



XAAS FILES PODCAST, EPISODE 16

WHAT IS DIGITAL HESITATION?

Introduction [00:00:00] Welcome to Accenture is XaaS a service files the podcast for business leaders helping their companies transform using innovative digital business models. Here, you'll learn from some of the industry's leading movers and shakers, senior executives from companies around the globe who are changing the way the world works and plays by delivering all types of compelling subscription services. Join your host Kevin Dobbs Accenture as XaaS service managing director who brings 20 plus years of experience as an entrepreneur, CEO and senior executive to the table. Kevin has led dozens of as a service business transformation for some of the largest technology and industrial companies globally. Now let's get to today's episode.

Kevin Dobbs [00:01:04] Welcome to the XaaS as a Service Files podcast series. My name is Kevin Dobbs. I run our revenue acceleration practice here at Accenture. And today, I'm excited to have Thomas Lah, the director and executive vice president at the TSIA, come and talk to us about, he's written a new book which is called 'Digital Hesitation: Why B2B Companies Aren't Reaching Their Full Digital Transformation Potential' And for a lot of people who have listened to the podcast series, you know we talk a lot about digital transformation and why they work, why they don't, what to do. I think Thomas is a real expert in this area and has some really unique insights and will help us kind of maybe get better at doing this. So, Thomas, welcome.

Thomas Lah [00:01:52] Hey, thanks so much for having me. Kevin, you know, I was listening to all your previous episodes. I really enjoyed them and I think it will be a great conversation today.

Kevin Dobbs [00:02:02] Great. So, you know, as I was going through looking at your book and I even saw some videos of around the content, I'd just be interested to know why did you and JB Woods write this book in the first place?

Thomas Lah [00:02:17] So, you know, this is just the fourth book that we've written together all about technology business models. But the catalyst for this one is, you know as well as well as I do, you know, all these tech companies are talking about digital transformation and how they want to help their customers through digital transformation. But our observation was that these tech companies themselves really need to lean in to the full potential of digital transformation. And we think if they do that, they come out the other side with very profitable business models. And, you know, there's a lot of tech companies out there born in cloud companies that are not profitable. So, this can help with profitability. And ultimately, it also helps these companies to do a much better job of driving value realization for their customers. So, the book is really designed to overview key levers these companies should be pulling to get through full digital transformation.



Kevin Dobbs [00:03:18] Yeah. And as we know, I mean, right now, profitability and having profitable business models in this economy is probably a pretty good idea. So, I'm sure there'll be a lot of interested people reading your book. As you talk about in the book, you talk about there have been kind of two waves of transformation that's happened over time, especially with regard to B2B. Can you talk to us a little bit about kind of wave one and wave two?

Thomas Lah [00:03:44] Yeah, so wave one. What we've observed is that there is especially for technology companies that were not born, the cloud wave one. You see tech companies doing two things. Number one, they want to get to have more recurring revenues. Right. Move away from transactional. So, you see a big push there. And they also want to have more as a service offers, right. Managed offers, cloud so that they're more connected with their customers. And, you know, that first wave has been incredibly disruptive. And there are companies that have made it through. There are some companies that are stalling on that first wave. In the book, we call it, it's actually the innovator's dilemma squared, because these tech companies are not just navigating a technology shift, which is the classic innovator's dilemma squared when your market changes in technology, but simultaneously changing their business model, right, from transactional to recurring. So, this has been hard and a lot of companies are sort of taking a deep breath announcing that you just got to get through this. And we're saying, well, that's not the end game. There's a second wave. And the second wave is really about these companies becoming masters of value realization and again, pulling these new levers of digital transformation.

Kevin Dobbs [00:04:56] Yeah, because we've seen over time. Wave one was always the typical, you know, if we could just change our transaction systems and be able to, you know, process subscription revenues, then, you know, we're that we've solved it. But you know, what I really appreciate in kind of reading through your material was this whole idea that it's not just kind of the transaction, it's the product, it's your operating model. It's kind of much more that you really have to become a different kind of business.

Thomas Lah [00:05:31] Yeah, absolutely.

Kevin Dobbs [00:05:34] Another thing that I absolutely thought was spot on in the book was, you know, this idea of you talk about being master as well. A lot of clients that we work with, you know, they want to be masters of complexity. Like the more complex, you know, the better you are, the more value you have to deliver. But your book kind of says, well, maybe. But really, in these new models, actually, simplicity is better than complexity. Tell us a little bit about that.

Thomas Lah [00:06:05] Yeah. And it's it's not just product offer. You know, simplicity is the business model. I mean, it's both. And in the book, we make this assertion that complexity kills. And to your point, historically, technology providers have monetized complexity. Right. Custom was a good thing. Right. And in now we need to make it much easier for our customers to go through the lifecycle of learning about our offers, trying, buying and ultimately, you know, getting value. And I'll use a simple example here. This sort of separates these different mentalities.



