In just two years, we have created more data than in all of human history, combined.¹ This flood of data, some 2.5 quintillion bytes generated every day, is the conduit for all of the digital activities—from search engine queries, to blockchain transactions, to credit card swipes, to online subscriptions—that power today’s global commerce.

This is the new era of the digital economy, one of the most transformative commercial forces the world has ever seen. Currently estimated at $11.5 trillion², the immense size of the digital economy is only matched by the massive opportunity it offers for economic growth and empowerment for businesses of all sizes the world over.

However, companies can only participate in the digital economy if their internal systems, processes, and organizations put digital technology at the core of their operations. This phenomenon—digital transformation—is required to compete in today’s market, and it has become a top priority for executives in every industry around the globe.

Digital Transformation Trends by Industry

In addition to general trends, this report explores digital transformation within five discrete sectors: telecommunications, independent software vendors (ISVs), manufacturing, value-added resellers (VARs), and financial services. Industry-specific findings are included in the report where relevant.

1 “How Much Data Do We Create Every Day? The Mind-Blowing Stats Everyone Should Read,” Bernard Marr, Forbes.com, May 21, 2018
Where do companies stand in their digital transformation journeys? Are most just starting out, or are most close to finished? What barriers do companies face as they transform? What are the differentiators that can put them ahead? To help answer these questions, AppDirect commissioned an Ipsos survey of C-suite professionals, vice presidents, and directors working in the IT, manufacturing, finance, and telecommunications sectors.

The results reveal the priorities that drive digital transformation, the progress companies are making toward their digital objectives, and the factors that can impact the success of digital transformation initiatives. We hope you find the insights valuable as you plan, execute, and evaluate your own digital transformation journey—and ultimately thrive in the new digital economy.
Over the past decade, “digital transformation” has gone from business buzzword to mission-critical strategy. The proof is that a large majority of companies, almost eight in 10, are in the process of digitally transforming their businesses.

While large percentages of companies in every vertical have digital transformation initiatives, VARs and ISVs are leading the way: 88 percent of VARs and 85 percent of software companies are in the process of transforming their companies. In contrast, only 70 percent of manufacturing and financial services companies have active digital transformation projects.

Digital Transformation Is Critical to Business Strategy

Given that such strong majorities of companies across industries have digital initiatives, it should come as no surprise that 77 percent of executives say that digital transformation is “very important” to their overall business strategy.

This is true across most industries, where digital transformation is a critical business strategy for 70 percent or more of companies. The exception is manufacturing, where only 59 of executives say the same.
This may reflect the manufacturing sector’s traditional focus on physical goods, and it shows just how difficult it can be to change “traditional” business models that have worked well for decades.

Progress Toward Digital Transformation

While most companies are transforming, not everyone is moving at the same pace. The majority fall somewhere in the middle of the timeline: Of companies with digital transformation initiatives, nearly a third, 34 percent, report being anywhere from a quarter to halfway complete, while 41 percent report they are halfway to three-quarters of the way complete.

Nearing the finish line, 19 percent of executives say they are more than three-quarters complete. At the opposite end of the timeline, only 6 percent are just starting out and say they are less than a quarter of the way complete.

Reasons for Not Planning a Digital Transformation

The number of companies that are not in the process of digital transformation and have no plans to start is small, only 2 percent, but it’s worth noting their reasons why. Most “do-nothing” companies, 50 percent, say that digital transformation is “not needed” or “not applicable.” The next most common reason is “lack of leadership buy-in” with 20 percent. Not enough budget, lack of knowledge, and trouble deciding whether to build or buy are also cited.
When Companies Began Their Digital Transformation Journeys

For many executives, there has been intense pressure to begin the digital transformation process, like watching a clock where each tick represents lost revenue and competitive advantage.

While some companies do have a headstart, executives can take heart: Digital transformation is a relatively new initiative for most businesses. In fact, the largest number of companies, 27 percent, began their journeys two years ago. Many companies started their initiatives even more recently; 14 percent started one year ago, and 10 percent began less than a year ago.

In contrast, only 6 percent of companies started their digital transformations five years ago, while 11 percent began over five years ago.

Interestingly, most large companies, regardless of industry, are significantly more likely than SMBs—17 percent to 4 percent, respectively—to have started their digital transformation five or more years ago. However, the length of a digital transformation initiative is not necessarily a deciding factor in a company’s ultimate success or failure.

