THE STATE OF DIGITAL TRANSFORMATION

A VALOIR REPORT

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Digital transformation has accelerated as organizations seek to increase efficiency, differentiate their brand, and increase revenues. Valoir's global digital transformation study found that nearly 9 out of 10 organizations are more than halfway complete with their digital transformation efforts, with an average ranking of seven on a scale of one to 10.

Progress and priorities differ by industry. However, improving productivity and efficiency are key goals of digital transformation efforts. Although resource and budget constraints do impact progress, the biggest hurdles to digital transformation are human factors such as politics and lack of leadership. IT and customer experience (CX) have had the most success in transformation; human resources (HR) lags far behind other operational areas. Beyond being just enablers, technology vendors play a role as partners and providers of thought leadership and guidance.

Digital transformation – the adoption of technology to drive business improvements – has accelerated in the past 18 months. Companies have looked to adopt technology to streamline and automate processes and improve operational efficiency, customer and employee experience (CX and EX), and business performance.

However, digital transformation means different things to different people, Beyond the marketing buzzwords, the level of adoption of key technologies and perceived progress on the journey of transformation is very different by industry and even by individual company.

To better understand the current state of digital transformation and how it relates to business performance, Valoir surveyed members of digital transformation teams at more than 1400 companies worldwide, with a representative distribution of respondents across industry, region, and company size. We asked them about their current state of digital transformation across different operational areas including marketing and sales, customer service and loyalty, HR, operations, and IT and their priorities an motivations for digital transformation.

We also asked about the biggest challenges to digital transformation, and what role their technology vendors played in supporting that transformation.

We further validated the data with 40 in-depth interviews with digital transformation leaders across industries, regions, and company size.

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Key findings

Key findings from our research include:

- Most companies are more than halfway through their digital transformation. On a scale of 1 to 10, with 1 being not started and 10 being complete, the average company ranks a 7.
- There is a clear correlation between level of digital transformation and financial performance. Companies with a digital transformation score of 8 or higher had roughly twice the revenue growth rate of those with a three or lower.
- The biggest surprise is the lack of digital transformation in HR, with fewer than 20 percent of organizations adopting modern digital capabilities in key areas such as reskilling and coaching, mentoring, real-time analytics, and training. This is especially significant given the current work environment, the need to support hybrid work, and increased focus on EX.
- North American and Latin American organizations lead in digital transformation, followed by EMEA and Asia-Pacific.
- Digital transformation progress varies significantly by industry, with healthcare leading the way, followed by financial services, aerospace, and communications. The laggards are public sector, utilities, and consumer goods.
- Digital transformation varies by department as well, with IT, marketing and sales, and customer service and loyalty leading the way, followed by product service development and operations, and finally, HR and EX.
- The biggest hurdles to digital transformation are human factors, with departmental politics and lack of leadership ranking far higher than lack of resources or budget.
- Technology vendors are key in digital transformation efforts, not just as enablers but as partners providing prescriptive guidance.

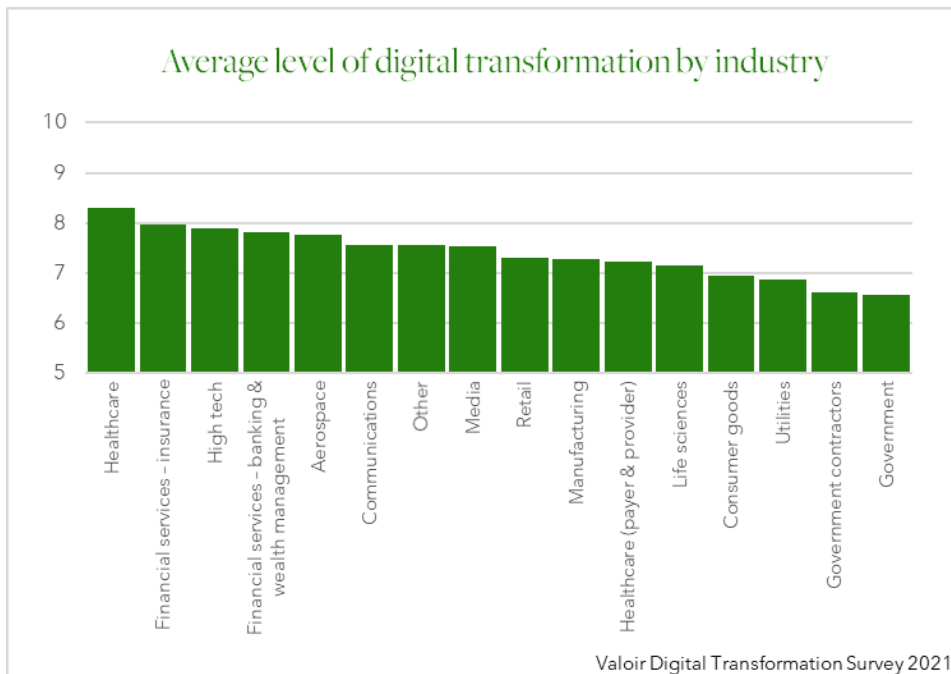# The state of digital transformation

Valoir found that most digital transformation teams assessed their progress toward complete digital transformation as more than halfway complete. On a scale of one to 10, with one being "we haven't started" and 10 being "our digital transformation is complete," the average company score was a seven.

The leaders in digital transformation by industry were those in healthcare, financial services, high tech, aerospace, and communications:

- In healthcare, companies were early adopters of key technologies such as document and content management and collaboration in the past few decades. More recently,

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competitive pressure on publicly held companies as well as private sector investment in healthcare-related technology innovators and emerging areas such as artificial intelligence (AI) have helped to advance digital transformation, as have the demands for more innovation in areas such as clinical trials and research.

- In financial services, incumbent players (in insurance as well as in banking and wealth management) have been challenged by digital-native upstarts with new business models, and have been forced to either compete with digital-first offerings or lose market and mind share.
- Not surprisingly, high tech is another leader in digital transformation, as those most comfortable with technology in general and with a more digital-native workforce have faced fewer cultural hurdles to transformation.

