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The Chief Digital Officer takes centre stage

SAVANNAH WHITE PAPER



This paper focuses on the success criteria for digital leadership, digital executives and what boards need from the individuals they appoint to transform their organisations.

We explore how to make digital happen, the rise of the Chief Digital Officer and offer an executive search perspective on organisations and c-suites in transition.

The Digital Imperative

Every organisation, whether a multinational, conglomerate, SME, privately-held business or public sector institution, is devoting significant resources to leveraging digital capabilities to drive a sustainable future.

We continue to experience Moore's Law, that the number and speed of the techniques digital marketers use to attract, keep, sell and service digital customers will double every two years.

In fact, by 2025 analysts expect there to be 20 billion connected devices, such as smart-phones, tablets, game consoles and so on. These devices blur the lines between communication, play and spending, with almost 40 percent of off-line sales influenced by Internet research and 7 percent of global sales conducted online¹. This means almost half of any purchases worldwide are already digitally influenced.



Change is the constant. Among the net generation—today's executive decision-makers—50 percent are advanced users of smart-phones, social networking tools and Internet video. They prefer these new tools to email, texts and phone calls², now seen as archaic alongside Pinterest, instagram and tumblr.

Digital density has reached a tipping point with more than a billion people on Facebook, 5.6 billion mobile devices and more than \$20.4 trillion of business—14 percent of all economic activity—transacted across digital resources³.

What does the digital era mean for leadership, the new c in the c-suite and governance?

And what is the executive search perspective?

The Impact of Digital Transformation

At the organisational level, digital transformation enables reinvention of internal processes, business models and corporate interaction with customers and partners.

The impact on senior executives and their teams is huge. The use of analytics, mobility, social media and smart embedded devices challenges them to analyse and merge new forms of data, capture valuable consumer insights and turn these insights into real-time or near real-time action.

1 Source: Forrester Group

2 Source: McKinsey

3 Source: Gartner/Forbes



Leadership in the Digital Era

Who owns digital transformation?

One of the key challenges is to percolate the digital enthusiasm and willingness from the senior leadership to middle management and operational levels across the company. The overriding objective is to get the whole organisation to accept the importance of the digital culture: it is about engaging stakeholders at every level.

The benefit of a multi-generational workforce is that net generation is more digitally-savvy and enabled than their executive leadership. While the top down push is underway, so is the bottom up pull.

The goal is business and IT integration. Technology and business executives need to work together to implement digital transformation, so companies with a history of strained IT-business relationships have an additional hurdle to overcome.

As Raffi Amit, Professor at Wharton University, points out: "It is not technology that is the obstacle to digital transformation, it is people".

Key barriers include an aging HR infrastructure, non-alignment between business and HR leaders on the critical business drivers, and ineffective rollout of change management programs to train employees on new digital ways of working.

As with any transformation program, there can be inherent reluctance and resistance to change, especially from within. Middle managers perceive this as a threat to leadership because they have less control over how information flows.

Customer-driven change is the most compelling argument, from a commercial perspective and change management perspective.

Ultimately, it is the customer who 'owns' a company's digital transformation.

There are potential advantages across the c-suite and customer-facing areas:

- **CEO:** an end to a hitherto silo-ed mentality and trigger for change.
- **CMO:** customer interaction; a new client application; a 360 degree, omni-channel view of the consumer; brand and product categories and an integrated customer experience across mobile, social and online platforms.
- **CFO:** an organisational and employee productivity driver—leveraging automation, digital tools and timeliness of information.
- **CHRO:** e-learning, online communities, new ways of working in an enabling environment and constant connection of employees to the outside world.
- **COO:** maximum operational efficiency.
- **CIO:** big data; new data management systems for affordable data from proliferating sources; new data security systems, processes and transparency; and possible substitutes for ERP.
- **Sales:** reduced selling, delivery and service costs; and faster speed-to-market.
- **Customer Service:** digital straight-through claim processing, reducing costs and claims ratios.



Digital is not about tools and platforms, it is about getting additional revenues with existing and new clients and addressing new markets



- Chief Digital Officer | cosmetics company



Making digital transformation happen

Digital leaders need vision, stamina, persistence, technical know-how and the ability to cascade this across the c-suite and throughout the organisation.

