

Developing an Innovation-First Mindset for Business Model Success

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Thriving with Digitally Enabled Business Models

We live and compete in a dynamic world where companies need to continuously adapt to survive and grow. This can be seen in the average lifespan of companies in the S&P 500, the stock market index that tracks the largest 500 companies in the U.S., which dropped from 33 years in 1964 to 24 in 2016; by 2027, this is expected to shrink further, to 12 years (source: Innosight research).

What's behind this? Unpredictable market shifts, fast-changing user preferences, customers' appetite for instant access to information, and the ease of switching providers with a simple click are threatening companies' survival through traditional business models. The always-on, passive-loyalty world we live in means if customers aren't satisfied or if you aren't delivering what they want, when they want it, they will simply find an alternative.

This means organizations need to move at the speed of their customers, adapting their business models to become digital. Continuous agility at scale, in strategy, operations, and even supply chains, is near impossible to achieve without a digital business model.

AT A GLANCE

To thrive in a highly dynamic and volatile world, organizations have to continuously adapt and innovate their business models at the speed of their customer and external environment. To do this, sustainable companies must develop an innovation-first mindset that encourages experimentation, quick iterations, and fast learning.

KEY STATS

90% of European organizations say it is crucial to have a digital-first strategy.

In 2025, more than **€4 trillion** of European gross value added (GVA) will be driven by digital products and services.

KEY TAKEAWAYS

Successful business model innovation requires an innovation-first mindset defined by five elements:

- 01.** Leadership that acts as a digital dream team
- 02.** A culture of innovation
- 03.** Empowered talent
- 04.** Governance guardrails
- 05.** Agile technology architecture

IDC defines a digital business model as one where value creation is based on the use of digital technologies, including how a company engages with customers and partners, how it attracts, manages, and retains employees, and what products and services it provides. This requires a shift in mindset, looking at digital technologies as key value drivers to accelerate topline growth.

70% of CEOs in large European organizations will be committed to generating at least 40% of their revenues from digital products and services by 2025
(source: IDC European FutureScape 2022) and more CEOs will be under pressure to inform their boards and stakeholders of their clear targets for digital revenue growth.



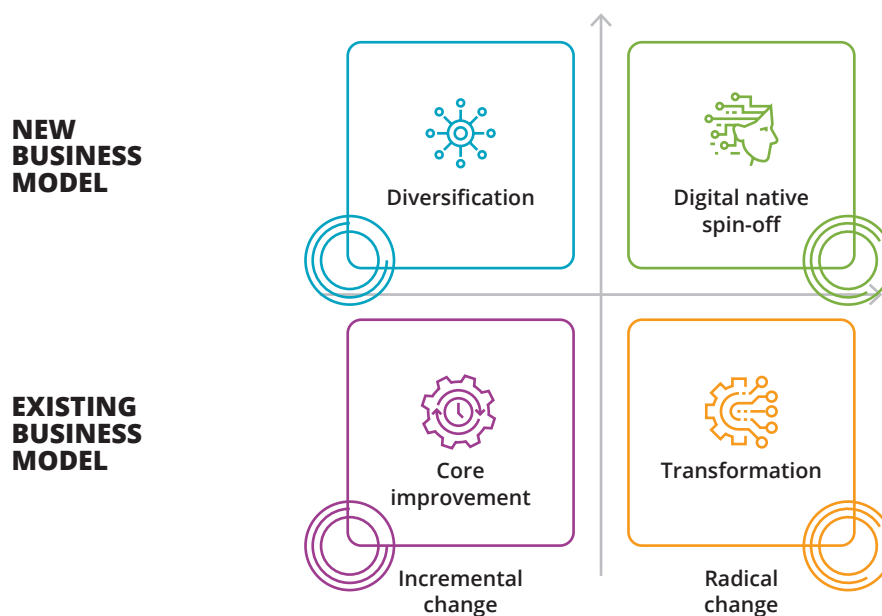
To achieve this, CEOs will use different levers such as increasing their digital investments, reorganizing around new competence centers, and partnering with or acquiring tech start-ups. At Audi, for example, John Newman, head of digitalization, is working toward generating at least €1 billion in profits from digital products and services by 2025.

Strategies to Build a Digital Business Model

There are four strategies companies can take to innovate and shift to a digital business model (see Figure 1), either through continuous, incremental innovation or through more radical changes. The focus of these innovations may be internal (core operations, production, or service delivery) or external (new products/ services, new customer acquisition, new markets).

