

Digital Transformation Business Strategy



What is Digital Transformation?

Digital transformation is a comprehensive embrace of digital technologies by a business or organization. Organizations have been transforming their businesses to digital platforms for decades.

Through the 20th century, with innovations such as the microchip, and the introduction of home computers and the World Wide Web, the world went through a huge period of digitization. In the 2010s, manual systems were nearly fully digital, and then began the next revolution - Digital Transformation.

Emerging technologies such as artificial intelligence, the Internet of Things (IoT), Robot Process Automation (RPA), and Cloud Computing are all available to be leveraged by companies undertaking digital business transformation. The goal is to reimagine the way a company uses its people, processes, and programs to drive new business in the wake of changing customer expectations.

To maximize these technologies and achieve successful digital transformation, you must have a strong business strategy where all departments and sectors are

connected and committed to the transformation.

Why is it important for businesses to have a Digital Transformation Strategy?

The Digital Transformation movement has been catalyzed by the COVID-19 pandemic. Since March 2020, more people expect to buy online. Furthermore, customer expectations have dramatically changed.

Salesforce's 2021 *The State of the Connected Customer* Report found 76% of customers expect consistent interactions across all business departments, 65% of customers expect all company representatives to have the same information about them, and 52% of customers describe most service interactions as fragmented.

Customers are now spending unprecedented amounts of time online and expect the businesses they shop from to provide seamless, personalized, digital experiences.

In response to changing expectations, businesses - from small startups to giant conglomerates - have been forced to digitally enhance their offerings. Worldwide, the results suggest a seven-year increase in the rate at which companies are developing their digital product and service offerings. In fact, The International Data Corporation predicts 65% of global GDP to be digitalized by 2022.

If businesses don't take part in digital transformation, they will undoubtedly fall behind. In fact, only 11% of 1,140 business executives surveyed by McKinsey believe their current business models will be economically viable through 2023.

In today's digital age, digitized resources and competencies are merely threshold capabilities - those which organizations need to meet the requirements to compete at all and achieve parity with competitors.

To achieve and sustain competitive advantage, businesses need to embrace digital transformation and move all their systems online. Key areas to address include digital transformation in customer experience, digital transformation in procurement, digital transformation in accounts payable and finance, and digital transformation in data analytics.

Businesses that treat digital transformation as a separate project rather than as an enhancement risk missing out on the full benefits true digital transformation has to offer.

Companies Leading the Way in Digital Transformation

Companies such as Microsoft, Hasbro, and Best Buy have all proven that investing in digital business transformation can bring huge financial success to a business.

Faced with increased competition from the likes of Apple and Amazon, Microsoft was forced to rethink its business strategy, taking a more forward-thinking, digital approach to work.

Microsoft leaned into new partnerships with technology companies, moving away from their traditional software-based business model to a cloud-based business model. The impacts of digitization were not seen overnight. Over the course of 5 years, from 2014 to 2019, Microsoft's share price rose from \$38 per share to \$136 per share.

Over that same period, revenue increased from \$93.5 billion to \$122 billion. Digitizing their business placed Microsoft as a business leader with revenues that were unimaginable with their old business strategy.

Another digital transformation success story is Hasbro. In 2012, the toy and game company realized instead of marketing to children, they needed to market to adults as they are the ones who purchase the toys. After big investments in their digital strategies, Hasbro utilized big data and machine learning to create personalized, targeted campaigns across multiple online channels, including social media.

The new approach helped the company understand its customers better, allowing for more accurate toy and game recommendations. Hasbro's digital transformation increased the company's stock price from \$36 in 2013 to \$109 in 2019.

The company's sales also hit a whopping \$5 billion in 2016. While their transformation was costly and took the better half of a decade, the huge financial benefits proved the process to be worthwhile.

When e-commerce giant, Amazon, came onto the scene many thought it was going to be the death of businesses like Best Buy. In 2012, however, with a new CEO on the scene, Best Buy underwent an extreme digital transformation, restoring it as one of the top players in the market. With a new business strategy in place called 'Renew Blue', Best Buy set out to enhance people's lives with technology and become a digital leader.

