LEADING A FUTURE-READY BUSINESS: Vision 2025
The Digital Business Transformation

On pace to effectively compete?
Canon Business Process Services in association with Hanover Research reviews today’s hyper-competitive business environment and its future trajectory. The culmination of digital business, disruptive technologies, cultural and demographic forces put unprecedented demands on business leaders to navigate the opportunities and threats.
Accelerating technological innovation is disrupting established business principles within companies and across industries, and moving businesses toward a radically different future environment.

This unprecedented pace of change creates a mandate for businesses to reinvent their operations, restructure their product offering, and rethink the way they create value. To survive long term, they are forced to adapt and find new emerging opportunities.

With this backdrop, Canon Business Process Services (Canon) in association with Hanover Research, a leading market research firm, surveyed the environment to better understand the forces that are driving change in business and how they may shape business toward 2025.

The Digital Business Transformation

1 / The Rise of Digital Business
2 / An Environment of Continuous Change
3 / Emerging Digital Business Models
4 / Trends in Business Process Execution
5 / The Business Landscape in 2025
Digital business is more than eCommerce. It is an organization that uses technology as a competitive advantage in its internal and external operations. It is a convergence of concurrent trends, including technology, demographics, organizational management, outsourcing strategy, and leadership. This report on Leading a Future-Ready Business: Vision 2025 examines the digital business trend.

Organizations are focusing more and more on leveraging digital technologies, such as social, mobile, analytics, and cloud, to transform themselves into digital businesses. However, despite the fact that over half of all businesses are investing in digital technologies, only about a third are investing in technologies as part of an overall business strategy.

In order to keep up in the business world and to remain competitive and cost-effective, companies must not only emphasize investment in new technologies, but also in managing broader change associated with digital business.

Digital business has shifted from the province of distinct system acquisitions and transformation initiatives into mainstream operations.

**EXECUTIVE SUMMARY**

**Key Findings**

- Business processes from the back office to the customer interface will undergo transformation over the next decade.
- Executives say that top priorities are now continuous process improvement and increasing the level of automation.
- In a digital business, centralized control facilities will monitor core, extended, and outsourced service levels. Processes will be web, workflow, and self-serve enabled.
- Companies will increase their reliance on outsourcing of general and administrative functions. But this time the outsourced services will be digital.
- Digital business is a reality, and it is driving an accelerating pace of change. Yet only about a quarter of business leaders are actively responding.
THE DIGITAL BUSINESS TRANSFORMATION

Digital business is the interaction of company leadership, employees, and culture with digital tools that reinvent old modes of operation and enable new ways of bringing together people to create value.

Gartner captures the trend as “the creation of new business designs by blurring the digital and physical worlds.” Gartner found that “32 percent of IT and business leaders at large organizations that have embarked on a digital business transformation say their current business is a digital business.” This marks the digital business shift from transformation into mainstream operations.

The world has already entered the new era of digital business. Whether it is a webpage for a Main Street hardware store or a cloud-based warehouse management system, businesses of all sizes are finding digital tools to enhance productivity and steer customers to their goods and services. A pivotal change, however, is taking place in the orientation of corporate perspectives. Digital systems are becoming not just convenient tools to enable legacy operating models, but rather are driving the basic ways that businesses go to market. New businesses are designed around digital technologies rather than technologies being built to fit existing models. With this fundamental shift has come an unprecedented acceleration in the pace of change. As new businesses emerge that are structured to maximize the efficiencies available through digital technologies, incumbents must re-invent themselves or risk obsolescence.

Surveys reveal that the consequences of emerging technologies are indeed revolutionary, but not in ways that many business leaders would predict. While the popular media focuses on the power of Big Data and the employment consequences of automation, industry insiders worry more about organizational efficiency and customer relationships. The findings of one recent survey are depicted in Figure 1: Customer relations were cited nearly twice as often as data analytics.

“Digital business can mean different things to executives. Typically we see it as technology we use such as eCommerce, online banking, or booking a vacation. Instead, we should see digital business as the state in which we work and live. A digital business organization is one where all its processes are in the digital state and interconnected. The digital state creates value through connections to the external markets, in the business processes that execute core business and in the back-office functions that support the business.”

