

# Why Digital Transformations Fail: How To Avoid The Pitfalls



Modern businesses face significant challenges in today's data-focused economy. The need for agility, versatility, and innovation, balanced against the traditional pursuit of higher profits, enhanced business value, and reduced risk, can make it difficult to compete effectively without the assistance of digital technologies such as automation, analytics, and artificial intelligence.

Companies of all sizes and types are prioritizing digital transformation in order to leverage these technologies, but not every digital transformation is a successful one—and the price of failure can be dauntingly high.

Digital transformation failure is an unhappy part of the “growing pains” that come with any paradigm shift driving business transformation. But the failure of some doesn't make failure inevitable for every business.

Understanding the challenges, and learning from some of the most famously failed digital transformation efforts, can give your team the insights they need to help your company develop and implement effective strategies for achieving a successful digital transformation.

# Understanding Why Digital Transformations Fail

Whether you're part of a brand-new startup or a professional working in an established corporation, the importance of leveraging digital technology to develop a new business model is clear in today's marketplace.

But even major players can stumble when it comes to digital transformation efforts.

Digital initiatives can fail for a variety of reasons, but a few of the most common factors include:

- **Failing to Properly Define and Contextualize Digital Transformation.** Embracing digital disruption and leveraging emerging technologies is difficult if a company doesn't have a defining vision of:
    - What digital transformation means, both in general and to the company in particular.
    - The larger trend toward industrial *ecosystems* rather than verticals or silos. One of the most disruptive elements in the concept of "digital disruption" is the ability to set traditional paradigms on their ears and radically redefine the ways in which companies must consider concepts like supply and demand. Digital technologies such as artificial intelligence, analytics, and robotic process automation have changed the game through:
      - Real-time insight into consumer demands, market trends, and flexible versatility that allows for radical (and hitherto unimaginable) pivots into new markets in record time, with minimal supply chain or operational disruptions.
      - Global reach to expand their customer bases and deliver products and services across industries and verticals, including those they do not traditionally serve.
      - The development of new business models used to create companies acting as bridges between suppliers, digital companies, and traditional, brick-and-mortar businesses while remaining independent of any one industry.
- For example, both Google and Apple offer payment

applications connecting consumer finances to their respective software environments, allowing users to not only pay for services and content offered by those two companies, but buy groceries, pay bills, etc.

- Substantial gains in process efficiency, analytical prowess, and strategic insights, radically lowering costs and building both hard and soft value through smarter sourcing, improved decision-making, and proactive business continuity planning.
- The ways in which digital disruption is affecting the company's industry, the opportunities for competitive advantage created by these changes, and how failing to implement an effective digital strategy will damage profitability, performance, and market share.

It's worth noting that overestimating the ability of digital projects to save or strengthen a struggling business can be as damaging as underestimating the need for digital technologies. Context and clarity of vision are essential not only to staying competitive, but creating an infrastructure capable of anticipating and participating in whatever future iterations of digital transformation lie around the curve.

- The economic realities of the fourth industrial revolution (also called Industry 4.0), including the ways in which digital technologies radically alter broad, interconnected areas across industries (e.g., logistics, procurement, marketing) and digital channels circumvent or render obsolete traditional ones (e.g., cloud-based, instant content delivery for music, movies, and games, remote, cloud-based storage and application delivery, or the ability to order food, transportation, and services from a single mobile device).
- **Separating Rather than Integrating Digital Transformation.** Even digital leaders can make a fatal misstep during the transformation journey if they treat digital transformation as a separate function of their business rather than an enhancement of core business processes.

Investing in digital technologies as a discrete initiative can actually harm companies in the long-term by diverting resources, duplicating effort, and creating, rather than eliminating, inefficiencies. This is especially true if

there's no attendant digital transformation change management roadmap used to educate stakeholders, secure their buy-in for long-term integration of digital technologies, or directly connect digital initiatives to demonstrable business value.

- **Overlooking Actual Threats—and Opportunities.** Companies taking their first steps into digital transformation may (understandably) focus most of their strategic and competitive efforts in guarding against “digital natives,” i.e. those businesses that emerged in the digital marketplace and have only ever had a digital, rather than real-world, presence. And with regard to their own digital efforts, these same companies may also invest time, skill, and resources in chasing business-to-consumer (B2C) customers exclusively (particularly if their traditional customer base is made up largely or entirely of B2C clients), rather than investigating ways in which emerging technologies can help them secure new business in the business-to-business (B2B) sector.

But while digital natives certainly have something of a home field advantage in digital capabilities, established businesses ready to leverage the clout and resources generated by success in the real world can be an even bigger threat to companies engaged in digital transformation efforts than digital natives are. Research firm McKinsey and Company found “incumbents” who act decisively and strategically can quickly dominate up to 20 percent of digitizing markets, as compared to just five percent for digital natives. Plus, because digitizing incumbents have the size and resources to set the tone as digital leaders, they can quickly redefine competitive requirements for not just their verticals, but entire industries, leaving the unwary to sink or swim in their wake.

With regard to B2B vs B2C, digital technologies not only make it possible to optimize internal business processes, but to partner with other organizations to take advantage of the value and savings generated by this optimization. Staff freed from dealing with high-volume, repetitive tasks by robotic process automation, for example, can devote more time to developing more strategic supplier relationships. A company might also leverage improvements in production efficiency and innovations from advanced analytics to become suppliers for other businesses, or use the Internet of Things (IoT) in its logistics network to partner with suppliers and improve performance and value for all parties involved.

