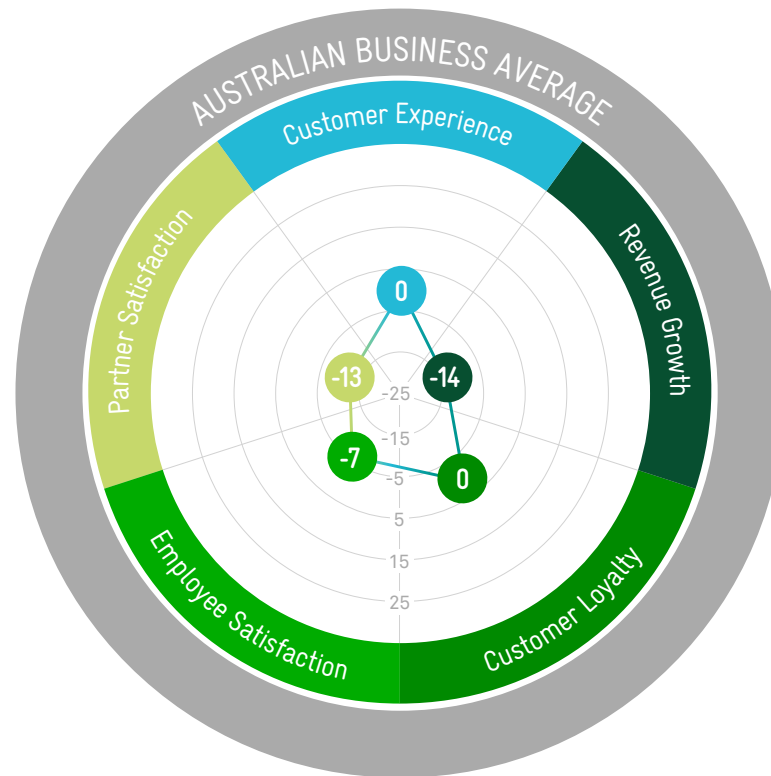
Using BESS to deliver positive outcomes

BESS analysis allows leaders to measure the effectiveness of four business model 'pillars' on the business outcome measures.

While the business pillars of 'mindset' and 'structure' deliver positive scores of one per cent each, 'ecosystem' and 'platform' clearly fall behind with minus 15 per cent and minus 14 per cent respectively for the average Australian business.

Put plainly, Australian organisations say that their current platform and ecosystems are not effective in delivering positive business outcomes.
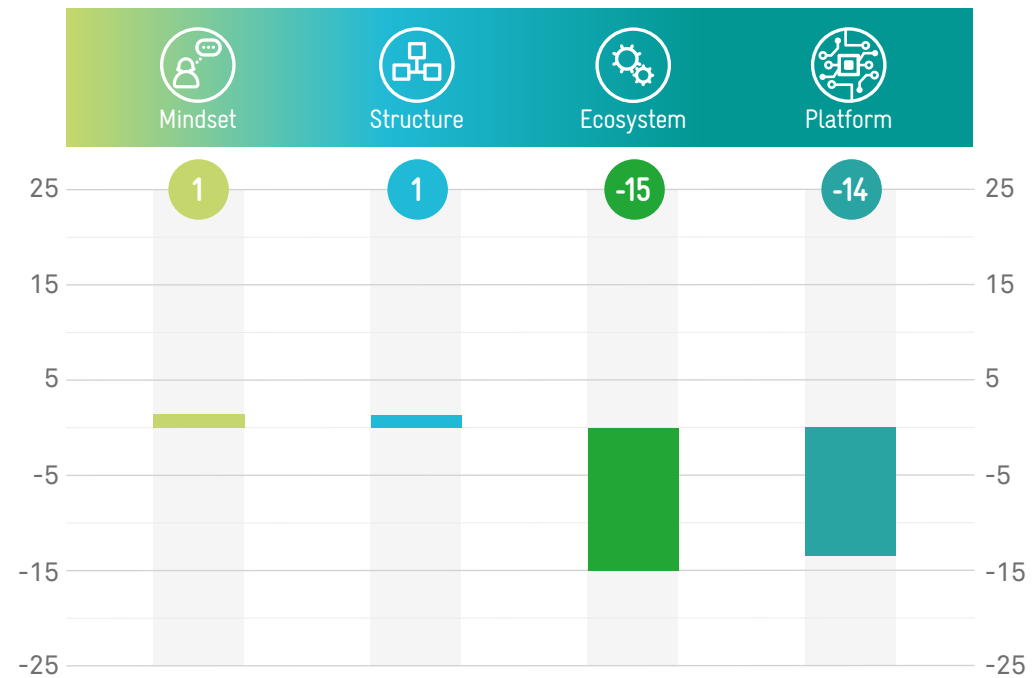
The Solution
Becoming a Transformational business