Best Buy moved away from its traditional mailing system to a digital one, using data to create customer profiles to better target consumers and provide customized recommendations and assistance. Best Buy did not experience immediate success, however; the digital transformation process took 7 years. Starting at \$23.70, their stock price rose to \$74 in 2019.

And while revenue initially decreased during the transformation process, it has steadily increased over the last few years from \$40 billion to \$43 billion in 2017.

The digital transformation success stories of Microsoft, Hasbro, and Best Buy are enviable, but they also show how vital a well-thought-out business strategy is to successful change.

Digital Transformation Pitfalls

Digital transformation projects can fail for a variety of reasons, but the most common include:

Failing to properly define and contextualize digital transformation

Understanding the importance of what digital transformation is and what it means to your company, industry, and market is vital to a strong business strategy and overall success.

Failing to implement a digital strategy tailored to your business will likely lead to a broad plan with broad initiatives, negatively impacting profitability,

performance, and market share, upsetting both shareholders and stakeholders of the company.

Separating rather than integrating digital transformation

A business needs to be genuinely dedicated to digital transformation, rather than just doing it to 'tick a box'.

Businesses that treat digital transformation as a separate project rather than as an enhancement risk missing out on the full benefits true digital transformation has to offer.

Treating investments into new technologies as a separate process can actually harm the company, and is a key reason why digital transformations fail, by diverting resources, duplicating efforts, and creating, rather than eliminating, inefficiencies. Successful digital transformation requires engagement across levels of the company.

A study conducted by McKinsey reported that 45% of respondents at large firms and 58% of respondents at smaller firms say frontline employees are visibly engaged in transformations.

These same firms are least likely to view their companies' transformation as successful. In fact, of transformations that fail to involve front-line employees, only 3% of respondents reported success, illustrating how critical it is to integrate digital transformation across the entire company rather than just at the C-suite level.

Overlooking actual threats - and opportunities

Some companies starting their path towards digital transformation may make the mistake of focusing their strategy on defending against those businesses which are already fully digital.

While these digital natives do have a kind of first-mover advantage in digital capabilities, non-digital natives, otherwise known as 'digital reinventors' have shown to be more aggressive in their digital innovations, investing in new technology, analytics, and digital talent.

Businesses starting their digital transformation journey may also make the mistake of focusing on digitizing their business-to-consumer (B2C) ventures, ignoring business-to-business (B2B). Investing in new technologies with a focus on B2B can allow for partnering with other organizations, devoting more time to nurturing strategic relationships, expanding its supply chain capabilities, and more.

Digital reinventors have shown to put more effort into the B2B sector with increased digital-related acquisitions and more divestitures than traditional incumbents. This has proven to catalyze changes within their own business, adding value and generating more revenue.

These digital reinventors' efforts have proven to be successful as they are reportedly seeing larger returns and greater revenue than their digital-native counterparts who have yet to wholly embrace digital transformation. This has implications for businesses just starting their digital transformation journey who need to be aware of the actual threats and opportunities they will face.

Examples of Failed Digital Transformation Projects

With the reasons for failure outlined above, it is not surprising that nearly 70% of digital transformation efforts fail. Even major conglomerates sometimes fail to understand the importance of a strong business strategy, resulting in billions of dollars and countless hours wasted on digital transformation efforts.

General Electric is a prime example. In 2011, GE began building a huge Internet of Things (IoT) platform in an effort to assert itself in the digital software space. In 2015, they went a step further, creating a new business unit called GE Digital – which was to leverage data to turn GE into a technology powerhouse. Billions of dollars later, GE found itself reporting earnings to shareholders, more focused on short-term goals rather than long-term goals.

GE was trying to do too much without any real business strategy. They had no true vision of what they were trying to achieve and instead threw money into the company, trying to transform it all at once – highlighting the first reason for failure we discussed; failing to properly define and contextualize digital

transformation.