ISVs Making the Most Progress

Software companies are more likely to be further along the path to digital transformation. Twenty-nine percent report that their transformation initiatives are 75 percent or more complete.
### Primary Drivers of Digital Transformation

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<th>Driver</th>
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<tr>
<td>Growth</td>
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<td>Staying Competitive</td>
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<td>Operational Efficiency</td>
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<td>Efficiency</td>
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<td>Increase in Revenue</td>
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<td>Cost Savings</td>
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45% of executives say that growth is the primary reason for their digital transformation initiatives.
Every company’s digital transformation is unique, but common themes emerge from the reasons for transformation initiatives. Looking across all companies, growth is the number one driver of digital transformation, with 45 percent of executives saying it’s the primary reason they are in the process of transforming.

Staying competitive and gaining operational efficiencies are tied for second, each cited by 38 percent of executives. Next, increasing revenue and realizing cost savings are the primary drivers of digital transformation for 32 percent and 27 percent of executives, respectively.

While the customer experience is critical to successful digital transformation, customer-centric drivers rank at the bottom of the list. Twenty-one percent of executives say customer acquisition is a primary driver of digital transformation, while 20 percent cited customer retention as a key driver.

These lower numbers could be due to any number of factors, but simply not caring about the customer is not one of them. In a separate survey by CustomerGauge, 68 percent of senior leaders cited customer experience management as a top strategic priority for their companies. If customer concerns are not a primary driver of digital transformation, it may be because they are already baked into core business initiatives.

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3 “The 2018 NPS & CX Benchmarks Report,” CustomerGauge, 2018
Vertical Variations in Digital Transformation Drivers

Across verticals, the breakdown of digital transformation drivers looks much like the overall trends, but with a few interesting differences. For example, growth is the most important reason for digital transformation in the manufacturing vertical, with more than half—52 percent—of manufacturers citing it as a key driver. Moreover, gaining operational efficiency is important for manufacturing, with 43 percent of executives saying it’s a key digital transformation driver, more than any other vertical.

In the financial services sector, 45 percent of executives—higher than any other industry—say that staying competitive is the most important digital transformation driver. In contrast, only 28 percent of telecom executives say the same about staying competitive, a figure that is a full 10 percentage points lower than any other industry.

Large Telcos Feel the Competitive Pressure

Executives at large telecommunication companies are more likely to say that staying competitive is a primary digital transformation driver. In contrast, only 14 percent of executives at small telecom companies say the same.
Today, the majority of companies know that digital transformation is critical to thrive in the digital economy. Despite this, significant challenges to deploying a digital strategy remain. In fact, our survey finds that 90 percent of executives face challenges implementing digital transformation. These can be distilled into four business functions that are vital to success. They are: 1) technology that enables seamless commerce; 2) integrations with third-party applications and services; 3) scaling customer service and support; and 4) building ecosystems. Significant numbers of companies struggle with each of these areas to varying degrees.

**Commerce Technology and Integrations**

Strong underlying technology is the backbone of any digital transformation initiative. Given this, it’s no surprise that the most executives—55 percent—said investing in technology, platforms, and software that enable seamless commerce is the most challenging. A close second is integrations with third-party applications and services, cited by 51 percent of executives. Without solid integrations, the digital experience can actually become more disjointed, a poor outcome for companies and customers alike.

**Scaling Customer Service and Support**

With a seamless commerce experience, the floodgates are open. An unlimited number of customers can easily buy new digital products with just a few clicks. While new customers purchasing new products is always a good thing, it can create headaches when these customers need support. Companies must be able to meet the support demands of digitally enabled customers, but this is no easy task. In fact, 42 percent of executives say that scaling their customer service is a challenge.
Building Ecosystems

Ecosystems are emerging as key differentiators in today’s digital economy. Companies that cultivate ecosystems around their platforms can innovate faster and deliver more value to customers than those that don’t. However, ecosystems are complex and difficult to build, scale, and maintain. This is why more than a third of executives, 39 percent, say that building an ecosystem is a challenge in meeting their digital transformation objectives.

