SAP Digital Transformation Executive Study:

4 Ways Leaders Set Themselves Apart

SAP

Shatter the technology mental model

Few people realize that electric cars have actually been around for more than a century. That's because our definition of "car" – our mental model – has for almost all that time required the presence of a gasoline-powered engine.

Even in the late 1990s, when GM, Chevrolet, Honda, and Toyota each introduced fully electric models, they sold fewer than 3,200 units among them. Neither the public nor the manufacturers could envision a car culture without the gasoline engine or the vast network of gas stations and other infrastructure that supports it. And since no one could imagine it, it didn't happen.

That is, until Elon Musk came along.

With charisma, ingenuity, engineering expertise, and the determination to build a company entirely around a purpose-built electric car, Musk first persuaded investors and then the public that a car that needed no gasoline was not only viable but desirable.

Furthermore, the extent of his vision changed people's mental models not just about cars but about transportation and energy management. He envisions that the Tesla will one day have enough power to run your house. And when it's done powering up your house, it will use self-driving technology to head to a charging station overnight and return home in time for tomorrow's commute. In Musk's mind, the car is just a part of a much larger energy supply chain future.

It's a testament to the power of his vision that more than 400,000 people, who might not have previously dreamed of buying a car without a test drive, have already put down deposits for Tesla's Model 3, which won't even be available until mid-2018.

Today, businesses in every industry need their own Elon Musks to shatter another entrenched way of thinking: that technology change is an incremental shift within an existing operating model. A new study by the SAP Center for Business Insight, conducted in collaboration

with Oxford Economics, indicates that when it comes to digital transformation, companies that fail to get beyond an incremental mindset – and view technology as a tool rather than an integrated part of a vastly different business future – risk their very survival.

The 100 leading organizations in our study (out of more than 3,100 surveyed) that have managed to change their mental model regarding technology report that they have successfully completed digital transformation. By this they don't mean that they have arrived at an end state, but that they have finished initial transformation projects that cross departmental, functional, and operational boundaries in a holistic way.

These top 100 companies view business differently from the rest, and they make different choices. For example, they are increasing investment in digital skills and in technologies to fuel transformation while the others are more focused on cranking up speed to market. And roughly half of these leaders have created purpose-built groups to orchestrate and coordinate strategic changes across functions, compared to just 14% of the other companies in our study.

None of the companies in the top 100 gave project leadership responsibility for digital transformation to functional units inside their organizations, while more than 25% of other companies handed leadership to finance, operations, and other units. Our study suggests that by giving leadership responsibility to functional units, organizations risk creating isolated projects that lack cross-organizational connectivity and a digital mindset. Through such actions, companies are essentially guaranteeing that their efforts will fail to deliver the gains they seek.

The results speak for themselves: the leading companies already earn higher profits and revenues and have more competitive differentiation than their peers – advantages that will continue into the future. For example, leaders expect 23% more revenue growth from digital transformation over the next two years than the rest of the organizations studied.

Although 33% of the leaders come from the technology industry, the rest of the companies are spread across a wide range of industries, from retail to manufacturing to financial services. In addition, although 37% of the digital transformation leaders are big – with US$10 billion or more in revenue – others are as small as $100 million in revenue. The lessons they have to offer are likely applicable to a wide range of companies, regardless of industry or size.

What defines a digital transformation leader?

Four traits set the top 100 companies apart from the rest of the pack:

They are focused on true transformation.

They avoid episodic, piecemeal changes and instead embrace a cross-organizational approach designed to enable constant change. They consider transformation an opportunity to reinvent business models, and they prioritize that over comparing themselves to their competition.

They transform customer-facing functions first.

Leaders view the customer experience as the gateway to a successful digital transformation. They are 58% more likely to cite customer empowerment as a key global trend. The leaders have also successfully connected their customer-facing efforts to business processes across the enterprise and extended them to partners and suppliers.

The Digital Mindset

They invest in next-generation technology using a bimodal architecture.

