Taking Digital Transformation to the Next Level

Give your progress a health check

By Tech Research Asia / Sponsored by Hitachi Data Systems

Executive Summary

Digital Transformation has moved beyond the initial hype into a well-understood concept in Australia and New Zealand (ANZ) and is now firmly on the agenda for the majority of large organisations across the region. That means you need to take it to the next level to continue to grow and stay ahead of the curve. The focus should be tomorrow's digital opportunity, not yesterday's. This whitepaper examines how organisations are thinking about digital transformation, how advanced they are in their adoption, what approaches they are taking and the outcomes they are seeing so far. We also offer a means to give your own efforts a health check and move forward.

Key Points

- Digital is a well understood concept in ANZ with the majority of organisations identifying it as important or critical.
- Large enterprises in ANZ have committed to digital transformation with two thirds of respondents already having experience with a digital transformation program.
- Organisations struggled to identify market leaders in digital transformation, indicating the term is currently being applied too broadly and is in danger of being over-hyped.
- 40% of respondents indicated that the results from Digital projects so far were either mixed, too difficult to measure or delivered no competitive advantage.
- Competitive environment, internal culture, regulation and skills were identified as the top challenges preventing organisations from achieving their goals.
- IT and Operations over-shadow Marketing when it comes to business units undertaking digital transformation initiatives, confirming it is more than just a means of improving customer engagement.

Recommendations

- **Get familiar with great digital successes in your industry and in others.** Don't rely on narrow personal experiences or comparing yourself to competitors and similar organisations.
- **Take a digital health check-up and re-establish your vision and strategy.** Use the checklist in this document as a starting point and talk to trusted partners for advice.
- **Push past your digital comfort zones and be ambitious.** Review your digital transformation initiatives critically to assess whether they are truly transformational.
- **Aim for agility.** Identify the roadblocks you face in being able to use data more effectively to serve your customers and achieve your organisation's purpose.
- **Deepen your digital readiness.** This is a critical area to pursue and provides a platform for future Digital initiatives.
- **Treat all digital endeavours as cultural ones.** Don't underestimate the change required, you need the right culture, which will take time to establish.

Introduction

Digital is now the way we connect and do business. Even if you don't agree with its prevalence today, it will certainly become more apparent tomorrow. Tech Research Asia's (TRA) extensive research and advisory work shows most organisations across Australia & New Zealand (ANZ) know this and have been striving to invest and address the opportunity. Some have even pursued digital transformation projects and strategies to this end. Indeed, we are at a stage that "digital" can now be considered the de facto way we frame everything related to technology.

Digital Readiness

Data, tools, digital processes and workflows, skills and capabilities, digital infrastructure, culture and KPIs that are the foundations for digital initiatives from an internal perspective.

Digital Experience

Redefining customer engagement and customer service in all of the places and channels they expect interaction.

Digital Opportunity

Data-driven with digital scale and speed for real transformation. Often takes the shape of new business models and approaches.

Our research, which includes a survey of 200 ANZ IT and business leaders (see methodology section for details used in this report), indicates a high level of understanding of digital transformation in the ANZ market. In fact, more than half of our survey respondents indicated their organisation has already started what they define as a companywide digital transformation program. So, is "digital transformation" done? Hardly.

When we look in more detail, many organisations struggle to identify leaders in digital transformation from amongst their peer group or the market more broadly. In fact, when asked directly to nominate their own digital champions or organisations they admire either in ANZ or across the world, the most common response was "I don't know".

Further, when we asked about priorities, R&D and Innovation were listed in the bottom three. A real digital transformation places a high focus on innovation across the board. So this low priority and lack of awareness of digital champions indicates that although organisational leaders claim a high degree of understanding and action around digital transformation initiatives, few, if any, could truly be classified as pursuing truly transformational strategies.

For most, it seems that digital transformation is an aspirational goal at this time or even possibly just a replacement lexicon used to describe "business-as-usual" activities because that's the expected terminology or thing to say today. As a result, one of the key challenges for organisations moving forward will be to transition from the initial phase of digital transformation projects, which have been focussed on the digitisation of existing processes, towards those which are genuinely transformational across all three areas outlined above.