In terms of implementation—bringing the whole organisation into the digital era—the key competencies we look for among digital leaders at Savannah include the ability to:

- **Professionalise and web-enable** end-to-end people processes throughout the organisation;
- **Foster collaboration and information exchanges** between communities of knowledge workers to maximise productivity and speed-to-market;
- **Adapt traditional organisation models** to the new demands of the digital world, involving not only client-facing activities but also support, internal and operations activities;
- **Acquire and integrate new businesses** that further the strategic goals of the organisation

Marketing takes care of the Brand, R&D takes care of the Product, Sales take care of the Customer: the Chief Digital Officer connects the brand, the product and the Customer

Chief Digital Officer | consumer goods company

The most successful candidates are those with a 360-degree focus who connect internal processes with external drivers. "For example, the physical distribution network and fulfilment processes should be optimally designed to support digitally-enabled, multi-channel go-to-market strategies from both a cost and customer experience perspective," comments Phil Peters, a Partner in Savannah's Global Digital Practice.

At IBM, re-engineering supply chain processes—including process-automation through web-based

applications and consolidation of functions—saved the company \$6 billion. In addition to these internal gains, the firm established an e-procurement system that helped reduce the average contract cycle time from 6 to 12 months, to less than 30 days—one of the top priorities for their clients⁴.

Digital transformation involves everybody and must therefore be owned by everybody. So the question is who leads digital transformation?

The rise of the Chief Digital Officer

How do we describe a Chief Digital Officer?

"A chief digital officer is a digitally-savvy, business-driven leader who has what it takes to transform a traditional business into a data-driven company. They combine marketing and management experience with technical know-how and strategic vision to align and improve business operations across the enterprise," explains Phil Peters.

Organisations grappling with legacy business models, team structures and technology systems need to make a significant step-change.

One of the most common questions we are asked at Savannah is 'when does an organisation need a Chief Digital Officer and when does it need to reshape the role of Chief Information Officer or of Chief Marketing Officer, or of any other functional leaders?'

The answer depends on what stage the organisation is at in its digital journey, together with the strategy, culture, global sector trends, disruptive competition and talent profiles inside and outside the organisation.

Let's look at two different examples.

Starbucks—collaboration delivers operational benefits to the company and their customers In March 2012, Starbucks promoted their VP of digital ventures to Chief Digital Officer (CDO).

⁴ Source: Capgemini Consulting



The Chairman, President and CEO Howard Schultz explained, "Over the past several years, there has been a seismic shift in consumer behaviour, in large part because of the rapid adoption of social and digital media as a primary means of connection and communication. We have recognised this shift and have made it a priority to establish a position on the leading edge of innovation and are now taking this a step further". Starbucks' CDO is responsible for web, mobile, social media, card, loyalty, e-commerce, WiFi and the Starbucks digital network as well as in-store entertainment.

Strong collaboration between Starbucks' CDO and CIO resulted in the company taking 10 seconds off every card or mobile phone transaction, cutting customers time in line by 900,000 hours. In 2013, their collaboration enabled Starbucks to process 3 million mobile payments per week.

Burberry—specialisation and empowerment maps the company to the future
There is currently no Chief Digital Officer in Burberry. Digital transformation is happening through the introduction of three new departments in the last three years: a social media department, a mobile department, and an insight & analytics department. Specialist roles include the on-boarding of a Senior Vice President of Customer Insight, and strong empowerment of the CIO.

"Digital transformation involves altering the DNA of an organisation, so there can be no standard approach," comments Phil Peters. "However, our knowledge of best practice in the context of an evolving, global talent pool enables us to adapt different approaches for every client in different types of organisation. It is also important to remember that transformation is incremental and the most successful organisations engage in iterative innovation, including the structure of teams and acquisition of talent".

Let's look at two different scenarios.



The Case for 'Digital Executive Committee Members'

Organisations well placed to empower all Executive Committee members to deliver digital transformation typically have a defined vision and journey already, together with consistent technology across different business units and functions, in addition broadly to:

- A collaborative, open-minded CIO backed by the board, who is already business and customer-focused, with a strategic perspective;
- A CIO who already appreciates the opportunities offered by big data analysis, using it to deliver business value;
- A CMO already using new data analytics tools;
- A CHRO already partnering with an enterprise social media tool company; and
- Executive committee members wanting to hire their own digital director.

In that case, all Exco Members become digital themselves, and in effect, chief digital executive officers (CDxO), akin to the Burberry model.

