

# DIGITAL TRANSFORMATION STRATEGY 2.0

Get ready for what's next

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As mid-market companies emerge from their first digital journey, the cracks from siloed planning and poorly integrated strategies are becoming evident. In 4 out of 10 cases<sup>1</sup>, conflicting priorities undermined digitalisation outcomes, making it hard for nearly 70%<sup>2</sup> of leaders to justify value, putting subsequent rounds of digital transformation funding at risk.

As companies are starting to prepare for digital transformation 2.0, it is time for a check up. Executives need to evaluate, and adjust, their original digital transformation strategies based on their ability to: a) Drive parallel and balanced advancements across all key business enablers, and b) Integrate and align with corporate, operational and functional strategies.

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# TRANSFORMATION 2.0

In recent years, companies across verticals have funded a number of initiatives to utilise new digital technologies in order to improve business performance. In most instances, digitalisation with transformative character took place in isolation. More than 70% of digital transformation 1.0 projects have been executed as standalone initiatives without being tied to a larger strategic roadmap.

As a result, the first round of transformation may have improved certain aspects of the customer experience and helped companies realize initial operational efficiencies, but they did not exactly ignite the business transformation most leaders had in mind, one that would enable their companies to outperform competitors fair and square, enter entirely new markets, or reduce operational costs at levels never thought before.

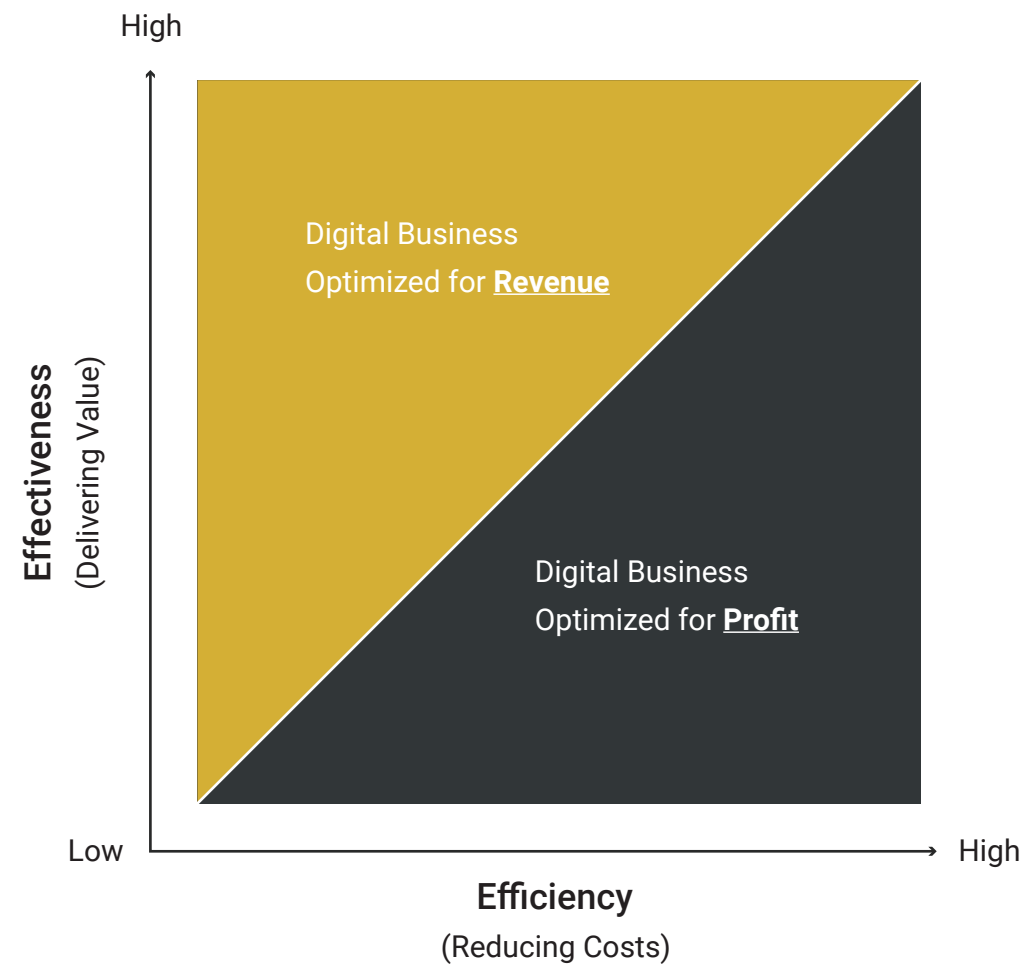
As companies near the end of their first digital journey and are starting to prepare for digital transformation 2.0, expectations are even higher. According to recent research by Gartner, 125,000 enterprises expect revenue from their digital initiatives to increase to the tune of 80% by 2020. As a result, the question re-emerges: **What should your strategy be for digital transformation 2.0?**