FIGURE 1

Four Strategies to Embrace a Digital Business Model



Source: IDC Digital Transformation Practice Research, 2022

The four strategies are:

- Core improvement.** Organizations take the safer route, using an existing business model with digitized operations. This is a good starting point or the first step on a digitization path.
- Diversification.** Organizations expand their existing business model by delivering new digital products and services.
- Transformation.** This is a more challenging strategy, with organizations fully adapting their existing business model into a digital model.
- Digital-native spin-off.** This strategy involves the creation of an entirely new digital business, an option that large organizations and legacy players can pursue when transformation is not feasible or too risky due to the size or complexity of the traditional business model. The spin-off can help these incumbent players explore and innovate new opportunities while minimizing the impact and risk on the existing business model.

Digital Business Model Innovation Pitfalls, Challenges, and Lessons Learnt

Innovating the business model and pivoting to digital-first is not easy. However, companies are making the shift because the cost of doing nothing is high. IDC's 2022 CEO Survey (n = 103) shows that the biggest risk for European CEOs over the next two years is related to "closing digital business model execution gaps." This confirms that despite the commitment and investments, organizations are still struggling to implement digital business models.

Interestingly, when looking at the top hurdles to digital business model innovation, technology is not one of the main ones. The top challenges relate to leadership and organizational structure. This includes a siloed budgeting approach, lack of leadership vision, static organizational structures, lack of KPIs to measure impact, and lack of skills.

FIGURE 2

Main Challenges with Digital Business Models

We have a siloed standalone budget



Management and leadership orientation is mostly focused on process and not on business outcomes



Our organizational structures hinder progress and collaboration



The metrics/KPIs that we use don't allow us to quantify business value adequately



Lack of skills/capabilities



We don't have an integrated enterprisewide technology road map



Our technology architecture does not allow for scale and innovation



**LEADERSHIP
CHALLENGES**



**ORGANIZATIONAL
CHALLENGES**



**TECHNOLOGY
CHALLENGES**

Source: IDC EMEA IT Buyer Sentiment Survey Wave 14, November 2020 (n = 326)

Let's look at the pitfalls and how to avoid them:

1. Leadership challenges



Leaders who are not actively supporting or sponsoring a business model change, not providing an enterprise-wide digital road map and budget, or not setting the right metrics to track progress are blocking innovation. Some traditional line-of-business C-suite executives lack the digital know-how to drive change in partnership with their technology peers. To succeed, the CEO and the entire C-suite must fully integrate the business and digital strategies, connecting the dots between business priorities and technology investments.



2. Organizational challenges

Organizational challenges are broader and include subsets, from culture to talent to governance.



Culture. Organizational silos, inertia, and fear of failure are harder to overcome, but doing so is imperative for success. Only 14% of European organizations are not considering or implementing measures to effectively transform organizational culture (source: IDC EMEA, Future Enterprise Resilience Survey 2021, Wave 9, October 2021, n = 430). Business model innovation requires a forward-thinking approach and a proactive customer-first mindset. This in turn is based on agile, “experiment and learn fast” methodologies, and teams empowered to innovate and disrupt traditional standards. Developers need the autonomy to experiment and iterate. Organizations should encourage responsible experimentation through a culture of accountability, ownership, and security-by-design.



Talent. Limited focus on talent development is another key reason for the digital impasse, on average creating an 8-month delay in digital innovation projects in Europe (source: IDC Digital Resilience Benchmark Survey, 2022). Skill gaps need to be identified and resolved across multiple domains — from basic digital skills required to communicate and collaborate in a hybrid work environment to professional IT skills spanning code development, data science, security, and specific emerging technology skills in fields such as AI/ML, cognitive, blockchain, robotics, and virtual reality. For example, 75% of European organizations say ongoing changes such as automation will impact existing jobs and skills, but one in two is not prepared to meet this new demand (IDC Worldwide Future of Work Survey, April 2021). In addition, digital know-how should also be infused right up to the C-suite, resulting in a leadership that understands the art of the possible of new technologies and ultimately is able to drive digital business model innovation.



Governance. Digital business model innovation is a balancing act between striving to maintain resilience, cost, compliance, and product quality while also fostering a digital culture and meeting innovation-oriented business objectives. In conversations with IDC, many organizations that face a digital impasse admit they take a narrow approach to governance, where the focus is on granular gatekeeping rather than designing robust mechanisms, strategies, and systems to achieve this balancing act. Governance should take on a larger role and help to close the gaps in technology, processes, data, and people.



