KPMG Special Report
IT in the New Reality

Not long ago, technology leaders everywhere were scrambling to keep pace with the accelerating speed of digital business transformation. Then, Covid-19 came along and everything changed…or did it?

During the height of Covid-19, the drivers of IT were clearly reordered: often, it was simply about helping the business survive.

Now, many of the 'old' imperatives have returned, with a list of priorities that was also mirrored in the latest KPMG Global CEO Outlook survey: efficiency, security, innovation, insights, enabling new ways of working. But the landscape is vastly more complex – and accelerated – than before.

Steve Bates, Principal at KPMG in the US and Global Lead at KPMG's CIO Center of Excellence, says: "IT in the new reality is likely to be shaped by economic recovery patterns unique to each sector, country and company. For the foreseeable future, the Future of IT is not a one-size-fits-all story. However, one thing does remain consistent – the urgency to act decisively."

Organisations fall into four main recovery patterns. However, it is quite possible for enterprises with multiple geographies or lines of business to find themselves in more than one simultaneously: a mark of the complexity of the legacy of Covid-19.

Four economic recovery patterns

Degree of 'Permanent' Change to Industry Economics/Value Chain

High

Low

'HARD RESET'
Industries/companies that struggle to recover from Covid due to 'permanently' lowered demand for offerings, insufficient capital to ride out extended recession, and/or poor execution of digital transformation.

'SURGE'
Industries/companies that scale post-Covid as consumer behaviour that was altered during the crisis is sustained in their favour. Investors sense their potential to lead and provide capital to scale aggressively during recovery.

REACT
· Liquidity
· Customer service
· Supply chains

Every firm must prepare for the likely recovery path for their organisation

'TRANSFORM TO RE-EMERGE'
Industries/companies that will recover but along a protracted path requiring reserves of capital to endure and transform operating models to emerge stronger and more in line with changed consumer priorities.

'MODIFIED BUSINESS-AS-USUAL'
Industries/companies seen as daily essentials will suffer effects of the consumer shutdown recession but will recover more quickly as consumer demand returns in similar volumes.

Slow   Fast

Pace of Recovery

1

"The concept of seeing business and digital strategy as two different things has become old fashioned."

Dominic Wheeler,
CIO, Swire Coca-Cola
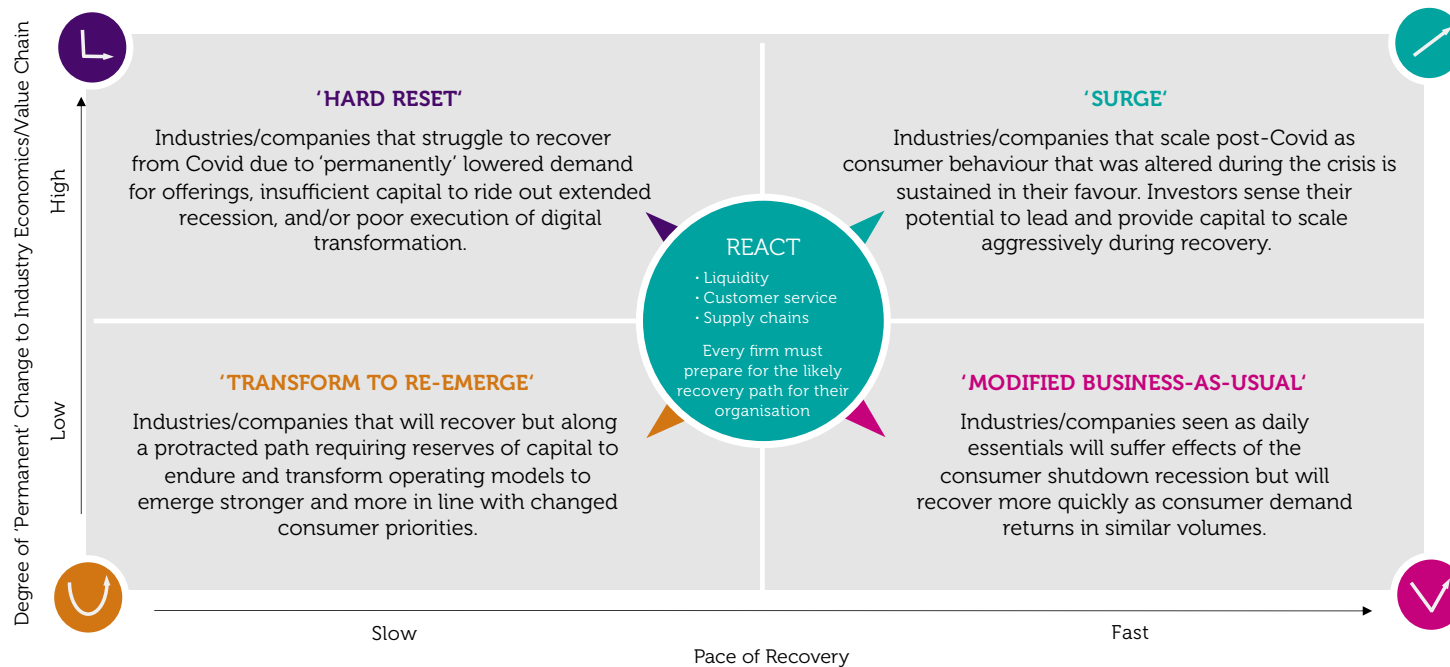
Hard Reset