TRA sees digital transformation as an expedition which the majority of organisations have embarked upon, but where the destination cannot realistically be known. The salient question today is how we take the digital transformation efforts of the last few years to the next level and ride the course ahead? Better capabilities with data and a more agile infrastructure platform will be core to answering this question. This document aims to help you gauge your current digital transformation trajectory and offers recommendations to step up.

Current State of Digital Transformation in ANZ

TRA undertook research on the ANZ market in the middle of 2016 to investigate the current state of digital capabilities, plans for the future, and how well we are able to use data. We did this to challenge popular assumptions and views about topics like digital experience and digital transformation.

These are topics that have permeated all industries but are possibly, via their wide-ranging use and catch-all meaning today, masking an ongoing failure to truly transform and prepare for the fundamentally different opportunities and challenges now present in all markets. We wanted to see what the reality is today and whether organisations are ready for tomorrow's digital imperative.

Digital Transformation Ownership

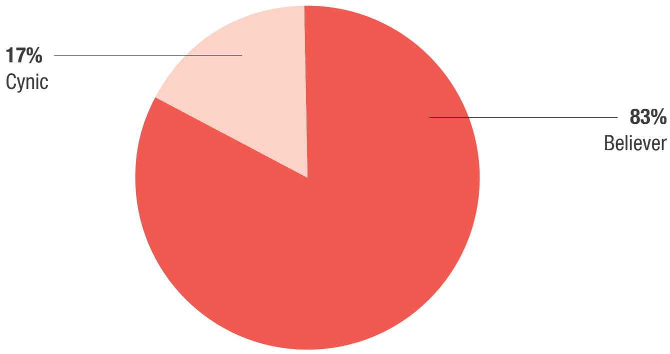
One indicator for how mature an organisation's "digital" approach is can be found in identifying who is responsible and accountable for success. ANZ CEOs have clearly bought into the concept of "digital" and were recognised as the primary group leading digital transformation initiatives by respondents, ahead of the CIO and CMO.

The vast majority (83%) of survey respondents note their CEO is a "digital believer," as shown in Figure 1.

The survey also asked about the current status of digital transformation efforts. While the majority of organisations (over 50%) say they have started a company-wide transformation program, when you look further into the details, they may be applying the term "transformation" too broadly.

They understand the concept, it's not new, but on the whole their approaches are still nascent and the results for digital initiatives to date are mixed.

Figure 1: Is your CEO a Digital Believer or a Digital Cynic?



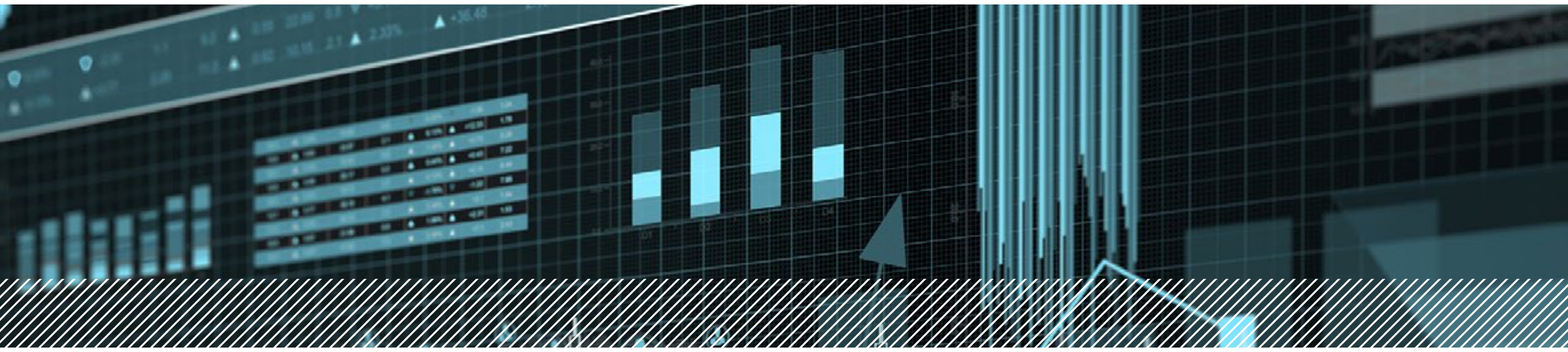


Figure 2: Which departments are currently undertaking digital transformation projects?

