EMBRACING A DIGITAL FUTURE

FUTURUM RESEARCH REACTS TO DELL TECHNOLOGIES 2016 DIGITAL TRANSFORMATION INDEX

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INTRODUCTION

Dell Technologies' Digital Transformation Index, developed in partnership with Vanson Bourne, provides a fascinating and useful snapshot of the state of Digital Transformation on the eve of 2017. Tapping into a pool of roughly 4,000 senior business leaders from 6 major regions around the globe, the report points to key findings about the state of Digital transformation that can help us shine a light on what milestones have already been reached, and which milestones remain dangerously out of range for a great number of businesses.

Going through the study's data and findings, we identified a handful of critical themes and strategic insights that we need to dive into and elaborate on. Key among them, the dangerous gap between planning and action, especially in regards to the very short timeframe that businesses have at their disposal to adapt to the massive technological tectonic shifts currently reshuffling the deck for every industry in every region of the world. Not only that, but to do so before the clock runs out.In order to better understand where we are going with this, we need to start at the beginning and work our way towards what we found especially important about the study's findings.

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FOR BUSINESS LEADERS

1.

DIGITAL TRANSFORMATION IS MOVING PAST THE EVANGELIZATION PHASE

BUSINESS LEADERS OVERWHELMINGLY UNDERSTAND THAT TECHNOLOGICAL ADAPTATION IS NECESSARY TO THEIR COMPANIES' SURVIVAL.

According to the study's findings, most business leaders understand both the value and necessity of Digital Transformation. Although deeper conversations and detailed explanations are probably required in order to bridge the gap between awareness and execution, we have reached a milestone: The majority of business leaders have accepted that Digital Transformation is vital to their companies' survival.

78%

of business leaders admit to seeing digital start-ups as a threat to their business, both now and in the future.

On the top end of the survey's findings, 78% of business leaders admit to seeing digital start-ups as a threat to their business, both now and in the future. That's basically four out of five business leaders understanding that technology startups present a clear and present danger to their business. Note that the term "startup" isn't being used by accident. It is deliberate. Startups are perceived as being technology-driven, innovation-driven, and by their very nature, disruptive. The question wasn't about "new companies" or imports, it was about startups. The subtext here is that four out of five business leaders in incumbent companies recognize the disruptive power of not only technology but technological fluency and agility, and recognize it as a potent existential threat.

62%

of business leaders report having witnessed the entrance of new competitors as a result of digital technologies

52%

have already experienced significant disruption in their industries in the last 36 months.

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They are not talking about some disruption or mild disruption. The term used here is significant disruption. More than half of the 4,000 business leaders surveyed around the world are already expe-

It has been three years since many of us working at the intersection of business and technology started ringing early alarm bells

riencing significant disruption in their markets due to competitors leveraging new technologies as a competitive advantage.

This should be a call to arms for every business leader in the world. It has been three years since many of us working at the intersection of business and technology started ringing early alarm bells about the coming wave of change driven by big data, cloud computing, the shift to mobile-first, big compute, machine learning, AI, new manufacturing technologies like 3D Printing, Virtual Reality and the Internet of Things (IoT), and here we are today: Our predictions have come true. Technology is radically changing the business landscape, and Digital Transformation has become necessary to the survival of every business regardless of industry and vertical.

This wave of change has been so radical in the last three years, which isn't a very long span of time in terms of change management and incremental

adaptation, that almost half of business leaders surveyed (48%) do not know what their industry will even look like three years from now. Think about that. Half of business leaders don't know the degree to which their own industry will be recognizable to them in just 36 months. This begs the question: If a leader doesn't have a clear understanding or vision of what his or her industry will require of their own company in just three years, how can they steer it in the right direction? How can they invest in the right tools, in the right skills, in the right capabilities to adapt to this change? How can they draft a road map towards an unknown destination? How can they lead adaptation and progress in the dark?

It isn't surprising then, that 45% of surveyed business leaders believe that there is a possibility that their business will become obsolete in the next three to five years. Again: Almost half of these 4,000 business leaders scattered around the world believe that their business might not even be around anymore in just five years. Why? Because of the pace and scale of technological change. It's a staggering insight into the reality of the wave of change currently sweeping through the business world.

What is the answer to this challenge? As always when survival requires incumbents to react to environmental changes: adaptation. More specifically, Digital Transformation.