Leaders report a high level of investment in cloud computing and enterprise mobility, double-digit growth in Big Data and analytics and the Internet of Things (IoT), and hypergrowth in machine learning and artificial intelligence. Using a bimodal architecture allows them to run their business efficiently while rapidly integrating these new technologies to remain ahead of the competition.

They are talent driven.

With skills that drive digital transformation in high demand, leaders are investing heavily in recruiting and training and in tearing down frustrating process roadblocks. It's all designed to improve employee engagement and ensure they're prepared to meet the demand for new technologies and new ways of working.
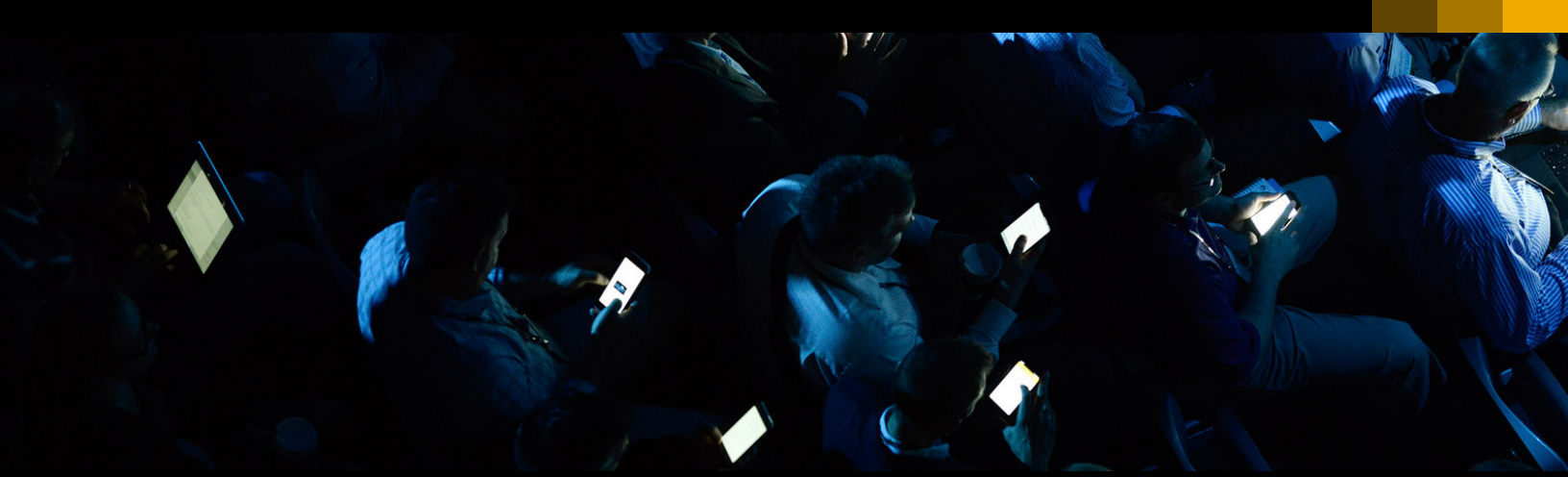
Making changes transformational, not incremental

What sets the leaders apart is that they have internalized the need to transform how they think as well as what they do – to create a digital mindset across the organization. This is the difference between saying "we need a mobile app" and "we need new ways to serve customers in the ways they want to be served."

A Hong Kong–based global supply chain management company that is still in the process of digital transformation exemplifies this shift in mindset. As it experiments with new technologies, it is also educating senior managers about transformation so they can champion it across the organization, says the company's CTO. "The biggest organizational change is ... cascading that message from the top down through the organization to make sure everyone buys in and understands both the initiatives and the need for them," he says.

Global competition was a top priority for most companies we spoke to. The leaders, however, told us that their highest priority is adapting to the digital economy and the technology changes that come with this evolution – which inherently improves their competitive stance.