# THE DIGITAL STRATEGY TRADE-OFF

In its essence, strategy is a set of decisions towards balancing a company's trade-offs between being effective (delivering value) and being efficient (reducing costs). By enhancing people's ability to achieve their goals, digital technologies have amplified what is possible in both directions, but, at the same time, they have introduced new complexities companies need to manage as they move forward.

**Visual:** The Digital Strategy Trade-off



<sup>3</sup>Digital transformation initiatives will more than double by 2020, from 22% to almost 50%, according to IDC

## DIGITAL TRANSFORMATION STRATEGY

Contrary to what one would come to expect given the size of monetary and non-monetary resources companies are planning to invest in the next wave of digital business transformation<sup>3</sup>, only 27% of businesses have a coherent digital strategy in place. At the same time though, this worrisome statistic presents a great opportunity for many companies to start clean by designing an impactful digital transformation strategy. Our experience in working closely with mid-market companies to make the best of people and technology suggests digital transformation strategies can deliver results only when they are inclusive and integrated.

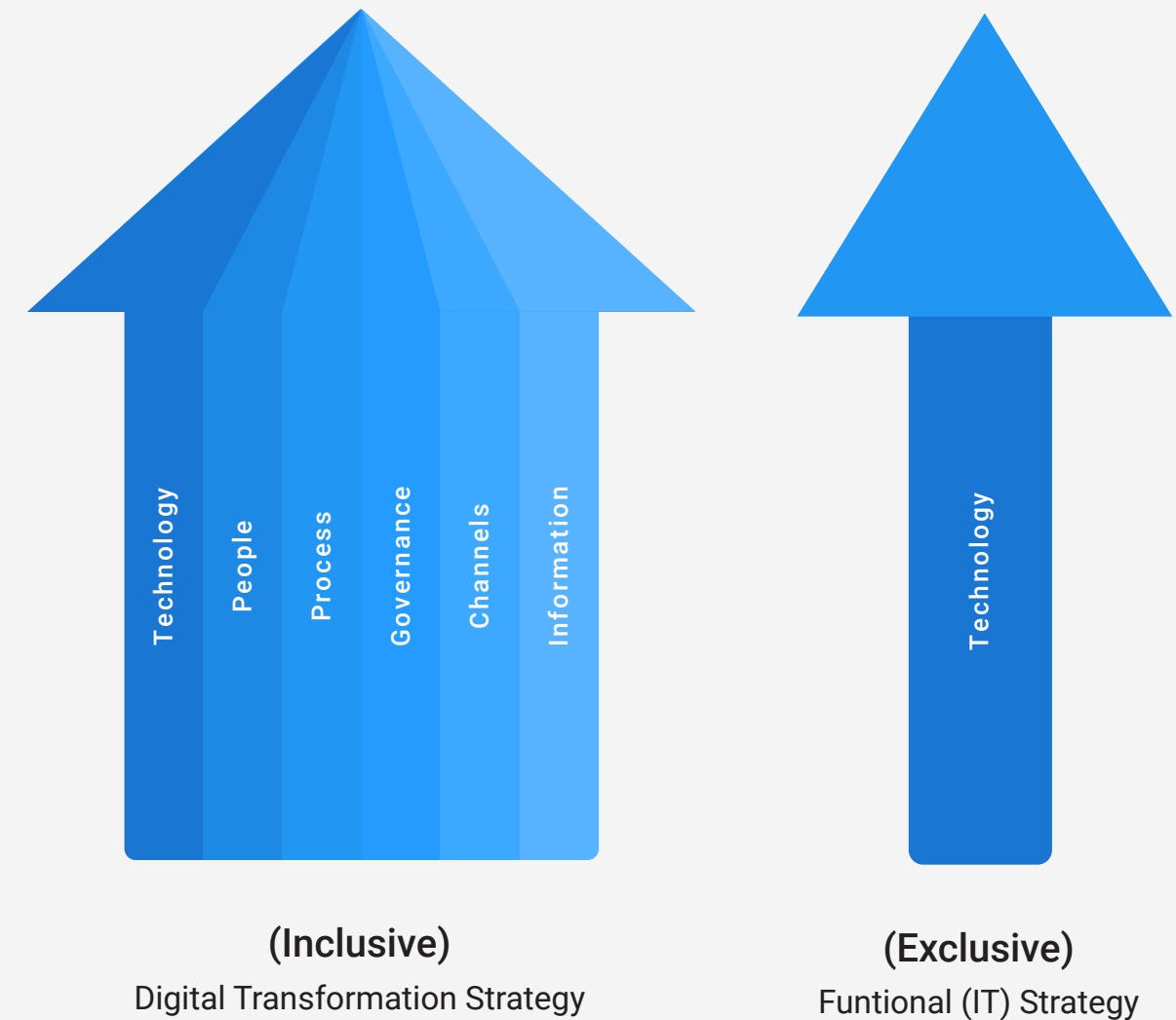


# INCLUSIVE STRATEGIES

Like many of their functional counterparts, IT strategies are traditionally exclusive. Despite recent efforts to broaden their scope, IT still leads transformation projects guided by system-centric roadmaps, focusing on which technologies will be used in the future and how they will be rolled out to employees and/or customers. They do not necessarily provision for the transformation across other business enablers (e.g. governance, process, people) that is required to happen before or after a digital technology has been deployed, often across multiple functions and business units, in order to unlock its full potential.

Digital transformation strategies, on the other hand, are inclusive. By weighing customer-centric and business-centric needs, they aim at parallel and balanced advancement across all key business enablers, resulting in sustainable and material performance improvements.

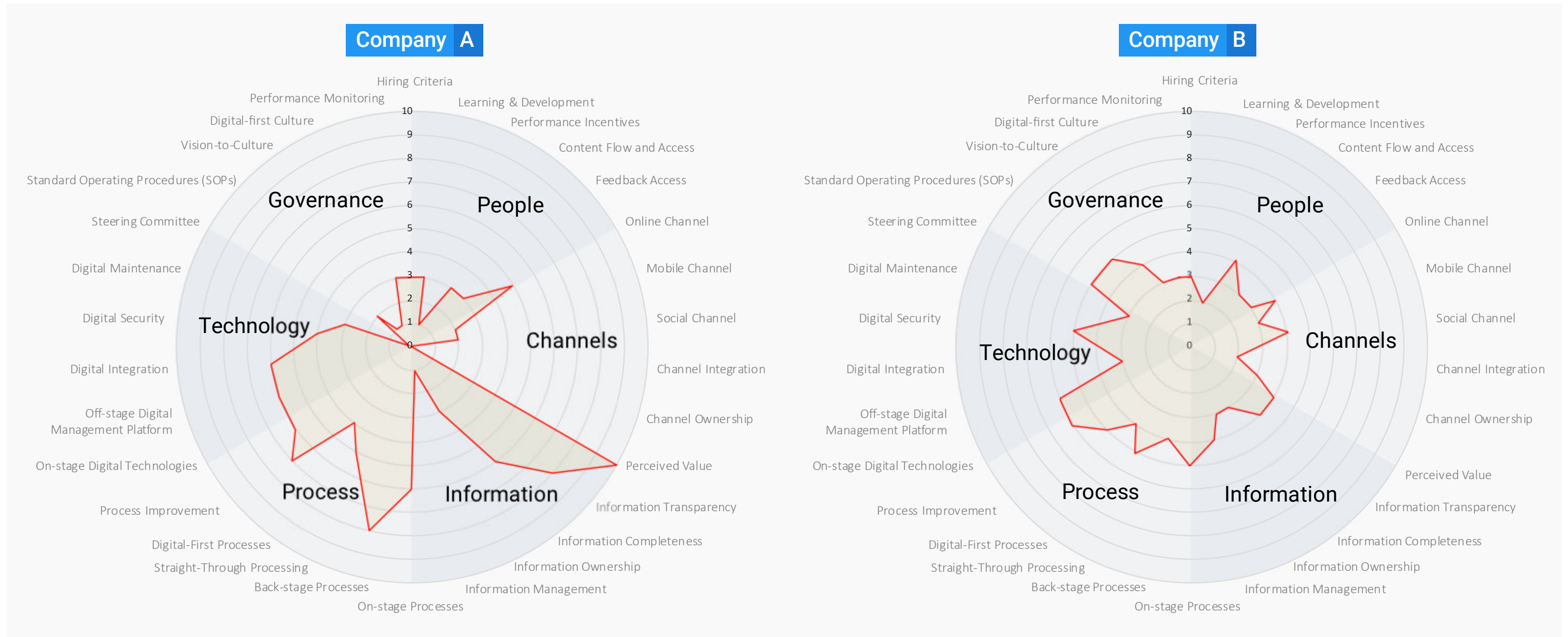
**Visual:** Digital Transformation Strategy vs. Functional (IT) Strategy