Hard Reset companies are in for a protracted challenge, and may need cash and new strategies to reposition for the new reality. Companies in this quadrant – many of whom will be in the real estate, leisure, hospitality and transport / travel sectors - may struggle to recover from COVID-19 due to permanently lowered demand for offerings, insufficient capital to ride out an extended recession, or poor execution of previous digital transformation attempts. Hard Reset firms may not have the right mix of skills and capabilities to emerge successfully into the future and, according to KPMG research amongst HR leaders globally, 35 per cent of employers are looking to transform learning and upskill the workforce accordingly. Without a clear strategy that emphasises reduction in cost and elimination of inefficiency, Hard Reset firms will likely struggle to remain viable.

CIO actions:

- For the IT organisation, the immediate primary driver will be the need to survive through cost cutting and removing fixed capacity, requiring significant changes to the business and IT operating models.

- Beyond this immediate focus, building a tangible, executable plan to create sustained cost optimisation is essential. It is about understanding what is 'keepable' and may return versus what needs to be cut or scaled back permanently.

- Hard choices may also need to be made around workforce shaping – what are the optimal roles to retain, what can be automated, and what is best served through outsourcing or buying as a managed service? IT leaders must assess the capabilities of current staff to ensure the right mix of skills exists within the organisation.

Transform to Re-emerge

This is undoubtedly the majority recovery pattern, applying to a mass of businesses across sectors and geographies. The nature of their business model is still sound – but the way that customers want to engage with them has changed. There is a renewed urgency to transform their operating models accordingly, with a redefinition of expectations in how customers will engage, buy and consume their products and services. Already, 80 per cent of CEOs in KPMG's Global CEO Outlook survey said that more digital acceleration had occurred within the last few months than in the previous few years. Significant investment is likely to be needed in enabling technologies such as AI, payments, integrated platforms, and automation. The road to the new reality is likely to be a prolonged journey requiring reserves of capital and committed focus.

CIO actions:

- Initiatives need to be prioritised according to critical business and customer outcomes. The IT transformation programme should be tuned to connecting the enterprise end-to-end and avoid sub-optimised or incremental investments.

- Creating a modern digital backbone and technical capabilities should be key, utilising cloud and emerging enabling technologies. Only in this way can it be possible to modernise customer channels, supply chains and mid-office systems.

- Service operations must be cost-effective, frictionless and digital-native. But many organisations are chained to highly customised or legacy IT Ops tools. Modernising the applications stack using low/no code platforms and modern APIs is essential.