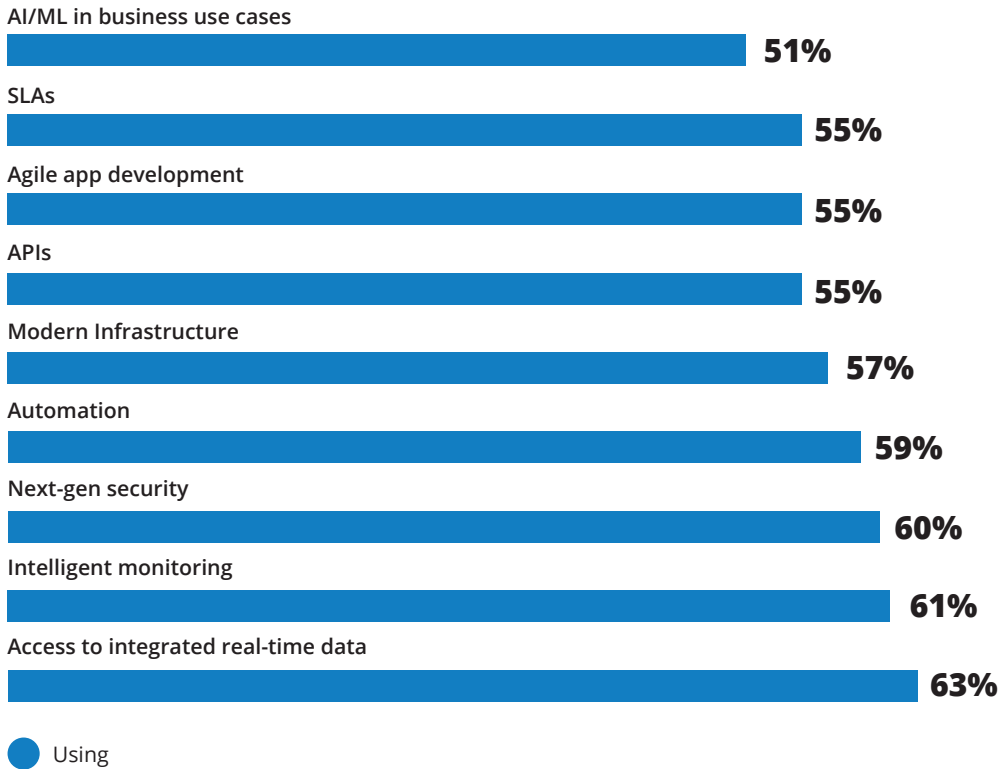
3. Technology challenges

As shown in Figure 2, the lack of a technology road map integrated with business needs and the absence of an architecture to support innovation are the top technology hurdles for innovation. Many existing technology architectures don't support a modern agile innovation strategy of high-frequency releases, at low cost and low risk. This prevents them from implementing “test fast, fail fast, innovate fast” strategies due to fear, high cost of failure, or other risks. Equally, IT teams have been mired in traditional IT environments and in managing complex hardware-centric resources.

FIGURE 3

European Adoption of Technology Capabilities

To what extent has your organization adopted the following?



Source: IDC's European enterprise end-user research

IDC's European enterprise end-user research shows that nearly half of organizations have not adopted modern technology capabilities such as agile application development, API-based architecture, and automation required to support modern business needs.

In conversations with IDC before the pandemic, a **CIO from a large financial services organization admitted that IT can assign only 4% of its IT budget to innovation while the rest was dedicated to keeping the lights on.** Another **IT leader said, "It took the team nine months to deliver compute resources to meet a new business idea."** Such delays are increasing the pressure on technology teams and reinforcing the perception of them as a "cost center."