“ The Chief Digital Officer must own digital budgets to create the momentum and demonstrate impact ”
- Chief Digital Officer | car manufacturer



The Case for the Chief Digital Officer

Alternatively, organisations appointing a Chief Digital Officer, permanently or not, tend to do so for two main reasons:

1. **A symbolic move:** by creating a separate position on the executive board, the company is able to send out a message, internally and externally, about the importance of digital technology to their business.
2. **A bridge-building move:** the role of CDO has become crucial to bridging the gap between silos. The CDO not only ensures greater communication between departments, but communicates direct with the CEO. Many organisations have an executive-level CDO with cross-discipline responsibilities for all digital initiatives.

CDOs share a similar mandate across all sectors: to provide oversight and strategy, creating a big-picture view of how social and digital technologies can make a difference to the entire organisation, and impact business, as in the Starbucks model.

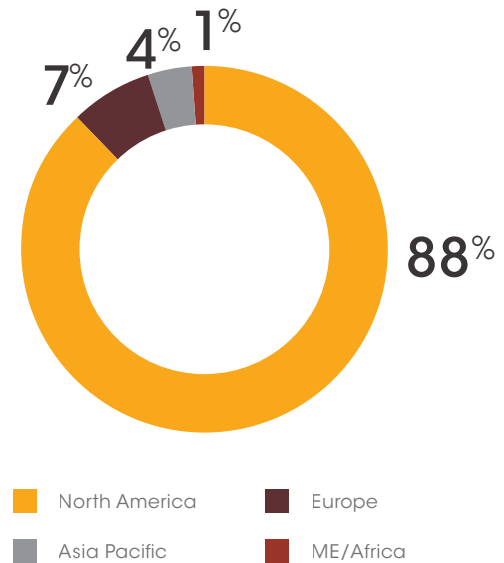
"We find that our clients value the 'leapfrog' effect of the CDO," says Cathy Holley, a Partner in Savannah's Corporate Officers Practice. "Like IT systems, the CIO has an internally-focused legacy, so appointing a CDO can create an immediate, top down strategic approach".

"The Chief Digital Officer will prove to be the most exciting strategic role in the decade ahead, and CIO will probably try to capture the opportunity," says David Willis, vice president and distinguished analyst at Gartner. "The Chief Digital Officer plays in the place where the enterprise meets the customer, where the revenue is generated and the mission accomplished. They are in charge of the digital business strategy. That's a long way from running back office IT, and it's full of opportunity".

In the digital era, business models cannot be limited to what legacy IT is able to support. Instead, all business systems, including monetisation platforms, must adapt to deliver the experiences customers want.

Exhibit 1. Global Distribution of CDOs

Source: Talent Map 2013, CDO Club



As for the CIO, "The CIO is one of the few members of the executive committee who understands the whole process architecture across the organisation," adds Cathy Hilley. "This holistic perspective on the impact of digitisation and its positive disruption of the business model, makes a CIO with strong leadership capabilities and business sense eligible for a CDO role. However, they are not the only one among senior leaders who should be considered and internal appointment is not necessarily the solution!"

Over the longer term, as digitisation becomes embedded in every company's strategy, and everything a firm and its customers do, it is possible that a CDO will become unnecessary. With maturity, all leaders at all levels will become digitally savvy and will bring Consumers, Suppliers and all Employees on board in a more organic way.

However, for now a CDO or Exco of CDxOs is a critical bridge to the organisation of the future.

The Global Talent Pool

What is the shape of today's global talent pool for Chief Digital Officers?

The CDO role, at the end of 2013, is most prevalent in the United States, home to 88 percent of global CDOs, compared with 7 percent in Europe, 4 percent in Asia/Pacific and just 1 percent in Middle East/ Africa, see **Exhibit 1** above.