Average level of digital transformation by industry

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Laggards in digital transformation include public sector organizations and contractors, utilities, and consumer goods:

- Although many public sector organizations and departments have accelerated their digital transformation efforts in the past 12 months, they still, as a whole, lag behind the private sector.
- In the case of utilities, we found that the cost and complexity of digital systems built in the past few decades, the potential business disruption associated with changes to those systems, and the relative lack of competition in some sectors – as well as the political and cultural hurdles to transformation – slowed digital transformation efforts.

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- In consumer goods, we found that the degrees of separation between manufacturers and their end customers, and the need to bring distributors and retailers on board before real digital transformation could begin in key areas such as CX, somewhat slowed their digital transformation progress.

No respondents in our study believed their companies hadn't started their digital transformation journey. Of those who self-assessed as a 10, meaning their digital transformation was complete, the lion's share was in financial services, followed by communication, aerospace, and manufacturing.

On a regional basis, while North America leads in digital transformation, it is followed closely behind by Latin America. The Europe, Middle East, and Africa and Asia-Pacific geographies slightly trailed the Americas.
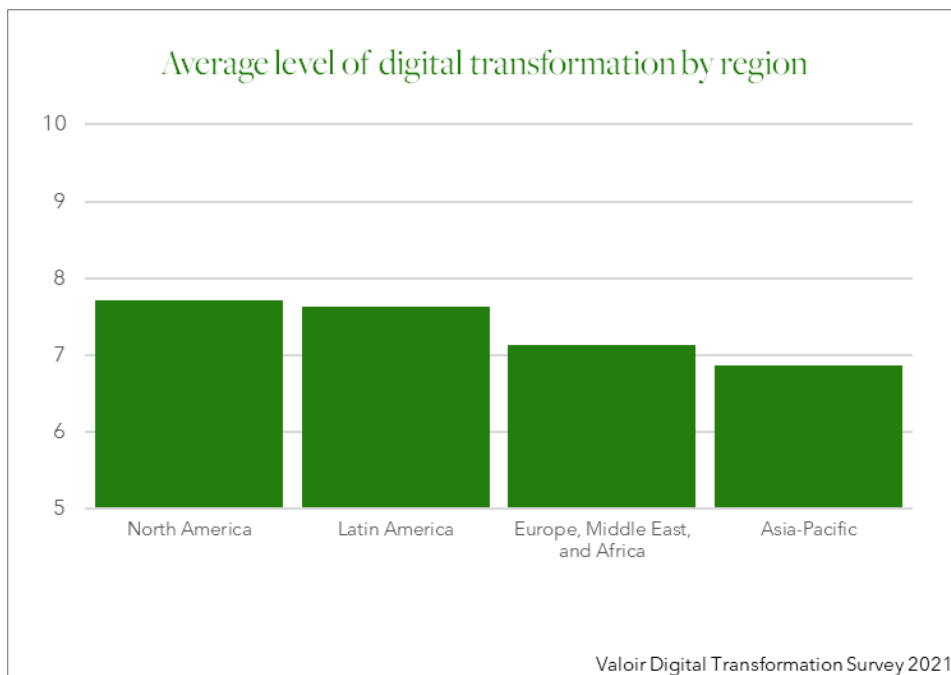

We did find a significant difference in levels of digital transformation based on company size. We found that companies with more than $5 million in revenues were most advanced in digital transformation, while those with fewer than $5 million in revenues had considerably more progress to make on their digital journey.

Digital priorities

Increasing market share and increasing customer retention were the top two priorities for digital transformation, with more than 10 percent of respondents ranking it as their number one priority. However, increasing productivity and increasing revenues from new products or markets were ranked as one of the top three priorities by more than 10

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percent of all respondents, signaling that they are significant priorities as well.

Top priorities for digital transformation

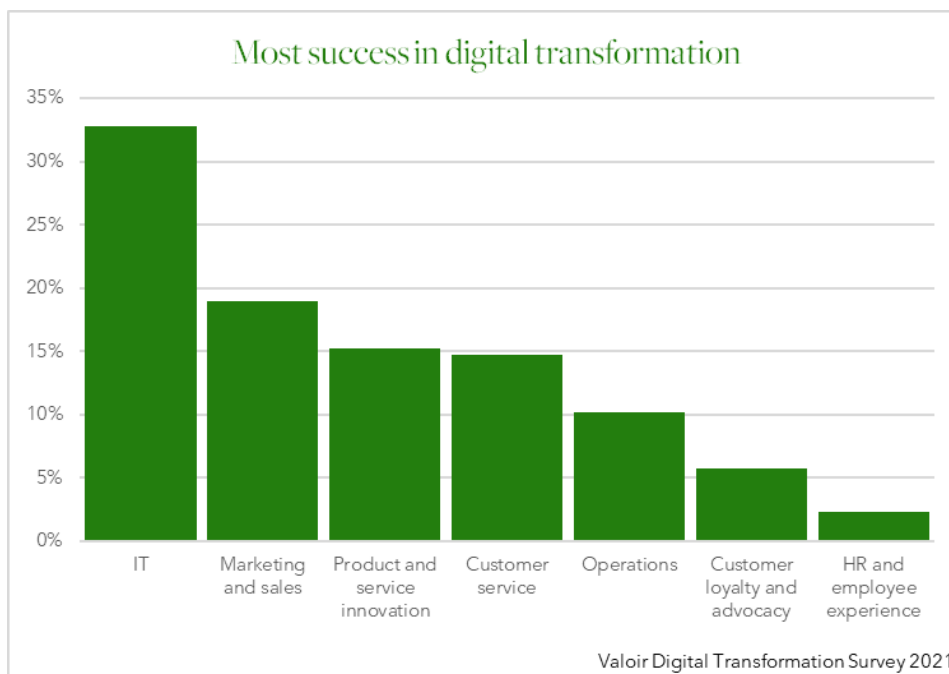Valoir Digital Transformation Survey 2021
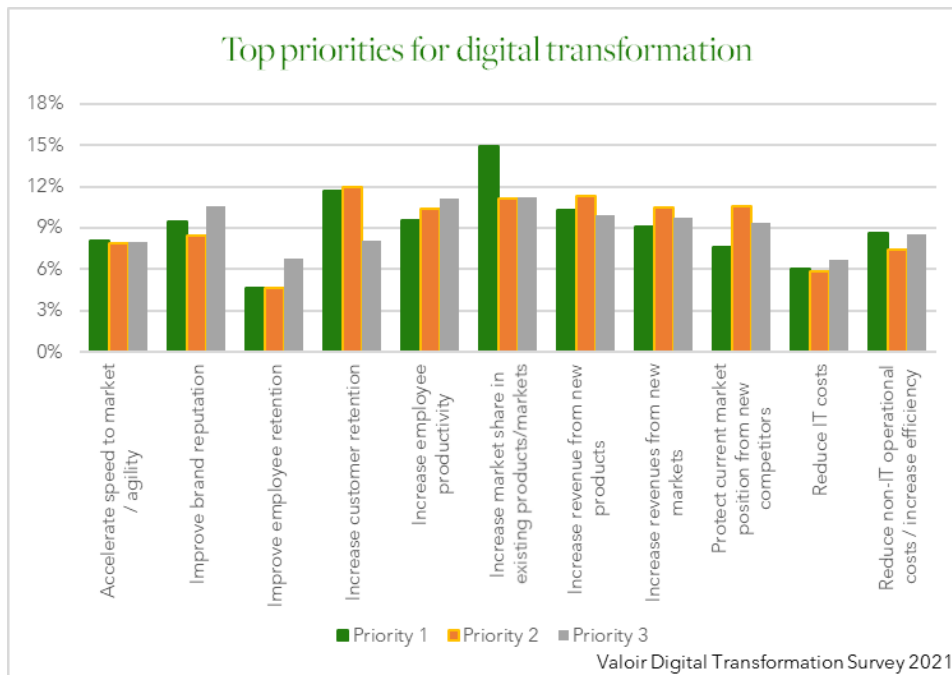
On an industry-by-industry basis, we found that increasing customer retention was the top priority in communications and consumer goods. The highest ranked priority in financial services (both banking and insurance) was increasing market share. Increasing market share was also the top ranked priority in manufacturing and retail.