Leaders in the study acknowledged that an agile and flexible business model would maintain competitiveness into the future and enable them to thrive.

The Business Effectiveness Score for each business type

Transformational **9%**

Transitional **-3%**

Traditional **-9%**

Telstra Wholesale's BESS analysis goes even deeper to understand how different business models achieve varying levels of positive outcomes.

We classified the respondents into three groups – Transformational, Transitional and Traditional – based on responses to questions about their business model. We then analysed and compared each group's effectiveness in achieving business outcomes.

A trend is evident whereby the more transformational a business is, the more it achieves positive scores calculated through BESS. Transformational businesses outperformed the national average by 16 per cent.

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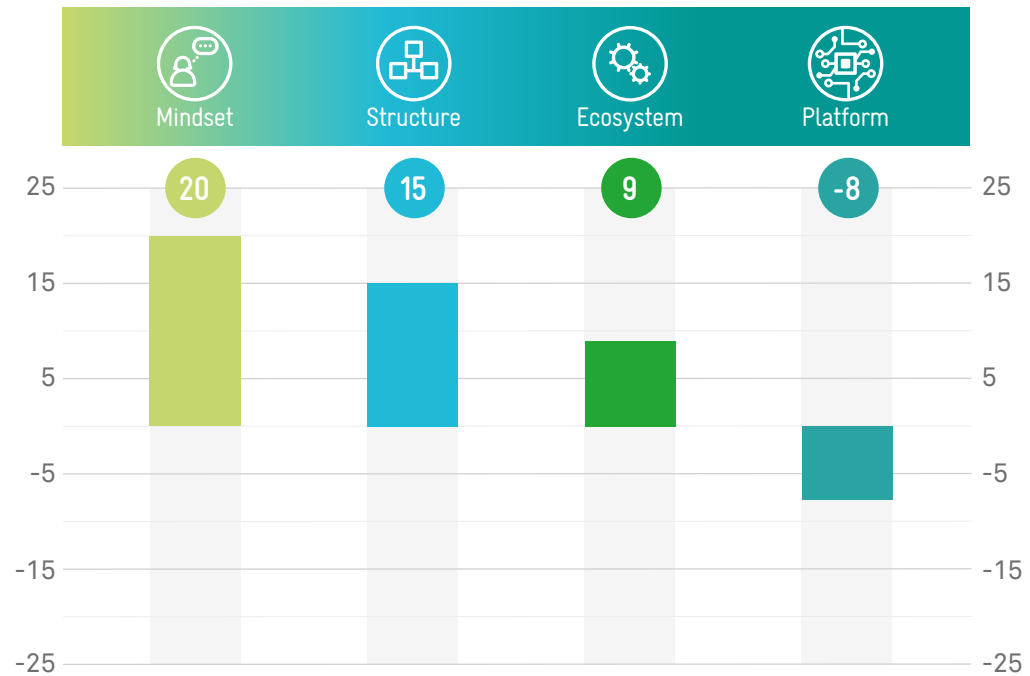## Transformational business model performance

Transformational businesses clearly sit above the national average, delivering positive business outcomes in the vast majority of measures.