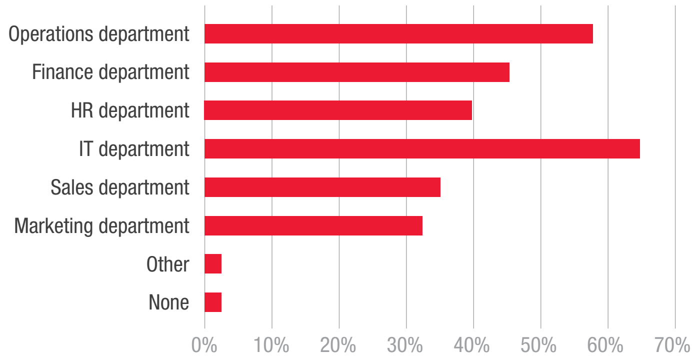
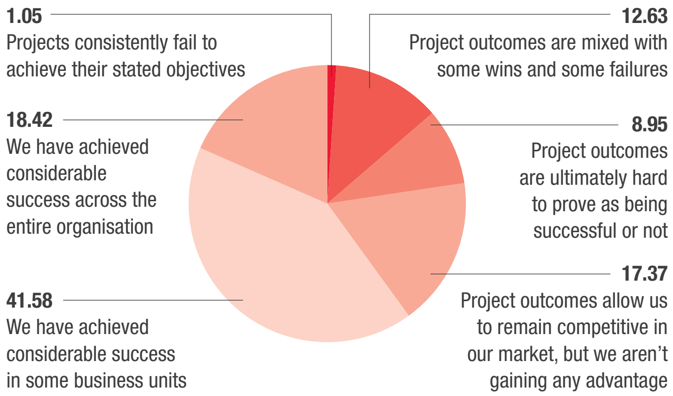


Figure 3: What has been your experience with digital project outcomes to date?



> "We have more than 1,000 services for citizens. Less than 1% of these are fully digital end-to-end."
>
> Australian Enterprise Customer Verbatims

Figure 2 shows there is a broad cross-section of departments currently engaged in digital transformation projects across ANZ, although not everyone is addressing everything. Notably, there is a trend towards IT and operations over marketing departments. Although marketing and the CMO have been positioned as increasingly driving customer engagement programs that involve heavy digital components (and budgets), these results suggest a move toward "transformation" projects being more about operations and processes in the current cycle.

Overall, ANZ businesses have committed to digital transformation, are looking to drive business improvement through the use of better data, and have seen some success with these efforts, as shown in Figure 3. Yet, only 18.4% say they have achieved considerable success across the entire organisation. This indicates the ANZ market is aspirational with its plans for digital transformation, but the question remains: Are businesses thriving or simply surviving?

Future Goals and Challenges

We also looked into organisational goals for the next 12 months, the results of which are shown in Figure 4 on page 5. What is interesting is that R&D or innovation – core ingredients to digital success in TRA's view – is currently not a high priority for most organisations and in fact ranked in the bottom three despite the current rhetoric in the ANZ market. The focus on digital transformation is at odds with a lack of broad focus on innovation further supporting our belief that current digital efforts are focused on the digitisation of existing processes rather than transformation. The question to ask is: Can you really thrive in tomorrow's digital world if you aren't prioritising innovation?

Assigning a greater priority to innovation or R&D may also help organisations mitigate or alleviate the challenges posed by competition from new entrants, which tops the list of challenges. While TRA's research

