



Challenges in the New Era of Digital Transformation: Survey Report

The Ongoing Impact of Digital Change

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Introduction

As digital transformation has gone from buzzword to mission-critical business strategy, many organizations have tried, with varying degrees of success, to put digital technologies at the core of their operations. This process has been a massive, real-time business experiment—and now, we're beginning to see the results.

Of all the important lessons companies have learned so far, this may be the most important:

Digital transformation is not an end, but an ongoing process that companies must undergo to remain competitive. Even successful digital transformations, projects that meet all of their goals, can create a host of new obstacles that may impact future growth.

Today, we are entering the next phase of digital transformation, one where strategies must change often and companies need the ability to pivot quickly. As companies face this new reality, how are they responding? This report examines this question in detail, exploring the concerns and challenges of organizations as they plan and execute their digital transformation initiatives.

We hope you find the results interesting and valuable as you consider your own digital strategy and your approach to planning for digital transformation, both today and in the future.

What Digital Transformation Looks Like Now

In the digital economy, being first can give companies a big advantage over competitors.

In fact, McKinsey & Company has found that revenue growth for digital first movers is "nearly twice that of companies playing it safe with average reactions to digital competition."¹ Companies can't afford to sit on the digital sidelines, and our survey results show that the majority are not. Most organizations, 82 percent, are in the process of planning or executing a digital transformation project, or have already completed one."

***"In digital scrums... it is first movers and very fast followers that gain a huge advantage over their competitors."
– McKinsey & Co.***

¹ "Why digital strategies fail," by Jacques Bughin, Tanguy Catlin, Martin Hirt, and Paul Willmott, McKinsey Quarterly, January 2018

Stage of Digital Transformation



- **17%**
PLANNING A PROJECT
- **45%**
EXECUTING A PROJECT
- **20%**
COMPLETED A PROJECT
- **18%**
COMPLETED A PROJECT

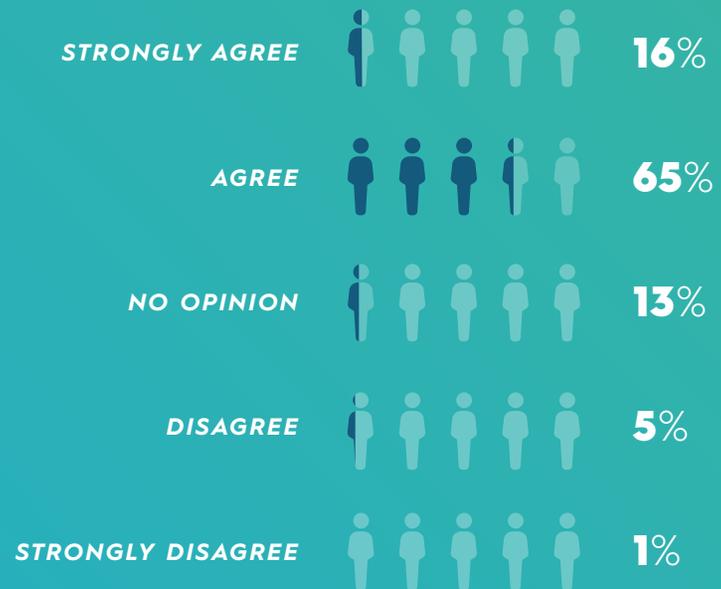
Why are companies pursuing digital transformation projects? For two-thirds of organizations, 67 percent, a desire to future proof their business and stave off future disruption is the number one reason. This is followed by improving the customer experience and driving revenue, for 64 and 62 percent of organizations, respectively.

Optimism is also high that digital transformation is providing a financial payoff, a key reason why digital projects remain a top priority despite their complexity. Just over eight in 10 companies, 81 percent, either agree or strongly agree that digital transformation is helping their organizations meet their financial targets.

Reasons For Digital Transformation



"Digital transformation is helping my organization meet its financial targets."



Concerns Cloud Digital Transformation from the Start

Despite this optimism, our findings show that concerns about digital transformation start early, in the planning phase. Even before their projects launch, one-third of companies, 33 percent, suspect they will need additional digital initiatives to achieve their goals.

More troubling, 28 percent of organizations believe it will be difficult to demonstrate the return on their digital transformation investments. Spending money without a clear ROI is a recipe for poor performance and disappointment.

Interestingly, an equal percentage of companies have the same problem—an incomplete plan for digital transformation—but view it from completely opposite positions. Twenty-two percent of organizations worry their plans are too complex and will be difficult to execute, while 22 percent are concerned their plans are too limited and will not transform as much of the business as needed.

