

THE ACCIDENTAL CUSTOMER

How Legacy Companies Can Become
Consumer-Centric to Win in the Digital Age



BOARDS AND LEADERSHIP TEAMS have long understood that digital was the path of the future, but it wasn't until the global health pandemic of 2020 that companies were forced to take that leap and transform from within. Business models shifted, new competitors emerged, and consumers followed the latest technology trends. Companies that had been lagging in their digital transformation roadmap found themselves on the losing end of the crisis. Convenience suddenly outranked quality.

Many believed this would be short-lived, but now a year into the pandemic, experts are predicting that this new commercial landscape will outlast Covid-19. Very few anticipate consumers to snap back to pre-crisis habits, and companies that have not fully committed to digital are finding themselves in a vulnerable place.

In a survey of 188 U.S. public company directors, Corporate Board Member and RSM sought to find out how boards envisioned the future, how their companies were surmounting the roadblocks of 2020, and how leadership had pivoted their corporate strategy to adapt to the new digital environment. This report presents our key findings.

KEY FINDINGS



Seven out of 10 directors believe digital transformation is critical to their company's success, with half of them rating it a 10 out of 10 on a 10-point scale.



Forty-eight percent of directors say the Covid-19 pandemic has changed their business model significantly, shifting the focus more toward modernizing the brand with new capabilities and redefining the company.



Of all the objectives companies are trying to address with digital technologies, improving the customer experience ranks number 1 for 84 percent of directors surveyed, placing data analytics as the primary game-changer.



Among the top risks to operationalizing digital transformation, directors list cybersecurity, data privacy and lack of talent to execute.



The biggest barrier for companies at this time, however, remains talent, according to 57 percent of the directors in the study.

For more information, please contact:

RSM US LLP

Bill Kracunas, Principal

LinkedIn: [linkedin.com/in/billkracunas](https://www.linkedin.com/in/billkracunas)

Email: Bill.Kracunas@rsmus.com

CORPORATE BOARD MEMBER

Melanie C. Nolen, Director of Research

LinkedIn: [linkedin.com/in/melanielenolen](https://www.linkedin.com/in/melanielenolen)

Email: mnolen@ChiefExecutiveGroup.com

In a world of constant change, the way customers interact with companies is evolving dramatically, and those customer changes are driving the next wave of digital transformation. To succeed in the decade ahead, companies must not only understand how consumers interact with their brand across new technology channels but also how they want to interact with them in the future. Customer loyalty is a thing of the past in most sectors, and companies must now rethink the customer experience and develop the digital transformation strategy to match.

According to a survey of 188 U.S. public company directors conducted in December 2020, 69 percent of board members believe digital transformation is “very important” to their company’s future success, with half ranking it a 10 out of 10 on our 10-point scale, with 10 being most critical.

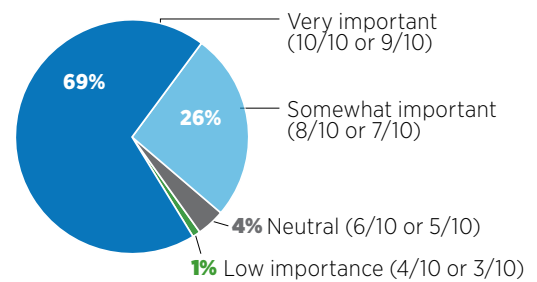
In recent years, digital transformation has become a more important initiative, and it has transitioned into strategic discussions. Directors are asking more questions about digital technology now in board meetings and trying to figure out what digital technology can mean for their company and how it can help move it forward.

That is a significant change from just two years ago. In fact, only 6 percent of directors participating in the study say the issue of digital transformation has not evolved in their board discussions over the past two years. Rather, the great majority (85 percent) say that it is now either part of the overarching strategy discussion or that it continues to gain momentum at a significant pace.

While this could be taken as a sign that companies are understanding the need to modernize their brand and distribution channels to cater to the new generations—and a new commercial reality—fully three-quarters of directors say the main reason for this accelerated pace of transformation is Covid-19. This result is not all that surprising since companies that were not digitally ready for the virtual world of today were backed into a corner by the crisis. More specifically, those that didn’t have an ecommerce platform prior to the events of 2020 or those whose customers could not purchase from them directly found themselves in panic mode, needing to react fast and adapt to a new go-to-market strategy.