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## **Learning from Famous Digital Transformation Failures**

All across the world, companies are engaged in aggressive digital transformation efforts. Perhaps the most relatable for many in the midst of the COVID-19 novel coronavirus pandemic is the need to develop or enhance remote working strategies.

Small businesses and corporations alike are scrambling to redefine their approaches to information technology, cybersecurity, and collaborative, distributed data access and management in order to survive and thrive in a world of mandatory social distancing.

On the brighter side, fast food titan McDonald's is investing in digital technologies and adding self-service kiosks and expanded delivery options.

Computer and software juggernaut Microsoft is not only investing heavily in cloud-based computing and storage, but making digital transformation itself a product.

And organizations of all types are getting hyped for social selling as part of meeting consumer expectations in the digital era.

But while it's clear businesses are eager to capture value, savings, and market share from digital transformation (and protect business continuity while doing so), this enthusiasm is somewhat dampened by the fact that 70 percent of large-scale digital initiatives fail.

Even giants like Walmart, Procter & Gamble, General Electric, and the Ford Motor Company have endured less-than-stellar results when seeking to turn digital disruption into business value.

Let's take a closer look at some of the most well-known digital transformation failures:

- Walmart created its Walmart Marketplace in 2009 in order to compete with Amazon by allowing third-party sellers. But overly restrictive seller vetting and a failure to provide sufficient distance between the new business model and the company's core business processes crippled the initiative. Wal-Mart eventually recovered somewhat—rising to second place against Amazon—through its \$3.4 billion acquisition of Jet.com in 2016, although this recovery wasn't so much due to the acquisition as it was the lessons Walmart's executive team learned from a mature platform model.
- General Electric, a veritable legend in the American business world, hoped to continue its storied history of innovation with a shift to a “digital industrial” model in 2011. The company invested heavily in a new IoT-based software platform, revamped its internal business processes with new metrics, and pushed digital transformation to its industrial clients. Despite clear growth and efficiency improvements, investors were unimpressed, and Jeff Immelt—the CEO who'd championed digital transformation and investment in innovation—eventually left, harried by unhappy investors.
- In 2012, Procter & Gamble set its sights on becoming “the most digital company on the planet.” But economic difficulties, an ill-advised shift to “free” advertising, and a failure to grasp the threats posed by its competitors clipped its digital wings. As was the case at General Electric, P&G CEO Bob McDonald was asked to step down when investors grew frustrated.

## **Best Practices for a Successful Transformation Journey**

Hindsight may be 20/20, but in the highly competitive and rapidly changing business world of the 2020s, avoiding the pitfalls that turned digital dreams into nightmares for even seasoned corporations can seem more than challenging.

Fortunately, following a few best practices can help you succeed where so many have failed.

# **Develop a Proactive, Broad, and Creative Approach to Digital Transformation**

As with pen-and-paper workflows and manual data entry, traditional paradigms for growth, value generation and competitive advantage are rapidly becoming artifacts in the digital era.

The modern chief information officer (CIO) needs a digital transformation plan built around:

- Effective collection, analysis, and use of business intelligence.
- Stakeholder engagement, training, and education.
- A clear and complete change management strategy.
- Clear communication and creative collaboration.
- Deep understanding of digital technologies, their capabilities and limitations, and how they affect the company, its industry, and the marketplace as a whole.
- Collaborative consultation with hands-on digital solution suppliers to ensure the tools selected fit your company's needs and budget, accommodate growth in the future, and provide opportunities to consolidate and optimize your overall software environment.
- A focus on versatility, agility, and resilience in operations, marketing, finance, and the supply chain.

For example, companies who want to break into the growing platform business model to insulate themselves against commodification of their industry or compete realistically with existing players such as Amazon, Google, etc. can benefit from giving their digital initiatives room to breathe and grow.

This will require a thorough understanding of market conditions, existing and projected consumer demand, and the digital technologies required to meet business needs as well as the expectations set by both customers and internal stakeholders.

## **Slow and Steady—With Some Strategic Sprinting—Wins the Race**

Digital tools make intelligence gathering and analysis faster and more accurate

than ever before.

This might seem to indicate that decision-making should increase with comparable speed, but organizations who want their digital projects to succeed would be better off viewing the greater breadth, depth, and speed of data management as a golden opportunity to take their time (within reason)—measure twice and then cut once, as it were.

Overthinking can of course be paralyzing and costly, but taking the time to dig deep and wide for insights can help companies avoid the lost profits, efficiency, and value that come with running headlong down an ill-lit path with only the most basic of roadmaps.

And, just as importantly, the greater agility afforded by real-time analysis can allow for decision makers to pull the trigger on innovations with greater speed where required, so you can still capture opportunities while charting a smart and strategic course overall.

## **Tie Digital Transformation To Value**

It may seem like common sense, but successful digital transformation is much more likely if the changes implemented have a clear and direct connection to demonstrable increases in savings, value, or both.

Effective internal digital governance will prioritize helping stakeholders at all levels—from the C-Suite to staff and investors—understand how the changes made generate value through process improvement, cut costs by eliminating errors and delays, or directly contribute to profits through the capture of new markets.

## **Some Digital Transformations Fail—but Yours Doesn't Have To Be One of Them**

When digital disruption—driven by big data and radical transformation via emerging technologies—is the name of the game, a well-informed, strategic approach to digital transformation is required.

And while it's clear that even experts can miss the forest for the digital trees, a

proactive and educated approach, seasoned with a little “look before you leap” and a commitment to collaboration and communication, can give your organization the perspective and insight required to take full advantage of digital innovations in support of your goals.

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