Transformational business models are most effective at achieving positive outcomes
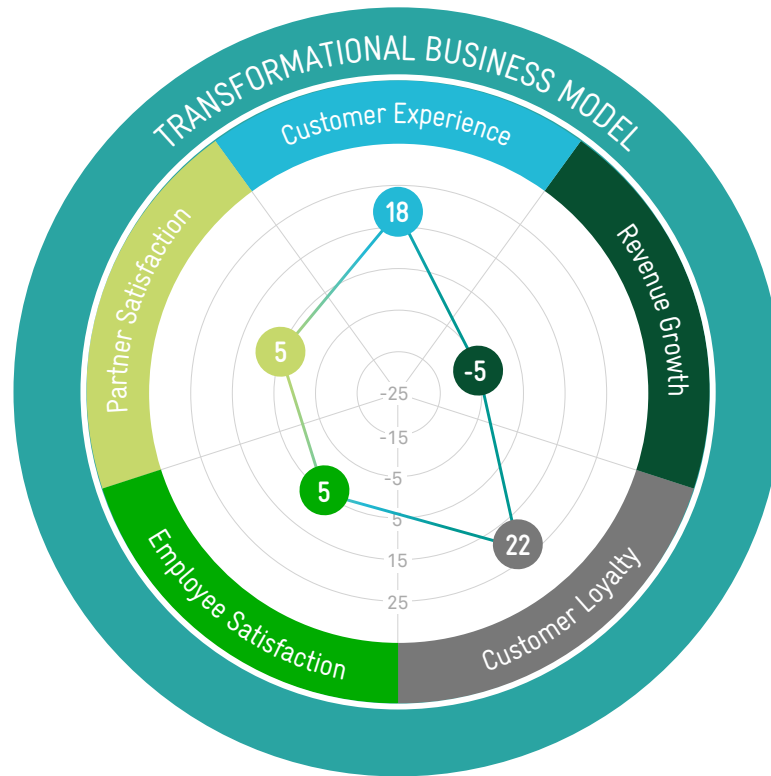
Transformational businesses achieve positive scores in four out of the five measures. Revenue growth is the only outcome measure with a negative score. This could suggest that all businesses are, to varying degrees, still trying to understand how to link components of the business model to the bottom-line.

Transformational business models deliver the most positive outcomes of all Australian businesses

Transformational businesses excel in all of the business model pillars bar 'platform', which relates to the underlying technology that runs the business. Although not specifically asked in the study, one potential conclusion is that it is still hard to derive the value of technology in delivering positives outcomes around revenue.

Technology is a vital cog in the wheel of delivering new and disruptive services to customers, but could it still be viewed too much as an expense? Or are businesses still hamstrung by a reliance on old technology?

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Transitional business model performance

While sitting above the national average score of minus 7 per cent, those businesses transitioning to a more flexible and agile business model produced an average score of minus 3 per cent.

Transitional business models contribute to high employee satisfaction but customer loyalty and revenue growth suffer
Although scoring negatively in three of the five outcomes, transitional businesses excelled further than transformational ones in employee satisfaction, with a score of 9 per cent compared to 5 per cent.

The positive score suggests that while those businesses in transition have one eye on the future, they are also keeping the other eye on today's business, perhaps offering greater confidence to employees.
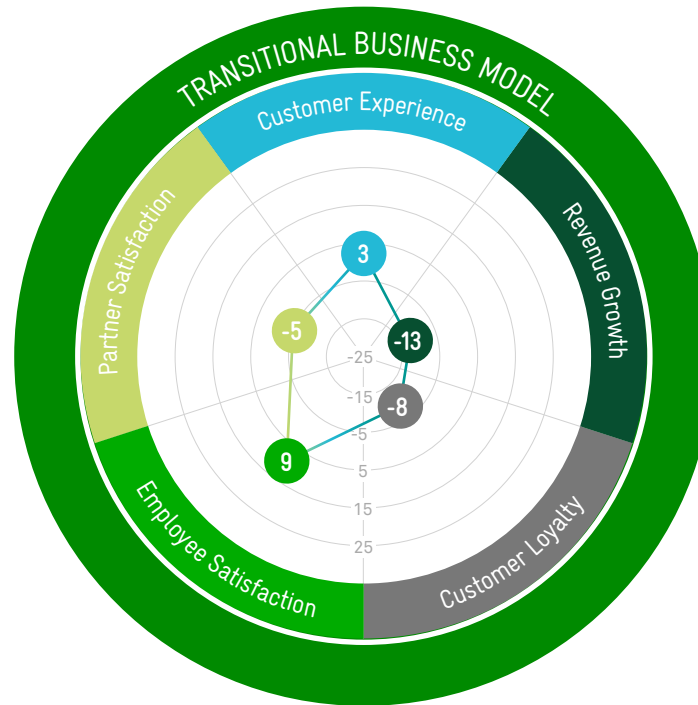
Transitional business models: mindset and structure perform well, but technology and ecosystems lag behind