Most success in digital transformation

Organizations had achieved the most success in digital transformation in the area of IT, with one-third of respondents saying it was their most successful area of transformation. That is not surprising, given the aptitude of IT staff to adopt technology and the need for organizations to have modern IT service delivery to enable broader digital transformation across the organization. The second most successful area was marketing and sales, driven largely by the prevalence of cloud-based solutions for those functions and the prioritization of digital transformation agendas around areas such as these which that have a direct impact on revenues. The least successful areas of digital transformation was in HR and EX.

In validating the data, we found that despite the increased focus on digital HR service delivery and EX in the past 12 months, there were three key reasons why HR lags other departments in digital transformation:

- Money. Internal priorities for digital transformation have focused on areas that had a direct impact on the bottom or top line, such as supply chain or CX. In fact, leaders were more likely to perceive digital transformation as a term that applied to CX (such as customer service) or operational (such as accounts payable or receivable) than EX.
- People. The hesitance to disrupt systems such as payroll and the resistance to change of many HR departments have made leading digital transformation in HR a greater challenge than in other areas where the business case for investment is more straightforward and the cultural barriers less significant.
- Technology. With a few exceptions, human capital management (HCM) and workforce management (WFM) technology vendors were relatively slow to move to the cloud compared with their counterparts in other technology areas (such as CX). Without cloud applications that could be rapidly deployed and flexibly changed to support reimagined HR processes and practices HR leaders were challenged to drive effective digital transformation.

Most success in digital transformation

Values from the bar chart:
- IT: ~33%
- Marketing and sales: ~19%
- Product and service innovation: ~15%
- Customer service: ~14.5%
- Operations: ~10%
- Customer loyalty and advocacy: ~5.5%
- HR and employee experience: ~2%

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That said, Valoir sees a significant opportunity for digital transformation in HR, particularly as organizations seek to reengineer onboarding and training processes and implement sustainable hybrid and work-from-home policies (including digital HR service delivery) to attract and retain talent.

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Hurdles to digital transformation

In examining the biggest hurdles to digital transformation, we found that although resources and budget were factors, the two largest hurdles were departmental politics and lack of executive leadership. The responses were fairly consistent across the main areas of potential for digital transformation – sales and marketing, customer service, customer loyalty, product innovation, operations, and HR and EX – with the exception of the area of IT transformation, where lack of resources was ranked as the largest hurdle.

From an industry perspective, the largest hurdles were fairly consistent as well, with the exceptions being consumer goods and retail, where lack of resources roughly tied with leadership and politics.