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While 62 percent of businesses are currently investing in digital technologies such as social, mobile, analytics, cloud, and the Internet of Things, only 35 percent are comprehensively investing as part of their overall business strategy.\(^4\)

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**Figure 1: Top Consequences of New Technology**

<table>
<thead>
<tr>
<th>Consequence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More data-driven decision-making</td>
<td>21%</td>
</tr>
<tr>
<td>Enabling wholly new business models</td>
<td>24%</td>
</tr>
<tr>
<td>More automation of knowledge-intensive work</td>
<td>24%</td>
</tr>
<tr>
<td>Improved organizational efficiency</td>
<td>32%</td>
</tr>
<tr>
<td>Improved customer/client relationships</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: Kairos Future, Tieto\(^3\)

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Technology alone will not be sufficient for businesses to compete in the digital era. Information is the driver of the new revolution as Moore’s Law proves durable 40 years after the seminal prediction. Leaders must identify which areas of their business are most exposed to change and by what means processes will transform.

They must grow accustomed to continuous transformation. As processes evolve, challenges arise in maintaining organizational focus and end-to-end optimization. Large-scale change management initiatives will be of equal importance with discrete process modifications in order to maintain alignment across business units as value chains grow more interconnected. Expectations of employees, customers, shareholders, and the public at large will rise inexorably.

Business process alignment never occurs in a vacuum. People, technology, culture, and leadership styles interact to determine the ultimate success or failure of an organization. Within a well-designed change management regime, targeted business process optimization will enable unprecedented levels of customer engagement and productivity. Important trends are already underway.
Digital business generates enormous speculation over the future of established enterprises. Some have seen little change while for others transformation is well underway.

Technological, social, and organizational trends outlined in Figure 2 will make clear the origins of new business models that are disrupting existing businesses and enabling entrepreneurs.

**Figure 2: New Business Models**

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription</td>
<td>Lock in customers by offering subscriptions for services traditionally purchased ad hoc</td>
<td>Netflix, Dollar Shave Club, JDA/RedPrairie</td>
</tr>
<tr>
<td>Freemium</td>
<td>Customers use basic service for free, but pay to upgrade to full product offering</td>
<td>Spotify, LinkedIn, Dropbox, The New York Times</td>
</tr>
<tr>
<td>Free</td>
<td>Disrupts with an “if you’re not paying for the product you are the product” model, involving selling personal data harvested by offering consumers a &quot;free&quot; product of service</td>
<td>Google, Facebook, Snapchat, online magazines</td>
</tr>
<tr>
<td>Marketplace</td>
<td>Bring together buyers and sellers in return for a transaction fee</td>
<td>eBay, iTunes, SAP Ariba, Tradescraper.com</td>
</tr>
<tr>
<td>Access-over-Ownership</td>
<td>Provide temporary access to goods and services traditionally purchased</td>
<td>Zipcar, Peerby, Airbnb, LogFire, Convoy</td>
</tr>
<tr>
<td>Hypermarket</td>
<td>Leveraging high levels of market power and economies of scale to dominate an industry</td>
<td>Amazon Business, Apple</td>
</tr>
<tr>
<td>On-Demand</td>
<td>Monetize the value of time by selling instant access at a premium</td>
<td>Uber, Operator, TaskRabbit</td>
</tr>
<tr>
<td>Ecosystem</td>
<td>Sell interlocking “platform” services, the value of which increases as more are purchased. Creates customer dependency</td>
<td>SAP, Manhattan Associates, Apple</td>
</tr>
</tbody>
</table>

Source: Digital Intelligence Today

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Business processes from the back office to the customer interface will undergo transformation over the next decade as process redesign and automation gather momentum.

One tool driving digital business will be robotic process automation (RPA), defined as software that captures and interprets existing applications for the purpose of transaction processing, data manipulation, and communication across multiple IT systems. KPMG suggests that with RPA advancements, companies are able to focus less on a “model of cheap employees,” and more on “a model of digital processes.” After installation of RPA infrastructure, an expert service provider can automate a process in as little as two to four weeks, and can supervise as many as ten processes with a single employee. The systems enable new levels of revenue optimization to empower decision-makers. Such short payback periods and high returns will be tempting for big business and niche “As-a-Service” providers alike, who will offer new opportunities for firms to focus on core capabilities and relegate the rest to the experts.

One indication of the importance of automation in today’s economy is illustrated by a survey of 183 global executives across a variety of industries involved in shared services. The responses are summarized in Figure 3. Executives say that top priorities are now continuous process improvement and increasing the level of automation. While data analytics and globalization of service models rank lower, they show the strongest potential for increased importance over the coming decade.