They are creating a unified digital corporate culture to avoid getting trapped in a siloed approach to change. Instead of making piecemeal adjustments as resources, culture, and organizational politics permit, they make changes across the entire enterprise, and do so repeatedly over time as necessary (see Figure 1).
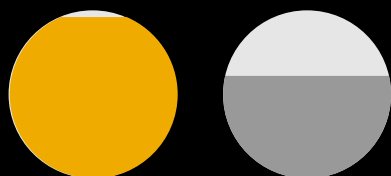
Figure 1
Leaders focus on true transformation

■ Leaders   ■ Others

96%

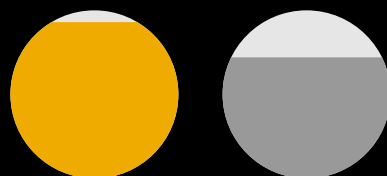Digital transformation is a core business goal for 96% of the leaders compared with 61% of others

93%

of the leaders say technology is critically important or very important to retaining competitive advantage compared with 72% of others

5x

more leaders have seen their organizational structure change as a result of digital transformation compared with the others

96%   61%   93%   72%   56%   10%

However, being on the forefront of digital transformation is not without difficulties, even for leaders. While most companies said their greatest challenge in digital transformation initiatives was lack of leadership, the top 100 companies cited lack of change management expertise. Their struggle has been exacerbated by their attempts to make changes across areas and functions using cross-organizational processes and technologies, such as multifunctional digital platforms. Seventy percent of leaders said implementing such a platform is a current priority, and 76% plan to do so by 2018.

"We've extended the network platforms in all our plants," says the CIO of one of the leaders, an American packaged-food manufacturer. "A lot of the processes we're putting in place rely on the network in the manufacturing space to interconnect machines and other devices. There's still a lot of conversation about devices and data, but that's the easy part. The hard part is connecting all this data to allow the business to gain rapid insights so it's as actionable in as close to real time as possible."

Start with the customer

Previous strategic technology shifts, like the introduction of ERP software, were generally inward facing and involved little contact with the customer. By comparison, digital transformation leaders are beginning their efforts by looking outward, with the desire to deliver something of value to the customer in a different way.

That mindset then cascades across the organization and acts as a catalyst for changing all the processes involved in delivering new forms of value, whether directly or indirectly through employees, partners, or influencers.

Indeed, leaders consider customer empowerment a necessary component of transformation rather than an end result or goal. Some 39% believe customer empowerment initiatives (such as involving customers more fully in product and service design) will be the most important trend of the next two years, compared to just 23% of other respondents.

They appear to be onto something. Seventy percent of leaders say that digital transformation is already delivering increased customer satisfaction (see Figure 2).
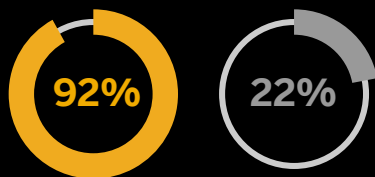

Figure 2

The customer experience is the first step in transformation
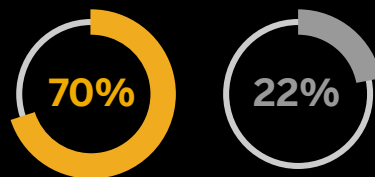
🟧 Leaders   ⬜ Others

92%
of leaders report that they have mature digital transformation strategies and processes in place to improve the customer experience compared with just 22% of others
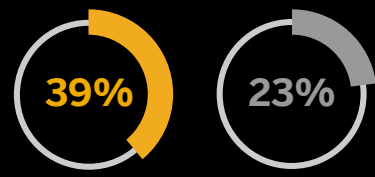
70%
of leaders have seen significant or transformational value from digital transformation in customer satisfaction and engagement compared with 22% of others

39%
of leaders cite customer empowerment as a key global trend compared with 23% of others

92% 22% 70% 22% 39% 23%

Prioritizing talent

Traditionally, companies experiencing talent shortages have taken the easier, cheaper route of poaching talent while leaving retraining up to employees themselves. We were surprised, therefore, to learn how many companies at every stage of digital transformation are planning to invest in retraining existing staff to ensure they have digital skills. A Brazilian auto products company still in the process of an organization-wide digital transformation, for example, has created a custom "university" that trained 20,000 employees and partners in 2016. The training includes a significant online component, with ongoing testing and certifications to help the company track the availability of needed skills.