Hurdles to advancing digital transformation
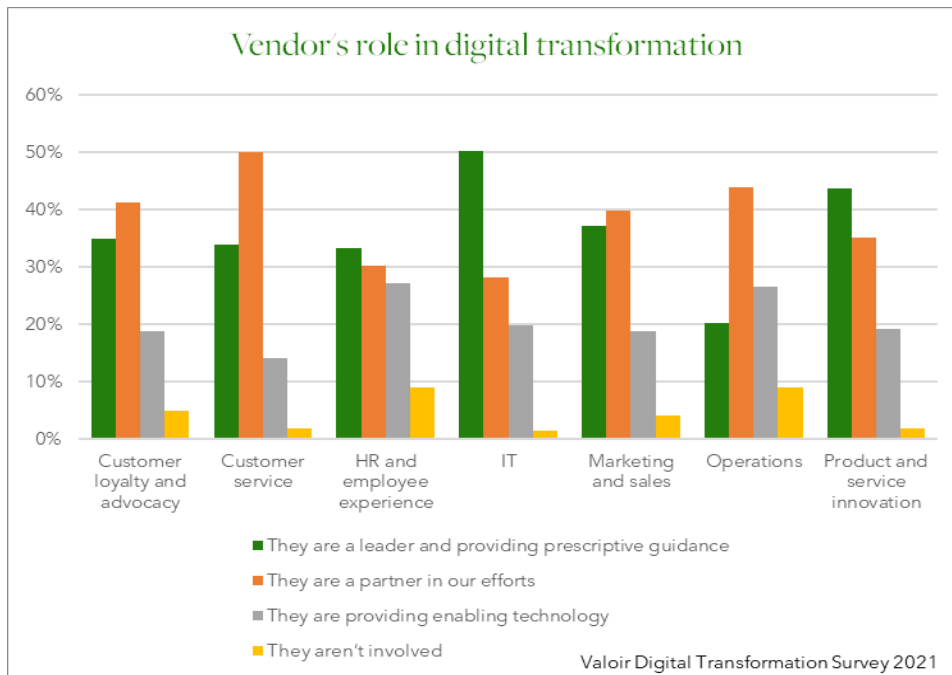
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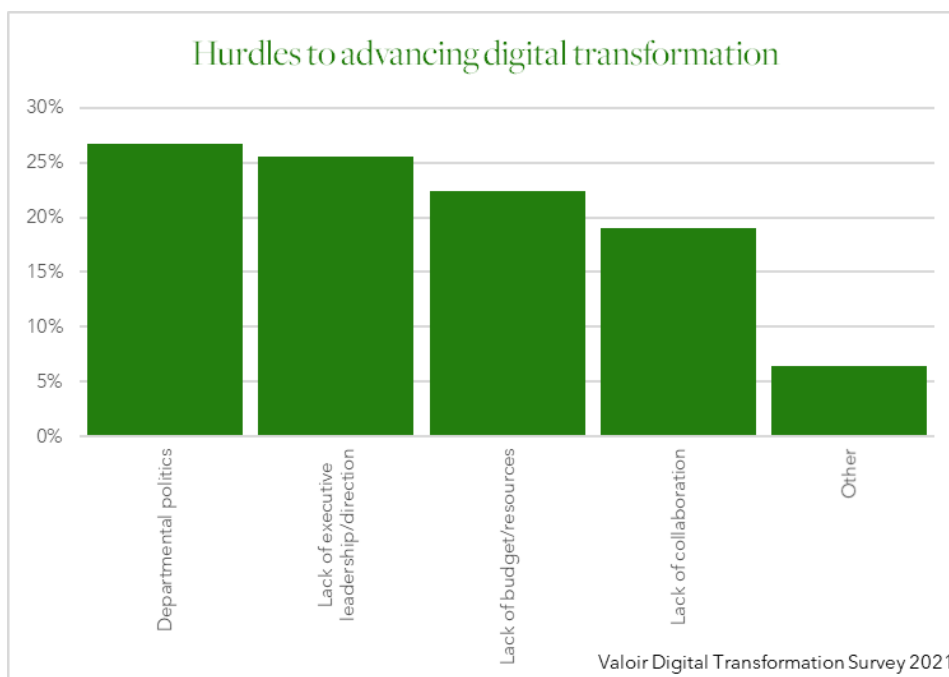
Vendors' role in digital transformation

Across all industries and sectors, more than 50 percent of companies believe that technology vendors play a key role in their digital transformation efforts, as either prescriptive thought leaders or partners in their digital transformation journey.

This was most true in IT, where half of companies saw their key vendors as thought leaders guiding their transformation efforts. In customer-related digital transformation and product and service innovation, although fewer companies saw vendors as thought leaders, many still viewed them as key partners in digital transformation efforts.

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Interestingly, the areas where companies relied the least on vendor partnership and guidance were HR and operations, where one-third of companies saw vendors as not involved at all or as simply providing enabling technologies.

The technology vendors most mentioned as key vendors supporting organizations' digital transformation efforts were Amazon, IBM, Microsoft, Oracle, Salesforce, SAP, and ServiceNow.

Vendor's role in digital transformation

- They are a leader and providing prescriptive guidance
- They are a partner in our efforts
- They are providing enabling technology
- They aren't involved

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Adoption of digital capabilities

Beyond their high-level digital transformation rankings, we asked digital leaders about their organizations' adoption of digital capabilities and transformation best practices across a number of areas.

We found that, not surprisingly, the relative adoption of digital capabilities aligned with perceived levels of success in digital transformation, with IT leading the way in both digital transformation progress and adoption of modern tools and processes, followed by CX-related areas, then other areas (including HR and EX).

INFORMATION TECHNOLOGY

Digital transformation is clearly advanced in the area of information technology, where more than 60 percent of all companies reported adoption of fairly advanced capabilities for IT planning and budgeting, low-code tools, and real-time application performance management. This is not surprising given the acceptance of users in IT to adopt

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emerging and advanced technologies and the critical importance of modernizing certain IT functions – such as application service delivery, tech support, and IT planning and budgeting – before other broad-scale digital transformation efforts can be effectively supported.

Digital capability adoption: IT

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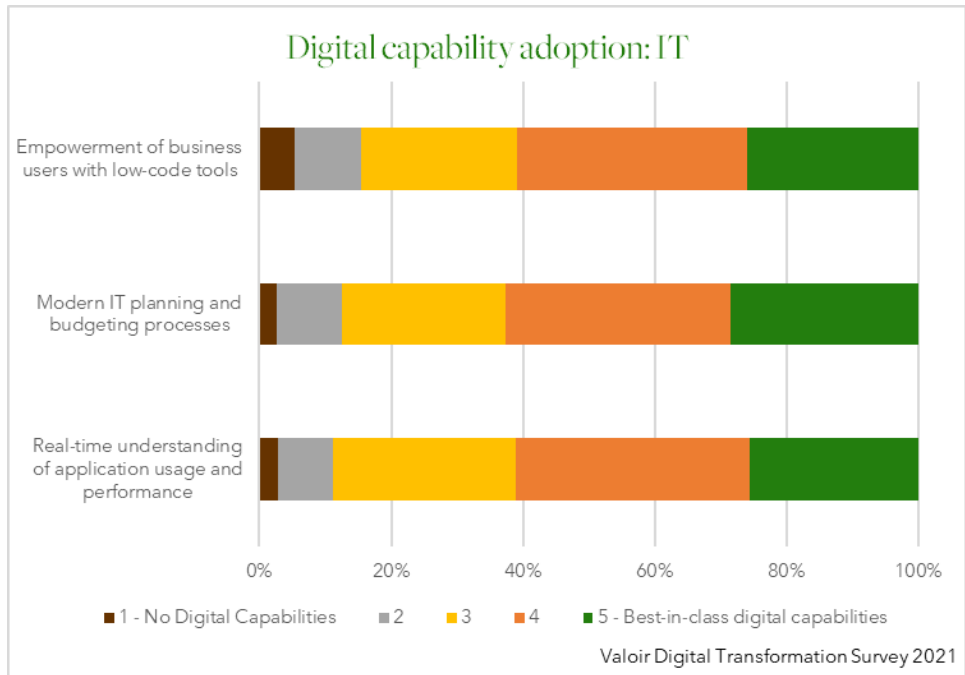
CUSTOMER SERVICE

In customer service, more than 20 percent of organizations have adopted advanced capabilities across key technology categories such as field service integration, predictive service resolution, guided self service, sentiment prediction, relationship mapping, multichannel service, and a 360-degree customer view.