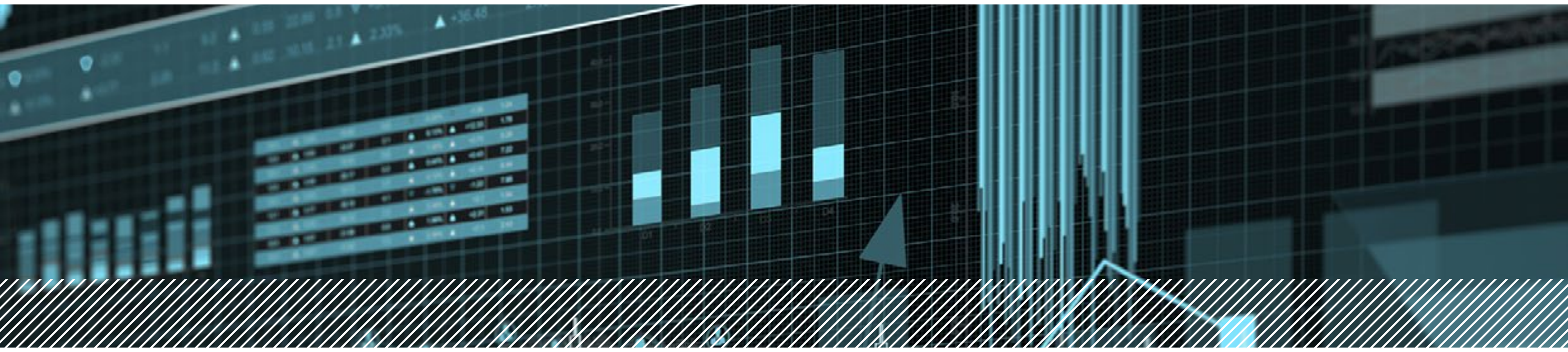
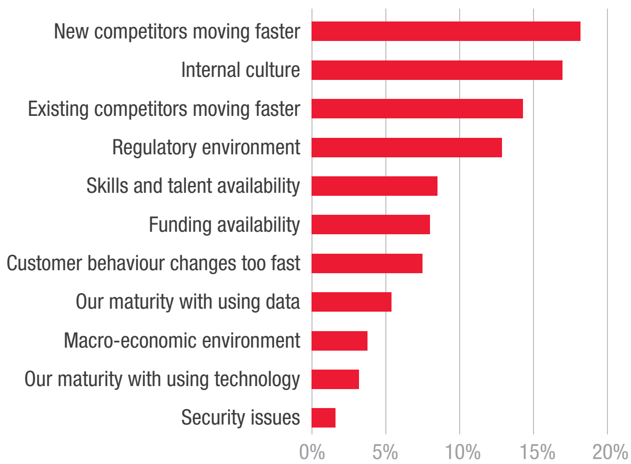


Figure 4: What are the top 3 focus areas for your organisation in the next 12 months?

Figure 5: What are the top 3 challenges you envisage for achieving success with your company's key focus areas?



identified some interest in adopting or leveraging emerging technologies and innovation strategies – such as DevOps, virtual reality, artificial intelligence, IoT, among many others – a lot of the technology investment focus remains on optimising traditional areas like the CRM, CMS, or digitising processes.

The reality is that while most organisations say they are transforming and understand "digital", they are clearly still tied up in modernising their tech foundations; often for business-as-usual needs.

The notable finding in Figure 5 is a fear of both new and existing competitors being more agile and able to respond more quickly, which we believe is driving a large number of digital agendas (if we don't, they will).

In TRA's view, the widespread coverage of disruptive market entrants such as Uber and Airbnb has infiltrated the boardroom and is contributing to the perceived need to "get digital", which is acting as a further catalyst to drive market activity.

Moreover, culture was identified as the second largest challenge to achieving success with digital and we believe current industry and market culture is stifling truly transformative digital initiatives. The challenge for most mature organisations is they are set up to service an existing business, where changes are typically incremental and projects can be planned out with quantifiable goals and budgets.

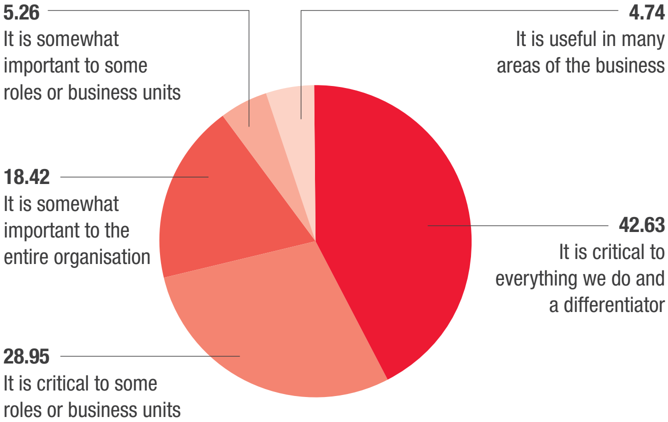
Truly transformative digital initiatives are harder to map out in advance – the goal is often unknown at the start and needs to evolve with the project in real time. This type of open-ended process is often at odds with existing company culture and creates a challenge for existing companies looking for real transformation.