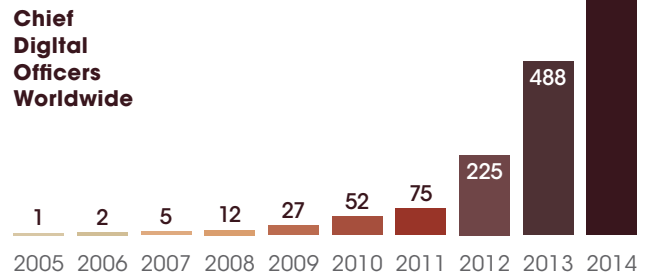
Data snapshot

The Chief Digital Officer Talent Map 2013 , published by CDO Club, reveals:

- In 2005 the first CDO was appointed; in 2013 there were 488 CDOs worldwide; by 2014 forecasts suggest there will be 1,000–1,500 CDOs worldwide, see **Exhibit 2**;
- Since the beginning of 2013, 190 new Chief Digital Officers have been hired globally;
- More than 75 CDOs have been hired across Western and Eastern Europe, which is catching up;
- In Australia, 45 percent of business leaders in Australia have a CDO; and
- Out of the 36 percent of CDOs who moved on to new roles in 2013, 77 percent moved into a c-suite position, either CEO, President, MD or board director.

Exhibit 2. The Decade of the Chief Digital Officer

Source: CDO Club, January 2013



The Chief Digital Officer Mission

A Chief Digital Officer acts as a conduit when integrating digital strategies with the functions of the broader organisation and must envision the digital future for the firm. A digital transformation program design must respond to, and integrate a number of key elements, both commercial and cultural, as shown in **Exhibit 3**.

Exhibit 3. Integrating strategic and cultural elements

Strategic	Cultural
1. Targets—which additional revenues, additional markets?	1. Can units work differently, and work together, in a more connected way?
2. What assets will be valuable in a digitally transformed business?	2. What skills are missing in our digital transformation initiatives? Should we collaborate to gain capabilities?
3. How can we transform customer experience? Internal operations? The business model?	3. How can we lead the change both from the top and the bottom?
4. Are we getting all of the value out of our technology and platform investments in ERP, analytics, or collaboration tools? If not, what is needed to get the foundations right?	4. How do we communicate the vision and engage the organisation on a large scale? How do we monitor commitment?
5. Where are the key investment areas that will contribute most to the new vision?	5. What process do we have in place to iterate the vision and strategy?
6. How do we coordinate investments and activities across silos? What organisational model can run digital initiatives in parallel to the core business?	6. What mechanism do we use to make the necessary adjustments?
7. What KPIs and metrics will monitor the progress of digital transformation toward our strategic goals?	7. How do we cascade down KPIs for strategic goals?



Company Boards and Governance

Governing Digital Transformation

Leadership and governance are key determinants for organisations to implement digital transformation success—fully, broadly and deeply to achieve cross-silo integration—both internally for collaboration and externally for customer interaction.

Bottom-up digital transformation is rarely successful. With the right vision and leadership, opportunities from digital transformation build on each other to create new ways of working. However, they require top-down ambition setting to put the organisation in motion; coordination to turn disconnected digital investments into true platforms for transformation; and monitoring to ensure that progress is being measured and managed.

In addition to a top down approach from the CDO, empowered CIO or digital Exco, companies



My first task was to define the journey and the strategy. But the powerpoint presentation was the easiest part: setting up the Governance and driving execution was the real challenge



Chief Digital Officer | car equipment manufacturer

are leveraging 'digital champions,' to facilitate a bottom up skills transfer and engage the rest of the organisation.

For example, global cosmetics firm L'Oreal launched a 'Digital Reverse Mentoring' programme: as part of its 'Digital' campaign to raise 'digital mindset' across all employees and brands, the company paired 120 younger workers with management committee members.





Beverage company Pernod Ricard launched a similar program with the DAT (Digital Acceleration Team) which involves 80 champions.

An Executive Search Perspective for the Board

What makes a good Chief Digital Officer?

The appointment of the right CDO to transform a business in the digital era is one of the most important priorities for today’s board. The debate usually starts with, ‘What makes a good chief digital officer’. We offer some connected thinking from the executive search perspective in **Exhibit 4**.

What does Savannah look for in a Chief Digital Officer’s track record?

Every search assignment must take into account the context in which a CDO, or executive in an equivalent role, accomplished commercial results. For this reason, Savannah works in cross-practice teams—integrating our own sector, geographic and functional knowledge across silos—to understand the business environment, competitive landscape and organisational backdrop to a candidates skills and experience. **Exhibit 5** (on the next page) provides an initial indication of the key experiences that make a good chief digital officer. In looking at a digital executive’s track record, we also explore their foresight and the trends that they anticipate in the future. Due to the transitory nature of digital and social media, a CDO needs to demonstrate knowledge of what the next digital trend will be, ensuring the company can adapt, embrace or avoid the trend.