Concerns While Planning Digital Transformation



Digital Transformation Brings New Challenges

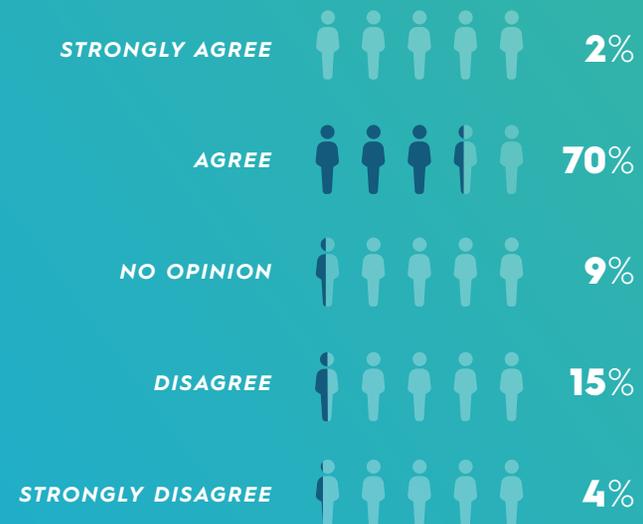
Digital transformation is a problem-solving strategy. Companies embark on transformation journeys to solve stubborn business problems: operational inefficiencies, slow time to market, and a subpar customer experience, just to name a few. However, our report finds that a strong majority of companies, 72 percent, are discovering new challenges as they use digital transformation to solve old problems.

What are the new challenges that companies are facing as a result of digital transformation? For nearly half of all companies, it's an increase in IT complexity that comes with implementing a number of new digital solutions. This is followed by an increase in operational complexity, experienced by 38 percent of organizations.

As discussed earlier, 28 percent of companies in the planning stages of digital transformation are concerned about their ability to measure the return on their initiatives. The reality for organizations as they execute their transformation projects is even worse: 38 percent of companies have difficulty measuring the ROI of their digital transformation.

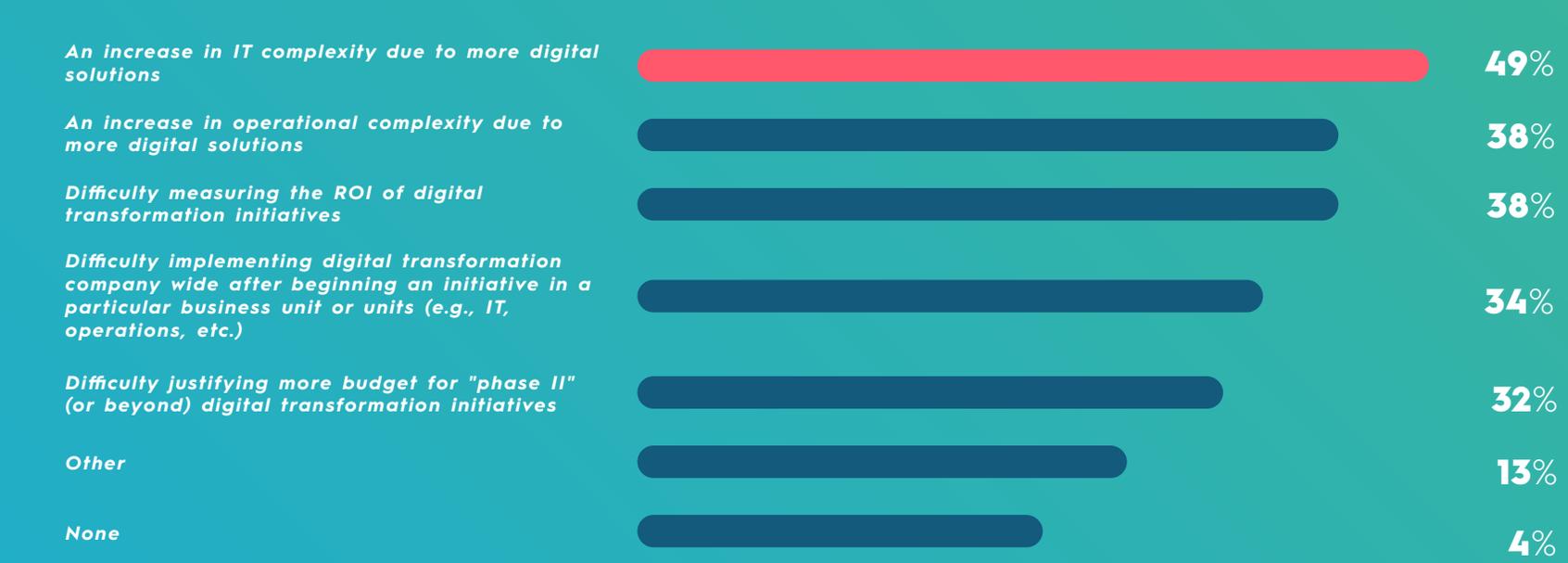
Similarly, 11 percent of companies in the planning stage of digital transformation are concerned about securing additional budget for a "phase II" project. However, the reality is that almost triple that number, 32 percent, have difficulty getting extra budget dollars for their digital initiatives, putting the success of these projects at risk.