45%

of surveyed business leaders believe that there is a possibility that their business will become obsolete

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2.

DIGITAL TRANSFORMATION: TRANSFORMING IT VS. TRANSFORMING YOUR BUSINESS

MANY BUSINESS LEADERS STILL THINK OF DIGITAL TRANSFORMATION AS A TRANSFORMATION OF THEIR IT DEPARTMENT RATHER THAN A TRANSFORMATION OF THEIR ENTIRE BUSINESS MODEL.

One critical dimension that appears to get lost in this discussion is that although the tools appear to be the building blocks of Digital Transformation, they are not. Digital tools are not the bricks or the beams or the mortar of companies. Tools are the trowels and the saws, the mallets and the hammers. They build and refine and improve. They are the means by which transformation is achieved, not the end result of transformation. In order to deliver value, tools must be wielded daily, and with purpose, skill, and agency.

Businesses today cannot remain competitive without access to pertinent data, from customer

> ### Without agile cloud solutions, businesses cannot increase their own operational velocity to match their industry's accelerating speed of business.

behaviors and habits to pricing fluctuations and market forces, and logistics. Without agile cloud solutions, businesses cannot increase their own operational velocity to match their industry's accelerating speed of business. Without a mobile-first approach and IoT capabilities, businesses are investing in increasingly obsolete marketing, sales,

and customer relationship management channels. Without powerful new intelligent analytics tools to guide them, businesses are flying blind. This is today's reality, and a wait-and-see attitude is no longer an option for any business hoping to still be relevant, let alone competitive or profitable in three to five years. These are the new tools of business.

That is why focusing on buying and deploying tools isn't enough. The real question should be "what should businesses plan to build with these new tools?" The correct answer is "a new company," or rather, a new and *improved* version of yesterday's company: a stronger, faster, more relevant, more capable, more agile, more capable organization. Broken down into specific attributes, here are the characteristics companies should be looking to add to their list of qualities that must be improved and pursued as a result of their Digital Transformation initiative:

- Agility

- Adaptability

- Velocity (speed of execution)

- Creativity (innovation)

- Market leadership

In other words, the focus of Digital Transformation should not be "how do we best leverage these technologies to become a more technologically-savvy company," but rather, "how can these technologies help us solve problems we didn't have the tools to solve before, and how will we use them to build a more agile, adaptable, innovative, resilient and disruptive company?"

Digital Transformation is and must be, first and foremost, a discussion about building better businesses. Technology adoption is the vehicle, not the end result.
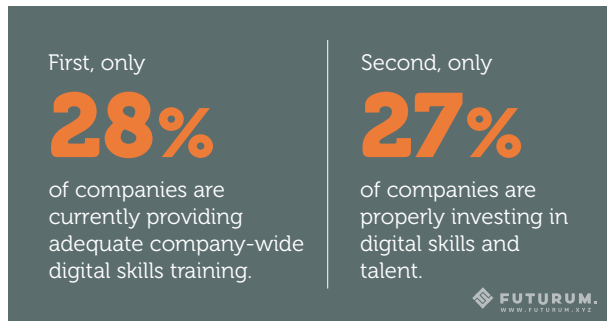
3.

THERE IS NO FINISH LINE WITH DIGITAL TRANSFORMATION

ROUGHLY TWO THIRDS OF BUSINESS LEADERS ARE STILL PUTTING THE CART AHEAD OF THE HORSE: DIGITAL TRANSFORMATION IS STILL TREATED AS END UNTO ITSELF RATHER THAN AS A MEANS OF SOLVING QUANTIFIABLE BUSINESS PROBLEMS AND SIGNIFICANTLY IMPROVING BUSINESS OUTCOMES MORE EFFECTIVELY AND AT SCALE.

The Index points to a few interesting clues about the disconnect between technology adoption for the sake of keeping up with change, and technology adoption as a vehicle for business improvement and effective adaptation. Let's dive into some numbers: **64% of business leaders surveyed report that their companies do not currently act on intelligence in real time. 70% of executives confess to not innovating enough.** Roughly two thirds admit that they are still unable to meet top customer demands. These numbers appear to beconsistent across all industries and regions.

Two critical reasons for this inability to deliver on objectives that have been identified by business leaders can be inferred from the study's data:

First, only	Second, only
28%	**27%**
of companies are currently providing adequate company-wide digital skills training.	of companies are properly investing in digital skills and talent.

