

The Case for the Chief Digital Officer

Innovative Brands Need a Leader to Navigate Digital Disruption



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Executive Summary

Digital disruption has affected every industry around the globe, bar none. Emerging technology has shifted the balance of power from long-standing institutions to newly formed entities that have been designed to capitalize specifically on the contemporary operating environment. Constellation's PESTEL (political, economic, societal, technological, environmental, and legislative) framework helps identify the major elements of the shift to digital, but today's brands are not staffed or structured properly to succeed in this transformation.

Enter the need for the Chief Digital Officer (CDO), the leader to help companies navigate successfully through the current era of digital disruption. The CDO charter includes formulating digital business strategy, activating operational initiatives, and managing organizational transformation. But the roles of CDOs are not one-size-fits-all; brands should hire and focus this executive on a critical set of industry-specific challenges.

This paper offers insights into one of Constellation's primary business research themes, Digital Marketing Transformation.

Everything That Can Be Digital Will Be

In the early 1990's, commercial printer and inventor Benny Landa stated that "everything that can become digital will become digital."¹ Over the past two decades, this prophetic statement has been proven true as digital has disrupted every industry, shifting the balance of power in some cases from centuries-old institutions to months-old startups. For brands in today's operating environment, keeping current with emerging technology has only been slightly easier than staying in touch with evolving consumer behaviors and preferences.

To make sense of the challenges that executives face today, Constellation uses a PESTEL framework that takes macro trends into consideration.² Navigating the current competitive landscape successfully requires expert understanding of how:

- **In politics, legislation lags innovation by a large margin.** Technology evolves so rapidly that the officials who are elected and appointed to protect the public interest are out of touch with the world around them. For example, in the recent United States Supreme Court case involving television industry startup Aereo, justices were exposed regarding their lack of knowledge about current pay-TV business models and streaming video services. This gap can create new business opportunities when arbitrated and navigated successfully.
- **In society, individuals have higher expectations for engagement.** Social media has raised the stakes for the interactions that consumers have with brands and each other. When millennials get ready for a party, they place more emphasis on how they will look in the pictures posted to Instagram (seen by hundreds) than on who they might see in person (seen by dozens). The importance placed on social media channels is the same for business purposes. Today, almost every bank, airline, hotel, and telecom provider uses Twitter for customer service. Brands have also recognized



the need to replicate the advantages of shopping online into offline retail, making omni-channel strategy a top priority.

- **In technology, infrastructure is more powerful than ever before.** Seventy percent of Americans have broadband at home, compared to three percent in the year 2000.³ Many of today's regular kitchen appliances have more computing power than the mainframes that helped Apollo 11 land on the moon in 1969. Every day, individuals carry around a gateway to the world's information and the ability to communicate, be entertained, research, shop, and more – as long as they have battery life remaining.

But Businesses Aren't Ready for the Shift

Although today's digitally disrupted environment has been decades in the making, brands are ill-prepared to capitalize on market changes. Consumers want higher levels of digital engagement, but brands are not delivering. According to a recent consumer survey from Edelman, 90 percent of people want brands to share – dialog, experiences, goals, values, products, and history – but only 10 percent of people believe brands do this well.⁴ One reason for this gap: digital marketing departments are too understaffed to make a difference. This is why Adobe has found that “digital/social marketer” is the highest priority position for marketers to hire more of in the next 12 months.⁵ However, even bringing additional help on board may not make a difference when the root cause of the roadblock goes all the way to the top; the two executives best suited to lead digital innovation – the CMO and CIO – are often at a stalemate regarding what to prioritize when it comes to digital initiatives.⁶

Brands Need a Chief Digital Officer

The CDO is a Leader for Navigating Digital Disruption

Companies need a leader who is wholly responsible and ultimately accountable for driving digital business transformation: the Chief Digital Officer (CDO). This executive should report directly to the CEO and bridge the gap between marketing and IT at a corporate level, rather than report into either existing function. Why? The CDO needs to maintain focus above the legacy responsibilities of marketing communications and enterprise technology architecture. Current C-suite residents may argue that a CDO would be assisted by the guidance and patronage of a more established department; however, the organization needs an unencumbered leader to drive a digital-first mindset into business units and all the way to the front lines of retail and customer service. A properly chartered CDO should have responsibility for:

- **Formulating digital business strategy.** The Chief Digital Officer needs to determine how to incorporate digital approaches into the company's business model, which may vary based on industry. But all CDOs must have subject matter expertise and also need to draw upon a background in general management and competitive strategy. In order to lead transformation, a CDO must determine how to evolve long-standing analog business elements into digital assets and capabilities, ultimately creating customer value.