When dissecting the individual pillars of the business model, organisations 'in transition' scored poorly for ecosystem (minus 13 per cent) and platform (minus 12 per cent). The scores suggest that, as with transformational businesses, understanding and measuring the positive effects of technology and partnerships is still a struggle.

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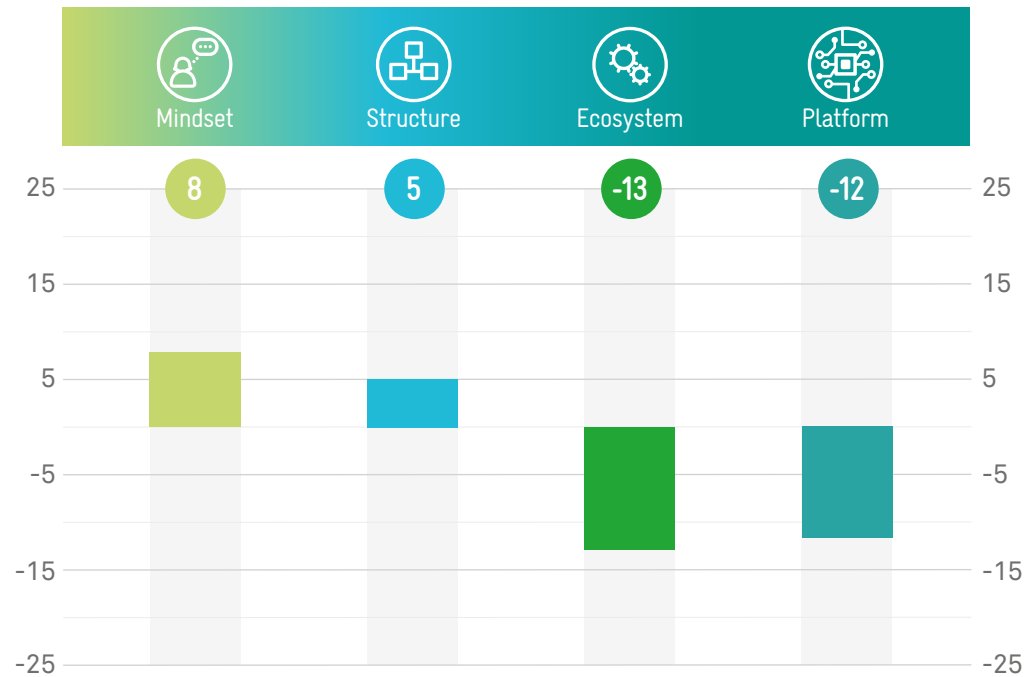
Traditional business model performance

The majority of businesses in the survey were classified as traditional. While transformational businesses delivered overwhelmingly positive scores, the same can't be said for traditional business models, suggesting that most businesses have work to do if they are to thrive in an age of digital transformation.

**Traditional business models are holding organisations back from achieving better outcomes**
Traditional businesses did not achieve a single positive score for the business model's performance against individual outcomes. There are particularly poor scores against revenue growth and employee and partner satisfaction.