# INCLUSIVE VS. EXCLUSIVE STRATEGY OUTCOMES

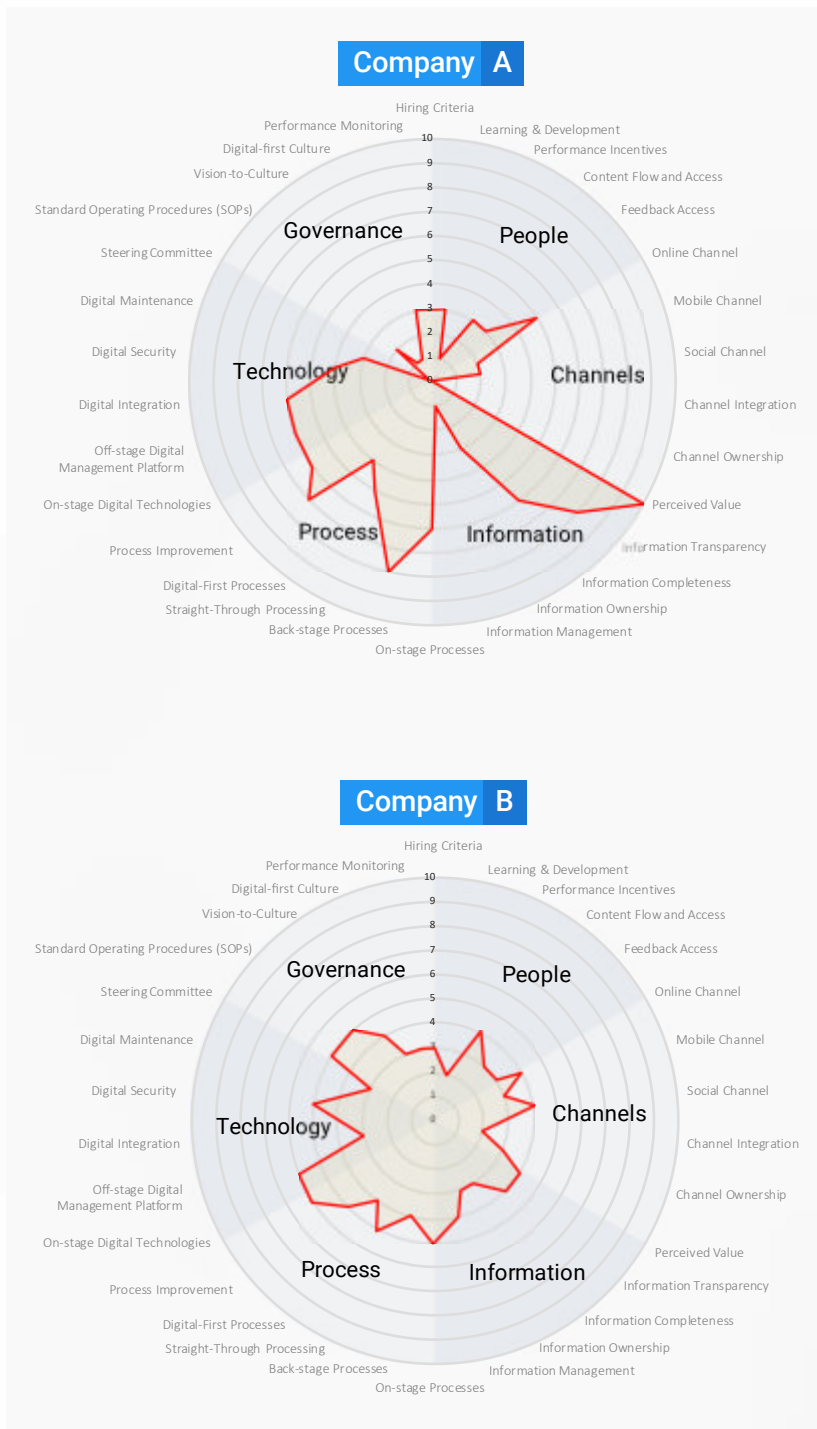
To shed light on the difference between inclusive and exclusive digital transformation strategies, we applied our proprietary Digital Transformation Readiness Assessment<sup>4</sup> on two mid-size companies active in the same vertical. Both companies have already completed their first wave of digital transformation initiatives within approximately the same timeframe (10 - 14 months). To protect client privacy, company names have been masked.