- **Activating operational initiatives.** Effective CDOs are not mere evangelists or thought leaders; they earn their keep by translating strategy into actionable programs. A CDO will introduce new ideas into existing work methods, which requires a holistic point of view, attention to detail, and an integration mindset. A company's current value chain will require reexamination for new value creating opportunities. The CDO's role is to leverage operations and development expertise to identify areas of potential change and turn them into value capturing solutions.
- **Managing the organization's transformation.** To be effective, a CDO needs to directly lead a team with diverse skill sets that can serve as a digital catalyst in varied situations. For example, assignments might include helping a business unit take advantage of a new market opportunity, working with external partners to drive the offering of innovation, or helping establish an internal workforce collaboration platform to accelerate knowledge sharing and increased digital awareness across regions. A CDO must understand how to work within the parameters of organizational governance, establish rights management processes, and be sensitive to a culture in transition by building relationships and evolving mindsets across different levels of digital proficiency.⁷

CDO Charters Should Vary Based on Core Business Model

Most organizations will recruit a Chief Digital Officer from outside the company in order to introduce new thinking and capabilities; however, strong candidates may currently reside within the organization. The CDO must be supported by the CEO to spearhead digital transformation and, once installed, needs to act fast to gain support up the value chain and down to the front lines. This executive needs to be as agile as the industry she or he operates in, which also means that a Chief Digital Officer role is not a one-size-fits-all. Depending on a brand's core business model, the type of CDO hired varies by industry.

- **Product-focused for information-based industries.** These industries need a Chief Digital Officer to focus on core product innovation and evolution of assets and intellectual property. As the revenue generated by legacy business models erodes at an increasingly rapid pace, the CDO must identify sources of replacement revenue for the company. Not surprisingly, the industries most affected by the rise of the Internet – media and entertainment – were the first to hire Chief Digital Officers, with some of the earliest named positions filled at MTV and NBC. In higher education, institutions including Harvard University and New York University have CDOs. In these information-based industries, the Chief Digital Officer has early ownership of the most important business unit of the future.
- **Capabilities-focused for service-based industries.** For businesses primarily focused on service delivery such as advertising and communications, the Chief Digital Officer should focus on delivery models and innovation of work product by raising the overall competency level of the company's staff. In agencies and consultancies, the old saying is that every firm's most valuable assets – the employees - walk out the door every night. In the contemporary world, these assets, or workers, are texting, emailing, and gaming as they walk and the CDO needs to help transfer their personal familiarity with digital tools, technologies, and services into professional digital



competencies and capabilities of the organization. Within the major advertising holding companies including WPP, Omnicom, Publicis, and Interpublic Group, many traditional agencies have CDOs to help avoid obsolescence at the hands of niche agencies that were born digital.

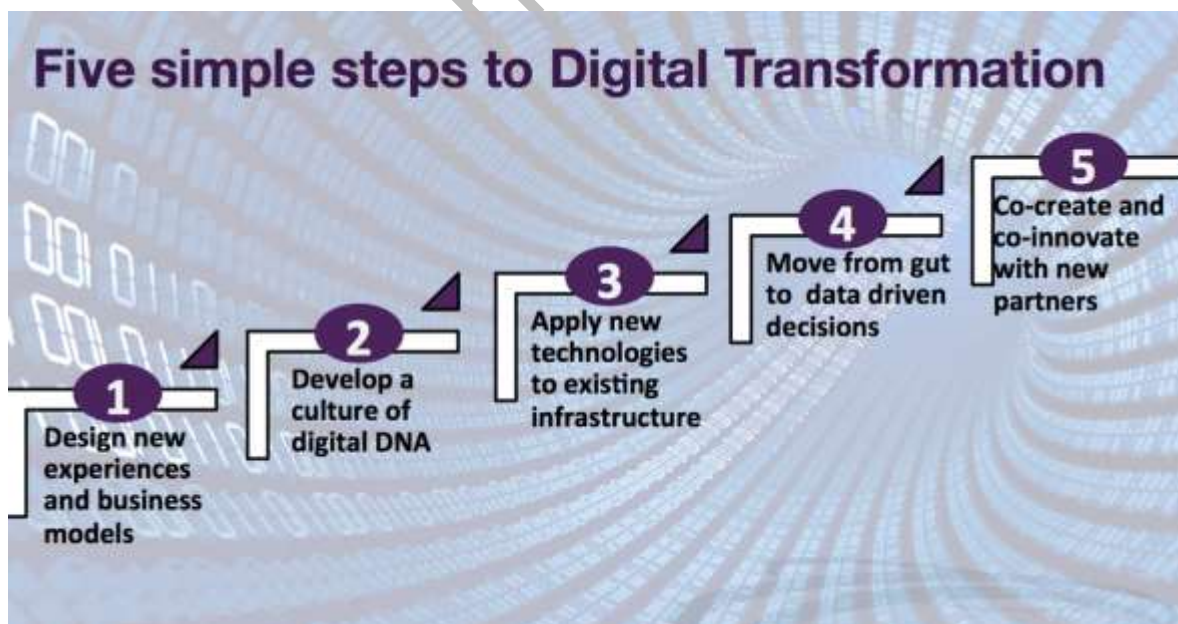
- **Experience-focused for industries with physical presences.** Within retail, financial services, travel, and other industries that maintain brick-and-mortar assets to engage with customers, the Chief Digital Officer is responsible for evolving the customer experience model. For these industries, a CDO creates the plan for bridging online and offline experiences. At Starbucks, the CDO is responsible for the website, in-store media, and mobile apps that bridge the gap. Citibank has a Chief Client Experience, Digital and Marketing Officer to lead global client experience strategy and execution, reporting to the CEO. The City of Vancouver has a CDO to improve citizen-to-government engagement and create new economic activities. Within these businesses, the Chief Digital Officer leads omni-channel strategy, helping enhance assets and processes with digital innovation.