If you look at AWS and you want to go, you know, turn on one of their services, you know, the compute or storage or whatever, you can go to their website and in three clicks you can turn that service on without ever talking to a human being. Now there are other enterprise B2B companies like Dell, like HP, etc., that are in this business of, hey, we're going to have technology-as-a-service, etc. Is consumption driven, all that stuff. Go to their web site and try to turn something on.

Kevin Dobbs [00:07:13] Right.

Thomas Lah [00:07:16] So it's just, you know, they're still in that traditional model. How are you going to talk to somebody, we gotta have meetings, we gotta go back and forth We gotta give you all this stuff. Right. So, it hasn't yet really sunk in. But but, you know, Bill McDermott, the CEO of ServiceNow, said it best. We were doing an interview with him at one of our conferences and he said, "look man, you know, simplicity is a compliment to the customer." And that's, I think, going to be the winning thought in B2B tech.

Kevin Dobbs [00:07:45] Yeah. It's in your book. It was really clever. I think you were actually using the Amazon example, but you listed another company and I forget it was like 24 or 25 steps instead of the three. That's and you know, you also think about just the cost of doing business as well. Both on, you know, for the customer as well as for the technology provider, it's like, wow, if I've got, you know, 25 discrete steps in my buying process, probably need a lot more people, a lot more infrastructure. It's just a much more expensive way to kind of operate your business.

Thomas Lah [00:08:22] Absolutely.

Kevin Dobbs [00:08:24] So you talk about leaning into these new models. How do you think value propositions are changing? And I know obviously simplicity is one kind of dimension of that. Are there other ones that companies should be thinking about?

Thomas Lah [00:08:37] Well, I mean, I think it's simple. The value prop is value or value realization. I mean, this is ultimately all the customers care about. Right? And what is it they want for their business? They want more revenue or they want more profit or they want less risk. It's not uptime, it's not throughput. It's not specific feature functionality. And unfortunately, tech companies, many of them are still really struggle with that fact. Right? And so, we tell members, look at you need to climb the value ladder up from feature functionality to now impacting the business KPIs that your customers care about to ultimately driving financial outcomes that that is really the North Star in terms of value proposition.

Kevin Dobbs [00:09:25] And it's also interesting to over time, B2B models have sort of had to learn what's happened on the B2C side. So, in our consumer lives, you know, many, many years ago, you just expected, you know, instant gratification. Things are simple. You know, I can do it myself. It seems like these, you know, B2B models have really adopted a lot of that because the buyers have just come to expect, you know, why can't I do this?



Thomas Lah [00:09:56] Well, that's absolutely right. I talked to some folks who that B2C experience, we all have in so many facets of our life, whether it whether it's booking, airline travel or whatever. Right. Do you do in your banking? I mean, everything is you know, is a click on an app and then they turn to their, you know, B2B relationships and they say, are you kidding me? Why are you making me jump through all of these hoops? And so, but it's also interesting when you talk about that. I do talk to many B2B companies who say, look, like you don't get it. Thomas are you know, our solutions are very complex. Our customers environments are very complex. You know, we're never going to be, you know, an app on a phone where you click some buttons, and I'm not asserting that everybody gets to that level of simplicity. Right? But they should be looking constantly for areas where they can make it easier for the customer to actually do business with them.

Kevin Dobbs [00:10:53] Yeah, I couldn't agree more. I think again, it goes back to, they loved complexity and they felt complexity equaled value. And you know, I think the market's kind of flipped on its head over time. Speaking of the market, I mean, even in the last six months, the, you know, the stock market, the volatility and just you name it, every aspect of our lives has really kind of changed. What do you think the role of resiliency is and kind of these digital transformations? Because we saw a lot of companies change their supply chains over time, and whoops when COVID came along, not that resilient and it created all sorts of issues. What do you think the role of kind of thinking through creating something that's much more resilient? Why might that be important?

Thomas Lah [00:11:51] Yeah, you know, it's interesting. We have evidence that if you go all the way back to the big global recession and then the early days of the pandemic, you know, the data is clear that companies that are further along in this digital transformation journey do have more resilient business models. And specifically, if you just look at the companies that made it through that wave one. Right. And what does that mean? That means that instead of transactional revenues, they have recurring revenues. And recurring revenues, there is no doubt are more resilient and there's a downturn. Right? Because if you're transactional. Right? And the customer goes, well, I'm not sure what's going on. I'm not going to make that big purchase right now. But that's different than saying, you know, I need a monthly subscription with you and I'm using this stuff. I can't necessarily turn it off right. I might be able to download, but I can't just turn it off. And so that's one way, right? The recurring revs in some of the reasons that Wall Street loves those models is, as you said on this podcast before, I mean, you wake up and you know where 80% of your revenue is going to come from or 70% at the beginning of the fiscal year, right, with existing customers. And if there's a downturn, maybe that, again, goes down a little bit, but you're much better line of site and instead of chasing new transactional stuff. And then the second reason, which is I think just as important to the why, if you get through wave one, you're more resilient is you are more connected with your customer. And that's huge, right? Because, again, traditional tech business models, tech solutions, you sell your customer some hardware, some software they run off, you know, it's installed in their data center. You don't really know what they're doing



