



Redefining Possibilities to Ensure Post-pandemic Readiness in Retail, Consumer Goods, and Manufacturing

Surviving – and Thriving – in the Next Normal



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Executive summary

For many global Retail, Consumer Goods, and Manufacturing (RCM) enterprises, the COVID-19 pandemic has driven home the importance of business continuity and digital resiliency plans. In fact, many global 200 companies believe they did not transform fast enough at the outset of the crisis and are trying to ensure they do not repeat their mistakes. Thus, digital transformation has assumed an accelerated urgency among companies, with long-haul digital transformation timelines being replaced with almost real-time, ongoing transformation journeys. This faster pace of change is increasing the focus on three aspects of transformation and resilience:

- **Technology and organization models:** While technology is a critical enabler of all digital transformation projects, there is increasing recognition of adopting an integrated approach that spans underlying systems, processes, and people, to bring cohesiveness. Further, it is crucial for RCM enterprises to govern digital transformation suitably, in a centralized manner and with senior executives at the helm, especially as these initiatives scale
- **Funding models:** In the light of the pandemic, RCM organizations are trying to balance their increasing technology investments with fiscal prudence. Going forward, self-funded and sustainable funding models will be key to companies' digital transformation journeys
- **Talent and workforce management:** With a widely distributed workforce and minimal mobility, RCM enterprises will need to rethink existing talent and workforce management models. They will need to ensure that employees continue to be productive and learn within the new work realities

To manage this change, organizations will have to re-assess their digital transformation pathways, align them closely with larger business objectives, and quickly adapt to the rapidly evolving environment to emerge more resilient from the pandemic.

Digital transformation amid COVID-19 and beyond

With entire countries forcing lockdown measures that mandate multiple RCM enterprises to halt manufacturing processes, make warehouse facilities inaccessible, and push supply chains to a standstill, businesses are facing an unprecedented crisis. In fact, the pandemic has forced companies to question the viability of their business models, especially from a post-pandemic standpoint.

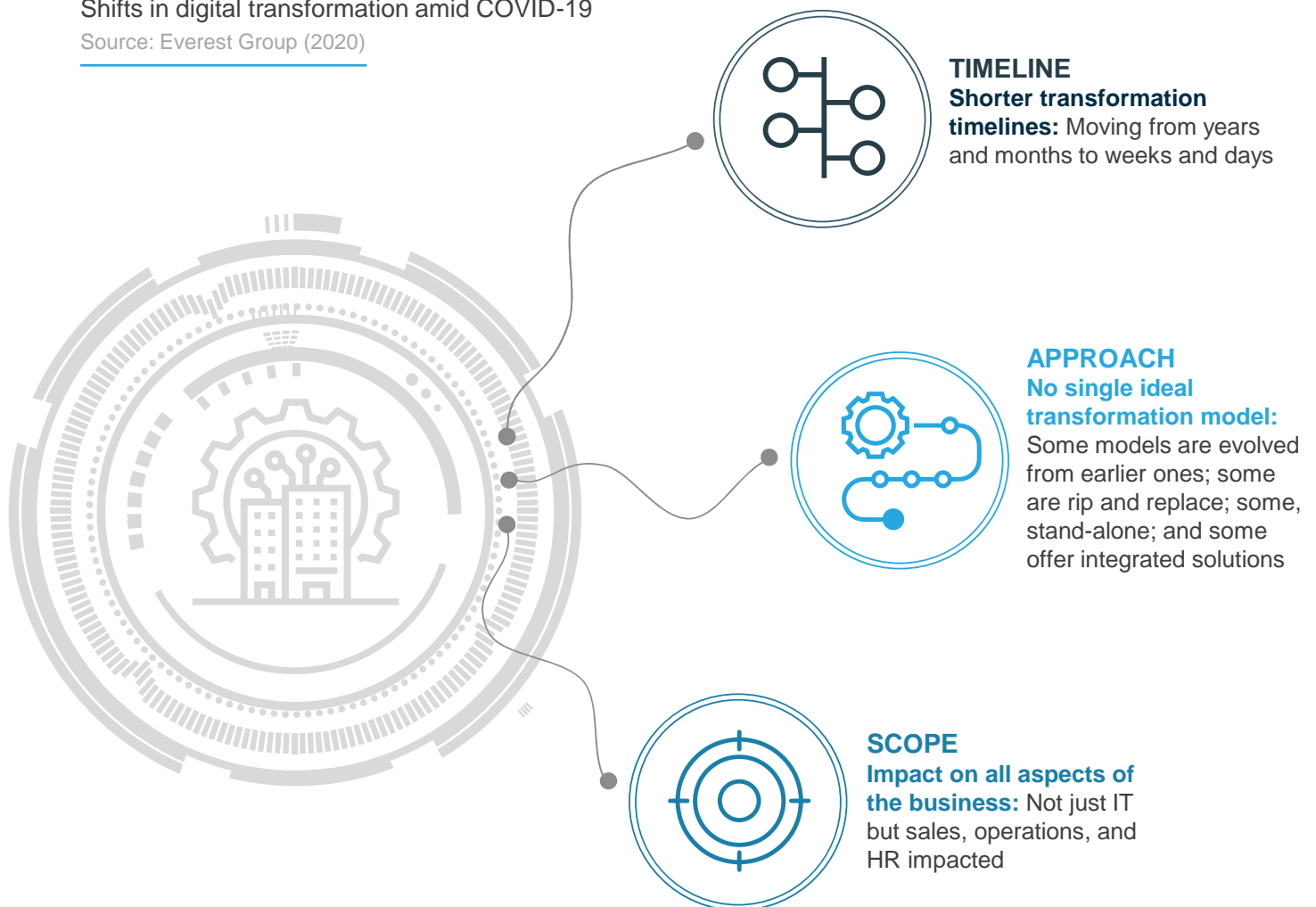
Many RCM enterprises have realized that they do not have the luxury of time and have made accelerated transformation a top priority. The list also expands to leading global banks such as Citibank, which has expanded its digital banking platform across 37 countries in five languages in almost no time. Thus, the pandemic has not only squeezed transformation timelines, but also driven contextualized transformation models with a much wider scope of impact.