Indeed, the top 100 companies are spending even more to retrain existing employees, managers, and executives. They're also investing more in hiring new employees across the board and creating new roles such as chief automation officer to support their digital transformation efforts.

Among the leaders, 71% say that digital transformation makes it easier to attract and retain talent, compared to 54% of other companies. The leaders understand

that acquiring digital skills leads to better employee engagement and enables them to create and maintain the dedicated cross-organizational groups that keep them in the vanguard of digital transformation.

Increasing the quality of talent recruitment and retention is of equal importance to leaders and other companies. However, leaders see increasing investment in digital skills and technology as the most important driver of revenue in the next two years, while all other companies say it's speed to market.

Furthermore, only the leaders seem to be taking action to improve their talent management. They're five times more likely than other companies to say that digitalization has already changed their talent management, and more than twice as likely as others to say that the changes will continue over the next two years (see Figure 3).

Two-thirds of leader companies are making their employees' lives easier by eliminating process roadblocks that interfere with their ability to do their jobs. Some 90% of leaders expect to see value from their efforts in the next two years versus 56% of other companies.

The attention being lavished on employees has not gone unnoticed. Sixty-four percent of leaders say that their employees are more engaged thanks to digital transformation, compared to 20% for other respondents. And in two years, 90% of leaders expect to see more engagement versus 56% for other companies.
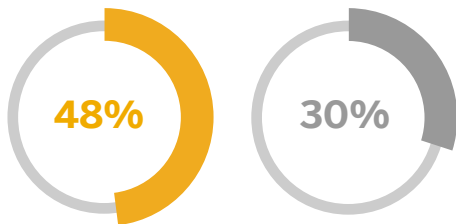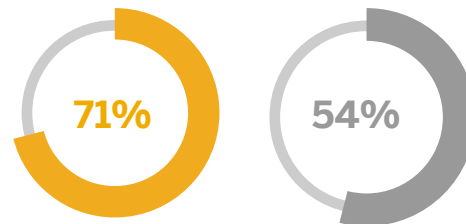
Figure 3

Leaders are talent driven

■ Leaders ■ Others

48%

of the top 100 leaders said that investing in digital skills and technology was most important for driving revenue in the next two years, compared with only 30% of others

48%   **30%**

71%

of the leaders say that digital transformation efforts make it easier to attract and retain talent compared with 54% of others

71%   **54%**

5x

more leaders than others report that digitalization has already changed their talent management efforts and 83% of leaders expect talent management to be changed by digitalization in the next two years compared with 37% of others

35%   7%   83%   37%
Today   In two years
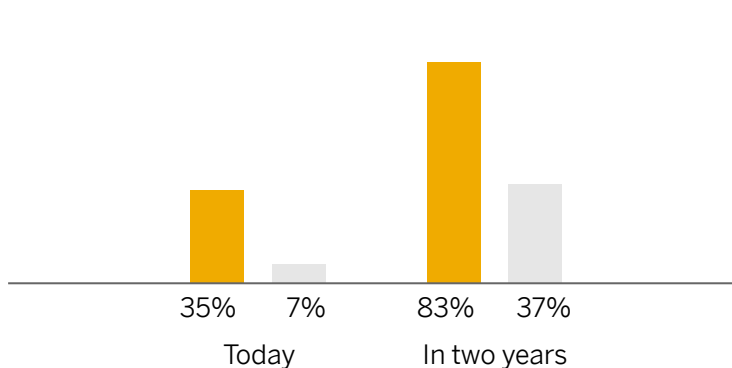
64%

of leaders say that their employees are more engaged, compared to 20% for other respondents

64%   **20%**
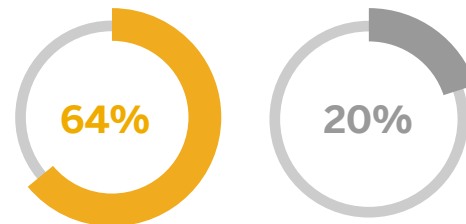
Which technology bets should you be making?