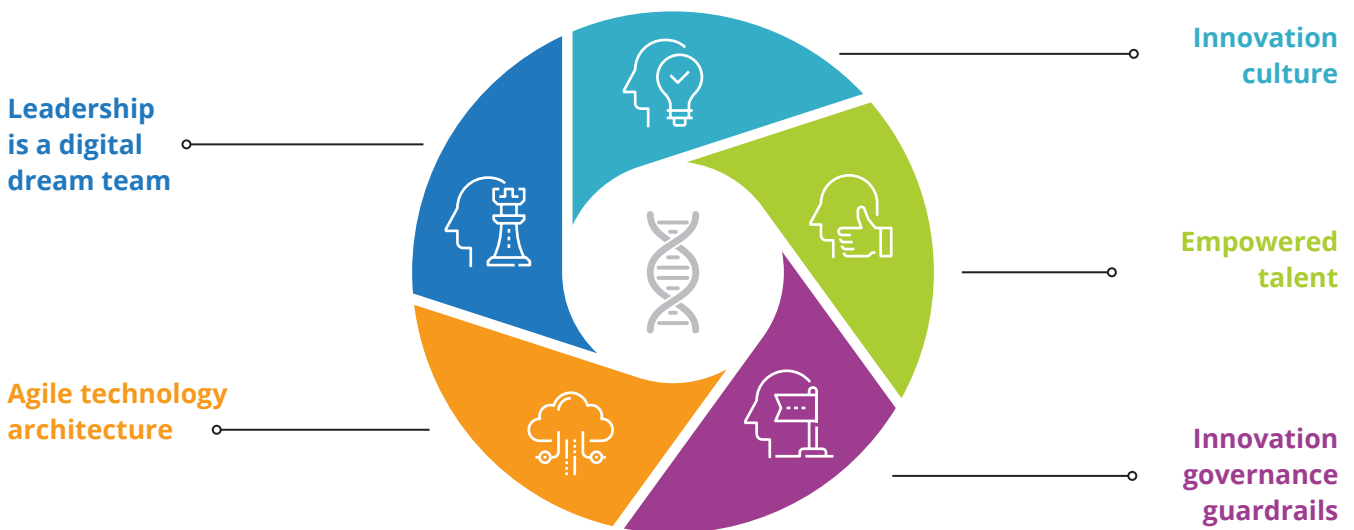
IDC believes that leadership, organizational, and technology challenges must be addressed together as they are all intertwined. A good example of this is a global drinks company that has created six key programs to deliver on its digital business strategy. Two of the six focus on modernizing its technology architecture to empower the teams with the right tools to innovate. The other four are focused on culture, organizational, and leadership transformation.

What You Need to Succeed: An Innovation-First Mindset

To excel at business model innovation and delivering value, there are five core principles (see Figure 4) that companies should use to overcome the three sets of challenges. These should be embedded in the organization's mindset, key mission, values, and strategic priorities.

FIGURE 4

Key Principles of the Innovation-First Mindset



Source: IDC, European research, 2022



Leadership Is a Digital Dream Team

Business model innovation requires a leadership team ready to actively drive change. On one side, the CEO and other C-suite leaders need to become increasingly digital savvy. **According to 45% of European CEOs,**

digital know-how is the most important skill needed to be successful in their roles over the next three years (source: IDC CEO Study, 2022). At the same time, **technology leaders must listen to broader CXO requests** to better implement innovation across the organization's stack. They need to **drive this jointly with other strategic stakeholders and budget owners**. The adoption of new business models needs the C-suite to push in the same direction and drive a cross-functional approach, working as a **"digital dream team."** To capitalize on new digitally transformed business models and revenue streams, enterprises **need an overarching orchestrator** that pulls the strings together. The CEO, CIO, or CFO typically take on this role.

L'Oréal: Research, Innovation, and Technology Driving Strategy

In 2021 Barbara Lavernos, head of research, innovation, and technology at L'Oréal, took on the strategic role of deputy CEO. Commenting on her appointment, she said: "Technology is business today .. My appointment to this position is only the translation of this belief .. technology has become fully, completely strategic." The group confirmed: "With her appointment, research is placed at the highest level of the group, confirming its critical role for L'Oréal. The new direction, combining R&I and technology, will be the cradle of the group's great inventions of the future."

L'Oréal 2021, <https://www.loreal.com/en/press-release/governance-and-strategy/loral-announces-the-succession-of-jeanpaul-agon-as-chief-executive-officer-from-1st-may-2021/>



Innovation Culture

Having a forward-thinking approach based on agile methodologies and people eager to innovate is crucial to succeed with digital business models. An innovation culture means having in place a **shared system of beliefs**

supporting innovation at all levels:

- Adopting an iterative “learn always” approach
- Encouraging bottom-up innovation and experimentation
- Partnering with the customer: by working backward from their needs and gaining feedback from them quickly

IDC believes an innovation culture must be integrated into the heritage of the business. There is no one-size-fits-all type of culture, so “copy-and-paste” doesn’t work. To be successful, innovation should be embedded in the culture, spirit, and values of the organization and must permeate all organizational levels

Iveco: Driver Pal and the Working Backward Innovation Methodology

Iveco, the Italian vehicle manufacturer, launched a pioneering on-board vocal driver companion, enabling drivers to interact with their truck and the community through voice commands, providing a comfortable, safer, and stress-free driving experience. The innovation result from the application of the “working backward development” approach that starts with the customer outcomes and works backward to the solution that needs to be developed.