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**Figure 3: Executives’ Key Priorities in 2015 and 2025 (on a 7-point scale)**

<table>
<thead>
<tr>
<th>Priority</th>
<th>2015</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focusing on continuous improvement</td>
<td>5.06</td>
<td>5.12</td>
</tr>
<tr>
<td>Increasing level of automation</td>
<td>4.89</td>
<td>4.5</td>
</tr>
<tr>
<td>Increasing degree of functional process integration</td>
<td>4.27</td>
<td>4.14</td>
</tr>
<tr>
<td>Increasing functional scope</td>
<td>4.24</td>
<td>3.90</td>
</tr>
<tr>
<td>Developing analytics capabilities</td>
<td>3.91</td>
<td>4.75</td>
</tr>
<tr>
<td>Increasing geographic scope</td>
<td>3.36</td>
<td>2.59</td>
</tr>
<tr>
<td>Developing a global business services model</td>
<td>2.35</td>
<td>3.09</td>
</tr>
</tbody>
</table>

*1=least important, 7=most important

Source: Deloitte

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7 Ibid.


From finance to pharmaceuticals, constraints in office operations are similar across industries. The most common headwinds include disparate technology architectures, difficulties with data management, and a lack of return on investment in integrated enterprise resource planning. These challenges drive decentralized decision-making, which increases responsiveness and adaptability at the expense of synchrony and efficiency. Over the next decade, successful implementation of innovative technologies has the potential to allow businesses to overcome these constraints and empower new company nerve centers.

Centralized control facilities will monitor core, extended, and outsourced process performance and service levels. Processes will be web, workflow, and self-serve enabled. The adoption of cloud computing across the enterprise will alleviate the problem of disparate technology architectures. Notably, the back office will transform from a transactional function to an analytics factory for the enterprise, providing leaders with information needed to make effective decisions.

"In its infant stage, RPA has demonstrated great potential to replace the high-repetition, low-cognition work being done by people. Some examples include data entry and data validation. And currently the payoff is being realized by the organizations that have large-scale use cases and few robots are needed. In ten years, however, the cost of soft robots will decrease significantly and robots will be deployed to do work we do not do today because the cost is too high. Examples of this include high-frequency data collection from meters, or checking the location or status of equipment/vehicles/people. With richer and timely data, we can make more precise decisions that lead to greater value, better quality, and less waste."

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11 Ibid.
As illustrated in Figure 4, 72 percent of respondents indicate that their companies will moderately to significantly increase their reliance on outsourcing of general and administrative functions. According to Accenture, over 90 percent of enterprises with revenues over $1 billion use external providers for one or more of their business process operations. However, despite the digital business transformation, external sourcing of operations “has in many cases continued on an analog path.”[15] Many businesses see outsourcing as purely a cost-cutting measure rather than as a solution that is integral to streamlining operations. With well-established economic theory predicting that outsourcing relationships will shift dramatically with the changing transaction costs enabled by digital tools, business leaders must take note.[16]

The technologies that help create digital businesses focus largely on social, mobile, analytics, cloud, and automation. Figure 5 highlights findings based on a survey of 189 buy-side executives regarding how business process outsourcing (BPO) buyers see the changing importance of different technologies. As it illustrates, effective analytics solutions are regarded as the most urgent capability required. Furthermore, 32 percent of respondents indicated that they expect their service providers to deliver “predictive and descriptive insights on my processes and my business outcomes.”[17] Automation was regarded as the second-most important technology. Automation is a “critical source of value creation” in processes where the smallest error can result in significant negative implications (such as payroll processing), as well as in processes where regulatory compliance is critical (such as claims processing).[18]
Business process outsourcing buyers and providers can take advantage of opportunities associated with digital technologies in a variety of ways. Accenture identifies four key components for high-performance digital operations and business services. First, resilient digital platforms within externally sourced operations engagements will be based in the cloud. Second, digital business services providers will move beyond simply analyzing what has happened to predictive and prescriptive insights to help clients anticipate the future. Third, digital operations will connect the workforce, enabling information workers across the value chain to improve productivity, collaboration, and customer service. Finally, technology will drive a constantly changing ecosystem, wherein the technology landscape for an organization is expanded and optimized to include a combination of on-premises and on-demand cloud-based solutions.

Automation and the efficiencies driven by cloud computing, data analytics, and other important technologies will present leadership challenges as the workforce adapts to the new paradigm. There is little agreement on the long-run effects of the accelerating pace of change. Tom Standage, digital editor for The Economist, takes a relatively pessimistic position: Previous technological revolutions happened much more slowly, so people had longer to retrain, and [also] moved people from one kind of unskilled work to another. Robots and AI threaten to make even some kinds of skilled work obsolete (e.g., legal clerks). This will displace people into service roles, and the income gap between skilled workers whose jobs cannot be automated and everyone else will widen. This is a recipe for instability.