We discovered that the top 100 companies are starkly different from others in their technology investment priorities and progress. For one thing, they are already investing in what many other companies still think of as next-generation technologies, such as machine learning and IoT (see Figure 4).

The leaders are not merely picking technology winners. They are also picking a winning strategy for prioritizing and investing in technology. A majority of all companies in our study see a multifunctional digital platform as key to integrating the technologies of digital transformation. However, the leaders are taking their thinking a step further and categorizing their priorities in a bimodal architecture, which separates technologies into those that are commonly found within most companies and those that are unique and provide distinct competitive advantage.

However, even in generic processes that provide no significant competitive advantage and change little over time, like aging of accounts receivable, leaders are finding ways to apply new technologies for one-time improvements in productivity. In areas that provide competitive differentiation, leaders are creating agile teams that can discover, respond to, and adapt quickly to advances in technologies like machine learning and IoT. Sixty-two percent of leading organizations have already created these teams, a figure estimated to rise to 82% over the next two years.

Figure 4

Leaders are investing in next-gen technologies today

■ Leaders   ■ Others

94%
Big Data/Analytics

94%   60%

76%
IoT

76%   52%
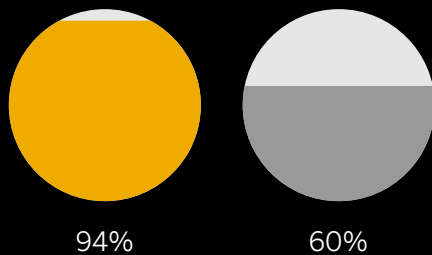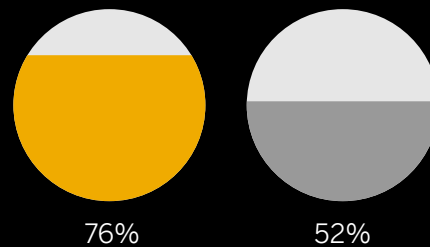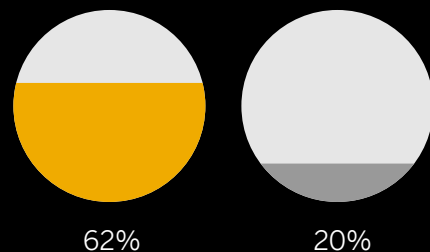
50%
Machine Learning

50%   7%
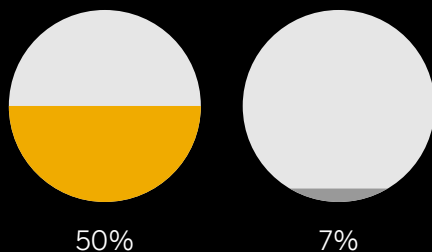
62%
Bimodal architecture

62%   20%

Transformation pays off

Both organizational changes and technology deployments are paying off for digital transformation leaders in ways that are already delivering value and that promise to continue doing so in the long term.

In fact, the payoff is staggering and occurs across the board. The top 100 companies are 2.5 to 4 times more likely to report value from next-generation technologies, affecting every part of the enterprise, from customers and partners to brand value, employee engagement, and revenue growth.

What distinguishes the leaders in digital transformation is, in total, a shift in their mental model as profound as the one that drove Tesla to envision a future automotive industry that runs on electricity rather than gasoline.

The leaders are creating and nurturing a digital mindset that encourages bold change. They're giving responsibility for those changes to teams that look at projects not as incremental improvements in isolated pockets of the business but as opportunities to unify and improve the entire enterprise. They're also investing in new technologies and much-needed talent so they can deliver the digital improvements customers are clamoring for and build on them for even greater productivity and organizational efficiencies. And by doing so, they're ensuring that their entire organization becomes – and remains – agile enough to remain in the lead.

A company that wants to catch up to the leaders must pull an Elon Musk and change the terms of the conversation. Stop doing piecemeal IT projects. Stop treating IT as the enabler of business rather than a strategic partner. Stop handing off responsibility for digital transformation to a siloed group and then complaining when it doesn't deliver any significant changes.