Exhibit 1 showcases the key shifts in digital transformation amid the pandemic.

EXHIBIT 1

Shifts in digital transformation amid COVID-19

Source: Everest Group (2020)



Key considerations for post-pandemic readiness

The pandemic has accelerated digital transformation across RCM enterprises, and we believe this change is and will be centered around three aspects:

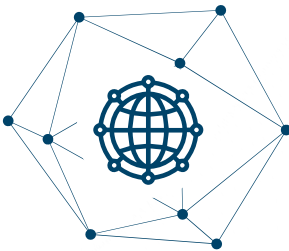
- **Technology and organization models:** managing ongoing transformation journeys, and making the organization nimble and agile to be able to respond to any crisis
- **Funding models:** conserving cash, and creating a sustainable funding model for accelerated transformation
- **Talent and workforce management:** being empathetic, ensuring productivity, and facilitating learning for employees and partners

Exhibit 2 illustrates the key considerations for post-pandemic readiness for RCM enterprises

EXHIBIT 2

Key considerations for post-pandemic readiness

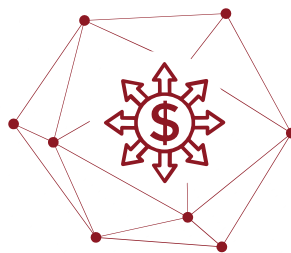
Source: Everest Group (2020)



Technology and organization models

Question to consider:

How do we drive broad business transformation rapidly, with agility and impact?



Funding models

Question to consider:

How can we bend the cost curve for digital transformation and enable breakthrough value creation?



Talent and workforce management

Question to consider:

How do we ensure productivity for our distributed workforce?

We will examine these aspects in the following sections and also look at examples from leading enterprises to understand them in greater detail.