Skills and talent challenges will not abate in the short-medium term, particularly with digital roles as, skills remain scarce and wages high for those experienced in transformational initiatives.

A Focus on Digital Readiness

It is apparent that today most IT and business leaders understand the correlation between data and digital transformation, with over 70% of respondents citing data as critical to the organisation.

Figure 6: What role does data play in your business?



"My goal is looking at data as an asset that can be used and leveraged and how do we use it."

"We have people claiming data like they used to claim desktop printers."

"We spend a lot of time focusing on data and sometimes we forget to act on what it tells us."

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Survey results showed there is strong interest in buying and selling data, as well as opening up existing data sources externally. These factors, combined with the fact that more than a quarter of organisations reported they are planning to invest in offering their own technology products and services to the market, are driving a requirement for a more structured approach to digital readiness.

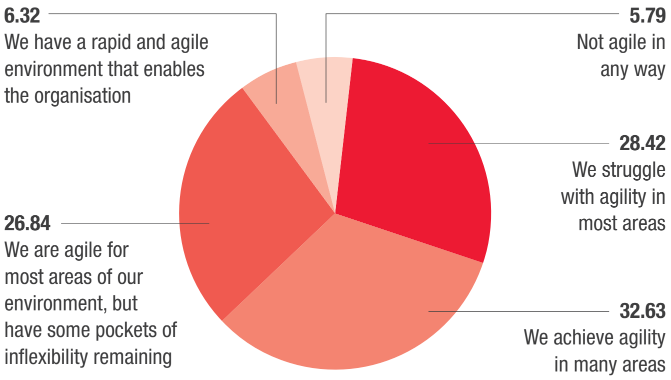
In line with this, we asked ANZ organisations to report their level of maturity across four key dimensions: Data Management, Data Governance, Data Mobility and Data Analytics. The most common answers in all areas were "average" or "somewhat mature". Less than 10% self-identified as being very mature. This is in line with TRA's experience of the market where many customers are struggling to use the data available to them and the main challenges are still related to the basics – growth and volume, and managing data sets.

In TRA's view, IT agility is a core requirement to improve this data maturity situation and by association for achieving digital transformation success. Few organisations, in fact only 6%, say they have a truly rapid and agile IT environment today, though most are working towards this as a goal (see Figure 7).

ANZ organizations are aligning their future technology investments to digital initiatives: with CRM/CMS solutions to support digital experience; and with data management, storage environments, and analytics to support digital readiness, which is coming out as the highest priority area for investment.

Ultimately, for all the talk of being "data-driven", customers need to ensure they have right foundations in place before they can start to use data more effectively, and they will need to continue investments in digital readiness.

Figure 7: How would you rate the agility of your organisation's IT environment?



Highlights

This research does not cover everything related to "digital transformation" and we didn't intend it to. But it does highlight a few things:

- ANZ leaders understand digital and are committed to it. It is now a mainstream idea that businesses need to be undergoing a digital transformation program and respondents know that data and agility are critical to success.
- Results with digital transformation have been mixed, with less than one in five saying they have achieved considerable success across the organisation.
- ANZ leaders struggle to identify other organisations that are doing digital well and don't place an emphasis on the all-important ingredient of innovation or R&D.
- The competitive environment and culture are the two biggest challenges identified. Yet, ANZ organisations also struggle with agility and using data that could help overcome these challenges.
- Most retain a tech investment focus on what could be described as basic foundational areas. Much work is still needed to get this right.

Overall, and considering that this is describing what has happened to date in ANZ and doesn't address the future opportunities and challenges that digital will bring, TRA believes it is reasonable to conclude that our digital expeditions are very much still nascent and in some cases possibly just to demonstrate to leadership that digital is "on the agenda".

"I can spin up a virtual machine in under 15 minutes, but that doesn't mean the business can spin up with it or that the customer really needs it. Agility needs context."

"Our data analysis totally changed the focus of our business .... We would not be where we are today – successful – without the data work we did and continue to pursue."

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Digital Transformation Benchmarking

With the above research results in mind and leveraging our advisory experience along with all of the publicly available insights on digital, TRA has identified four digital profiles, which can be used to help ANZ firms understand their own current positioning and what they need to do next. Basic descriptions of each of these profiles are provided below. We don't suggest they cover every type of organisation, but offer them as a general way to benchmark your own digital efforts.