Recommendations

Cut Through the Hype and Get Started

Over the past 12 months, Constellation has interviewed, researched, or assisted more than 50 market-leading and fast-follower organizations crafting a digital transformation strategy. Regardless of industry, size of company, or geography, these early adopters share five common steps to success. In each case, these steps provide the foundation for not only transforming their business models, but also reinventing their brand promise. These five steps include (see Figure 1):

Figure 1. The Five Steps to Digital Transformation Success





- 1. Designing new experiences and business models.** Use digital as an opportunity to craft new experiences. Customers seek outcomes and experiences while organizations continue to sell products and services. This gap in expectations is only exacerbated in a digital world. In fact, successful digital business models reinforce the brand promise and promote the brand mythology. [Mass personalization at scale, Big Data business models, and augmented humanity](#) provide starting points to designing a new digital experience. Early adopters all have applied concepts in design thinking from the beginning. Over the past 18 months, Constellation has helped organizations with digital transformation workshops to set the stage or imagine how digital disruption will affect an organization's business model.
- 2. Developing a culture of digital DNA.** Success begins at the top. Digital DNA requires strong leaders who are not afraid of dips in share price, cannibalizing existing markets, and identifying new approaches. Organizations must also assess their innate ability to thrive in a digital business environment and nurture [digital artisans](#). These skills go not only beyond the quant jocks who deliver hard science and engineering prowess, but also beyond the creative class who can co-innovate and co-create on demand. Consequently, organizations are rethinking the attributes a digital business should employ and embody. Diversity in thinking means more than race or [age or digital proficiency](#). It means a balance of thought. In an organization with too many hard sciences, balance out recruiting with philosophers or anthropologists. In an organization with too many thinkers, balance out the model with teams that can execute. [Using a framework for digital proficiency](#) and a checklist on digital artisans, organizations can infuse digital DNA throughout the culture.
- 3. Applying new technologies to existing infrastructure.** Digital does not mean wholesale replacement of existing technologies. Digital does not mean just putting a mobile front end or adding a social collaboration feature to a process. The convergence of mobile, social, cloud, analytics (Big Data), and unified communications provides starting points. Adding sensors to old machinery provides data and context. Mobilizing mainframe data for use in analytics delivers new experiences and provides insight into new opportunities. Bringing external data to internal systems creates new patterns that provide better data for testing out new business models. Use the opportunity to rethink your technology strategy to align with the business objectives of digital transformation.
- 4. Moving from gut- to data-driven decisions.** Data is the heart of digital transformation. Every touch point, every click, every interaction provides a digital exhaust rich in context. The goal is to move [from right-time information overload, to real-time contextual relevancy](#). Organizations need relevancy delivered in real time. From [asking the right questions](#) to anticipating future behavior, the goal is to move from data to decisions. Every bit of data flows into upstream and downstream information aligned with business processes. These information flows then provide the foundation to expose patterns that provide insight. That business insight then enables people to make fact-based decisions. Serving up this insight is the foundation for building data-driven decisions.



