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THE INDIAN DIGITAL DIVIDE

SEPARATING DIGITAL LEADERS FROM LAGGARDS

By Rajiv Gupta, Saibal Chakraborty, Manuj Ohri, and Amit Bharti

WE ARE CERTAIN THAT multiple technologies and data are coming together today, promising to disrupt not only the ways of working within an organization but also entire industries. Hence, in the last five years, many companies globally and in India have taken significant steps towards becoming more digitally savvy with the aim of disrupting markets and delivering value in excess of a billion dollars.
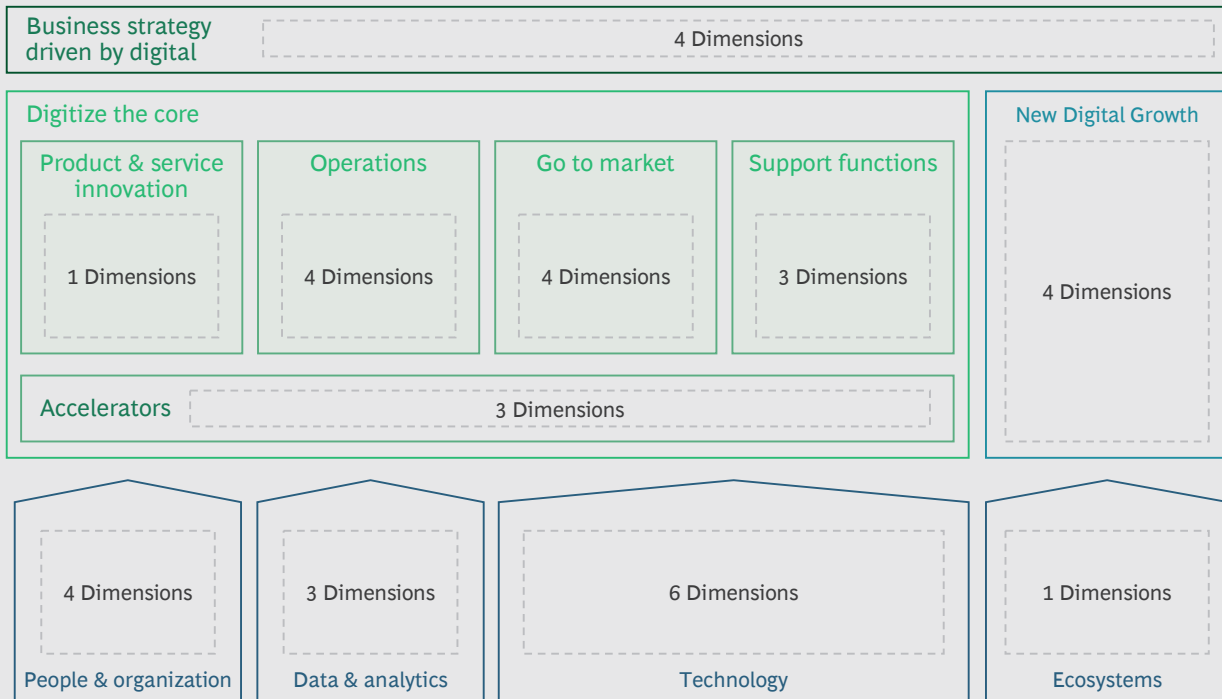
As the world grapples with this disruption, some of the questions one is regularly confronted with are what does it take to be good in digital and derive value from it? How do Indian companies compare with their global peers? What are Indian leaders in digital doing right and where are the laggards failing? And finally, is leadership in digital helping companies derive real business benefits and achieve tangible differentiation vis-à-vis their less digitally savvy peers?

To answer these questions, BCG conducted a survey covering over 2,000 companies in Europe, the US, and India, and collected data from companies with at least 2,500 employees across ten industries: manufacturing, chemicals, technology, banking, telecommunications, consumer goods and retail, automotive, energy, health care, and the public sector. Mostly senior leaders participated in this study; 30 percent were C-level, 34 percent were division leaders, and 26 percent were general managers, while 10 percent did not report their role (Digital Maturity Is Paying Off, June 2018). In India, our DAI study covered about 200 companies across eight sectors, including manufacturing, chemicals, and automotive. When comparing Indian companies with their global peers, we looked at the distribution of leaders and laggards and delved into the differences in the way companies scored various parameters.