Empowered Talent

Successful innovation often requires new skills and new roles. Nurturing and retaining talent is connected to culture and leadership where innovation culture is not only supported but actively encouraged and rewarded. Having

small, diverse, multiskilled teams, low-risk access to the latest technologies to experiment, going through no-blame post-mortems, and encouraging skill development in adjacent areas are all key elements of an innovation-first mindset. This is also driven by the new expectations of Gen Z regarding their employment and career goals: mastery, autonomy, and personal growth are valued much more than traditional elements such as hierarchical ascension and pay. The working space needs to adapt as well and offices need to become collaboration hubs that drive a flexible working culture and enhance creativity. This requires a physical office space that is augmented with collaboration tools, digital whiteboards, and ideation spaces that support a hybrid “work anywhere” world.

Zalando: Agile Organization

Zalando has an agile organizational structure in which tech is embedded everywhere and a culture of continuous innovation is encouraged. Product owners are C-level business owners empowered with end-to-end ownership on their respective pillars of responsibility. Technology is embedded everywhere, and every team has dedicated tech architects. Organizational culture also sustains bottom-up innovation. Each employee is encouraged to come up with new ideas in dedicated kickstarter weeks with the winning team given the opportunity to bring the idea to market.



Innovation Governance Guardrails

Digital innovation is a balancing act. Organizations that “goldplate” the traditional view of governance can curb innovation or give rise to unofficial innovation projects. Innovation governance is about **creating governance guardrails with enough flexibility and freedom built in to innovate. This can be achieved by providing a pool of curated self-service resources without “granular gatekeeping.”** One strategy is to create

a sandbox environment or digital garages or spin-off organizations to minimize risks to the core business during the experimenting phase. For example, a large utilities company has created a “zoning model” with a full developer DIY zone open to all team members for low-risk environments and a “professional developer” environment for more complex and high-risk environments. This helps it open up innovation to broader business teams without operational or continuity risks.

The guiding principle for innovation governance is to enable autonomy to drive innovation and speed but also honor compliance and budget guardrails. Autonomy requires alignment on priorities, processes for collaboration, accountability, and shared metrics for success.



Agile Technology Architecture

Digital business models are dynamic and require agile, highly scalable, and always available technology architectures to thrive. Modern technology paradigms such as cloud, cloud-native architectures, APIs, microservices, and modular application designs are essential architectural building blocks on which to deliver innovation objectives. Cloud, especially public cloud, enables an innovation culture by empowering smaller, autonomous teams

to rapidly test and then take their ideas to production faster due to instant access to a plethora of digital capabilities. Cloud-based services, when used as an architecture for innovation, become the core of a business operating model, paving the way for modern business processes, deeper collaboration, and improved time to market.

Without reimagining the foundational architecture, technology will be a barrier to innovation. The technology dimension is a necessity to experiment, incubate, and launch at speed (following a minimum viable product strategy) and continuously iterate rather than taking a “big bang” approach. This helps organizations to break free from the traditional plan-build-deploy product development approach that is ill-suited for the unpredictable digital world.



Amazon's Innovation Story: The AWS Case Study

One of the most evident outcomes of Amazon's innovation-first mindset is Amazon Web Services (AWS). The initial seeds of the AWS idea dates back to when Amazon, as a fast-growing ecommerce platform, was searching for internal systems that could support business scalability and high growth. Up to that point Amazon didn't have a development environment that could support the rapid deployment of new services. The AWS idea came when it realized that the platform available to support internal needs and developers could support other businesses and developers, offering them the opportunity to deploy new services in a rapid and cost-effective way. Amazon's innovation-first mindset is defined by the following:

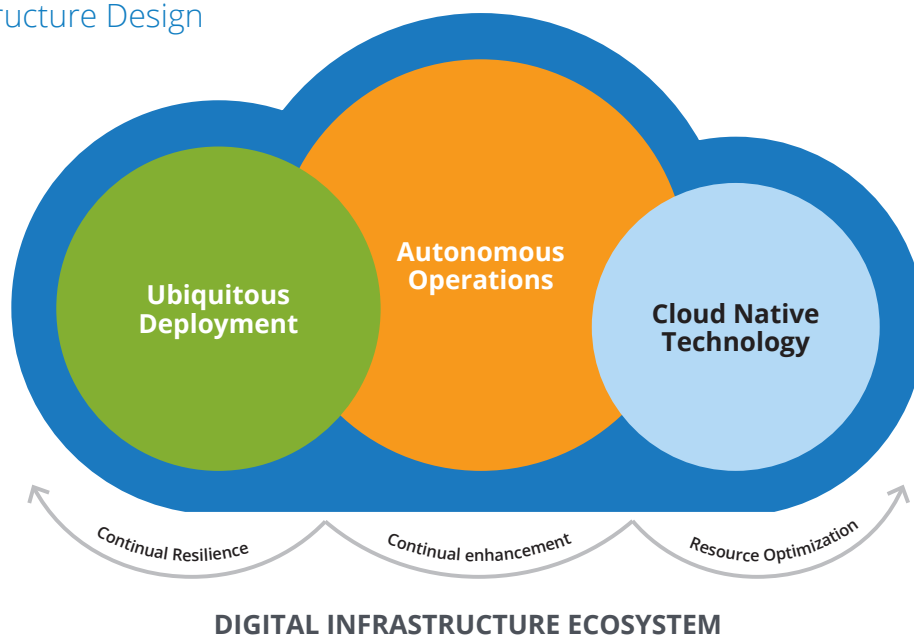
- **Leadership and culture.** The Amazon Leadership Principles drive consistency in the organization, empower individuals at all levels of the organization to be leaders, and ensure the customer is at the center of Amazon's thinking. These principles guide decision making and provide a framework for hiring, development, and feedback. "Customer obsession" is the first leadership principle, embedded in the company's mission. Another principle is "Bias for action" — knowing when to move quickly and take action to improve the customer experience. A key cultural driver is also remaining a "Day 1" organization with the dynamic energy of the first day of a start-up. The objective is to keep a Day 1 vitality within the pressures of a large organization, rather than slipping into a "Day 2" stasis, which begins the slow decline toward irrelevance.
- **Innovation governance guardrails.** Amazon calls these guardrails mechanisms — processes that help turn inputs into the right outputs to address a recurring business challenge, enable the organization to scale, operate beyond leaders' direct line of sight, and facilitate innovative thinking. A key element of a mechanism is the inspection process. The signature "Working Backwards" process ensures Amazon builds the right things and makes the right decisions for customers from the start. The process starts by defining customer needs and then outlines a press release to visualize the value for customers. Amazon then prepares anticipated FAQs addressing the questions that customers and other stakeholders are most likely to ask. In the last step, customer experience is brought to life through visuals such as sketches, diagrams, wireframes, and storyboards. These three elements — the press release, FAQs, and visuals — enable team members to discuss, debate, and help evolve the idea into reality.
- **Empowered talent.** At Amazon, small teams are encouraged to experiment early and frequently to invent on behalf of its customers. They follow the "two-pizza teams" concept: no team should be so big that it requires more than two large pizzas to feed them (6–10 people). Smaller teams minimize the need for communication, reduce time spent in meetings, accelerate the decision-making process, ensure the team has ownership and autonomy, and enable each team to provide a deep focus in one area.
- **Agile technology architecture.** AWS resulted from Amazon's need to have a reliable and scalable modern cloud infrastructure to support business agility and hyper growth. From the first steps taken in the direction of creating a set of infrastructure services, all the teams internally were expected to build in an API-access fashion and to consume their peer internal development team services in that way.

Pivotal Role of an Agile Technology Architecture as an Innovation-First Mindset Enabler

The need for a modern architecture is amplified in innovation-first mindset companies. These organizations are evolving their technology architectures with a strong focus on agility, scale, and consumption models. This agile technology architecture, which IDC calls the digital infrastructure (see Figure 5), is built with cloud and cloud-native principles such as scale, speed, automation, observability, and intelligence capabilities to support dynamic digital business and customer needs.