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A transformation focus that doesn't prioritize training and skills acquisition isn't going anywhere. Without these two key building blocks driving internal adaptation to change, the rubber simply cannot meet the road. To get unstuck, organizations must prioritize training and skill-building if they hope to get unstuck and begin making progress again.

We also note a disconnect between the broad notion of Digital Transformation as a strategic theme, and the practical applications of Digital Transformation to business problems and measurable objectives. Far too many decision-makers approach the subject of Digital Transformation as technology abstraction rather than as a granular set of new solutions to perennial business needs. In order to find

purpose and value across the organization, discussions about Digital Transformation must shift from vague company-wide modernization programs to specific line-of-business applications. For instance:

- How can digital technologies help us improve customer service?

- How can digital technologies be leveraged to attract 20% more net new customers YoY?

- How can digital technologies be applied to reducing customer erosion from 25% YoY to just 5% YoY?

- How can these combined technologies help us accelerate our product development process from 18 months to 11 months?

Digital transformation roadmaps begin to take shape when businesses focus on identifying real, quantifiable business problems first, tthen integrate new solutions and capabilities as a means to solving these problems better than they could before." If a problem is identified and quantified, so are its cost to the company, and the cost of not addressing it. This process typically allows organizations to not only prioritize their investments in new business solutions, but also calculate the ROI of these in-

> To get unstuck, organizations must prioritize training and skill-building if they hope to get unstuck and begin making progress again.

vestments. By approaching the problem granularly, organizations can solve the value riddle of Digital Transformation programs. Here is why this insight is so important: The number one barrier to Digital Transformation, as identified by the Index, is a "lack

of budget and resources." Think about that. Why is there a lack of budget and resources to begin with? Simple: Because the value of the investment in Digital Transformation programs, from solutions and deployment to hiring and training, has not been properly quantified. Let's break this down:

- Based on the Index's data, roughly two thirds of companies around the world have not yet connected the operational dots between Digital Transformation and solving real, concrete, quantifiable business problems.

- Two thirds of businesses around the world have not properly quantified and considered the real cost (including the opportunity cost) of not solving these problems.

- Two thirds of businesses around the world still have not properly quantified

and considered the cost/benefit calculus of investing in new digital solutions and capabilities to solve these problems and pursue new market opportunities.

- As a result, two thirds of businesses around the world have still not done the basic work of prioritizing these risks and opportunities, and subsequent investments in Digital Transformation initiatives aimed at addressing these needs in order of importance.
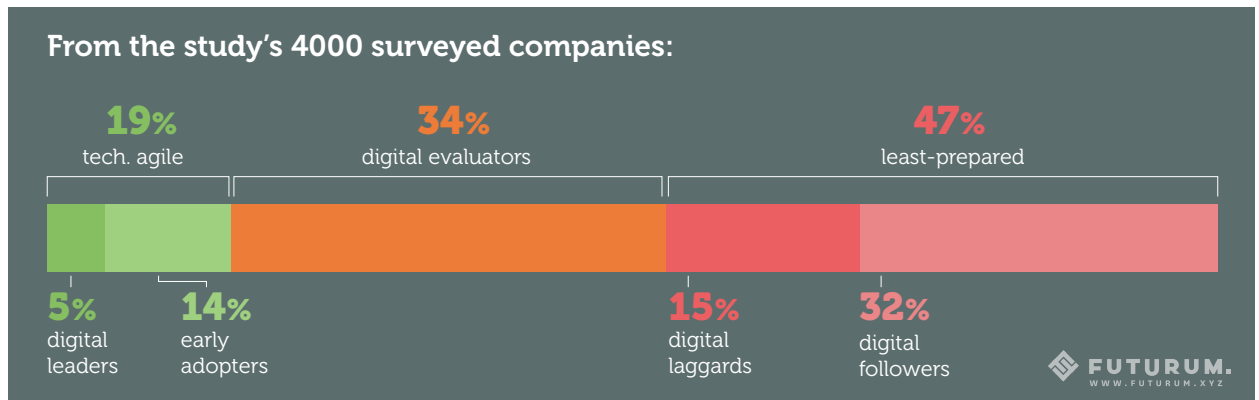
That is why a lack of budget and resources is currently the principal barrier keeping nearly two thirds of business leaders from delivering and deploying effective Digital Transformation initiatives across their organizations.