5. **Co-creating and co-innovating with new partners.** No company can succeed on its own. In digital transformation, an ecosystem of co-creation and co-innovation awaits. Organizations should participate in industry consortia and also create their own ecosystems aligned around the organization's self-interest. In many scenarios, an ecosystem does not exist but market-leading and fast-follower vendors, suppliers, and customers will join if there is strong leadership.

Disclosures

Your trust is important to us, and as such, we believe in being open and transparent about our financial relationships. With our clients' permission, we publish their names on our website.



Endnotes

¹ <http://www.landnano.com/nanography/nanography>

² The acronym PESTEL stands for political, economic, societal, technological, environmental, and legislative. For more, see the Constellation Report: Big Idea, "Constellation's 2014 Outlook on Dominating Digital Business Disruption" by R "Ray" Wang, February 10, 2014.

³ Broadband Technology Fact Sheet, Pew Research Internet Project, Pew Research Center, <http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/>

⁴ Brandshare survey, Edelman, <http://www.edelman.com/insights/intellectual-property/brandshare/>

⁵ "Digital Roadblock: Marketers Struggle to Reinvent Themselves," Adobe Systems Inc., March 2014, <http://www.adobe.com/content/dam/Adobe/en/solutions/digital-marketing/pdfs/adobe-digital-roadblock-survey.pdf>

⁶ According to an Accenture study of digital marketing, the #1 priority for CMOs is better deployment of marketing execution and platforms, while the #1 priority for CIOs is better marketing measurement and campaign optimization. Consequently, technology vendors are stepping in to take advantage of this disconnect. For more, see the Constellation Quark: News Analysis, "Oracle Moves Its Focus from the CIO to the CMO," by Natalie L. Petouhoff, May 20, 2014.

⁷ Rather than considering digital proficiency by age segmentation, executives need to evaluate knowledge and comfort with using technology. This leads to a more actionable management model consisting of five key types of digital workers. For more, see the Constellation Report: Big Idea, "Segmenting Audiences by Digital Proficiency," by Alan Lepofsky, April 7, 2014.



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Peter is Chief Strategy Officer and Principal Analyst at Constellation, delivering insight and analysis to CMOs, CXOs, and business strategists.

Coverage Areas: Customer experience management, including relationship management, social networks, content optimization and publishing, advocacy, and analytics. Marketing service providers, including agencies and consultancies. Innovation agenda items, including social business, omni-channel, and global digital trends.

Previous experience: Prior to Constellation, Peter held a variety of roles at Dachis Group, including Chief Strategy Officer, where he built a multi-million dollar strategy consulting practice from scratch and guided the firm to a successful exit via acquisition. Previously, he was an analyst at Forrester Research, focusing on social technology and marketing strategy, where he won awards for best research and top keynote. Earlier, Peter led international marketing operations and was head of global digital marketing at PUMA AG.

Peter has been quoted by media outlets, including CNBC, CNN, NPR, and The Wall Street Journal, and featured as a speaker at events, including SXSW, Web 2.0 Expo, and Enterprise 2.0. He is co-author of the book *Social Business by Design* and drives global industry discourse at beingpeterkim.com and as @peterkim on Twitter.



About Constellation Research

Constellation Research is a research and advisory firm that helps organizations navigate the challenges of digital disruption through business models transformation and the judicious application of disruptive technologies. This renowned group of experienced analysts, led by R “Ray” Wang, focuses on business-themed research, including Digital Marketing Transformation; Future of Work; Next-Generation Customer Experience; Data to Decisions; Matrix Commerce; Technology Optimization and Innovation; and Consumerization of IT and the New C-Suite.

Unlike the legacy analyst firms, Constellation Research is disrupting how research is accessed, what topics are covered and how clients can partner with a research firm to achieve success. Over 225 clients have joined from an ecosystem of buyers, partners, solution providers, C-suite, boards of directors and vendor clients. Our mission is to identify, validate and share insights with our clients. Most of our clients share a common trait - the passion for learning, innovating and delivering impactful results.

Organizational Highlights

- Founded and headquartered in the San Francisco Bay Area, United States, in 2010.
- Named Institute of Industry Analyst Relations (IIAR) New Analyst Firm of the Year in 2011.
- Serving over 225 buy-side and sell-side clients around the globe.
- Experienced research team with an average of 21 years of practitioner, management and industry experience.
- Creators of the Constellation Supernova Awards – the industry’s first and largest recognition of innovators, pioneers and teams who apply emerging and disruptive technology to drive business value.
- Organizers of the Constellation Connected Enterprise – an innovation summit and best practices knowledge-sharing retreat for business leaders.
- Founders of Constellation Academy, experiential workshops in applying disruptive technology to disruptive business models.

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