It is not surprising that the adoption of digital tools and technologies is fairly advanced across the board in customer service given the focus on digital transformation to drive both cost reductions and customer satisfaction improvements, as well as the early availability of cloud-based technologies in the customer service and CX space.

Healthcare led in adoption of advanced digital customer service capabilities, with the exception of guided self-service resolution, where financial services (insurance) had a slightly higher average adoption.

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Digital capability adoption: customer service

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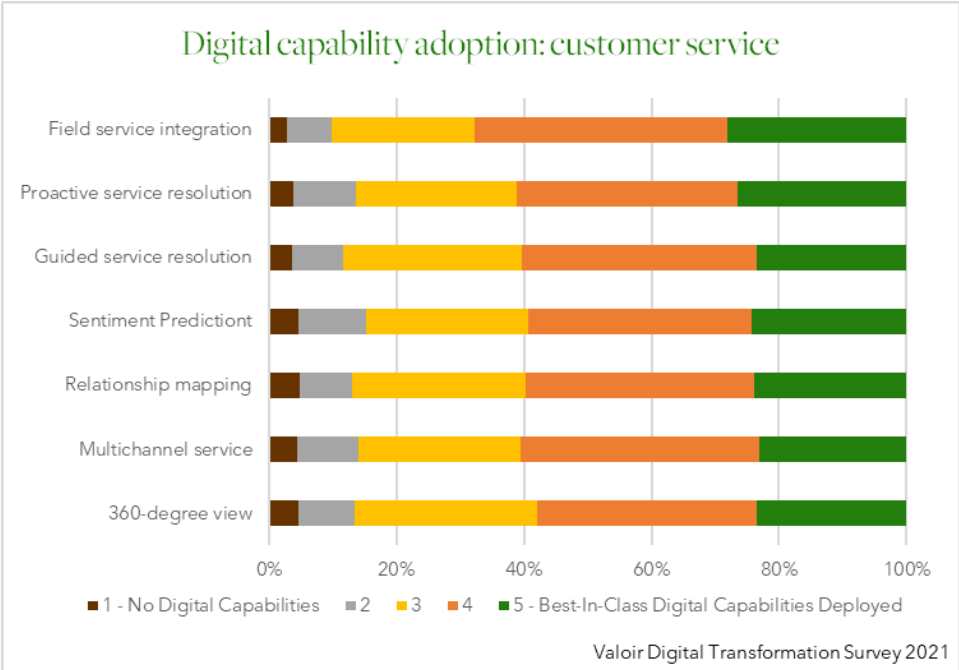
MARKETING AND SALES

In the area of marketing and sales, at least 20 percent of companies have deployed advanced capabilities across data-driven customer segmentation, real-time customer understanding, guided selling, integrated multichannel capabilities, predictive analytics and artificial intelligence (AI), and performance measurement (for real-time visibility of campaign and sales results).

Digital capability adoption: marketing and sales:

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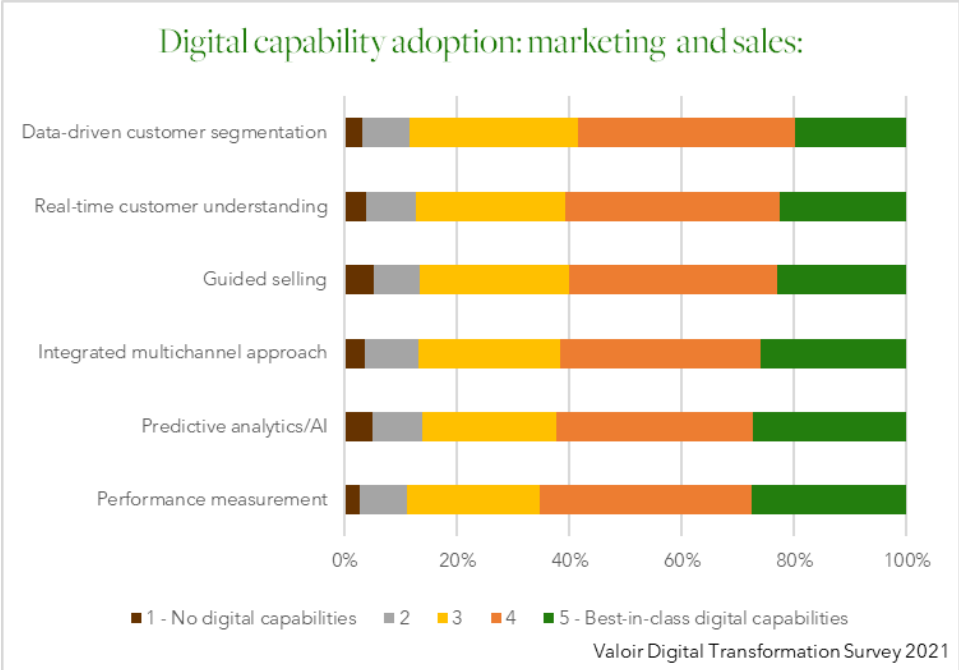
Only a small percentage of companies (in the single digits) have no digital capabilities deployed. This is not surprising, given the relatively early development of cloud-based solutions for marketing and sales automation as well as the ability of business leaders to adopt those solutions themselves, rather than waiting for traditional IT or business approvals. At the same time, more recent vendor investments in areas such as guided selling and prebuilt analytics and AI for specific sales and marketing needs have driven broad adoption.

Healthcare, again, had the highest level of adoption across all areas, followed by financial services in most other areas, with the exception of guided selling, where media had a higher average adoption rate.