Companies had to react in the face of a disaster, and many found that they could move faster than they thought possible. However, organizations generally feel like there is still a lot of progress to be made. When this big of a jump happens, companies can feel even more behind than they may have before because channels change so rapidly. Board members should be asking what the digital buying channels are—we are typically familiar with the traditional ones, but companies can easily get lost in who the customer is depending on the industry.

Importance of Digital Transformation in Company’s Success



How has the issue of digital transformation evolved in your discussions in the boardroom over the past two years?



How has the pandemic impacted your business model and digital transformation roadmap, if at all?



THE CUSTOMER EXPERIENCE

Experience matters today. Modern consumers want to be catered to on an almost individual basis. Social media and digital commerce have made consumers better informed and raised their expectations toward the entire product experience and the level of customer service they receive. They want convenience, speed and personalization.

Understanding this reality means understanding that digital transformation is not an IT project, as it has long been perceived, but rather an enterprise-wide transformation that is entirely focused on the customer across all aspects of the business, from strategy, culture and leadership to operating model, organizational structure and internal processes. If legacy companies are to have a chance to succeed against their digital-native competitors, they must embrace the new ways of doing business.

The survey data shows that companies are evolving in that regard. Only five years ago, the primary aspiration for digital was more internally focused on building efficiencies, according to 54 percent of directors. Today, however, the spotlight has shifted to the customer and the brand offering, and directors say they expect this progression will help them break into new markets and remain competitive in the future.

Boards are now looking beyond the inherent efficiencies of technology and considering how products collect data, how to provide a better experience and how tools can help grow the business. As companies rethink how tools are used, they become more agile, and you can do more with them. They are easier to scale and to expand. The shifting mindset and evolving processes during the Covid-19 pandemic have eliminated a lot of borders in people's minds, turning tech into a strategic tool for more impactful change.

Anecdotal evidence shows that the winning companies of the digital age will succeed at identifying the true demand disruptors for their product rather than their direct competitors. A car company, for instance, can build a strategy to take over a competing car company's market share through a traditional go-to-market strategy, or it can come to the realization that its biggest disruption is not as likely to come from another legacy company but more likely from a digital native, perhaps in the form of an online merchant that offers the product as a service (XaaS), for instance.

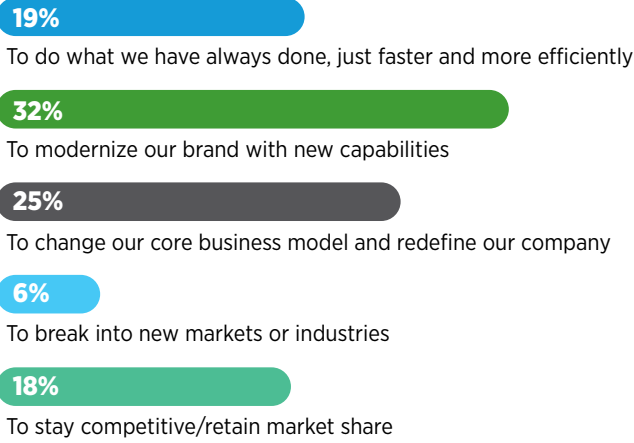
Understanding that digital transformation entails changing the entire model rather than simply improving the offering or tweaking internal processes is what will differentiate successful companies into the future. Also understanding how critical digital is to the customer experience and the resulting amount of data being captured, companies that know how to protect their brand and safeguard their customer's privacy will have an edge.

“Everybody's consumed with the day-to-day job, but you've got to delegate the present and tackle the future. And sometimes you need these catalysts to help do with that.”