Different Challenges Experienced by Different Verticals

Looking across verticals, VARs find integrating with third-party applications and services the most challenging (64 percent), while building an ecosystem is the most challenging for ISVs (51 percent). Investing in technology, platforms, and software is almost equally difficult for ISVs and VARs, with 59 percent and 58 percent citing these challenges, respectively.
Build Versus Buy Still a Big Obstacle

The build versus buy question—whether to use internal resources to create a technology solution, or work with a third-party vendor to acquire it—has vexed companies for years. In the digital economy, it remains a problem. In fact, it is the most common digital transformation challenge, cited by 34 percent of executives.

Company culture, specifically those that move too slowly or are too risk-averse, is the second biggest challenge mentioned by 32 percent of executives. Lack of budget and the expense of upgrading legacy systems, cited by 31 percent of executives each, round out the top four challenges.

At 15 percent, “previously failed attempts at digital transformation” is last on the list of challenges, but the number looms large. It’s a small percentage, comparatively speaking, but it means that more than one in 10 companies have tried to digitally transform and failed.

Previous surveys have shown that failed digital transformation initiatives make companies less likely to try again, so failures can create a negative cycle where a company is left further and further behind in the digital economy. For this reason, finding low-risk ways to experiment with digital transformation is vital.

4 “The Digital Transformation PACT,” Fujitsu, 2017
History Plays a Part in Current Vertical Challenges

For decades, telecom companies have invested heavily in physical infrastructure, such as laying telephone wires and building data centers. Given this, it should come as no surprise that telcos say their biggest digital transformation challenge is the expense of upgrading legacy systems (35 percent of telcos).

In a similar way, up until recently, manufacturers built their entire organizations, from the factory to the board room, around supporting the production of physical goods. With this in mind, it makes sense that the biggest digital transformation challenge for manufacturers is company culture (35 percent of manufacturers).

These are just two examples, but the history of an industry has an impact on current digital challenges.
It may seem obvious that organizations that support digital transformation efforts are more likely to succeed, but internal alignment is never a given. Fortunately, a strong majority of executives, 85 percent, say that their organizations support digital transformation initiatives.

**A Digital Transformation Disconnect?**

Is there a disconnect between digital transformation attitudes and actions? Even though 85 percent of companies say they support digital transformation, 41 percent are reluctant to change.

Change agents are important at every level within an organization, but they can have the most impact when they sit in the C-suite. Here again, our survey finds that CEOs and their colleagues are strongly supportive of digital transformation.
In fact, almost three-quarters of all C-suite executives support their organizations’ transformation efforts. At the top of the list are CTOs, with 87 percent of executives saying that their technology leaders are supportive. CIOs follow closely behind at 86 percent, while CEOs round out the top three at 81 percent.

CFOs occupy the bottom of the list, with only 72 percent of executives saying CFOs support their digital transformation efforts. As veterans of the battle for budget for new technology initiatives, CFOs may be especially wary of the potential costs of digital transformation.

A Digital Transformation Leader

Beyond support from the C-suite, having a digital leader—someone who is a champion for digital transformation within a company—is emerging as a deciding factor for success. In another positive sign, 85 percent of executives say they have a digital leader.

There are significant differences between companies that have digital leaders and those that don’t. For example, 90 percent of companies with digital leaders say that their organizations support digital transformation efforts. At companies without digital leaders, this number falls to just 59 percent. Moreover, 80 percent of companies with digital leaders have a digital-first mindset, while only 38 percent of companies without a digital leader say the same.

And here’s perhaps the most practical implication: 77 percent of executives at companies with digital leaders say that their organizations are agile and can respond to market changes. Only 38 percent of executives at companies without a digital leader say they are agile and responsive.

**Digital Leaders Across Verticals**

There is a clear divide between verticals when it comes to having digital leaders. Ninety percent or more of companies in the telecom, ISV, and VAR sectors say they have a digital leader (90, 94, and 95 percent of companies, respectively). On the other hand, financial services companies are the least likely to have a digital leader, with only 73 percent, followed by manufacturing where only 77 percent of companies have digital leaders.
Digital Platforms Are the Key Differentiator

Large or small, consumer or business, local or international—today’s customers are digital customers. They are accustomed to buying digital goods, and they expect the purchase process to be fast and easy.