"As we execute our digital transformation plan, we are discovering new obstacles that are impacting our business."



Biggest Challenges for Companies During Digital Transformation

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"Other" challenges that arise during digital transformation are related to changing company culture to be more innovative and open to change.

Companies Underestimate Digital Transformation Challenges

Digital transformation becoming "stuck" in certain business units is also a significant concern.

Digital initiatives often start small, and many experts actually recommend launching digital projects in this fashion. "To win early support [for digital transformation], companies should start with projects that offer potential for significant rewards with manageable risk," writes McKinsey & Company.²

This approach makes sense for a number of reasons—demonstrated success can lead to more buy-in—but it can also lead to uneven progress. In fact, 34 percent of companies have a difficult time implementing digital transformation companywide after starting the process in a particular business unit.

² "A roadmap for a digital transformation," McKinsey & Company, March 2017

Digital Expectations vs. Reality

"It will be / is difficult to demonstrate the ROI of our digital transformation."

Percent That Agree



"We may need a 'phase II' digital transformation initiative."

Percent That Agree



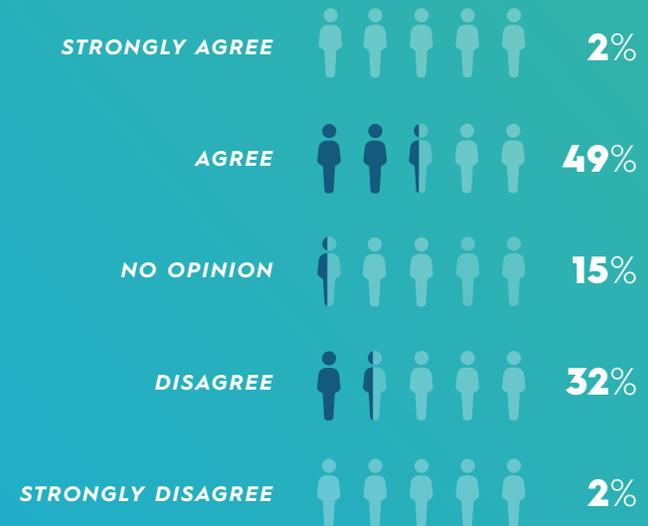
Digital Transformation Often Fails to Meet Its Objectives

As discussed earlier, nearly four in 10 companies pursue digital transformation to streamline their business processes. However, even after the completion of a digital transformation project, a majority of companies, 51 percent, agree that it is still difficult and expensive to integrate new solutions to their technology stack, versus 34 percent that disagree.

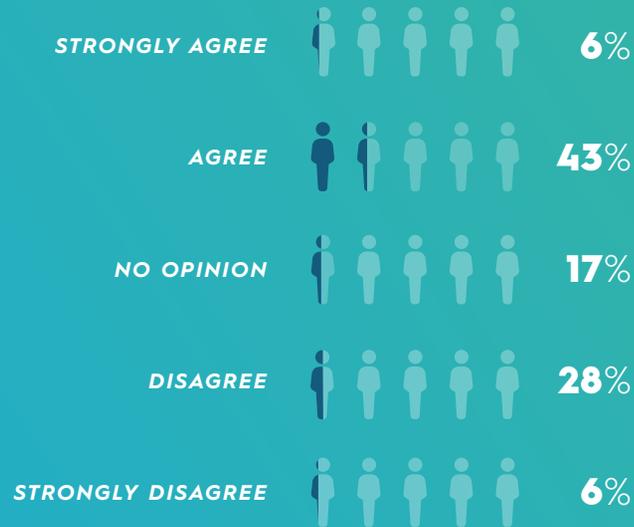
Without the ability to add new solutions quickly and cost effectively, companies lose the ability to experiment with new go-to-market models, a factor that can put them at a huge disadvantage compared to organizations that can afford to fail fast and learn from their mistakes.

In the same vein, for many companies, digital transformation is synonymous with automation. Using digital technology to automate as many business processes as possible is the fuel that powers the time and cost savings that transformation projects often promise.

"After digital transformation, it is difficult and / or expensive to integrate new solutions into our technology stack."



"Even with digital transformation, we have too many commerce processes that must be done manually."