Figure 5: How BPO buyers see the changing importance of different technologies to their engagements

<table>
<thead>
<tr>
<th>Technology</th>
<th>Increasing significantly</th>
<th>Increasing slightly</th>
<th>Staying the same</th>
<th>Decreasing slightly</th>
<th>Decreasing significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>18%</td>
<td>41%</td>
<td>30%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Mobile</td>
<td>35%</td>
<td>45%</td>
<td>17%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Cloud</td>
<td>38%</td>
<td>40%</td>
<td>19%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Automation</td>
<td>47%</td>
<td>31%</td>
<td>20%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Analytics</td>
<td>56%</td>
<td>29%</td>
<td>12%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

N=189 buy-side executives. Source: HfS Research, via Accenture

Note: These figures may not total 100% due to rounding.
On the other hand, some experts predict that the job market will keep pace with technology as it has throughout centuries of innovation and change. JP Rangaswami, former chief scientist for Salesforce.com, states:

Some classes of jobs will be handed over to the “immigrants” of AI and robotics, but more will have been generated in creative and curating activities as demand for their services grows exponentially while barriers to entry continue to fall. For many classes of jobs, robots will continue to be poor labor substitutes.22

Whichever way the market moves, business leaders will be responsible for the daily decisions that shape macroeconomic trends. As they build businesses of the future they will face a myriad of challenges. Research by the Global Center for Digital Business Transformation suggests that many of them have their heads in the sand (Figure 6). Digital business is a reality, and it is driving an accelerating pace of change for which many are unprepared. This pace may be imperceptible from the perspective of an office desk, but in historical terms it is profound.

Clearly, the impact of technological advancement goes far beyond the IT department. Technology is affecting customer engagement strategies and business processes, and at the same time it is shaping the way younger generations think and interact. Millennials have radically different expectations of their employers and their own future careers. Millennials tend to value opportunity more than money. They will switch employers more often than their predecessors, and will demand flexible work arrangements and corporate responsibility. At the same time, they will bring deep understanding for the technologies that have shaped these expectations. Leaders who can speak their language and meet their needs will win in the competition for talent and will build organizations that out-innovate their peers.24

Figure 6: What is the attitude of your company’s leadership toward digital disruption?

<table>
<thead>
<tr>
<th>Attitude</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actively Responding</td>
<td>25%</td>
</tr>
<tr>
<td>Taking Follower Approach</td>
<td>32%</td>
</tr>
<tr>
<td>Not Responding</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: Global Center for Digital Business Transformation23

22 Ibid.
23 Ibid.
24 Ibid.
As these trends in organization and process execution continue over the next decade, many aspects of the business landscape will fundamentally change.

One likely focal point for these changes will be the back office. Historically, business administrative functions have been somewhat transparent to operations, only garnering attention when something goes wrong. With tools like robotic process automation and its accompanying advanced analytic capabilities, functions formerly escaping notice will become vitally important to making sound business decisions. Fewer employees will be needed to execute basic tasks, and those who remain will be more skilled. The systems they operate will gather data from across the organization and will automatically integrate and analyze it to provide insights that are essential to driving efficiency, optimizing revenue, and remaining competitive.

In this world, leaders will reach out not only to the front lines of business operations to get the ground truth. They will turn to data analysts, RPA operators, and even external parties supporting these advanced functions to understand the state of their business. Their decisions will have more immediate and far-reaching impact as automation bypasses the obstacles of organizational culture to execute commands without question or resistance. The scale of business is likely to continue growing as leaders gain the ability to see and control operations at a wider scale, but we are also likely to see more catastrophic failures when decisions go wrong and organizations have fewer human checks and balances on executive authority.
Companies are focusing more and more on leveraging digital technologies, such as social, mobile, analytics, and cloud, to transform themselves into digital businesses.

However, despite the fact that over half of all businesses are investing in digital technologies, only about a third are investing in these technologies as part of an overall business strategy. In order to keep up in the business world and to remain competitive and cost-effective, companies must not only emphasize investment in new technologies, but in managing broader change associated with digital business. Digital business is a convergence of concurrent trends, including technology but also demographics, organizational management, outsourcing strategy, and leadership. Successful business leaders are finding ways to redefine their businesses along these lines.

To read or download this series, please visit https://cbps.canon.com/insights/leading-a-future-ready-business-the-digital-business-transformation
ABOUT THE CONTRIBUTORS

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