

# Predictions 2016: The New Breed Of CIO

How Digitally Savvy CIOs Obsessed With Customers Will Drive Growth

by Nigel Fenwick and Pascal Matzke

November 2, 2015

## Why Read This Brief

In 2016, CEOs will expect CIOs to grow out of being mere custodians of technology and to actively wield tech to drive revenue instead. This brief charts how that shift will make your job as a CIO harder; tells you what to do about it in terms of communication, execution, investment, risk assessment, hiring, and more; and explains why culture change and learning the nuts and bolts — not just the lingo — of customer experience (CX) are crucial to your success.

## Key Takeaways

### **Digital Experience Isn't Just Marketing's Turf Anymore**

CEOs leading growth based on customer obsession will demand that every part of the company join the race to digital transformation. Marketing used to be the nucleus of digital experience, but in 2016, leaders from logistics, manufacturing, product development, and beyond will get involved, too -- CIOs most of all.

### **CIOs Will Go Digital Native To Succeed**

Effective CIOs will spread outside-in thinking, agile delivery, and a sense-and-respond culture to deliver digital success. They'll also tear down their internal tech silos to shift the focus toward customers and spread CX proficiency.

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## CIOs Tackling Deep Change Seek Simplicity And Speed

Twelve months ago, Forrester predicted that in 2015 CIOs would shift their focus to the business technology (BT) agenda, transforming their organizations to enable and deliver the technology, systems, and processes to win, serve, and retain customers. A year later, the majority of CIOs today are, in fact, actively pursuing and funding business technologies like digital experience delivery platforms, mobile technologies, and big data. In 2015, 54% of the total of \$669 billion in global new project purchases will be for BT goods and services.<sup>1</sup>

In 2016, pressure on CIOs will only increase as CEOs push digital transformation more rapidly. Digital transformation efforts will move beyond customer-facing veneers and deeply into the business operations that drive growth. Meanwhile, B2B industries will start to close the digital gap to their B2C peers as they too are confronting rapidly rising customer expectations. In 2016, CIOs will face more sophisticated business demands, requiring deeper changes in the underlying composition, skill sets, and operations of their tech management organization.

- › **CEOs seize the digital opportunity to drive new sources of revenue.** Increasingly, CEOs and business-unit leaders see the potential for digital experiences to create customer value that will drive revenue growth. But while CEOs may see the opportunity, only 27% of today's businesses have a coherent digital strategy that sets out how the firm will create customer value as a digital business.<sup>2</sup> Meanwhile, leading firms like House of Fraser in the UK or Philips show that a coherent end-to-end strategy and strong collaboration are key to driving lasting change and success. In 2016, CEOs will make a concerted effort to integrate the various digital initiatives across the business and create a clear digital vision that shows how the business will deliver revenue-generating digital experiences.

**Action for CIOs: Paint the big picture, but show quick ROI in a few priority areas, too.** CIOs need to be ready for the challenge because their CEOs can't wait once they decide to pivot. How? Offer a holistic view of the digital transformation that encompasses not just how your team can help

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drive synergies throughout the customer life cycle but also how your firm can harness emerging technology to create new sources of customer value and revenue. Start by identifying digital lighthouse projects — for example around a subset of products — to prove that you can help deliver quick returns and build confidence in your digital skills. In 2016, your CEO will be looking for this sort of evidence of digital leadership and strong collaboration across the executive team.

- › **Digital efforts get more complex, multifaceted, and expensive.** Early digital strategies typically focused on creating new and better bolt-on digital experiences — from websites and mobile apps to smart devices and wearables. But as experiences become more contextualized and connected, they demand new operational back-end processes — what Forrester calls the customer experience ecosystem. In 2016, CEOs will align their digital strategies across multiple functions, which, besides marketing and technology, will also include logistics, manufacturing, and human resources (HR), for example. Companies like BMW and Phoenix Contact already leverage sensors and analytics in manufacturing to offer mass customization of their products. But while this customer orientation can push up revenues, the complexity in sorting out the multifaceted underlying back-end systems will first lead to higher costs, putting pressure on the bottom line.

**Action for CIOs: Simplify IT faster, and accelerate the BT agenda.** With an even higher level of urgency compared with 2015, CIOs will have to aggressively rationalize and streamline the core IT landscape to make room for and rapidly grow the business technology that helps win, serve, and retain customers. How? Link the massive back-end refactoring efforts to agility gains and not just operating costs. At the same time, push hard on departmental leaders to let go of their confined custom systems that stand in the way of creating a simpler unified portfolio, and leverage cloud as a way to drive higher scalability and flexibility.

- › **Data privacy and compliance gaffes push security into the boardroom.** As companies drive investments into digital, they expose their brands to much greater risk of failure. In response to wave after wave of hacking scandals, boards of directors will finally learn that security is their responsibility. Nothing erodes shareholder value as quickly as exposure of personal customer data as a result of criminal hacking. Similarly, compliance disasters such as the one recently unveiled with Volkswagen — where embedded product software was used to manipulate regulatory tests — will make boards insist on minimizing risk with digital strategies. In 2016, top management will require all business departments to provide extensive documentation of their risk management approach with a clear definition of personal accountabilities as part of their digitized business strategies.