Exhibit 4. Key Characteristics of a Chief Digital Officer

Vision	Leadership	Commerciality	Implementation
<p>Capable of innovative and strategic thinking to drive real business value and competitive differentiation; new business ideas, not just new toys.</p>	<p>Able to build and inspire teams to deliver business results never envisioned, in tough times and in good.</p>	<p>Thinks ROI.</p>	<p>Able to plan and execute long-term strategy focused on driving customer awareness, engagement, experience and monetisation.</p>
<p>Possesses the intellect to grasp the complexities and interdependencies of the business, particularly during transformation.</p>	<p>Creates a call for a shift in cultural mindset about data, with decision-making based on how data and customers relate.</p>	<p>Understands the sector and business inside out and is able to pull the real levers for change, including how and where to invest.</p>	<p>Designs and implements key enablers for company operations.</p> <p>Able to maintain an external focus (customer, regulator, shareholder, competitor) whilst juggling internal operational challenges.</p>
<p>Shifts paradigms and is disruptive.</p>	<p>Able to engage, align, and influence stakeholders to ensure the right results are delivered and change realised.</p>	<p>Able to obtain desired outcomes by building strong relationships with third parties who are determined to delight their customers.</p>	<p>Problem Solver in the executive team, with a ‘YES’ attitude. Adept at cutting to the essence of a problem, developing creative approaches and responding positively to all executive requests.</p>
<p>An outstanding capability to link marketing and e-commerce issues with technical platforms. Thrives on, rather than endures change.</p>	<p>Highly influential—perceived as a Change Agent and Evangelist to effect change that better integrates digital tools, tactics, and strategies to help achieve organisational goals.</p>	<p>Able to fight for budget, especially if Digital Factory is the chosen option (platforms, big data, analytics,...)</p>	<p>Fuels the company Competency Model.</p>



Exhibit 5. The Importance of Coherence in Technical, Commercial and Professional Experience

Vision	Leadership	Commerciality	Implementation
Corporate strategy and marketing.	Proven leadership, executive committee membership.	Development of new channels and business models, as well as innovative products and services.	Development and implementation of e-commerce, online marketing and social media platforms.
Transverse and transformation programs within a large enterprise.	Change management, in a turnaround or growth situation.	Operations/business unit management (P&L).	Implementation of new technology capabilities.

“Due to the transitory nature of the job, the CDO must be suitable for another c level function later on in the organisation,” advises Phil Peters. “Digital will be the norm in the future and no longer a distinct function.

We therefore expect to see further movement across the c-suite between functional leadership roles; there will be a lot of opportunity for talented leaders with a CDO background”.

The Chief Digital Officer must be persuasive because the ROI is shaky, with short term Investment and long term Return

Chief Digital Officer | large industrial company

Conclusion

The digital leader—whether CDO, CIO or board member for e-commerce—is a business leader first and a digital leader second: they are not a ‘guru’.

While the digital leader must be able to have business conversations with people not adept at technology, it’s vital to be able to have enough knowledge about technology

to be taken seriously by the digital implementers on staff. Developers, designers, IT teams and other technology experts within the organisation have little patience for those who don’t understand their needs and challenges, so the digital leader must be prepared to talk competently about their own expertise.

This ‘lightning rod’ is an integrator with outstanding skills to deal with large and multi-source flows of data; every department generates data and virtually every customer engagement leaves a digital trail of structured or unstructured information. Many organisations find themselves with digital initiatives scattered throughout different corners of the operation. Trying to tie them together—and then uniting them with the overall organisational strategy and goals—represents an important challenge for digital transformation.

One of the key challenges for digital leaders is the ability to operate in two timeframes, short term and long term, particularly for publicly-quoted organisations beset by quarterly reporting.

As far as organisations go, digital leaders are ‘born not made’. In other words, they are best acquired from outside, rather than trained up through the company.

Why?

Digital leaders need to have accumulated an eclectic mix of business skills, technical experience, leadership exposure and be the kind of thinker that can balance opposing forces: the complexities of risk and opportunity; and geographic tension between a low growth ‘traditional’ economy, and a global, high-growth digital economy.

Then they can cause the appropriate disruption in the c- suite and the organisation of the future.

It is very difficult to ‘train’ a chief digital officer; they must come from outside

Executive Vice President | Human Resources



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