Modified Business-as-Usual

While no sector, company or region has been left untouched by Covid-19, for some there has been a less dramatic impact. Organisations within Modified Business as Usual are commonly 'essential' businesses such as government, utilities or financial services, certainly suffering the effects of the consumer shutdown, but which should recover more quickly as consumer demand returns. Like others, they have seen shifts in how customers want to interact with them and as a result will need to accelerate their digital transformation. Many in this space have already been aggressive in their transformation agendas – the challenge now is not to fall back.

CIO actions:

• The accelerated shift to new channel strategies has driven an explosion in new front-office applications, analytics solutions and cloud platforms – but with little thought to sustainability, supportability, cost and integration. It is key to understand what are 'good costs' that position the organisation for future growth, and legacy investments where hard choices need to be made to pivot into new propositions.

• Understanding changing consumer preferences is critical. But internal data sets alone will not suffice – mastering data across the ecosystem is an imperative. External-facing tools using machine learning and natural language processing are needed to accelerate and augment decisions that drive profitable growth.

• To be responsive to customer expectations and run at market speed, IT needs to mature much faster than in the past with modern delivery solutions, shifting from projects to products, scaling agile ways of working, and committing to automating core IT processes across the technology life cycle.

Surge

Some organisations have been fortunate enough to see an expansion in consumer demand as a result of Covid-19. However, even as they have benefited, Surge companies also need to sustain their growth or risk losing momentum. One significant challenge is rapidly scaling to meet expanding demand while staying in touch with evolving customer preferences and market conditions. To help do this, KPMG's CEO Outlook research also shows that 70 per cent of CEOs are getting personally involved in expediting technology investment decisions. For IT, this means accelerating digital business transformation by delivering the capability to continuously understand consumer preferences and patterns via advanced analytics, automate and remove friction from the supply chain, quickly industrialise modern ways of working, and automate large portions of both IT and the business.

CIO actions:

• Scaling AI capabilities is essential in order to accelerate strategies for intelligent automation, cost management, growth, customer engagement, and risk and regulatory policy.

• Decision rights and governance surrounding technology investment need to be streamlined and elevated in order to expedite the process. Frequent, focused reviews of the demand pipeline and investment portfolio should catch poorly performing projects and services early.

• Sudden growth can be a problem. Inundated with customer and employee service requests, a spike in major incidents, and increased change and enhancement volumes, IT operations are struggling to keep pace. Sophisticated service management capabilities are needed that deliver enterprise-ready solutions.

"After pulling off what most considered the impossible, IT is now turning its eyes from the triage and stabilisation of the disrupted enterprise towards recovery and enabling a new reality. In what promises to be a much more economically challenged, but digitally connected world, the CIO is facing a dilemma of how to deliver digitally native capabilities, while containing costs, skilling up and running lean.
Steve Bates, *Global Lead, KPMG CIO Center of Excellence*

"Data as an asset must become part of your corporate culture. Mastering your data, defining ongoing data ownership and increasing everyone's data literacy are critical when trying to take advantage of things like automation and AI."

Baron Unbehagen,
CIO, Encino Energy

Rising to the challenge

The critical task is to focus ruthlessly on what really matters to business performance and assess how IT can facilitate and enable it. In every scenario, CIOs are faced with tough decisions on how to balance managing cost with increasing performance.

Those with mature tech capabilities – digital leaders – will naturally be in a stronger position and indeed one of the effects of the crisis will be a widening gap between these leader organisations and the rest.

Steve Bates says: "Those who have not yet started to meaningfully invest in automation and AI proof of concepts may now not be able to, while leaders forge ahead – an 'intelligence and automation chasm' forms."

Tech has never been more important to organisations' ability to survive and thrive. The good news is that while the urgency has changed, many of the CIO imperatives have not and understanding your organisation's specific pathway to recovery is key to emerging more competitive into the New Reality.