Fuelling this survey is BCG's Digital Acceleration Index (DAI), a tool that lets companies assess their digital maturity on a scale of 0 to 100 across 37 dimensions as well as their performance on business-outcome metrics related to cost efficiency, market share, product quality, and time to market, among others. These 37 dimensions check for (1) close

EXHIBIT 1 | DAI Assesses Digital Maturity Across 37 Dimensions

Business strategy driven by digital	4 Dimensions

Digitize the core

Product & service innovation	Operations	Go to market	Support functions
1 Dimensions	4 Dimensions	4 Dimensions	3 Dimensions

Accelerators	3 Dimensions

New Digital Growth

4 Dimensions

4 Dimensions	3 Dimensions	6 Dimensions	1 Dimensions
People & organization	Data & analytics	Technology	Ecosystems

Source: BCG Digital Acceleration Index (DAI)

alignment of digital and business strategy, (2) the extent to which companies have digitalized their core operations and (3) innovated new digital business models, and (4) the quality of technology, as well as (5) organizational enablers for digital [exhibit 1].

What Does It Take to Derive Value from Digital?

Survey results clearly highlighted that all dimensions of digital (business strategy driven by technology, digitalize the core, new digital growth, and enablers) are important in creating a competitive edge. True digital leaders, irrespective of sector, are advanced in all dimensions. Hence, being a digital leader requires attention to all dimensions.
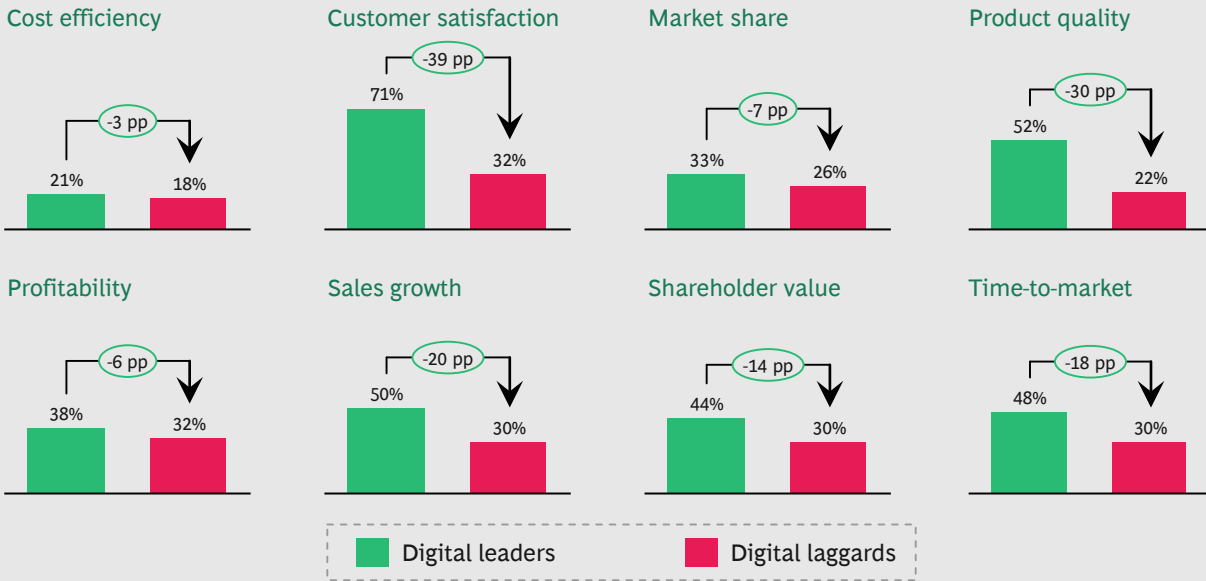
Comparisons between leaders and laggards within India reveal several interesting insights. Indian digital leaders on the DAI have started to see tangible business benefits. Exhibit 2 shows the differences between leaders and laggards in a number of business metrics. Digital leaders consistently rate their customer satisfaction, product

quality, and sales growth as "high" in contrast to laggards. E.g., a steel major was able to reduce defect rates by more than 50 percent using advanced analytics to identify and control critical parameters leading to defects. At the same time, analytics helped in improving planning processes, which led to a 5 percent improvement in customer service levels, all with no capacity additions. Another example are market leading auto players using digital and analytics to better anticipate and meet customer needs. In order to improve the customer experience during the test drive phase, a leading auto player launched a VR-based system. This has not only expanded the company's customer base, it has also led to greater engagement with the brand.

How are Leaders Able to Garner Gains in Performance?

A key question especially asked by laggards is what leaders are doing differently and why they perform better. The exhibit below shows the areas where leaders are outperforming laggards (exhibit 3)

Cost efficiency

-3 pp

21%   18%

Customer satisfaction

-39 pp

71%   32%

Market share

-7 pp

33%   26%

Product quality

-30 pp

52%   22%

Profitability

-6 pp

38%   32%

Sales growth

-20 pp

50%   30%

Shareholder value

-14 pp

44%   30%

Time-to-market

-18 pp

48%   30%

- Digital leaders
- Digital laggards

Source: BCG Digital Acceleration Index (DAI)

While leaders are ahead of laggards in their respective sectors across dimensions, there are five differentiating factors, which DAI leaders tend to implement systematically.