Technology and organization models

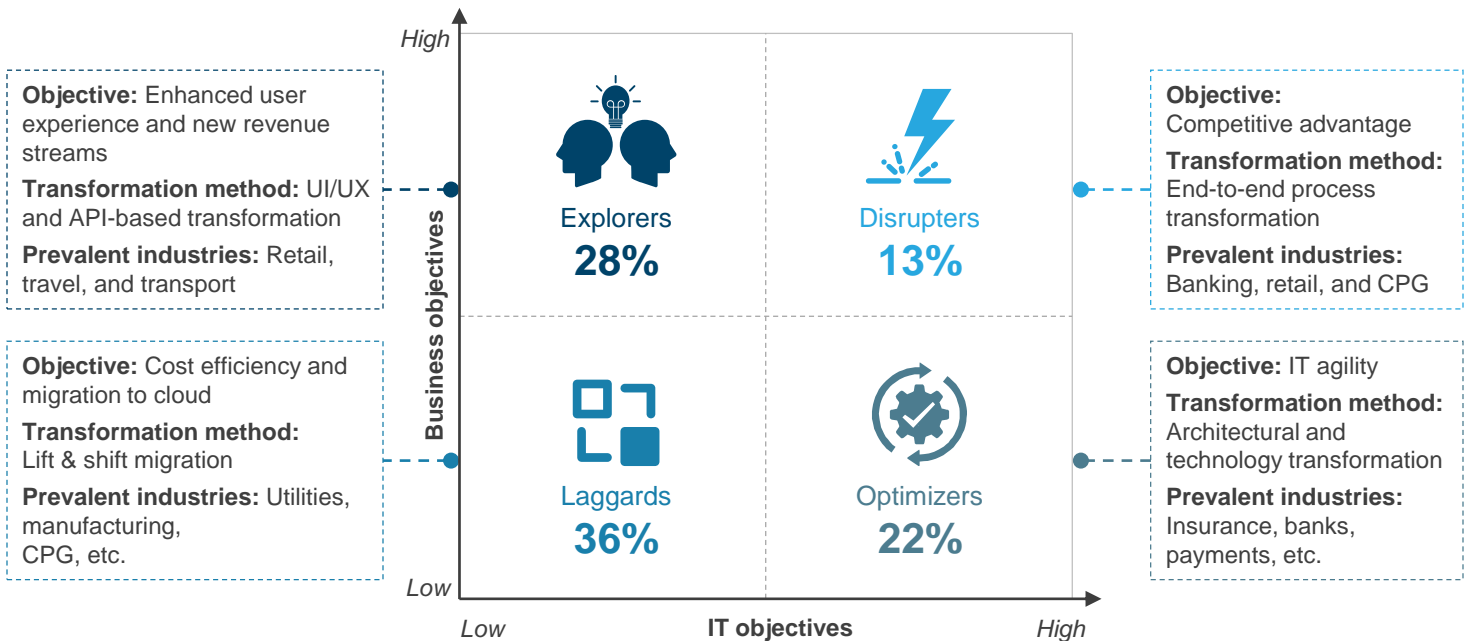
In its most recent earnings call, Microsoft CEO Satya Nadella observed that the company has “seen two years’ worth of digital transformation in two months,” as it attempts to meet surging demand for physical (surface) devices and digital solutions (Azure and Teams). Now more than ever, the pandemic outbreak has made RCM enterprises appreciate the importance of investing in technology to enable new service delivery channels and facilitate agility through process digitalization, thereby ensuring business model resilience.

At the same time, as RCM enterprises set out on the path of digital transformation, they must define their own journeys based on their unique objectives. In Exhibit 3, we highlight what some of these objectives could be for different organizations.

EXHIBIT 3

Multiple objectives for organizational transformation

Source: Everest Group (2020)



To meet these objectives, especially from a post-pandemic standpoint, companies have rapidly accelerated their investments in two areas:

- Sales and delivery channels:** RCM enterprises are exploring digital channels to expand their reach and target new customers in a phygital (physical + digital) model – that is, by combining physical and digital means – to revive sales. Sales, however, needs to be supported by a strong delivery/distribution channel and enterprises are thus investing in future-proofing their supply chains by leveraging digital technologies. Recently, the automobile industry witnessed a seminal shift, with Hyundai and Tata Motors launching online channels in India. Other automakers that were already deploying such channels, such as the Germany-based luxury car manufacturer Mercedes, are now ramping up their digital capabilities to become digital-only by 2025
- Business agility:** One of the key challenges holding back agility is crippling technical debt. The pandemic made many RCM enterprises realize that their legacy IT estates did not allow them to support new business models or innovate fast enough to respond to market needs. Digital transformation becomes the pivot in this context to help enterprises unlock value from their IT investments. US-based telecommunications conglomerate AT&T, for instance, aims to become a public cloud-first company by migrating most of its non-network workloads to the public cloud by 2024, helping it focus on core network capabilities, accelerate innovation for customers, and optimize costs

More than half (**53%**) of Fortune 1,000 companies believe that their organization's resistance to change and breaking of silos impedes digital progress

However, to facilitate the overarching digital transformation agenda, organizations need to consider many factors beyond technology, such as:

- **Executive syndication:** Often the digital transformation responsibility is shared across IT, technology/digital functions, shared services, individual business units, and corporate services, which can result in lack of coordination and mixed results. Organizations must drive their digital agendas from the top and institutionalize a centralized, cross-functional team that directly aligns with its C-suite and identifies metrics that tie back to the executive vision. Having executive sponsorship helps expedite decision-making, fosters an integrated approach, and improves strategy alignment
- **Organizational culture:** RCM enterprises should also factor in their culture and change management as an important aspect of their digital strategies. They must break down the silos between IT and business to accommodate the evolving relationship between business and technology. This includes the creation of innovation pods and specific teams for high-impact use cases. Digital transformation is not a one-time activity but an ongoing, evolving journey, for which an organization must invest in an ecosystem that fosters an adaptable culture and drives innovation

Funding models

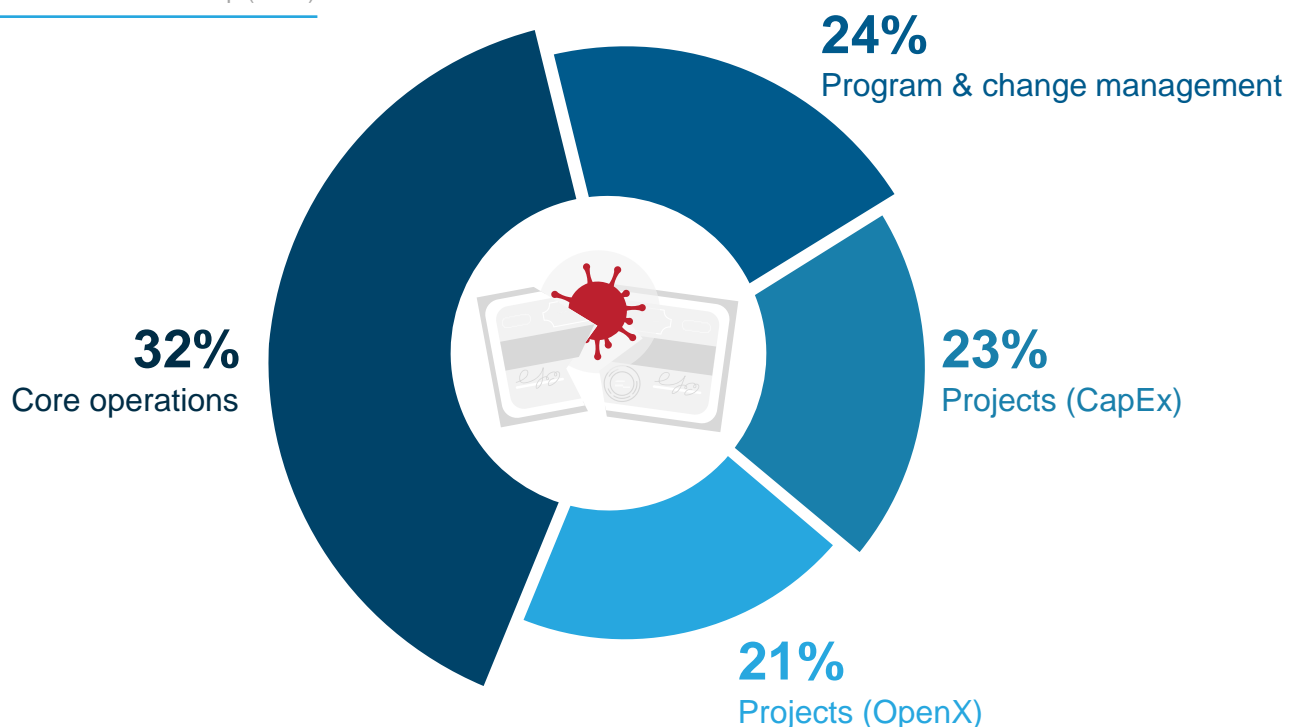
The magnitude of disruption caused by COVID-19 also means that organizations urgently need to invest in technology to ensure continual modernization and navigate short-term goals, while remaining fiscally prudent. This compels IT and digital leaders to not only examine their current spends, but also explore innovative funding models to de-risk investments and conserve capital.

At present, enterprise digital transformation budgets are fragmented across segments, as illustrated in Exhibit 4.

EXHIBIT 4

Breakdown of digital transformation budgets for successful enterprises

Source: Everest Group (2020)



Source: Everest Group's survey among 180+ CXOs / business heads with large enterprises (revenue >US\$1 billion)

Going forward, we expect RCM enterprises to rethink “core” versus “ancillary,” as they try to conserve operating capital, even as some firms have already begun doing so. A leading healthcare technology firm, for instance, is looking to hive off a part of its enterprise applications portfolio to a service provider and consume the services in an as-a-service model.