The executives in our survey are seeing these trends first hand. In fact, 84 percent say that customers are demanding more digital products and services. To deliver these digital goods, the majority of companies are turning to platforms, solutions can streamline every aspect of digital commerce, from the front-end store experience, to back-end functions like billing, provisioning, and management. Platforms are so critical to a seamless customer experience that 86 percent of executives say they are the key differentiator for digital transformation.

Companies of All Sizes Have Digital Leaders

Company size is no bar to having a digital leader. More than eight in 10 companies across both the enterprise and SMBs say that their organization has a digital leader.

Third-Party Products and Ecosystems

For decades, the only winning business strategy was to create products, and build walls around them to keep out competitors. In the digital economy, companies must always be open to new ways of collaborating to deliver value to customers. Often, this means integrating and selling third-party software and services, something that almost seven out of 10 executives, 69 percent, say is important to meeting customer needs.

When companies sell third-party products, they create ecosystems around their core offerings. These ecosystems can be incredibly valuable. For example, the Salesforce.com ecosystem, the AppExchange, will be more than five times bigger than the company itself by 2022.5

Ecosystems allow companies to accelerate innovation and create products at a pace that isn’t possible when they operate alone. In fact, 68 percent of executives say ecosystems are the only way to innovate quickly to meet customer demands. In the digital economy, companies that partner well will grow faster and drive more revenue than those that don’t.

5 “The Salesforce Economy Forecast: 3.3 Million New Jobs and $859 Billion New Business Revenue to Be Created from 2016 to 2022,” IDC, October 2017
Ecosystems and “Tech-Savvy” Versus “Traditional” Verticals

Traditionally tech-savvy verticals, ISVs and VARs, are more likely to believe that ecosystems are critical to success. Eighty-four percent of software companies and 78 percent of VARs say ecosystems are the only way to move fast enough to meet demands for new digital products and services.

In contrast, more traditional sectors, manufacturing and financial services, are much less likely to agree. Only 56 percent of financial services companies and 59 percent of manufacturers believe ecosystems are the only way to innovate to meet customer demands.
Of all of the findings from our survey, this may be the most important: Almost seven in 10 executives, or 69 percent, believe that, in five years, only businesses that have digitally transformed will survive.

Digital transformation is now an imperative for success in the data-driven, always-on, customer-first, global digital economy. Driven by a desire for growth, most companies have already started down the path to change. They run into several common challenges—the build versus buy decision, company culture, and lack of budget, among others—along the way.

However, these barriers can be overcome. Internal top-down alignment led by the C-suite is critical, as is having digital leaders who can champion digital transformation across the organization. A digital platform and ecosystem strategy are also key elements of successful transformation efforts.

Digital transformation is rarely easy, but the changes can be far less difficult with a thoughtful, informed strategy. We hope these survey findings enable you to plan and take advantage of all of the opportunities the digital economy provides, today and far into the future.
More Information

AppDirect helps companies enter, grow, and thrive in the digital economy. We provide the technology and expertise to power platforms, ecosystems, and digital transformation. For more information, visit appdirect.com.

Methodology

AppDirect commissioned Ipsos to conduct a survey of C-suite-level professionals, vice presidents, and directors working for companies with at least 100 employees. For the survey, a sample of 481 individuals was interviewed online, in English. In order to qualify for the survey, respondents had to be employed in one of the following industries: IT sector, manufacturing, finance, and telecommunications.

The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll has a credibility interval of ±5.1 percentage points for respondents. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error. Where figures do not sum to 100, this is due to rounding.

This Ipsos poll was conducted between August 24 and September 12, 2018.
About AppDirect

AppDirect provides the only end-to-end cloud commerce platform for succeeding in the digital economy. The AppDirect ecosystem connects channels, developers, and customers through its platform to simplify the digital supply chain by enabling the onboarding and sale of products with third-party services, for any channel, on any device, with support. Powering millions of cloud subscriptions worldwide, AppDirect helps organizations, including Jaguar Land Rover, Comcast, ADP, and Deutsche Telekom, connect their customers to the solutions they need to reach their full potential in the digital economy.

AppDirect is headquartered in San Francisco, California with offices around the globe and works across vertical industries, including software, manufacturing, value-added resellers, and financial services. J.P. Morgan, Foundry Group, iNovia Capital, StarVest Partners, Stingray Digital, and Mithril Capital Management have invested in AppDirect.