. What's you know, if they're using it a lot, they're not, etc.. You get them into these as-a-service postures and they're connected. Now you've got this ongoing, in a sense, dialog with the customer that is allowing you to add more value to them. So, so yeah, I think, you know, companies that are further on to the transformation journey are more resilient and the ones that get through the second wave I think are going to even be more resilient than the ones that got to the first wave.

Kevin Dobbs [00:13:41] Yeah, no, I agree. And the other thing, too, that's we wrote a blog, I think you and I talked about. We called it kind of the digital burrito. But, you know, sometimes digital transformation isn't maybe taking your core business. And, you know, if I make, let's say, airplanes, I'm not going to stop making airplanes. But what I may do is I may wrap my business in kind of a digital wrapper that allows me to create new products and services and deliver new value propositions. And I think what we saw during COVID was one of the large restaurant chains announced in their quarterly financials that they had sold over \$1,000,000,000 worth of burritos, but they had done it digitally. And, you know, you think about, again, the resiliency of the business model, being able to, you know, take a gut punch like what we experienced with COVID and still be able to generate a significant amount of, let's say, core revenue. But doing it through, you know, in a digital enabled way, it seemed like that. That's a good example of what you say in the book.

Thomas Lah [00:14:52] Absolutely. Yeah, absolutely. I agree with that.

Kevin Dobbs [00:14:57] Ans so, when you're writing the book that was peppered with all sorts of examples, and I know TSIA does a significant amount of research, are there companies right now that you think are good examples of firms who, you know, again, you and I talked about maybe no one's completely through digital transformation. It's an ongoing process. But do you think that there are good examples of companies who have done the right thing?

Thomas Lah [00:15:23] Yeah, when I think at the company level and I look for exemplars and say, look, I really think that they have gotten through both the first and second wave, I don't see the companies there yet, but at the offer level, there are tons of great examples of how people are leaning into this, this journey. And, you know, in the series you saw your previous guests like Tian, you've talked about some of these examples, right? Like Caterpillar having much more subscription digital experience. One of our members, Philips Health Care, does something called monitoring-as-a-service. Philips has all this sophisticated equipment that's deployed in hospitals, typically, you know, the hospitals managing, etc. Now they have this managed offer where they are managing that equipment for the hospitals. But it's not just, you know, traditional managed services or outsourcing was like, hey, just make sure this stuff is running. They're really using because it's connected. They're using that telemetry to help optimize the use of that, to make nurses and doctors more productive, you know, around that equipment. And so, it's a very different value proposition and that's a huge shift in mentality for a company like Philips, you know, it's been around over 100 years to go from the transactional model in lean in to that type of managed offer with, you know, the next generation type of value proposition.



And in another example, I was just doing an interview with the head of customer analytics at ServiceNow. I was doing a podcast with her, and she was telling me how they have established, I think she said, 16 listening posts across the entire customer lifecycle. And so, a listening post could be product telemetry, it could be customer SAT data, it could be information that's coming out of the accounting department. It's ServiceNow and working with that customer. But they look at all the data from the 16 listening points and they're looking for the biggest friction experiences that customers are having in figuring out how they go after those. Right? And reduce that. And so, again, the customers are more connected. They're using data to guide them and take friction out of that relationship. So, you know, bottom line is there are lots of flashes of brilliance out there in every day and quarter that goes by. There's more and more examples of really good things happening.

Kevin Dobbs [00:17:38] Well, Thomas, that was great. And your book is really fantastic. I thought you shared a lot of good insights. Hopefully people picked up some tips as they're thinking about their digital transformation. And we'll talk to you on our next segment. So, thank you.

Closure [00:17:59] Thank you for listening to Accenture XaaS Service files. Please be sure to visit our podcast Web site at Accenture.com slash XaaS service files that's Accenture dot com slash x a a s dash f i l e s. Where you can listen to more conversations with other industry leaders about their vision and perspectives on innovative digital business models. You'll also find more great insights from these leaders on our blogs that accompany each episode. And of course, we always appreciate it when you rate and review the show.

Be well and we'll catch you again on the next episode of the XaaS files where we'll learn about the next venture in the digital transformation business journey.

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