1. A clear strategy for building digital capabilities

DAI leaders typically have a clear strategy for capability building, and attracting and retaining the best digital talent.
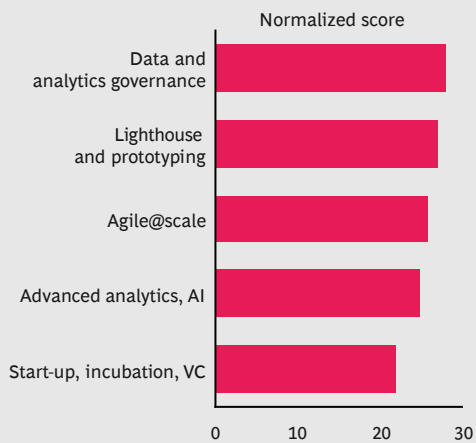
Nowadays, many companies in India have a Chief Digital Officer or at least a senior management person entrusted with digital responsibilities. However, few of these companies actually have a comprehensive digital capability roadmap that can answer crucial questions like which roles to incubate in-house, who to collaborate with, what sourcing model to employ, how to interface effectively with the start-up ecosystem,

EXHIBIT 3 | Key Differentiation Factors For Leaders In India

Top 5 factors for leaders

Normalized score

- Roadmap
- Digital delivery
- Customer service digitization
- Cybersecurity
- Data platforms/ infrastructure

0   50   100
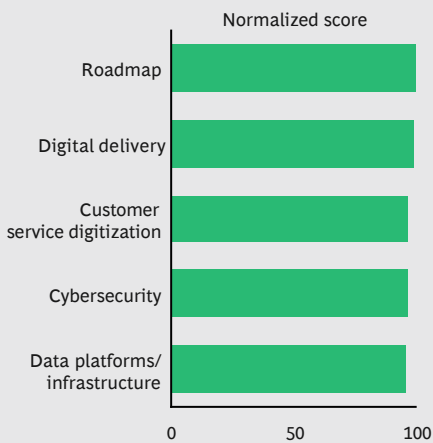
Bottom 5 factors for laggards

Normalized score

- Data and analytics governance
- Lighthouse and prototyping
- Agile@scale
- Advanced analytics, AI
- Start-up, incubation, VC

0   10   20   30

Note: Scores normalized to a base of 100 (maximum score for leaders)
Source: BCG's Digital Acceleration Index (DAI) study

etc. For instance, almost all insurance companies in India have digital heads. However, the DAI leaders have specialized capabilities in the areas of digital marketing, digital product development, and continuous customer journey re-imagination. Such teams provide the focus and skills required to drive transformative digital initiatives not only internally but also in partnership with the external ecosystem on an ongoing basis.

DAI leaders are also embedding agile ways of working in their daily interactions with cross-functional teams to sustain a meaningful impact from digital. Digital leaders across industries realize the importance of fostering appreciation for digital and specialized capabilities across the organization. E.g., a steel major set up an analytics university not only to train a select group of employees on analytics but also to develop an appreciation for analytics for a wider base of employees. Digital laggards need to revisit their workforce planning processes to include a focus on digital roles, a strategy to attract and retain digital talent, and evaluate partnerships to access certain skills.

2. An actionable roadmap backed by a robust business case to implement the digital strategy around which the senior management is aligned

Today, most companies have developed a digital strategy or at least seriously debated about one within the management team. However, when it comes to leaders, the single most important parameter distinguishing them from laggards is the ability to convert their intent into a time-bound, actionable roadmap with clear milestones, delivery dates, and accountabilities. While building this roadmap, leaders ensure that management is aligned with the use cases or initiatives and is committed to driving the transformation. Leaders not only invest their time and resources in brainstorming potential use cases but are also agile enough to re-

spond to changing requirements with respect to working methodologies, investments, and people. The initiatives are almost always prioritized based on the expected business benefits and ease of implementation. The difference between leaders and laggards is clear on the DAI index with digital leaders outperforming laggards by up to twice the scores in areas like alignment on digital priorities, existence of a roadmap, KPIs to measure success.

3. Investing upfront in data and digital platforms

Implementing a digital use case, for instance, a customer journey with a fully digitalized middle and back office requires significant upfront investment in data and digital platforms. Often, such an investment by itself may not have a positive direct business case, but still can become an enabler for powerful innovations that eventually lead to a substantial return on investment. We have seen that digital leaders have invested upfront capital to enable various analytics and digital use cases. On the DAI scale, leaders outperform laggards by a factor of three on data platforms.