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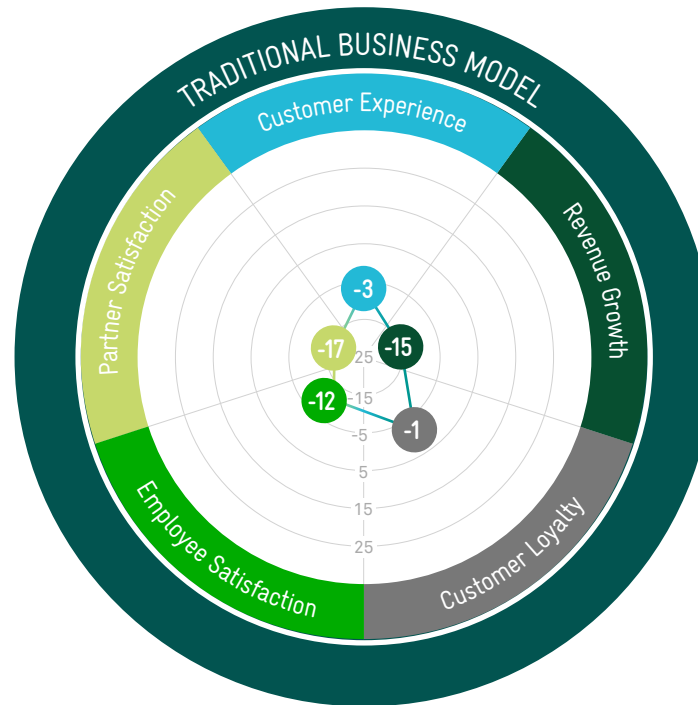
Technology and partnerships are the weakest areas for traditional businesses
Traditional businesses can use the study to analyse the effectiveness of the different components of their business model. Negative scores dominate performance across all pillars, with ecosystem and platform performing particularly poorly. The people and process components of traditional businesses (components that are tried and tested) perform comparatively well in delivering positive outcomes.
It is in the areas of technology and mobilising a partner network that traditional businesses struggle.

The findings suggest that traditional business models are ill-equipped to take advantage of two factors of digital transformation – technology and integration into, and use of, a supportive ecosystem.

Mindset	Structure	Ecosystem	Platform
-2	-2	-18	-16
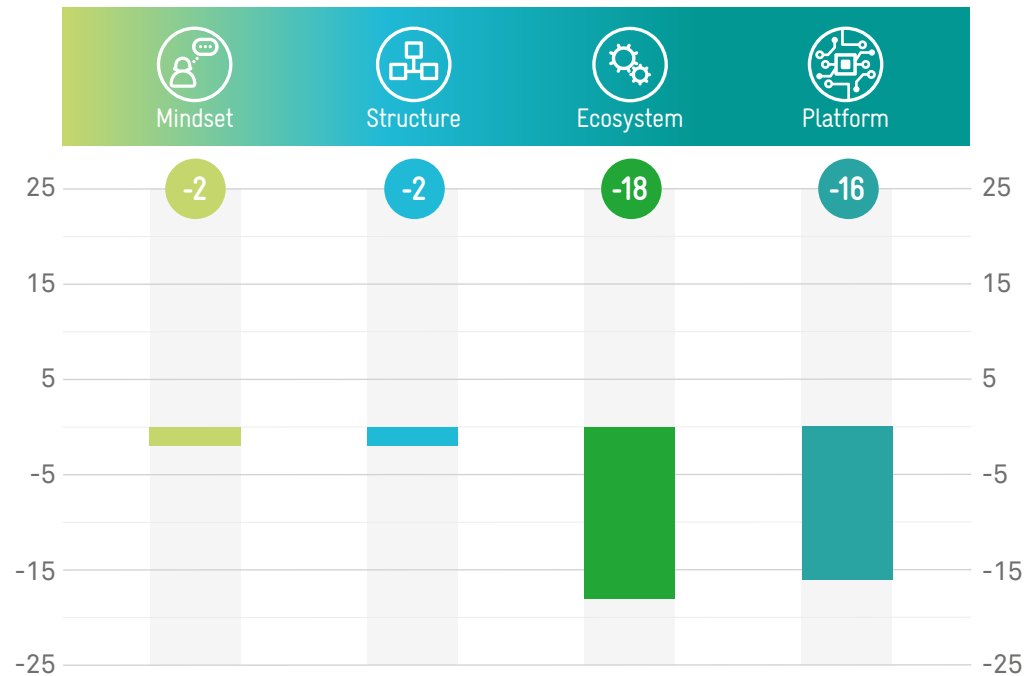
What's in it for you and how can you help your customers?
Three steps to digital transformation

The ability to digitally redeploy and turn into a transformational business is about understanding your own and your customer's business model – and then adjusting accordingly, based upon the outcomes desired.