**Action for CIOs: Assess the risk of the status quo, not just of change.** Risk management must become a vital component of the CIO's agenda. Every investment decision must come with two security risk assessments: one for making the investment and one for not making the investment. Work with business peers to establish guidelines for regulatory and data compliance *before* embarking on the transformation of entire business processes.

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**CIOs Who Get CX Are The Heroes Of Digital Transformations — While Other CIOs Watch**

The emergence of digital experiences as a driver of customer value has placed technology at the heart of business strategy. With digital now reaching deeper into the domain of business operations and products, 2016 will be the tipping point where a new breed of customer-obsessed CIO becomes the norm. In 2016:

- › **Customer journey maps frame digital business strategies.** As companies look to create new sources of customer value, they will increasingly leverage customer journey maps. CX teams — or better still CEOs — will lead this work. In their absence, marketing leaders will increasingly step in and champion CX efforts. Other business functions like tech management, product development, production, and distribution will increasingly get involved. Key areas of focus will be on creating high-value customer experiences across the entire journey and evolving new digital products and services that help each customer achieve the journey outcome most valuable to them. Early examples include Porsche, which is using customer journey mapping to serve its customers' mobility needs, and Kaeser Compressors, which is reshaping the value proposition of its industrial products to meet changing business customer needs.

**Action for CIOs: Start immersion learning now to acquire CX fluency.** In 2016, CIOs need to have a better understanding of marketing and CX. This is not new, but it is much more critical for success in the role than it has been in 2015. Skills and capabilities previously found only in marketing will become CIO must-haves. To successfully create value for customers in 2016 and beyond, adopt an outside-in approach and make customer journey mapping and design thinking part of your standard toolkit. Attend more marketing conferences than technology conferences. And finally — and perhaps most shockingly — get out and meet more customers in 2016.

- › **Digital experiences become a multistakeholder affair.** Building a closer liaison and rapport with the CMO was just the starting point for supporting your firm's digital transformation. In 2016, more companies will shift the emphasis from digitizing the discovery and buy phases to digitizing the delivery and fulfillment stages of the customer journey. So, tight relationships with business leaders in product development, manufacturing, and logistics will be equally important. For example, a large German chemical group recently inventoried 155 "digital mushrooms" across various domains like HR, supply chain, production, and marketing. Meanwhile, successful companies like Delta Air Lines streamline their decision-making and improve agility by moving from a siloed functional model to a "clustered" model where cross-functional teams focus on a specific customer segment or desire.<sup>3</sup>

**Action for CIOs: Lead through a culture of collaboration and open innovation.** Regardless of who leads the digital transformation, CIOs will have to show the way — engaging, collaborating, and innovating with a broader ecosystem of internal and external partners. They'll run hackathons, set up targeted incubators, publish APIs to partners, and more. They'll also have to set realistic expectations with internal stakeholders and be transparent about what they can do and what they need help to do.

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- › **The war for talent escalates, and some brands fall so far behind they can't recover.** As the role of digital expands, companies will continue to struggle to bring together the appropriate mix of vertical, product management, CX, data analytics, and software engineering skills. In March, BMW announced plans to hire a substantial number of new software engineers, while GE Software is planning to significantly grow its staff in its Silicon Valley lab.<sup>4</sup> Firms will scramble to add data scientists to their product development/management groups to uncover insights from their connected products. Access to talent and the ability to hire the right people at the right place will become a huge competitive differentiator for those that can manage and will cause even some prominent brands that cannot to ultimately fall behind.

**Action for CIOs: Marshall a broader mix of skill sets, and blend them together.** Traditional tech silos have become meaningless in the world of cloud, mobile, and big data. Tearing down the internal walls within tech management organizations will help free up time for existing staff and make them more productive. More importantly, being able to offer a more business-oriented, rather than tech-siloed, environment is what young energetic people are looking for. Invest in people who get CX and design thinking as well as product development and data analytics. In addition, CIOs will have to look at opportunities for acquiring complementary software assets that help drive added value to products through insights and data.

**Great CIOs Reshape Their Teams For Continuous Change**

In the age of the customer, change is the only constant, and most CIOs today see this as a threat. But the new breed of CIOs will build teams engineered for flux — from their people to their processes and technologies.

- › **People: New digital-connector roles emerge as critical to your success as CIO.** CIOs can't tackle the required change alone — like any leader, they need a great team. The most senior technology executive on the CIO's team today is often the custodian of the technology infrastructure — their role will be to keep the lights on, and that's still a critical role. In 2016, more firms will follow suit from successful companies like DuPont that have deputy CIOs acting as embedded ambassadors for the CIO, each sitting inside respective business-unit leadership teams. The deputy CIOs' most important role will be to connect the dots across the enterprise to create more value for the customer and drive revenue. Digital skills like mobile app development, analytics, and design thinking will become table stakes for a successful tech management team.