**Visual:** Digital Transformation Strategy vs. Functional (IT) Strategy Outcomes



<sup>4</sup>Our Assessment evaluates the maturity of a company across its core 6 enables (people, process, technology, governance, information & channels) based on a set of 30 attributes. Each attribute is assigned a score ranging from 0 to 10, representing the lowest and highest maturity respectively.

## DIGITAL TRANSFORMATION STRATEGY



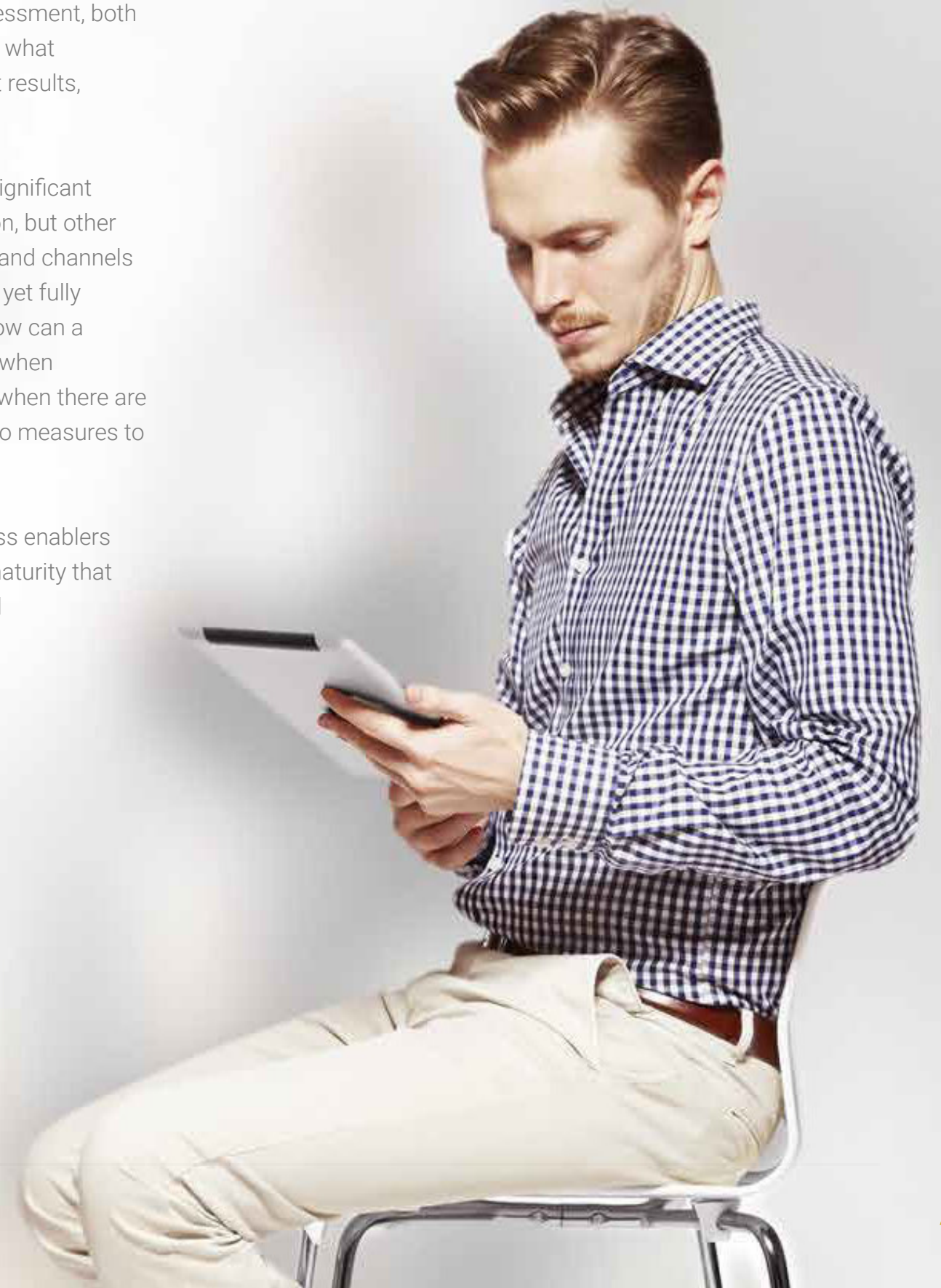
<sup>5</sup> Average score in above cases are ~3.7 on a scale ranging from 0 to 10