Ford highlights reason for failure #2 - separating rather than integrating digital transformation. In 2014, Ford created a new segment called 'Ford Smart Mobility' in an effort to build digitally-enabled cars with enhanced mobility. Issues arose when this venture was not integrated into the rest of the company. It was headquartered far away from the rest of the company and was seen as a separate entity to the business.

As money was pumped into the new segment, Ford faced quality concerns elsewhere and as a result, its stock price fell significantly. Ford's failure is a reminder that business transformation needs to be a cross-departmental effort to avoid siloes and ensure success.

Finally, Proctor & Gamble issue a cautionary tale of the third possible reason for failure - overlooking actual threats and opportunities. In 2012, P&G set out to become "the most digital company on the planet". This created issues as such a broad goal created broad initiatives.

Proctor & Gamble failed to look at what was going on in the industry and consider their competitors. At the time, returns on large and expensive digital transformation initiatives were small, especially with a slumping economy. Had P&G focused their money and efforts on smaller projects aimed at enhancing their existing products and processes they would have seen greater success. A strong digital transformation strategy considers all external and internal factors.

How to Achieve Successful Digital Transformation Business Strategy

So, how can your business avoid the mistakes of GE, Ford, and Proctor & Gamble and follow the lead of Microsoft, Hasbro, and Best Buy? A digital transformation change management plan that factors in the best practices for achieving digital transformation success will be key.

Build a Digital Transformation Strategy Focused

on “The Three Cs” - Communication, Change management, and Continuity

Any business transformation plan’s success depends on clear and constant communication between all teams at all levels. This ensures everyone is on the same page about resources, roles, and the project itself and opens up channels for communicating any frustrations or challenges that may arise.

Change management allows for easy tracking, measuring, and analysis of changes being made, providing useful KPIs and metrics for more educated decision-making. It can also be used to implement updates to existing workflows and technologies allowing for further business optimization.

Finally, Continuity shows that taking a long-term approach through incremental changes often proves to be more successful than projects focused on short-term business outcomes.

Evaluate your Existing Situation with Honesty and Clarity

While addressing digital transformation by throwing money at your business can be tempting, it is unlikely this approach will achieve much. You need to analyze your business and determine exactly what problems you are facing, the extent of these problems, and which you want to address first.

To do this, a full evaluation of your workflows, procedures, policies, and practices that support the area you are looking to transform may be necessary.

For example, let’s say your procurement team has identified your accounts payable process as one ripe for digital transformation. Updating your accounts payable process will streamline business, achieve greater savings, reduce risk, and build business value through process improvement - all of which were goals you outlined when you started your overall digital transformation journey.

Developing a plan to expand the benefits of automation, cloud-based document storage, and real-time data analysis to the rest of your business will be much easier down the line as you are working on smaller projects rather than trying to tackle everything at once.

Knowing where your company is and what needs to be done to get where it wants to be is essential to building a solid roadmap for successful digital transformation.

Incorporate your Front-Line Staff and Build a Strong Project Team

Failing to incorporate front-line staff has produced a successful transformation rate of 3%. Getting support from everyone in the business is essential because the front-line workers are those who will be actually using the new technologies.

Going a step further and connecting these employees to managers and even the C-suite will engage the company as a whole, supporting the 3 C's and ensuring the project's long-term goals are never compromised.

Digital technologies are powerful, but without informed and engaged team members behind them, even the most well-thought-out digital transformation strategy will fail.

How Digital Transformation Can Help Your Business Achieve Success

Beyond higher stock prices and increased revenues, digital transformation means streamlined business processes, improved efficiency, and better customer experiences, all of which will save you time, energy, and money.

Embarking on your digital transformation journey may be daunting, but it does not have to end in failure.

Taking advantage of new technologies is possible with a well-developed business strategy that is realistic, engages the entire organization, and is prioritizes communication, change management, and continuity.

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