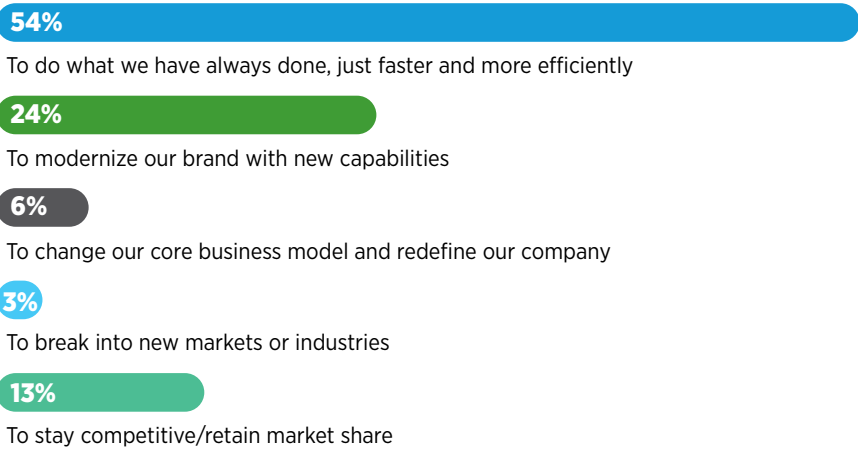
—George Corbin, Director, Edgewell Personal Care Company;
Former Chief Digital Officer, Mars; Former SVP of Digital, Marriott

Which of the following best describes your company's primary aspiration for digital outcomes?

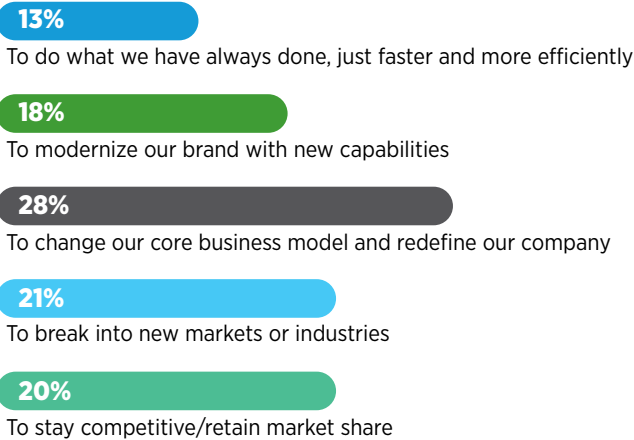
TODAY



FIVE YEARS AGO



WITHIN THE NEXT FIVE YEARS



NAVIGATING RISKS

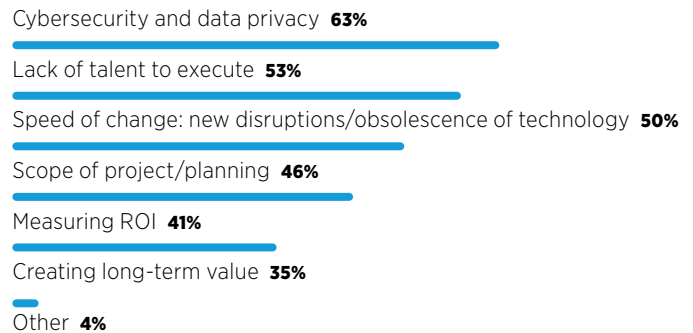
Boards are naturally more risk averse than their leadership teams, but risk is one of the things that many companies tend to think of after the fact. However, with technology, boards should think of risk up front and proactively consider options—perhaps there is another solution that is more secure or more integrated, and management should be challenged on their decision in that regard. After all, 63 percent of directors rank cybersecurity and data privacy as the top risk associated with operationalizing digital transformation, according to the survey, so it is critical to bring those issues into the discussion at the outset.

Changing the board's perspective to oversee and evaluate risk at the outset, as products and services are designed, will help to avoid costly disruptions down the road. Boards now need to be involved in initial risk decisions about nearly everything, including product and service design. It's certainly a shift in traditional thinking but an important one.

Talent also ranks high on the list of risks and barriers to digital transformation. Companies finding themselves challenged as to whether they have the right talent should first define their goal for the near term and determine the skill sets they'll need to get there before turning their attention to the recruiting or upskilling efforts. Companies that are still unclear about the real outcome of their digital transformation can easily go down the wrong talent path.

From a talent perspective, many of the best ideas come from all angles of the business. Having a leadership team that is inspiring and trusting and that can tease out the innovations and creative thinking from all levels of the company is critical in today's environment. No leader is going to have all of the ideas, but they can help generate them from within the organization to move the business forward. Knowing the business and the culture and how technology applies to them will create and ultimately lead to financial success.