FIGURE 5

Digital Infrastructure Design



Source: IDC, *Digital Infrastructure Practice*, 2022

Public cloud is one of the core pillars of digital infrastructure, and this is reflected in the strong growth in cloud spend. IDC expects European cloud spend to grow at a five-year CAGR of 22% to reach \$185 billion by 2025. The digital infrastructure also includes the autonomous operations pillar, which relies on proactive AI/ML-powered analytics, policy-driven automation, and low-code serverless workflows to enable consistent self-driving infrastructure. The cloud-based provisioning offers a control point and self-service capability that empowers DevOps teams to quickly access resources while limiting risks. The third pillar is ubiquitous deployment, which helps IT teams take a holistic approach to leveraging all deployment options including public clouds, edge, and datacenters as digital business needs evolve.

The innovation-first mindset means developing a culture of ownership and “building to adapt quickly.” With innovation becoming everyone’s responsibility, IT teams cannot operate in isolation like before. They are under pressure to deliver resources at the speed of business, deliver robust SLAs, and empower users. This means looking at the technology architecture no longer just as “someone else’s datacenter” with the ability to accommodate seasonal bursts. Technology architecture becomes the business architecture, an access ramp to innovation accelerators that can deliver business outcomes (see Figure 6).

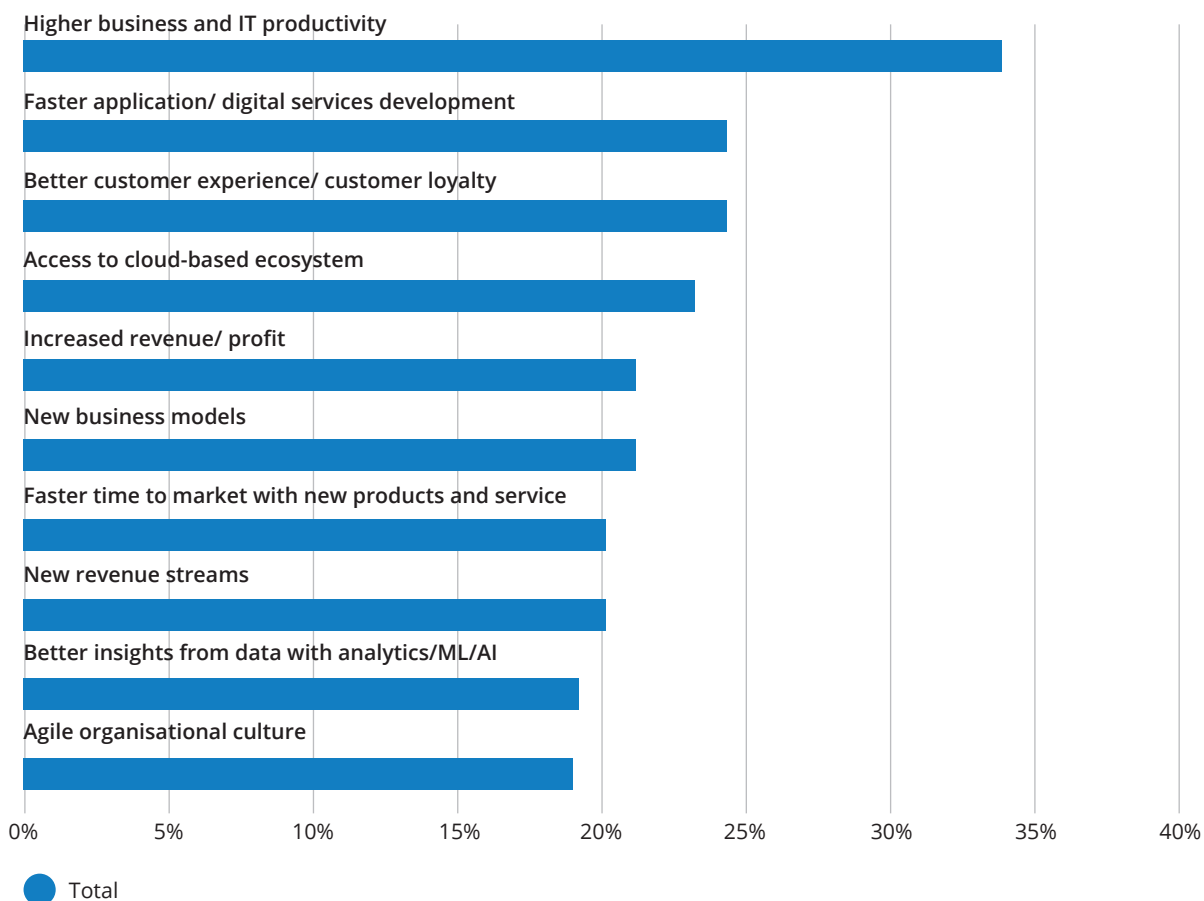
This provides:

- Instant access to innovation accelerators such as AI/ML capabilities, developer tools, next-gen security, collaboration, and fast compute capabilities for test and experimentation
- The ability to create an architecture that can be continuously updated with minimum disruption
- Access to a diverse set of persona-specific resources to satisfy developers and business leaders
- Access to a curated set of innovation resources from the ecosystem all in one place for industry-specific needs
- Access to shared infrastructure resources to drive efficiencies

These capabilities help turn ideas into production faster. As an example, a financial services organization — that wasn't able to dedicate more budgets to innovation — is now able to make many of its applications easy to consume, consistent, reliable, and delivered as services today with a cloud and cloud-native strategy.

FIGURE 6

Key Benefits of an Agile Technology Architecture



Source: IDC, European Multicloud Survey, 2021

Cloud-based agile architecture helps organizations save on infrastructure and infrastructure management overheads and steer more budget toward innovation.

Long-Term Value Realization

But the value of the new technology architecture is not just for meeting current digital business model outcomes — it will also meet the strategic digital business priorities of the future.

Long-term business objectives such as sustainable innovation, intelligence everywhere, and digital trust are inseparably connected to the technology architecture.

Melia's Innovation and Cost-Efficiency Strategies with Cloud

A cloud pay-as-you-use model enabled Spanish hotel chain Melia to quickly test and pilot new things with modern technologies while lowering infrastructure costs. The hotel chain estimates it has saved 59% in costs with the cloud model during the “dry spells” of the pandemic. It said the investment enabled it to develop an innovative contactless check-in process in months instead of years.

IDC estimates that by 2025, 75% of organizations will use software- and cloud-based infrastructures to provide a 35% increase in sustainable efficiencies across workloads and datacenters. European organizations are also seeking energy efficiency improvements related to their IT infrastructures and beyond and are increasingly leveraging cloud to minimize their datacenter footprint and associated carbon emissions.

The cloud offers IT teams a once-in-a-generation opportunity to reskill and upskill to focus on strategic tasks such as enabling self-service, identifying processes for automation, and using AI and ML to become predictive and resilient. This technology reskilling and upskilling can complement the organizational and leadership transformation to create an aligned approach for success.



Key Recommendations

The path toward innovating and embracing a digital business model will require companies to overcome several challenges. Success depends on a culture- and technology-led reimagination of business models, operations, and processes. This requires organizations to take an innovation-first mindset, defined by five elements: a leadership that acts as a digital dream team, a culture of innovation, empowered talent, governance guardrails, and an agile technology architecture.

Executives and leaders that are driving innovation should:



Think ahead about the organizational setup. Think about the skills needed in your organization, the executive support to drive change, and the strategy to promote inside and outside collaboration. Choose between pursuing either a divisional or an integrated strategy and identify how to promote and support change within the organization.



Develop their own winning culture. There is no one size fits all for culture. Avoid the copy-and-paste pitfalls and adapt best practices to specific organizational contexts and priorities. Regularly track progress to ensure that the direction taken is the right one.



Set up the right governance guardrails. Make sure you have the right governance guardrails in place to support autonomy, innovation, and time to market, while maintaining alignment, clear processes, and collaboration.



Be laser focused on objectives for the technology architecture. Business objectives should drive technology architecture choices and not the other way round. The technology architecture is the platform for innovation and for evolving the business model.

About the Analysts



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Giulia Carosella leads IDC's European Digital Transformation Practice. She advises ICT players and European end users' C-suite leads on European DX strategies and road maps, looking at C-suite dynamics and priorities, business models and ecosystems, use cases, key metrics, and changing organizational structures. She also focuses on evolving technology architecture and the shift to open, flexible, and data-driven platform architectures.



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Carla Arend is a senior program director with the European software and infrastructure research team, and heads up IDC's European cloud research. She provides industry clients with key insight into market dynamics, vendor activities, and end-user adoption trends in the European cloud market. As part of her research, she covers topics such as how European organizations are adopting cloud, how cloud drivers and inhibitors are evolving, cloud management, cloud security, data management in the cloud, IoT and cloud, AI and cloud, DevOps and cloud, as well as GDPR impact on cloud and cloud code of conduct.

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