Digital Leaders

Digital Leaders have made strong progress with their internal digital readiness and customer experience programs. They may have also pursued newer digital opportunities. In short, they understand that an agile and data driven innovative digital approach is just the way they do business now and have adopted this mindset across the organisation. This group makes up approximately one third of the survey respondents. Leaders are likely to be large enterprises with more than 1,000 employees, making over AUD$100 million in revenue annually, and that self-identify as pioneers in the use of technology.

Digital Followers

Digital Followers make up around one sixth of respondents and say "digital" is an important or critical new concept, yet they typically haven't started an organisation-wide or even a line-of-business (LoB) specific program. The person driving digital in follower organisations is the CEO or MD, but they are faced with significant cultural change. Followers are likely to be mid-size enterprises with more than 250 employees, with less than AUD$100 million in revenue.

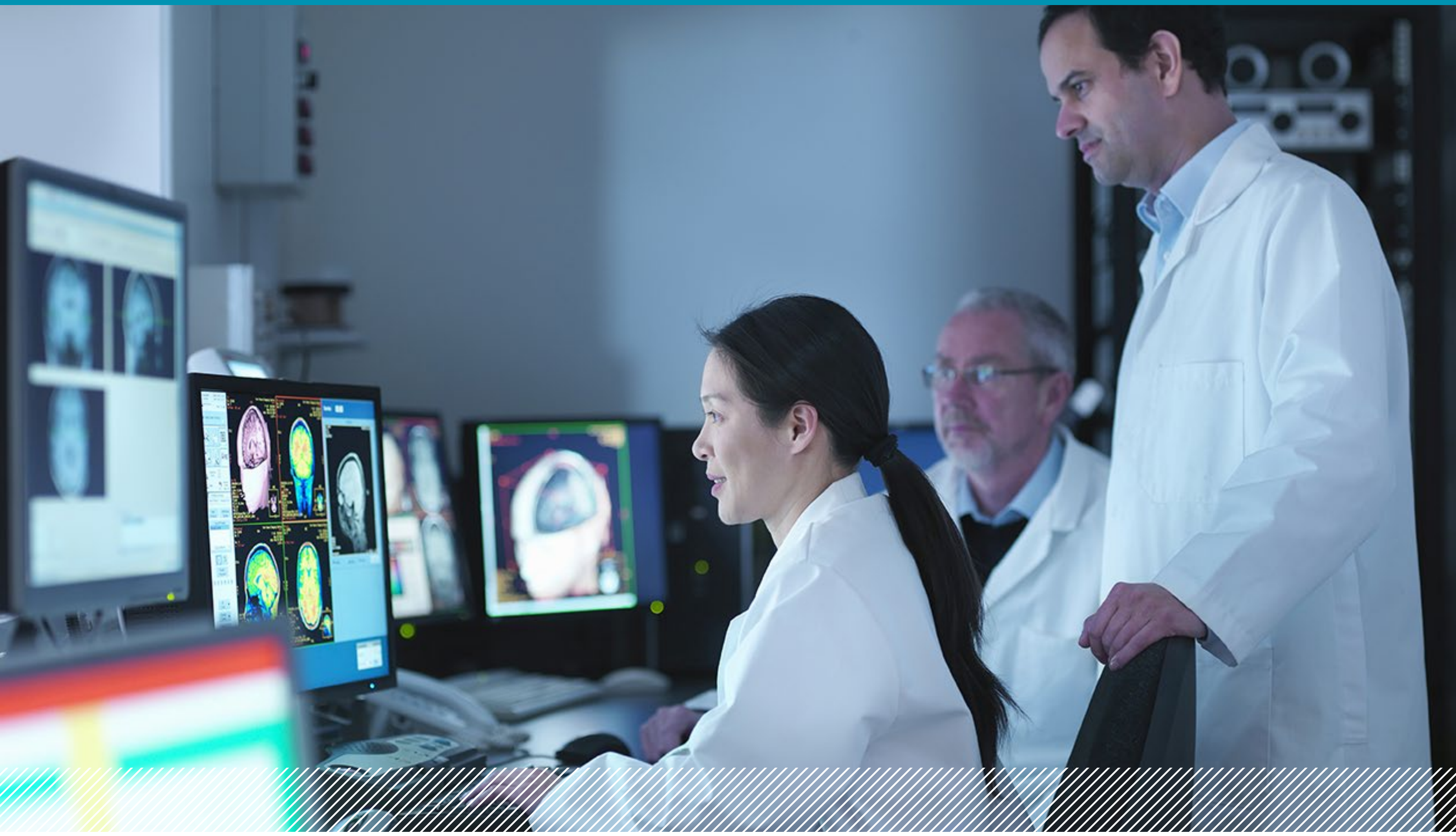
Digital Explorers

Digital Explorers consider "digital" to be critical across the organisation, but it is more of a new concept for them and they have less experience than the Digital Leaders. Explorers have a mix of leaders driving digital programs that focus more on digital readiness and customer experience. This group makes up around one sixth of respondents and are likely to be mid-size to large enterprises with more than 500 employees and over AUD$2.5 million in revenue.

Digital Doubters

The remaining third of organisations are the Digital Doubters that have been slow to act and place a lower priority on digital efforts, whether this be for internal digital readiness, customer experience, or pursuing newer digital opportunities. Digital Doubters are likely to be mid-size enterprises but can be found in all industries. In general, they are yet to start an organisation-wide or LoB-specific program and align with traditional descriptions of market laggards.

A Digital Readiness Health Check



So far in this report we have looked at the current state of digital, and the future intentions and challenges of organisations across Australia and New Zealand. What is clear is that digital has a lot of momentum and support in the market; however, it is an evolving process for most organisations currently, and there is a long way to go.

How does your organisation rate in comparison to peers? Undertaking a health check can help identify how you are performing or at least provide a spark for reinvention or validation. Whether you have been on an organisation-wide digital transformation journey for some time, or are just starting out with a strategy for specific business units, use the following list of questions to review your efforts.