Which of the following do you perceive as risks associated with operationalizing digital transformation?



*Respondents were asked to select all that apply.

Top 3 barriers to operationalizing digital transformation

- 57% TALENT:**
Recruiting, retaining, upskilling
- 54% TECHNICAL:**
Integration, implementation
- 43% FINANCIAL:**
Cost of digital investments, access to capital, etc.

LOOKING OUTWARD RATHER THAN INWARD

According to the survey, 84 percent of directors say their primary objective for digital technologies is to improve the customer experience—which demonstrates that the majority of companies are on the right track and focusing on metrics that matter rather than using technology as a simple means to reduce costs.

It's easy to focus internally on processes, products and selling strategies, but it takes a new type of thinking to consider the customer journey and what they are going through. The key to growth is all about the customer and how they interact with the organization—and digital solutions can help to support that shift.

Many companies are leveraging technology to remaining competitive, but that goal is often contingent on other areas—such as collecting better data and creating a better customer experience. Remaining competitive requires a lot of creative thinkers and leaders, with board members drilling down into what the company is doing from a digital perspective—and how far behind it may be.

Cost effectiveness is typically a given for digital technology, and companies tend to lean on that a little too much because that's what we've always known. It's harder to gain revenue and make customers loyal to the brand, to the organization—and that's where a significant amount of time should be spent. A lot of people can cut costs, but gaining market share and improving the customer experience are more difficult tasks.

Encouragingly, board members seem to be focusing on the customer when pursuing digital transformation. The customer, cost and new markets are the three major pillars of why boards are seeking new technology investments. And the most important thing about achieving each of those initiatives is the data and insight that digital solutions can provide.

Seventy percent of board members surveyed say data analytics are extremely important to their strategy—a long way ahead of any other technology, with AI coming in second with 40 percent of the votes.

But collecting data isn't an automatic win. Companies need to understand what they're collecting and be able to make sense of the data. Knowing what's going on in

Which of the following business objectives are you trying to address with digital technologies?

Improved customer experience **84%**

Cost effectiveness **74%**

Having better data to drive growth **71%**

Remain competitive **61%**

Technology infrastructure to support AI, machine learning, etc. **50%**

Price optimization **30%**

*Respondents were asked to select all that apply.

Reason for Pursuing Digital Transformation

Cultivate deeper relationships with customers and tailor programs to meet demand **32%**

Increase operating efficiencies or improve cost structure **28%**

Enhance or create new offerings **28%**

Expand the use of data analytics to enhance customer experience **22%**

Use advanced/predictive analytics to better understand customer habits and needs **16%**

Access new markets **16%**

Change culture and ways of working by providing resources to increase collaboration and innovation **7%**

terms of sales, costs and service, for instance, is only half the battle. The real value comes from the ‘why’ analytics and, ultimately, the ‘how.’ Digital-native companies understand the wants and needs of their customers, and they take calculated risks toward boosting that performance by concretely testing various what-ifs to validate hypotheses, even if only temporary.

Board members get into meetings where people have a lot of opinions, but where do they go for facts? Where are customers falling off on their journey? We often have an inward perspective, but board members should be inquisitive about analytics and how we are using them to accomplish the things that are going to keep the company competitive—like expanding into new markets and remaining focused on the customer journey. Looking at cost efficiencies should be straightforward with the metrics companies already have, but the customer experience requires a whole different way of thinking.

Today’s customers are buying digitally and learning a lot more before they make a buying decision. How the board learns and improves the company every year is through analytics—analyzing the insights gained and then aligning priorities to adjust to any issues.

Because it’s not just technology that is changing at a rapid pace. Modern consumers are quick to grow bored with an offering that does not evolve alongside them. A successful brand will strive to find out where the customer is heading next and how to get there first. That is a critical part of the strategy, which in turn should be informed by analytics. As one director who took part in the study put it, ‘if the customer is asking for it, you’re already too late in the game’.

In the end, data does not equate insight. Boards must seek to challenge their leadership team on those very insights the company is collecting to make sure they contain what is needed to drive the business into the future. To do so, however, directors must know which questions to ask.

The survey shows that 34 percent of directors do not feel confident about their understanding of the strategic customer insights, including customer experience—and 24 percent say the same of their company’s possible innovation inflection points.