OPERATIONS

In the area of operations, we found that the most broadly adopted advanced capabilities were cross-company platforms for digital collaboration, followed by manual process automation. However, more than half of all organizations had adopted some level of advanced capabilities across the areas of machine learning (ML) for process optimization and real-time visibility into operational performance. This is not surprising given the investments that many organizations have made in cloud-based tools for financial planning and budgeting, and the investments of many vendors in embedding ML capabilities into those applications.

Digital capability adoption: operations

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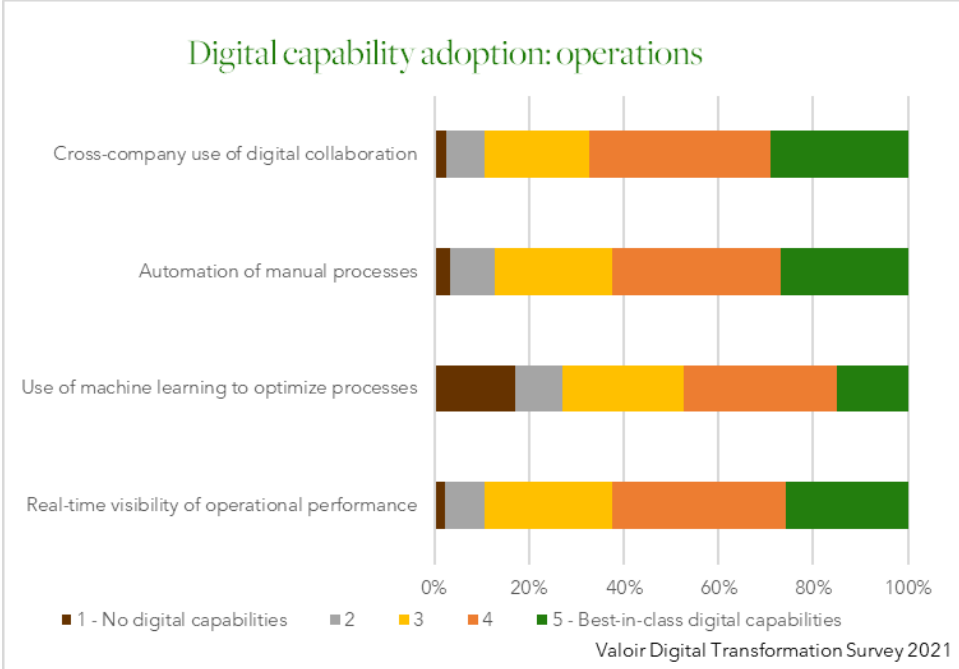
We found that healthcare and media were the most advanced in the area of adopting ML technology for operations. In the area of data visualization, healthcare again was the most advanced, followed by

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financial services and, surprisingly, government – one of the few areas where the government sector ranked as fairly advanced.

PRODUCT AND SERVICE DEVELOPMENT

In the area of product and service development, we found that nearly two-thirds of companies had developed advanced feedback capabilities to use service-related information to drive product improvements.
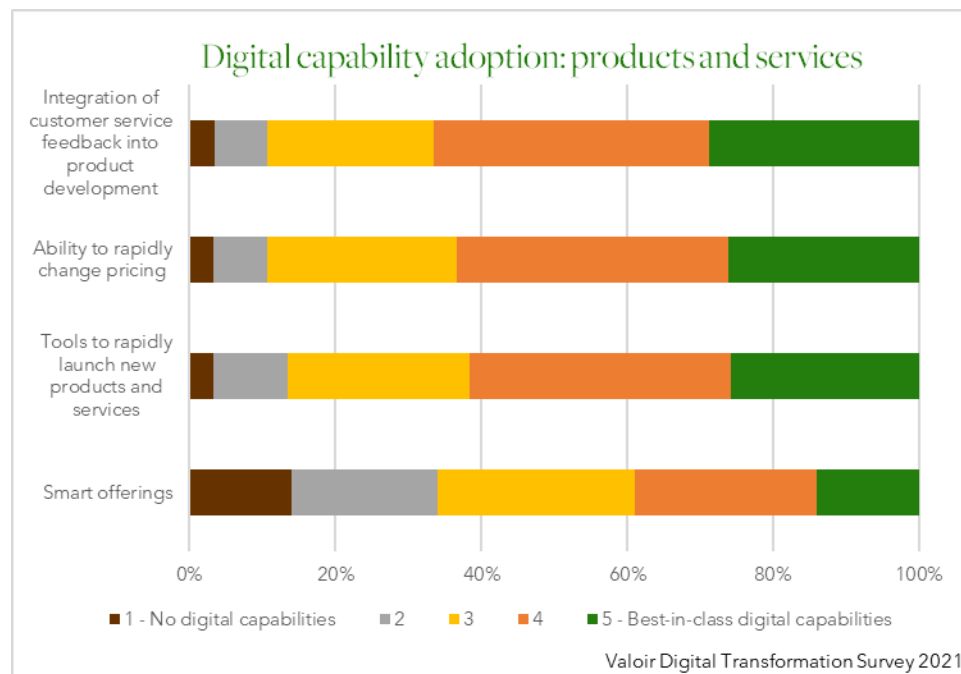
At the same time, many companies had also leveraged technology to support rapid changes in pricing and the tools to rapidly price new products and services. However, far fewer had developed "smart" product offerings – reflecting both the relative immaturity of smart products compared with other technology areas and the fact that "smart" products are simply unsuitable for some sectors.

Not surprisingly, the healthcare and aerospace industries led in the ability to deliver smart products; media and financial services ranked fairly high across all areas but particularly high in the ability to integrate customer feedback into the product development process (obviously making feedback-based changes in business services products such as media and finance is often easier than in other sectors).

CUSTOMER LOYALTY

In the area of customer loyalty, we found that the greatest area of advancement was in the adoption of technology to understand and manage social channels. This is not surprising given the growing awareness of the risks of a poor customer experience "going viral," as

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well as broad availability of cloud-based social listening and analysis tools to help companies understand customer sentiment and loyalty across social channels, many of which were introduced with free or "freemium" versions that enabled experimentation and early adoption.