For most established businesses, 'rip and replace' isn't an option: 80 per cent of respondents in our study agreed that it is important to keep a future view. It is about gradually redeploying assets to make incremental shifts over time to enable you and your customers to thrive.

An agile and flexible business is vital to remain competitive in the future. Businesses regarded as transformational clearly feel they achieve more positive business outcomes based on the make-up of the four pillars of the business model.

While each business is different, there are three consistent takeaways that can help you and your customers understand the specific outcomes you want to achieve. Simply asking three questions is the first step towards understanding what you and your customers can do to thrive.

01.	02.	03.
Understand the positive impact technology can have on business outcomes	**Put customers and partners at the centre of your business**	**Understand how the different pillars of your business model can map back to revenue growth**
For many businesses, transformational or traditional, technology can be viewed as a cost-centre, making it difficult to map its impact back to positive outcomes. From the offset, understand exactly how your technology investment is going to add value to your business and the positive outcomes you measure to realise its true potential.	For transformational businesses, all four pillars of the business model contribute to achieving better **customer experiences, customer loyalty** and **partner satisfaction**. For leaders of traditional businesses, only mindset and structure have a positive effect on customer experience and loyalty. Transformational businesses develop customer-centric strategies around all four pillars of their business to maximise their customer outcome effectiveness.	Although many facets of any business model are operational, there is scope for every type of business to analyse how each pillar contributes positively to **revenue growth**. Traditional businesses particularly should urgently address how platform and ecosystem can deliver positive outcomes around **revenue growth** and map out strategies accordingly.

Appendix:
Study methodology

Classifying the business model groups:
Transformational, Transitional and Traditional

To understand the make-up of their current business model, respondents were presented with a series of two statements across five areas within each pillar.

The two statements within each of the five areas represented either a disruptor or traditional business model. This was not made known to respondents who, judging on the statement alone, indicated which they felt was most reflective of their business. In total, respondents had to align themselves with 20 statements (five within each of the four pillars).

If a respondent aligned their business with a statement that was reflective of a 'transformational' business, they were allocated one point. Answers to all 20 statements enabled us to place respondents into one of three categories:

• **TRADITIONAL**: Scored 12 points or less
• **TRANSITIONAL**: Scored between 13-15 points
• **TRANSFORMATIONAL**: Scored 16 points or more

At no point during the study was the above process known to respondents who simply aligned their business with the statement that they felt best represented where their organisation was currently positioned.

Aligning businesses into the groups above allows us to analyse each of the group's answers, measuring the effectiveness of their business across each of the four pillars (mindset, structure, platform and ecosystem). Again, this methodology was not communicated to participants to ensure bias was removed from the outset.

What is BESS and how is it calculated?

The Business Effectiveness Scoring System (BESS) is a wholly owned platform from Telstra Wholesale that helps Australian organisations understand how effective they are at achieving established business outcomes based upon their current business model.

Respondents rated how effective each of the business pillars were in achieving positive business outcomes on a scale of 0-10.

For example: 'How effective has your company's mindset been in achieving a positive business outcome in each of the following areas on a rating scale of 0-10?'

1. Customer experience
2. Revenue growth
3. Customer loyalty
4. Employee satisfaction
5. Partner satisfaction

If a respondent rated their business' mindset between 0-6, this was regarded as 'low', a '7' or '8' were regarded as 'neutral', a '9' or '10' were regarded as 'high'.

BESS is then simply a deduction of the 'low' from the 'high' to give an overall **Business Effectiveness Score**.

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About the Study

This research was devised and delivered for Telstra Wholesale by research consultancy AMR and creative agency The Factuary. AMR is a research consultancy with over 25 years experience working in both the Australian public and private sectors, as well as internationally in Asia Pacific, Americas, Middle East and Europe.

200 business leaders were surveyed via 15-minute telephone interview. Of these, 100 were from technology and ICT companies, and 100 from other industries including manufacturing, wholesale/retail, professional services and finance and insurance.

All respondents were senior business leaders or C-level executives, who were in a position to answer questions that directly related to their business models and performance. Interviews were conducted in the first two weeks of June 2016.

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