"Digital transformation' lives up to the industry buzz that surrounds it."

50% agree
50% disagree

For many companies, digital transformation is synonymous with automation.

However, once again, organizations are discovering a reality that is much different. In fact, almost half of companies, 49 percent, agree that they still have too many commerce processes—such as billing, reconciliation, and software provisioning—that must be done manually, versus 34 percent that disagree.

The mismatch between digital transformation goals and results may be one reason why many companies are divided on whether digital transformation is living up to the buzz that surrounds it. In fact, in our survey the split was exactly 50-50, with half of respondents agreeing or strongly agreeing that it was meeting expectations, and half disagreeing, strongly disagreeing, or having no opinion.

Significant Gaps in Digital Commerce Go-to-Market Ability Remain

Digital transformation can have a huge impact on how companies sell in the digital economy, making it faster and easier to innovate, develop products and services, and bring them to market.

However, even after the completion of a successful transformation initiative, a significant number of companies still face issues with their digital commerce operations. For example, as mentioned previously, 62 percent of organizations say the ability to drive new revenue is one of the reasons they choose to pursue digital transformation. However, after completing their digital initiatives, nearly one-third of companies face difficulties selling products from third-party vendors. Not only are these organizations being cut off from a major source of revenue, but it is a sizable—and disappointing—gap between the goals of digital transformation and an organization's ability to realize results.

Similarly, one-third of organizations are not confident in their ability to start selling via new devices, such as mobile phones. At the same time, nearly a quarter of companies, 24 percent, doubt whether they could launch a new channel, such as a reseller program. Both of these are critical go-to-market strategies with huge revenue potential that is being left up for grabs.

"After digital transformation, I am not confident in my company's ability to do the following:"



- **33%**
SELL A NEW PRODUCT FROM
A THIRD-PARTY VENDOR
- **24%**
LAUNCH AND SELL THROUGH
A NEW CHANNEL
- **33%**
SELL ON A NEW DEVICE

No Digital Transformation Strategy Puts Companies at Risk

According to Accenture, more than three-quarters of executives, 76 percent, believe that current business models across all industries will be "unrecognizable" within the next five years.³ With this in mind, digital transformation is now a must; it is the only way to adapt to this lightening-fast pace of change and remain competitive. However, there is a group of organizations, 18 percent in our survey, who either have no plans for digital change or have yet to start.

What sets these companies apart? From our survey, the most notable data point is that they are ambivalent about the level of automation, or lack thereof, within their organizations. In fact, almost half of these companies, 48 percent, have "no opinion" about whether they have too many commerce processes that must be done manually.

Companies without a digital transformation plan are also more ambivalent about the importance of the process in general. Almost seven out of 10 companies without digital initiatives, 67 percent, say that they have no opinion as to whether digital transformation deserves the industry excitement that it generates.

However, organizations can't afford to be ambivalent about digital transformation. As Accenture succinctly explains: "Waiting is not an option when so many disruptors are taking advantage of this [digital] stepping-stone to growth."³

Digital transformation is now a must; it is the only way to adapt to this lightening-fast pace of change and remain competitive.

³ "Cornerstone of Future Growth: Ecosystems," Michael Lyman, Ron Ref, Oliver Wright, Accenture, 2018. "Cornerstone of Future Growth: Ecosystems," Michael Lyman, Ron Ref,

Oliver Wright, Accenture, 2018

Conclusion

Today, most companies have a digital transformation strategy, and most believe that it will help them meet their financial targets as well as other key objectives, such as improving the customer experience and increasing competitiveness. In other words, a digital transformation strategy is a must-have.

However, as digital transformation evolves, it is creating a new set of challenges that organizations must solve. These include thorny problems like increasing IT and operational complexity, ROI that's difficult to measure, and issues rolling out digital solutions companywide.

How can companies avoid these obstacles? The answer is straightforward: Be as flexible as possible. "One of the biggest factors that differentiates top economic performers from others is how quick and adaptable they are in setting, executing and adjusting their digital strategies," explains McKinsey & Company.⁵

We hope this report inspires you to think creatively about the next phase of digital transformation, one where planning for every possibility is impossible. Instead, we encourage you to build solutions and select vendors that are extensible and technology-agnostic. With the ability to accommodate any digital use case, both now and in the future, you will control your digital destiny.

How can companies avoid these obstacles that digital transformation brings?

Partner with technology vendors that offer maximum flexibility.

5 "A winning operating model for digital strategy," McKinsey & Company, January 2019.

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.

Report Background

This report is based on a survey administered online during the period of May 7th through May 23rd, 2019. During this period, 125 responses were collected and qualified for inclusion in the analysis.



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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.

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