TRA encourages you to canvass the views of as many stakeholders as possible to ensure a broad picture of your digital performance is achieved. Suggestions for who to ask are included in each column. Results can be benchmarked against the averages provided following the list of questions.

There are many other questions that could be asked and the below is just a start. Questions on customer engagement and digital opportunities should also be considered. But even if you don't use the benchmarks provided, the process of asking for this feedback can be invaluable to setting future strategy and identifying weaknesses. Each question should be answered on a rating of 1 to 5, where 1 is lowest and 5 highest.

Digital Readiness Checklist	Board Members	CEO	CFO	CMO	COO	CIO/IT Lead	Sales Leader	HR Director	Employees	Partners or Suppliers	Customers
How would you rate the organisation's maturity and approach when it comes to technology use generally? (5 is very mature and 1 is not mature at all)											
How would you rate the organisation's maturity and approach with Innovation? (5 is very mature and 1 is not mature at all)											
How would you rate the organisation's maturity and approach with Digital Transformation? (5 is very mature and 1 is not mature at all)											
What has been your organisations' experience with digital project outcomes to date? (For customers or partners/suppliers – "What is your perception of the organisation's success with digital projects to date?") (5 is projects have seen considerable success, 1 means projects have seen little tangible success)											
How would you rate the agility of the organisation's IT environment? (5 is very agile and 1 is not agile at all)											
How critical is data considered in the organisation? (For customers or partners/suppliers – "How critical do you believe the organisation considers its data?") (5 is critical and 1 is not critical at all)											
How would you rate the organisation's maturity and approach when it comes to data management? (5 is very mature and 1 is not mature at all)											
How would you rate the organisation's maturity and approach when it comes to data mobility and access? (5 is very mature and 1 is not mature at all)											
How would you rate the organisation's maturity and approach when it comes to data analytics? (5 is very mature and 1 is not mature at all)											
Is the top leader of the organisation a Digital Believer? (5 is believer and 1 is not a believer)											
Total Score											
Average											
Total Average											

Below is a summary to use as a guide to finding out what your results mean. The total average score should be used, although individual results can also provide insight to how you are performing or perceived to be performing. Every organisation is unique, so the next steps for each will be unique to your organisation. However, any low score received should indicate an area in need of improvement.