**Action for CIOs: Cut deadwood fast so you can retain and attract top talent.** Many employees will be eager to learn new skills and get more involved with innovative approaches to digital business. Give these employees the opportunity to step up through training and placement inside business units and marketing. But don't shy away from getting rid of deadwood — it's the only way to also retain your best employees. Get every employee on the team out to meet customers or listen in to call-center conversations. Make sure your people know who the real customer is,

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and encourage them to partner with employees outside of your team to bring value to the real customer. USAA does this, and it continuously tops CX ratings including Forrester's Customer Experience Index.<sup>5</sup>

- › **Process: More than half of new projects shift to fast-cycle strategy and governance.** Rising customer expectations drive the need for companies to reduce the cycle time of their products and services. Learning from the experience of working with marketing and eBusiness teams to develop minimum viable products for customers, CIOs will deploy more agile, fast-cycle approaches throughout tech management. Consider companies like Robert Bosch and the Washington Post: They've already set up dedicated product engineering groups to fast-cycle the next-generation technology platforms that enable customer differentiation. Others are shifting to a portfolio of investments reviewed quarterly to deliver a constant stream of customer-facing innovation that will sit alongside long-term annual investments. Technology steering committees will give way to portfolio review boards measured on customer outcomes.

**Action for CIOs: Make Agile the norm and waterfall the exception.** CIOs will do this in software engineering and also shift from project management to portfolio management around modular solution assets that can be composed and decomposed as needed. Help to incubate innovation through a digital accelerator in conjunction with marketing.<sup>6</sup> Finally, develop sense-and-respond culture and processes to quickly identify new opportunities to fix CX problems and to create value.

- › **Technology: "Simplify" becomes a mantra.** Business leaders are coming to realize that you can't have high complexity and high innovation at the same time. As a result, the emphasis in 2016 will be on simplifying the technology stack wherever possible while facilitating rapid changes in service of customers in the future. A large European bank, for example, shifted from more than 200 different core banking suites to one that is cloud-based and shared with other banks. Simplification will support a more agile technology group while simultaneously reducing risk. This will demand more flexible and highly secure technology architectures and platforms capable of continuously morphing to deliver new secure customer experiences.

**Action for CIOs: Champion a simpler architecture, even if it's less efficient.** It may require significant investment, but the cost of not shifting will be much higher — make the business case by focusing on the customer impact of inaction versus action. In the past, architects engineered technology for reuse to save costs and drive out inefficiencies. Now they must switch to crafting architectures and systems that deliver business agility, even at the expense of efficiency. Simultaneously CIOs need to get executive support for simplifying the 80% of technology that has no added value for customers. Eliminate endless "change requests" and micro-projects that increase complexity, reduce agility, and add to long-term costs.

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## Endnotes

- <sup>1</sup> More than two-thirds of global tech spending still goes to the classic IT technologies of PCs, servers, routers, core transaction systems, back-office applications, desktop applications, database management systems, outsourced systems, and the staff and consulting services that support these systems. But spending on BT is on the rise and will reach 31% of total tech spending in 2015 and 32% in 2016. See the [“The Midyear Global Tech Market Outlook For 2015 To 2016”](#) Forrester report.
- <sup>2</sup> Source: Forrester/Odgers Berndtson Q3 2015 Global Digital Business Online Survey.
- <sup>3</sup> For the businesses that remain core to organizations, Forrester believes the organizational model will change to streamline decision-making and improve agility. The old command-and-control, siloed functional model, with its long decision cycles, will give way to a “clustered” model where cross-functional teams focus on a specific customer segment or desire. Delta Air Lines has collated flight operations and reservations to deal with cancellations and minimize the disruption for passengers. See the [“Brief: The Great Digital Reorganization”](#) Forrester report.
- <sup>4</sup> Source: “BMW plans to take on 8000 new workers in 2015,” eNews Channel Africa, March 1, 2015 (<http://www.enca.com/money/bmw-plans-take-8000-new-workers-2015>) and Brad Power, “Building a Software Start-Up Inside GE,” Harvard Business Review, January 29, 2015 (<https://hbr.org/2015/01/building-a-software-start-up-inside-ge>).
- <sup>5</sup> In Forrester’s Customer Experience Index (CX Index™), US Consumers 2015, USAA ranked among the best of the best four times — once for each of the industries it competes in — banking, credit cards, auto and home insurance, and investing. See the [“The US Customer Experience Index, Q1 2015”](#) Forrester report.
- <sup>6</sup> Your firm’s eBusiness executives are pressing for a new approach to technology management. They are among the first to realize that older approaches to tech management aren’t working and offer cogent alternatives. CIOs must work with eBusiness executives to champion a BT agenda and transform the way their firms design, develop, and deliver digital business innovation. In this report, we highlight the BT actions you’ll have to prioritize to better serve your eBusiness partners. Look for the upcoming report “CIOs: Use Your BT Agenda To Support eBusiness Strategy.”

We work with business and technology leaders to develop customer-obsessed strategies that drive growth.

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