In the coming months, we expect more such discussions and innovative models, as enterprises try to conserve costs in a recessionary environment. These models could include:

- **Milestone-based funding to de-risk investments in new projects:** This is typically used to fund projects in an agile manner by only committing to specific milestones / goals achieved to decouple risk from a larger linear initiative
- **Self-funding projects to minimize initial investments and link subsequent investments to returns:** This model is used to fund an initial set of projects with a definite return and use some of these savings to fund future efforts. To cite an example, a leading US-based medical devices manufacturer has optimized its business-as-usual IT costs by 20% through hyper-automation, collapse of IT silos, and lean sourcing to fund core initiatives for new product development and build a direct-to-consumer business
- **Service provider-funded initiatives to minimize/eliminate initial investment and align enterprise and service provider interests:** This model builds the project cost into the service provider contract to lock in minimum benefit from the investment

To succeed at these initiatives, RCM enterprises and service partners need to work collaboratively. While service providers can assume more risk and take lower account management fees to optimize costs, enterprises need to think about leveraging external expertise across the technology stack and adopt a best-of-breed approach to reduce IT costs.

Talent and workforce management

Many RCM enterprises are evaluating what the future of work – and collaboration – would look like, especially in a post-pandemic scenario. Most expect 10-25% of their workforce to be virtual and distributed for the foreseeable future. Barclays CEO Jes Staley recently indicated a long-term adjustment to the firm’s location strategy, noting that “the notion of putting 7,000 people in a building may be a thing of the past.” Digital-native companies such as Twitter are taking a more aggressive stance, allowing employees to work from home “forever” if they wish, which is bound to have a ripple effect across the business ecosystem.

Recent spike in the adoption of collaboration tools:



To successfully execute a reformed workforce model, RCM enterprises should look to enable seamless collaboration through the virtual workplace (Everything from Home or xFH). The virtual set-up will also help organizations explore options such as crowdsourcing and flexible working hours. Enterprises pursuing this strategy in the long run need to strategically plan for the following factors:

- **Infrastructure:** Investments in cloud-based collaboration tools and platforms, VDI, and analytics that improve engagement can help employees collaborate better, manage time more efficiently, and drive better experiences
- **Productivity:** The evolved talent model will make existing productivity metrics inadequate and redundant. Enterprises thus need to accelerate efforts toward designing and testing new metrics and processes to ensure consistent productivity
- **Empathy:** Considering that all business roles cannot move to virtual offices, and field workers need to operate in a different manner than knowledge workers, business leaders need to address the distinction with an empathetic approach. Team structures would need to be redefined to enable easy leadership access for both virtual and on-field workforce

At **23%**, formal training is the top priority among talent development programs

Along with managing their workplaces efficiently with the help of technology, RCM organizations will also have to rethink how they leverage technology in the service of talent management: to meet training requirements, ensure seamless onboarding, improve the employee experience, and obtain the right technology skills. In this regard, companies should focus on:

- **Learning and development:** Mapping current talent profiles to address future needs is an area that merits urgent attention. Massive Open Online Courses (MOOCs) and other learning platforms such as Coursera are likely to play a crucial role in addressing this need. In fact, Coursera has teamed up with many countries to offer free courses in hot technology skills
- **Talent acquisition:** RCM enterprises are pushing all levers to expedite talent acquisition, as rapid digitalization is often unaccompanied by the desired growth in the talent base. At a time when start-up valuations have taken a hit, many firms are taking the acqui-hire route, that is, acquiring startups primarily for their digital-ready talent
- **Employee engagement:** Now more than ever, employee engagement has become a crucial factor to retain and attract new talent. A few ways by which enterprises are currently ensuring employee engagement include re-defined rewards and recognition models, introduction of flexi-hours, focused health and wellness programs, informal activity breaks, virtual town halls, and incubating platforms to share success stories from the recovery process

Acqui-hiring is the most preferred source of talent acquisition, accounting for about **27%** of the acquired talent