## DIGITAL TRANSFORMATION STRATEGY

**Company 'A'** completed the first wave of digital transformation initiatives driven by an exclusive IT strategy. On the other hand, **company 'B'** was guided by an inclusive digital transformation strategy. Strictly based on average scores of the assessment, both companies appear to be equally mature in regards to what constitutes a digital business<sup>5</sup>. Sectional assessment results, though, reveal two radically different pictures.

By following a siloed IT strategy, **company 'A'** made significant advancements in technology, process and information, but other equally important areas such as people, governance and channels were left far behind. As a result, the company cannot yet fully monetize on its digital transformation investment. How can a company get the most out of its digital technologies when employees are not culturally inclined to use them, or when there are no policies to govern their usage, or when there are no measures to compare performance before and after?

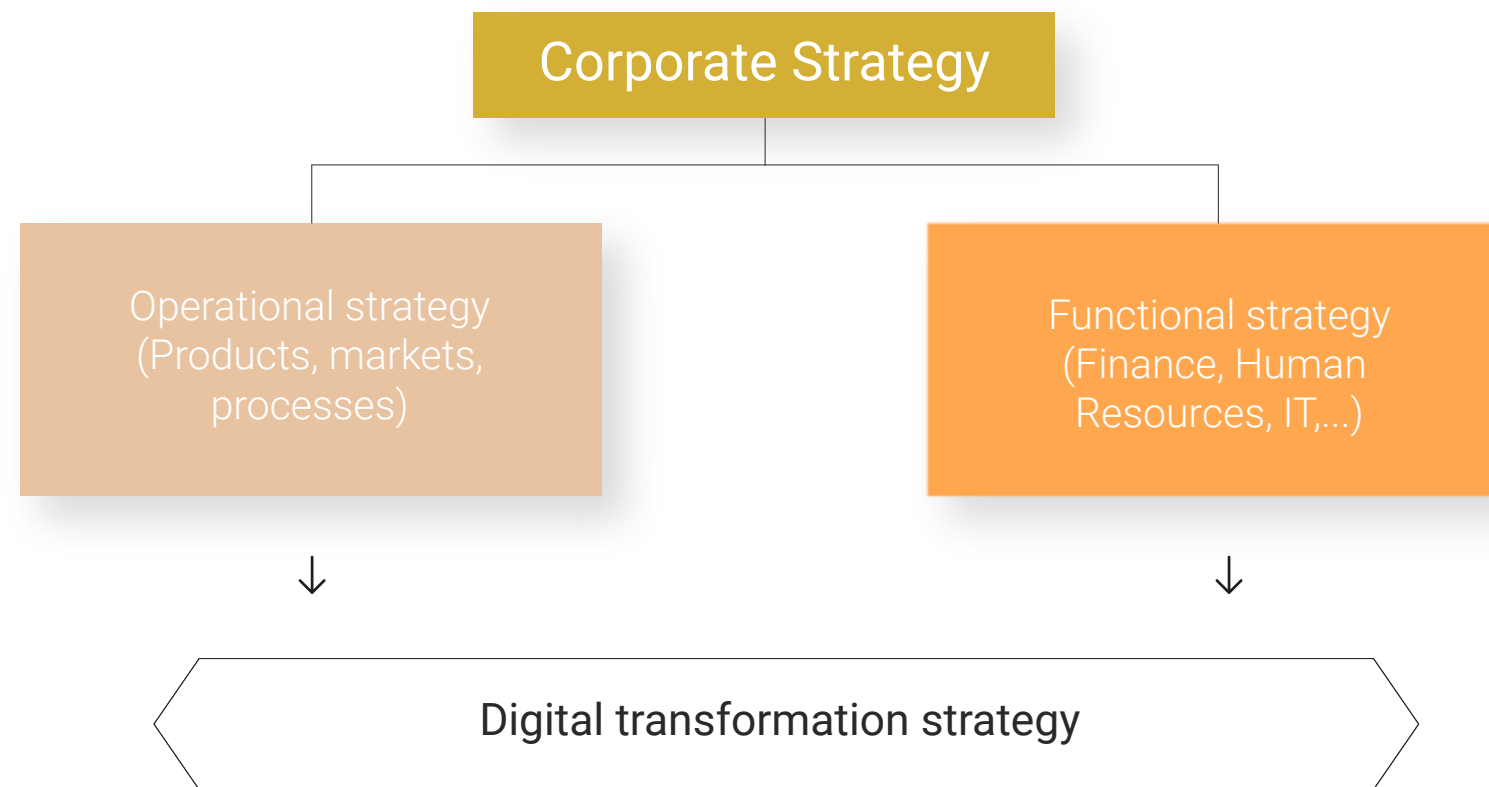
**Company 'B'**, on the other hand, advanced all business enablers less aggressively but in parallel, resulting in leveled maturity that allows it to monetize its investments along the digital transformation journey.