If these numbers are accurate, one third of businesses around the world are currently positioned to potentially drive the other two thirds towards obsolescence inside of five years.

4.

HOW DIGITAL TRANSFORMATION WILL DETERMINE THE WINNERS AND THE LOSERS

DIGITAL TRANSFORMATION MAY BE THE PRINCIPAL FACTOR IN DETERMINING WHICH COMPANIES WILL STILL BE COMPETITIVE AND/OR PROFITABLE FIVE YEARS FROM NOW, AND WHICH COMPANIES WILL NOT. TRANSFORMATION IS NOT JUST ABOUT MOVING FORWARD, HOWEVER. IT IS ALSO ABOUT HOW SLOWLY OR QUICKLY COMPANIES ARE ABLE TO GET TO WHERE THEY NEED TO BE.

From the study's 4000 surveyed companies:

19% tech. agile	**34%** digital evaluators	**47%** least-prepared

5% digital leaders	**14%** early adopters	**15%** digital laggards	**32%** digital followers

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The study's findings give us more insight into our observation. Let's break down the numbers:

5% of the 4,000 surveyed companies currently qualify as "digital leaders" – the tip of the spear, so to speak, when it comes to Digital Transformation, and 14% as "early adopters," meaning that they are adequately keeping up with the pace of change. Together, these technologically agile companies represent 19% of the market, relative to the study's scope.

Conversely, "digital laggards" and "digital followers," who represent the least-prepared companies when it comes to responding and adapting to this wave of change, represent 15% and 32% respectively, or 47% of the market, relative to the study's scope.

The soft middle, dubbed "digital evaluators," represents companies that are still behind the pace of change but not entirely out of touch. This category accounts for 34% of the market, relative to the study's scope.

Taking a step back from these five groups, we immediately notice that roughly 20% of these 4,000 businesses have been quick to take advantage of Digital Transformation to gain a competitive edge, and that the other 80% have not. Breaking this down a little further, we find that nearly half

of them have fallen dangerously behind (or have made no progress at all), and one third are struggling to catch up to the top 20%.

We expect that only one third of "digital evaluators" will accelerate their Digital Transformation journey to become "digital adopters" while the other two thirds will either remain where they are or slide back into the "digital followers" category. We identify two possible reasons why organizations will fail to transition forward:

- Execution: An inability to execute an effective Digital Transformation plan. The root cause could be poor planning, inadequate logistics, ineffective leadership, or any number of other organizational weaknesses. Bottom-line: These companies will simply fall short of doing what needs to be done.

- Velocity: An inability to execute on an effective Digital Transformation plan in time. For these organizations, the plan isn't necessarily the problem. Velocity is the problem. The clock will simply run out on them.

This distinction between companies that simply fail to deliver change and those who fail to deli-

ver change quickly enough is not trivial. The principal obstacle that will keep many companies from surviving the next five years may not be a lack of will or a lack of vision, or even a lack of clarity as it pertains to what must be done to adapt and overcome fast-moving market challenges, but simply a failure to adapt quickly enough. Even with the right ideas and understanding, and the right plan, com-

> ### Even with the right ideas and understanding, and the right plan, companies can still fail if they are not able to change their spots quickly enough.

panies can still fail if they are not able to change their spots quickly enough. This means that agility - the ability to change and innovate fluidly and quickly – has become a primary indicator of business viability and future success. Organizations and business leaders that do not cultivate and prioritize this cultural trait will not be able to adapt. Organizations and leaders that do, will.

The biggest insight into this particular threat to businesses hoping to digitally transform can be found in how the study characterizes "digital evaluators."

They are listed as "gradually embracing transformation, planning and investing for the future." Consider that the recommended timeline for adaptation is 3-5 years, and nearly 20% of businesses are already either ahead of schedule or on schedule. "Planning for the future" implies a much longer runway (one more appropriate for a 5-10-year timeline). This is simply not adequate for the current pace of change, which, propped up by increasingly effective new technology solutions, continues to accelerate.This acceleration of capabilities and innovation doesn't just favor the most adaptive companies; it compounds the growing gap between digital leaders and non-digital leaders. In other words, the longer a company takes to become agile, innovative, and digitally integrated, the more difficult it will be to catch up to those that already have.