In the area of customer journeys, financial services firms were the most advanced in their digital maturity. Utilities ranked fairly low across all categories.
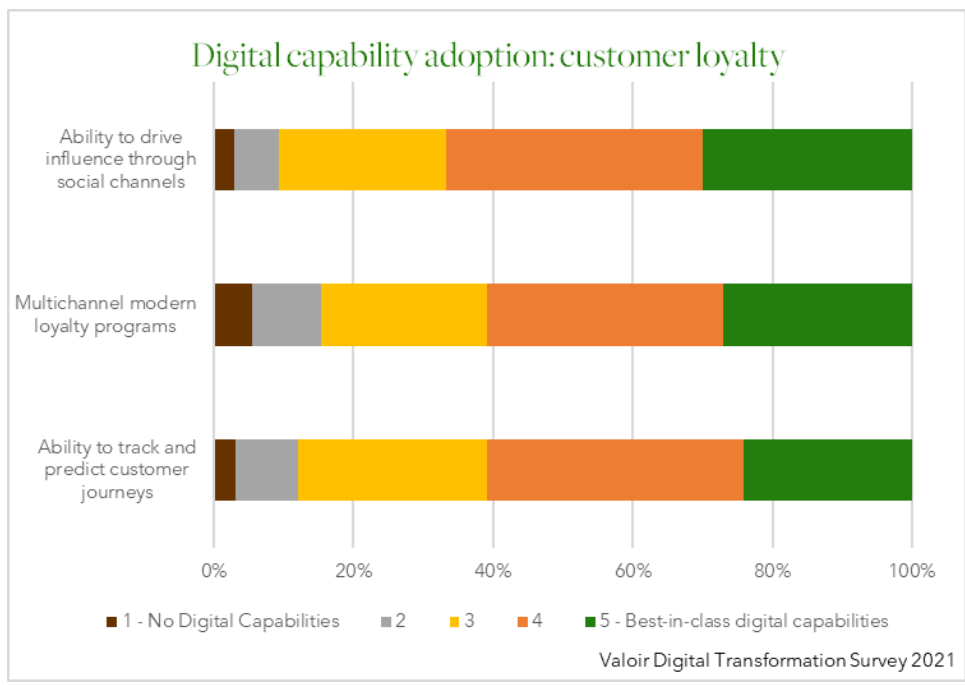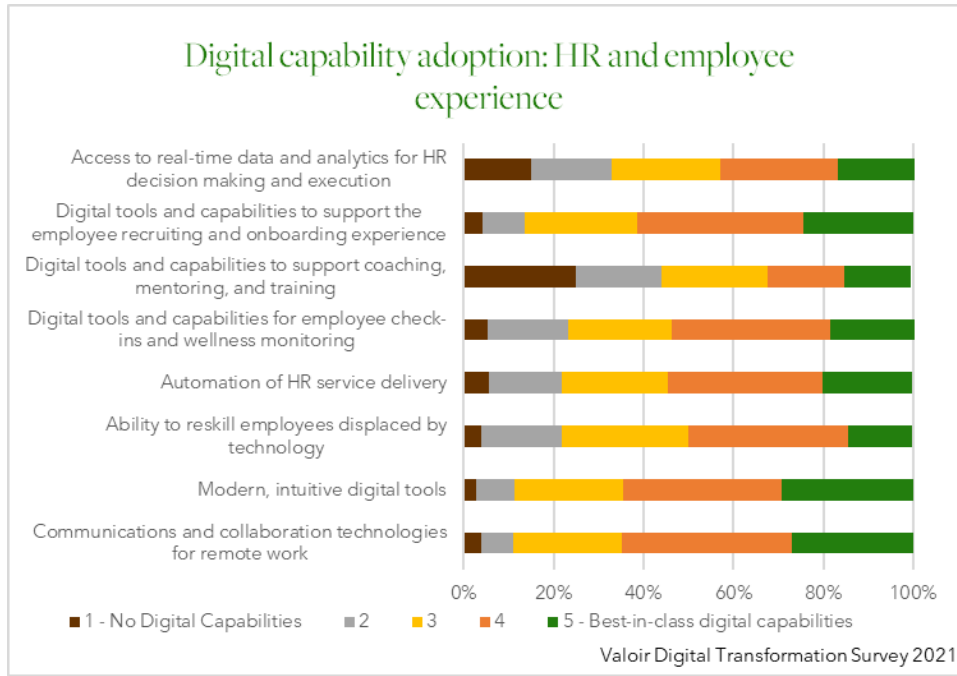

HR AND EMPLOYEE EXPERIENCE

Some of the greatest disparities in the adoption of advanced technology were across the HR and employee experience portfolio. This was surprising given the recent focus on employee experience and the need to recruit, retain, and manage talent in a hybrid work environment.

It is not surprising that a relatively large percentage of organizations have adopted technologies such as productivity tools and collaboration technologies for remote work, particularly considering the longevity of desktop collaboration and productivity tools dating back to the 1990s (beginning with e-mail) and the recent viral adoption of free and freemium group collaboration tools. It is also important to note that these tools and technologies are traditionally part of a broader business or IT purchase and not an HR budget or strategy.

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However, in other areas, with fewer than 20 percent of organizations adopting best-in-class capabilities to support reskilling, coaching, mentoring and training, and real-time analytics for decision making, clearly there are still opportunities for digital transformation in the HR arena.

Digital capability adoption: HR and employee experience

Categories (top to bottom):
- Access to real-time data and analytics for HR decision making and execution
- Digital tools and capabilities to support the employee recruiting and onboarding experience
- Digital tools and capabilities to support coaching, mentoring, and training
- Digital tools and capabilities for employee check-ins and wellness monitoring
- Automation of HR service delivery
- Ability to reskill employees displaced by technology
- Modern, intuitive digital tools
- Communications and collaboration technologies for remote work

Legend:
- 1 - No Digital Capabilities
- 2
- 3
- 4
- 5 - Best-in-class digital capabilities

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# Digital transformation and business performance

We found a strong correlation between level of digital transformation and business performance: on average, companies with a digital transformation score of eight or higher had roughly twice the rate of revenue growth of those with a three or lower.