Understanding your customers’ pain points is the

Technologies Deemed “Extremely Important” to Future Success

- 70% DATA ANALYTICS
- 40% AI
- 27% MACHINE LEARNING
- 26% ROBOTICS & AUTOMATION
- 27% SMART PRODUCTS
- 25% IOT
- 11% BLOCKCHAIN
- 10% VR
- 7% 3D PRINTING

Proportion of Directors Confident/Not Confident in Their Board’s Understanding of:

	CONFIDENT	NOT CONFIDENT
Megatrends facing your organization and industry	96%	4%
Possible shifts in your organization’s operating model resulting from external or internal risk drivers	82%	18%
Potential technology shifts that could disrupt your organization and industry	82%	18%
The wide-ranging strategic opportunities and impacts that are possible for your organization	79%	21%
Your organization’s possible innovation inflection points	76%	24%
New and emerging competitors	71%	29%
Strategic insight about customers at a granular level, including customer experience	66%	34%

starting point to understanding your innovation inflection points. Disruptive innovators will be quick to seize any opportunities a legacy company leaves on the table, particularly if customers' friction points are being overlooked, no matter how established the product is. Boards must, therefore, ask questions about any aspect of the digital strategy that they do not fully grasp. The more questions boards can ask of management, the more effective the board will be in its oversight. Making sure the company is adopting a strategy based on valid insights rather than because it has always done it that way is crucial in driving value.

Boards must also seek out different schools of thoughts on any given matter to challenge groupthink. While management is likely to have a sharper perspective on the future than directors, directors can't assume that it's the case. To do so, boards should make it a habit to bring in outside perspectives to challenge the strategy and make sure nothing has been overlooked. Taking a deep dive into a company's market space or industry trends through continuing education, for instance, is a great way to ensure that the board is equipped to understand potential threats or possible shifts and how the company would have to pivot to succeed.

Boards can also bring in digitally savvy experts or cutting-edge industry leaders to do an assessment of the digital strategy or to conduct war games with management and customers. Similarly, when a board seat becomes available, considering directors with digital experience is a great way to up the conversation to a higher level. Often times, these people can see around corners that other directors who don't have the same background can't see.

Tracking the results of your digital efforts through a customer analytics platform should give you insights into the impact of your work and improvement over time. The more you focus on the customer and their journey, the greater data and insight you will gain into their experience with your organization.

CONCLUSION

In the end, directors must ensure that their leadership team is not only emphasizing the importance of digital and allocating the appropriate resources, but that it is also creating a vision for the future and dedicating the talent to that strategy. If Covid-19 has accelerated the pace of change, it has also placed companies in a precarious situation where cost containment became a focus. While managing costs is critical to the bottom line, companies that are pausing or delaying their digital transformation focused on customer experiences are unlikely to thrive post-Covid. This is the time for companies to double down on their efforts toward the digital age.

DEMOGRAPHICS

TITLE

Outside director	67%
Committee chair	39%
Committee member	31%
Board chair	12%
Lead director	7%
Executive director	4%

*Respondents were asked to select all that apply.

SECTOR

Financial Services	31%
Consumer Products & Retail	14%
Technology & Telecommunications	14%
Real Estate, Hospitality & Construction	10%
Health & Life Sciences	10%
Oil & Gas	5%
Power & Utilities	5%
Automotive & Transportation	5%
Mining & Metals	4%
Government & Public Sector	1%
Media & Entertainment	1%

MARKET CAPITALIZATION

Less than \$50M	6%
\$50M to \$299.9M	13%
\$300M to \$1.9B	26%
\$2B to \$9.9B	34%
\$10B to \$299.9B	20%
\$300B+	2%

COMMITTEE REPRESENTATION

Audit/Risk	64%
Nom/Gov	56%
Compensation	49%
Technology/Innovation	15%
Other	20%

CURRENT BOARD SERVICE

Less than 2 years	11%
3-5 years	24%
6-10 years	29%
More than 10 years	37%

PUBLIC COMPANY DIRECTOR TENURE

Less than 2 years	5%
3-5 years	14%
6-10 years	23%
More than 10 years	58%

CORPORATE BOARD MEMBER

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at BoardMember.com



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