Conclusion: Focus on the journey

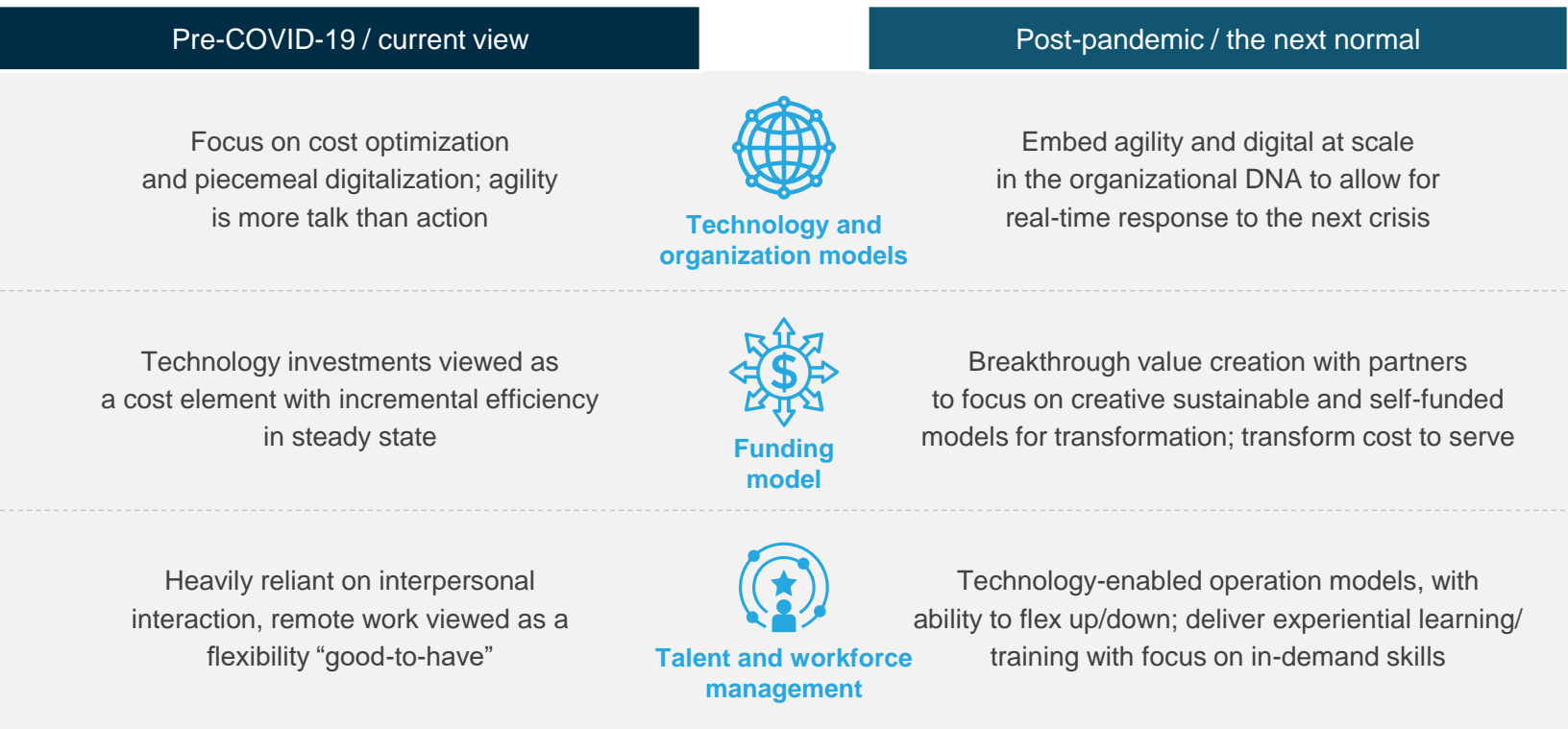
To navigate the pandemic successfully and emerge more resilient than before, RCM enterprises will have to ensure consistent journey management, agile systems and processes, and collaboration with the larger ecosystem.

In our view, here is how the post-pandemic scenario will differ from the pre-pandemic one. While the post-pandemic scenario will be specific to each RCM organization, Exhibit 6 showcases the underlying themes of change across the three components of post-pandemic readiness discussed earlier.

EXHIBIT 5

Pre-COVID-19 vs. post-COVID-19 scenarios

Source: Everest Group (2020)



Rapid reorganization – both internally and externally – is crucial to meet the challenges posed by the unprecedented pandemic outbreak. Attacking the hidden waste in digital transformation journeys presents an immediate opportunity to transform. Ongoing modernization initiatives can also help bend the cost curve in the short-medium term, and they should be aligned with strategic business objectives in the long term. The writing on the wall is clear – the time to enable this transformation is short and it is imperative for organizations to quickly obtain leadership buy-in to start acting on the objectives.



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