This means that for companies hoping to slip into the top tier of technologically agile companies, the general focus on "embracing, planning, and investing for the future" needs to shift to a much shorter and immediate timeline: "embracing, innovating and building for tomorrow." That is the correct operational mindset, framed by the Index as moving closer to a "mature digital plan" with investments and innovations "in place." Less tinkering and planning, and more testing and doing.

CONCLUSION

Dell Technologies' Digital Transformation Index is a valuable peek behind the curtain of the current state of Digital Transformation around the world. Without overloading us with a deluge of data points, the study manages to give us just enough of a glimpse into the heads of business leaders to form a snapshot of how far we have already come, and how far we have yet to go.

We found it interesting that the study confirms insights identified by other research firms, particularly regarding the proportion of businesses reacting quickly and effectively to technological disruption versus businesses that seem either unable or in no hurry to do so.

It is clear from the data that a significant percentage of business leaders and organizations are currently ill-equipped to properly frame, operationalize, and deliver Digital Transformation effectively and with adequate velocity. Up to two thirds of businesses worldwide may be at risk of losing significant market share and market value over the next three to five years. In that time, many of these businesses could be made mostly obsolete by more agile and technologically-fluent competitors. Whether this

information is an opportunity or a threat depends entirely on how focused on Digital Transformation a company is – or wants to be.

The good news is that for one third of companies, the next three to five years present a formidable opportunity to push slow-moving competitors out of markets they might have dominated for years. Any company with the right mindset, large or small, can take advantage of this window of opportunity to transition with or slightly ahead of the technology waves currently reorganizing every market and industry in the world, and see their Digital Transformation efforts rewarded a hundredfold.

Here are some of the key traits that set them apart from the rest of the field: **73% are operating with the help of adigital profit & loss statement (compared to 15% of digital laggards). 71% have put mobile and social media technologies at the heart of their business (compared to 16% of digital laggards). 67% have an obsessive focus on customer engagement and satisfaction (compared to 29% of digital laggards). 66% are constantly growing their software development teams and capabilities (compared to 30% of digital laggards).** There is a model here, and it isn't particularly difficult to frame.

The bad news is that for two thirds of companies, the next three to five years present a formidable threat from hungry, agile, fast-moving competitors looking to push incumbents out of the way. Decades of hard work, success and tradition will not be enough to insulate incumbent market leadersfromthis change. If in doubt, look no further than Blockbuster Video, Circuit City, Blackberry, Eastman Kodak, Borders, and Sears: All former market leaders, all dethroned and obsoleted by not only new technologies and business models, but by their failure to adapt (or adapt quickly enough). Every Blockbuster has its Netflix and Hulu. Every Blackberry has its Apple and Samsung. Every Borders and Sears has its Amazon. What is the common thread in every one of these disruption and market upheaval stories? Technologically agile companies out-innovated their less technologically agile competitors.

The numbers always tell the tale, and here is the tale they currently frame: Only 53% of businesses are using digital technologies to accelerate new

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product and service development. Only 43% of businesses even bother to measure speed to market. Basic automated decision-making technologies are only being deployed by 27% of businesses. Is it any surprise that 72% of businesses still struggle to evolve into agile innovators? Any company that rejects even a single aspect of this transformation, or allows itself to fall behind the technology waves currently reorganizing every market and industry in the world, is at risk of engineering its own extinction.

It is therefore crucial that business leaders not only at the senior executive level but also at the line-of-business and tactical levels take this tectonic shift more seriously. The Index's data validates the increasingly obvious conclusion that Digital Transformation is not a "next quarter" bullet point or a project that companies can afford to comfortably ease into over time. It is not a "planning for the future" line item. It must be treated a "what must I do today to be better prepared tomorrow" priority at every level of every organization that expects to remain competitive and profitable going into 2020. It is imperative that business leaders and managers, regardless of the size of their business, or what industry or region they fall into, both seek assistance from and build partnerships with technology vendors and specialists, technology users, technology early adopters and digital natives to identify, test and deploy new generations of solutions that will solve a breadth of business problems, address every single reasonable customer want and need they can identify, improve as many business outcomes as they can, and help transform their businesses into the viable, thriving, competitive engines of business innovation and best practices that they will need to become in order to come out of the next few years in one piece.