Although obviously correlation doesn't mean causation, and there are many factors that impact revenue growth, we found similar trending on an industry-by-industry basis where companies typically have more comparable performance. In validating the data, we found that the automation of sales and marketing processes, greater ability to make data-driven decisions in areas such as forecasting and territory management, and the ability to deliver new products or services were three key drivers of revenue increases for organizations at the high end of the spectrum.

We also found a correlation between digital transformation levels and margin growth, with companies at the high end of the scale being able to grow margins by almost 10 percent. The same trending was true on an industry-by-industry basis.

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Digital transformation and revenue growth
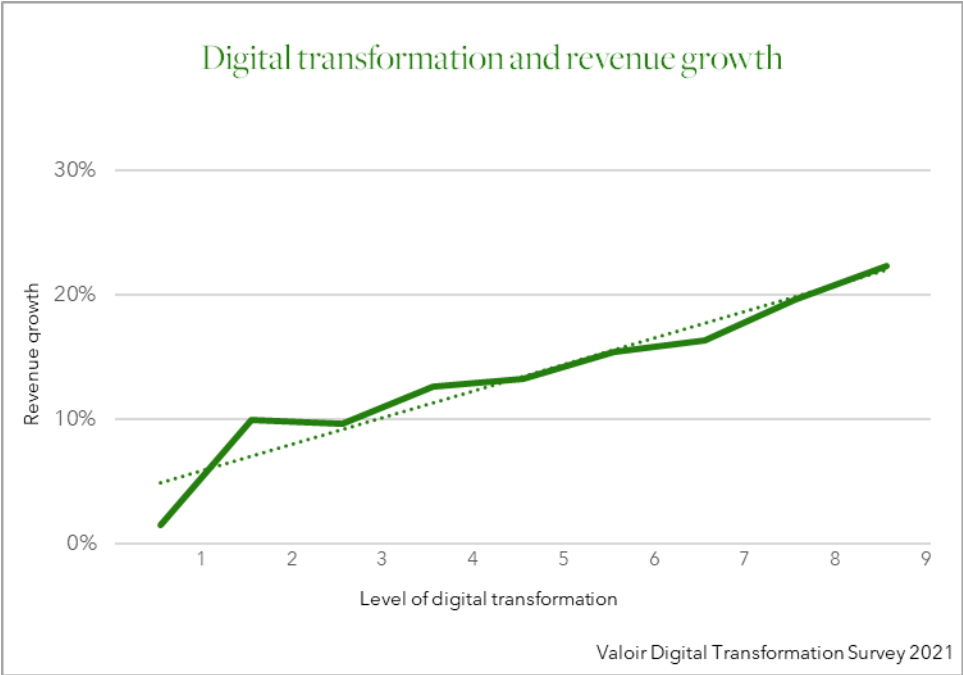
We found that those at the high end of profit margin growth often took advantage of technology to launch completely new business models with dramatically different cost structures than they had previously operated.

Digital transformation and margin growth
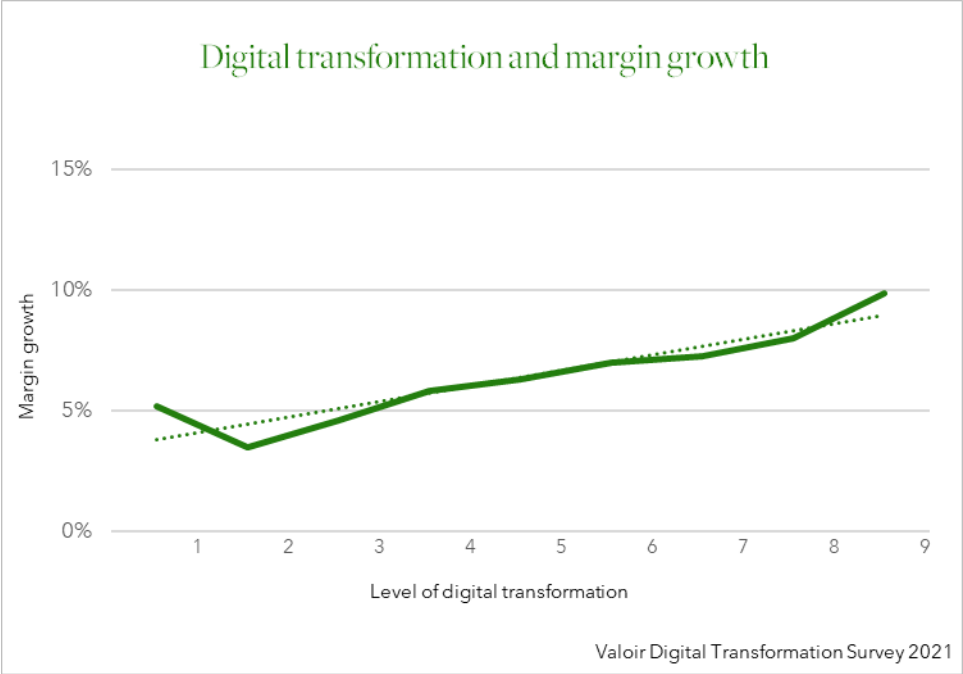
Other factors driving margin growth were the ability to significantly automate manual internal processes to reduce costs (particularly in manufacturing), moving to cloud technologies to reduce costs and

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increase flexibility to address changing business needs, and implementing new customer service models such as multichannel self-service that drove increased efficiency.

Looking ahead

As companies continue to adopt technology to make their operations more sustainable and competitive, the benefits are clear. Digital transformation drives more operational efficiency, employee productivity, and customer engagement.

Although obstacles to digital transformation still exist, and budget and resource constraints are still an issue, the biggest barriers to digital transformation are, in many cases, human problems. This is not surprising, as true digital transformation is not just about adopting advanced technologies but about changing work processes and business models – which require leadership, change management strategies, and identifying and implementing incentives for individual employees to change their behaviors.

Beyond investing in digital transformation in areas that drive top-line growth (such as sales and marketing), companies need to continue to advance digital transformation in areas that help employees be more productive and efficient in their current roles – and more effective in upskilling to take on new ones. This requires investment in the digital workplace and in HR transformations that drive both improved bottom-line outcomes and greater employee engagement.

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