E.g., a leading private sector bank in India invested heavily in digital platforms to materially improve turnaround time for new digital launches as well as drive a step change in analytical horsepower. The traditional Oracle data warehouse, which constrained the bank in terms of processing speed and the ability to process unstructured data, was replaced by a hybrid deployment data lake, which led to a 45 percent improvement in processing time by providing 300 percent more processing power, at 20 percent of the traditional storage-hardware cost, and the ability to process unstructured data. The same bank, a few years back, invested heavily in Enterprise—Service—Bus middleware to create a modular architecture with reusable, atomized functionality that would enable the easy launch of new digital applications. This has enabled the bank to

achieve a 50 percent increase in speed to market. Laggards need to evaluate investments in such platforms based on personalization and productivity benefits of front-end applications (analytics-led sales, sales force effectiveness, operations improvement, performance management, etc.) to make the business case for investment compelling.

4. Using deep personalization to get close to the customer

Digital leaders are getting closer to their customers than their less savvy counterparts. One example is the automotive sector. All companies are aware of the importance of having a single view of the customer across presales, sales, and after sales. However, only digital leaders have attempted to use varied customer data to identify and capitalize on opportunities to sell a new vehicle, improve retention of service vehicle fleet, and improve customer satisfaction (through areas like social listening, responding to feedback, etc.). On the other hand, laggards still struggle with data quality and integrity issues between sales and after-sales data, leading to poor targeting and lower conversion rates. An automotive major was able to improve the rates of customer win-back by a factor of 1.5 by improving the percentage of relevant customers targeted by a factor of two by advanced analytics algorithms on customer data, collated across the life cycle of customer engagement (sales, after sales, finance).

5. Embed digital in every aspect of the organization

Leaders in India clearly outperform laggards in terms of digital adoption across their core and support functions. Our survey data shows that digital leaders are outperforming laggards across all areas in their business—from sales and customer engagement, marketing, and pricing to supply chain, procurement, and even support functions. An example is one of the most seminal digital

implementations in the Indian public sector. One of the largest state-owned banks in India created a digitally enabled performance management system in which quantifiable key performance indicators are transparent for all levels of employees. The data from IT systems is used to assess performance in a neutral manner. Digital enablement has eliminated individual bias, linked performance to outcome and output metrics, and created a new level of transparency and performance orientation in the organization.

In another example, a digitally enabled sales force effectiveness tool in one of the largest banks in India allows for performance monitoring of sales force with results displayed against agreed targets, drilling down to identify root causes of underperformance and sending daily text-message alerts to managers. This has led to a significant improvement in the performance of the sales force, with the bank now replicating this tool across multiple channels. Digital leaders are also marching ahead in digitizing back-office operations for efficiency and accuracy. Our study finds 49 use cases where RPA, AI, big data and advanced analytics were adopted in shared-service centres and back offices, using products such as Blue Prism and UiPath to drive efficiency as well as accuracy. In nearly a quarter of the cases we examined, productivity improved by 40 percent or more and turnaround times were reduced by 70 percent or more.

Digital leaders in the public sector find digital enhancing ground-level data collection, which is leading to more targeted interventions. Using digital for primary care, a state uses data from 50,000 facility inspections, approximately 12,000 feedback calls to drive monthly reviews of over 100 district and state officers. This has led to a more efficient utilization of the existing corpus, a redistribution of staff, and equipment to fill gaps across 75 percent of the facilities.

Summary

Digitalization is creating a divide between performers and laggards. The stakes are high with leaders already seeing business benefits from digital. This lead over laggards is expected to become more pronounced as leaders create a sustained advantage through digital. At the same time, there are steps that laggards can take immediately to narrow the gap. For laggards, it is not just important to fix the visible signs (lack of a roadmap, limited advanced analytics and digital tools, or the inability to gain access to digital talent), they have to change their way of pushing the digital agenda by:

- Incorporating digital into their overall business strategy and establishing a clear digital roadmap,

- Investing upfront in digital and data platforms,

- Revisiting core processes through a digital lens, and

- Gaining access to digital talent through capability building and partnerships.

About the Authors

Rajiv Gupta is a partner and managing director in the New Delhi office of The Boston Consulting Group. He heads the Technology Advantage practice in India. You may contact him by email at Gupta.rajiv@bcg.com

Saibal Chakraborty is a partner and managing director in the firm's New Delhi office. You may contact him by email at Chakraborty.saibal@bcg.com

Manuj Ohri is a principal in the firm's New Delhi office. You may contact him by email at Ohri.manuj@bcg.com

Amit Bharti is a project leader in the firm's New Delhi office. You may contact him by email at Bharti.amit@bcg.com