# INTEGRATED STRATEGIES

As digital transformation strategies aim to coordinate and prioritize improvements in regards to the 6 core business enablers, they cut across functional and business units. This phenomenon intensifies as companies move up their digital maturity curve, where deriving additional value or reducing costs require improvements with surgical precision and tight collaboration across the entire business. For your digital transformation strategy to succeed, it must be directly integrated to corporate, operational and functional strategies.

**Visual:** Fully Integrated Digital Transformation Strategy<sup>6</sup>



At the highest level, the corporate strategy will set the strategic goals with respect to delivering value to customers (optimizing for effectiveness) and/or reducing costs (optimizing for efficiency). The business and functional units will then identify required changes in their respective domains, such as marketing, hiring, operations, and products, and set performance targets accordingly. Based on this integration model, the role of your digital transformation strategy is twofold:

1. Convert the strategic business objectives set by the corporate strategy into coordinated and measurable improvements across the 6 core business enablers
2. Ensure said improvements are in alignment with requirements and performance goals defined by operational and functional strategies



<sup>6</sup>Digital transformation Strategies (Articles in Business & Information System Engineering • September 2015)

## DIGITAL TRANSFORMATION STRATEGY



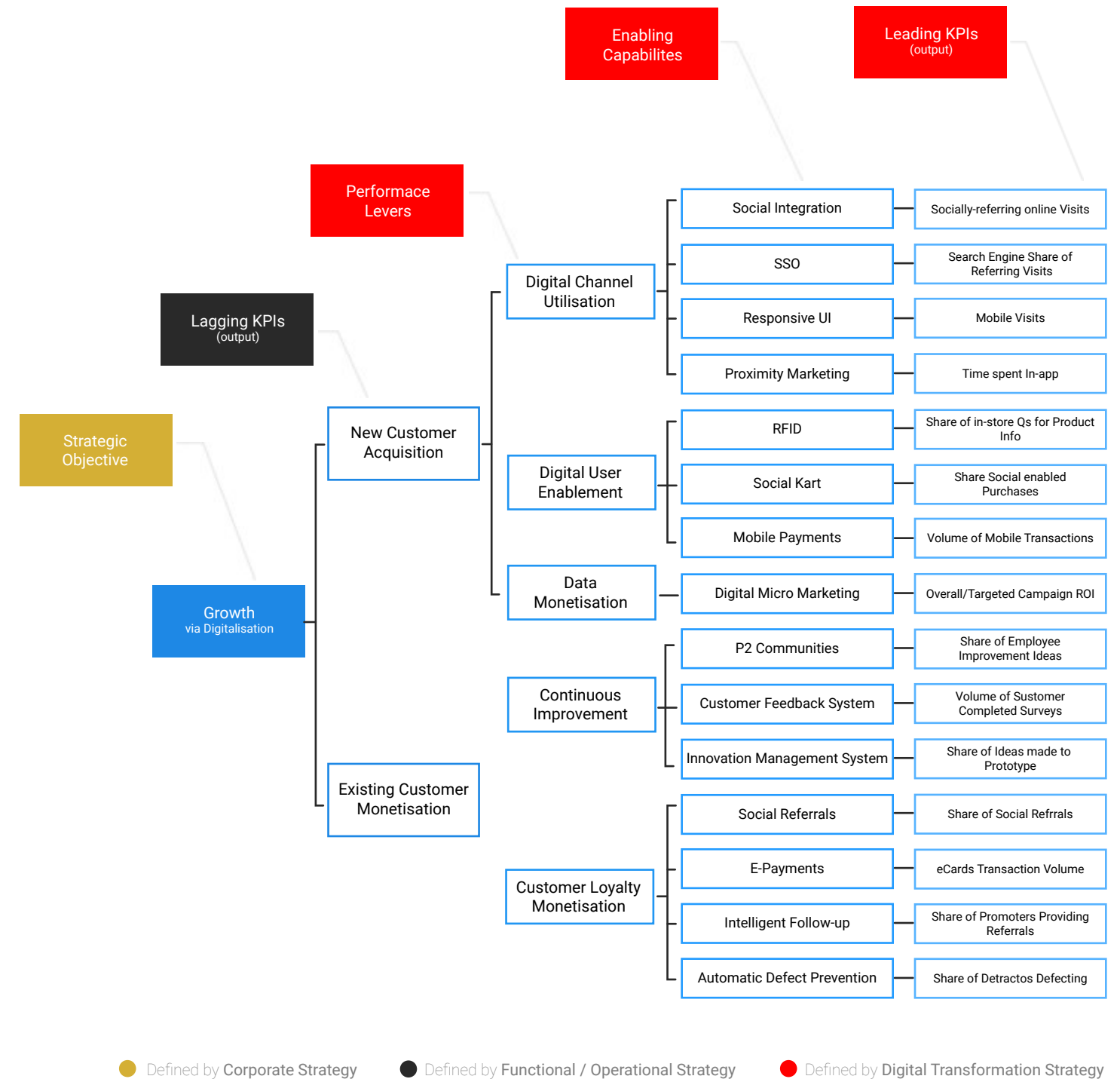
# DIGITAL VALUE TREES

To achieve this twofold objective, business transformation leaders use digital value trees, which empower them to determine which areas to focus their digitization efforts in order to meet pre-determined performance goals. In the following illustrative example, the corporate strategy sets 'growth' as the strategic business objective while functional and operational strategies define target outputs in terms of 'lagging KPIs'. With an eye towards established target outputs, a fully integrated digital transformation strategy should clearly define three critical elements of the transformation:

1. The 'levers' leaders will have at their disposal in order to drive performance. Advanced modeling also allows for quantifying approximate impact each lever could potentially have
2. The capabilities, including digital technologies, which will enable performance improvements, accompanied by a detailed 'implementation complexity' assessment
3. The leading KPIs that will be used to track performance against established goals, accompanied by ranges of target inputs in order to achieve them

This depth of integration allows digital transformation strategies to drive measurable performance improvements that satisfy strategic business objectives without conflicting with operational and functional priorities.

Visual: Illustrative Digital Value Tree (Optimized for Growth)



# ALL IN ALL

Digital transformation 1.0 revealed that siloed planning can significantly undermine digitisation efforts and prevent companies from fully monetising on digital technologies. With 38% of companies reporting that conflicting priorities undermine the success of digitalisation initiatives (signaling siloed strategies) and nearly 70% of digital transformation leaders facing challenges with justifying the value of digitalization(signaling poor integration), this is the right time for a strategy check-up.

Ultimately, your digital transformation strategy's ability to coordinate improvements across all 6 core business enablers, and integrate directly to other business strategies will determine its success. In the end, your emphasis on inclusivity and integration will be fully justified.



# AGILE BUSINESS TECHNOLOGY

For more than 15 years, we have strategically leveraged digital technologies to deliver competitive advantage to our clients

## DIGITAL TRANSFORMATION IS A JOURNEY

Take 10 minutes to understand where you are before you make the next investment.



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