	Total Average Score	Comments
Digital Leader	4+	Typically scoring higher on Innovation, IT Agility, Transformation Maturity and Project Successes. Your organisation's challenge now is to ensure it remains a leader and does not get complacent. Success in yesterday's digital does not guarantee any success in tomorrow's.
Digital Explorer	3 to 4	Typically scoring higher on Technology Maturity, Data Management, Mobility and Analytics. You have achieved a strong result, but can address many areas to move into the leaders' segment.
Digital Follower	2 to 3	Typically scoring lower on Innovation, IT Agility and Digital Transformation maturity. If your organisation is a digital follower it may need to consider how it can improve using data more effectively to innovate and how it can optimise its IT infrastructure and processes.
Digital Doubter	< 2	Typically scoring lower on Innovation, Technology Maturity and Digital Believer. If your organisation received this score then it needs to quickly address the digital business opportunity or continue to face challenges in future.

Future of Digital

There is no finish line with digital as it is the way everything will be done moving forward. Organisations need to ensure they have the following building blocks in place (especially Digital Readiness) to move forward successfully:

- **Data Management:** defining the service levels delivered to the business for areas, including performance, recovery, fail-over, change control and deployment speed.
- **Data Governance:** compliance with regulatory and contractual terms, including privacy and security and automated management of data between service levels; understanding that the value and use of data changes over time.
- **Data Mobility:** the ability to get data to and from the right person in the right location, including digitising of data wherever possible to make data more accessible.
- **Data Analytics:** allowing new information or insights to be produced from the underlying data.
- **People & Culture:** enabling a culture of transformation through smart recruitment of "digital" employees and companywide initiatives to support digital transformation and innovation within the organisation.

There are many other areas to get right, but these areas are a good starting point. Digital transformation, while seemingly well understood and adopted by ANZ business, is in danger of being the next poster child for failed technology initiatives if leaders don't review their current approach.

TRA's view is that few companies today have the necessary building blocks in place to support digital transformation and thrive in tomorrow's digital world. Whilst most ANZ organisations have aspirations for digital transformation, many are trying to run before they can walk or are convincing themselves they are transforming when they are really just evolving. Whilst any experience with digital can be considered beneficial, organisations need to invest in digital readiness and improving agility and culture to provide the requisite platforms to support truly transformational projects.

Further, organisations need to be careful in their selection of technology, suppliers and internal teams championing these projects, or there will be room for disappointment.

Moving forward, everything will be done digitally. This shift represents the most radical change most organisations will face in doing business over the next few decades. Preparing for this will require significant executive support and company-wide focus to drive genuine transformation.

Recommendations

- **Get familiar with great digital successes in your industry and in others.** Don't just rely on narrow personal experiences or comparing yourself to competitors or similar organisations.
- **Have a digital health checkup and re-establish your vision and strategy.** Use the checklist in this document and talk to trusted partners for advice.
- **Push past your digital comfort zones and be ambitious.** Moving into a digital leader's mindset and approach is a virtuous circle – you attract a new brand reputation, you attract top people, you gain early experiences, etc.
- **Aim for agility.** Identify the roadblocks you face in being able to use data more effectively to serve your customers and achieve your organisation's purpose. This will likely include modernisation of your technology infrastructure environment, too.
- **Deepen your digital readiness.** This is a critical area to pursue and opens up an abundance of opportunities.
- **Treat all digital endeavours as cultural ones.** Don't underestimate the change required and don't label it a "technology" or "marketing" project. It is far more than this and requires executive leadership along with grassroots ownership. Indeed, the term "digital" is not important. The outcomes are. You need the right culture to achieve this, and it will take time to establish.

Methodology

Tech Research Asia was commissioned by Hitachi Data Systems in July 2016 to undertake research on the state of digital transformation in the Australian and New Zealand markets. This involved qualitative interviews with a dozen leading organisations and a quantitative survey of 200 business and IT leaders. Respondents to the survey were required to be in senior positions with responsibility for, or influence on, their organisation's use of technology as part of its digital strategy. A total of 200 responses were collected with 150 in Australia (with a minimum of 250 employees), and 50 in New Zealand (with a minimum of 20 employees). Participating organisations were required to have more than 20 employees (81% had more than 250 employees) and a broad cross-section of industries were represented.

For any further questions on the methodology used in this project or for associated research that TRA has undertaken or used to inform our conclusions and recommendations, please contact us at www.techresearch.asia.

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This report was sponsored by Hitachi Data Systems. For more information, visit the HDS microsite.