Digital transformation will determine the future of business, so it cannot be incremental or be considered independently from the operating model. In the end, what our survey shows most clearly is that companies that treat digital transformation as another IT project will not just fall behind. They will fail.
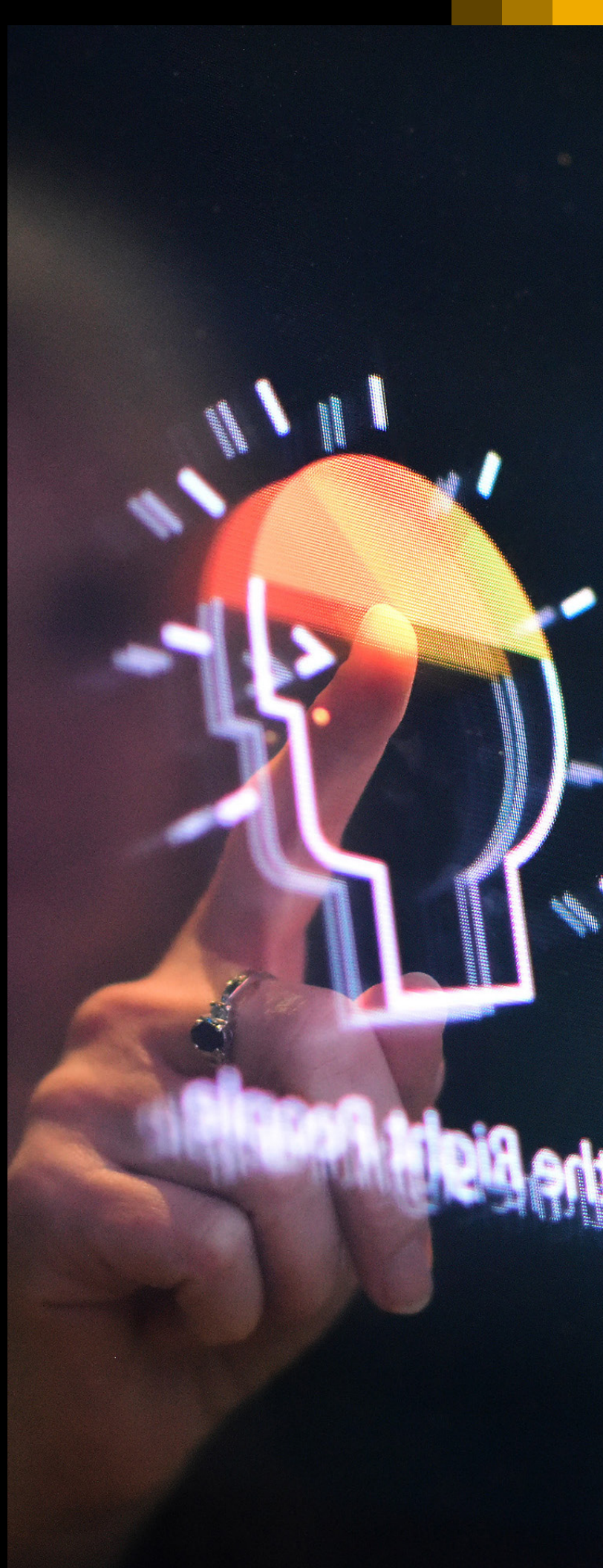
Methodology

Oxford Economics was commissioned by the SAP Center for Business Insight to conduct and analyze a survey of over 3,100 executives around the world about the opportunities and challenges facing companies as they attempt digital transformation. Fieldwork took place in early 2017 (January through May) by computer-assisted telephone interviewing.

Respondents come from 17 countries or regional groupings, with a significant sample of small, midsize, and large enterprises within each area. Geographic regions include Brazil, Mexico, Australia and New Zealand, Japan, Southeast Asia, India, Greater China, Canada, the United States, Germany, Switzerland, Russia/Ukraine, France, the Nordic countries, the Netherlands, the United Kingdom, and the Middle East/ North Africa. Companies surveyed represent a range of industries, including manufacturing, retail, banking and insurance, healthcare, professional services, technology, consumer goods, and the public sector.

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